Caring
Agile
Credible
Dedicated

National Friendly

Annual Report and Financial Statements

For the Year Ended
31 December 2023

Contents

Contact Details

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

Established 1868
Registered and incorporated Friendly Society no. 369F
Member of the Association of Financial Mutuals.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Chief Executive Officer: Graham Singleton

Secretary: Nicola Moore

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

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

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

Internal Auditor (until March 2023, function subsequently brought in house)
PricewaterhouseCoopers LLP,
2 Glass Wharf,
Bristol, BS2 0FR

Investment Managers
(Equity and Fixed Income Fund)
Royal London Asset Management
80 Fenchurch Street
London, EC3M 4BY

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

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

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

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

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

Caring

"Kindness and empathy is at the heart of what we do. We work with authenticity and compassion, acting as advocates for all those who need our support."

Chair's Review

"Despite the challenges of these uncertain times, we are pleased to announce another year of positive financial performance and continuing commitment to serving our members and distributors. We proudly welcomed 8,169 new members to the Society and disbursed over £22.9 million in claims, providing essential assistance to individuals requiring income protection, personal medical care, and financial support for bereaved families."

I am delighted to present my fourth and final annual report as the Chair of the National Deposit Friendly Society.

Undoubtedly, the environment in which our Society operates has been challenging. Over the past few years, we have witnessed unpredictable events, including conflicts in Europe and the Middle East, interest rate rises, inflationary costs for essentials, and the impacts of COVID-19 alongside the ongoing pressures on the NHS. Despite these challenges, I am proud of how National Friendly has navigated these events.

Since Graham Singleton assumed the role of Chief Executive in April 2021, we have followed a clear strategic roadmap, driven by a commitment to delivering a more member-centric experience.

During our 2023 Strategy Day, the Board deliberated on what sets apart a Friendly Society from a typical insurance company focused solely on profit. Our Society is driven by our members. Everything we strive for ultimately serves your interests and aligns with our core purpose of offering peace of mind when it is needed most.

We have continued to deliver on our strategy amidst significant change, grounded in our mutuality and commitment to creating and protecting value for our members. We are carefully transforming our Society to ensure that we continue to support you, anticipating and adapting to your evolving needs and expectations. This includes enhancing our product offerings, expanding accessibility to family protection to those traditionally underserved by insurers, and fulfilling our responsibilities as a socially responsible organization within the wider community.

In 2024, we will intensify efforts to develop and enhance our Environmental, Social, and Governance (ESG) Strategy, while also recognizing the pressing significance of climate change and associated risks to our Society and members alike.

The introduction of the new FCA 'Consumer Duty' regime in July 2023 emphasizes the importance of understandable communications, tailored products, fair value, and responsive customer support, principles that we already embody at National Friendly.

Our priorities remain centred on providing value for money, affordability, and accessibility, extending to both our insurance products and the partnerships we forge with strategic distributors. Our membership has continued to grow, reaching 50,722 this year, and we anticipate this trend to accelerate as we enhance our distribution channels and refine our insurance offerings based on feedback from both members and distributors.

Regarding our Board, after ten years as a non-executive director, three of which as Chair, I have decided to step down as Chair following this year's AGM, although I anticipate continuing to support the Society in my capacity as a non-executive director. Mark Searles, our Senior Independent Director, has been nominated as my successor.

Non-executive directors Mary Gavigan and Mike Hughes stepped down from the Board in 2023, and I thank them for their service. Following a rigorous search process, I am pleased to introduce two new independent non-executive directors, Victoria Wentworth and Simon Thomas, who were appointed to the Board in late 2023. I also welcome Oliver Jones to the Board as Commercial Director.

Looking to the future, with 156 years of history, National Friendly has weathered numerous challenges by adapting and evolving. Our current focus lies in continuing to build our franchise, expanding our membership, and diversifying our product portfolio to better serve our new and existing members. I am confident that National Friendly will continue to help our members, colleagues, and partners thrive and prosper, equipped with our modern mutual values and growth plan.

In closing, I extend my gratitude to our business partners for their trust, commend the dedication of our team, express appreciation to my fellow Board members, CEO, and the entire executive team for their tireless efforts, and thank our colleagues for their hard work.

Most importantly, I thank you, our members, for entrusting us with your wellbeing.

I replicate below just two of the many compliments which our frontline staff have received during 2023. These are far more powerful than any words I can write.

"Currently still benefiting from my Accident Only Income Protection, super supportive team and case worker during what is a life changing accident and injuries. Coming up to 18 months of receiving my IP. Cannot fault National Friendly at all; every department is trained exceptionally and give you the most incredible service and support. Having been an insurance advisor for many years I would never recommend a better Accident Only IP provider."

"Sadly, I recently had to contact National Friendly to advise them that my mother had died and they should therefore cease payments under her 'Immediate Care Home Fees Plan' (a type of annuity) that she had taken out just over a year ago. The agent was very sensitive in handling my request, which mirrored my experience when taking out the plan on behalf of my mother last year. At the time, we had quotes from a number of potential providers and were pleased that National Friendly offered best value for money, as I remember my father using this firm for sickness and accident insurance back in the 1960s. When setting up the policy, the NF team were sensitive to my concerns about transferring the large premium and agreed that I could send a nominal payment to confirm the money was being correctly directed before sending the main sum."

Our vision

"To provide peace of mind to members in times of need."

Chief Executive's Review

"Ensuring the sustained growth of our Society's membership remains paramount in establishing a resilient economic foundation and upholding our core mission: 'to provide peace of mind to members in times of need'."

Our growth strategy consists of a range of complementary actions: expansion of our distribution channels, the evolution of our product offerings to maintain relevance and value, and a steadfast commitment to delivering exceptional service to both our members and distributors.

Throughout 2023, we continued to execute a significant change agenda aimed at modernising our operations, broadening our products, and enhancing our reputation as a trusted friendly society.

Despite formidable pressures stemming from global events like the Ukraine conflict and subsequent cost of living challenges, as well as the ongoing after effects of the COVID pandemic, diligent cost management has been instrumental in mitigating their impact.

Recognising the financial constraints faced by our members amid the cost-of-living crisis, we've endeavoured to minimise premium increases wherever possible, prioritising affordability across our product range. For instance:

- In our over 50s plan, members now have the flexibility to reduce their cover and premiums after two years of coverage.
- Our personal medical insurance plan offers tailored coverage options to suit varying budgets, with recent enhancements to our claims administration facilitating access to competitively priced treatment.
- Our accident-only income protection plan provides a cost-effective alternative for those prioritising affordability.
- We've also reduced the minimum premiums on our monthly with-profits savings plan to enhance accessibility.

Our value proposition extends beyond the intrinsic benefits of our products to include personalised, accessible service. While maintaining our commitment to personalised interaction, we are also developing digital self-service capabilities to complement our traditional offerings for both members and distributors.

Our success is borne out by key metrics:

- A sustained increase in membership to 50,722 in 2023 from 42,553 in 2022
- Growth in Own Funds, a fundamental measure of value creation (£22.7m in 2023; £17.6m in 2022)
- Rising levels of gross premium income (£30.8m in 2023; £26.1m in 2022)

Our dedicated colleagues play a pivotal role in driving our growth, strategy and overall success. Initiatives such as our annual staff engagement survey and workshops to redefine our core values and behaviours underscore our commitment to fostering a supportive and empowered workforce.

Externally, our achievements have been recognised through multiple industry award nominations, reflecting our commitment to excellence in customer service, innovation, and supporting our staff.

While challenges persist, our outlook remains positive. The societal need for the insurance protection we offer, coupled with our mutual structure, free from conflicting shareholder demands, positions us for continued success in serving the best interests of our members, current and future.

In closing, I extend my thanks to my fellow directors, executive team, and all our colleagues for their unwavering dedication to realising our growth strategy, ensuring a bright future for the Society, its members and for colleagues themselves.

Agile

"We are resilient, flexible and creative, embracing and adapting to change. In an evolving world, we continue to challenge the status quo. Our history helps us shape our future."

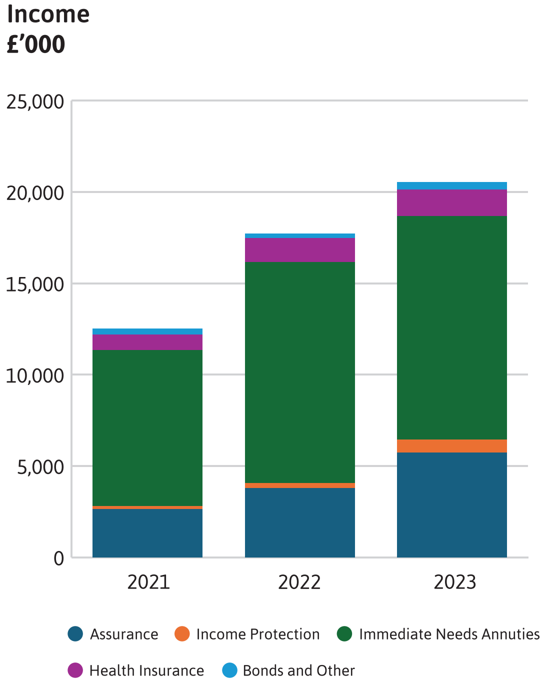
Strategic Report

Each September the Board meets to review strategic performance and strategy with a view to learning from past events and adapting the Society's transformation and growth strategy accordingly.

2023 was a very busy year for the Society and the key performance indicators all show strong positive trends as illustrated by the charts below.

Performance Review – Highlights

Gross New Premiums Written

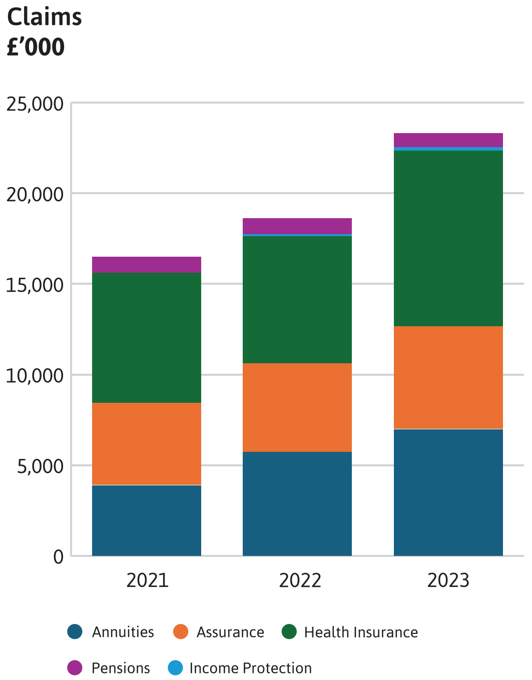


All products have seen sustained growth in the level of new business premiums written.

- We are one of only 4 writers in the UK to provide the product of the specialist immediate needs annuities.
- Our over 50s life assurance plan sales are increasing steadily.

	£'000	£'000	£'000
	2021	**2022**	**2023**
Assurance	2,356	3,762	5,791
Income Protection	40	381	710
Immediate Needs Annuities	8,651	11,581	12,262
Health Insurance	846	1,084	1,211
Bonds and Other	266	178	401
	12,159	**16,986**	**20,375**

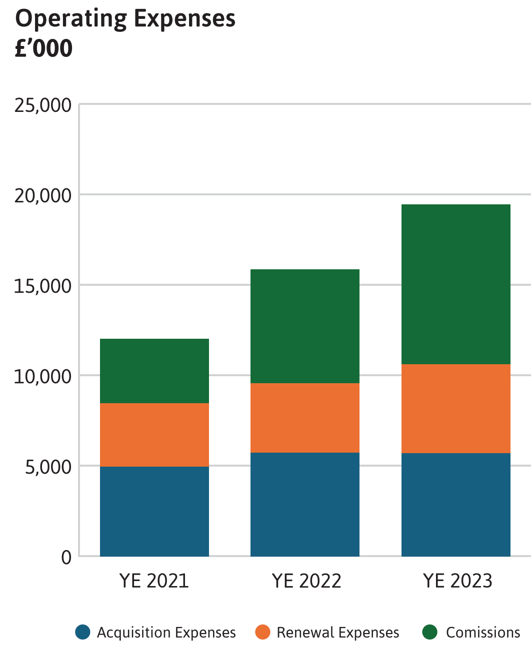
Gross Claims Paid



Our core purpose is to look after the health and protection needs of our members in their time of need. The sustained growth in gross claims paid is illustrative of us achieving this in practice.

	£'000	£'000	£'000
	2021	**2022**	**2023**
Annuities	3,575	5,199	6,853
Assurance	4,640	5,107	5,512
Health Insurance	7,152	7,504	9,805
Income Protection	10	71	217
Pensions	871	679	518
	16,248	**18,560**	**22,968**

Operating Expenses



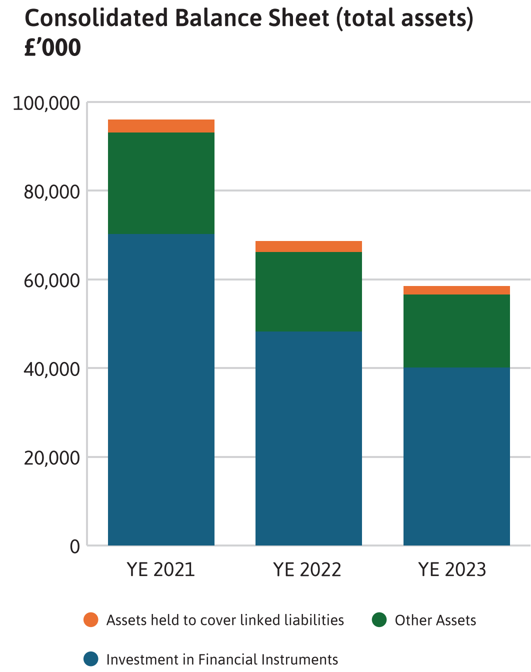
We have worked hard to limit the growth in the society's core operating costs over the previous 3 years.

Colleague numbers have increased predominantly to support new business growth, but core operating costs have increased by only 15.3%, despite inflation of 18.5% over the 3-year period.

The growth in commission payments reflects the underlying new business growth.

	£'000	£'000	£'000
	2021	**2022**	**2023**
Acquisition Expenses	5,003	5,930	6,078
Renewal Expenses	3,896	3,645	4,175
Commissions	3,081	6,124	9,216
	11,980	**15,699**	**19,469**

Consolidated Balance Sheet



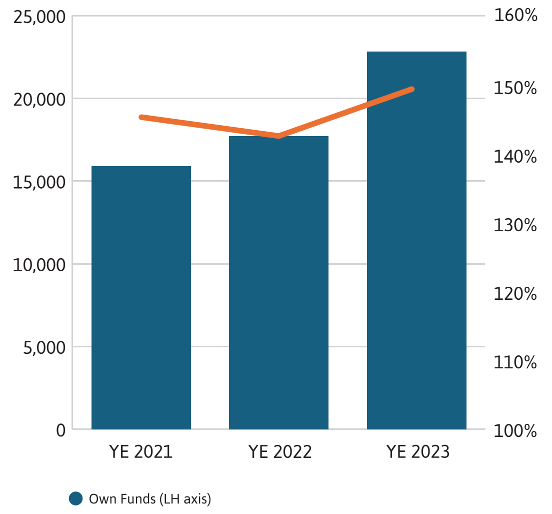
The reduction from 2022 reflects the changing nature of the Society's insurance portfolio, with much greater weight towards to assurance products as opposed to savings.

The sharp reduction from 2021 to 2022 reflects the impact of a sharp increase in interest rates and corresponding fall in the capital values of bonds.

	£'000	£'000	£'000
	YE 2021	**YE 2022**	**YE 2023**
Investment in Financial Instruments	70,765	47,951	39,949
Assets held to cover linked liabilities	1,780	1,513	1,563
Other Assets	23,999	18,235	17,374
	96,544	**67,699**	**58,886**

Strategic Report (continued)

Total Own Funds and SCR coverage Ratio



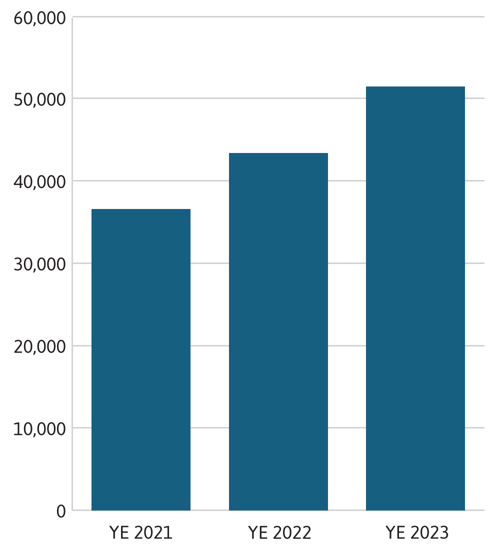
The increase in the level of own funds is a measure of the value created for members one year to the next.

Solvency Coverage Ratio (SCR) is a measure of the amount by which own funds exceeds the minimum amount of regulatory capital The Society has to hold.

Total Own Funds and SCR coverage

	£'000	£'000	£'000
	YE 2021	YE 2022	YE 2023
Own Funds (LH axis)	15,537	17,615	22.700
	%	%	%
SCR coverage ratio (RH axis)	144%	142%	148%

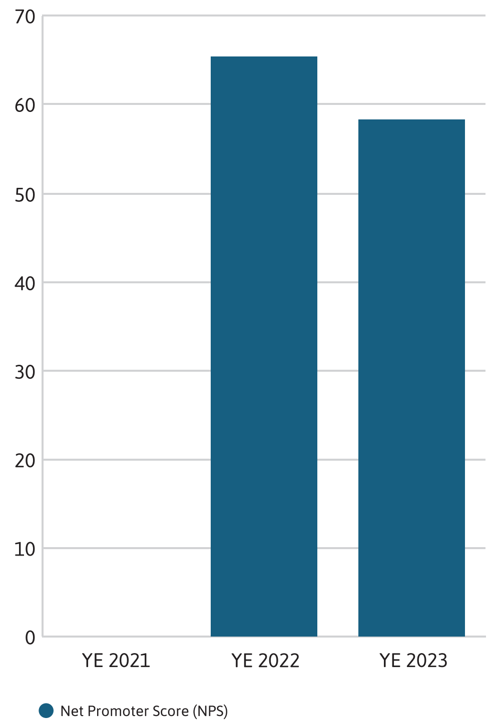
Number of Members



A cornerstone of the transformation strategy is increasing the Society's membership numbers to ensure sufficient scale to merit investment in our service proposition, which is people led, and our product portfolio, ensuring that our products continually deliver what our members want.

	£'000	£'000	£'000
	YE 2021	YE 2022	YE 2023
Number of members	36,943	42,553	50,722

Customer Service Engagement & Advocacy



The Society seeks to measure and monitor the quality of service to members using a net promoter scoring system which reflects the aggregate customer feedback. The higher the number out of a potential range of -100 to 100, the greater the members' advocacy. It was introduced late in 2022 but was fully operational throughout 2023.

The scores achieved are consistent with excellent service and a high level of advocacy.

Year	NPS
2021	n/a
2022	65[1]
2023	59

1. reflects on the last 4 months of 2022

Viability statement

Throughout 2023, the society maintained capital reserves in excess of its SCR and MCR.

The Directors confirm that they have a reasonable expectation that the society is well placed to manage its risks and will continue to meet its liabilities as they fall due. Financial projections for the next five years are incorporated into the Society's ORSA, and these confirm the Directors' expectation that the Society will continue in operation over this period with Own Funds and financial resilience progressively increasing over time. The Directors' assessment has been made with reference to the Society's current position and prospects, the Society's strategy, its risk appetite, and principal risks and how these are managed, as detailed above.

The strategy and associated principal risks underpin the Society's and scenario testing, which the Directors review at least annually and form an integral part of ORSA process. The central projection, the Directors' best estimate of future experience, makes certain assumptions about the level of business, economic and demographic risks, insurance risks including morbidity, lapses, and future expense assumptions. The Society makes extensive use of reassurance to mitigate the impact of various business risks and from June 2023 this has included financial reassurance to mitigate the new business strain arising from writing increasing levels of new business. The product pricing allows for the economic cost of such financing which is transitionary whilst the in-force portfolio grows to a level where new business strain becomes self-funded.

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

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Risk Management Report

Risk Management Framework

Risk management is a central part of the Society's business strategy. It is a continuous and developing process whereby the Society methodically identifies, assesses and responds to the risks attached to its activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities, past, present and in particular, future.

The objective of risk management is to add maximum sustainable value to all the activities of the Society, understanding of the potential upside and downside of all those risk factors which can affect its overall objectives.

The Board-approved risk strategy, appetite, culture, and risk management framework articulate the approach to managing current and emerging risks to our objectives.

In our day-to-day business activities, we are exposed to a variety of risks. Looking forward, these risks may be magnified or dampened by current and emerging external trends which may impact upon our profitability and viability. This includes the risk of failing to adapt our business model to take advantage of these trends. The table of principal risks and uncertainties in this section describes these risks, and trends, and how these are managed.

Risk Appetite and Framework

The Society faces a broad range of risks reflecting its responsibilities as a financial institution. These risks include those resulting from its responsibilities in the areas of capital management, and financial stability as well as its day-to-day operational activities.

The risks arising from the Society's responsibilities can be significant. These risks are managed through detailed processes that emphasise the importance of integrity, maintaining high quality staff, and regulatory accountability.

The business strategy has been converted into key strategic risk appetite measures. In order to establish parameters within which risk should be managed, the Society has developed statements of 'Risk Appetite' and 'Risk Tolerance' and associated measures / triggers for action.

Definitions

Risk Appetite	The level of risk that the Society is willing to take in pursuit of meeting its strategic objectives.
Risk Tolerance	The stated amount of risk the Society is willing or able to take in executing its strategy in the pursuit of its strategic objectives.

Executive management and the risk management function are responsible for managing and updating the risk appetite. The Board Risk & Compliance Committee reviews the risk appetite and associated tolerances at least annually and a process has been documented for achieving this before it is submitted to the Board for approval confirming where the Society should take risks. The Board determines the risk appetite and associated tolerances, taking into consideration recommendations from the Risk & Compliance Committee and senior management.

Risk Governance

While the Board retains overall responsibility for the risk management framework, it has delegated oversight to the Board Risk & Compliance Committee, with the Executive Risk Committee having oversight of operational matters.

National Friendly operates a three lines of defence model for risk management. The first line comprises management and colleagues in the business and shared functions who are responsible for identifying, managing and reporting risks in their areas.

The second line consist of the Risk and Compliance teams who advise, challenge, monitor and support the first line on dealing with their risk exposures. The second line produces independent reports on its opinions for the Board and Executive which includes close challenge and oversight of business plans and strategic initiatives.

The third line is the Internal Audit Manager who provides objective assurance as to the effectiveness of control frameworks operated by both first and second lines of defence.

ORSA

The ORSA is an ongoing assessment of the risks to which National Friendly is exposed and an evaluation of the sufficiency of capital resources and risk mitigation strategies to support delivery of the business strategy over the plan horizon.

The ORSA assesses:

» The quantity and quality of the risks which we seek to assume or to which we are exposed

» The level of capital required to support those risks

» The mitigation actions we will take to achieve and maintain the desired levels of risk, and also the actions required to ensure capital levels remain adequate.

The assessment considers both the current position and the positions that may arise during the planning period (typically the next five years) and beyond. It covers the whole of the business written, considering both the expected outcome as per the business plan and the result of applying a range of stress and scenario tests, which explore conditions where the plan assumptions may not materialise as expected.

The ORSA process supports the Board in considering the impact of business plans on its financial strength, and risk profile, over the medium term. The assessment of how much risk to accept and how much capital to hold are inextricably linked. In some situations, it may be desirable to increase the amount of risk taken or retained to make the most efficient use of capital available. In other situations, if the risks borne are not expected to generate sufficient return or could, in aggregate, give rise to a capital requirement greater than the capital available to support those risks, it may be necessary either to reduce the risk exposure or to take other capital management actions.

Key Business Risks

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

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

Credible

"Our strength lies in being robust and reliable. We uphold trust, integrity, and inclusivity in all our actions, making everyone feel welcome."

Risk Management Report (continued)

Risk	Impact	Mitigation & Management Actions
Strategic Risk Risk of failing to deliver on our strategic plan of delivering a sustainable business model.	We fail to be diversified and grow in the market. Risk to the Society and our members if we fail to adapt our strategy, structure, processes, or new technologies.	A strategic business plan is in place and is shared with colleagues. Working with front end sales team and members to understand market need. Oversight from the Executive to ensure we are meeting the expectations of the business plan and focusing on the right items.
Strategic Risk Risk of failing to develop and maintain effective processes to supply relevant value for money products and services to our members.	Product: If we do not develop our products and provide new offerings, we could be faced with financial and reputational damage. Distribution: If we do not identify the right distribution channels for our products and services we could be faced with: » Insufficient sales in turn leading to reduced economies of scale and adverse financial implications , or » Member complaints as core needs are not met	The Society is implementing a sustainable, diversified business model to mitigate being too focused on one type of product and insurance risk. The Society monitors business volumes of each product type, retention and customer and distributor feedback which feeds into the on-going product development cycle. The product profitability is pro-actively monitored to ensure continuing value for money and generation of incremental added value to the Society's excess own funds improving economic resilience.
Strategic Risk Risk of failing to analyse the impact the Society has on climate change, or the impact that climate change has on the Society.	We are not directly exposed to the physical and transitional risks posed by climate change. We are however seeing increased intervention from governments and regulators to mitigate climate risk . This in turn creates a risk that we fail to keep pace with new legislation and regulation by not developing or modifying propositions or adhering to disclosure requirements.	The Society regularly monitors and review relevant industry or expert publications to identify any new or emerging trends which may need consideration.
Solvency Risk Risk of failing to meet its regulatory solvency capital requirements	Being unable to meet our solvency requirements would have a significant impact on our members as well as increased scrutiny from the regulator.	Close monitoring of capital management at Board level. This includes scenario analysis and key sensitives such as morbidity, lapse, and expense assumptions. Production of quarterly valuations to provide interim estimates of Solvency Coverage, allowing for updated market conditions and change in in-force book. Quarterly analyses of sources of profit/loss ensuring close focus on key financial metrics. Monthly monitoring of new business volumes, expenses compared with budget. Quarterly reviews of asset/liability matching positions, the mandate being to ensure close matching at all times. Similar monitoring of asset performance against established benchmarks.
Operational Risk Cyber & Operational Resilience	Cyber: Unplanned and negative outcomes involving the critical failure or misuse of our IT systems arising from a cyber-attack. Operational Resilience: Failing to comply with our impact tolerances, leading to intolerable harm to our members. Third Parties: Failure of third parties to perform the service required by the Society and not able to keep pace with our growth / change programmes.	Modern cyber defences are operational, proportionate and appropriate for a financial services operation. Comprehensive backups exists for both core data and software, including air gap backups to limit the risk of latent contamination. Modern contracts are in place for all core IT infrastructure service providers. All 3rd party service providers are subject to periodic audits to provide assurance with core aspects of their contracts including data security. A rolling review of service level agreements with each third party is completed consistent with regulatory requirements.

Risk	Impact	Mitigation & Management Actions
Operational Risk Attracting, retaining, engaging and utilising effectively our colleagues	Delivery of our strategy and business plan is dependent on attracting and retaining a talented, diverse and engaged workforce with the specialist skills and capabilities required to drive an increasingly digital business with the envisioned levels of new product and proposition development. There is a risk that if we do not recruit effectively it could lead to more of a reliance on key personnel, as well as staff burnout.	Professional project management underpins the Society's change agenda. Operationally there is strong focus on increasing productivity, creativity, and engagement through the hybrid working model, which includes engagement surveys, wellbeing and health support measures, frequent CEO communication and increased social media presence.
Market Risk Risk of adverse fluctuations in values of, or income from, assets or in interest rates	Corporate bond: Spread risk arises on corporate bond assets and represents the reduction in market value of a bond asset due to the widening of credit spreads following a downgraded assessment of asset quality. Gilt spread: Increase or decrease in the spread between the gilt yield and the PRA risk free yield could cause fluctuations in the capital value of the guilt portfolio which is not matched by changes in liabilities. Interest rate: An increase or decrease in interest rates could adversely affect our regulatory solvency capital adequacy.	Non-profit liabilities are closely matched by cash or gilts, with quarterly portfolio realignments to take account of changes in the underlying portfolio from the combination of new business or exits from the in-force portfolio. With profit policies are matched with a blend of corporate bonds, gilts, equities and properties in proportions such that the surplus with profits assets will absorb investment shocks consistent with reasonable stress scenarios. Quarterly valuations as noted previously provide updated Solvency Coverage, allowing for updated market conditions and change in in-force book.
Insurance Risk Risk of being unable to meet contractual obligations due to unexpected events, such as policyholders dying, on average, later or earlier than expected, policies lapsing, or more frequent and /or severe medical claims are incurred	Morbidity: Claims payments for medical or health benefits being higher due to higher numbers of claims and or larger claim amounts than expected, leading to reduced assets and financial loss. Mortality: Members dying, on average, sooner than expected resulting in the Society paying out benefits on death earlier than anticipated, leading to potential financial loss. Longevity: Members dying, on average, later than expected, leading to higher claims costs.	Reinsurance is used for certain products to lessen the risk to the Society of exceptional financial loss due to adverse insurance risk experience. Regular reviews of the underwriting and claims philosophies are undertaken incorporating the results of regular experience investigations. Product pricing is informed by multiple data sources; the Society's own experience and where relevant other third-party independent data sources
Conduct Risk Risk of taking an action which results in member detriment.	We fail to deliver fair outcomes for our members leading to adverse member experience and potential customer detriment. This could also lead to reputational damage and/or financial losses.	There is a comprehensive product governance framework in place to ensure products are appropriate to member's demand and needs, and that servicing standards and expectations are achieved on a consistent basis. Pro-active compliance and conduct monitoring is undertaken ultimately oversighted by the Board's Risk and Compliance Committee.

The Society is committed to meeting its obligations through the integrated management of all aspects of governance and risk.

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Corporate Social Responsibility ('CSR')

Working with the local community is how the Society started and grew its name and reputation over 150 years ago. Its approach to CSR is a practical one; we look at ways in which we can make a fundamental difference to our people, the community and environment. We continue to educate the importance of health & protection to our members, brokers, and the public to improve the health, safety, and well-being of those within our community.

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

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

The Society can point proudly to a track record of supporting Bristol charities large and small. Past initiatives have included: projects to help ward off loneliness amongst the elderly, funding of Long Covid and other medical research, and the sponsorship of The Bristol Hippodrome's Creative Learning Programme and Matinee Mingle.

in 2023 we have continued our support of the local community and we have done extensive fundraising for our charity of the year, Bristol Autism Support.

Charity of the Year

Our colleagues nominate and choose our charity of the year annually, and in 2023 Bristol Autism Support were selected. Bristol Autism Support provide advice and guidance to families of autistic children in Bristol and across the South West. They put on weekly and monthly events to support the local community and have recently been awarded additional funding to expand their services and became the regional hub for Autism Central (commissioned by the NHS), delivering the Peer Education Programme in the South West.

Throughout 2023 we have put on events to raise money including bake sales, fun days, sweepstakes, a 100km walking/running challenge around Queen Square in Bristol, a silent auction, a quiz, and running the Bristol 10k. In total, we have raised £10,560. We invited the charity to come in and speak to colleagues about their aims and activities and this was well attended.

Graham Singleton presenting the cheque to Bristol Autism Support

Awards

National Friendly was shortlisted for several awards in 2023 from a variety of providers including the Cover Excellence Awards, Health & Protection Awards, Protection Review Awards, and Moneyfacts awards. It was an honour to be nominated across so many categories.

We were Highly Commended for our Underwriting and Claims teams at the Protection Review Awards, highlighting the hard work we put into helping people prepare for life's uncertainties.

Our Colleagues

Our colleagues are the life blood of the Society's ongoing success, and over the course of 2023 we have focused on mental health and wellbeing to encourage a strong sense of togetherness.

Values

We held sessions with all our colleagues in the summer to refresh our values and the behaviours we aspire to re-enforce those values. Our aim was to identify values which resonated with all our colleagues and reflected how we serve both our members needs and engage with our core business partners. The final 4 values agreed upon were the following:

Caring
Agile
Credible
Dedicated

Caring: Kindness and empathy are at the heart of what we do. We work with authenticity and compassion, acting as advocates for all those who need our support.

Agile: We are resilient, flexible and creative, embracing and adapting to change. In an evolving world, we continue to challenge the status quo. Our history helps us shape our future.

Credible: Our strength lies in being robust and reliable. We uphold trust, integrity, and inclusivity in all our actions, making everyone feel welcome.

Dedicated: At our core is a quality service with a focus on security and peace of mind. In everything we do we exhibit pride and commitment founded on our knowledge and experience.

Latterly we have also refreshed our office environment to reflect our values and the Society's rich heritage, the foundations of which are as relevant today as they were in 1868.

Investment in Colleagues

To support and develop our management team we invested for the first time in tailored management training courses attended by over 30 of our colleagues and facilitated by an experienced local management development practice.

The courses were anchored around a shared insight into colleagues' management preferences using the professional Insights management development framework. Topics included coaching, values-based recruitment, personal leadership, managing change, and action learning. The courses were extremely well received by those who attended and provided a foundation to build upon in future years as the Society grows and evolves.

CHAIR'S REVIEW
CHIEF EXECUTIVE'S REVIEW
STRATEGIC REPORT
RISK MANAGEMENT REPORT
CORPORATE SOCIAL RESPONSIBILITY
CORPORATE GOVERNANCE REPORT
AUDIT COMMITTEE REPORT
RISK & COMPLIANCE COMMITTEE REPORT
WITH-PROFITS ADVISORY ARRANGEMENT REPORT
NOMINATIONS COMMITTEE REPORT
REMUNERATION COMMITTEE REPORT
DIRECTORS' REPORT
INDEPENDENT AUDITOR'S REPORT
CONSOLIDATED INCOME STATEMENT
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
CONSOLIDATED BALANCE SHEET
NOTES TO THE FINANCIAL STATEMENTS

Socially

Our Social Club put on several activities throughout 2023 for colleagues to get involved with, including evenings out, lunches, a boat trip, mini golf amongst others. We have many of our staff included within these events and expect these to continue to be well attended throughout 2024.

Environment and Climate Change

The Society recognises that, like any organisation, the activities it undertakes will have an impact on the environment around us. Its strategy is therefore to ensure a safe, clean healthy and sustainable working environment for our colleagues as standard. But will also aim to:

- Reduce energy consumption by 5% over 3 years through energy efficient practices.
- Reduce and eliminate waste where practicable and use safe, professional, and ethical disposal methods.
- Make use of recycled, recyclable or low carbon materials.
- Work with suppliers who adopt sustainable procurement options and certification of Fairtrade labelled products.
- Encourage hybrid working and low emission methods of commuting to work for staff.
- Aim to be a NetZero Society by 2035.

The Society recognises its responsibility to consider the implications of climate change upon our members and community by reducing the usage of paper. One specific initiative is to increasingly make use of electronic communications wherever possible – from initial issuance of policy literature to routine administration tasks such as communication of renewal premiums or bonus notices. As well as being more environmentally friendly, there is the additional advantage of being faster and being able to verify receipt.

Overarching responsibility for the oversight of the impact of climate change upon the Society is held by the Board. This has been delegated to the Head of Risk and Strategic Projects as the senior manager responsible. The Society's physical and transitional risks have been identified and in 2023 a Climate Plan was approved which documented our plans in the short, medium, and long term. This will include establishing and tracking our emissions with an aim to reduce them to transition towards a more sustainable business.

In 2024, the Society will continue to develop and embed its climate risk management process, target setting, and measurement.

Our Sales, Marketing and New Business teams at a quarterly Sales and Distribution meeting

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.

The AFM Corporate Governance Code

Principle	Applied	How the principle has been applied
Purpose and Leadership An effective Board promotes the purpose of an organisation and ensures its values, strategy and culture align with that purpose.	✔	The Society's core purpose – providing peace of mind to members in time of need, underpins the Society's strategic direction and decisions, with a formal board strategy review completed annually. The Society's recently refreshed values are similarly underpinned by the Society's core purpose and embody an open and empowering culture. 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. During 2023, the Board maintained its focus on sourcing strategic distribution partners, evolving the Society's product proposition whilst concurrently managing capital resources to ensure long-term sustainability.
Board Composition Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the organisation.	✔	The board consists of 4 non-executive directors and 3 executive directors (the 3rd appointed effective from 1 January 2024) – the individual directors abridged biographies are on pages 21-23. The appointment and re-election of Directors is considered by the Nominations Committee which makes recommendations to the Board. Diversity in the broadest sense and breadth of knowledge, experience and skills are core selection criteria which fed directly into the search criteria for the two new independent non-executive directors who joined latterly in 2023. 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 are subject to annual re-election. All Executives and Non-Executives who hold 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).

Corporate Governance Report (continued)

Principle	Applied	How the principle has been applied
Directors Responsibilities The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision making and independent challenge.	✓	Board members have a clear understanding of their accountability and responsibilities. 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. 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. In addition, each director declares any potential conflicts of interests. Appropriate safeguards are implemented where there could be any potential conflicts. These are collated by Head of Legal Compliance and reported to the Board as appropriate. The Board Committees' delegated authorities are defined in documented Terms of Reference and are accessible via the Society's website.
Opportunity & Risk A Board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.	✓	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 levels of Own Funds and excess assets. The Board Risk & Compliance Committee ensures the establishment, development and maintenance of an effective and well-integrated risk management process. The effectiveness of the process is monitored by the Risk Team, the independent Head of Internal Audit and the Risk & Compliance Committee.
Remuneration A Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.	✓	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.
Stakeholders Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	✓	The Board is committed to maintaining good communications with members. In order to fulfil this commitment, the Society launched email feedback for members who contact our Customer Service and Claims departments. The Board has embraced in the Society's Day to day operations the principles of Consumer Duty. The Society holds an Annual General Meeting for members to vote for or against the Annual Report and Financial Statements and other issues. From the 2023 AGM onwards, the meeting can be attended in person or remotely. Communication with staff is undertaken through regular dialogue, bi monthly meetings via teams and twice a year off site with all staff in attendance to provide business updates from various departments. An annual employee engagement survey is carried out. The Society worked with all staff to develop the new values and associated behaviours in 2023. A Whistleblowing Policy is in place, which sets out the way in which individuals may raise concerns.

The Board

Geoff Brown
(Chair)

Geoff is a qualified Actuary who has held a variety of director and senior management roles in the Life and Medical Insurance industry.

He spent most of his career in the health and care sector including 20 years with international healthcare company, Bupa, where he had a number of executive roles and responsibilities.

He was also a member of the Association of British Insurers Private Medical Insurance and Long-Term Care Committees and represented the Institute of Actuaries on the joint Catastrophe Task Force which provided European Insurance and Occupational Pensions Authority, one of three European Supervisory Authorities with health catastrophe standardized scenarios for the standard formula under Solvency II.

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.

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 and consulting work covering a variety of financial services disciplines and is currently a non-executive director of a specialist life company called AULA.

Graham was appointed CEO in February 2021.

Corporate Governance Report (continued)

The Board (continued)

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 insurers, 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.

Mark Searles
(Senior Independent Director)

Mark has held senior executive and Board positions within the Financial Services and Technology sectors in the UK, Europe and Australasia. 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. Having decided to retire from his executive career and return to the UK, Mark was appointed a Non-Executive Director of NDFS in June 2020 and also a Director of a Haberdashers Education Academy Trust (Chairing the Audit & Risk Committee) in addition to holding various advisory roles. In May 2021 he was invited to act as Senior Independent Director for NDFS and to become Chair of National Friendly Financial Solutions Ltd.

Simon Thomas
(Non-Executive Director)

Simon is a Member of the Institute of Chartered Accountants in England & Wales having trained with Price Waterhouse. He has over 30 years' experience in Financial Services, with most of his career in Life & Pensions. He retired from his most recent Executive role as Group Chief Financial Officer of Provident Financial Group PLC in March 2020. Prior to that, he was the Group Chief Financial Officer of Just Group PLC, a FTSE 250 Financial Services Company, for approximately 12 years. He was also the Finance & Customer Services Director at Canada Life (UK) and spent 10 years at Nationwide Building Society, where he started work in the Financial Systems area and ultimately became their Group Financial Controller. Simon is currently a Non-Executive Director of the Melton Building Society and joined the National Friendly Board as a Non-Executive Director in October 2023 and acts as Chair of the Investment and Audit Committees.

Victoria Wentworth
(Non-Executive Director)

Victoria is the CEO of Agria UK, part of Agria Group, the largest and oldest pet insurer in Europe. Victoria started her career in the Army and served for 10 years after commissioning from Sandhurst. She finished her Army career, post Squadron Command. She served in war torn environments such as Iraq, Afghanistan, Bosnia, Northern Ireland and Kosovo.

Victoria still maintains her military links by being a Trustee on the Army Families Federation Board in support of Army families.

Victoria was recruited into financial services straight from the Army and has been in the sector since working in some well-known organisations such as Aviva, LV=, Standard Life and Phoenix Group.

She has been CEO of Agria Pet Insurance since 2021 and joined the Board on 1 December 2023.

The Executive Committee

The Society also has an executive management committee, the Executive Committee. The Committee was established to support the Chief Executive Officer, to consider various matters for recommendation to the Board and to deal with any day to day matters within the authority granted by the Board. There is a clear division of responsibilities between the Board Chair, as leader of the Board, the independent Non-Executive Directors who bring independence and oversight, the Chief Executive Officer and Executive Directors who are responsible for the day-to-day management of the business. The Executive Committee assists the Chief Executive Officer in the performance of their duties. It's Terms of Reference are approved by the Board and include:

- The development and implementation of strategy, operational plans, policies, procedures and budgets
- The monitoring of operational and financial performance
- The identification, assessment and control of risk
- Monitoring compliance with legal and regulatory obligations
- The priority and allocation of resources
- Monitoring and reacting appropriately to completely focus in each of area of operation.

The Committee meets weekly with formal Governance meetings taking place monthly and at other times as business circumstances may dictate. Its work is supported by sub-committees which focus their attention on key issues such as operational improvement and development, consumer duty, information security and counter-fraud measures.

Corporate Governance Report (continued)

The Executive Committee (continued)

The Executive Committee members are:

Graham Singleton:
Chief Executive Officer

Andy Jeffree:
Head of Internal Audit

Julian Ellacott:
Chief Actuary

Liz Thompson:
Head of Legal & Compliance

Oliver Jones::
Commercial Director

Kit Taylor:
Head of Finance

Martyn Love:
Head of Risk & Strategic Projects

The Executive Committee regularly attend the Board and Sub-Committee meetings.

The Board met 10 times during 2023. To ensure the effective governance of the Society, the Board delegates oversight of various matters to a number of sub-committees which are each chaired by a non-executive director as noted below and in all instances a majority of independent directors being required to ensure that a meeting is quorate.

Committee	Chair
Audit Committee	Simon Thomas[1]
Risk & Compliance Committee	Geoff Brown
Investment Committee	Simon Thomas
Nominations Committee	Mark Searles
Remuneration Committee	Mark Searles [1]
With Profit Advisory Committee	Geoff Brown

[1] Appointed in 2023

There is a formal calendar of events agreed at least annually to ensure that the Board and its sub-committees consider all relevant matters during the annual Board and Committee Cycle. Formal reports are provided to the Board and Committees in advance of the meetings and the Director's attendance at Board and Committee meetings is as noted in the table below. For those Directors who joined or left during the year the table shows the number of meetings attended against the number of meetings they were entitled to attend.

	Board		Investment Committee		Risk & Compliance Committee	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Non-Executive						
Geoff Brown	10	10	4	4	4	4
Mary Gavigan (resigned Aug 23)	6	6	2	2	2	2
Mike Hughes (resigned Nov 23)	7	7	3	3	3	3
Mark Searles	10	10	4	4	4	4
Vicki Wentworth (joined Dec 23)	0	1	0	1	0	1
Simon Thomas (joined Oct 23)	1	2	0	1	0	1
Executive						
Graham Singleton	10	10	4	4	4	4
Julian Ellacott	10	10	4	4	4	4
Ceri Gooder (resigned Aug 23)	7	7	2	2	2	2

	Audit Committee		With Profit Advisory Arrangement		Nominations Committee		Remuneration Committee	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Non-Executive								
Geoff Brown	5	5	2	2	3	3	3	3
Mary Gavigan (resigned Aug 23)	4	4	1	1	2	2	2	2
Mike Hughes (resigned Nov 23)	4	4	1	1	2	2	2	2
Mark Searles	5	5	2	2	3	3	3	3
Vicki Wentworth (joined Dec 23)	0	1	0	1	0	1	0	1
Simon Thomas (joined Oct 23)	1	1	0	1	0	1	1	1

The current Terms of Reference for the Board and Board Committees can be found on the Society's website.

Dedicated

"At our core is a quality service with a focus on security and peace of mind. In everything we do we exhibit pride and commitment founded on our knowledge and experience."

Individual Committee Reports

The following reports detail the activity of the various board committees during the 2023 financial year, with the sole exception of the Audit Committee which also details activities completed in respect of these financial statements and the various 2023 related regulatory returns as noted in the primary responsibilities.

Audit Committee Report

The primary responsibilities of the Audit Committee are the following:

1. Reviewing the annual financial statements and regulatory returns including the UK Solvency Financial Condition Report, focusing particularly on major judgemental areas and compliance with the relevant accounting standards and legal requirements, including the regulations and guidance of the PRA.

2. Independently evaluating assurance from management, internal audit and external audit regarding the financial statements, governance and systems of internal controls.

3. Assessing the effectiveness of internal audit and the external auditors and managing the process for any internal or external audit tenders.

4. Overseeing compliance with the Friendly Societies Act, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and other relevant legislation.

Committee Membership and Attendance

The qualifications of each member of the committee are as detailed in their biographies on pages 21 to 23 and at least one member has recent and relevant financial experience.

The Chair of the Board is also a member of the Audit Committee. Whilst this is not in compliance with the AFM Governance Code, the Board decided that it was particularly important that the Audit Committee could benefit from the Chair's extensive experience of the Society and his actuarial skills and qualifications.

The executive directors attend committee meetings as appropriate. The committee also meets with the internal and external auditors in the absence of management as required, but as a minimum once a year.

Significant matters considered by the Committee

2023 Annual report and financial Statements

The table overleaf highlights the significant matters in relation to the 2023 financial statements considered by the Committee during the year-end and how they were addressed.

Stuart Jones and Lucia Jarvis at COVER Magazine's Protection and Health Summit

Significant Matters Considered	How the matter was addressed by the committee
Technical provision valuation methods and assumptions for the 2023 Annual Report and Financial Statements	To aids its review of key expert judgement areas within the 2023 Annual report and Financial Statements including mortality, morbidity and expense provisioning, the Committee considered: » reports from the Chief Actuary and the independent external auditors, and » responses to questions posed to both management and the external auditors. Key considerations included the reliability and accuracy of the valuation results, the underlying assumptions and data and what explicit allowance if any should be made for the residual consequences of the Covid 19 pandemic. After due enquiry the committee concluded that the technical provisions were appropriate and recommended them to the Board.
Going Concern Assessment and the adoption of 'going concern assumption'	The Finance Director in conjunction with the Chief Actuary presented a detailed paper to the Committee supporting the rationale for adopting a going concern assumption for the preparation of the 2023 financial statements. The assessment covered the period up to 31 December 2025 and covered various stress scenarios. The assessment complemented the 2023 ORSA completed in January 2024 and provided a clear view that the Society would remain solvent and liquid over the period. The committee assessed as reasonable the underlying assumptions and stresses applied.
Approval of the 2023 Annual Report and Financial Statements	In May 2024 the Committee reviewed and approved the 2023 Annual report and Financial Statements for the Group and the Society and the financial statements for the Society's subsidiaries. This included reviewing key accounting judgements, the technical actuarial provisions and going concern assumption as noted above. The Committee ensured that the annual report and financial statements were fair, balanced and understandable before recommending them to the Board for approval.

External Audit

In light of the significant increasing external audit costs for the 2022 Audit the Committee instructed management to complete an ad hoc audit tender process to ensure that the on-going audit fee was competitive.

Following a rigorous tender process three firms were shortlisted to present to the Society. They were ranked using pre-determined scoring criteria the primary focus of which was their ability to deliver an effective and efficient audit service to the Society.

EY had been the Society's auditors for the previous 7 years, they participated in the tender and based upon the fee quotation provided and comparative expert experience of the team put forward were unanimously recommended by the audit committee to be retained as the Society's auditors, a recommendation which was subsequently ratified at the Society's AGM on 28 September 2023. Jon Bell as a consequence of the retender replaced Robin Enstone as the EY Statutory Audit Partner.

The committee monitors and seeks confirmation of the independence and objectivity of the external auditors. In line with the revised FRC Ethical Standards 2019, the external auditors did not provide any non-audit services in 2023 or the prior years.

Individual Committee Reports (continued)

Internal Audit

PWC were the Societies internal auditors for 2022 and until March 2023 when the Society insourced the internal audit function in order to reduce costs but at the same time benefit from a dedicated full time experienced in-house internal audit professional.

The risk-based internal audit plan is agreed by the committee annually, and progress against the plan is regularly reviewed. The committee reviewed a number of reports on the effectiveness of the Society's internal control systems, the adequacy of management's responses and the timeliness of the resolution of matters highlighted. The Committee was provided with assurance over the effectiveness of the internal controls reviewed.

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 potential wrongdoing in financial reporting or other matters. There were no whistle blowing incidents during 2023 or the prior year.

Investment Committee

The purpose of the Investment Committee is to assist the Board in overseeing the Group's Investment Strategy and compliance with the terms of the Principles & Practices of Financial Management ("PPFM").

The primary responsibilities of the investment committee are the following:

- Set the Investment & Liquidity Policy in compliance with the terms of the PPFM for with-profit member and in line with the requirements of non-profit members (including the Prudent Person Principle).
- Oversee the application of the Investment & Liquidity Policy.
- Periodically review the Investment & Liquidity Policy particularly in respect of the Business Plan, capital requirements, overall market conditions and environmental, social and governance considerations.
- Develop and review the appropriateness of key risk indicators and tolerances and information provided by third parties such as financial institutions, asset managers and rating agencies.
- Appoint and monitor the performance of the Society's external investment and property managers, and custodian.

Membership

The Committee comprises all members of the Board. Senior representatives from the external investment and property managers routinely attend meetings and provide a comprehensive performance update. Simon Thomas replaced Mike Hughes as Chair of the Committee.

Significant matters considered by the Committee

The Committee's key areas of focus during 2023 were:

- Overseeing completion of the transition of the Group's outsourced investment management from Fidelity to Royal London Asset Management.
- Overseeing the duration matching of the Group's assets and liabilities, including liquidity impacts.
- Authorising two property sales in the year reducing the exposure in the Society's Own Funds to nil (with remaining properties backing with-profit liabilities).

Risk & Compliance Committee Report

The primary responsibilities of the Risk and Compliance Committee are the following:

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk, they do this by:

- Reviewing, monitoring and challenging the Society's risk management framework in respect of all areas of risk, including strategic, financial, regulatory and operational risks, and ensuring these align with our strategic objectives and statutory obligations.
- Making recommendations concerning the Society's overall risk appetite, tolerances and strategy.
- Review the Society's procedures for the prevention and detection of bribery and corruption; oversee anti-money laundering and financial crime systems and controls.

The Committee reviews the whole risk management framework at least annually and receives regular reports from the Executive Risk & Compliance Working Group.

Membership

The Committee comprises all members of the Board. In addition regular attendees include the Society's compliance officer, chief risk officer and head of internal audit.

Significant matters considered by the Committee

The Committee's key areas of focus during 2023 were:

1. Review and refreshing the society's risk management framework, including risk appetite statement, reporting and policies & procedures.

2. Ongoing review and approval of the society's consumer duty implementation plan, ensuring the society met phase the one implementation and ongoing oversight of phase two which focusses on The Society's legacy products.

3. Assisting with further development the Society's third-party oversight framework, covering all external partnerships including outsourcers, key supplier's, intermediaries and IFAs, and overseeing the implementation of an MI dashboard for all critical outsourcing relationships.

4. Reviewing the anti-money laundering and sanctions checking oversight.

5. Providing ongoing review of emerging risks, focusing on cyber risks and the impact that AI could have on the society, to coincide with our IT transformation project.

6. Reviewing the society's operational resilience scenario test and self-assessment which we undertook in 2023 and ensuring that recommendations to improve our operational resilience are implemented.

7. Developing a plan to manage climate risk within the society to improve our reporting and understanding of the impacts of climate change both on us and our members.

8. Receiving the Society's Annual risk Management Report, Annual Compliance Report, Anti-Money Laundering/ Financial Crime Report.

With-Profits Advisory Arrangement Report

The purpose of the With-Profits Advisory Arrangement ("WPAA") is to independently monitor and bring some independent judgment to the extent to which procedures, systems and controls are adequate and effective to enable National Friendly to comply with the requirements contained within the FCA Handbook over the management and governance of With-Profits business.

The primary responsibilities of the WPAA Committee are the following:

- Reviewing compliance with the Principles & Practices of Financial Management ("PPFM") and recommending to the Board any changes to the PPFM.
- Guarding the rights, interests or expectations of different classes and generations of With-Profits policyholders.
- The identification of surplus and excess surplus, the merits of its distribution or retention and the proposed distribution policy.
- Reviewing proposals from the With-Profits Actuary in respect of bonus rates, smoothing, surrender values, market value adjustments, projection assumptions in respect of With-Profits policies and recommending to the Board for approval.
- Monitoring any significant changes to the risk or investment profile of the With-Profits fund including the management of material illiquid investments and the Society's obligations in relation to strategic investments.
- Advising the Board in relation to the way in which the Society exercises discretion in the conduct of the With-Profits business.

Membership

The WPAA comprises all Non-Executive Directors, and its meetings are attended by the With-Profits Actuary, as well as Executive Directors and other managers, as appropriate. It met twice during the year. Geoff Brown was Chair throughout the year.

Individual Committee Reports (continued)

Significant matters considered by the Committee

The Committee's key areas of focus during 2023 were:

- Receiving the annual With-Profits Report, PPFM Compliance Report and other annual reviews undertaken by the With-Profits Actuary, and recommending their approval to the Board.
- Recommending a number of changes to the PPFM to the Board.
- Undertaking a review of the Target Range for the Inherited Estate.
- Reviewing proposed changes to the Tax Exempt Savings Plan.
- Review of compliance with COBS20 in relation to the with-profits business being written.

Nominations Committee Report

The primary responsibility of the Nominations Committee is the following:

- The Nomination Committee meets as appropriate to review the structure, size and composition of the Board (including the necessary balance of skills, experience and diversity) and to make recommendations to the Board with regard to any adjustments that are deemed necessary.

Nominations for appointment to the Board are considered for approval by the full Board.

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

Membership

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

Significant matters considered by the Committee

During the year, the Committee oversaw the selection process leading to the appointment in October of Simon Thomas as Non-Executive Director and a separate process leading to the appointment in December of Vicki Wentworth as Non-Executive Director. The Committee also had oversight/recommendation to the Board of the re-election process of Director's and re-appointment of the Chair and Senior Independent Director in addition to providing recommendations to the Board pertaining to Committee composition.

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.

Remuneration Committee Report

The primary responsibilities of the Remuneration Committee are the following:

- The Remuneration Committee has oversight of the remuneration policy and remuneration structures within the Society, ensuring that they are competitive and will attract and retain competent, experienced and skilled colleagues.
- It designs the Chief Executive's remuneration package and reviews the Chief Executive's remuneration recommendations for fellow executive directors and members of the broader executive management team ensuring compliance with the Society's remuneration policy.
- It also reviews the achievement or otherwise of the corporate objectives set to support that year's business plan within the agreed performance management remuneration framework, and the Chief Executive's recommended annual cost of living adjustment to base salaries.

Membership

Membership is solely independent Non-executive Directors.

The Chief Executive attends meetings as required to facilitate remuneration discussions but is not present for any discussions relating to his own remuneration.

Significant matters considered by the Committee

The committee reviewed the Society's performance against the agreed corporate objectives for the purposes of the 2023 variable pay scheme, the Chief executive's executive pay recommendations and the remuneration of the Executives for 2023. The details of the remuneration for all Directors in 2023 are set out in the Directors' remuneration report on page 33.

Remuneration Policy

The Society's remuneration policy rewards both corporate and individual performance as well as providing a competitive package to attract and retain high calibre individuals. The policy complies with all relevant regulatory obligations, the relevant principles of the AFM Code and seeks to embrace best corporate governance practice.

Base salaries
Executive base salary levels are set commensurate with that of similar sized businesses in our sector, and to reflect the skills and experience of the individual.

Base salaries will normally be reviewed annually in April. Pay rises are not guaranteed, but the review will take into consideration any increase in cost of living, where appropriate other external market factors and the Committee may consult with external advisors as appropriate.

Variable pay: Short Term Incentive Scheme
In 2021 the Society introduced a performance management remuneration framework. For all non-sales staff a variable pay component may be payable if approved at the March Remuneration committee meeting following finalisation of the Society's annual valuation for the previous financial year and the conditions for a discretionary bonus to be payable have been met.

The variable pay scheme consists of two component parts – a personal and behavioural component which reflects an individual's performance against agreed individual objectives and a corporate component which reflects achievement or otherwise of primary aspects of the corporate business plan for the year as measured by a corporate balanced score card.

For our most junior colleagues any variable pay award is dominated by the personal component, the corporate component increasing with seniority until at the executive level the corporate component dominates reflecting the principle that the more senior someone is the more they can ultimately influence achievement or otherwise of the business plan for the year.

Variable pay: Long Term Incentive Scheme
There is currently no formal Long Term Incentive Plan ("LTIP") scheme in operation. The Remuneration Committee is seeking to introduce this in 2024, considering the Society's medium and long term objectives over an extended time horizon, whilst taking account of the Society's risk profile.

Senior Executive Remuneration – 2023

Salary
The Remuneration Committee is keen to ensure our Executives are remunerated at a level commensurate with their experience; job role and are competitive in relation to similar organisations. Salaries had been frozen during 2021 and 2022. In line with the Society's remuneration policy salaries were reviewed and the salaries of both the Chief Executive and Chief Actuary were noted as out of kilter with the market and were increased accordingly.

Performance Bonus
During 2021 & 2022, as we emerged from the Covid pandemic and were then hit by the cost of living crisis, the priority sponsored by both the Executive team and the Remuneration Committee was salary up-lifts for our lowest paid colleagues coupled with the introduction of the performance related bonuses.

Individual Committee Reports (continued)

In 2023 the performance related bonus was applied for the first time to the wider executive team, as well as the balance of our colleagues. 2023 was also the first year that the corporate balanced scorecard linked to the business plan performance was introduced. Key areas of performance which were incentivised were the delivery of:

- sustained sales growth in line with the Society's adopted business plan
- the continued transformation agenda & associated projects
- strong capital management, ensuring optimum utilisation of members funds, and
- strong corporate governance, particularly risk and compliance management.

The bonuses payable were recommended by the Committee to the Board for approval.

Recognising best practice, 50% of the executive bonus payments are deferred for 3 years to underpin the importance of rewarding performance that underpins the long-term sustainability of the Society. With the exception of retirement, if an executive leaves before the deferred bonus payment due date, the deferred bonus is forfeited.

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. The Chief Executive receives an allowance in lieu of a contribution to a defined contribution pension scheme, the cost to the Society is the same as a 12% contribution to a pension scheme.

Other Benefits

Executive Directors are entitled to death in service benefit of four times basic salary, a car cash allowance, and in common with all other colleagues private medical insurance.

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

Fees for Non-Executive Directors are determined by the Executive Directors and are subject to approval of the Board as a whole. The fees were last reviewed in 2021 introducing a fee structure which recognised differing non-executive director duties (Board Chair, Committee Chair and Senior Independent Director) but were frozen during 2022 and 2023.

The fees are based on current market rates and set to attract individuals with the necessary skills and experience to contribute to the sound governance of the Society. No element of the Non-Executive Directors' remuneration is performance related nor pensionable.

Caitlin Dewar, Charlie Gray, Katie Button, Claire Pearce, and Lucia Jarvis at the Women in Protection Network Conference in London.

Directors' emoluments for the year ended 31 December 2023

	Salaries & Fees	Performance Related Pay[1]	Other Benefits[1]	Payment in Lieu of Notice	Total 2023	Total 2022
	£	£	£	£	£	£
Chair						
Geoff Brown	57,250	-	-	-	57,250	57,250
Executive Directors						
Julian Ellacott	141,667	62,775	27,041	-	231,483	168,005
Ceri Gooder[3]	83,231	25,650	15,364	-	124,245	24,976
Graham Singleton[7]	193,038	123,344	32,406	-	348,787	210,098
Non-Executive Directors						
Mary Gavigan[4]	28,167	-	-	-	28,167	42,250
Mike Hughes[5]	38,958	-	-	10,625	49,583	40,417
Mark Searles	47,250	-	-	-	47,250	47,250
Simon Thomas[6]	8,125	-	-	-	8,125	-
Victoria Wentworth[7]	2,708	-	-	-	2,708	-
Total					897,598	590,246

[1] Performance related pay for Executive Directors relates to 2022 but was awarded in 2023. For Graham Singleton and Julian Ellacott 50% of the amount shown was paid in April 2023, 50% was deferred for three years , payable in April 2026, provided the Director is still employed by the Society in April 2026.

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

[3] Ceri Gooder was appointed to the Board on 28 October 2022, the remuneration disclosed in the table above relates solely to the period in which she served as a Director. She resigned on 31 August 2023 and the performance related pay reflects solely the amount paid during 2023, the deferred component being forfeited upon resignation.

[4] Mary Gavigan resigned as a Non-Executive Director on 31 August 2023.

[5] Mike Hughes resigned as a Non-Executive Director on 30 November 2023. He was paid £10,625 as payment in lieu of notice.

[6] Simon Thomas was appointed as a Non-Executive Director on 1 October 2023.

[7] Victoria Wentworth was appointed as a Non-Executive Director on 1 December 2023.

Individual Committee Reports (continued)

Directors' Report

Statement of Responsibilities of the Directors

The Board is required to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and Financial Reporting Standard 103 "Insurance Contracts", 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 whether applicable UK 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 Insurance Contracts (FRS 103), the Friendly Societies Act 1992, the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations) 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 and the Friendly Societies Regulations 1994. 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, capital 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, have considered stresses to the solvency and liquidity of the entity to 31 December 2024 and are satisfied that these appropriately demonstrate the resilience of the business after considering the stresses and any mitigating actions to manage such risks to 31 December 2025. 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 2025. Accordingly, the financial statements have been prepared on a going concern basis.

Annual General Meeting

The 2023 Annual General Meeting was held both in person in Bristol and online for the first time on 28 September 2023 and was attended by Board Members and Officers of the Society.

A number of resolutions were voted on including:

- The Annual Accounts;
- The Board Report; and;
- The Auditor's Report for the year ended 31 December 2022. These form part of the Annual Report and Financial Statements
- To approve the Directors' Remuneration Report
- To approve changes to the Society's Rules
- Re-appointment of Ernst & Young LLP as Auditors
- To re-elect Geoff Brown as a Non-Executive Director
- To elect Mark Searles as a Non-Executive Director

Michael Deane, Gifford Clay, and Stuart Jones at The Right Mortgage and Protection Network's National Training Event in Birmingham

3.52% of members eligible to vote elected to do so via postal/proxy forms.

For the 2024 AGM members will similarly be able to attend in person or on-line. Members will also be able to submit questions ahead of the date and during the meeting.

Charitable Donations

The Society made charitable donations of £10,560 (2022 £2,506). There were no political donations (2022: £nil).

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
20 June 2024

Independent Auditor’s Report

Independent Auditor’s Report To The Members Of National Deposit Friendly Society Limited

Opinion

In our opinion:

- National Deposit Friendly Society Limited’s Group and Society’s financial statements (the “financial statements”) give a true and fair view of the state of the Group’s and of the Society’s affairs as at 31 December 2023 and of the Group’s and Society’s income and expenditure for the year then ended;
- the Group and Society’s financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements of National Deposit Friendly Society Limited (the ‘Society’) and its subsidiaries (the ‘Group’) for the year ended 31 December 2023 which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2023	Balance sheet as at 31 December 2023
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 27 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 27 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’s and Society’s financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance Contracts” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

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 2025;
- 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;
- obtaining and evaluating the financial reinsurance arrangement which provides additional liquidity in the forecast period;
- reading the Society’s Business plan and reviewing 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 inquiries 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
- 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 2025.

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

Overview of our audit approach	
Audit scope	» We performed an audit of the complete financial information of the Society and audit procedures on specific balances for the two subsidiaries of the Society, National Friendly Financial Solutions Limited and National Friendly Software Solutions Limited. » These three components, where we performed full or specific audit procedures, accounted for 100% of the Long Term Business Provision measure used to calculate materiality, and 100% of Gross Written Premium and 100% of Total assets.
Key audit matters	» Valuation of long term business provision, comprising the following risk areas; · Inappropriate actuarial demographic assumptions for morbidity, mortality, longevity and persistency · Inappropriate actuarial expense assumptions
Materiality	» Overall Group materiality of £695k which represents 1% of Gross Long Term Business Provision, being the Best Estimate Liability of the product classes with negative net present value of cashflows.

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 component 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, the potential impact of climate change, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each component.

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 components of the Group, being the Society and its two subsidiaries.

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.

Independent Auditor's Report (continued)

Climate change

Stakeholders are increasingly interested on the impact climate change will have on companies. The Group and Society has determined that the most significant future impacts from climate change on its operations will be from physical and transitional risks. These are explained on page 14 in the principal risks and uncertainties section within the Strategic report. They have also explained their climate commitments on page 18 within the Strategic report. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's and Society's business and any consequential material impact on its financial statements.

The Group and Society has explained in its Basis of Preparation note how the impact of climate change has been considered for their financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, including physical and transitional risk and the resulting conclusion that there was no material impact from climate change and the adequacy of the Group's disclosures on page 48 of the financial statements which explain the rationale.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

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.

Valuation of the Long term Business Provision (2023: £21,339k; 2022: £40,890k)

Refer to the Audit Committee Report (page 26); Accounting policies (page 49); and Note 20 of the Consolidated Financial Statements (page 80)

We considered the valuation of the long-term business provision to be a significant and fraud risk for the Group and Society. Specifically, we considered the actuarial assumptions that are applied, as these involve complex and significant judgments about future events, both internal and external to the business, for which small changes can result in a material impact to the resultant valuation.

We have identified two components of the significant risks relating to the valuation of the long-term business provision being:

» Risk of inappropriate actuarial demographic assumptions for morbidity, mortality, longevity and persistency;

» Risk of inappropriate actuarial expense assumptions

The specific audit procedures performed to address the significant risk are set out below. In addition, we assessed management's analysis of movements in the long-term business provision.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate actuarial demographic assumptions for morbidity, mortality, longevity and persistency The assumptions underpinning the valuation of the long-term business provision as at 31 December 2023 are disclosed in note 20 to the financial statements. The valuation of the long–term liabilities the Society holds is inherently uncertain due to the dependency on a number of key demographic assumptions, including morbidity, mortality, longevity and persistency and the risk resides around these assumptions being inappropriate. Given the size of the Long Term Business Provision, small changes in these assumptions can have a material impact on the Group's reported result. Demographic assumptions are set based on internal and market experience, overlaid with the application of judgement in particular around expectations of future trends and external factors. Due to the inherent judgement required to determine the demographic assumptions we also consider the assumptions to be susceptible to management bias.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuarial specialists as part of our audit team and performed the following procedures: We obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating the demographic actuarial assumptions. We tested that the policy records data used in the process for setting and updating demographic and expense assumptions was complete and accurate by agreeing back to the policy administration system. We audited the results of management's experience analysis to assess whether this justified the adopted assumptions, checked that the assumptions used are consistent with the experience analysis and reviewed the judgements made (such as the weight put on recent years' experience and the exclusion of any data due to the pandemic), and explanations provided by management as to why experience had changed, to ensure they were reasonable. In respect of longevity improvements, we have evaluated the use of the chosen industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to validate that it was appropriate relative to the industry and Society experience. We concluded on whether the final assumptions were within a reasonable range based on our expert judgement, management's internal experience analysis and benchmarking to peers.	We determined that the demographic assumptions for morbidity, mortality, longevity and persistency, are within a reasonable range in aggregate based on the analysis of experience to date, industry practice and the financial and regulatory requirements.
Inappropriate actuarial expense assumptions The assumptions underpinning the valuation of the long term business provision as at 31 December 2023 are disclosed in note 20 to the financial statements. Whilst less significant than the demographic assumptions referred to as part of the key audit matter above, we consider the expense assumptions, determined on a per policy basis, to be a key part of the actuarial valuation. Expense assumptions are set based on the anticipated costs associated with administering the business, including expenses inflation as well as the split between acquisition / maintenance and between different classes of business. The per policy expense assumptions is then derived by making assumptions as to future policy volumes.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuarial specialists as part of our audit team and performed the following procedures: We obtained an understanding and tested the design and operating effectiveness of key controls over management's process and governance for setting expense assumptions. We compared the methodology and assumptions with market practice. We tested that the expense inputs into the model including the future expected costs savings and the split between maintenance and acquisition expenses and to product type. We tested whether the split between maintenance and acquisition expenses and whether the allocation of expenses between various product types and between new business and in–force business was reasonable by agreeing to actual data as well as future business plans. We assessed the judgements around new business volumes and potential growth in policy counts impacting the allocation of overheads. We assessed whether the expense savings included in the prior year assumptions have been realised in the current year. We concluded on whether the final assumptions were within a reasonable range based on our expert judgement, management's internal experience analysis and benchmarking to peers	We determined that the expense assumptions are within a reasonable range in the context of the business and the board approved forecasts.

CHAIR'S REVIEW
CHIEF EXECUTIVE'S REVIEW
STRATEGIC REPORT
RISK MANAGEMENT REPORT
CORPORATE SOCIAL RESPONSIBILITY
CORPORATE GOVERNANCE REPORT
AUDIT COMMITTEE REPORT
RISK & COMPLIANCE COMMITTEE REPORT
WITH-PROFITS ADVISORY ARRANGEMENT REPORT
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NOTES TO THE FINANCIAL STATEMENTS

Independent Auditor's Report (continued)

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 £695k (2022: £739k), which is 1% of Gross Long term Business Provision, being the Best Estimate Liability for product classes with negative net present value of cashflows as set out in note 20 (2022: 1% of Gross Long term Business Provision). We believe that the Gross Long Term Business Provision is the key driver of Own Funds which are then used to calculate the solvency coverage ratio, taking into account the growth in new business.

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% (2022: 50%) of our planning materiality, namely £348k (2022: £370). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £70k to £348k (2022: £74k to £370k).

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 £35k (2022: £37k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Board of Management for the financial year for which the annual accounts are prepared is consistent with the annual accounts and those reports have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

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 have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- » proper accounting records have not been kept; or
- » the annual accounts are not in agreement with the accounting records; or
- » we have not received all the information, explanations and access to documents we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 31, 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Independent Auditor's Report (continued)

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

The Group and Society operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **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 re-appointed by the Society on 4 August 2023 to audit the financial statements for the year ending 31 December 2023 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 December 2017 to 31 December 2023.
- 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 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 Part VI of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Bell
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 June 2024

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Consolidated Income Statement

For the year ended 31 December 2023

		Group				Society			
		2023		2022		2023		2022	
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written and payments to deposit	4	30,753		26,092		30,753		26,092	
Outward reinsurance premiums		(7,853)		(5,728)		(7,853)		(5,728)	
Earned premiums net of reinsurance			22,900		20,364		22,900		20,364
Investment income/(loss)	5		920		(9,353)		920		(9,353)
Other technical income	6		510		538		29		23
Total technical income			**24,330**		**11,549**		**23,849**		**11,034**
Gross claims paid		22,968		18,560		22,968		18,560	
Reinsurers' share		(7,703)		(5,561)		(7,703)		(5,561)	
Net claims paid			15,265		12,999		15,265		12,999
Change in provision for claims			(101)		996		(101)		996
Change in long term funds									
Long term business provision – gross amount		(19,550)		(31,644)		(19,550)		(31,644)	
Movement in reinsurers' share		3,338		1,085		3,338		1,085	
Long term business provision – net of reinsurance amount			(16,212)		(30,559)		(16,212)		(30,559)
Investment contract liabilities			-		(1)		-		(1)
Provision for linked liabilities – insurance contracts	22		45		(200)		45		(200)
Provision for linked liabilities – investment contracts	22		28		(51)		28		(51)
Bonuses and rebates			(9)		9		(9)		9
Net operating expenses	7a								
Acquisition costs		15,046		11,970		14,530		10,989	
Administrative expenses		4,423		3,729		4,423		3,730	
			19,469		15,699		18,953		14,719
Other technical charges – project costs	7b		-		15		-		-
- other			63		116		54		94
Investment expenses	8		496		677		496		677
Unrealised (gains)losses on investments	5		(886)		11,033		(886)		11,033
Loss on investment in subsidiary	26		-		-		12		542
Tax attributable to long term business	11a		-		6		-		6
Transfer to the fund for future appropriations			6,172		810		6,204		771
Total technical expenditure			**24,330**		**11,549**		**24,849**		**11,034**
Balance after transfer to/(from) the fund for future appropriations			-		-		-		-

The information on pages 48 to 87 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

		Group		Society	
		2023	2022	2023	2022
	Note	£'000	£'000	£'000	£'000
Balance transferred from income statement		-	-	-	-
Actuarial (loss)/gain on pension scheme	21	(676)	1,733	(676)	1,733
Revaluation of occupied land and buildings	18	(225)	(210)	(225)	(210)
Total comprehensive income		**(901)**	**1,523**	**(901)**	**1,523**
Transfer (from)/to the fund for future appropriations		(901)	1,523	(901)	1,523
Total comprehensive income after transfer		-	-	-	-

The information on pages 48 to 87 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2023

		Group				Society			
		2023		2022		2023		2022	
ASSETS	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	17		2,853		2,730		229		69
Investments Land and buildings	12	4,325		8,451		4,325		8,451	
Investment in subsidiaries	26	-		-		530		422	
Other financial investments	13	39,949		47,951		39,949		47,951	
			44,274		**56,402**		**44,804**		**56,824**
Assets held to cover linked liabilities	16		1,563		1,513		1,563		1,513
Debtors – Loans and receivables Debtors arising from direct insurance operations	3	604		132		564		78	
Other debtors	3	1,238		173		1,238		173	
			1,842		**305**		**1,802**		**251**
Other assets Tangible assets	18	2,603		2,849		2,603		2,849	
Cash and cash equivalents	14	3,851		690		3,723		654	
Net pension asset	21	1,673		2,313		1,673		2,313	
			8,127		**5,852**		**7,999**		**5,816**
Prepayments and accrued income – Loans and Receivables Accrued interest and rent		664		603		664		603	
Other prepayments and accrued income		268		294		2,657		2,685	
			932		**897**		**3,321**		**3,288**
			59,591		**67,699**		**59,718**		**67,761**

The information on pages 48 to 87 form an integral part of these financial statements.

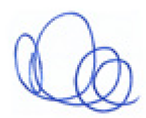
As at 31 December 2023

		Group				Society			
		2023		2022		2023		2022	
LIABILITIES	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund for future appropriations	27		23,337		18,031		23,337		18,031
Technical provisions Long term business provision	20	21,339		40,890		21,339		40,890	
Investment contract liabilities		-		-		-		-	
Claims outstanding		3,430		3,531		3,430		3,531	
Provision for bonuses and rebates		27		37		27		37	
			24,796		**44,458**		**24,796**		**44,458**
Technical provision for linked liabilities – insurance contracts	22		1,194		1,149		1,194		1,149
Technical provision for linked liabilities – investment contracts	22		323		295		323		295
Reinsurers' share of technical provisions			5,266		1,928		5,266		1,928
Provision for other risks and charges									
Creditors									
Financing liability	15	1,998		-		1,998		-	
Other creditors including taxation and social security		475		381		462		329	
Accruals and deferred income		2,202		1,457		2,342		1,571	
			4,675		**1,838**		**4,802**		**1,900**
			59,591		**67,699**		**59,718**		**67,761**

The information on pages 48 to 87 form an integral part of these financial statements.

These financial statements were approved by the Board on 20 June 2024.

Graham Singleton
Chief Executive



Nicola Moore
Company Secretary

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Notes to the Financial Statements

For the year ended 31 December 2023

01. Accounting Policies

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

General information

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

Statement of compliance

The Group and Society financial statements of National Deposit Friendly Society Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"), the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations).

Basis of preparation

The financial statements have been prepared on a going concern basis. The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report for the year. The Board has also considered the Society's financial position, its cash flows, liquidity position and capital position. The Society's policies and processes for managing capital are highlighted in Note 2 to the financial statements. The Society has adequate financial resources, supported by long-term relationships with its policyholders and suppliers.

The Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cash flows, have considered stresses to the solvency and liquidity of the entity to 31 December 2025 and are satisfied that these appropriately demonstrate the resilience of the business after considering the stresses and any mitigating actions to manage such risks to 31 December 2025. The Society makes extensive use of reassurance to mitigate the impact of various business risks and from June 2023 this has included financial reassurance to mitigate the new business strain arising from writing increasing levels of new business. The product pricing allows for the economic cost of such financing which is transitionary whilst the in force portfolio grows to a level where new business strain becomes self-funded. The Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for a period to 31 December 2025. Accordingly, the Society continues to adopt the going concern basis in preparing the annual report and financial statements.

The financial statements have been prepared under the historical cost convention modified for fair value and in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, The Insurance Contracts (FRS 103), the Friendly Societies Act 1992 and United Kingdom Generally Accepted Accounting Practice, specifically FRS 102 and FRS 103.

In preparing these financial statements the directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on page 14, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2023. The Group and Society assets are reported at fair value under FRS102 (as set out in note 13) and therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change upon these investments. Insurance liabilities are determined based upon experience of past insurable events, overlaid with judgement as to future trends, on which climate change is once influence. Future valuations of assets may differ as the market responds to any impact or assesses the impact of current requirements differently and the frequency and magnitude of future insurable events linked to the effect of climate risks could change. We further recognise that government and societal responses to climate change risks are still developing, and may partially mitigate, fully mitigate or even overcompensate for the primary effects.

Basis of consolidation

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

Premiums

Premiums are accounted for when due for payment.

Insurance commission

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

Reinsurance contracts

The Society cedes reinsurance in the normal course of business. The cost of reinsurance is recognised in the income statement at the date of issue. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and balance sheet as appropriate. Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance contract liabilities. Reinsurance assets are measured as the fair value of the technical provisions of the policies subject to the reinsurance treaty.

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

Realised and unrealised gains and losses

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

Investment return

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

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

Claims

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

Long term business provision

The Long Term Business Provision is determined by the Society's Board and is calculated on a Solvency II basis. It is calculated to be consistent with the PRA Rulebook: Solvency II Firms Technical Provisions Instrument 2015.

The Solvency II provisions, on which the Long Term Business Provision is based, are defined as the sum of the Best Estimate of Liabilities and the Risk Margin. The best estimate and risk margin are calculated separately. The best estimate of liabilities is calculated on a policy by policy basis for all contracts accepted on risk at the valuation date using a cash flow approach and generally accepted actuarial practises, plus allowance for related liabilities which are calculated in aggregate across all policies. The calculations generate probability weighted cash flows for each monthly time period within a policy's contract boundary. The cash flows are discounted using the PRA's risk-free yield curve and thus make allowances for the time value of money. The best estimate can be either an overall liability or asset, depending on the

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Accounting Policies (continued)

underlying cashflows that underpin its calculation. In the instance where the net present value of premiums is greater than the net present value of claims and per policy expenses the best estimate would be an overall asset. The best estimate liability presented in the balance sheet reflects the overall net position and does not separate the positive and negative cashflows associated with different product types.

The total risk margin is calculated as the sum of the present values of the cost of capital rate applied to the Solvency Capital Requirement of a reference undertaking willing to take on the Society's insurance portfolio, in each future year until the obligations are extinguished and there is no remaining SCR.

The Long Term Business Provision reported in the Financial Statements does not take account of any transitional measures approved by the PRA in respect of the transition from Solvency I to Solvency II.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short term deposits with a maturity of less than 3 months.

Bonuses

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

Claims outstanding

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

Depreciation

Properties

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

Intangible assets

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

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

Computer Software is amortised on the straight line basis over its remaining useful economic life, which is 8 years.

Software under Construction is not amortised until completed, but is reviewed for impairment at least annually.

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

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

Tangible fixed assets and depreciation

Land and buildings

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

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

Other tangible fixed assets

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

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

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

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

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

Acquisition costs

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

Operating leases

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

Project costs

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

Pension costs

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

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

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of comprehensive income for the year to the extent they are attributable to members. The attributable deferred taxation is shown separately in the statement of comprehensive income. Payments made to the defined contribution scheme for current employees are charged as an expense as they fall due.

Taxation

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

Investment in subsidiaries

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

Fund for future appropriations

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

1. Accounting Policies (continued)

Contract classification

The Society classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

» that are likely to be a significant proportion of the total contractual payments; and
» whose amount or timing is contractually at the discretion of the issuer and that are contractually based on:
  - the performance of a specified pool of contracts, or a specified type of contract, or
  - realised and/or unrealised investment returns on a specified type of contract, or
  - the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as "with-profits" or as "participating contracts".

Insurance contracts and participating investment contracts

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

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

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

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

Investment contracts

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

Financial assets

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

Financial liabilities

The Society recognised initially financial liabilities at fair value, net of directly attributable transaction costs. The liabilities are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs. It is classified as the financial liability in the Balance Sheet and the interests due are in the income statement.

Subsequently, the advance claims are recognised at amortised cost which is the amount at which financial liability is measured at initial recognition, minus the principal repayments, and minus any adjustments to the liability as agreed with the reinsurer. The interests accruing on the liability due are charged to P&L at the effective interest rate and added to the outstanding liability.

Investments

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

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

Cash flow statement

The Society, being a mutual life assurance company, is exempt from the requirement under Section 7 "Statement of Cash Flows" of FRS102 to produce a cash flow statement.

Key estimates and judgements

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

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

b) Valuation of Investment Properties

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

c) Defined Benefit Pension Schemes

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

d) Valuation of Investment in Subsidiaries

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

Notes to the Financial Statements (continued)

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2. Capital management

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

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

The Society maintains a single long term business fund. The available capital for the fund is represented by the fund for future appropriations which represents the difference between the assets and liabilities of the Society and Group. For regulatory solvency purposes certain assets are deemed inadmissible for meeting the capital requirements. At the balance sheet date £0.3m (2022: £0.4m) of intangible assets could not be included for regulatory capital purposes.

In addition, for statutory purposes under FRS 102/103, the Society calculates its FRS 102/103 liabilities on the same basis as for the regulatory solvency. The Society is eligible to use a Transitional Measure on the risk-free Interest Rate (TMIR) for its regulatory solvency reporting to the PRA. The TMIR applies only to policies in force prior to 01/01/2016 and amortises over a 16-year period. At the balance sheet date, the TMIR adjustment is zero (2022: zero).

Assumptions used in the valuation of the Technical Provisions

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

Capital resource sensitivities

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

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

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

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

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

This risk is partly mitigated by using mass lapse reinsurance for the Guaranteed Partially Underwritten Life Assurance business, but the Society is exposed to residual mass lapse risk on this product, and on other products.

In the event of an adverse lapse scenario, management actions can be taken on some legacy Health contracts to increase the available capital. These are premium increases, increases to "own share" percentages (the proportion of claims that are paid by the members deposit account) and reduction to asset shares under market stresses.

New Health contracts have annually reviewable premiums to reduce exposure to underwriting risks.

Longevity risk: The Society is exposed to the risk that mortality rates reduce, particularly on annuity business. This risk is largely mitigated using reinsurance for the Immediate Needs Annuity business, but the Society is exposed to residual longevity risk on this product, and on other products.

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

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

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

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

This risk is partly mitigated by Quota Share and Excess of Loss reinsurance arrangements on some healthcare products, but the Society is exposed to residual morbidity risk on other products.

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

Mortality risk: The Society is exposed to the risk that mortality increases. This risk has increased over 2023 with Guaranteed Life Assurance contracts being sold. The Society's exposure to mortality risk is expected to increase as we continue to sell these contracts.

The following table shows the sensitivity of the Society's available Own Funds to changes in assumptions. The assumption changes shown are those as per the Solvency II standard formula.

	Society
	Impact (Unaudited)
	£'000
Property risk *Decrease in property values of 25%*	**(447)**
Interest rate risk *Increase in risk free yield curve as specified by the PRA (+1.2%)* *Decrease in risk free yield curve as specified by the PRA (c.-0.9%**)*	 (1,457) (581)
Equity risk *Decrease in equity values of 36.1%*	(449)
Credit spread risk *Decrease in corporate bond values of 6.2%*	(283)
Lapse risk *** *Increase in lapse rates of 50%* *Decrease in lapse rates of 50%* *Mass lapse of 40%*	 (3,312) (828) (10,008)
Longevity risk *Decrease in mortality rates of 20%*	(1,073)
Expense risk *Increase in per policy expenses of 10% and expense inflation of 1% p.a.*	(2,097)
Morbidity risk *Increase in morbidity rates of 5% and claim inflation of 1% p.a.*	(1,069)
Mortality risk *Increase in mortality rates of 15%*	(5,435)

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

*** *The PRA Rulebook requires that the lapse stresses are applied only to lines of business where the stress would result in a decrease in Own Funds. As such, all of the lapse stresses reduce the available Own Funds.*

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3. Risk management

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

Insurance risk

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

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

Financial risk

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

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

i. Market risk

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

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

a. Interest rate risk

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

b. Inflation risk

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

c. Exchange rate risk

Following a de-risking of the Society's investment portfolio in 2021, the Society no longer holds any fixed interest investments in foreign currencies.

Prior to 2022 the Society held a number of fixed interest investments in foreign currencies which presented an exchange rate risk that was mitigated by holding Forward Contracts for foreign exchange as a natural hedge against the exchange rate risk.

d. Equity price risk

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

ii. Credit risk

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

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

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

This results in a relatively modest exposure to lower rated and possibly riskier assets within the investment funds. However, the Society considers regular reviews from the fund manager so that the risk within the funds remains appropriate relative to the Society's appetite for credit risk.

The Society currently has a low level of exposure to re-assurer security, due to the nature of the reinsurance arrangements in place. Therefore, there are no specific actions envisaged to manage the risks in this section.

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3. Risk management (continued)

	Group	
	2023	2022
The assets bearing credit risk are summarised and analysed by credit rating below:	**£'000**	**£'000**
Listed fixed interest securities	36,436	44,817
Own fund investments	844	-
Loans and receivables (Note 14)	2,554	958
Deposits with credit institutions	1,106	1,737
Cash and cash equivalents	3,851	690
	44,791	**48,202**
AAA	50	49
AA	27,458	35,630
A	12,534	9,003
BBB	2,199	2,644
Not rated	2,550	876
	44,791	**48,202**

	Society	
	2023	2022
The assets bearing credit risk are summarised and analysed by credit rating below:	**£'000**	**£'000**
Listed fixed interest securities	36,436	44,817
Own fund investments	844	-
Loans and receivables (Note 14)	2,514	904
Deposits with credit institutions	1,106	1,737
Cash and cash equivalents	3,723	654
	44,623	**48,112**
AAA	50	49
AA	27,329	35,595
A	12,534	9,003
BBB	2,199	2,644
Not rated	2,511	821
	44,623	**48,112**

iii. Liquidity Risk

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

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

The Society will continue to monitor its emerging cash flow requirements.

Financial assets held over five years are long-term assets aiming to match the duration of liabilities. It is not possible to invest in fixed income investments with no maturity date. However, the Society carries out regular checks so that assets and liabilities are well matched by duration.

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3. Risk management (continued)

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/23	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	23,337	-	-	-	**23,337**
Long term business provision	-	1,048	616	19,676	**21,340**
Claims outstanding	-	3,430	-	-	**3,430**
Provision for bonuses and rebates	-	-	-	27	**27**
Technical provision for linked liabilities – insurance contracts	-	1,194	-	-	**1,194**
Technical provision for linked liabilities – investment contracts	-	323	-	-	**323**
Reinsurers' share of technical provisions	-	-	5,259	7	**5,266**
Financing liability	-	1,998	-	-	**1,998**
Other creditors including taxation and social security	-	475	-	-	**475**
Accruals and deferred income	-	2,202	-	-	**2,202**
Total financial and insurance liabilities	**23,337**	**10,670**	**5,875**	**19,710**	**59,592**

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/22	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	18,031	-	-	-	**18,031**
Long term business provision	-	1,788	654	38,448	**40,890**
Claims outstanding	-	3,531	-	-	**3,531**
Provision for bonuses and rebates	-	10	15	12	**37**
Technical provision for linked liabilities – insurance contracts	-	1,149	-	-	**1,149**
Technical provision for linked liabilities – investment contracts	-	295	-	-	**295**
Reinsurers' share of technical provisions	-	64	(153)	2,017	**1,928**
Other creditors including taxation and social security	-	381	-	-	**381**
Accruals and deferred income	-	1,457	-	-	**1,457**
Total financial and insurance liabilities	**18,031**	**8,675**	**516**	**40,477**	**67,699**

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/23	£'000	£'000	£'000	£'000	£'000
Equity investments	1,515	-	-	-	**1,515**
Fixed interest securities	-	1,335	9,212	25,889	**36,436**
Own fund investments	-	844	-	-	**844**
Deposits with credit institutions	-	1,106	-	-	**1,106**
Mortgages	48	-	-	-	**48**
Assets held to cover linked liabilities	1,563	-	-	-	**1,563**
Debtors arising from direct insurance operations	-	604	-	-	**604**
Other debtors	-	1,238	-	-	**1,238**
Cash and cash equivalents	3,851	-	-	-	**3,851**
Accrued interest and rent	-	664	-	-	**664**
Total financial assets	**6,977**	**5,791**	**9,212**	**25,890**	**47,869**

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/22	£'000	£'000	£'000	£'000	£'000
Equity investments	1,348	-	-	-	**1,348**
Fixed interest securities	-	3,687	12,496	28,633	**44,816**
Deposits with credit institutions	-	1,737	-	-	**1,737**
Mortgages	47	2	1	-	**50**
Assets held to cover linked liabilities	1,513	-	-	-	**1,513**
Debtors arising from direct insurance operations	-	132	-	-	**132**
Other debtors	-	173	-	-	**173**
Cash and cash equivalents	690	-	-	-	**690**
Accrued interest and rent	-	603	-	-	**603**
Total financial assets	**3,598**	**6,334**	**12,497**	**28,633**	**51,062**

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

3. Risk management (continued)

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/23	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	23,337	-	-	-	**23,337**
Long term business provision	-	1,048	616	19,676	**21,340**
Claims outstanding	-	3,430	-	-	**3,430**
Provision for bonuses and rebates	-	-	-	27	**27**
Technical provision for linked liabilities – insurance contracts	-	1,194	-	-	**1,194**
Technical provision for linked liabilities – investment contracts	-	323	-	-	**323**
Reinsurers' share of technical provisions	-	-	5,259	7	**5,266**
Financing liability	-	1,998	-	-	**1,998**
Other creditors including taxation and social security	-	462	-	-	**462**
Accruals and deferred income	-	2,342	-	-	**2,342**
Total financial and insurance liabilities	**23,337**	**10,797**	**5,875**	**19,710**	**59,719**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/23	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity investments	1,515	-	-	-	**1,515**
Fixed interest securities	-	1,335	9,212	25,889	**36,436**
Own fund investments	-	844	-	-	**844**
Deposits with credit institutions	-	1,106	-	-	**1,106**
Mortgages	48	-	-	-	**48**
Assets held to cover linked liabilities	1,563	-	-	-	1,563
Debtors arising from direct insurance operations	-	564	-	-	**564**
Other debtors	-	1,238	-	-	**1,238**
Cash and cash equivalents	3,723	-	-	-	**3,723**
Accrued interest and rent	-	664	-	-	**664**
Total financial assets	**6,849**	**5,751**	**9,212**	**25,889**	**47,701**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/22	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	18,031	-	-	-	**18,031**
Long term business provision	-	1,788	654	38,448	**40,890**
Claims outstanding	-	3,531	-	-	**3,531**
Provision for bonuses and rebates	-	10	15	12	**37**
Technical provision for linked liabilities – insurance contracts	-	1,149	-	-	**1,149**
Technical provision for linked liabilities – investment contracts	-	295	-	-	**295**
Reinsurers' share of technical provisions	-	64	(153)	2,017	**1,928**
Other creditors including taxation and social security	-	329	-	-	**329**
Accruals and deferred income	-	1,571	-	-	**1,571**
Total financial and insurance liabilities	**18,031**	**8,737**	**516**	**40,477**	**67,761**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/22	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity investments	1,348	-	-	-	**1,348**
Fixed interest securities	-	3,687	12,496	28,633	**44,816**
Deposits with credit institutions	-	1,737	-	-	**1,737**
Mortgages	47	2	1	-	**50**
Assets held to cover linked liabilities	1,513	-	-	-	**1,513**
Debtors arising from direct insurance operations	-	78	-	-	**78**
Other debtors	-	173	-	-	**173**
Cash at bank and in hand	654	-	-	-	**654**
Accrued interest and rent	-	603	-	-	**603**
Total financial assets	**3,562**	**6,280**	**12,497**	**28,633**	**50,972**

Notes to the Financial Statements (continued)

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3. Risk management (continued)

iv. Fair value estimation

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

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

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

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

Assets held to cover linked liabilities
Assets held to cover linked liabilities consist of equity instruments held in funds which are measured based on their published net asset value they are classified as Level 2.

Financial assets hierarchy

The principal financial assets held at 31 December 2023, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
Assets 2023: Financial assets at fair value through the profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
- Equity investments	1,515	-	-	**1,515**
- Fixed interest securities	26,880	9,556	-	**36,436**
- Own fund investments *	-	844	-	**844**
- Assets held to cover linked liabilities	-	1,563	-	**1,563**
Total assets	**28,395**	**11,963**	**-**	**40,358**

* Own fund investments relate to short term money market securities whose values are derived from the prices of the underlying assets in active markets.

The principal financial assets held at 31 December 2022, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
Assets 2022: Financial assets at fair value through the profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
- Equity investments	1,348	-	-	**1,348**
- Fixed interest securities	34,763	10,053	-	**44,816**
- Assets held to cover linked liabilities	-	1,513	-	**1,513**
Total assets	**36,111**	**11,566**	**-**	**47,677**

The principal financial liabilities held at 31 December 2023, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
Liabilities 2023: Financial liabilities at fair value through the profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
- Investment contract liabilities	-	-	-	**-**
- Investment contracts on linked liability fund	-	323	-	**323**
Total liabilities	**-**	**323**	**-**	**323**

The principal financial liabilities held at 31 December 2022, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
Liabilities 2022: Financial liabilities at fair value through the profit and loss	**£'000**	**£'000**	**£'000**	**£'000**
- Investment contract liabilities	-	-	-	**-**
- Investment contracts on linked liability fund	-	295	-	**295**
Total liabilities	**-**	**295**	**-**	**295**

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04. Gross premiums written and payments to deposit

	Group & Society					
	2023 Periodic	2023 Single	2023 Total	2022 Periodic	2022 Single	2022 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assurance	9,368	-	9,368	6,429	-	6,429
Income Protection	604	-	604	224	-	224
Immediate needs annuities	-	12,262	12,262	-	11,581	11,581
Health insurance	7,856	-	7,856	-	178	178
Bonds and other	-	401	401	7,287	-	7,287
Payments to deposit	239	-	239	370	-	370
Unit linked	23	-	23	23	-	23
	18,090	12,663	30,753	14,333	11,759	26,092

All business is direct insurance

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

	Group & Society					
	2023 Periodic	2023 Single	2023 Total	2022 Periodic	2022 Single	2022 Total
Gross new premiums written	£'000	£'000	£'000	£'000	£'000	£'000
Assurance	5,791	-	5,791	3,762	-	3,762
Income Protection	710	-	710	381	-	381
Immediate needs annuities	-	12,262	12,262	-	11,581	11,581
Health insurance	1,211	-	1,211	1,084	-	1,084
Bonds and other single premiums	-	401	401	-	178	178
	7,712	12,663	20,375	5,227	11,759	16,986

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

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

05. Investment Income

	Group		Society	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Income from land and buildings	1,033	624	1,033	624
Fixed interest stocks	918	1,338	918	1,338
Ordinary shares	27	40	27	40
Income from investments at fair value through profit and loss	945	1,378	945	1,378
Bank interest	158	27	158	27
Mortgages	2	2	2	2
Income from other investments	160	29	160	29
Income from investments	2,138	2,031	2,138	2,031
Net losses on realisation of land and buildings	(529)	(17)	(529)	(17)
Net losses on realisation of investments at fair value through profit and loss	(689)	(11,367)	(689)	(11,367)
Net gains on realisation of investments	(1,218)	(11,384)	(1,218)	(11,384)
Investment income/(losses)	920	(9,353)	920	(9,353)
Net unrealised gains/(losses) on investments				
- Land and buildings	(529)	(1,060)	(529)	(1,060)
- Investments at fair value through profit and loss	1,280	(9,729)	1,280	(9,729)
- Assets held to cover linked liabilities at fair value through profit and loss	136	(244)	136	(244)
	887	(11,033)	887	(11,033)
Total investment return	1,806	(20,386)	1,806	(20,386)

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

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06. Other technical income

	Group		Society	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Insurance commission	482	516	1	1
Other income	28	22	28	22
	510	**538**	**29**	**23**

07. Net operating expenses

	Group		Society	
	2023	2022	2023	2022
a) Included in operating expenses are:	£'000	£'000	£'000	£'000
Fees payable to external auditors:				
Audit of the Group and Society financial statements	253	311	253	306
Non-recurring fees in respect of the prior year	60	100	60	100
Fees payable to internal auditors in respect of:				
Internal audit*	45	164	45	164
Actuarial fees	12	155	12	155
Depreciation of tangible assets	74	75	74	75
Amortisation of intangible assets	337	344	-	-

* The internal audit relates to the claims payment process.

(b) Other technical charges – project costs:

Distribution	-	15	-	-
Total project costs	**-**	**15**	**-**	**-**

08. Investment expenses

	Group		Society	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Investment management expenses	182	222	182	222
Investment property direct costs	314	455	314	455
	496	**677**	**496**	**677**

09. Staff information

	Group		Society	
	2023	2022	2023	2022
Average monthly number of employees:				
Administration	43	35	43	35
Distribution	38	40	30	28
	81	**75**	**73**	**63**

The average full-time equivalent is 78 (2022: 73) for the Group and 60 (2022: 61) for the Society. This excludes Non-Executive Directors of 4 (2022: 4).

	Group		Society	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Wages and salaries (inc. commission)	4,714	4,213	4,459	3,955
Social security costs	530	505	502	477
Pension costs	299	267	283	250
	5,543	**4,985**	**5,244**	**4,682**

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10. Directors' Emoluments

There are no retirement benefits accruing for Executive Directors as at 31 December 2023 (2022: none) under a defined benefit scheme. The aggregate amount of pension contribution made by the Society to a defined contribution scheme was £27,000 (2022: £18,714).

	Group & Society	
	2023	2022
Highest paid Director	**£'000**	**£'000**
Total emoluments	349	210
Defined benefit scheme: Pension accrued during the year	-	-
Defined contribution scheme: Contributions made by the Society	-	-

This includes Directors' emoluments totalling £897,598 (2022: £590,246). Details of Directors' remuneration are set out on page 33.

	Group & Society	
	2023	2022
	£'000	**£'000**
Aggregate emoluments	898	590

11. Taxation

	Group		Society	
	2023	2022	2023	2022
(a) Tax attributable to long term business	**£'000**	**£'000**	**£'000**	**£'000**
Tax (credited)/charged in the long-term business technical account comprises: **Current tax**				
UK corporation tax	-	-	-	-
Prior year adjustments	-	6	-	6
Total current tax	**-**	**6**	**-**	**6**
Deferred tax				
Origination and reversal of timing differences	-	-	-	-
Total deferred tax	**-**	**-**	**-**	**-**
Total tax credited in the long-term business technical account	**-**	**6**	**-**	**6**

	Group		Society	
	2023	2022	2023	2022
(b) Factors that may affect future tax charges	**£'000**	**£'000**	**£'000**	**£'000**
The deferred tax assets which have not been recognised due to the uncertainty of their recoverability in the foreseeable future comprise:				
Realised and unrealised capital losses	228	164	228	164
Expenses deductible in future years	788	838	788	838
Trade losses	1,567	1,568	-	-
Short term timing differences	3	3	-	-
Deferred tax asset not recognised	**2,586**	**2,573**	**1,016**	**1,002**

The tax charge for the Society which pays tax on its Basic Life Assurance and General Annuity Business (BLAGAB) is provided at a rate of 20% (2022: 20%) computed in accordance with the legislation applicable to mutual life assurance companies whereby no tax is charged on pension business profits or permanent health insurance business profits. There is no tax on exempt Friendly Society business.

For subsidiaries of the Group, tax is provided at a rate of 23.5% (2022: 19%). The main rate of corporation tax was increased from 19% to 25% from 1 April 2023 and deferred taxes have been measured at 25%.

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

Unrecognised deferred tax assets may be realised, and therefore reduce future tax payable, when net gains chargeable to corporation tax are realised or when there is sufficient taxable income with which to offset carried forward expenses and/or losses. This will therefore depend substantially upon future movements in the stock market and on future taxable income which cannot be predicted with certainty. There are unused gross capital losses of £1,960,460 (2022: £1,148,509)

Expenses deductible in the Society in future periods are primarily driven by excess management expenses carried forward of £3,877,452 (2022: £1,752,581) and loan relationship deficits carried forward of £547,412 (2022: £2,815,058). The Pension Scheme surplus gives rise to £477,765 (2022: £475,040) of potential future taxable profit. Trade losses not recognised are made up of £6,265,205 (2022: £6,270,391) of trading losses incurred in the subsidiaries.

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11. Taxation (continued)

(c) Balance sheet

The deferred tax balance included within other assets comprises:

	Group		Society	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Realised capital losses	164	90	164	90
Excess management expenses	101	95	101	95
Unrealised capital gains	(164)	(90)	(164)	(90)
Pension scheme surplus and short term timing differences	(101)	(95)	(101)	(95)
Trade losses	-	-	-	-
Deferred tax asset balance	**-**	**-**	**-**	**-**

(d) Reconciliation of deferred taxation balances

	Group		Society	
Opening deferred tax asset	-	-	-	-
(Charge)/credit to income statement	-	-	-	-
Charge to statement of comprehensive income	-	-	-	-
	-	**-**	**-**	**-**

12. Investments Land and buildings

	Group		Society	
	2023	2023	2023	2023
Freehold investment properties	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
At 1 January	6,044	7,151	6,044	7,151
Disposal	(4,928)	(3,072)	(4,928)	(3,072)
Net (losses)/gains on revaluation	-	(604)	-	(604)
At 31 December	**1,116**	**3,475**	**1,116**	**3,475**
Long leasehold properties				
At 1 January	1,831	1,300	1,831	1,300
Net (losses)/gains on revaluation	-	(450)	-	(450)
At 31 December	**1,831**	**850**	**1,831**	**850**
Total freehold and long leasehold investment properties: At 31 December	**2,947**	**4,325**	**2,947**	**4,325**

The Society's properties are included at Fair Value. The Properties are valued by Mellersh and Harding LLP as at 31st December 2023 in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards effective from 6th January 2014.

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

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13. Other financial investments

	Group & Society			
	2023	2023	2022	2022
	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Fixed interest securities	35,641	35,593	52,987	44,817
Own fund investments	833	844	-	-
Listed shares	1,413	1,515	1,384	1,348
Deposits with credit institutions	1,106	1,106	1,737	1,737
Mortgages	48	48	50	50
	39,041	**39,106**	**56,158**	**47,952**

Of the fixed interest securities £5,824,000 (2022: £7,636,948) relates to fixed interest securities by foreign issuers (denominated in GBP), with the remainder relating to UK fixed interest securities.

Of the listed shares £771,000 (2022: £nil) relates to overseas equity issuers (denominated in GBP), with the remainder relating to UK entities.

14. Financial assets

	Group			
	2023	2023	2022	2022
Financial assets at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	43,695	44,472	57,705	50,104
	43,695	**44,472**	**57,705**	**50,104**
Loans and receivables	2,554	2,554	958	958
Total financial assets	**46,249**	**47,026**	**58,663**	**51,062**
Included in the balance sheet as:				
Listed fixed interest securities	35,641	35,593	52,987	44,816
Own fund investments	833	844	-	-
Listed shares	1,413	1,515	1,384	1,348
Deposits with credit institutions	1,106	1,106	1,737	1,737
Mortgages	48	48	50	50
Other financial investments (Note 13)	**39,041**	**39,106**	**56,158**	**47,951**
Assets held to cover linked liabilities (Note 16)	851	1,563	907	1,513
Debtors arising from direct insurance operations	604	604	132	132
Other debtors	1,238	1,238	173	173
Cash and cash equivalents	3,851	3,851	690	690
Accrued interest and rent	664	664	603	603
Total financial assets	**46,249**	**47,026**	**58,663**	**51,062**

	Society			
	2023	2023	2022	2022
Financial assets at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	43,567	45,188	57,669	50,068
	43,567	**45,188**	**57,669**	**50,068**
Loans and receivables	2,514	2,514	904	904
Total financial assets	**46,081**	**47,702**	**58,573**	**50,972**
Included in the balance sheet as:				
Listed fixed interest securities	35,641	35,593	52,987	44,816
Own fund investments	833	844	-	-
Listed shares	1,413	1,515	1,384	1,348
Deposits with credit institutions	1,106	1,106	1,737	1,737
Mortgages	48	48	50	50
Other financial investments (Note 13)	**39,041**	**39,106**	**56,158**	**47,951**
Assets held to cover linked liabilities (Note 16)	851	1,563	907	1,513
Debtors arising from direct insurance operations	564	564	78	78
Other debtors	1,238	1,238	173	173
Cash and cash equivalents	3,723	3,723	654	654
Accrued interest and rent	664	664	603	603
Total financial assets	**46,081**	**46,858**	**58,573**	**50,972**

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

15. Financial Liabilities

	Group			
	2023	2023	2022	2022
Financial liabilities at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Other financial liabilities at amortised cost	4,998	4,998	2,133	2,133
Total financial liabilities	**4,998**	**4,998**	**2,133**	**2,133**
Included in the balance sheet as:				
Investment contract liabilities on linked liability fund	323	323	295	295
Other creditors including taxation and social security	475	475	381	381
Financing liability	1,998	1,998	-	-
Accruals and deferred income	2,202	2,202	1,457	1,457
Total financial liabilities	**4,998**	**4,998**	**2,133**	**2,133**

	Society			
	2023	2023	2022	2022
Financial liabilities at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Other financial liabilities at amortised cost	5,125	5,125	2,195	2,195
Total financial liabilities	**5,125**	**5,125**	**2,195**	**2,195**
Included in the balance sheet as:				
Investment contract liabilities on linked liability fund	323	323	295	295
Other creditors including taxation and social security	462	462	329	329
Financing liability	1,998	1,998		
Accruals and deferred income	2,342	2,342	1,571	1,571
Total financial liabilities	**5,125**	**5,125**	**2,195**	**2,195**

Other financing liabilities includes the liability from the financing reinsurance treaty which is carried in the balance sheet at amortised cost. Their fair values are not materially different from the values shown above.

The financial liability is recognised at the initial funding received, net of the associated fees payable. The advance claim is recognised as a liability in the Balance Sheet and the interests due are in the income statement.

Subsequently, the advance claims are recognised at amortised cost which is the amount at which financial liability is measured at initial recognition, minus the principal repayments, and minus any adjustments to the liability as agreed with the reinsurer. The interests accruing on the reinsurance liability due charged to P&L at the effective interest rate and added to the outstanding liability.

16. Assets held to cover linked liabilities

	Group & Society			
	2023	2023	2022	2022
	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Assets held to cover unit linked insurance contracts	670	1,230	722	1,204
Assets held to cover unit linked investment contracts	181	333	185	309
	851	**1,563**	**907**	**1,513**

Included within assets held to cover linked liabilities is £29,336 (2022: £40,340) representing units not yet purchased by policyholders.

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

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For the year ended 31 December 2023

17. Intangible assets

	Group				
	Software under Construction	Customer Book	Website	Computer Software	Total
At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Cost/Valuation	69	429	4	4,150	4,652
Accumulated depreciation and impairment	-	(169)	(3)	(1,750)	(1,922)
Carrying amount	69	260	1	2,400	2,730
Year ended 31 December 2023					
Opening net book value	69	260	1	2,400	2,730
Additions	160	-	-	300	460
Amortisation	-	(36)	(1)	(300)	(337)
Carrying amount	229	224	-	2,400	2,853
At 31 December 2023					
Cost/Valuation	229	429	4	4,450	5,112
Accumulated depreciation and impairment	-	(205)	(4)	(2,050)	(2,259)
Carrying amount	229	224	-	2,400	2,853

	Society	
	Software under Construction	Total
At 31 December 2022	£'000	£'000
Cost/Valuation	69	69
Accumulated depreciation and impairment	-	-
Carrying amount	69	69
Year ended 31 December 2023		
Opening net book value	69	69
Additions	160	160
Disposals	-	-
Carrying amount	229	229
At 31 December 2023		
Cost/Valuation	229	229
Accumulated depreciation and impairment	-	-
Carrying amount	229	229

18. Tangible assets

	Group				
	Land & Buildings	Computer Equipment	Office Equipment	Motor Vehicle	Total
At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Cost/Valuation	2,550	637	389	23	3,599
Accumulated depreciation and impairment	-	(542)	(189)	(19)	(750)
Net book amount	2,550	95	200	4	2,849
Year ended 31 December 2023					
Opening net book value	2,550	95	200	4	2,849
Additions	-	53	-	-	53
Depreciation	-	(40)	(30)	(4)	(74)
Revaluation	(225)	-	-	-	(225)
Closing net book amount	2,325	108	170	-	2,603
At 31 December 2023					
Cost/Valuation	2,325	690	389	23	3,427
Accumulated depreciation and impairment	-	(582)	(219)	(23)	(824)
Net book amount	2,325	108	170	-	2,603

	Society				
	Land & Buildings	Computer Equipment	Office Equipment	Motor Vehicle	Total
At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Cost/Valuation	2,550	637	389	23	3,599
Accumulated depreciation and impairment	-	(542)	(189)	(19)	(750)
Net book amount	2,550	95	200	4	2,849
Year ended 31 December 2023					
Opening net book value	2,550	95	200	4	2,849
Additions	-	53	-	-	53
Depreciation	-	(40)	(30)	(4)	(74)
Revaluation	(225)	-	-	-	(225)
Closing net book amount	2,325	108	170	-	2,603
At 31 December 2023					
Cost/Valuation	2,325	690	389	23	3,427
Accumulated depreciation and impairment	-	(582)	(219)	(23)	(824)
Net book amount	2,325	108	170	-	2,603

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18. Tangible assets (continued)

The net book value of land and buildings consists of the proportion of 11-12 Queen Square, Bristol utilised by the Society and Group as a head office, which is valued on a Fair Value basis.

The valuation was performed by Mellersh and Harding LLP as at 31st December 2023 in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards effective from 6th January 2014. Under the amortised cost model the land and buildings have a cost of £1,353,000 (2022: £1,353,000), a useful life of 100 years and a net book value of £1,218,000 (2022: £1,231,000).

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

19. Capital commitments

Amounts authorised and contracted for at 31 December 2023 are £nil (2022: £18,000).

20. Long term business provision

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

Rates of interest	Regulatory Regime Best Estimate Assumptions
All contracts	Based on rates prescribed by the PRA

Rates of mortality	Regulatory Regime Best Estimate Assumptions
All contracts	Mortality assumptions are based upon the Society's actual experience, and vary according to factors including product type, age, smoker status and policy duration.

Rates of lapse	Regulatory Regime Best Estimate Assumptions
All contracts	Lapse assumptions are based upon the Society's actual experience, and vary according to factors including product type and policy duration.

Rates of morbidity	Regulatory Regime Best Estimate Assumptions
Health and income protection contracts	Morbidity assumptions are based upon the Society's actual experience, and vary according to factors including product type and age.

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

Expenses	Solvency II Best Estimate Assumptions
Death Benefits Only (DBO) contracts	£3.25 (2022: £3.36) per annum
Non-DBO Old Deposit contracts	£24.00 (2022: £23.71) per annum
Health contracts excluding Optimum combined	£62.00 (2022: £65.80) per annum
Optimum combined contracts	£28.50 (2022: £71.06) per annum
All life assurance and pension policies	£16.00 (2022: £15,80) per annum
Immediate Needs Annuity contracts	£24.00 (2022: £23.71) per annum
Income Protection contracts	£16.00 (2022: £18.80) per annum
Per policy Expense Inflation	A vector of rates varying by duration from the valuation date, starting at 4.20% in year 1, and reducing to 2.40% from year 10 onwards.
Tax relief on per policy expenses for taxable business	0%
Offset for with profits life assurance policies	The value of expenses detailed in the terms and conditions for that particular policy.

	2023 £'000	2022 £'000
Best Estimate Liability (BEL) – product classes with negative net present value of cashflows	68,169	67,948
Best Estimate Liability (BEL) – product classes with positive net present value of cashflows	(49,796)	(32,072)
Risk Margin (RM)	2,966	5,014
Long Term Business Provision (LTBP)	**21,339**	**40,890**

The Best Estimate Liability can be either an overall liability or asset, depending on the underlying cashflows that underpin its calculation. For product classes with a negative net present value of cashflows, the net present value of premiums is less than the net present value of claims and per policy expenses. Conversely, for product classes with a positive net present value of cash flows, the net present value of premiums exceeds that of the claims and per policy expenses.

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21. Pensions

National Deposit Staff Superannuation Fund

Nature of the Fund

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

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

Funding Policy

Following the cessation of accrual of benefits with effect from 31 May 2009, regular contributions to the Fund are no longer required. However, additional contributions are still made to cover any shortfalls that arise following each valuation. The funding method employed to calculate the value of previously accrued benefits is the Projected Unit Method. The Trustees determine the level of contributions payable to the Fund following agreement from the Society and advice of the Fund's Actuary.

Valuations

The most recent triennial valuation of the Fund's liabilities for funding purposes, carried out as at 31 December 2022, indicated that the Fund's liabilities exceeded the assets, giving rise a shortfall on this basis. To eliminate the shortfall, the Society (as the employer) will pay contributions of £20,000 each month in 2024 and then £40,000 per month from January 2025 until April 2027 (inclusive).

The valuation of the Fund's liabilities carried out under FRS102 as at 31 December 2023 for the purposes of these accounts results in a value which is lower than the value of the Fund's assets, giving rise to a surplus on this basis.

Fund Amendments

There have been no amendments to the Fund during the year and no special events have occurred.

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

The amounts recognised in the balance sheet are as follows:

	Group & Society	
	2023 £'000	2022 £'000
Fair value of fund assets	15,652	15,689
Present value of funded obligations	(13,979)	(13,376)
Net over/(under)funding in Fund	**1,673**	**2,313**
Asset recognised on the balance sheet	1,673	2,313
Liability recognised on the balance sheet	-	-
Net Defined Benefit Asset/(Liability)	**1,673**	**2,313**

The amounts recognised in income statement are as follows:

	Group & Society	
	2023 £'000	2022 £'000
Net Interest expense	(106)	(10)
Expense recognised in the Income Statement	**(106)**	**(10)**

	Group & Society	
	2023 £'000	2022 £'000
Interest on obligation	650	378
Interest on assets	(756)	(388)
Net Interest expense	**(106)**	**(10)**

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

	Group & Society	
	2023 £'000	2022 £'000
Return on assets (not included in interest)	(143)	(5,052)
Actuarial (Losses)/Gains on obligation	(910)	6,785
Total Remeasurements recognised in Other Comprehensive Income	**(1,053)**	**1,733**
Cumulative amount of Remeasurements recognised in Other Comprehensive Income	**(2,388)**	**(1,335)**
Actual return on Fund assets	**614**	**(4,665)**

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

	Group & Society	
	2023 £'000	2022 £'000
Administration expenses paid from Fund	143	101
Other Items	**143**	**101**

The Society contributed £450,000 to the Fund over the year from 1 January 2023 to 31 December 2023 (2022: £1,060,000). No contributions were paid by members of the Fund over the period.

The Society expects to contribute £240,000 to the Fund over the year from 1 January 2024 to 31 December 2024. No contributions are expected by members of the Fund over the next year.

Changes in the present value of the Fund's Defined Benefit Obligation are as follows:

	Group & Society	
	2023 £'000	2022 £'000
Opening defined benefit obligation	13,376	20,744
Benefits paid	(957)	(961)
Interest on obligation	650	378
Experience losses/(gains)	336	273
(Gains)/losses from changes in assumptions	574	(7,058)
Closing defined benefit obligation	**13,979**	**13,376**

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21. Pensions (continued)

The weighted average duration of the liabilities of the Fund was 10 years as at 31 December 2023.

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

	Group & Society	
	2023 £'000	2022 £'000
Opening fair value of fund assets	15,689	20,355
Interest on assets	757	388
Return on assets (not included in interest)	(143)	(5,052)
Contributions by employer	450	1,060
Benefits paid	(957)	(961)
Administration expenses	(143)	(101)
Closing fair value of fund assets	**15,653**	**15,689**

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

	%	%
Gilts	44	44
Corporate bonds	37	34
Cash	19	22

All of the Fund's assets are classed as level 2 under the fair value hierarchy, as they are valued using techniques based on observed market data. The Fund holds no financial instruments issued by the Company (other than incidentally through investment in pooled funds), nor does it hold any property or other assets used by the Company.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages (where applicable)).

	Group & Society	
	2023 %pa	2022 %pa
Discount rate at 31 December	4.5	4.9
Discount rate at 1 January	4.9	1.9
Inflation (Retail Price Index)	2.8	2.8
Rate of increase in pensionable salaries	3.5	2.4
Rate of increase in deferred pensions	2.3	2.3
Rate of increase in pensions in payment – service pre 06/04/2005	2.8	2.8
Rate of increase in pensions in payment – service post 06/04/2005	2.0	2.0

Mortality assumptions

The mortality assumptions are based on standard mortality tables, which allow for future mortality improvements.

The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 89 if female.

For a member currently aged 50 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 90 if female.

Defined contribution scheme

The contributions to the defined contribution scheme made by the Society in the year amounted to £283,000 (2022: £218,250), and contributions made by the Group amounted to £299,000 (2022: £235,273).

22. Technical provisions for linked liabilities

	Group & Society					
	Insurance contracts		Investment contracts		Total	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
At 1 January	1,149	1,349	295	346	1,444	1,695
Payments made to policy holders of investment contracts	-	-	-	-	-	-
Change in technical provision as shown in the income statement	45	(200)	28	(51)	73	(251)
At 31 December	**1,194**	**1,149**	**323**	**295**	**1,517**	**1,444**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2023

23. Assets attributable to the long term business fund

All assets shown on the Balance Sheet on page 46 are attributable to the long term business fund.

24. Operating lease commitments

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

	Group & Society	
Total future minimum lease payments: plant & machinery	**2023 £'000**	**2022 £'000**
Within one year	23	1
Between one and five years	7	20
After five years	-	4
Total	**30**	**25**

25. Related party transactions

National Friendly Financial Solutions Limited incurred charges of £353,000 (2022: £382,000) by the Society in respect of service charges for management, property, technology and shared support functions.

The Society paid National Friendly Financial Solutions Limited commission of £495,000 (2022: £378,958) for the sale of National Friendly products.

During the year the Society paid licence fees of £300,000 (2022: £300,000) to National Friendly Software Solutions Limited for the policy administration system. On 20 December 2022 National Friendly Software Solutions Limited acquired £300,000 of the Intellectual Property of Phase 3b of the policy administration system which the Society had developed. The Society will re-licence this software from National Friendly Software Solutions Limited over eight years.

As at 31 December 2023, the Society owed National Friendly Financial Solutions Limited £44,000 (2022: £44,926) and the Society owed National Friendly Software Solutions Limited £101,000 (2022: £101,464).

Key management personnel

All Directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total key management personnel compensation is £897,598 (2022: £590,246). Director's remuneration is disclosed in the directors' remuneration report on page 33.

In addition, the directors of the Society may from time to time purchase insurance or investment products marketed by the Society in the ordinary course of business on the same terms as those prevailing at the time for comparable transactions with other persons. In 2023 and 2022, such transactions with the Society's directors' were not deemed to be significant both by virtue of their size and in context with the directors' financial position. All of these transactions are on normal commercial terms.

26. Subsidiary undertakings

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

National Friendly Financial Solutions Limited operates a call centre giving financial advice, it is authorised and regulated by the Financial Conduct Authority. National Friendly Financial Solutions Limited is held by the Society at a fair value of £394,000 (2022: £317,000) after a revaluation loss of £12,000 (2022: £542,000). During the year, a capital contribution of £120,000 (2022: £390,000) was made.

National Friendly Software Solutions Limited licences a policy administration system to its customers and is held by the Society at a fair value of £105,000 (2022: £105,000) after a revaluation loss of £nil (2022: £nil).

The results of all subsidiaries for the year ended 31 December 2023 have been consolidated into the Group financial statements.

	Group & Society	
	2023 £'000	**2022 £'000**
Fair value of investment in subsidiaries at 1 January	422	574
Capital contribution provided in the year	120	390
Unrealised loss in value of subsidiaries	(12)	(542)
Fair value of investment in subsidiaries at 31 December	**530**	**422**

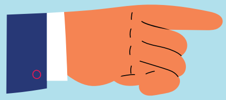
27. Fund for Future Appropriations

	Group		Society	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
As at 1 January	18,031	15,698	18,031	15,738
Transfer to/(from) the fund for future appropriations from income statement	6,172	810	6,204	770
Transfer to/(from) the fund for future appropriations from statement of comprehensive income	(866)	1,523	(898)	1,523
As at 31 December	23,337	18,031	**23,337**	**18,031**

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

1868

"Surrey Deposit Friendly Society" founded by Reverend Canon Portal at the Albury Rectory



NEW NAME!

1872

Name changes to National Deposit Friendly Society

1911

State benefits are introduced and we attract 450,000 new members in the first 6 months

1923

His Royal Highness the Duke of York (later King George VI) opens our new head office

1981 - 1983

Head office moves from London to Bristol

1930s

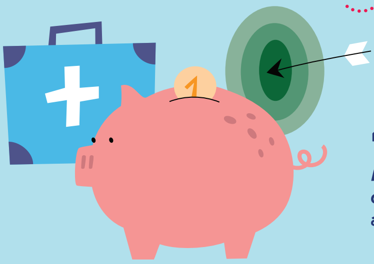
1 in every 40 people in the UK is a member, as membership figures increase at a rate of 100,000 a year

1948

Launch of the National Health Service and we adapt by launching new products: income protection and life assurance

2007

Launch of National Friendly Financial Solutions



2016

A new range of products are launched

Caring
Agile
Credible
Dedicated

2023

Launch our new company values: Caring, Agile, Credible and Dedicated

National Friendly

For further 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.

8am-6pm Monday to Friday excluding bank holidays – calls are recorded for training and quality purposes.
www.nationalfriendly.co.uk | info@nationalfriendly.co.uk

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

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