



Awarded Best Individual PMI Provider
Health Insurance Awards 2009

Contents

3

Advisors & Contact Details

5

Financial Highlights

4

Chairman's Review

6-14

Chief Executive's Report

15

Treating Customers Fairly



16-19

Corporate Governance Review

27

Income Statement

20-23

The Board Report

28-29

Balance Sheet

24-25

Director's Remuneration Report

30

Statement of Total Recognised Gains and Losses

26

Auditor's Report

31-47

Notes to the Accounts

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Established 1868 | Registered and incorporated friendly society no. 369F.
Member of the Association of Friendly Societies
Authorised and regulated by the Financial Services Authority.
Chief Executive Officer: R. Sear | Company Secretary: F. Randall



Advisors

Actuaries

BWCI Limited, Albert House,
South Esplanade, St Peter Port,
Guernsey, GY1 1AW

Auditors

PricewaterhouseCoopers LLP,
31 Great George Street,
Bristol BS1 5QD

Architects

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Bankers

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Internal Auditors

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Investment Managers

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London EC4M 5TA

Unit Linked Fund,
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Surveyors

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St James's, London SW1Y 6BN

Solicitors

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

Thring Townsend Lee & Pembertons,
The Paragon, Counterslip,
Bristol BS1 6BX

Chairman's Review



Don Burgess

Over the past five years we have invested in building our new business capabilities. Progress has been promising and this year, having been recognised as a leader in private healthcare, our strategy has delivered new business levels that were once considered out of reach.

It is important to note that whilst the Society has grown in terms of new business, the supporting organisation has kept pace without expanding our administration cost base, advancing the way we conduct and service our business, support the administration and communicate and relate to our membership.

Whilst performance has been strong, this year has been challenging, and once again, the Society has had to restructure itself. We have closed our print room operations choosing to service our print requirements using a variety of specialists. Our sales teams have also been streamlined so that the Society can now focus on our three core distribution capabilities, Intermediary, E-commerce and Direct Marketing, supported by our newly acquired call centre operation.

The acquisition of the call centre operation by our subsidiary 425 Direct Limited, will propel the Society, providing additional lead conversion support, whilst also offering compare and buy advice and independent financial advice across the market.

Our governance structure continues to be strengthened and I am pleased to welcome three new Non-Executive Directors to the Board. At the same time I would like to take this opportunity to thank those leaving the Board

for their tremendous services to National Friendly, transforming the organisation into what it is today.

There is no doubt that the Society still has many challenges ahead as we continue to grow in an ever changing regulatory environment. In light of this the Board recognises the need to continue to support the development and training needs of the National Friendly team. Having the right team has proven pivotal to our continued success.

I have held the Chair since the inception of the then Managing Board in 2003. Our aim has always been to develop a strong management team and ensure that succession planning was part of this. In my nearly seven years at the helm I have seen the Society undergo radical change, change that has always had the membership at its heart. At the close of the Annual Meeting, June 2010, I will be retiring from the Board. On reflection, I am proud to have been a part of the National Friendly transformation. Dedicated engagement from our membership has always been an asset. It has been a privilege to serve National Friendly and I thank the membership for their continued support. I would also like to take this opportunity to thank our Board and the entire National Friendly team for their commitment and dedication to our Society. I am pleased to announce that, very shortly, a new Chair will be nominated and I would like to wish the successful candidate and the Board continued success in leading the Society forward into a 2010 that holds new challenges for the Society and further opportunity to build on our successes.

Financial Highlights

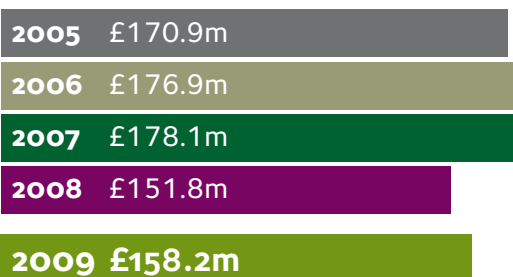
The following graphs highlight financial performance measures used to manage the Society.

Total Assets

Asset base shows signs of recovery assisted by changes in investment strategy.

2009

£158.2m



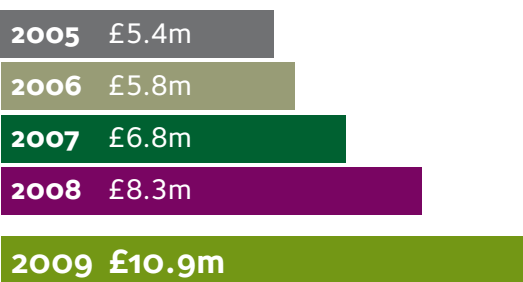
Annual Premiums Earned and Payments to Deposit

Calculated using 10% of Single Premium Business

Premium income growth is attributable to strong performance of our regular Healthcare business.

2009

£10.9m

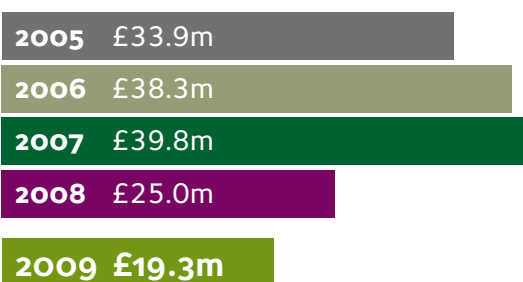


Fund for Future Appropriations

The Fund for Future Appropriations has reduced recognising increased levels of new business.

2009

£19.3m



Chief Executive's Report

A new look. A new name.

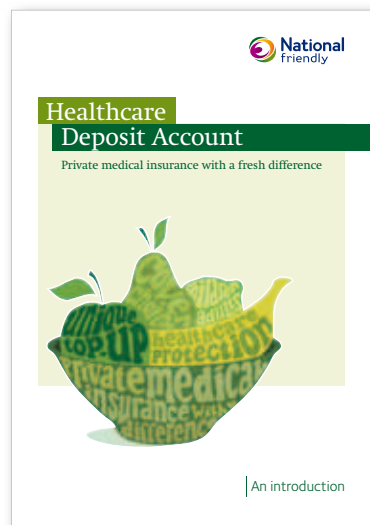


Richard Sear

This year National Deposit has emerged refreshed and refocused as National Friendly. Still the same company focused on delivering great products and services building on 140 years of tradition in the health and protection markets. With the right brand and the right products supported by quality service and people, the Society has been in a position to increase the rate of change within the organisation striving for operational efficiency and further building on our distribution and service expertise.

During a year in recession, from which we have not been immune, strong management has been required to protect our balance sheet from market uncertainties. We have continued to manage our costs prudently whilst realising that recovery brings opportunity, and new business development and growth have remained at the forefront of our strategy.

The results have been positive. New Business records set in 2008 continued to be broken, with the Society outperforming the 57% new business growth in APE achieved in 2008 with a surge in new business growth of 84%.



Following five years of development our new Healthcare Deposit product has been recognised as a market leader winning the Best Private Medical Insurance Provider Award at the Health Insurance Awards in October.

Our governing structures

Fundamental to supporting our new business growth, is the management of our capital ensuring that our members are protected by strong Corporate Governance and robust Capital and Risk Management.

An effective Board

In 2008, the Society aligned its constitution with that of a modern mutual. The Delegate Board and divisional structure were disbanded. In 2009, a review of skills, expertise and competencies was undertaken, and following Board resignations, the Board of Directors was strengthened by the recruitment of three new Non-Executive Directors. Each Non-Executive brings a different set of skills to the Board and this has proven beneficial as the Society has been able to draw on their wide range of experience across various industry sectors in a time when management challenges have been significant.

Governance

With Solvency II on the horizon, the Society, finds itself well positioned in terms of its governing structures. The Audit, Investment, Risk Management and With-Profit Committees have enabled the Society to tackle the unique circumstances that arise when managing in a recession. These Committees ensure that the members' interests are at the heart of all business decisions taken and this will continue to be the case as the economy looks set to enter a period of recovery.

Risk Management

Our focus over the last twelve months has been the embedding of our risk and capital management framework and processes. We realise that by understanding our risks and their impact on capital, the Society can ensure that suitable mitigation and action planning is in place, leading to the protection of our capital stability. This is an area we will continue to endeavour to develop as we look to the implementation of the Solvency II regime.

In 2010, following an exceptional period of five years new business growth, we will focus our efforts on our capital growth, carefully managing new business levels whilst seeking both product and channel diversification.

Treating Customers Fairly

The Society continues to work on embedding the concept of Treating Customers Fairly (TCF) in all FSA driven aspects of our business. Our teams have embraced the concept of TCF and continued training across the organisation to ensure that TCF is incorporated both in our business decision making, and in servicing our members.

Management reporting surrounding our TCF performance has been further developed, ensuring that our performance is aligned to the six consumer outcomes identified by the FSA.



Financial review

A foundation of strong corporate governance makes a significant difference to our ability to create value, and this has been the focus of 2009. Our new business performance at a time of economic hardship has surpassed our expectations with challenging targets being outperformed. Once again, it is by building on our relationships with intermediary partners and investing in our Healthcare portfolio that the Society is able to realise these new business levels.

Sales and marketing leading new business growth

Continued growth is not sustained through a targeted sales strategy alone. Being agile, innovative and responsive are three of our core values, and the changes undertaken throughout 2009, focused on the brand launch, highlight how important these qualities are in maintaining a successful modern business. The new logo and the adoption of a new name have given National Friendly a fresher, more modern identity, one that really stands out in the insurance market.

As part of the rebrand, our marketing literature has undergone an extensive make over, supporting the Society as it positions itself as "the modern mutual". Each of our products is now represented by a distinct suite of images, linked by colours from the new brand palette. Our brand will continue to evolve to ensure that it remains contemporary and continues to resonate with our target markets.

Campaigning in the competitive health market has seen press coverage increase three fold in 2009. This continues to be underpinned by a unique product offering. Our flagship product, the Healthcare Deposit Account has been refreshed in line with a sales strategy building on our continued experience in the health, protection and welfare markets.

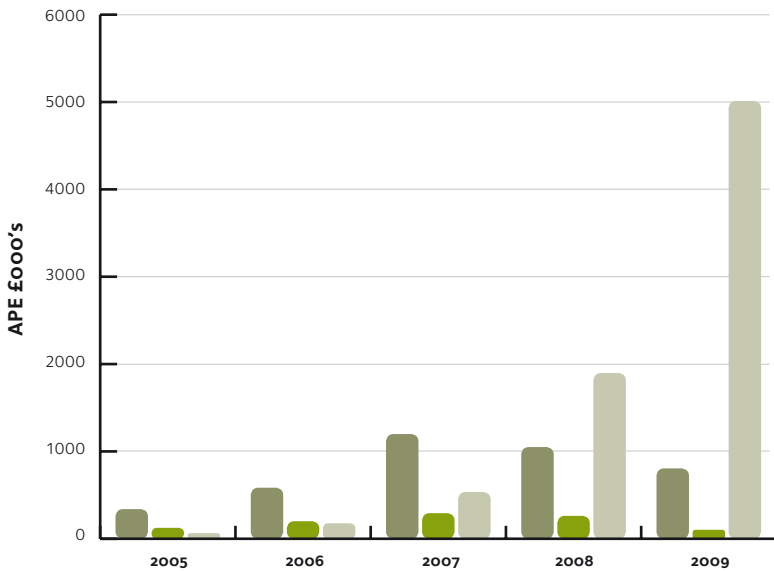
Our distribution capabilities and unique product proposition remain real strengths. The intermediary channel has delivered impressive results, and it is hoped that by ensuring our customer service delivery standards remain paramount in delivering to our members, that this will continue into 2010. The channel has been responsible for over 70% of the new business delivery, out-performing its targets by 21% (2008: 60%). This has been facilitated by continuing to deliver a unique product offering to the broker market whilst

building on our relationships with our brokers in times of economic downturn. Our ability to deliver healthcare variants to better meet the needs of our broker community has been pivotal to this channel's success.

Whilst our intermediary capabilities deliver significant new business growth, we realise that in order to maintain these levels it is essential that we diversify and develop our other routes to market. A dedicated e-commerce team has been established and our bold new customer friendly website launched in December 2009, reaching out to the on-line communities, making our Healthcare offerings more widely available. In 2010 our website will be further developed to incorporate an interactive members' area.

In September our subsidiary, 425 Direct Limited, previously known as ND Partner Services Limited, acquired the operations of a call centre and this has been incorporated in our own offices, supported by new technologies. The call centre capabilities have been immediately utilised by direct marketing campaigns and the initial conversion rates have been excellent. This allows the Society to further pursue leads generated from both the direct marketing and e-commerce channels and will be key in achieving the 2010 sales targets. In conjunction with the acquisition of call centre capabilities we have developed a new customer relationship management system that will also play a major role in the integration, generation and conversion of leads from both the direct marketing and e-commerce channels. In addition this new platform will enhance our customer services offering, as it provides a one member view allowing for the smoother servicing of the needs of our members.

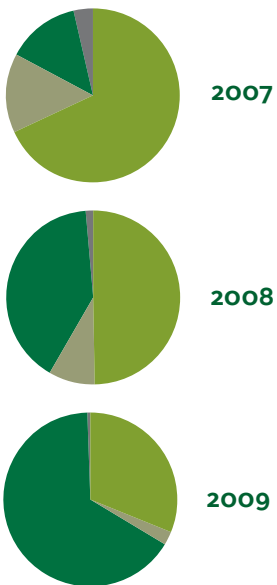
New Business Year on Year Comparison



New Business regular annual premium levels have reached £5.8m, comprising 98% of our New Business Income.

- Regular Premium Assurance
- Single Premium
- Regular Premium Healthcare

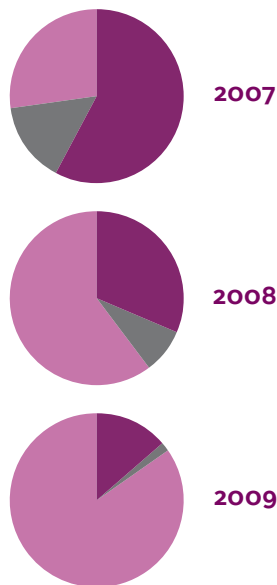
New Business by Policy Numbers



Key

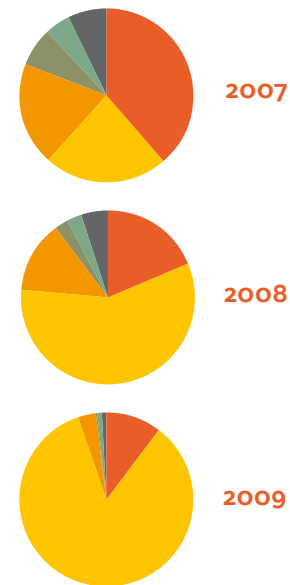
- Regular Premium Assurance
- Single Premium
- Regular Premium Healthcare
- Pensions and Care

New Business by Annual Premium Equivalent



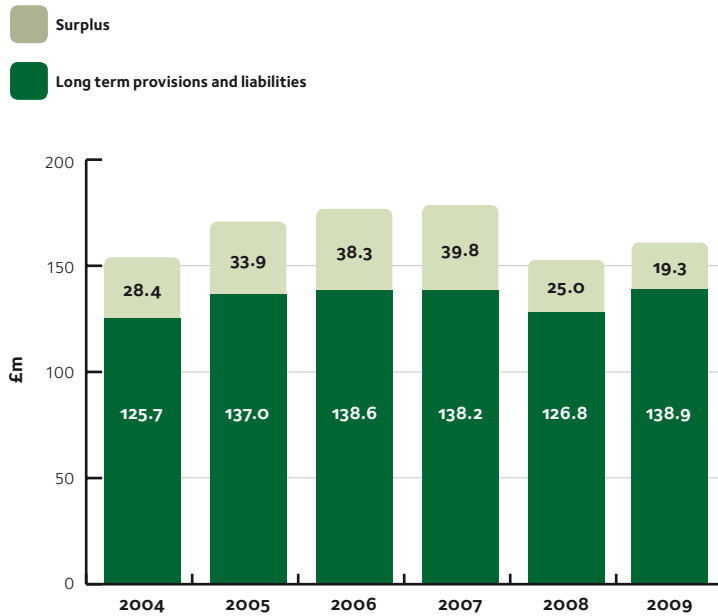
- Regular Premium Assurance
- Single Premium
- Regular Premium Healthcare

New Business Product Analysis by Annual Premium Equivalent

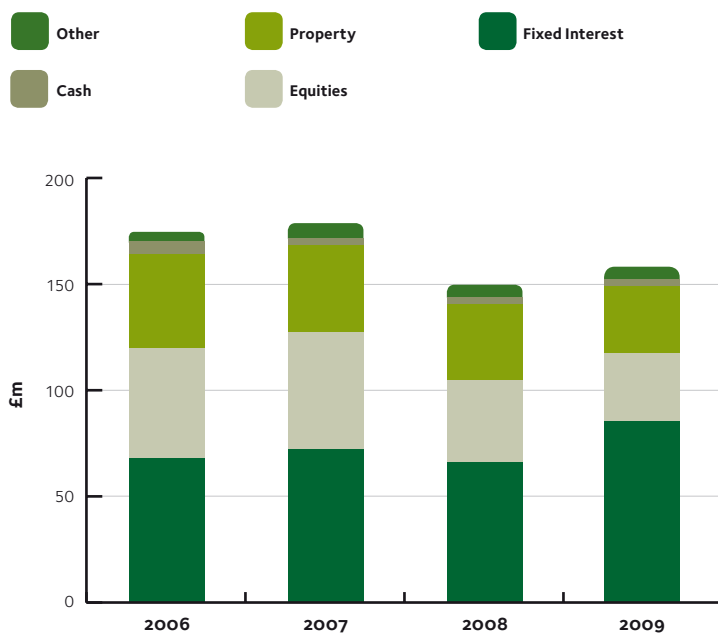


- Endowment
- Healthcare
- Investment ISA
- With-Profits Bond
- 50+ Life Plan
- Other

Total liabilities v surplus



Total assets by type



Asset Growth

In 2008 the Society's asset base contracted due to severe market conditions. In 2009 we have consolidated our asset base, changing our investment strategy to focus on capital management as well as investment performance to ensure that we utilise our resources to best effect. As a result, we have disinvested from equities in the course of the year, reinvesting the funds into Corporate Bonds such that our assets are better matched to our liabilities. We will continue to refine our investment strategy in 2010 to take advantage of the overall economic recovery that currently appears to be underway.

Investments

On the back of a poorly performing equity market at the beginning of 2009 and considering the need to adapt our investment strategy to protect our capital position, the Society diversified into Corporate Bonds and we have benefited from excellent investment performance with our overall Fund yielding a return of 21%.

Our equity fund has also enjoyed excellent performance, although we have disinvested from equities in order to better manage our exposure to market risk.

We have continued to review our property holdings and our property portfolio has once again held its own in an uncertain market. This year we have taken steps to realise property investments so as to maintain a well balanced portfolio and minimise exposures to the rental market. Property rental yields have eased but our exposure to rental losses brought on by the recession has been moderate. The Investment Committee has been active in ensuring the members' interest has been protected.

Expenditure

Throughout the year we have carefully managed our costs whilst continuing to grow by investing in new business acquisition activities across our distribution network.

This year acquisition spend has been undertaken in conjunction with investment in the promotion of the new National Friendly brand, development of new literature and the launch of the new website.

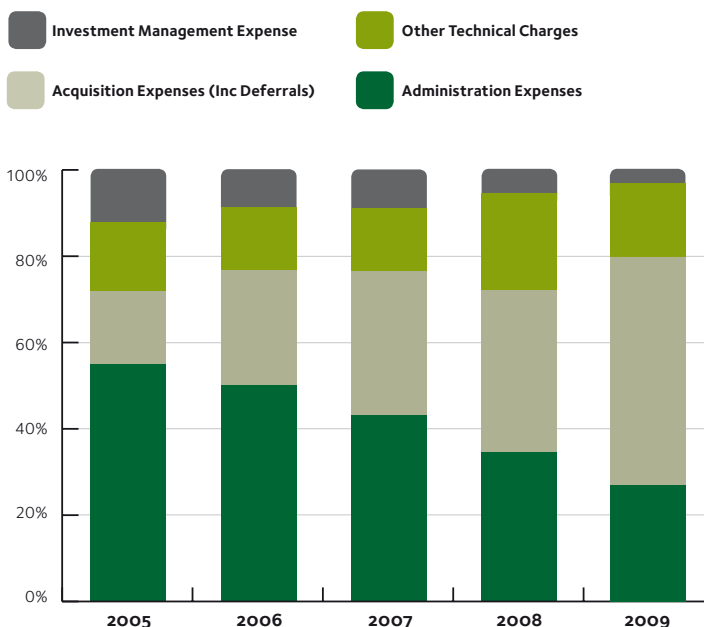
The most notable achievement in the management of our spend has been the virtual elimination, after many decades, of the administration overrun. By following a business strategy to remove the constraints that an administration overrun places on the Society and its ability to invest further in new business generation, the Society looks set to subsidise further acquisition spend by a contribution through an administration surplus.

In a time of recession there is a pressure to reduce cost yielding short term benefit at the sacrifice of long term gain from investment in the business, however, the Society continued to deliver on its values and we continue to support projects of a strategic nature such as the developments in Capital and Risk Management, Customer Relationship Management capabilities, brand launch and distribution capabilities.

Premium Income

Another strategic target has been achieved this year with premium income levels outweighing our expenditure on claims. It is important that we continue to monitor this trend as our Healthcare business matures, ensuring that we learn from the experience we continue to build. Our premium income is largely attributable to regular business with single premium business now only comprising 13% of our business.

Expense Ratio



Investment Return



Our people

One of our greatest assets is our staff and the Society endeavours to be a high performing workplace that engenders exceptional performance.

Embracing change

The National Friendly team is focused on keeping the Society moving forward by identifying and embracing the changes needed to expand our ever-growing market share.

In 2009 there were significant changes to the Society's management. This led to increased agility in decision making and greater transparency at a senior level, strengthened by the support of the operational management team. In order to develop these teams, a programme, focusing on leadership and management behaviours was developed in conjunction with consulting experts. Its implementation has seen performance levels improve across the organisation.

Support and training

The Society recognised that whilst teams need to have good leaders, our teams need to feel empowered to take responsibility for their own performance and development. Building on the leadership programmes, change workshops and 'on the job' training, empowerment seminars have been undertaken across the organisation.

Personal development and learning are also high on the agenda and members of the Marketing, HR, Finance and Customer Services teams achieved role specific professional qualifications.

Fair Deal

As an Investor in People we strive to ensure that our people are developed to meet the challenges we face in growing our Society. Whilst this is crucial to our success, rewarding our people cannot be overlooked.

This year the senior management team carefully reviewed the reward and remuneration packages for all staff. This process is now governed by a competency framework that ensures recognition of behaviours allowing managers to identify whether individuals meet their objectives whilst exhibiting behaviours that see our values translated across the business.

The remuneration process will continue to be developed to ensure that the Society maintains the right skills required to succeed in a highly competitive and agile market.



As a mutual organisation, we are focused on delivering value add products and services to our members, but it is also important that our employees have an enjoyable and rewarding work life. By talking to our team we understand what motivates them as explained in their own words.

Rachel, Compliance Assistant

"What first attracted me to National Friendly when I joined in May was the friendliness and warmth of the people I met and the fact that it's a growing business that has taken the initiative to re-shape its future and go forward with confidence at a time when many other firms have been struggling to survive and adapt. In Compliance we're responsible for making sure that our sales practices are fair to customers so my role involves working with colleagues across all areas of the business as well as externally".

Mike, Intermediary Support Coordinator

"I started working within the customer services team four years ago and was encouraged to take further training and qualifications to broaden my skills set. I then moved to the Intermediary Support team which gave me the opportunity to fully utilise my skills and develop further".

Steve, Product Management Executive

"In a large insurer you tend to be pretty specialised while with National Friendly we are encouraged to expand our learning and knowledge to all the products, and get involved with many different areas of the business".



Corporate Social Responsibility

Delivering to our membership relies not only on our service delivery capabilities but delivering our services as good corporate citizen. Being active in our communities is important to the National Friendly team, knowing that, we have a responsibility to those around us that extends beyond normal business terms.

We believe that Corporate Social Responsibility (CSR) describes National Friendly's obligations, whilst ensuring economic development, to behave ethically in our business dealings, to have a positive influence upon our local community and society at large, and to minimise the Society's impact upon the environment.

In 2009, the Society worked within the local community and some initiatives undertaken included sponsorship of a music event for children and events for junior cricketers. In addition our staff contributed personally by participating in various charitable fund raising events. The Society actively supports the National

Friendly team in their involvement in such projects.

We continue to offer education incentives for some of the Society's younger members. Younger members are able to enter the annual "Further Education and Training Awards" competition, and this year, three winners were selected and awarded with a prize of educational support of £1,000 a year for three years.

National Friendly also contributes through The National Friendly Foundation. The Foundation continues to support initiatives that see benefit delivered either through charitable donation or active support within local communities.

In 2010, the Society's CSR strategy will continue to focus on three core areas of active involvement; Community, People and Environment. Our CSR committee will ensure that we continue to deliver the National Friendly service as a responsible mutual for the 21st Century.

Our members

From day one, engaging with and obtaining the views and opinions of our members has been key to National Friendly's development.

Recognising the importance of retaining a strong member engagement programme, the Society introduced two new communication streams in 2009; the Focus Group and the Research Community.

The newly formed Research Community consists of around four hundred members of all ages and backgrounds. It provides an on-line platform for

members to give feedback on a range of subjects, such as new products, advertising campaigns and product literature.

The Focus Group comprises of a cross-section of around fifty members, who are invited to meet with the Directors and the Society's management team at different locations across the UK. Two meetings were held last year, one in Birmingham and one in Bristol, another two are planned for 2010, the first being held in Reading.

Our future

Customer Service

Customer relationship management remains at the forefront of our servicing strategy. Our teams, both in the Society, and, 425 Direct, will be supported by the investment in customer relationship technologies that facilitate service delivery standards that see our relationship with each of our members remain friendly, focused and well informed as we continue to grow.

Marketing

Developments in e-commerce will enable further interaction with our members, providing an alternative servicing, geared to the changing ways in which communities now interact.

Our capabilities in the compare and buy arena, through 425 Direct, will also provide our members with the opportunity to meet their changing needs with a whole of market view. Should the need arise we are now able to provide independent financial advice to members who may require services beyond those currently accessed.

Relationships with the intermediary market will be built on. It is important that the wider community, looking for a health product that brings peace of mind, are able to access our product, which is now seen as a market leader.

Our success in the intermediary market is underpinned by our product strategy. We will continue to look for new ways to deliver a health proposition that reaches further than traditional health propositions. The care needs of our membership are paramount and whilst we focus on the delivery of health protection, we continue to look for new ways of providing lasting and long term care arrangements.

Risk and Capital Management

Solvency II looks set to change the way the insurance industry conducts business. Our capital, risk and actuarial management teams, will continue to build on progress made in 2009, delivering on implementation plans that see the Society committed to a better way of doing business.

Information technology

Advances in our customer relationship management technologies will be enhanced by the strengthening of our administration technologies. Work is set to continue on delivering more efficient service levels that are pivotal to our continued success as a market leader.

Conclusion

With another successful year behind us, we will focus on ensuring that as the economy recovers, National Friendly continues with the agility needed to take full advantage of any upturn. We will continue to look for potential partners that could provide growth through transfers of engagements or strategic partnership, aligned to our own values and vision.

As in the past, we will approach the year ahead monitoring our spend and continuing to strive for process efficiencies, whilst building on our governance

and capital management strategies that will see us well placed to meet the changing insurance environment.

Our people have performed well over the past twelve months despite the economic uncertainty and I would like to thank all the people who have worked hard for us. The year ahead looks to be another promising year for all at National Friendly and I look forward to leading our strategy and striving for excellence as a leader in our chosen markets.

Richard Sear Chief Executive

23 March 2010

Treating Customers Fairly

What Treating Customers Fairly ("TCF") means to National Friendly.

- Every member of staff and third party supplier knows and understands our values.
- We develop innovative products and services through continued research into emerging customers' needs.
- We continue to improve the clarity and effectiveness of communications to customers.
- We deliver on our promises.
- We enable our customers to have the freedom to manage their financial products.
- We understand our customer needs in order to support and help their decision making.

The Society is committed to both achieving the outcomes expected by the FSA, and to improving the customer journey for our members. This year our focus has been:

Delivering our strategy. Our members can be confident that they are dealing with a firm where fair treatment is central to the corporate culture. This is achieved by:	<ul style="list-style-type: none"> ■ Raising staff awareness through induction and refresher training. ■ Developing our TCF dashboards and management information. ■ A comprehensive review of Training and Competence requirements across the Society.
Providing products and services that are marketed and sold in the retail market, and are designed to meet the needs of identified consumer groups and are targeted accordingly. We have undertaken:	<ul style="list-style-type: none"> ■ Consumer market research ■ The collection and evaluation of customer feedback across the Society in conjunction with complaints surveys. ■ Extensive sign off processes to manage website content.
Ensuring our members are provided with clear information and are kept appropriately informed before, during and after the point of sale. We undertake to:	<ul style="list-style-type: none"> ■ Obtain feedback through our Member Relations strategy. ■ Maintain product literature that clearly reflects risks, rewards and product limitations where they apply. ■ Continue to commit to developing the use of plain language. ■ Continually review any claims statistics to ensure any links between documentation and declined claims are identified.
Members do not face unreasonable post-sale barriers imposed by us. We ensure:	<ul style="list-style-type: none"> ■ All means of contacting the Society continue to be accessible to the member. ■ We continue to guide customers through the complaints procedures and to ensure these remain as straightforward as possible. ■ No unreasonable exit penalties are incurred on key products. ■ Complaints procedures are in line with the regulatory requirements and are monitored to ensure these requirements are met.
Where our members receive advice, the advice is suitable and takes account of their circumstances. Developments include:	<ul style="list-style-type: none"> ■ Strengthened controls in place around the provision of information rather than advice across the society. ■ The acquisition of 425 Direct who are able to provide an Independent Financial Advisory service to customers if required. Firm controls, including external quality checking, are in place to ensure that 425 Direct meet high quality standards for their advice.
Providing members with products that perform as we have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect. We commit to:	<ul style="list-style-type: none"> ■ Maintaining defined service levels that are monitored to ensure members receive a timely and efficient service. ■ Investing in accordance with investment strategy that is reviewed regularly by the Investment Committee. ■ Protecting the interests of our with-profit policyholders through the With Profit Committee. ■ Protecting the interests of non with-profit policyholders through the Board.

Corporate Governance Review



Fay Randall

The Board continues to view strong corporate governance as fundamental to the Society's operations. National Friendly complies with all aspects of the annotated combined code unless the contrary is stated in this report.

Role of the Board

The principal role of the Board is to provide entrepreneurial leadership ensuring the necessary financial and human resources are in place to meet the strategic objectives as detailed by the Society's strategy. The Board meets at least 7 times a year - and more often if necessary.

It is also the role of the Board to determine and review:

- Values, standards and ethics.
- Strategy and objectives, approving the annual business plan and monitoring performance in achieving it.
- Solvency and capital management.
- Treating Customers Fairly - policy and principles.
- Significant risks affecting the Society, and the action being taken to manage and mitigate them.
- Investment strategy.
- Financial management.
- Pension and remuneration policies.
- Acquisition or disposal of any significant asset.

The Board reviews the operation and effectiveness of the Society's internal controls throughout the course of the year to confirm that they are adequate and are operating as prescribed.

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

Chairman and Chief Executive

There is a clear division of responsibilities between running the Board and responsibility for running the Society's business. The role of Chairman and Chief Executive Officer are clearly defined and are distinct and separate.

The Chairman of the Board is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda.

Board Balance and Independence

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

The Board continues to review its own balance, completeness and appropriateness to meet the ever increasing complexities of the business. The Board has and will continue to assess the balance of skills and where necessary will appoint individuals to meet these demands.

The independence of the Non-Executive Directors has been reviewed and it was noted that the Chairman held a policy with the Society. This policy is not considered significant and is held on normal commercial terms as made available to all members.

One of our Non-Executive Directors, Tracy Morshead, provides ad hoc strategic consultancy advice that falls outside of his duties as a Non-Executive Director. These services are provided on normal commercial terms and disclosed as a related party transaction in note 20.

The Chairman has reported to the Board that he has no other significant commercial commitments.

Appointments to the Board

The Nomination Committee meets as appropriate to review the structure, size and composition of the Board and to make recommendations to the Board with regard to any adjustments that are deemed necessary.

Professional recruitment consultants are consulted to ensure that vacancies on the Board are considered appropriately.

Information and Professional Development

The Chairman of the Board ensures all Directors receive accurate, reliable information which is fundamental to the effective function of the Board.

On appointment of Non-Executive Directors, the Chairman of the Board ensures that the Directors receive a comprehensive induction programme.

All Board members have access to independent professional advice at the Society's expense where considered necessary to discharge their responsibilities.

Performance Evaluation

A formal performance evaluation scheme is in place for all Society staff including the Executive Directors.

Non-Executive Directors' remuneration is not performance related, however, an annual appraisal process is undertaken. Fees paid to Non-Executive Directors recognise the responsibilities of Non-Executive Directors and are designed to attract individuals with the necessary skills and expertise to fill the role.

Re-election

The appointment of Non-Executive Directors is generally for a period of three years and is subject to election and re-election at the Society's Annual General Meeting.

Audit Committee

The Audit Committee consists of three Non-Executive Directors and is chaired by Peter McIlwraith. The main roles and responsibilities of the Committee are set out in formal Terms of Reference and include:

- Monitoring the integrity of the financial statements of the Society.
- Reviewing the Society's internal financial controls and reviewing the Society's internal control and risk management systems.
- Monitoring and reviewing the effectiveness of the company's internal audit function.
- Making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Monitoring and reviewing the external auditors independence and objectivity and effectiveness of the audit process (in particular in respect of the engagement of the external auditor to supply non-audit service to the Society).

Committees

The Committee structure of the Society comprises:

- Audit Committee
- Investment Committee
- Nomination Committee
- Remuneration Committee
- Risk Management Committee
- With-Profit Committee

The roles and responsibilities of each Committee are formally documented by way of Terms of Reference. Each Committee is chaired by a Non-Executive Director, except for the Risk Management Committee, and all members are considered to have appropriate skills and expertise to undertake their role within the Committees. Full details of Committee membership and outlined responsibilities are contained on pages 18 to 19. The Terms of Reference of all Sub-Committees are available on request to the Company Secretary.

Annual General Meeting

The 2009 Annual General Meeting was held in Birmingham and was attended by Members, Board Members, and Officers of the Society.

Members received a presentation on the annual valuation of the Society from the Head of Actuarial Function.

A number of resolutions were voted on including:

- The Board Report.
- The Directors Remuneration Report.
- The Auditor's Report and the Annual Report and Accounts.
- Reappointment of PricewaterhouseCoopers as auditors.
- Appointment of three Non-Executive Directors.

Responses from members submitting their postal/proxy forms totalled 14.5% of members eligible to vote.

The Society wishes to encourage more members to attend the AGM and arrangements are in place for the 2010 AGM to be held in Bristol.

Sub-Committees

Audit Committee	
Members	Responsibilities
Peter McIlwraith (Chairman) Mark Jackson Tracy Morshead	<p>The Audit Committee meets at least quarterly at appropriate times in the financial reporting and audit cycle and assists the Board in meeting its responsibilities in respect of the systems and controls and external financial reporting.</p> <p>It considers the appointment of and fees for both external and internal auditors, ensures that their objectivity and independence is safeguarded in respect of any non-audit services and takes an independent view of the appropriateness of the Society's accounting policies and practices.</p>
Investment Committee	
Members	Responsibilities
Alan Lewis (Chairman) Stephen Ainsworth (Head of Actuarial Function) John Greenhalgh Jonathan Long Peter McIlwraith Richard Sear	<p>The Investment Committee meets as required but at least quarterly to ensure compliance with the terms of the Principles and Practices of Financial Management in relation to the investment strategy and review its continuing appropriateness in the light of changing circumstances with consideration to the needs of both With-Profit and non With-Profit policyholders.</p> <p>The Investment Committee also has responsibility for:</p> <ul style="list-style-type: none"> ■ Appointing the Society's Fund Managers. ■ Determining the asset allocation and performance benchmarks. ■ Monitoring the performance of the Funds.
Nomination Committee	
Members	Responsibilities
Don Burgess (Chairman) John Greenhalgh Peter McIlwraith Richard Sear	<p>The Nomination Committee meets as required to lead the appraisal process for appointments to the Board and to make recommendations to the Board and members on the appointment or re-appointment of Directors.</p> <p>The Nomination Committee meets to make recommendation for appointment based upon merit and on objective criteria to ensure that the Board maintains an appropriate balance of skills and experience.</p>
Remuneration Committee	
Members	Responsibilities
Peter McIlwraith (Chairman) Mark Jackson Alan Lewis	<p>The Remuneration Committee meets at least twice a year to review the remuneration policy and determines the remuneration packages of the executive directors and senior managers. There is a performance related element within the remuneration, which is linked to the achievement of objectives.</p> <p>The remuneration of non-executive directors is based upon a survey of similar organisations carried out and recommended by the Executive Directors and approved by the Board. Further details on directors' remuneration are set out in the Directors' Remuneration Report on pages 24 and 25.</p>

Risk Management Committee

Members	Responsibilities
Jonathan Long (Chairman) John Greenhalgh Fay Randall Richard Sear	The Risk Management Committee meets at least four times a year to ensure that robust risk management systems are in place to cover:- <ul style="list-style-type: none"> ■ Governance and oversight. ■ Risk appetite. ■ Implementing risk management. ■ Management information on risk. ■ Impact of ICAS.

With-Profit Committee

Members	Responsibilities
John Greenhalgh (Chairman) Don Burgess Tracy Morshead	The With-Profit Committee meets as required to independently monitor and bring independent judgment on the extent to which procedures, systems and controls are adequate and effective to ensure that the Society complies with the requirements of the FSA Handbook over the management and governance of With-Profit business.

The Terms of Reference of all Sub-Committees are available on request to the Company Secretary.

	Board		Audit Committee		Remuneration Committee	
	Meetings attended	Meetings held****	Meetings attended	Meetings held****	Meetings attended	Meetings held****
Non Executive						
D C Burgess	7	7	2	2	-	-
J Greenhalgh	7	7	-	-	-	-
M Jackson*	3	4	2	2	1	1
A Lewis*	2	4	-	-	1	1
P McIlwraith	7	7	4	4	2	2
T Morshead*	4	4	2	2	-	-
D C Azubike**	2	2	-	-	1	1
C D Bielckus**	-	-	-	-	-	-
E P Malden**	3	3	1	1	1	1
Executive						
A H Gledhill	5	5	1	***	-	***
J J Long	7	7	4	***	-	***
R Sear	7	7	4	***	1	***

* Appointed as Non-Executive Director on 11 June 2009.

** Resigned during 2009. Dates as indicated in Director's Remuneration Report (page 24).

*** Executive Directors attend the Audit and Remuneration Committees on an invitation only basis.

**** Meetings held whilst appointed to Board/Committee.

Fay Randall Company Secretary

23 March 2010

The Board Report

The Board

John Greenhalgh (Non-Executive Director)

John was appointed as a Director on 1 October 2007. He is a qualified Actuary and has extensive experience in financial services, having worked for Wesleyan & General, Worldwide Reassurance and Hearts of Oak Friendly Society.

Peter McIlwraith (Senior Independent Non-Executive Director)

Peter is a Chartered Accountant. He was a partner with PricewaterhouseCoopers (and prior to that Price Waterhouse) and was the Regional Chairman for the West and Wales and Senior Partner in Bristol from 1991 to 2001. Peter is also Senior Independent Non-Executive Director of Bristol Water Plc and is Chairman of @Bristol Limited.

Alan Lewis (Non-Executive Director)

Alan, an MBA, was with Black & Decker and RTZ before spending 30 years in the Private Equity industry. Firstly with 3i, then as a founding Partner of Bridgepoint (previously Natwest Ventures) where he is now an Advisory Partner. He has served on over 20 boards in the UK, France, Italy, Holland and Finland. He is Chairman of both Leeds Bradford Airport and Porterbrook, the train leasing company, and on the board of LSE listed Safestore plc.

Don Burgess (Chairman)

Don was, prior to his retirement, a self-employed Design Consultant. He has chaired the Managing Board since its inception in 2003.



John Greenhalgh
(Non-Executive Director)

Alan Lewis
(Non-Executive Director)

Peter McIlwraith
(Senior Independent Non-Executive Director)

Don Burgess
(Chairman)

Mark Jackson
(Non-Executive Director)

Mark is a medical doctor, a former GP and successful business man. Mark was CEO of Helpire which he founded and developed to the point of flotation on the main London Stock Exchange. He is also the co-founder and Non-Executive Chairman of The Assura Group from 2003 to 2008, and Non Executive Deputy Chairman of Saga Independent Living, a division of the Acromas Group.

Richard Sear
(Chief Executive Officer)

Richard was appointed as a Director on 1 January 2008. He has extensive experience in financial services, having held positions at Simplyhealth Group, HealthSure, Royal Liver Assurance and Shepherds Friendly Society. Before Royal Liver, Richard held senior positions at the CWS Ltd culminating as head of Logistics for the Non-Food Marketing and Distribution Group. He is a fellow of the Royal Society of Arts, a qualified Chartered Secretary and has a post graduate business qualification.

Tracy Morshead
(Non-Executive Director)

Tracy has held senior management positions with three major Building Societies, Birmingham Midshires, Principality, where he was MD, and Nationwide where he was Divisional Director. He is a Fellow of the Chartered Institute of Marketing and is a chartered marketer.

Jonathan Long
(Finance Director)

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



Mark Jackson
(Non-Executive Director)

Tracy Morshead
(Non Executive Director)

Richard Sear
(Chief Executive Officer)

Jonathan Long
(Finance Director)

A modern mutual for the 21st century

Board of Directors

A list of Directors of the Board who held office during the year, appears on pages 20 to 21.

Corporate Governance

The Board supports the general principles of corporate governance and is committed to maintaining a high standard. Our approach to corporate governance is set out in our report on pages 16 to 19.

Business Objectives and Activities

The Society's objective is to promote the financial well being of its members through the provision of protection, life assurance and savings and investment schemes. The Society also seeks to maximise the returns and benefits to its members through improving investment performance and by cost control.

The Board sets key performance indicators (KPIs) and targets, which it monitors on a regular basis throughout the year. These KPIs change in line with the Society's objectives and priorities. For 2009 the KPIs were focused on financial performance, in particular, cost effective new business growth and administration efficiency, and capital management.

The financial performance of the Society, including the KPI's, is reviewed by the Chief Executive on pages 6 to 14.

Statement of Responsibilities of the Directors

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State where applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the statements on a going concern basis, unless it is inappropriate to assume that the Society will continue in business.

- Prepare the accounts in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and in accordance with the applicable accounting standards in the United Kingdom.

The Directors confirm that the accounts comply with the above.

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

Disclosure of information to auditors

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

Going Concern

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Report for the year. The financial position of the Society, its cashflows, liquidity position and borrowing facilities have also been considered in the report. The Society's policies and processes for managing capital are highlighted in Note 14 to the accounts.

The Society has adequate financial resources together with long-term relationships with its policyholders and suppliers. As a consequence, the Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cashflows.

After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Statement of Solvency

As at 31st December 2009 the Society's margin of solvency for each class of relevant business exceeded the minimum requirement prescribed by the Financial Services Authority's "Integrated Prudential Source Book for Insurers".

Employees

The average number of Directors and staff employed by the Society totalled 84 (2008: 82).

The aggregate remuneration paid to Directors and staff employed by the Society during the year amounted to £3.3 million (2008: £3.0 million).

Communication with staff is undertaken by a weekly communication circle, with upward feedback positively encouraged, open meetings with the Chief Executive and also through an Employee Forum.

The Society is committed to the ongoing development of its staff and has been recognised as an "Investor in People" since 2005, we were reaccredited with the award in 2008.

Member Relations

The Board is committed to maintaining good communications with members. In order to fulfil this commitment, a Members' Focus Group and Research Community have been established. Engagement with these forums has been positive and feedback valued. The Board also firmly believes in the principles of Treating Customers Fairly and adheres to these in its day to day operation. Our approach to treating customers fairly is set out on page 15.

Complaints Policy

The Society aims to deliver the highest possible level of service to members. If any member believes that the Society has failed in this aim they have recourse to the Society's Complaints Procedure.

The Society has a documented procedure for the handling and recording of complaints. The Board regularly review the number and type of complaint received in order to monitor that complaints are properly dealt with and corrective action has been taken to prevent recurrence.

Charitable Donations

The National Deposit Foundation Fund, whose activities are described on page 13, made charitable donations of £1,600 (2008: £12,200). In addition, the Society's charitable donations totalled £1,312 (2008: £568). There were no political donations (2008: £nil).

Re-appointment of Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as Auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board
Fay Randall Company Secretary
 23 March 2009



Directors' Remuneration Report



Peter McIlwraith

Introduction

This report sets out the remuneration policy for the Society in 2009.

The report has been prepared to comply with the requirements of the Combined Code on Corporate Governance annotated for mutual insurers, the Directors' Remuneration Report Regulations 2002.

The composition and responsibilities of the Society's Remuneration Committee are set out on page 18.

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

Policy

It is the Society's policy to enable it to attract, retain and motivate good quality staff.

Remuneration for Executive Directors is in three parts comprising a basic salary, a non-pensionable annual performance award linked to each individual Director's own contribution to the Society and a non-pensionable long term incentive plan ('LTIP') linked to the achievement of strategic objectives over a four year period, all designed to enhance overall

business performance. In addition, Executive Directors receive a company car (or cash allowance) and access to benefits such as membership of a pension scheme, private medical insurance and death in service benefit.

Remuneration for Non-Executive Directors comprises a basic fee plus where relevant a supplement for the Chairman of the Board and its Sub-Committees.

Pay and employment conditions in the financial services sector is taken into account when determining remuneration packages. The Committee is authorised to seek advice from specialist advisers and generally to obtain specific comparator information.

Summary

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

Peter McIlwraith Chairman
23 March 2010

Directors' Emoluments					
	Salaries & Fees	Performance Related Pay	Other Benefits#	Total 2009	Total 2008
Chairman					
Don Burgess	18,500	-	-	18,500	15,500
Executive Directors					
Richard Sear	140,000	42,000	27,545	209,545	178,954
Jonathan Long	95,000	28,500	20,881	144,381	129,033
Alan Gledhill*	72,917	-	12,141	85,058	130,591
Non-Executive Directors					
John Greenhalgh	17,000	-	-	17,000	15,500
Mark Jackson (Appointed 11/6/09)	8,417	-	-	8,417	-
Alan Lewis (Appointed 11/6/09)	8,923	-	-	8,923	-
Peter McIlwraith	19,000	-	-	19,000	18,000
Tracey Morshead (Appointed 11/6/09)	8,644	-	-	8,644	-
Dozie Azubike (Resigned 11/4/09)	4,667	-	-	4,667	14,000
Colin Bielckus (Resigned 13/2/09)	2,250	-	-	2,250	13,500
Edmund Malden (Resigned 11/6/09)	7,250	-	-	7,250	13,000

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

* Resigned 31 October 2009. In addition to above, received £138,000 by way of payment in lieu of notice and £71,450 by way of compensation for loss of office.

Pension Entitlement						
	Years of Service	Pension accrued during 2009	Accrued pension as at 31/12/2009	Accrued pension as at 31/12/2008	Transfer value of accrued pension as at 31/12/2009	Increase in transfer value during the year net of Director's contribution
Executive Directors						
Richard Sear	2	1,042	2,917	1,875	29,515	10,399
Alan Gledhill	10	926	14,030	13,104	145,013	25,912
Jonathan Long	3	755	2,969	2,214	22,887	6,969

Executive Directors

Base Salaries

Base salaries are normally reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations. Salary amendments are normally effective from 1 January each year.

Performance Related Pay

The Executive Directors have a part of their total emoluments linked to performance. The current annual performance related pay scheme represents up to a maximum of 30% of base salaries.

The performance related pay scheme comprises two elements. The first which is assessed on a collective basis has identified six major corporate objectives and all Executive Directors participate on the same basis. The maximum amount payable under this element is 10% of base salaries.

The second element is an individual performance related programme where each Executive Director is assessed against personal goals and objectives. The individual performance related element of the scheme can award up to a maximum 20% of base salaries.

LTIP Milestone Completion Bonuses

The Remuneration Committee have set in place a four year LTIP for the Executive Directors that encourages successful delivery of the Strategy by the end of 2011, as determined by the achievement of pre-defined financial milestones, by a lump sum payment at either the end of the period or earlier if the milestones are achieved in advance. A further lump sum may be payable if the milestones are exceeded by a predefined amount.

The milestones address key aspects of the corporate strategy which was put in place at the beginning of the period

and included stretching targets. They cover the level of administration surplus (to be calculated after charging an appropriate cost for amounts earned under LTIP), the achievement of new business represented by APE, the cost of acquiring new business based on an amount per £ of APE and the level of claims compared with the original business model for the healthcare products. In the event of out-performance by 25% on any of the first three of these criteria, a further bonus will become payable. The maximum available to all the Executive Directors for achieving all of the first four criteria is £500,000 and a maximum of a further £500,000 is available if all the second three criteria are met. At 31 December 2009 it is estimated based on performance to date and an assessment of likely future performance that bonuses totalling £468,000 will be payable under this scheme of which £234,000 has been accrued in these accounts.

Retirement and Related Benefits

The Executive Directors are members of the National Deposit Staff Superannuation Scheme. This is a defined benefit retirement plan that closed to future accrual on 31 May 2009. A defined contribution pension scheme is now in place to which the Society contributes up to a maximum of 12% per Director, dependent upon personal contribution levels.

Other Benefits

Executive Directors are entitled to private medical insurance, death in service benefit of four times basic salary and a company car or car cash allowance.

Directors' Contract

The Executive Directors have service agreements which incorporate their terms and conditions of employment. Service agreements are normally

terminable by the Society giving twelve months' notice or by the Executive Director giving twelve months' notice.

Non-Executive Directors

All Non-Executive Directors including the Chairman have letters of appointment which set out their duties and responsibilities. The appointment of Non-Executive Directors is generally for a period of three years and is subject to election and re-election at the Society's Annual General Meeting.

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

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

Fees for Non-Executive Directors are determined by the Executive Directors and subject to approval of the Board as a whole. They are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the Society. In addition to the basic annual fee additional fees are awarded for the chairmanship of any Committees.

Auditor's Report

Independent auditors' report to the members of National Deposit Friendly Society Limited and the group

We have audited the financial statements of National Deposit Friendly Society Limited and the group for the year ended 31 December 2009 which comprise the Income Statement, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Board Report for the year ended 31 December 2009.

• Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities of the Directors.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Society and the group's members as a body in accordance with the Friendly Societies Act 1992 and the Regulations made under it and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it. In addition, we report to you if, in our opinion, the Society or the group has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

We also report to you our opinion as to whether the Board Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and as to whether the information given therein is consistent with the accounting records and financial statements.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Review, the Financial Highlights, the Chief Executive's Report, Treating Customers Fairly, Corporate Governance Review, the Board Report and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

• Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

• Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society and the group's affairs as at 31 December 2009 and of its income and expenditure for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it.
- the Board Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the financial year.

Simon Chapman Senior Statutory Auditor

For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 March 2010

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

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

Income Statement

As at 31 December 2009

	Note	Group				National Friendly			
		2009		2008		2009		2008	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Earned premiums and payments to deposits	2	12,343		13,973		12,343		13,973	
Outward reinsurance premiums		(36)		(45)		(36)		(45)	
			12,307		13,928		12,307		13,928
Investment income	3	3,457		(11,469)		3,457		(11,469)	
Unrealised gains									
- Investments	3	16,999				16,999			
- Assets held to cover linked liabilities		446				446			
Other technical income	4	113		46		8		230	
			33,322		2,505		33,217		2,689
Claims incurred			11,515		12,310		11,515		12,310
Change in Long Term Funds									
Long term business provision			9,456		(12,371)		9,456		(12,371)
Provision for linked liabilities			280		(546)		280		(546)
Bonuses and rebates			1,535		1,010		1,535		1,010
Net Operating Expenses	5a								
Acquisition costs			6,791		4,356		6,482		4,340
Change in deferred acquisition costs			910		(692)		910		(692)
Administrative costs			3,084		3,194		3,084		3,194
			10,785		6,858		10,476		6,842
Unrealised losses									
- Investments			-		7,812		-		7,812
- Assets held to cover linked liabilities			-		670		-		670
Other technical charges - project costs	5b		2,101		1,387		2,101		1,387
- others	5c		49		558		49		753
Investment management expenses			443		539		443		539
Redundancy and end of contract term payments			356		430		356		430
FRS17 retirement benefit costs			33		138		33		138
Tax attributable to long term business	7a		599		(1,004)		599		(1,004)
Transfer from fund for future appropriation			(3,830)		(15,286)		(3,626)		(15,281)
			33,322		2,505		33,217		2,689

All operating activities relate to continuing operations conducted in the United Kingdom. The information on pages 31 to 47 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2009

	Note	Group				National Friendly			
		2009		2008		2009		2008	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS									
Goodwill	17		28		-		-		-
Investments									
Land and buildings	8	31,458		35,965		31,458		35,965	
Investment in subsidiaries	19	-		-		325		75	
Other financial investments	9	118,172		104,996		118,172		104,996	
			149,630		140,961		149,955		141,036
Assets held to cover linked liabilities	10		2,087		1,685		2,087		1,685
Reinsurance asset			447		484		447		484
Debtors arising from direct insurance operations			498		374		771		362
Other assets									
Tangible assets	11	462		426		249		426	
Cash at bank and in hand		3,797		3,737		3,711		3,718	
Net pension assets	15	-		1,812		-		1,812	
Deferred tax asset	7(c)	590		1,026		590		1,026	
			4,849		7,001		4,550		6,982
Prepayments and accrued income									
Accrued interest and rent		216		230		216		230	
Deferred acquisition costs		-		910		-		910	
Other prepayments and accrued income		189		115		129		115	
			405		1,255		345		1,255
			157,944		151,760		158,155		151,804

The information on pages 31 to 47 form an integral part of these financial statements.

Balance Sheet - continued

As at 31 December 2009

	Group				National Friendly			
	2009		2008		2009		2008	
Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LIABILITIES								
Fund for future appropriations		19,008		24,970	19,256			25,014
Technical provisions								
Long term business provision	13	133,049		122,621	133,049			122,621
Provision for bonuses		1,535		1,010	1,535			1,010
		134,584		123,631	134,584			123,631
Linked liability fund provision		1,742		1,462	1,742			1,462
Provisions for other risks and charges								
Net pension liability	15	76		-	76			-
Creditors								
Arising out of direct insurance operations		107		107	107			107
Other creditors including taxation and social security		702		329	674			329
		809		436	781			436
Accruals and deferred income								
		1,725		1,261	1,716			1,261
		157,944		151,760	158,155			151,804

The information on pages 31 to 47 form an integral part of these financial statements.

These accounts were approved by the Board on 23 March 2010.

Don Burgess
Chairman

Richard Sear
Chief Executive

Statement of total recognised gains and losses

For the year ended 31 December 2009

	Group		National Friendly	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Deficit for the financial year	(3,830)	(15,286)	(3,626)	(15,281)
Actuarial (loss)/gain on pension scheme	(2,211)	480	(2,211)	480
Deferred tax liability on pension scheme	79	(19)	79	(19)
Total recognised losses relating to the year	(5,962)	(14,825)	(5,758)	(14,820)

The information on pages 31 to 47 form an integral part of these financial statements.

Notes to the accounts

For the year ended 31 December 2009

(1) Accounting Policies

Basis of Preparation

The accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practices issued by the Association of British Insurers.

Basis of Consolidation

The Group accounts comprise the assets, liabilities and income and expenditure account transactions of the Society and its subsidiary 425 Direct Limited. The net results are included in the Fund for Future Appropriations for the Group. The activities of the Society and Group are accounted for in the Income Statement.

Premiums

Premiums are accounted for when due for payment. Payments to Healthcare Deposit Accounts are accounted for when received.

Investment Income

Income from rents and securities is taken into account on an accruals basis. Dividends are accounted for on the date the shares become quoted ex-dividend. UK dividends are shown excluding their irrecoverable associated tax credit.

Realised and unrealised gains and losses

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

Claims

Maturity claims and annuities are charged against income when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision.

Death claims and all other claims including Healthcare are accounted for when notified.

Long Term Business Provision

The long term business provision is determined by the Society's Board and is calculated on a statutory solvency basis to comply with reporting requirements under the Integrated Prudential Sourcebook for Insurers. The calculation uses a net premium method for With-Profit policies and as such includes explicit provision for annual reversionary bonuses declared prior to the valuation date. Implicit provision is made for future bonuses by using a valuation rate of interest lower than the expected return on the assets.

For conventional non-profit business, a gross premium valuation method is used, which brings into account the full premiums receivable under contracts written by the Society, estimated renewal and maintenance costs and contractually guaranteed benefits.

Calculation of the long term business provision for unit linked policies is based on the fund valuation at the valuation date.

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.
- terminal bonuses paid out to policyholders on maturity and included within claims paid.

Depreciation

Properties

Investment Properties - no depreciation has been provided in accordance with SSAP19.

Non-Investment Properties - no depreciation has been provided as the Society's policy is to maintain the properties in good condition. Accordingly the Board consider that the lives of these assets and their residual values are such that their depreciation is insignificant and is thus not provided. The underlying assets are reviewed for impairment annually.

Tangible Assets

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

Motor Vehicles and Computer Equipment are depreciated at 25% per annum on a straight line basis.

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

Goodwill

Goodwill is amortised at 25% per annum on a straight line basis from the first full month after acquisition.

Project Costs

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

Notes to the accounts

For the year ended 31 December 2009

Pension Costs

The Society operates a defined benefit pension scheme. This scheme closed to new entrants and future accrual on 31 May 2009. The pension liability recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period 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 period in which the increase in benefits vest.

Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities.

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 total recognised gains and losses for the period to the extent they are attributable to shareholders. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

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.

Acquisition Accounting

The acquisition of a call centre operation by way of an asset purchase agreement, has been accounted for by acquisition accounting.

The identified assets of the operations acquired have been included in the consolidated balance sheet at their fair value at the date of acquisition. The results and cashflows of the acquired operation have been brought into the group's accounts only from the date of acquisition. The difference between the fair value of the net identifiable assets acquired and the fair value of the purchase considerations is accounted for as goodwill.

Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under Financial Reporting Standard 1 'Cash Flow Statements' ('FRS 1') to produce a Cash Flow Statement.

Investments

Listed securities are shown in the accounts at mid market value. Properties are shown in the accounts at open market value.

Mortgages and Loans are valued at the estimated net realisable value after provision for doubtful debts, if this is considered necessary.

Investments in subsidiary companies are accounted for at current value.

Acquisition Costs

Acquisition costs represent commission payable and other related expense of acquiring insurance policies written during the financial year. Acquisition costs which relate to subsequent periods are deferred and charged to the accounting periods in which related premiums are earned.

Deferred acquisition costs are amortised over a period no longer than that which the new policies are expected to remain profitably on the books.

Deferred acquisitions costs are tested for impairment when facts or circumstances indicate impairment. An impairment loss is recognised for the amount by which the deferred acquisition asset's carrying amount exceeds their recoverable amount.

Fund for Future Appropriations

The Fund for Future Appropriations incorporates amounts which have yet to be allocated to participating policyholders. Any surplus or deficit arising in the Technical Account is transferred to or from the fund on an annual basis. Surpluses are allocated by the Directors to participating policyholders by way of bonuses. Any unallocated surplus is carried forward in the Fund for Future Appropriations.

Operating leases

The Society leases motor vehicles under contracts of operating leases. The leases are cancellable. The lease expenses are accounted for as an operating expense as incurred.

Notes to the accounts

For the year ended 31 December 2009

	National Friendly	
	2009 £'000	2008 £'000
(2) Earned premiums		
Assurance	5,114	6,974
Endowment Bonds	-	248
Bonus Bonds	34	293
With Profits Bonds and other single premiums	1,610	817
Sickness premiums	475	423
Payments to deposit	4,999	1,866
Unit Linked	111	121
Premium received in respect of CABF pension annuities	-	3,231
	12,343	13,973

The Society only transacts long term assurance business throughout the United Kingdom.

(3) Investment return			
Income From:			
Fixed interest stocks	33	1,731	
Ordinary shares	935	1,780	
Listed Investments	968	3,511	
Land and buildings	2,091	2,292	
Mortgages and ground rents	14	40	
Realised gains/(losses)	341	(17,392)	
Bank Interest	43	80	
Investment Income/(Loss)	3,457	(11,469)	
Movement in unrealised gains and losses in the year	17,445	(8,482)	
	20,902	(19,951)	

	Group		National Friendly	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
(4) Other technical income				
Insurance commission	113	46	8	25
Cost re-charge to subsidiary company	-	-	-	205
	113	46	8	230

Notes to the accounts

For the year ended 31 December 2009

	Group		National Friendly	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
(5) Net Operating Expenses				
(a) Included in operating expenses are:-				
Fees payable to external auditors				
Auditing of accounts and other services pursuant to legislation	143	110	137	109
Services relating to taxation	60	44	55	44
Fees payable to internal auditors in respect of internal audit	25	31	25	31
Actuarial fees	444	476	444	476
Depreciation of tangible fixed assets	139	286	128	286
(b) Project costs are:-				
Computer enhancements and other projects	1,140	974	1,140	974
Costs re potential acquisitions	15	47	15	47
Strategic projects (including process re-engineering)	845	296	845	296
Transfer to Staff Pension Fund	18	-	18	-
Outsourcing Costs	73	20	73	20
Constitutional restructuring	10	37	10	37
Costs in respect of CABF pension transfer	-	13	-	13
(c) Other charges include:-				
Unit linked charges		-		-
Pension Scheme Administration	15	97	15	97
Claims compensation	29	2	29	2
Commission paid to subsidiary company	-	-	-	205
Costs in respect of the transfer of CABF Pension Scheme	-	391	-	391

Notes to the accounts

For the year ended 31 December 2009

	Group		National Friendly	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
(6) Staff costs				
Average Number of Employees:-				
Administration	70	55	70	55
Sales	38	27	14	27
	108	82	84	82

Includes temporary, part-time and fixed contract staff of 9 (2008:5) and excludes Non-Executive Directors of 6 (2008:6).

Wages and salaries (inc commission)	2,809	2,519	2,793	2,519
Social security costs	327	269	311	269
Pension costs	203	194	203	194
	3,339	2,982	3,307	2,982

This includes Executive Director's emoluments totalling £533,635 for the year (2008: £438,578). Details of Director's remuneration are set out on page 24.

	National Friendly	
	2009 £'000	2008 £'000
(7) Taxation		
(a) Attributable to Long Term Business		
Tax charged in the long term business technical account comprises:		
Current Tax		
UK corporation tax	251	-
Prior year adjustments	(88)	-
Total current tax	163	-
Deferred Tax		
Origination and reversal of timing differences	436	(1,004)
Total deferred tax	436	(1,004)
Total tax charged in the long term business technical account	599	(1,004)

Notes to the accounts

For the year ended 31 December 2009

(b) Factors that may affect future tax charges

The deferred tax assets which have not been recognised due to the uncertainty of their recoverability in the foreseeable future comprise:

National Friendly	
2009 £'000	2008 £'000
Realised capital losses	461
Carried forward acquisition expenses	246
Pension business losses	283
Accelerated capital allowances	-
Undiscounted deferred tax asset balance	990

These deferred tax assets may be realised, and therefore reduce future tax payable, when net gains chargeable to corporation tax are realised or when there is sufficient taxable income with which to offset carried forward expenses and/or losses. This will therefore depend substantially upon future movements in the stock market and on future taxable income which cannot be predicted with certainty.

(c) Balance sheet

The deferred tax balance included within other assets comprises:

National Friendly	
2009 £'000	2008 £'000
Unrelieved expenses carried forward	161
Accelerated capital allowances	125
Unrealised gains on investments	740
Undiscounted deferred tax asset balance	1,026

(d) Reconciliation of deferred taxation balances

Opening deferred tax asset	22
(Charge)/credit to operating profit	1,004
Closing deferred tax asset	1,026

Notes to the accounts

For the year ended 31 December 2009

	National Friendly			
	Cost	Valuation	Cost	Valuation
	2009 £'000	2009 £'000	2008 £'000	2008 £'000
INVESTMENTS				
(8) Land and buildings				
Freehold properties -	21,301	19,773	21,957	21,260
Fully occupied by the society	1,079	2,325	1,301	2,690
	22,380	22,098	23,258	23,950
Long leasehold properties	10,254	9,360	13,583	12,015
	32,634	31,458	36,841	35,965

The Society's properties are included at open market values. Significant property holdings with market values totalling £27,315,000 as at 31 December 2008 were valued independently by Mellersh and Harding, Chartered Surveyors, on an open market value basis as a part of the triennial valuation the most recent valuation being at 31 December 2008. This valuation was carried out in accordance with the Royal Institute of Chartered Surveyors Appraisal and valuation Standards. The remaining properties with a current market value of £8,650,000 were valued by the Society's Property Manager, and reviewed by the Board, at the same date on an existing use basis. Property valuations are adjusted for the results of annual reviews carried out by the Society's Property Manager, and reviewed by the Board, to reflect fluctuations in the market values arising between the triennial valuations.

	National Friendly			
	Cost	Valuation	Cost	Valuation
	2009 £'000	2009 £'000	2008 £'000	2008 £'000
(9) Other financial investments				
UK listed fixed interest securities	72,939	84,829	62,137	66,194
UK listed shares	25,814	32,910	40,656	38,286
Mortgages	417	417	499	499
Freehold ground rent	9	16	9	16
	99,179	118,172	103,301	104,995

Of the UK listed fixed interest securities £756,000 (2008: £nil) relates to overseas fixed interest securities.

Of the listed shares £615,284 (2008: £3,353,500) relates to overseas investments.

(10) Assets held to cover linked liability

Included within assets held to cover Linked Liabilities is £344,590 (2008: £222,528) representing units not yet purchased by policyholders.

Notes to the accounts

For the year ended 31 December 2009

(11) Tangible Assets

	Group			
	Computer Equipment £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January	3,679	841	215	4,735
Additions	227	96	-	323
Disposals	-	(165)	(189)	(354)
Reclassification	67	(67)	-	-
At 31 December	3,973	705	26	4,704
Depreciation				
At 1 January	3,564	619	125	4,308
Provided in the year	94	37	11	142
Disposals	-	(101)	(115)	(216)
Reclassification	22	(13)	(1)	8
At 31 December	3,680	542	20	4,242
Net Book Value				
31 December 2009	293	163	6	462
31 December 2008	115	221	90	426

	National Friendly			
	Computer Equipment £'000	Office Equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January	3,679	841	215	4,735
Additions	85	11	-	96
Disposals	-	(165)	(189)	(354)
Reclassification	67	(67)	-	-
At 31 December	3,831	620	26	4,477
Depreciation				
At 1 January	3,564	619	125	4,308
Provided in the year	85	32	11	128
Disposals	-	(101)	(115)	(216)
Reclassification	22	(13)	(1)	8
At 31 December	3,671	537	20	4,228
Net Book Value				
31 December 2009	160	83	6	249
31 December 2008	115	221	90	426

Notes to the accounts

For the year ended 31 December 2009

(12) Capital commitments

Amounts authorised and contracted for at 31 December, 2009 £nil (2008 £nil).

(13) Long Term Business Provision

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

Rates of Interest	Current Valuation Assumptions	Previous Valuation Assumptions
Deposit contracts	4.13% per annum.	3.8% per annum.
Other PHI contract	3.81%	3.8%
With profits life assurance policies	3.24% per annum for tax exempt policies and 2.59% per annum for taxable policies.	3.2% per annum for tax exempt policies and 2.6% per annum for taxable policies.
With profits bonds and Investment ISAs	Not applicable since the basic reserve is equal to current death benefits.	Not applicable since the basic reserve is equal to current death benefits.
With profits personal pensions and retirement annuities	4.54% per annum before vesting and 2.48% per annum after vesting (for retirement annuities).	4.2% per annum before vesting and 1.25% per annum after vesting (for retirement annuities).
Other non profit business	3.81% per annum for tax exempt policies, 3.05% for taxable policies and 1.05% for short term non-profit bonds.	3.8% per annum for tax exempt policies, 3.0% for taxable policies and 1.0% for short term non-profit bonds.

Rates of Mortality	Current Valuation Assumptions	Previous Valuation Assumptions
DBO contracts	60% of the AMN00 and 70% of the AFN00 ultimate table for assured lives (and assumed to be transferred to suspense at age 100).	70% of the AMN00 and 80% of the AFN00 ultimate table for assured lives (and assumed to be transferred to suspense at age 100).
Deposit (non-DBO) contracts	75% of the AMN00 and 85% of the AFN00 ultimate table for assured lives.	80% of the AMN00 and 90% of the AFN00 ultimate table for assured lives.
Healthcare contracts	75% of the AMN00 and 85% of the AFN00 ultimate table for assured lives.	80% of the AMN00 and 90% of the AFN00 ultimate table for assured lives.
PHI Deferred Sickness Claims in Payment	Nil.	Nil.
Other PHI contracts	75% of the AMN00 ultimate table for assured lives.	80% of the AMN00 ultimate table for assured lives.
Critical Illness policies	Table provided by reinsurer combining mortality and sickness rates.	Table provided by reinsurer combining mortality and sickness rates.
50+ Life Plan policies	150% of the AMN00 ultimate table for non-smokers or 150% of the AMS00 ultimate table for smokers.	150% of the AMN00 ultimate table for non-smokers or 150% of the AMS00 ultimate table for smokers.
Other Life Assurance policies	80% of the AMN00 ultimate table for assured lives or 100% of the AMS00 ultimate table for smokers.	80% of the AMN00 ultimate table for assured lives or 100% of the AMS00 ultimate table for smokers.

Full details of the method and assumptions used in calculating the long term business provision are given in the Society's FSA Return.

Notes to the accounts

For the year ended 31 December 2009

(14) Capital Management

A summary of the statutory financial position is set out in the following table.

	National Friendly	
	Funding position as at 31 December 2009 £'000	Funding position as at 31 December 2008 £'000
Total Balance Sheet Assets	158,155	151,804
Inadmissible assets	(1,056)	(4,252)
Total Statutory Admissible Assets	157,099	147,552
Total Statutory Reserves	135,879	124,608
Total Other Liabilities	2,572	1,697
Total Statutory Liabilities	138,451	126,305
Statutory Surplus (before Capital Requirement)	18,648	21,247
Total Minimum Capital Requirement	9,899	11,173
Excess over Minimum Capital Requirement	8,749	10,074

	National Friendly	
	2009 £'000	2008 £'000
Changes in capital		
Statutory Reserves at 1 January	124,608	136,515
Net New Business	11,284	(4,991)
Change in expense assumptions	1,533	(7,303)
Adjustment to mortality, morbidity and lapse rates	(2,041)	1,792
Adjustment to interest rates and guarantee costs	106	(1,021)
Adjustment for bonus benefit provision	781	350
Change in method for asset shares	-	(734)
Change in top-up reserves	(392)	-
Statutory Reserves as at 31 December	135,879	124,608

Notes to the accounts

For the year ended 31 December 2009

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/or group. For statutory purposes certain assets are deemed inadmissible for meeting the capital requirement. As at the date of these accounts the most significant item deemed inadmissible was the deferred tax asset.

The capital requirement for the Society is determined as the greater of the statutory requirement based on formulae and calculations specified by regulations and the capital requirement determined by reference to the Society's Individual Capital Assessment ("ICA"). The ICA is subject to guidance but is not prescriptive and involves a significant level of judgement to be exercised by the Board.

The ICA requirement is subject to review by the FSA and an additional capital requirement known as an ICG may be imposed.

The available capital resources in excess of the capital requirements on the statutory basis have decreased by £1.3m. The main items that have affected this are the investment gains incurred in 2009, the capital strain of writing new business in 2009, changes to expense assumptions and the changes to the assumptions made in calculating the long term business provision.

The solvency position of the Society is continually monitored and sufficient liquid assets are held to cover the required solvency level.

Capital Resource Sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities, it is also sensitive to assumptions and experience relating to mortality and morbidity expenses and persistency.

The most significant sensitivity arises from the market risk in relation to the with-profit business, which would arise if adverse changes in the value of the assets supporting this business could not be reflected in payments to policyholders because of the effect of guarantees and options. The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the liability for guarantees and options.

Analysis of Policy Holders Liabilities

With profit liabilities

	National Friendly	
	2009 £'000	2008 £'000
Guarantees and options	4,780	8,013
Other policyholder obligations	71,224	64,630
	76,004	72,643
Unit linked	1,742	1,462
Deposit and other non-profit liabilities	58,133	50,503
	135,879	124,608

Notes to the accounts

For the year ended 31 December 2009

(15) Pensions

In 2009 the Society provided a funded pension scheme providing benefits based on final pensionable earnings. This Fund was closed to future accrual on 31 May 2009, resulting in a curtailment gain of £77,710. As of 1 June 2009 a defined contribution scheme was in place. The Society contributes up to a maximum of 12% per employee matching twofold personal contribution by each participating employee.

National Deposit Staff Superannuation Fund.

This Fund closed to future accrual on 31 May 2009. For the period 1 January to 31 May contributions were determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent actuarial valuation was at 31 December 2007. This actuarial valuation was updated as at 31 December 2009 in accordance with FRS17 which showed that the fair value of the Scheme's assets were £18,018,791 and that the actuarial value of assets represented 99.5% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. The contributions of the employees represented either 5% or 7% of their pensionable earnings and the contributions of the Society represented 15.5% of employees' pensionable earnings, being the rates recommended by the Scheme Actuary.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related service cost and any past service costs (if applicable) were measured using the projected unit credit method.

The amounts recognised in the Balance Sheet on closure are as follows:-

	2009	2008
	£'000	£'000
Fair value of Fund assets	18,019	16,456
Present value of funded obligations	(18,098)	(14,568)
	(79)	1,888
(Liability)/asset recognised on the Balance Sheet	(79)	1,888
Related deferred tax asset/(liability)	3	(76)
Net Pension (liability)/asset	(76)	1,812
Amounts in the Balance Sheet		
Assets	-	1,812
Liabilities	(76)	-
	-	-
Net Pension (liability)/asset	(76)	1,812

Notes to the accounts

For the year ended 31 December 2009

The amounts recognised in Income Statement are as follows:

	2009	2008
	£'000	£'000
Current service cost	53	381
Interest on obligation	948	1,037
Expected return on Fund assets	(890)	(1,097)
Gains on curtailments	(78)	(183)
Expense recognised in Income Statement	33	138
Actual return on Fund assets	2,378	(2,734)

Changes in the present value of the defined obligation are as follows:

Opening defined benefit obligation	14,566	18,284
Service cost	53	381
Interest cost	948	1,037
Contributions by members	38	117
Actuarial losses/(gains)	3,700	(4,311)
Gains on curtailments	(77)	(183)
Benefits paid	(1,130)	(757)
Closing defined benefit obligation	18,098	14,568

Notes to the accounts

For the year ended 31 December 2009

	2009	2008
	£'000	£'000
Opening fair value of Fund assets	16,456	19,621
Expected return	890	1,097
Actuarial gains/(losses)	1,489	(3,831)
Contributions by employer	276	210
Contributions by member	38	117
Benefits paid	(1,130)	(758)
Closing fair value of Fund assets	18,019	16,456

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses (STGRL)

Total actuarial gains/(losses)	(2,211)	479
Total gain/(loss) in STGRL	(2,211)	479
Cumulative amount of gain/(loss) recognised in STGRL	(5,289)	(3,078)

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

	%	%
Equities	34	41
Gilts	15	17
Corporate Bonds	25	15
Index Linked Bonds	6	6
Property	19	20
Cash	1	1

Notes to the accounts

For the year ended 31 December 2009

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)).

	2009	2008
	%pa	%pa
Discount rate at 31 December	5.7	6.7
Expected return on Fund assets at 31 December (for following year)	6.8	6.2
Rate of increase in pensionable salaries	4.8	3.8
Rate of increase in deferred pensions	3.8	2.8
Rate of increase in pensions in payment – service pre 06/04/2005	3.5	2.7
Rate of increase in pensions in payment – service post 06/04/2005	2.3	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 90 if female. For a member currently aged 50 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until 91 if female.

Description of the basis used to determine return

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the year end.

Amounts for the current and previous periods are as follows:

	2009	2008	2007	2006	2005
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	18,089	14,567	18,284	18,014	18,509
Fund assets	18,019	16,456	19,621	19,629	19,221
Surplus/ (deficit)	(799)	1,888	1,337	1,615	712
Experience gains/(losses) on Fund assets	1,489	(3,831)	(657)	(138)	1,629
Experience gains/(losses) on Fund liabilities	525	-	-	-	-
Change in assumptions underlying the present value of Fund liabilities	(4,225)	-	-	-	-
Experience gain/(losses) on Fund liabilities	(3,700)	4,311	327	1,057	(1,220)

Defined Contribution Scheme

The contributions to the defined contribution scheme amounts to £99,168 (2008: £NIL).

Notes to the accounts

For the year ended 31 December 2009

(16) Assets attributable to the Long Term Business Fund

Other than assets of £2,086,989 (2008: £1,684,663) used to match linked liabilities all of the assets shown on page 28 are attributable to the long term business fund.

(17) Business Combination

On 18 September 2009, the Group, through ND Partner Services Limited, acquired by way of asset purchase agreement, a part of the operations of AWD Direct Limited for a cash consideration of £75,000. The adjustment required to the book value of the assets in order to present the net assets at their fair value in accordance with group accounting principles was £19,317, with £30,100 goodwill arising.

The goodwill is attributable to the acquired customer base and access to acquired records and database. It also encompasses renewal commission and gross pipeline income.

	Group		
	Book Value at Acquisition	Revaluation to Fair Value	Fair Value
	£'000	£'000	£'000
The assets and liabilities as of 18 September arising from the acquisition are as follows:			
Telephony equipment	5	4	9
Office equipment	21	15	36
	26	19	45
Goodwill	-	-	30
Total purchase consideration	-	-	75
Cash outflow on acquisition	-	-	75

Notes to the accounts

For the year ended 31 December 2009

(18) Operating Lease Commitments

The Society leases various motor vehicles under cancellable operating lease agreements. The lease terms are for 36 months, with penalty for early cancellation.

The future aggregate minimum lease payments under cancellable operating leases are as follows:

	National Friendly	
	2009 £'000	2008 £'000
No later than 1 year	40	-
later than 1 year and no later than 3 years	56	-
Total	96	-

(19) Subsidiary Undertakings

On 22 December 2005, two wholly owned subsidiary companies ND Member Services Limited and ND Partner Services Limited were incorporated. The companies did not trade for the period ending 31 December 2006. ND Member Services remains dormant and therefore has not been consolidated within the group accounts.

ND Partner Services Limited commenced trading as a distributor of financial services products in 2007 and continued in 2008. In 2009 the subsidiary acquired the operations of a call centre as accounted for as a business combination as detailed in note 18. ND Partner Services Limited changed its name to 425 Direct Limited as a result of the business combination. The results of 425 Direct Limited for the year ended 31 December 2009 have been consolidated into the Group accounts.

(20) Related Party Transactions

The Society paid £84,432 (2008: £208,177) in commission to its wholly owned subsidiary, 425 Direct Limited, in respect of products sold on its behalf. 425 Direct Limited was charged £40,342 (2008: £205,177) by the Society in respect of lead generation costs.

As at 31 December 2009, 425 Direct Limited owed the Society a net amount of £248,403 (2008: (£11,391)) and ND Member Services Limited owed the Society a net amount of £10,294 (2008: £10,224).

Tracy Morshead, a Non-Executive Director, provided consultancy services to the Society beyond the scope of the contractual duties of a Non-Executive Director to the value of £16,107. These services are provided on normal commercial terms.



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Incorporated and registered friendly society no. 369F.

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