

Key Features of the Investment ISA

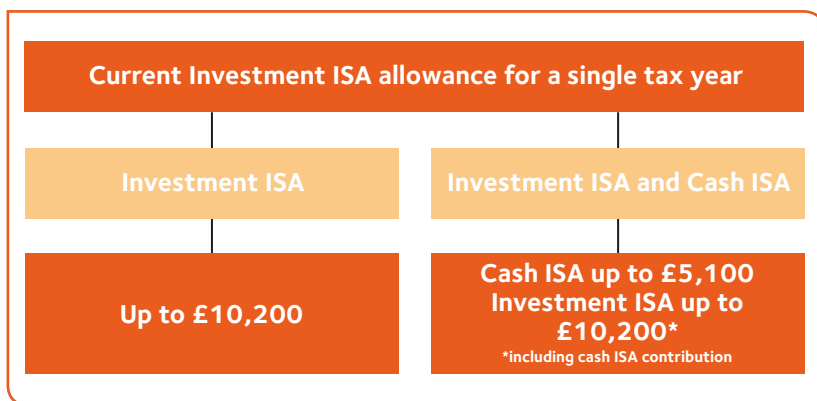
2010-2011 tax year

The Financial Services Authority is the independent financial services regulator. It requires us, National Friendly, to give you this important information to help you decide whether our Investment ISA is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

Your ISA options

Our Investment ISA is a stocks & shares ISA. From 6th April it allows you to invest up to £10,200 each tax year through monthly payments and/or lump sums.

If you have a cash ISA you can still apply for a stocks and shares ISA. The table below shows how your ISA allowance breaks down for the 2010/11 tax year.



You can only invest in one cash ISA and one stocks & shares ISA each tax year.

In addition to this Key Features document, we strongly recommend that you take time to read ‘A guide to how we manage our with-profits fund’. This booklet contains useful information to help you understand how your money is invested.

You will receive a personal illustration with your plan documents, which you should read carefully. Example illustrations are provided at the end of this booklet. If you would like a personalised illustration before applying, please call us.

Its aims

- To build up a tax-free sum.
- To allow access to all or part of your investment at any time.

Your commitment

- To maintain a balance of at least £1,000, unless you invest at least £300 a year. If your balance is below £1,000 and you have not invested at least £300 a year your ISA will be closed.
- This Investment ISA has no fixed term, but you should view it as a medium to long term investment which should be held for at least 5 years.

If you do not hold your ISA for at least five years, there is less time for the investment to have a reasonable prospect of growth.

Risk factors

What you will get back will depend on the performance of the with-profits fund, which is not guaranteed. Past performance is not a reliable guide to future performance.

- You may get back less than you have invested at any time if:
 - Bonuses are less than the fund charges.
 - You withdraw all or part of your money during or following periods of poor performance when the ISA Investment Performance Adjustment (IPA) is negative (see page 6).
- You should also consider that:
 - Over time, inflation will reduce what you can buy with your investment.
 - Our charges might increase.
 - The tax treatment of the policy and/or fund may change in the future.

Questions and answers

What is the National Friendly Investment ISA?

The National Friendly Investment ISA is a stocks & shares ISA. From 6th April 2010 it allows you to invest up to £10,200 each tax year through monthly payments and/or lump sums.

There is no fixed term, but as it aims to provide growth over the medium to long term through the addition of bonuses, we recommend you hold it for **at least 5 years**.

Is this investment for me?

A typical National Friendly Investment ISA investor would be someone who:

- Wishes to take advantage of a tax free* investment.
- Can afford to invest some money **for at least 5 years**.
- Would like to benefit from stocks and shares and is prepared to accept the risks associated with pooled investments but is not prepared to take the risk of investing directly on to the stock market.
- Has disposable income and/or capital in addition to any normal living expense (including emergency situations).

Who can apply?

You qualify for our Investment ISA if you're aged 18 or over and are either:

- A UK resident who normally lives in the UK and will be living in the UK for at least 6 months of the current tax year; or
- A Crown employee serving overseas or the spouse or civil partner of a Crown employee serving overseas.

Please note:

- You can only make payments into one stocks & shares ISA each tax year.
- You cannot apply for an ISA on someone else's behalf.
- You cannot hold an ISA jointly with another person.

*Except for the tax which National Friendly pays on share dividend income.

How is my money invested?

We combine your money with that from other investors into our with-profits fund. The fund invests in a wide range of long-term investments such as fixed interest stocks, commercial property and company shares. This diverse portfolio helps to reduce the impact on the fund of any one investment underperforming.

To find out more please read 'A guide to how we manage our with-profits fund'. For more detailed information on our with-profits fund a copy of the 'Principles and Practices of Financial Management' is available on request.

How much can I invest?

From 6th April 2010, you can invest up to £10,200 each tax year through monthly payments and/or lump sums.

Your total payments cannot exceed £10,200 each tax year, no matter how much you withdraw, and must be from your own money.

The minimum monthly payment is £50. You may increase or decrease your monthly payment by at least £10 whenever you like, providing it does not fall below £50.

The minimum initial lump sum investment is £1,000, or £250 if you have also chosen to invest by monthly direct debit. Any additional lump sum payments must be at least £250.

If you move abroad your ISA will stay open but you will not be able to make further payments into it, unless you are a Crown employee serving overseas or the spouse or civil partner of a Crown employee serving overseas.

What can I expect to get back?

The amount you will get back is your original investment minus any charges and withdrawals, plus any monthly bonuses. An Investment Performance Adjustment (IPA) will also be applied (please see below).

Each month we aim to add a bonus to your ISA which is based on the growth we expect from the fixed interest securities in the with-profits fund. The amount of bonus will only be less than this if the return achieved on the fund is less than the return available from the fixed interest securities. We therefore cannot guarantee how much a bonus will be or that any bonuses will be added.

What is an IPA?

An IPA is used to adjust any significant difference between your monthly bonuses and the actual performance of the with-profits fund. Generally the IPA is designed to add extra value to your ISA. However, the IPA could be negative to reflect a decline in the value of the with-profits fund which would mean the value of your ISA would fall and you could get back less than you invested.

A new IPA rate is used for each tax year and each rate is reviewed regularly. Because the IPA rates are only reviewed from time to time, the value of your ISA will not immediately reflect the movements up or down in the value of the assets.

However, over time the IPA will ensure that the value of your ISA will largely reflect the performance of the with-profits fund.

A statement will be sent to you after the end of each tax year and will confirm the value of your ISA including your investments during the tax year, bonuses added, withdrawals made, charges deducted and the IPA for each tax year. We will provide you with a quotation at any time you wish to withdraw all or part of your ISA.

What are the charges?

The following charges are made on your investment:

- A policy charge of 5% is deducted from each investment, including each lump sum, each direct debit payment and each transfer.
- An administrative charge of £1 is deducted from each monthly payment.
- An annual fund charge of 1.5% is deducted from your ISA through monthly instalments on the 5th day of each month.

Please note: There are no charges for withdrawing your money.

When can I withdraw my money?

You can withdraw money from your ISA at any time, but you should view it as a medium to long term investment which should be held for at least 5 years.

You can either:

- withdraw the full balance; or
- withdraw part of the balance, providing you withdraw a minimum of £500 and the value remaining in your ISA does not fall below £1,000.

A withdrawal quotation may be requested at any time. Payment will be made within the time specified by you (minimum five working days) and will only be made to you.

Please note:

- If you withdraw the money you have paid in this tax year in full, you will not be able to reinvest that money into your ISA or take out another stocks & shares ISA in the same tax year with a different provider.
- If you have any annual contribution limit left you may still invest this remaining amount into your National Friendly Investment ISA in the same tax year.
- An Investment Performance Adjustment (IPA) will be made on each withdrawal. This may reduce the value of your ISA if the IPA is negative.
- If you have invested in more than one tax year, funds will be taken from your most recent ISA, followed by your next most recent ISA and so on.
- If you want to reinvest any amount withdrawn in error, this will count as an additional investment towards your annual ISA contribution limit of £10,200.

Can I transfer my ISA?

If you'd like to transfer your ISA your options are:

- to transfer a stocks & shares ISA with another provider to a National Friendly Investment ISA;
- or
- to transfer a cash ISA with another provider to a National Friendly Investment ISA;
- or
- to transfer your National Friendly Investment ISA to a stocks & shares ISA with another provider.

If you wish to transfer an ISA for the current tax year, this tax year's payments will count towards your annual ISA investment contribution limit and must be transferred in full. If you wish to transfer ISAs from previous tax years this will not count towards this year's contribution limit and you can choose to move all or part of the balance.

You can choose when you'd like the transfer to be made, subject to a minimum of 15 working days.

To request a transfer pack call us on **0800 195 9245** (8am-6pm weekdays). Please do not withdraw any money yourself as you will not be able to reinvest it with another ISA provider. We will arrange the transfer for you.

Please note:

- You may not transfer your National Friendly Investment ISA to a cash ISA.
- If you transfer a cash ISA from the current tax year to the National Friendly Investment ISA you will be able to take out another cash ISA in the same year.

What happens if I stop my monthly payments?

You may stop and start payments as you wish. However, you can only make payments into one stocks & shares ISA each tax year. We reserve the right to cancel your ISA if the balance is below £1,000 and you have paid in less than £300 over the tax year.

If you don't pay into your ISA for a whole tax year you will need to sign a new declaration before you can make payments in any future tax years.

Can I cancel my policy?

We hope you are happy with your Investment ISA, however, you have the right to cancel your policy at any time without giving any reasons.

If you cancel within 30 days of receiving your welcome pack we will give you a full refund. Just send your policy schedule along with either a written request to cancel the policy or the Notice of Cancellation form from your welcome pack to National Friendly, 4-5 Worcester Road, Clifton, Bristol BS8 3JL. You will still be able to take out another stocks & shares ISA in the same tax year.

If you cancel after the 30-day period you can either:

- withdraw the balance in full; or
- transfer to another stocks & shares ISA. Please see page 8 for more information.

Why would my ISA be void?

Your ISA will be managed in accordance with the ISA regulations issued by HM Revenue and Customs (HMRC), which take precedence over these terms and conditions. If your ISA fails to comply with the regulations, HMRC will void your ISA.

An ISA will become void if:

- a payment is invalid;
- an application is incorrect;
- it is sold or transferred to a third party;
- it is converted to another type of investment; or
- you become bankrupt.

also:

- Your ISA must remain in your name for the life of the policy and it cannot be assigned to anyone else.
- You cannot place an ISA in trust.
- An ISA cannot be used to secure a loan.

When an ISA becomes void we will notify you immediately and pay you its value, minus any tax liabilities and any additional expenses we incur in closing the ISA. In addition, if you move to live outside the UK your ISA may remain open but any payments you make after you have moved abroad will become void and will be returned to you. You must notify National Friendly if at any time you are no longer a UK resident.

What happens if I die?

As soon as we are notified of your death, we will close your ISA and its value will be payable to your estate. If your ISA has increased in value between the date of your death and the date we were notified, this additional amount will be subject to tax.

Basic rate tax will be deducted by National Friendly and paid to HM Revenue and Customs.

Do I have to pay any tax?

All the money you receive back from your ISA is not subject to any income tax or capital gains tax, so you do not have to include it on your tax return.

The only tax deducted is that on dividend income from the shares in the with-profits fund. This tax is paid by National Friendly and cannot be reclaimed.

The proceeds from your ISA would form part of your estate and in the event of your death may be liable to inheritance tax.

This information is based on National Friendly's understanding of current tax legislation and practice. However, both law and practice may change in the future.

For advice on tax please contact your usual tax adviser.

If there are any changes to the taxation of ISAs, the effect on you may depend on your individual circumstances at the time.

Example Illustration

Name: Mr Curtis

Monthly direct debit: £150

The ISA value after 5 and 10 years

The regular monthly payment of £150 will be invested into our with-profits fund. The ISA value is calculated using the amount invested, minus charges plus allocated monthly bonuses and the Investment Performance Adjustment.

As we cannot predict how well the fund will perform or what bonuses or Investment Performance Adjustment will be allocated, we provide three examples based on different rates of growth. All ISA managers use the same rates of growth for projections but their charges vary.

If the investment grows at	5% a year	7% a year	9% a year
After 5 years Mr Curtis will get back	£9,270	£9,750	£10,200
After 10 years Mr Curtis will get back	£20,200	£22,500	£24,900

Please note:

- These figures are only examples and are not guaranteed, they are not minimum or maximum amounts. What you will get back depends on how your investment grows and on the tax treatment of the investment – you could get back more or less than this.
- Inflation will reduce what you can buy in the future with the amount shown.

How charges affect your ISA

The charges are explained on page 7.

The examples below show how our charges might affect the value of Mr Curtis's ISA.

The last two columns assume that investments will grow at 7% a year.

Warning: One effect of the charges is that you could get back less than you paid in.

End of year	Total paid to date	Total actual deductions to date	Effect of deductions to date	What you might get back
1	£1,800	£119	£119	£1,740
2	£3,600	£264	£273	£3,590
3	£5,400	£438	£465	£5,530
4	£7,200	£640	£700	£7,590
5	£9,000	£873	£983	£9,750
10	£18,000	£2,560	£3,290	£22,500

These figures are best estimates based on current experience and they may vary in the future.

The last line shows that over a 10 year period the effect of the total deductions could amount to £3,290. Putting it another way, this would have the effect of bringing investment growth of 7% a year down to 4.4% a year.

Example Illustration

Name: Mr Thomson

Single lump sum investment: £10,200

The ISA value after 5 and 10 years

The single lump sum payment of £10,200 will be invested into our with-profits fund.

The ISA value is calculated using the amount invested, minus charges plus allocated monthly bonuses and the Investment Performance Adjustment.

As we cannot predict how well the fund will perform or what bonuses or Investment Performance Adjustment will be allocated, we provide three examples based on different rates of growth. All ISA Managers use the same rates of growth for projections but their charges vary.

If the investment grows at	5% a year	7% a year	9% a year
After 5 years Mr Thomson will get back	£11,500	£12,600	£13,900
After 10 years Mr Thomson will get back	£13,600	£16,500	£19,900

Please note:

- These figures are only examples and are not guaranteed, they are not minimum or maximum amounts. What you will get back depends on how your investment grows and on the tax treatment of the investment – you could get back more or less than this.
- Inflation will reduce what you can buy in the future with the amount shown.

How charges affect your ISA

The charges are explained on page 7.

The examples below show how our deductions might affect the value of Mr Thomson's ISA.

The last two columns assume that investments will grow at 7% a year.

Warning: One effect of the charges is that you could get back less than you paid in.

End of year	Total paid to date	Total actual deductions to date	Effect of deductions to date	What you might get back
1	£10,200	£691	£691	£10,200
2	£10,200	£844	£892	£10,700
3	£10,200	£1,000	£1,110	£11,300
4	£10,200	£1,170	£1,360	£12,000
5	£10,200	£1,350	£1,640	£12,600
10	£10,200	£2,410	£3,510	£16,500

These figures are best estimates based on current experience and they may vary in the future.

The last line shows that over a 10 year period the effect of the total deductions could amount to £3,510. Putting it another way, this would have the effect of bringing investment growth of 7% a year down to 5% a year.

Extra information

Before you decide to invest you should be satisfied you understand this policy.

If you have any questions please contact us on 0800 195 9245 (8am–6pm weekdays) or write to us at, National Friendly, 4–5 Worcester Road, Clifton, Bristol BS8 3JL.

Payment options

All payments must be from the ISA holder's own money.

Single payments can be made by debit card or cheque payable to National Friendly.

Regular monthly payments are paid by direct debit.

What should I do if I have a complaint?

We are a mutual association that exists to support our customers and we aim to provide the highest standards of service. If we fall short at any time and you wish to make a complaint, please contact us on:

- **0808 168 7775** (8am–6pm weekdays)
- Email compliance@nationalfriendly.co.uk
- Fax 0117 980 9358
- Or write to Compliance Department, National Friendly, at the address above.

A copy of our complaints procedure is available on request or from

www.nationalfriendly.co.uk

If you make a complaint and are dissatisfied with our response, you can ask the Financial Ombudsman Service for an independent review:

- Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London E14 9SR.
- Telephone 0845 080 1800
- E-mail complaint.info@financial-ombudsman.org.uk
- Website www.financial-ombudsman.org.uk

Please remember the ombudsman service cannot deal with your complaint until you have first raised it with us. In making any complaint, your right to take legal proceedings is not affected.

Applicable law

If there is a legal dispute, English law will apply and the case will be heard solely in the courts of England and Wales.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) protects consumers of virtually all financial services in the UK.

Depending on your policy and the circumstances of any claim, you may be entitled to compensation from the FSCS if we were unable to meet our obligations, for example to pay what we owe. If you are entitled to claim, this type of policy is covered for 100% of the first £2,000 of the claim and 90% of the rest.

You can ask for more information from the FSCS on 020 7892 7300 or at www.fscs.org.uk

Our right to cancel your policy

We have the right to expel any policy holder who, in connection with this or any other National Friendly policy, has:

- provided false information with the aim of gaining money from us.
- failed to act in good faith.

If we plan to expel a policy holder, we will first explain the procedure and their right to appeal. If a policy holder is expelled, we may end their policy at any date after that and may or may not return any money already paid in. We may also try to recover any money obtained fraudulently through their policy and may contact the police.

Specialist expertise

We always ensure that the other companies we select to provide us with specialist expertise are competent to carry out their responsibility.

Language and currency

All correspondence will be in English and all currency will be £ sterling.

Alterations to the policy terms

These terms and conditions may change as a result of new law or regulation. We also have the right to change the terms and conditions at any time as a result of product or system developments, or changes in the cost of providing a service or product to you, or to remove any ambiguities. We will write to you and let you know of any changes. If you do not accept the changes then your policy will be cancelled.

Notes

Other products available

Investments

- Tax-Free Savings Plan
- With-Profits Bond

Health & Life Cover

- Healthcare Deposit Account
- 50+ Life Plan

For extra information on this product or to request a copy in Braille, large print or audio please call us on:

0800 195 9245

(8am-6pm weekdays, calls are recorded for quality purposes)

Email enquiries@nationalfriendly.co.uk

Or alternatively contact your financial adviser



Registered office: 4-5 Worcester Road, Clifton, Bristol BS8 3JL.
Tel: 0117 973 9003 Fax: 0117 980 9358 Email: enquiries@nationalfriendly.co.uk

National Friendly is the trading name of National Deposit Friendly Society Limited.
Incorporated and registered friendly society no. 369F.
Authorised and regulated by the Financial Services Authority. Registration no. 110008.

www.nationalfriendly.co.uk