

An introduction to the With-Profits Bond



About us

National Friendly is a mutual society established in 1868. We offer investments, life cover and healthcare for you and your family and have over 140 years' experience of caring for our members.

As a mutual we have no shareholders to take a share of our profits. This means we can use our profits to improve our products and services.

Our main purpose is to provide benefits for our members and we pride ourselves on the high standard of service we offer.

Everyone who takes out one of our With-Profits Bonds becomes a member of National Friendly.

What is the National Friendly With-Profits Bond?

This brochure provides an overview of the National Friendly With-Profits Bond. Please read the 'Key Features' booklet before you apply.

- The With-Profits Bond from National Friendly is a lump sum investment. It is designed for investors looking for potentially higher returns than can be provided by the security of a bank or building society account, who don't want the risk of investing directly in the stock market but who accept the risks of investing in a pooled fund.
- Any UK resident aged 16-79 can apply for a bond, regardless of their state of health. You can also apply for a bond on behalf of a child, no matter what your age.
- The bond has no fixed term but aims to provide capital growth over the medium to long term so should be held for at least 5 years and ideally for 10 or more.
- The minimum investment is £1,000, however once you become a National Friendly With-Profits Bond holder you can take out additional bonds from just £500 each.
- The maximum investment is £1 million, but higher amounts may be considered on an individual basis.



Good reasons to apply for our With-Profits Bond

- 1** We will add your money to our with-profits fund that invests in property, company shares (also known as equities), fixed interest investments (also known as corporate and government bonds) and cash. This diverse portfolio helps to reduce the impact on the fund should any of the investments underperform.
- 2** We then help protect your money from the ups and downs normally associated with the stock market by a process known as smoothing. Smoothing is designed to reduce the effect of short term stock market instability and aims to produce more relatively stable growth in long term investments.
- 3** The with-profits fund is looked after by investment experts and is monitored daily.
- 4** Annual bonuses may be allocated on top of your original investment and once added cannot be taken away. In addition a final bonus may also be awarded which could increase your investment.¹
- 5** Our guarantee means that, no matter what happens in the world's financial markets, on your bond's 10th anniversary (or 18th birthday if the bond is for a child under 8) and for 3 months after, you'll get back at least as much as you've paid in if you cash in the bond.
- 6** For peace of mind the bond has built-in life cover, so in the event of your death we will pay out a lump sum that is guaranteed to be at least 101% of your original investment.

¹Please see 'A guide to how we manage our with-profits fund' for more information about bonuses.

Things you should know

- Withdrawals from your bond may be subject to deductions in the following circumstances:
 - A penalty charge will be applied to any withdrawals made within the first five years;
 - A market value reduction (MVR) may be applied on withdrawals made at any time when the actual performance of the bond is less than the amount paid in bonuses;
 - If you cash in your bond and you have made withdrawals during your term. This is because we make an adjustment for partial withdrawals.

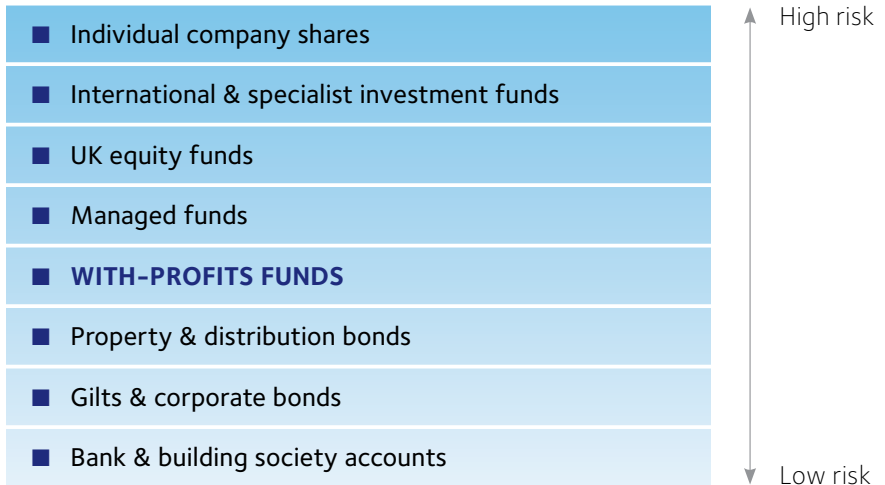
A penalty charge, an MVR, and an adjustment for withdrawals may be applied in combination and could mean you get back less than you paid in.

- Future annual bonuses cannot be guaranteed because they are based on future investment returns, which may be lower than expected.
- Partial withdrawals will reduce the amount of any future bonuses paid.
- When calculating the life cover to be paid on death, or the amount to be paid should the bond be cashed-in during the guarantee period, the guaranteed amount will be reduced by the amount of any withdrawals made. The guarantee period applies on your With-Profit Bond's 10-year anniversary (or in the case of a child, their 18th birthday – whichever is later) and for three months after.
- The tax treatment of the policy depends on your individual circumstances and may be subject to change in the future.
- Inflation will reduce what you can buy in the future with your investment.

How we invest your money

Our cautiously managed with-profits fund provides an attractive option for those looking to take a more prudent approach with their investments. Our fund's diverse portfolio helps to reduce the impact should any of the investments within the fund underperform and aims to reduce the risk of the fund reducing in value over the medium to long term.

This diagram shows how investing in a with-profits fund compares to other investment options.



In general, investments that offer the potential of a higher return bring with them an increased risk of losing all or part of your investment.

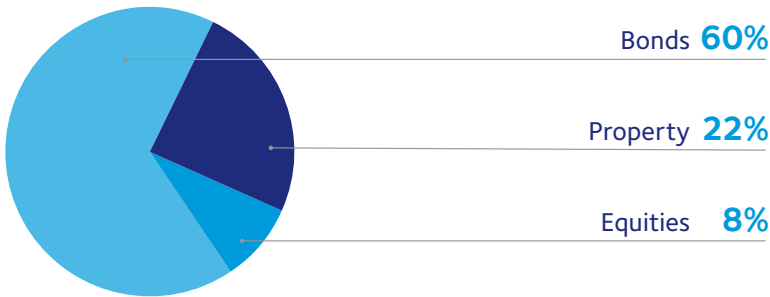
Your money, along with that from other investors, is pooled into our long established with-profits fund and is managed by investment experts who monitor the fund daily.

The following charts show how each section of the with-profits fund is invested.

Please note - investment conditions change daily, so the exact split of investments can vary.

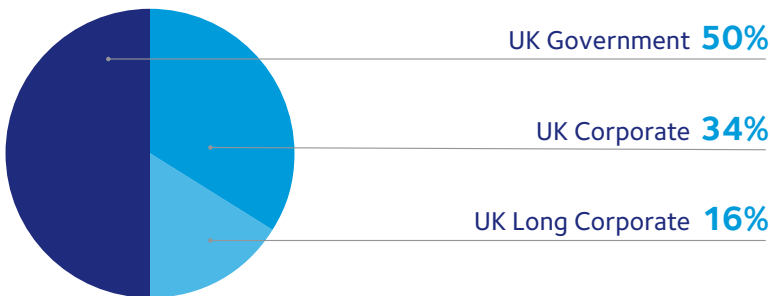
With-Profits Fund Investment Portfolio – as at November 2010

This portfolio is managed by our own National Friendly property experts and is made up of a range of different property types across the UK.



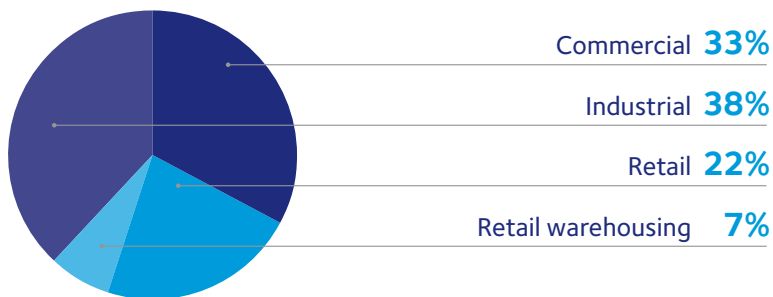
Bond Portfolio – as at November 2010

The bonds portfolio is managed by Fidelity International and holds investment grade fixed interest bonds.



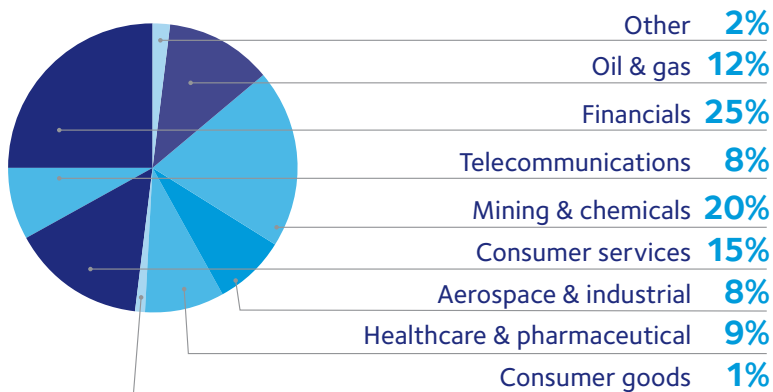
Property Portfolio – as at November 2010

This portfolio is managed by our own National Friendly property experts and is made up of a range of different property types across the UK.



Equities Portfolio – as at November 2010

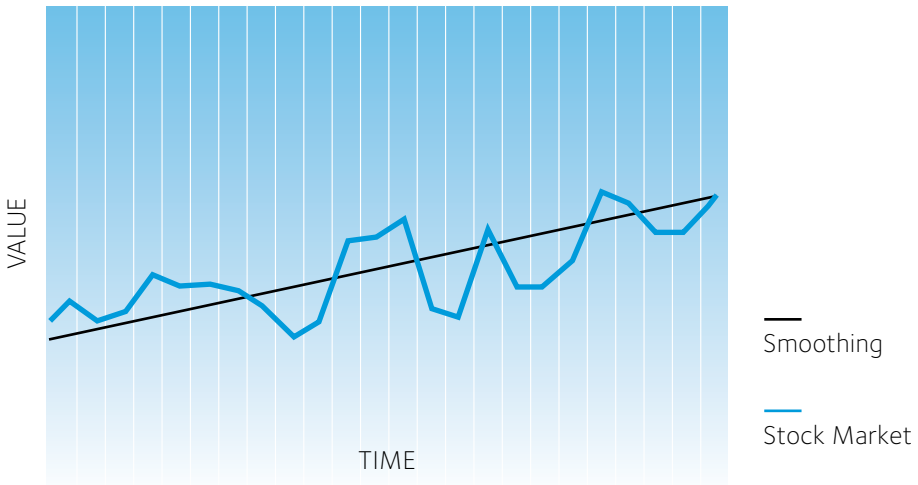
The equities portfolio is also managed by Fidelity International, with the greater part held in UK blue chip companies.*



*Large well established companies with a reputation for being financially secure

How we help protect you from stock market changes

- ✓ We spread the risk by investing in a variety of assets, which reduces the effect on the fund should any of the assets underperform.
- ✓ You also have the added peace of mind that, no matter what happens on the world's financial markets, on the bond's 10th anniversary (or in the case of a child, their 18th birthday - whichever is later) and for 3 months after, we guarantee that the cash-in value won't be less than you've invested.
- ✓ In addition to this, every year we value the fund and decide how much growth we can afford to give our investors in bonuses, and how much should be kept in reserve. We keep some of the growth in reserve so that we can still aim to add a bonus in years when the investment growth of the fund may not be so good. This is known as 'smoothing' and is used to reduce the effects of stock market fluctuations on your investment.



Please note: This diagram is for illustration purposes only and aims to explain the smoothing process. It does not intend to show real performance.

Tracking your bond's performance

Every year we'll send you a statement which shows bonuses allocated up to the end of the previous year. This will include any withdrawals made.

Accessing your money

- The bond has no fixed term and may be fully or partially cashed in at any time. However, it should be held for a minimum of 5 years and ideally for at least 10 years.
- You are entitled to withdraw a minimum of £500 at any time, providing your bond value does not fall below £1,000, subject to these limits:
 - You can withdraw up to 5% of your original investment each year, carried forward up to 100%, without any immediate liability for tax.
 - If you withdraw more than 5% of your original investment you might have an immediate tax liability.

If you withdraw money at any time in the first 5 years, the amount you withdraw will be subject to a penalty charge of 5% in the first year decreasing to 1% in the fifth year.

In addition if you withdraw money when the performance of the bond is less than bonuses allocated we may apply a Market Value Reduction (MVR).

When you come to cash in your bond we will apply an adjustment for any withdrawals made during the term.

Who can apply?

- Any UK resident aged 16-79 can apply for a bond, regardless of their state of health.
- You can also apply for a bond on behalf of a child, no matter what your age.
- Bonds can be taken out by an individual or a couple.
- A couple can decide whether the life cover is paid in the event of either the first or second death.

Putting the bond into trust

If you wish to place this plan and its proceeds into trust, please contact our customer services team for more information and to receive an application form.

Next steps

Applying is quick and easy:

Please read the 'Key Features' booklet and 'A guide to how we manage our with-profits fund' then if you are satisfied that this plan is right for you either:

Complete and return your application form or visit



www.nationalfriendly.co.uk/bond

to apply online



0800 195 9245

(8am-6pm weekdays, calls are recorded for quality purposes) or contact a financial adviser

Other products available

Investments

- Investment ISA
- Tax-Free Savings Plan

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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)

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NF004 04/11



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