

# Key Features of the With-Profits Bond

**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 With-Profits Bond 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.**

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. An example illustration is provided at the end of this booklet. If you would like a personalised illustration before applying, please call us on **0800 195 9245** (calls are recorded for quality purposes).

# With-Profits Bond

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## Its aims

- To increase the value of your investment over the longer term, while guaranteeing your capital on the guarantee date, and for a further 3 months following that date (please see page 9).

## Your commitment

- You invest a lump sum.
- Your bond does not have a fixed end date, but you should view it as a medium to long-term investment which means it should be held for at least 5 years and ideally for 10 years or more.

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## Risks

This is a stock market related investment and the value of your bond can go down as well as up. You are not certain to make a profit and you may get back less than you have invested, except when the guarantee period applies (please see page 9).

- You may get back less than you have invested if:
  - You withdraw money in the first 5 years of the bond. This is because we will deduct a penalty charge (see page 7).
  - You withdraw all or part of your money when we apply a market value reduction. This might happen when investment returns on the with-profits fund have been low compared with the bonuses that have already been allocated to your bond (please see page 7).
  - You cash in your bond and you have made withdrawals during your term. This is because we make an adjustment for partial withdrawals (please see page 8).

A change in your circumstances may force you to withdraw money under one of the above scenarios.

- You should also consider that:
  - Over time, inflation will reduce the buying power of the investment.
  - Investment growth could be lower, and our charges higher, than the example shown in this document.
- If the Government changes the way this bond is taxed, this could reduce the amount you get back or increase the amount of tax you pay.

# Questions and answers

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## What is the With-Profits Bond?

This is a longer term (5-10 years or more) investment in our with-profits fund. The bond is designed to offer you growth because of the potential for bonuses to be added to your investment, although this is not guaranteed.

## Is this investment for me?

This bond might be suitable for someone who:

- Can afford to invest some money for at least 5 years and does not need to withdraw any of it during that time.
- Is hoping to achieve more growth than is available from the security of traditional bank or building society savings accounts, and is not prepared to take the risk of investing directly in the stock market, but accepts the risks of investing in a pooled fund.
- Is a basic rate tax-payer or expects to be so when withdrawing their investment.

## Who can apply?

You may invest in one or more bonds in any of the following capacities:

- **In your own name.** You can apply for a bond in your own name as long as you are a UK resident aged 16-79.
- **With one other individual.** You can apply for a bond with one other individual as long as you are both UK residents aged 16-79.
- **On behalf of a child.** Anyone over the age of 16 can invest in a bond for a child under the age of 16. In this case the child would be the bond holder and the named parent or guardian would act on their behalf until the child reaches 16 years of age.

**Please note:** if the person investing in the bond is not the named parent or guardian of the child, that person will only have access to initial investment information, and they will not be able to make any changes to the bond.

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### **Can the bond be placed in trust?**

Yes, if you wish to place this bond and its proceeds into trust, please contact our customer services team for basic information and an application form. You should take professional advice before placing a bond into trust.

### **How much can I invest?**

The minimum investment is £1,000.

If you already have a With-Profits Bond with National Friendly you can take out additional bonds with a minimum investment of £500 each.

The maximum investment is £1 million but higher amounts may be considered on an individual basis.

### **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 securities, commercial property and company shares. This diverse portfolio helps to reduce the impact on the fund should any of the investments within the fund underperform.

To find out more please read 'A guide to how we manage our with-profits fund'.

### **When can I take my money out?**

You can take your money out at any time but, there will be a penalty charge if this is within the first five years.

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## How much can I expect to get back when the bond ends?

There is no fixed end date to your bond and you can cash it in at any time (although it is designed to be held for at least five years).

### Your cash-in value will be:

- your original investment
- plus any bonuses we have added
- less any market value reduction (MVR) applicable at the time
- less any penalty charge payable in the first five years
- less an adjustment for any partial withdrawals you have made

If we apply a penalty charge and/or an MVR and/or an adjustment for partial withdrawals, you could get back less than you invested.

However, if you cash in your bond on its 10th anniversary, or in the case of a child, their 18th birthday if that is later, or during the three months that follow, we guarantee that you will not get back less than your original investment less an adjustment for any partial withdrawals, that you have made (please see the example on page 8).

### There are two types of bonus:

- An annual bonus - this is based on a number of factors including how well the with-profits fund has performed and our view of how the with-profits fund will perform. Because of this we cannot guarantee to pay a bonus every year. It is calculated as a percentage of your original investment.
- A final bonus - when you cash in your bond we will work out whether a final bonus should be added to your bond. This bonus makes up any shortfall between all the annual bonuses we have added to your bond and the actual performance of the with-profits fund.

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## What is a market value reduction?

When you take out all or part of the money in your bond, we may reduce the amount you receive if the cash-in value of your bond is significantly greater than your fair share of the fund.

This adjustment is known as a market value reduction (MVR). It's designed to protect investors who are not taking their money out and means that you get a fair share of the with-profits fund in which you have invested. An MVR would reduce the amount you receive and could mean you get back less than you paid in.

## What are the charges?

We deduct charges from your investment to cover the cost of investing in the with-profits fund, administration, and other expenses.

As the With-Profits Bond is a traditional with-profits plan, we do not deduct the charges directly from your investment. Instead we recover our expenses by reducing the bonus rates.

At the end of this booklet is an example illustration which shows the effect of the charges on growth. If you would like a personalised illustration, please contact our customer services department.

If you withdraw all or part of your investment during the first five years there will be a penalty charge.

### **The penalty charge is calculated as follows:**

- Year 1 = 5% of the amount invested
- Year 2 = 4% of the amount invested + bonuses
- Year 3 = 3% of the amount invested + bonuses
- Year 4 = 2% of the amount invested + bonuses
- Year 5 = 1% of the amount invested + bonuses
- Year 6 onwards = no penalty charge

A market value reduction may also be applied to the withdrawal.

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### **What about partial withdrawals?**

You can make partial withdrawals from your bond at any time, as long as you withdraw at least £500 and you keep a minimum of £1,000 in your bond. If you make a partial withdrawal, the amount that you withdraw will be expressed as a percentage of the cash-in value (before adjustment for any withdrawals). This percentage will then be used to adjust your future cash-in value and guaranteed benefits. Therefore, it is important to remember that making a withdrawal will reduce the value of your original investment, as well as the value of your existing and future bonuses.

As an example, if the cash-in value of your bond was £5,000 and you wished to make a partial withdrawal of £1,000, this would represent 20% of your cash-in value. If, in the future, your cash-in value (before your partial withdrawal) had increased to £6,000, the amount you would receive if you cashed in your bond would be £6,000 reduced by 20% (or £1,200), giving a final cash-in value of £4,800. Please note: This example ignores any penalty charge or MVR that might apply.

### **Can you give an example of how the cash-in value is calculated?**

The previous sections describe in general terms how your bond works. The following example gives you an idea of how the cash-in value would be calculated in practice. However, the figures used are purely for illustrative purposes only and should not be taken as an indication of future performance. Also, the exact method of calculation may be subject to changes in the future.

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## EXAMPLE

Steve invests £10,000 in a With-Profits Bond. In Year 2 he withdraws 25% of the value of his bond. In Year 5 he cashes in the remaining value of his bond incurring a 1% penalty charge.

**Original Investment £10,000**

**PLUS** annual bonuses =  $£10,000 \times 9.5\% = £950$

Sub total £10,950

**LESS** MVR =  $£10,950 \times 4\% = £438$

Sub total £10,512

**LESS** penalty charge =  $£10,512 \times 1\% = £105$

Sub total £10,407

**LESS** adjustment for withdrawal =  $£10,407 \times 25\% = £2,602$

Final cash-in value £7,805

## Can you guarantee my investment?

We guarantee that on the bond's 10th anniversary (or in the case of a child, their 18th birthday – if that is later) and for three months after that date, your bond's cash-in value will not be less than your original investment (less an adjustment to allow for any partial withdrawals that you have made). This guarantee stands even if we apply an MVR. We will contact you prior to your guarantee date to inform you of your guarantee period. Please remember that inflation will reduce the value of what you can buy in the future with your investment.

At any other time before the 10th anniversary (or in the case of a child, their 18th birthday – if that is later), or after the three months have elapsed, the guarantee does not apply.

## What life assurance is included?

The amount payable on death is usually equal to the cash-in value of the bond. Also we guarantee that the amount payable on death will never be less than 101% of your original investment less an adjustment for any partial withdrawals you have made. If you have elected to take a bond with another individual, you can decide if the life assurance pays out on either the first or the second death. You should indicate your choice in the appropriate section on the application form. We do not apply an MVR in the event of death, nor do we apply a penalty charge if death occurs within the first five years of the bond.

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## Who will receive the benefit payable on death?

You have the right to name one or more people to receive the combined value of your National Friendly policies if you die. This is currently limited to a total of £5,000 and would be paid to your nominated beneficiaries, allowing for quicker payment. Anything over £5,000 will be paid out according to the terms of the Grant of Probate (if you have a will) or Letters of Administration (if you do not have a will). The sum payable on death forms part of your estate and may be liable to inheritance tax. Please request a nomination form by contacting our customer services department.

If you do not have a nomination in place, the value of your bond will be paid out according to the Grant of Probate or Letters of Administration. The sum payable on death forms part of your estate and may be liable to inheritance tax.

## What tax do I have to pay?

The tax treatment of your bond depends on your individual circumstances. The following summary is based on our understanding of current tax law and practice, which may be subject to change in the future. Please speak to your tax adviser if you need more information.

### Income tax

You can withdraw up to 5% of your original investment each year without having to pay any income tax at that time. However, when you cash the bond in, any withdrawals must be taken into account when assessing your liability for income tax. We will issue a chargeable event certificate at this time.

If you withdraw more than 5% of your original investment you may have an immediate liability to income tax. We will issue a chargeable event certificate at that time.

The 5% a year withdrawal is a cumulative allowance, so if you don't use it in any year it can be carried forward for a maximum of 100% of your original investment.

The assessment for income tax on any gain you make within the With-Profits Bond is complex and you might require specialist tax advice. However, in general terms:

**Basic rate tax payers:** you will not have to pay any income tax on payouts from the bond, as tax has already been paid by National Friendly on the investments in the with-profits fund.

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**Higher-rate taxpayers:** you will have to pay income tax if you are, or you become, a higher rate tax payer, because the gain on your bond falls within the higher rate band, in the following circumstances:

- where you take withdrawals in excess of your 5% allowance; and/or
- when your bond is terminated.

**Non-tax payers:** you cannot reclaim any tax that has been paid by National Friendly.

**Trusts:** If your bond is set up under a trust you might have to pay income tax on any gain.

If you qualify for age allowance or tax credits which are assessed against your income, you could lose some or all of these benefits as a result of cashing in your bond or making withdrawals in excess of the 5% allowance.

Your bond can be issued as a series of policies which gives you flexibility to cash in individual bonds and can also have tax planning advantages. For further information please contact a financial adviser.

### **Inheritance tax**

Any amount paid out from your bond during your lifetime, and any amount remaining in your estate on the event of your death, may be liable for inheritance tax.

### **How will I know how my bond is doing?**

Every year we'll send you a statement showing the bonuses allocated to the end of the previous year.

### **Can I change my mind?**

When you receive your bond documents you will also receive a notice reminding you of your legal right to change your mind. You have the right to cancel your bond within 30 days of receiving the notice. You can do this by signing and returning the cancellation form or writing to us at National Friendly, 4-5 Worcester Road, Clifton, Bristol BS8 3JL. If you cancel your bond within 30 days we will refund the premiums you have paid. You can cancel your bond at any time after this, but you may receive less than you have paid in.

### **Applicable law**

In the event of any legal dispute, English law will apply.

# Extra information

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## Further information

If you have any questions about our With-Profits Bond, please call us on **0800 195 9245**. Alternatively if you are unsure whether it is suitable for you, you should contact a financial adviser.

## Payment options

By debit card or cheque. Cheques should be made payable to National Friendly.

## If you 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](mailto:compliance@nationalfriendly.co.uk)
- Fax 0117 980 9358
- Or write to Compliance Department, National Friendly, 4–5 Worcester Road, Clifton, Bristol BS8 3JL

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 08000 234 567 (free from landlines) or 0300 123 9123 (free for mobile phone users who pay a monthly charge for calls to numbers starting 01 or 02)
- Email [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)
- Website [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

Please remember the Financial 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

## The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) protects customers of nearly all financial services in the UK, including customers of this policy. Depending on your policy and the circumstances of any claim, you may be entitled to compensation from the FSCS if we can't meet our obligations, for example to pay what we owe.

If you are entitled to a claim, most insurance policies are covered for 90% of the claim with no upper limit. You can ask for more information from the FSCS on 020 7892 7300 or at [www.fscs.org.uk](http://www.fscs.org.uk)

## Retail clients

We are required by our regulator, the Financial Services Authority, to categorise our customers to determine the level of protection they will receive. If you invest in our With-Profits Bond, we will treat you as a retail client. This gives you the highest level of protection available under the Financial Services Authority rules.

## Our right to cancel your bond

We have the right to cancel any bond where the bond holder, in connection with this or any other National Friendly plan, has:

- Provided false information with the aim of gaining money from us.
- Not acted in a fair and reasonable way.

If we intend to cancel a bond, we will first explain what will happen and the bond holder's right to appeal. If a bond is cancelled this way, we may end the bond at any date after that and will seek the return of any money obtained fraudulently and all reasonable expenses incurred in doing so.

## Alterations to the policy terms

We may change these terms and conditions to make sure that they comply with law or regulation. We may also change the terms and conditions at any time where it is reasonable to do so:

- (a) as a result of product or system development
- (b) because of changes in the cost of providing a service to you  
(for example where there is an increase in tax rates)
- (c) to allow us to administer the policy more efficiently, or
- (d) to change anything which is unclear or incorrect.

We will write to you and let you know of any changes as soon as we can.

If you tell us within 30 days that you do not agree to the changes we will cancel your policy without charge.

## Language and currency

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

# Example illustration

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Age next birthday: 60

Amount invested: £10,000

Anticipated term: 10 years

Your single premium will be invested into the National Friendly with-profits fund. After 10 years the cash in value is calculated using the amount invested together with allocated annual bonuses and any final bonus.

As we cannot predict how well the fund will perform and what bonuses will be allocated, we illustrate three examples based on three different rates of growth. All firms are subject to the same rules governing the rates of growth used for projections but their charges vary. Firms may choose between using standard rates of growth or lower rates where this better reflects the prospective returns from the assets backing the policy. National Friendly has used rates of growth that it believes reflect the prospective returns on the assets that National Friendly holds in respect of this policy.

- If investments grew at 3.5% a year you would get back £11,900
- If investments grew at 5.5% a year you would get back £14,400
- If investments grew at 7.5% a year you would get back £17,500

These figures are only examples and are not guaranteed, they are not minimum or maximum amounts. What you 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 and inflation may reduce what you could buy with the amount shown in the future.

We guarantee that on the 10th anniversary and for 3 months after, you will not get back less than £10,000, i.e. the original investment. This guarantee will be reduced proportionally for any partial withdrawals you make.

## The life assurance value

If you should die at any time during the policy your beneficiaries will receive £10,000, i.e. the original investment, together with any bonuses already added.

Plus, you are guaranteed that this amount will never be less than £10,100, i.e. 101% of your original investment.

The life assurance value will then be reduced proportionally to allow for any partial withdrawals you have made.

## How much will the advice cost?

Commission is not payable provided you are applying directly to National Friendly and no investment advice has been given. If, however, the bond is being taken out as the result of advice by a financial consultant, then your adviser will give you details about the costs. The amount will depend on the size of the investment and is paid for from the deductions.

## The cash-in value

These examples show how much you might get back if you cash in your policy. The last two columns assume that investments will grow at 5.5% a year.

**Warning:** If you cash in your plan at any time other than the guarantee period, you could get back less than you paid in.

The Early Years				
End of year	Total paid to date	Total actual deductions to date	Effect of deductions to date	What you might get back
1	£10,000	£585	£585	£9,960
2	£10,000	£646	£679	£10,400
3	£10,000	£712	£782	£10,900
4	£10,000	£782	£895	£11,400
5	£10,000	£857	£1,010	£12,000

The Later Years				
End of year	Total paid to date	Total actual deductions to date	Effect of deductions to date	What you might get back
10	£10,000	£2,000	£2,600	£14,400

## What are the deductions for?

The deductions include the cost of life cover, remuneration, expenses, charges, any surrender penalties and adjustments.

The effects of the deductions are shown in the tables above. 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 term, the effect of the total deductions could amount to £2,600. Putting it another way, leaving out the cost of life cover, this would have the effect of bringing investment growth of 5.5% a year down to 3.8% a year.

## 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)

**E-mail** [enquiries@nationalfriendly.co.uk](mailto:enquiries@nationalfriendly.co.uk)

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National Friendly

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Incorporated and registered friendly society no. 369F.

Authorised and regulated by the Financial Services Authority. Registration no. 110008.

[www.nationalfriendly.co.uk](http://www.nationalfriendly.co.uk)

