



NATIONAL DEPOSIT

Annual Report & Accounts **2003**



integrity, self-help, value for money

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Society Information

Managing Board – Appointed 31 March 2003

Mr. D. C. Burgess – Chairman
Mr. D. C. Azubike
Mr. C. D. Bielckus
Mr. G. F. Hicks – Operations Director
Mr. G. R. Higham – Finance & Administration Director
Mr. E. P. Malden
Mr. P. McIlwraith
Mr. T. W. Trinder – Chief Executive

Delegate Board

Mr. S. E. Brown – President
Mr. A. R. Lawrence – Chairman (*resigned September 2003*)
Mrs. H. M. Cripps – Vice-President
Mr. A. Cromack
Mr. K. G. Earl – (*appointed October 2003*)
Mrs. M. A. Frost
Mr. G. F. Goodfellow
Mr. V. Goulding
Mrs. A. J. Gray
Mr. A. G. Harvey – (*appointed November 2003*)
Mr. D. A. Jones – Vice-Chairman
Mrs. J. M. Lamberts
Mr. S. Leonard – (*resigned October 2003*)
Mrs. R. Martyn
Mr. E. A. Reynolds
Mr. F. E. Rogers
Mrs. L. M. Wallace
Mrs. M. A. Warren

Advisors

• Actuaries

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

• Appointed Actuary

Mr S. J. Ainsworth, M.A., F.I.A., A.S.A.,
F.P.M.I., F.C.I.L., T.E.P., F.R.S.A.
of BWCI Limited

• Auditors

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

• Architects

Ansell & Bailey,
24 - 32 Stephenson Way,
London NW1 2HD

• Arbitrators

Mr Derek R. Loughborough, A.C.C.I., A.P.M.I.
Mr Peter M. Madders, M.Sc., F.I.A.
Mr Robert W. Pollard

• Bankers

National Westminster,
The Mall, Clifton,
Bristol BS99 5AJ

• Custodians

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

• Internal Auditors

Baker Tilly,
Old Sarum House, 49 Princes Street,
Yeovil BA20 1EG

• Investment Managers

Fidelity Investments,
25 Cannon Street,
London EC4M 5TA

• Solicitors

Ringrose Wharton,
1 Friary, Temple Quay,
Bristol BS1 6EA

• Surveyors

Mellersh & Harding,
43 St James's Place,
St James's Street,
London SW1A 1PA

Registered Office: National Deposit Friendly Society Limited
4-5 Worcester Road, Clifton, Bristol BS8 3JL.

Telephone: 0117 973 9003 Fax: 0117 974 1367

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Chairman's Review

It is with great pride that I present this first Report as Chairman of the Managing Board.

CONSTITUTION

The new Managing Board came into effect following approval of Rule changes by the Financial Services Authority on 31 March 2003. All Directors were initially appointed by the Delegate Board and the four Member Directors stood for and were successfully elected at the June Annual General Meeting of the Society. Managing Board Directors are as listed on page 1 and can be divided into three groups viz:

Executive Directors

Mr G F Hicks – Operations Director
Mr G R Higham – Finance and Administration Director
Mr T W Trinder – Chief Executive

Independent Non-Executive Director

Mr P McIlwraith was a partner in PricewaterhouseCoopers until his retirement several years ago. He has, in the past, been the partner responsible for the Society's statutory audit and has a wide knowledge of the financial services sector.

The Executive Directors and the Independent Non-Executive Director are appointed to office by the Delegate Board.

Member Non-Executive Directors

Mr D C Azubike is an Inspector of Health and Safety and a Board Member of a Housing Association.

He was elected to hold office for a period of three years at the Society's Annual General Meeting in 2003.

Mr C D Bielckus is a Chartered Accountant and Business Adviser. He was elected to hold office for a period of two years at the Society's Annual General Meeting in 2003.

Mr D C Burgess was, prior to his retirement, a self-employed Design Consultant. He was elected to hold office for a period of one year and will seek re-election at the Annual General Meeting in 2004.

Mr E P Malden is the Managing Director of a transport company. He was elected to hold office for a period of three years at the Society's Annual General Meeting in 2003.

INVESTMENT PERFORMANCE

The Equity Market continued its downward trend during the first quarter of 2003 but has recovered significantly since then and the All Share Index as at 31 December 2003 reached 2207. This was an increase of 17% from its level of 1893 in December 2002.

The increase in interest rates has impacted on the Fixed Interest Market with indices as at 31 December 2003 being broadly similar to a year ago.

The relative stability and steady growth of the equity market in the last nine months of 2003 virtually doubled the Society's Solvency Margin by December 2003. The Society is ever mindful that market volatility may return in future years.

However, the Society believes that its continued investment and exposure within both the equity and property investment areas is the correct investment strategy.

The opportunity was taken to dispose of several property investments in which it was considered maximum return had been achieved and sales approaching £10 million were completed during the year. This increased the liquidity of the Society and was in line with the advice of the Appointed Actuary. This initiative produced a gain over the December 2002 valuation of £900 thousand. The majority of the proceeds from the disposal programme were re-invested into the Fixed Interest Market although a new property investment was completed in December 2003 to bring the Investment Portfolio mix back into line.

The Managing Board reviewed and adopted the Society's current Investment Strategy at its Inaugural Meeting. This is now under review and modifications will be made, if appropriate, as part of the new policy under The Principles and Practices of Financial Management.

COSTS

Of overriding importance to the Society is the achievement of a reduction to the Cost Overrun.

It is pleasing to report that the Cost Overrun, which is the difference between the allowable contribution from premiums and interest allocated to the Management Expenditure Fund less the acquisition and administration costs, was reduced by more than £330 thousand to £2.1 million. This was in line with the Strategic Plan, the Society's Business Plan for 2003 and the recommended target set out in the Appointed Actuary's Financial Condition Report. This measure is fundamental to the future success of the Society and the Managing Board have set some challenging targets for 2004 to maintain the improving trend accomplished in 2003.

FINANCIAL RESULTS

Demand for regular premium long term savings products dropped significantly throughout the insurance industry during 2003 as policyholders were confronted with lower bonuses, capital losses in some instances and the threat to Solvency Margins amongst some of the larger insurance companies.

Against that background our new business results have stood up well. Total single premium business amounted to £2.5 million and this compared favourably with the £1.4 million transacted during 2002. New regular premium business on the other hand dropped by 17% from an annual premium value of £331 thousand to £276 thousand and during the year the Society withdrew from those marketing initiatives which were not economically viable.

We continued to pursue a programme of vigorous cost reduction and during September and October 2003 our total number of staff was reduced by approximately 20% through a programme of voluntary redundancy. Total overheads were thus limited to £4.2 million which is a significant reduction from the £4.5 million incurred in 2002.

The combination of lower costs, higher earned premiums and investment performance has enabled a transfer in the sum of £7.2 million to the fund for future appropriations which now stands at £18.7 million compared with £11.5million a year ago.

Chairman's Review

STRATEGIC INITIATIVES

The Society developed a Strategic Plan during 2003 which was presented to representatives at the Annual General Meeting in Bournemouth. This sets a long term vision for the Society and identified a series of initiatives which will be progressed over time to achieve the long term objective which is to reduce and ultimately eliminate the Cost Overrun.

During 2003 the Society completed the computerisation of its Member Administration System for the Sickness and Deposit products, installed an electronic banking capability which provided additional premium payment options for members and enhanced the efficiency of the accounts payable procedures.

Additionally, the Society's heritage deposit based healthcare product was completely re-packaged and launched.

During the year negotiations took place with the Board of The Customs Annuity and Benevolent Fund Incorporated (CABF) and at a Special Meeting of the Society, which took place on 5 December 2003, approval was given to the proposed Transfer of Engagements.

The final Court Hearing to review this transaction took place on 20 February 2004 and completion was achieved on 29 February 2004.

This transaction will bring a number of benefits including:

- The efficiency gains which will arise from amalgamating many of the administrative functions of the two organisations.
- The increased new business opportunities which will arise when the Society can offer its products to members of CABF and use of CABF distribution channels and brand to gain new members for the Society.
- The addition of CABF products not currently offered by the Society but which will be added to the Society's range with no development costs being incurred.

At the same time strategic development of the core infrastructure will continue and during 2004 we will enhance our lap top sales facilities, increase sales opportunities in our regional offices and enhance the Society's web site in order to incorporate applications online.

REGULATION

The new Managing Board are conscious of their responsibility to manage a compliant business.

The Financial Services Authority conducted an on site Risk Assessment and published their report and recommendations in January 2003. I am pleased to report that all recommendations have been adopted and the Financial Services Authority advised at each stage of completion.

The Society has an enhanced Management Information Pack which is produced monthly and made available to all members of the Managing Board as well as to the Delegate Board.

The Society has also developed a comprehensive Risk Assessment Matrix which identifies key areas of risk by probability and impact. This has allowed the Managing Board to focus on the implementation of risk mitigation processes in the areas of highest risk.

The Managing Board is currently engaged in the development of a new policy "The Principles and Practices of Financial Management". This new requirement sets out to achieve a greater level of transparency in the management of With-Profits business. It is a process which all insurance companies transacting With-Profits insurance must complete and implement by 30 April 2004. The Society submitted its draft statement to the Financial Services Authority in January 2004.

THANKS

The challenges we face are significant but your new Managing Board believes that there are opportunities for a small mutual like the Society to introduce innovative and value added ideas which will be in the interest of present and potential future members.

We have an able and motivated team of managers and staff who are determined to develop National Deposit as an organisation of which you can be proud to be a member.

I offer my thanks to all staff and members of the Society for the support and encouragement they have provided in a ground breaking 2003 and look forward to the prospect of continuing that progress in the years ahead.

D C Burgess
Chairman
Date: 16 March 2004

Report of the Managing Board

FOR THE YEAR ENDED 31 DECEMBER 2003

The Directors present their Annual Report, together with the Financial Statements and Auditor's Report for the year ended 31 December 2003.

BOARD OF DIRECTORS

A list of Directors of the Managing Board and of the Delegate Board, who held office during the year, appears within the "Society's Information" on page 1.

Following a Rule change which took place on 31 March 2003 the controlling body of the Society and within the terms of the Friendly Societies Act 1992 the "Committee of Management" became the Managing Board of Directors.

For the period 1 January 2003 to 31 March 2003 the controlling body of the Society was the Committee of Management, who upon relinquishing responsibility as the controlling body, became the Delegate Board.

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's objective is to promote the financial well being of its members through the provision of life assurance, savings and protection schemes. The Society also seeks to maximize the returns to its members through controlling costs and improving investment performance.

The progress of the Society is reviewed by the Chairman on pages 2 to 3.

STATEMENT OF RESPONSIBILITIES OF THE DIRECTORS

The Board of Directors 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 of Directors 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; and
- Prepare the statements on a going concern basis, unless it is inappropriate to presume 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 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.

STATEMENT OF SOLVENCY

As at 31 December 2003 the Society's margin of solvency for each class of relevant business exceeded the minimum requirement prescribed by the Financial Services Authority's "Interim Prudential Source Book : Friendly Societies".

MEMBERSHIP

Membership of the Society as at 31 December 2003 amounted to 66,682 (2002 69,815).

EMPLOYEES

The average number of Directors and staff employed by the Society totalled 85.

The aggregate remuneration paid to Directors and staff employed by the Society during the year amounted to £1.95 million.

The Society actively promotes the development of its staff through the provision of appropriate training.

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. All complaints are dealt with with due care ensuring that they are thoroughly investigated. The Managing 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.

In the event that a complaint cannot be resolved to the Member's satisfaction the Member will be made aware of the option to appeal to the Financial Services Ombudsman.

CHARITABLE DONATIONS

During the year the Society's charitable donations totalled £385 to 4 different organizations. There were no political donations.

RE-APPOINTMENT OF AUDITORS

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

By Order of the Board
G F Hicks
General Secretary
Date: 16 March 2004

Corporate Governance

The Managing Board supports the principles of corporate governance as required by listed companies and seeks to comply with best practice in this area. To this end, the Board has established Sub-Committees, where appropriate, of Board members (with a majority of non-executives) as follows:

AUDIT SUB-COMMITTEE

C D Bielckus (Chairman)
D C Burgess
P McIlwraith

The Audit Sub-Committee meets four times a year and assists the Managing Board in meeting its responsibilities in respect of the systems and control and external financial reporting. It considers the appointment of and fees for external auditors and takes an independent view of the appropriateness of the Group's accounting policies and practices. It also considers the effectiveness of Internal Audit, who have unrestricted access to the Board.

REMUNERATION SUB-COMMITTEE

D C Burgess (Chairman)
D C Azubike
C D Bielckus
E P Malden
P McIlwraith

The Remuneration Sub-Committee meets at least once a year to review the remuneration policy and determines the remuneration packages of the executive directors and senior managers.

The remuneration of non-executive directors is based upon a survey of similar organizations and is reviewed and approved by the full Managing Board.

INVESTMENTS SUB-COMMITTEE

D C Burgess (Chairman)
D C Azubike
C D Bielckus
G F Hicks
G R Higham
E P Malden
P McIlwraith
T W Trinder

This is covered by the full Board in order to meet their responsibilities in complying with Principles and Practices of Financial Management. The Investment Policy is formally reviewed once each year.

NOMINATIONS SUB-COMMITTEE

H M Cripps
M A Frost
D A Jones
F E Rogers

The Nominations Sub-Committee comprises at least four Delegate Board members who meet as required to consider and approve nominations to be submitted to the Delegate Board for the office of Member Non-Executive Director, having taken all reasonable steps to ensure the suitability of all nominated persons.

EXECUTIVE COMMITTEE

T W Trinder (Chairman)
G F Hicks
G R Higham
A Gledhill – Corporate Services Manager

The Executive Committee meets as necessary to manage the business of the Society on a day to day basis and take operating decisions that are within the terms of delegated authority as provided by the Managing Board from time to time.

LIABILITY INSURANCE FOR OFFICERS

The Society maintained Liability Insurance for all officers throughout the year.

G F Hicks
General Secretary
Date: 16 March 2004

Your Managing Board



Mr. D. C. Burgess
Chairman



Mr. D. C. Azubike



Mr. C. D. Bielckus



Mr. G. F. Hicks
**Operations
Director**



Mr. G. R. Higham
**Finance &
Administration
Director**



Mr. E. P. Malden



Mr. P. McIlwraith



Mr. T. W. Trinder
Chief Executive

Managing Board – Appointed 31 March 2003

Mr. D. C. Burgess – Chairman

Mr. D. C. Azubike

Mr. C. D. Bielckus

Mr. G. F. Hicks – Operations Director

Mr. G. R. Higham – Finance & Administration Director

Mr. E. P. Malden

Mr. P. McIlwraith

Mr. T. W. Trinder – Chief Executive



Report of the Delegate Board

2003 was a momentous year in the history of our Society.

CONSTITUTIONAL CHANGES

Following a significant change to the Rules of the Society we introduced, with effect from 31 March 2003, two new bodies to take over the role and responsibilities of the Committee of Management.

A Managing Board which comprises Executive Directors, an appointed Independent Non-Executive Director and elected member Non-Executive Directors was established. These are all "Approved Persons" under the Financial Services and Markets Act 2000 and are responsible for the management of the business.

A Delegate Board which comprises elected representatives of each Division was established and their role is to represent the views and aspirations of the membership to the Managing Board, provide guidance to the Managing Board with particular reference to strategic developments and to advise the Board whether such strategic decisions remain compatible with the views of members. Delegate Board members carry no regulatory responsibilities and do not need to be "Approved Persons".

This change enabled the long standing democratic process of elections to office from each of our divisions to continue without any external influences caused by changing regulations. It has removed the burden of responsibility for the financial and regulatory management of the business from unpaid lay people. However, it continues to provide a representative body with direct involvement and access to the activities of the business and under the Rules of the Society the power to remove from office any appointed Director of the Managing Board if it is in the interests of the Society so to do.

The increasing burden of regulation is an onerous responsibility to carry and we are fortunate to have secured a Managing Board whose views and ethos match so closely those of the Society but whose business experience enables them to guide the Society through the challenging environment of today's financial services market place. In another break with tradition Non-Executive Directors of the Managing Board are remunerated and this reflects both the burden of responsibility which attaches to their office and the significant time which they commit to their role.

MEETINGS

The old Committee of Management and new Delegate Board met on ten occasions during 2003 including a joint meeting with the Managing Board when our Appointed Actuary presented his Annual Actuarial Valuation of the Society.

REPRESENTATIVES

Mr S E Brown was elected President and Mrs H M Cripps was re-elected Vice-President at the June 2003 Annual General Meeting.

Mr A R Lawrence was re-elected Chairman and Mr D A Jones was elected Vice-Chairman of the Delegate Board at the June 2003 Delegate Board Meeting.

The following members of the Committee of Management did not seek re-election at their Divisional Annual Meetings in 2003 and retired:

Mr H A Peckham, Committee of Management Member for the Surrey and Sussex Division (1995-2003).

Mr K H Hunter, Committee of Management Member for the Lincolnshire Division (1989-2003) and President of the Society (1999-2003).

Due to their appointment to the Managing Board the following members of the Committee of Management resigned:

Mr D C Burgess, Committee of Management Member for the Severn Thames Division (2002-2003).

Mr E P Malden, Committee of Management Member for the Southern Counties Division (2002-2003).

The following members of the Committee of Management/Delegate Board resigned during 2003 due to ill health:

Mr A R Lawrence on 11 September 2003.

Committee of Management/Delegate Board Member for the Kent Division (1986-2003) and Chairman of the Committee of Management/Delegate Board (1999-2003).

Mr G S Leonard on 3 October 2003.

Committee of Management/Delegate Board Member for the Scotland and Northern Counties Division (2000-2003).

I should like to place on record our thanks and appreciation for all of the support which past members of the Committee of Management/Delegate Board have provided.

We welcomed the following new representatives onto the Delegate Board during 2003:

Mr V Goulding	Surrey & Sussex	Division 1
Mr F E Rogers	Severn Thames	Division 2
Mr A G Harvey	Kent	Division 5
Mrs L M Wallace	Southern Counties	Division 28
Mr K G Earl	Scotland and Northern Counties	Division 31
Mr A Cromack	Lincolnshire	Division 41

Report of the Delegate Board

OBSERVERS

In another innovation and to ensure that every Division is properly represented at meetings of the Delegate Board the role of Observer was introduced. Observers are nominated by Divisional Committees and may attend a Delegate Board Meeting in the event that the elected representative cannot, for whatever reason, attend in person. Observers may take part in all discussions but are unable to vote. At the seven meetings of the Delegate Board held in 2003 a total of 13 Observers attended and those were:

Mr A K Crowele	Surrey & Sussex Division 1	one occasion
Mr M Price	Kent Division 5	one occasion
Mr J Blackall	East Anglia Division 19	one occasion
Mrs E A Sleath	South Midlands Division 22	three occasions
Mr J Whalley	Sheffield Division 24	one occasion
Mr G W Gudgin	Northants & Chilterns Division 25	one occasion
Mr J R Brant	Scotland & Northern Counties Division 31	one occasion
Mr K G Earl	Scotland & Northern Counties Division 31	three occasions
Mr A Cromack	Lincolnshire Division 41	one occasion

This has greatly facilitated communication between Divisional Committees and the Delegate Board where otherwise no representation or contact would have been made.

STAFF SUPERANNUATION FUND

Messrs G S Leonard and E A Reynolds (Chairman of the Trustees), resigned as Trustees due to ill health.

Messrs D C Azubike and T W Trinder were elected to fill the vacancies.

Mr P Keightley resigned as Secretary of the Staff Superannuation Fund.

Mrs E P Goodfellow was appointed Secretary of the Staff Superannuation Fund.

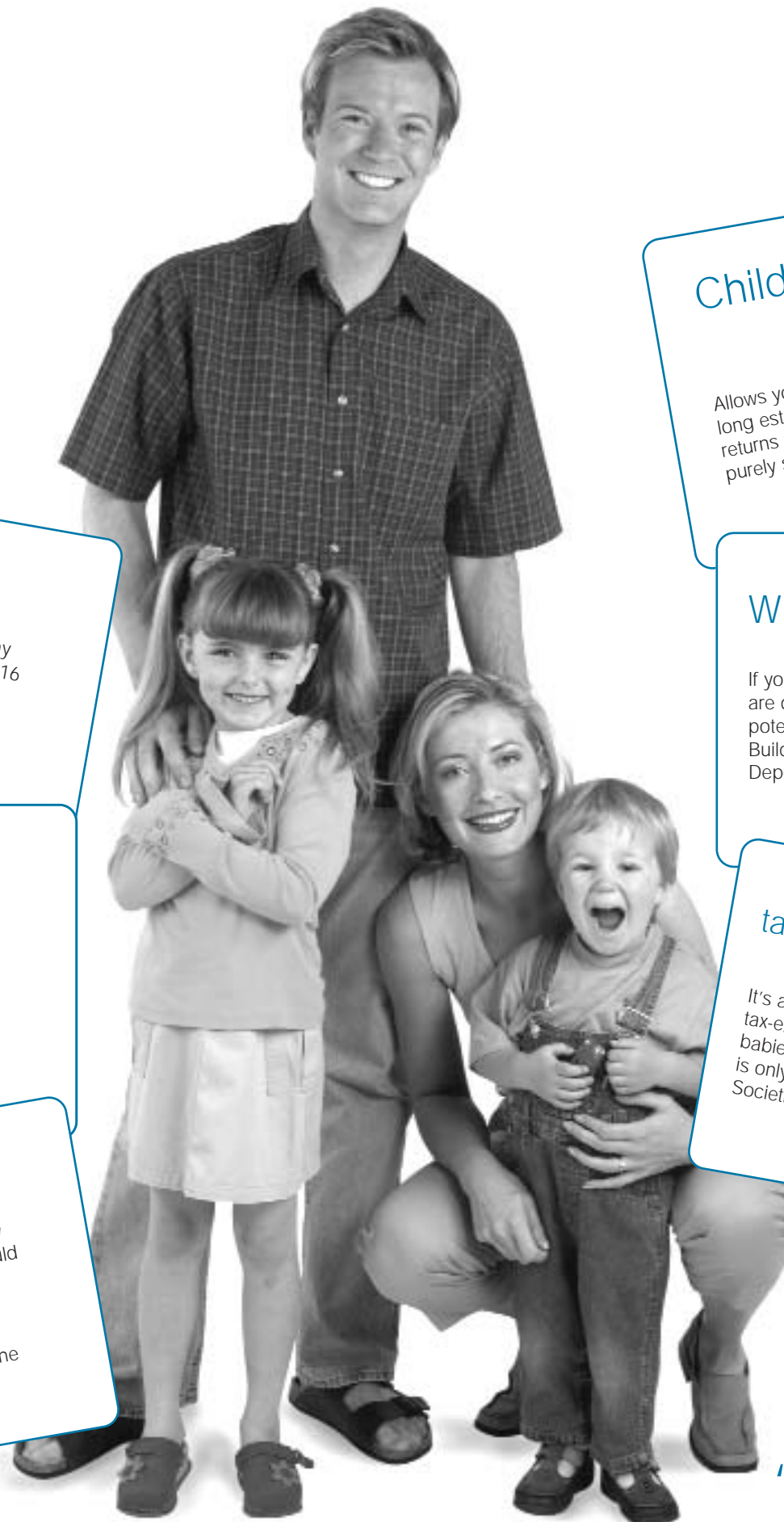
ACTIVITIES

The Delegate Board regularly reviews the Management Information Packs, continues to determine non-standard underwriting and claims proposals submitted by Divisional Committees and generally to receive representations from Executive Directors across a wide spectrum of business activities. The Chief Executive specifically provides a detailed report covering items discussed at Managing Board meetings. Formal reports are distributed in those months when there is no meeting.

S E Brown
President
Date: 16 March 2004

Product family

Life, Sickness, Accident & Medical Insurance,
Pensions and Investments



tax-free savings for adults

Open a National Deposit Tax-Free Savings Plan today for yourself or any young person aged between 11 - 16 at the start of the Plan, and you'll not only make the most of your tax-exempt savings allowance, but you'll also receive significant other benefits including:

- Tax-free lump sum at the end of the term.
- Additional accident life cover.



Healthcare Account

Welcome to a new era in healthcare cover. National Deposit Healthcare Account is a plan that offers you healthcare if you need it, cash if you don't. So if you are tired of paying premiums for healthcare cover and getting nothing back if you don't claim, find out how you can change all that.



Permanent Care Income Protection Plan

The National Deposit Permanent Care plan will for a low contribution provide a substantial monthly income should you be unable to work for a long time because of a serious or major illness. Permanent Care benefits are paid for as long as the disability lasts or until the plan ceases, whichever is the earlier.

Child Gift Bond

Allows you to make a lump sum investment into the Society's long established With-Profits Fund, with the potential of higher returns than a deposit account and with less of the risks of purely stock market linked funds



With-Profits Bond

If you are uncomfortable about investing in products which are directly linked to the stock market, but are looking for potentially higher returns on your savings than Bank or Building Society deposit accounts offer, then the National Deposit With-Profits Bond could be for you.



tax-free savings for children

It's a little known fact that the Government has given everyone a tax-exempt savings allowance of up to £25 a month. Even babies and children have their own allowance. The allowance is only available through special plans offered by Friendly Societies such as National Deposit.



For full details freephone
0500 418559

'Integrity, self-help, and value for
money in everything we do.'

National Deposit Friendly Society Mission Statement

Income and Expenditure Account

LONG TERM BUSINESS – TECHNICAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003		2002	
		£	£	£	£
Earned Premiums and Payments to Deposit	2		7,369,229		6,394,738
Investment Income	3		9,689,377		4,009,441
Unrealised gains on investments	3		5,816,421		-
Other Technical Income	4		54,434		63,034
			<u>£22,929,461</u>		<u>£10,467,213</u>
Claims			10,043,096		8,603,228
Change in Long Term Funds					
Long Term Business Provision		(1,497,231)		(7,053,906)	
Loan Fund		(895)	(1,498,126)	(737)	(7,054,643)
Bonuses and Rebates			1,902,000		2,442,000
Net Operating Expenses	5(a)				
Acquisition Costs		1,167,815		1,111,378	
Administrative Costs		3,044,402	4,212,217	3,350,369	4,461,747
Other Technical Charges - Project costs	5(b)		435,846		-
- Other	5(c)		12,522		125,101
Investment Management Expenses			402,672		483,840
Exceptional costs - Redundancy			170,842		-
Unrealised Losses on Investments	3		-		3,744,373
Tax attributable to long term business	8		-		(50,246)
Transfer to/(from) Fund for Future Appropriations			7,248,392		(2,288,187)
			<u>£22,929,461</u>		<u>£10,467,213</u>

All operating activities relate to continuing operations conducted in the U.K.

The Society has no recognised gains or losses other than those included in the Technical Account for the year.

Balance Sheet

AS AT 31 DECEMBER 2003

		2003		2002	
	Note	£	£	£	£
ASSETS					
Investments					
Land and Buildings	9	31,689,050		38,082,875	
Other financial investments	10	98,714,929	130,403,979	84,611,442	122,694,317
Debtors					
Debtors arising from direct insurance operations		131,208		133,571	
Other debtors		492,094	623,302	154,106	287,677
Other Assets					
Tangible Assets	12	448,628		448,680	
Stocks - Consumables		9,404		9,921	
Cash at Bank and in hand		1,485,600	1,943,632	2,538,504	2,997,105
Prepayments and accrued income					
Accrued Interest and Rent		1,643,862		1,580,819	
Other Prepayments and accrued income		152,766	1,796,628	136,180	1,716,999
			£134,767,541		£127,696,098
LIABILITIES					
Fund for Future Appropriations					
			18,742,190		11,493,798
Technical Provisions					
Long Term Business Provisions					
Gross		113,532,946		112,588,177	
Provision for Bonuses		1,902,000		2,442,000	
Loan Fund		13,154	115,448,100	14,049	115,044,226
Creditors					
Arising out of direct insurance operations		158,150		179,245	
Other creditors including taxation and Social Security		109,961		234,003	
Accruals and Deferred Income		309,140	577,251	744,826	1,158,074
			£134,767,541		£127,696,098

These accounts were approved by the Managing Board on 16 March, 2004.

D. C. BURGESS
Chairman

T. W. TRINDER
Chief Executive

Notes to the Accounts

(1) Accounting Policies

The accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 and in accordance with applicable accounting standards in the United Kingdom.

Premiums

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

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 are accounted for when notified.

Deferred Acquisition Costs

The Society's products are in general designed to recover costs as incurred and hence no deferral of acquisition costs is appropriate. However, the Society will review its costs on an annual basis with a view to identifying any such costs that may appropriately be deferred.

Investment Income

Income from rents and securities are 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.

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.

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 appropriated by the Directors to participating policyholders by way of bonuses. Any unappropriated surplus is carried forward in the fund for future appropriations.

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 Managing 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 following rates calculated to write off each asset over its estimated useful life -

Motor Vehicles and Computer Equipment - 25% per annum on a straight line basis.

Office Equipment - 15% per annum on a reducing balance basis.

Project costs

Project costs comprise expenditure on Business Process Improvements which are expected to deliver future financial benefits to the Society through reducing operating costs.

Long Term Business Provision

The long term business provision is determined by the Society's Appointed Actuary following his annual investigation and is calculated on a statutory solvency basis to comply with reporting requirements under the Interim Prudential Sourcebook for Friendly Societies. The calculation uses a net premium method 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.

Pensions

The estimated cost of pensions, based on the advice of an independent qualified actuary, in respect of the Society's Staff Superannuation Scheme is charged so as to spread the cost of pensions over the service lives of employees in the Scheme as required by SSAP24.

Variations from the estimated costs are spread over the expected remaining service lives of current employees in the Scheme.

The disclosure requirements under FRS 17 "Retirement Benefits" are being adopted in accordance with the transitional provisions of the standard.

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.

Notes to the Accounts

(2) Earned Premiums

	2003	2002
	£	£
Assurance	3,794,591	3,887,704
Endowment Bonds	772,284	407,336
Bonus Bonds	933,500	251,600
With-Profits Bonds and Single Premiums	823,639	785,936
Sickness Premiums	413,047	408,841
Payments to Deposit	632,168	653,321
	£7,369,229	£6,394,738

(3) Investment Return

Income from:	Fixed Interest Stocks	3,234,281	2,853,901
	Ordinary Shares	1,211,945	1,081,205
	Listed investments	4,446,226	3,935,106
	Land and Buildings	2,505,507	2,633,977
	National Savings Bonds	3,523	15,864
	Mortgages and Ground Rents	51,688	65,088
	Realised gains/(losses)	2,589,560	(2,703,070)
	Bank Interest	92,873	62,476
	Investment income	9,689,377	4,009,441
	Movement in unrealised gains/(losses) in the year	5,816,421	(3,744,373)
	Total Investment Return	£15,505,798	£265,068

The investment income for the period has been shown gross of recoverable tax credits on franked investment income.

The Society will remain entitled to recover tax credits on a proportion of the franked investment income it receives until April, 2004. The total recoverable tax credits of £31,354 has been recognised in the current year's income from ordinary shares.

(4) Other Technical Income

Insurance Commission	29,455	19,566
Interest on Policy Loans	3,434	2,968
Recovered Pension Costs - Dual Liability	21,545	40,500
	£54,434	£63,034

(5) Net Operating Expenses

(a) Included in operating expenses are:-

Audit Fees and Expenses	58,350	51,668
Fees to auditors in respect of non audit services	42,036	57,752
Actuarial Fees and Expenses	282,899	305,970
Depreciation of Tangible Fixed Assets	310,880	353,187

(b) Project costs:-

Development of Web and Online sales application	58,750	-
Development of Sickness Administration computerisation	88,320	-
Development of new Banking procedures	77,793	-
Computer enhancements	26,605	-
Costs incurred re acquisition of CABF	184,378	-
	£435,846	£-

(c) Pension Review Administration Expenses

Mortgage Review Compensation	6,216	98,650
	6,306	26,451
	£12,522	£125,101

Notes to the Accounts

(6) Staff Costs	2003	2002
Average Number of Employees:-		
Administration - Head Office	47	49
Administration - Divisions	28	31
Sales	10	11
	85	91
Wages and Salaries (inc. Commission)	1,705,741	1,902,517
Social Security Costs	176,435	178,736
Pension Costs	70,138	77,003
	£1,952,314	£2,158,256

These amounts include £NIL (2002 - £84,436) for consultancy costs which are considered an integral part of the business.

(7) Directors' Emoluments	2003	2002
The aggregate amount of Directors' emoluments including pension scheme contributions was -		
Chairman	£3,750	-
Fees for non-executive directors (excluding Chairman)	£18,750	-
Remuneration in respect of executive directors	£165,928	-
The emoluments, excluding pension scheme contributions, fell into the following bands:-		
£		
0 - 10,000	5	-
10,001 - 20,000	-	-
20,001 - 30,000	-	-
30,001 - 40,000	-	-
40,001 - 50,000	2	-
50,001 - 60,000	-	-
60,001 - 70,000	1	-

(8) Taxation

a) Tax attributable to Long Term Business

Tax charged in the long term business technical account comprises:

	2003	2002
	£	£
Current Tax:		
UK Corporation tax	6,854	152,379
Prior year adjustments	(16,851)	(202,379)
Total current tax	(9,997)	(50,000)
Deferred tax:		
Origination and reversal of timing differences	9,997	(246)
Total deferred tax	9,997	(246)
Total tax charged/(credited) in the long term business technical account	-	(50,246)

Notes to the Accounts

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 comprises:

	2003 £	2002 £
Unrealised losses on investments	-	273,374
Realised losses	121,824	289,542
Unrelieved expenses carried forward	11,817	-
	133,641	562,916

These deferred tax assets may be realised, and therefore reduce future tax payable, when net gains chargeable to capital gains tax are realised. Primarily, this relates to gains on equities and properties. This will therefore depend substantially upon future movements in the stock market and property market which cannot be predicted with certainty.

c) Balance sheet

The deferred tax asset balance, included within debtors, comprises:

	2003 £	2002 £
Unrelieved expenses carried forward	125,141	126,559
Accelerated capital allowances	26,963	32,267
Other timing differences	(11,297)	(8,022)
Undiscounted deferred tax asset balance	140,807	150,804

INVESTMENTS

(9) Land and Buildings

	2003		2002	
	Cost	Valuation	Cost	Valuation
Freehold Properties	20,112,254	23,218,650	27,778,804	31,822,875
Freehold Properties -				
fully occupied by Society	586,443	1,400,000	579,399	1,400,000
partly occupied by Society	1,800,711	2,300,400	1,798,831	2,200,000
	22,499,408	26,919,050	30,157,034	35,422,875
Long Leasehold	4,617,617	4,770,000	2,416,637	2,660,000
	£27,117,025	£31,689,050	£32,573,671	£38,082,875

The Society's properties are included at open market values. Significant property holdings with market values totalling £22,246,750 as at 31 December 2003 are valued independently by Mellersh and Harding, Chartered Surveyors, on an open market value basis every three years, the most recent such valuation being at 31 December, 2002. The remaining properties with a current market value of £9,442,300 were valued by the Society's Property Manager and the Chief Executive at the same time on an existing use basis. The reduction in market values reflect the property disposal programme that took place during 2003. Property valuations are adjusted for the results of annual reviews carried out by the Chief Executive and the Society's Property Manager to reflect fluctuations in the market values arising between the triennial valuations.

Notes to the Accounts

(10) Other Financial Investments

	2003		2002	
	Cost	Market Value	Cost	Market Value
UK listed fixed interest securities	57,409,282	56,641,023	47,253,386	49,141,769
UK listed shares	39,691,925	40,291,086	42,455,677	33,646,098
Mortgages	1,307,820	1,307,820	1,350,075	1,350,075
Other loans	113,500	475,000	113,500	473,500
	£98,522,527	£98,714,929	£91,172,638	£84,611,442

Of the UK listed fixed interest securities £7,205,266 (2002 £4,565,324) relates to overseas fixed interest securities.

(11) Long Term Business Provision

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

Class of Business	Mortality		Interest Rates (%)	
	2003	2002	2003	2002
With-Profit Endowments	AM92 ult	AM92 ult	3.0	3.0
With-Profit Whole of Life	AM92 ult	AM92 ult	3.0	3.0
Annuities in Deferment	-7 years*	-6 years*	3.0	3.0
Annuities in Payment	-5 years*	-5 years*	3.0	3.0

* IM or IF80 (2010) ULT

The valuation has been carried out using the net premium method subject to certain modifications. Full details of the method and assumptions used are given in the Society's FSC1 Return.

(12) Tangible Assets

	Computer Equipment	Office Equipment	Motor Vehicles	Total
Cost				
At 1 January, 2003	2,661,961	449,016	317,657	3,428,634
Additions	276,346	1,941	44,200	322,487
Disposals	-	-	(60,156)	(60,156)
At 31 December, 2003	2,938,307	450,957	301,701	3,690,965
Depreciation				
At 1 January, 2003	2,338,701	404,946	236,307	2,979,954
Provided in year	260,616	6,966	43,298	310,880
Disposals	-	-	(48,497)	(48,497)
At 31 December, 2003	2,599,317	411,912	231,108	3,242,337
Net Book Value				
31 December, 2003	£338,990	£39,045	£70,593	£448,628
31 December, 2002	£323,260	£44,070	£81,350	£448,680

(13) Capital Commitments

Amounts authorised and contracted for at 31 December, 2003 £66,946 (2002 £NIL).

(14) Appointed Actuary

Statement in accordance with Section 77 of the Friendly Societies Act 1992.

The Society's Appointed Actuary is, as reported earlier, Mr S. J. Ainsworth, a director of BWCI Limited. Neither any person related to or connected with Mr. Ainsworth nor any of the directors of BWCI Limited are members of the Society and they retain no pecuniary interest in any transaction between themselves and the Society.

Mr Ainsworth is not employed by the Society. Fees paid to BWCI Limited during the year are charged in the Income and Expenditure account and are shown in Note 5.

Notes to the Accounts

(15) Post Balance Sheet Event

On 29 February 2004 the Society acquired the assets and liabilities of the Customs Annuity Benevolent Fund Incorporated. According to the latest audited accounts at 5 January 2004 the figures are as below:-

	£m		£m
Investments	14.6	Reserves	1.4
Cash	0.3	Technical Provisions	13.4
Debtors	0.3	Creditors	0.4
	15.2		15.2

(16) Pensions

The Society operates a funded pension scheme providing benefits based on final pensionable pay. The assets of the Scheme are held in a separate trustee administered fund. Contributions to the Scheme are charged so as to spread the cost of pensions over employees' working lives with the Society. The contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent valuation was at 31 December, 2001. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. In the most recent valuation it was assumed that the investment returns would be 5.9% per annum, that the general level of salary increases would average 4% per annum and that present and deferred pensions would increase at the rate of 2.6% per annum. The next valuation is due to be carried out as at 31 December, 2004.

The pension charge for the period was £70,138 (2002 £77,003). The amount is stated net of £246,197 (2002 £270,290) in respect of the amortisation of surpluses arising from variations in pension cost estimates that are being recognised over the average remaining service lives of the employees. An asset of £137,766 (2002 £136,180) is included in prepayments and accrued income, being the difference between the pension cost, calculated in accordance with SSAP24, and the amount of contributions made by the Society to the Scheme. The most recent actuarial valuation showed that the market value of the Scheme's assets were £16,491,553 and that the actuarial value of assets represented 126% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. The contributions of the employees represent 5% of their pensionable earnings and the contributions of the Society represent 5% of employees' pensionable earnings, being the rates recommended by the Scheme Actuary.

A full actuarial valuation was carried out as at 31 December 2001 which has been updated to 31 December, 2003 by a qualified independent actuary.

The major assumptions used by the Actuary were:-

	2003	2002	2001
Discount Rate	5.4%	5.5%	5.9%
Inflation	2.8%	2.3%	2.5%
Increases to deferred benefits during deferment	2.7%	2.4%	2.5%
Increases to pensions in payment - LP1	2.7%	2.4%	2.5%
Increases to salaries	4.3%	3.8%	4.0%

The assets of the Scheme and long term rates of expected return on assets:

	2003	% Return	2002	% Return	2001	% Return
	£		£		£	
Equities	5,783,847	7.75	5,803,695	7.5	6,364,545	8.0
Bonds	8,391,852	5.10	7,130,399	5.5	7,101,070	5.9
Property	1,851,750	6.75	1,725,000	6.5	2,302,000	5.9
Cash	229,658	3.75	643,629	4.0	723,938	3.5
Total Market Value of assets	16,257,107		15,302,723		16,491,553	
Present value of scheme liabilities	(14,892,475)		(13,812,496)		(10,973,545)	
Surplus in the scheme	1,364,632		1,490,227		5,518,008	
Related deferred tax liability	(54,694)		(88,519)		(272,000)	
Net pension asset	£1,309,938		£1,401,708		£5,246,008	

Notes to the Accounts

If the above amounts had been recognised in the financial statements, the Society's Fund for Future Appropriations at 31 December, 2003 would be as follows:

	2003 £	2002 £
Fund for Future Appropriations excluding pension asset	18,604,424	11,357,618
Pension asset	1,309,938	1,401,708
Fund for Future Appropriations including pension asset	19,914,362	12,759,326
Analysis of the amount charged to operating profit		
Current Service Cost	305,107	268,120
Past Service Cost	-	2,085
Total operating charge	305,107	270,205
Analysis of the amount charged to other financial costs		
Expected return on pension scheme assets	(943,597)	(1,071,348)
Interest on pension scheme liabilities	738,100	628,264
Net Return	(205,497)	(443,084)
Analysis of amount recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	595,941	(1,555,396)
Experience gains and losses arising on the scheme liabilities	196,305	(656,438)
Changes in assumptions underlying the present value of the scheme liabilities	(889,955)	(2,068,720)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	(97,709)	(4,280,554)
Movement in surplus during the year		
Surplus in scheme at beginning of year	1,490,227	5,518,008
Current Service Costs	(305,107)	(268,120)
Contributions	71,724	79,894
Past Service Costs	-	(2,085)
Other financial income	205,497	443,084
Actuarial gain/(loss) in the statement of total recognised gains and losses	(97,709)	(4,280,554)
Surplus in scheme at end of year	1,364,632	1,490,227
History of experience gains and losses		
Difference between the actual and expected return on scheme assets		
Amount	£595,941	£ (1,555,396)
Percentage of scheme assets	4%	(10%)
Experience gains/(losses) on scheme liabilities		
Amount	£196,305	£ (656,438)
Percentage of the present value of the scheme liabilities	1%	(5%)
Total amount recognised in statement of total recognised gains and losses		
Amount	£(97,709)	£ (4,280,554)
Percentage of the present value of the scheme liabilities	(1%)	(28%)

(17) Assets attributable to the Long Term Business Fund

All of the assets shown on page 13 - £134,767,541 (2002 £127,696,098) are attributable to the long term business fund.

(18) Segmental Reporting

The Society principally transacts long term assurance business throughout the United Kingdom. The assets of the Society are held in the United Kingdom.

List of Society Offices

● **Division 1 - SURREY & SUSSEX**

310 High Street, Croydon CR9 2QL.
Telephone 020 8688 0894

● **Division 2 - SEVERN THAMES**

4-5 Worcester Road, Clifton, Bristol BS8 3JL.
Telephone 0117 973 9003

● **Division 4 - NORTH MIDLANDS**

79 London Road, Leicester LE2 0PF.
Telephone 0116 255 1856

● **Division 5 - KENT**

310 High Street, Croydon CR9 2QL.
Telephone 020 8688 0894

● **Division 6 - SOUTH WEST**

15 Southernhay West, Exeter EX1 1PW.
Telephone 01392 274431

● **Division 8 - SOUTH & MID WALES**

4-5 Worcester Road, Clifton, Bristol BS8 3JL.
Telephone 0117 973 9003

● **Division 9 - LONDON & CROYDON**

310 High Street, Croydon CR9 2QL.
Telephone 020 8688 0894

● **Division 12 - MID PENNINE COUNTIES**

National Deposit House, 1 Waterdale, Doncaster,
Yorkshire DN1 3EY.
Telephone 01302 368363

● **Division 19 - EAST ANGLIA**

10 Old Foundry Road, Ipswich IP4 2AS.
Telephone 01473 254279

● **Division 22 - SOUTH MIDLANDS**

79 London Road, Leicester LE2 0PF.
Telephone 0116 255 1856

● **Division 24 - SHEFFIELD**

194 Norfolk Street, Sheffield S1 2JH.
Telephone 0114 272 5348

● **Division 25 - NORTHANTS & CHILTERN**

10 Old Foundry Road, Ipswich IP4 2AS.
Telephone 01473 254279

● **Division 28 - SOUTHERN COUNTIES**

15 Southernhay West, Exeter EX1 1PW.
Telephone 01392 274431

● **Division 31 - SCOTLAND & NORTHERN COUNTIES**

National Deposit House, 1 Waterdale, Doncaster,
Yorkshire DN1 3EY.
Telephone 01302 368363

● **Division 41 - LINCOLNSHIRE**

194 Norfolk Street, Sheffield S1 2JH.
Telephone 0114 272 5348

Nominations

Members of a Friendly Society have the right to nominate a person or persons to whom payment shall be made on death of a member.

The amount the member may dispose by way of nomination is now £5,000, but this only applies to nominations made on or after 11 May, 1984.

Nominations made prior to that date in the amount of £100, £200, £500 or £1500 will apply unless a fresh nomination is made.

Members are advised to nominate. Forms may be obtained from the Head Office or the Divisional Secretary.

Head Office: 4-5 Worcester Road, Clifton, Bristol BS8 3JL. Telephone: 0117 973 9003
Fax: 0117 974 1367. E-mail: enquiries@ndfs.co.uk www.nationaldeposit.co.uk

Established 1868. Registered and Incorporated Friendly Society No. 369F.
Chief Executive: Terry W. Trinder. General Secretary: G. F. Hicks

Member of the Association of Friendly Societies. Authorised and Regulated by the Financial Services Authority.
