



NATIONAL DEPOSIT

Annual Report & Accounts 2005

integrity, self-help, value for money

CONTENTS

01	SOCIETY INFORMATION
02	FINANCIAL HIGHLIGHTS
03	CHAIRMAN'S STATEMENT
04 - 05	CORPORATE GOVERNANCE
06 - 07	CORPORATE STRUCTURE/MANAGING BOARD
08 - 09	REPORT OF THE MANAGING BOARD
10	DELEGATE BOARD
11	REPORT OF THE DELEGATE BOARD
12	AUDITORS' REPORT
13	MARKETING COMMUNICATIONS
14	INCOME AND EXPENDITURE ACCOUNT
15	BALANCE SHEET
16	STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
17 - 27	NOTES TO THE ACCOUNTS

Society Information

Managing Board

Mr. D. C. Burgess I.Eng
Chairman

Mr. D. C. Azubike PhD., MIOSH., JP

Mr. C. D. Bielckus BSc., FCA.

Mr. A. H. Gledhill
Executive (From July 2005)

Mr. G. F. Hicks
Company Secretary (From July 2005)

Mr. G. R. Higham FCCA.
Executive

Mr. E. P. Malden JP

Mr. P. McIlwraith FCA.

Mr. T. W. Trinder FCCA.
Chief Executive

Advisors

• Actuaries

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

• Auditors

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

• Architects

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

• Arbitrators

Mr Allan Chalkley
Mr Derek R. Loughborough, A.C.C.I., A.P.M.I.
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,
12, Gleneagles Court,
Brighton Road,
Crawley RH10 6AD

• Investment Managers

Fidelity Investments,
25 Cannon Street,
London EC4M 5TA

• Surveyors

Mellersh & Harding,
6 Duke Street,
St James's,
London SW1Y 6BN

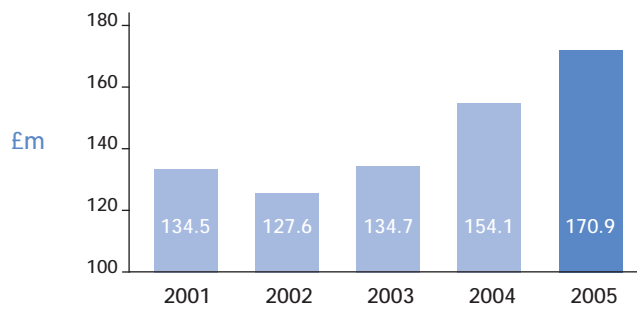
Registered Office: National Deposit Friendly Society Limited
4-5 Worcester Road, Clifton, Bristol BS8 3JL, United Kingdom.

Telephone: 0117 973 9003 Fax: 0117 980 9358

e-mail: enquiries@nationaldeposit.co.uk www.nationaldeposit.co.uk

Financial Highlights - 2005

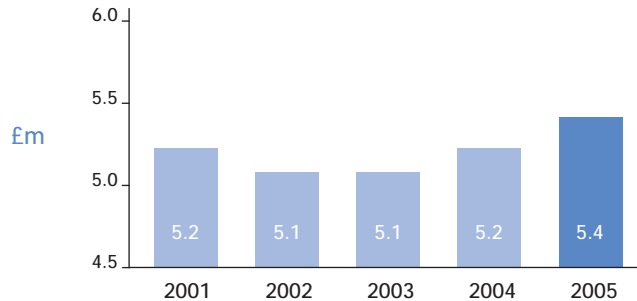
TOTAL ASSETS



ANOTHER EXCELLENT YEAR OF INVESTMENT RETURNS HAS ENABLED THE SOCIETY TO GROW TOTAL ASSETS TO £170.9M. THE HIGHEST IN ITS HISTORY.

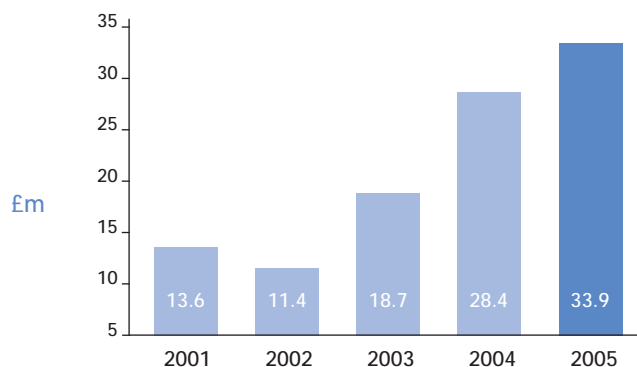
ANNUAL PREMIUMS EARNED AND PAYMENTS TO DEPOSIT

(Calculated using 10% of Single Premium Business)



IN SPITE OF CHALLENGING MARKET CONDITIONS ANNUAL PREMIUM INCOME HAS INCREASED.

FUND FOR FUTURE APPROPRIATIONS



ANOTHER EXCELLENT YEAR OF GROWTH HAS SEEN THE FREE RESERVES OF THE SOCIETY INCREASE TO £33.9M.

Chairman's Statement

INTRODUCTION

I am pleased to report that the Society improved its capital strength at the end of 2005. One of the consequences of this strength is that we have been able to maintain a relatively high proportion of our funds in equities and property.

This has resulted in a surplus of £5.5m to increase the Free Reserves of the Society to £33.9m.

CORPORATE GOVERNANCE

The Myners Report was published in December 2004 and the Society is committed to complying with its recommendations wherever it can. A number of changes have been introduced during 2005 and are reflected in this Report. Where Rule changes are needed we are consulting with our members with a view to amending the Rules as appropriate in the future, in the meantime we have noted exceptions as required.

REGULATION

The changing regulatory framework has significantly increased administration costs in 2005. Cost saving initiatives have partially reduced the adverse effect on the Society's results, but further cost savings are essential.

INVESTMENTS

The Society's Investment Policy is reviewed by the Managing Board on a twice yearly basis to ensure that it complies with the Asset Allocation and controls set out in the Principles and Practices of Financial Management.

The asset categories as at 31 December were as follows:

	2005		2004	
	£'m	%	£'m	%
Fixed Interest	66.1	40	65.3	43
Equities	51.1	30	43.0	28
Properties	42.0	25	37.2	24
Cash and Other	9.9	5	7.0	5
	169.1*	100.0	152.5*	100.0

*excludes assets held to cover linked liabilities

The buoyant equity market and strong property market have enabled us to realise investment gains of some £8.4m together with unrealised gains of £8.1m.

FINANCIAL RESULTS

There was a modest increase in Annual Premiums Earned which when aggregated with the investment returns produced total income in excess of £30m.

Lower claims experience has offset increases to the Long Term Business Provision and after allowance for bonuses the resultant surplus transferred to the Fund for Future Appropriations takes it to £33.9m the highest in the Society's history.

THE FUTURE

During 2005 a comprehensive strategic review was undertaken which identified the Society's future market position and has culminated in a strengthening of the Sales & Marketing function and the development of specific marketing channels and products such as a new Deposit based Healthcare product, ISA's and unit linked investments.

This is being supported by an ongoing IT investment programme which will increase capacity and improve efficiency.

Following the successful integration of the Customs Annuity and Benevolent Fund in 2004, the Society continues to seek appropriate acquisitions or transfers of engagements.

PEOPLE

It is of the greatest importance to our business that our staff are knowledgeable, competent and motivated and we have and will continue to invest in training and development programmes designed to build on their abilities and skills. I am delighted to report that as part of this programme the Society achieved accreditation of Investors In People.

Regrettably during this period of change some roles and tasks have become redundant but we have, as far as possible, provided support to those individuals pursuing their future careers outside of the Society.

The Managing Board would like to thank all the staff for dealing with another year of changes and challenges. I offer my thanks to all staff and members of the Society for their support and encouragement during 2005 and I look forward to continuing progress in the years to come.

D C Burgess
Chairman
Date: 14 March 2006

Corporate Governance

The Society actively contributed to the review process co-ordinated by the Association of Friendly Societies and Association of Mutual Insurers which took place prior to the publishing of the Myners Report in December 2004.

The Managing Board has consistently supported the general principles of Corporate Governance and where exceptions are noted they intend to seek the approval of members to amend the Rules of the Society as may be necessary.

The Managing Board met on six occasions during the year. In addition, informal meetings of the Non-Executive Directors took place without the Executive Directors in attendance. The Managing Board has established Committees, where appropriate, of Board members (with a majority of non-executives) as follows:

AUDIT COMMITTEE

C D Bielckus FCA (Chairman)
D C Burgess I.Eng
P McIlwraith FCA

The Audit Committee meets four times a year and assists the Managing Board in meeting its responsibilities in respect of the systems and controls and external financial reporting. It considers the appointment of and fees for external auditors, ensures that their objectivity and independence is safeguarded in respect of any non audit services and takes an independent view of the appropriateness of the Group's accounting policies and practices. During the year an audit tendering process was undertaken and five potential candidates were interviewed. After due consideration PricewaterhouseCoopers LLP were re-appointed to provide both audit and taxation services.

It also considers the effectiveness of Internal Audit, who have unrestricted access to the Managing Board. Terms of Reference are available on request.

REMUNERATION COMMITTEE

D C Burgess I.Eng (Chairman)
D C Azubike PhD., MIOSH., JP.
C D Bielckus BSc., FCA.
E P Malden JP.
P McIlwraith FCA.

The Remuneration 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 organisations carried out and recommended by the Executive Committee and approved by the Managing Board. Terms of Reference are available on request.

INVESTMENTS COMMITTEE

D C Burgess I.Eng (Chairman)
D C Azubike PhD., MIOSH., JP.
C D Bielckus BSc., FCA.
A H Gledhill
G F Hicks
G R Higham FCCA.
E P Malden JP.
P McIlwraith FCA.
T W Trinder FCCA.

This is covered by the Managing Board in order to meet their responsibilities in complying with Principles and Practices of Financial Management. The Investment Policy is formally reviewed every six months.

NOMINATIONS COMMITTEE

H M Cripps - to July 2005
M A Frost
V Goulding - from July 2005
D A Jones
F E Rogers

The Nominations Committee comprises at least four Delegate Board members who meet as required to consider and approve nominations to be submitted to the Delegate Board and Annual Meeting for the office of Non-Executive Director.

It has not been considered necessary to use the services of an external Research Consultancy or use open advertising.

The Managing Board is aware the current composition of this Committee is an exception to the Myners Report and is currently seeking the views of members with a view to amendment if appropriate.

Corporate Governance

EXECUTIVE COMMITTEE

T W Trinder FCCA. (Chairman)

A H Gledhill

G F Hicks

G R Higham FCCA.

N Killick

The Executive Committee meets as necessary, but at least monthly, 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.

The Society's Marketing Manager, Mr N Killick, was appointed to the Committee during the year.

CHAIRMAN'S COMMITMENTS

The Chairman reported to the Managing Board that he had no other significant commitments.

LIABILITY INSURANCE

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

ATTENDANCE AT 2005 MANAGING BOARD AND COMMITTEE MEETINGS

Director	Managing Board		Audit Committee		Remuneration Committee	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
D C Burgess	6	6	4	4	2	2
D C Azubike	6	6	-	-	2	2
C D Bielckus	6	6	4	4	2	2
A H Gledhill*	3	3	-	-	-	-
G F Hicks**	6	4	-	-	-	-
G R Higham	6	5	-	-	-	-
E P Malden	6	6	-	-	2	2
P McIlwraith	6	6	4	4	2	2
T W Trinder	6	6	-	-	-	-

* Director from July 2005

** Company Secretary from July 2005

ANNUAL MEETING OF THE SOCIETY

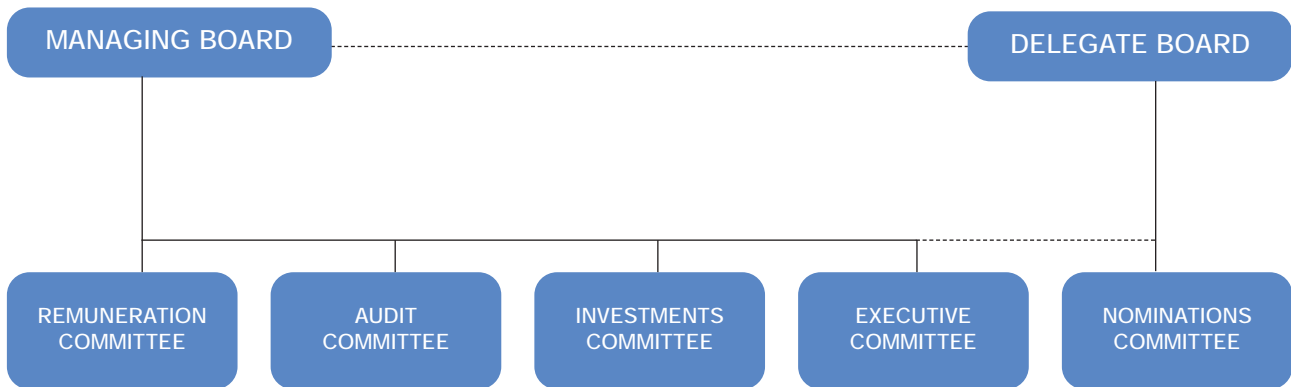
Members entitled to attend and vote at the Society's Annual Meeting are elected at their Divisional Annual Meeting.

All elected members are entitled to vote and each proposal is decided by a simple majority unless the Rules of the Society specify otherwise.

The Managing Board is aware that this procedure does not follow the guidelines within the Myners Report and is currently seeking the views of members with a view to amending the Rules as appropriate.

G F Hicks
Company Secretary
Date: 14 March 2006

Corporate Structure



Managing Board

Executive Directors



Mr. T. W. Trinder
FCCA.
Chief Executive

Mr T W Trinder has worked in financial services for more than 30 years including Board appointments at Liverpool Victoria and the Frizzell Group before joining the Society in 2002, and is a Director of the following Companies:-

ND Member Services Limited
ND Partner Services Limited
Hampshire Trust plc
Association of Friendly Societies Limited
NDFS Pension Trust Limited
Woodlands Court (Bournemouth) Limited
Woodlands Court (Freehold) Limited



Mr. A. H. Gledhill
Sales & Marketing
Director

Mr A H Gledhill has over 23 years experience working in the financial services industry having held various positions with Companies including AMP-Pearl Group, Sun Life Financial of Canada, and Zurich before joining the Society in 1998, and is a Director of the following Companies:-

ND Member Services Limited
ND Partner Services Limited



Mr. G. F. Hicks
Company
Secretary

Mr G F Hicks has been employed in financial services most of his working life. He joined the Society in 1974 and progressed through various departments to his current position, and is a Director of the following Companies:-

ND Member Services Limited
ND Partner Services Limited



Mr. G. R. Higham
FCCA.
Finance Director

Mr G R Higham has spent all of his working life within the accountancy sector having worked within clothing manufacture and retail, glass manufacture, financial services and a number of professional offices before joining the Society in 1994, and is a Director of the following Companies:-

ND Member Services Limited
ND Partner Services Limited

Managing Board

Non-Executive Directors



Mr. D. C. Burgess
I.Eng
Chairman

Mr D C Burgess was, prior to his retirement, a self-employed Design Consultant.
He was elected for a period of three years at the Society's Annual General Meeting in 2004.



Mr. D. C. Azubike
PhD., MIOSH., JP.

Mr D C Azubike is an Inspector of Health and Safety and a Board Member of a Housing Association.
He was elected for a period of three years at the Society's Annual General Meeting in 2003, and is a Director of the following Companies:-
Thames Valley Housing Association Limited
Thames Valley Charitable Housing Association Limited
NDFS Pension Trust Limited



Mr. E. P. Malden
JP.

Mr E P Malden is the Managing Director of a transport company.
He was elected for a period of three years at the Society's Annual General Meeting in 2003, and is a Director of the following Company:-
Point 2 Point (Andover) Limited

Senior Independent Non-Executive Director



Mr. P. McIlwraith
FCA.

Mr P McIlwraith is a Chartered Accountant. He was a partner with PricewaterhouseCoopers (and prior to that with Price Waterhouse) and was the Regional Chairman for the West and Wales and the Senior Partner in Bristol from 1991 to 2001. He is a Non-Executive Director of the following Companies:-
Bristol Water Group plc
Bristol Water plc
Brandon Hire plc
Wells Cathedral School Limited
He is also the Chairman of @ Bristol Limited.



Mr. C. D. Bielckus
BSc., FCA.

Mr C D Bielckus is a Chartered Accountant and Business Adviser.
He was elected for a period of three years at the Society's Annual General Meeting in 2005, and is a Director of the following Companies:-
Avenue Business Services Limited
Wonderful People Limited

The Senior Independent Non-Executive Director and the Executive Directors are appointed by the Delegate Board. The other Non-Executive Directors are elected at the Society's Annual Meeting.

The Managing Board is currently seeking the views of members on the appointment of additional Non-Executive Directors with a view to amending the Rules as appropriate.

Report of the Managing Board

FOR THE YEAR ENDED 31 DECEMBER 2005

The Directors present their Annual Report, together with the Financial Statements and Auditor's Report for the year ended 31 December 2005.

BOARD OF DIRECTORS

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

CORPORATE GOVERNANCE

The Managing Board welcomes the Myners Report and the recommendations it makes, many of these recommendations were already in place and further enhancements have been made during 2005. As required by Myners exceptions have been noted and the Society is currently seeking the views of members with a view to amending the Rules as appropriate.

The Society has appointed Mr P McIlwraith as its Senior Independent Non-Executive Director and Mr G F Hicks as Company Secretary. During the year the Managing Board has also introduced an Appraisal process for all of its Directors and Committees. A formal programme of training is being compiled for the Managing Board members and will be implemented during 2006 together with an Induction Programme for new Non-Executive Directors.

The organisational structure of the Society (Page 6) is clearly defined with its objectives and strategy determined by the Managing Board.

Authority for the day to day business operations is delegated to the Chief Executive and Executive Committee.

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 improving investment performance and by cost control.

The financial performance of the Society is reviewed by the Chairman on page 3.

STATEMENT OF RESPONSIBILITIES OF THE DIRECTORS

The Managing 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 Managing 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 assume that the Society will continue in business.
- Prepare the accounts in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and in accordance with the applicable accounting standards in the United Kingdom.

The Directors confirm that the accounts comply with the above.

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

STATEMENT OF SOLVENCY

As at 31 December 2005 the Society's margin of solvency for each class of relevant business exceeded the minimum requirement prescribed by the Financial Services Authority's "Integrated Prudential Source Book for Insurers".

MEMBERSHIP

Membership of the Society as at 31 December 2005 amounted to 55,101 (2004 61,294).

Report of the Managing Board

FOR THE YEAR ENDED 31 DECEMBER 2005

EMPLOYEES

The average number of Directors and staff employed by the Society totalled 78 (2004 82).

The aggregate remuneration paid to Directors and staff employed by the Society during the year amounted to £2 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 £172 to 3 organisations. 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 Managing Board
G F Hicks
Company Secretary
Date: 14 March 2006

Delegate Board

OBJECTIVES AND ACTIVITIES

The primary objectives of the Delegate Board are:-

- (i) to represent the views and aspirations of the Membership and to express same to the Managing Board,
- (ii) to provide guidance to the Managing Board in order to assist in the development of strategic decisions in relation to membership, product development and levels of customer service,
- (iii) to periodically advise the Managing Board as to whether such decisions remain compatible with the views and aspirations of the Membership.

The Delegate Board regularly review the Management Information Packs and generally receive representations from the Executive across a wide spectrum of business activities. The Chief Executive specifically provides a detailed report covering Managing Board meetings. Formal reports are distributed in those months when there is no meeting.

MEETINGS

The Delegate Board met on eight occasions during 2005 including a joint meeting with the Managing Board when the Society's Head of Actuarial Function presented his Annual Actuarial Valuation of the Society.

OBSERVERS

The attendance of Observers at Delegate Board Meetings continued during 2005. Observers are nominated by Divisional Committees and may attend a Delegate Board Meeting in the event that the elected representatives cannot, for whatever reason, attend in person. Observers may take part in all discussions but are unable to vote. At the 8 meetings of the Delegate Board held in 2005 a total of 17 Observers attended which has greatly facilitated communication between Divisional Committees and the Delegate Board where otherwise no representation or contact would have been made.

A table of attendees at the 2005 meetings is detailed below:-

Division	Name	ATTENDANCE		Observer	Meetings attended
		Meetings Held	Meetings Attended		
	Mrs H M Cripps (President)	8	8		
Customs Fund	E A W Edwards	8	7	T Morley	1
East Anglia	G F Goodfellow (To April 05)	4	0	J Blackall	4
	J A Blackall (To May 05)	4	4		
Kent	A G Harvey	8	8		
Lincolnshire	A Cromack (To April 05)	4	1	A N Clifton	1
	Mr A N Clifton (From May 05)	4	3	Mrs K Cromack	1
London & Croydon	Mrs M A Frost	8	8		
Mid Pennine Counties	Mrs R Martyn	8	8		
North Midlands	Mrs A J Gray	8	8		
Northants & Chilterns	Mrs J M Lamberts	8	7	B Mears	1
Scotland & Northern Counties	K Earl	8	8		
Severn Thames	F E Rogers	8	8		
Sheffield	Mrs M A Warren (To February 05)	2	0	K Bale	1
	K Bale (From March 05)	6	4	Mrs M Footitt	2
South & Mid Wales	D A Jones	8	8		
South Midlands	Mrs E A Sleath	8	7	B Marlow	1
South West	S E Brown	8	8		
Southern Counties	Mrs L M Wallace	8	5	D W Grant	3
Surrey & Sussex	V Goulding	8	6	R Mythen	2

Delegate Board members are not remunerated but receive travel and subsistence allowances.

Report of the Delegate Board

REPRESENTATIVES

Mrs H M Cripps was elected President and Mrs R Martyn was elected Vice-President at the June 2005 Annual General Meeting.

Mr D A Jones was elected Chairman and Mr E A W Edwards was elected Vice-Chairman of the Delegate Board at the July 2005 Delegate Board Meeting.

The following resignations to the Delegate Board membership took place in 2005:-

- Mr A Cromack (To April 2005)
 - Delegate Board Member for the Lincolnshire Division (2003-2005)
- Mrs M A Warren (To February 2005)
 - Committee of Management/ Delegate Board Member for the Sheffield Division (1998-2005)
- Mr G F Goodfellow (Deceased)
 - Committee of Management/ Delegate Board Member for the East Anglia Division (1991-2005)
 - Trustee of the Staff Superannuation Fund (1996-2005)

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

I should like to welcome the following new representatives onto the Delegate Board during 2005:-

- Mr A N Clifton - Lincolnshire
- Mr K Bale - Sheffield
- Mr J A Blackall - East Anglia



Members of the Delegate Board following the February 2006 meeting held at the Bonnington Hotel, London.

DIVISIONAL COMMITTEES

During the year the Company Secretary attended several Divisional Committee Meetings to advise members on the Myners Report and to seek their opinion and views. In addition the President of the Society and several Executive and Non-Executive Directors attended Divisional Annual Meetings as Guest Speakers as noted below:-

DIVISIONAL ANNUAL MEETINGS - GUEST SPEAKERS 2005

Division	Date	Name of Speaker	Position
South West	5 April 2005	None	
Scotland & Northern Counties	9 April 2005	None	
Kent	13 April 2005	Mr T W Trinder	Executive
Surrey & Sussex	16 April 2005	Mr D A Jones	Chairman – Delegate Board
Severn Thames	16 April 2005	Mrs H M Cripps	President
Northants & Chilterns	16 April 2005	Mr G F Hicks	Executive
Southern Counties	16 April 2005	Mrs R Martyn	Vice-President
Lincolnshire	16 April 2005	None	
North Midlands	18 April 2005	Mr G F Hicks	Executive
South & Mid Wales	18 April 2005	Mr T W Trinder	Executive
East Anglia	18 April 2005	Mrs H M Cripps	President
London & Croydon	19 April 2005	Mr D C Burgess	Chairman – Managing Board
South Midlands	19 April 2005	Mr E P Malden	Non-Executive Director
Customs Fund	21 April 2005	Mr T W Trinder	Executive
Sheffield	22 April 2005	None	
Mid Pennine Counties	23 April 2005	None	

D A Jones
Chairman
Date: 14 March 2006

Auditors' Report

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

We have audited the financial statements of National Deposit Friendly Society Limited for the year ended 31 December 2005 which comprise Income and Expenditure Account, Balance Sheet and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

● Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Report of the Managing Board. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

● Basis of audit opinion

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

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

● Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2005 and of its Income and Expenditure for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol BS1 5QD
14 March 2006

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

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

Marketing Communications

Promotions



Product Literature



Member Communications



Income and Expenditure Account

LONG TERM BUSINESS – TECHNICAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005		2004 Re-stated	
		£	£	£	£
Earned Premiums and Payments to Deposit	2	6,728,130		6,502,319	
Less reinsurance premiums		(43,588)		(14,396)	
		<u>6,684,542</u>	6,684,542	<u>6,487,923</u>	6,487,923
Investment Income	3		16,038,814		9,359,368
Unrealised gains: investments	3		8,138,229		5,494,383
: assets held to cover linked liabilities			415,081		241,205
Other Technical Income:					
Society	4		44,807		36,266
CABF net assets transferred	5		-		14,075,943
			<u>£31,321,473</u>		<u>£35,695,088</u>
Claims			8,012,375		11,447,044
Change in Long Term Funds					
Long Term Business Provision	6	8,970,295		6,015,667	
Loan Fund		(76,571)	8,893,724	75,549	6,091,216
Provision for linked liabilities			384,728		1,635,337
Bonuses and Rebates			1,661,576		1,549,573
Net Operating Expenses	7(a)				
Acquisition Costs		1,020,704		1,217,086	
Administrative Costs		3,322,832	4,343,536	2,843,425	4,060,511
Other Technical Charges - Project costs	(b)		902,521		432,395
- Other	(c)		71,053		119,508
Investment Management Expenses			746,856		823,795
Exceptional costs - Redundancy			62,277		163,712
Retirement Benefit Costs			58,425		73,200
Tax attributable to long term business	10		861,000		-
Transfer to Fund for Future Appropriations			5,323,402		9,298,797
			<u>£31,321,473</u>		<u>£35,695,088</u>

All operating activities relate to continuing operations conducted in the U.K.
2004 has been restated as a result of adopting FRS 17.

Balance Sheet

AS AT 31 DECEMBER 2005

		2005		2004 <i>Re-stated</i>	
	Note	£	£	£	£
ASSETS					
Investments					
Land and Buildings	11	42,044,900		37,211,950	
Other financial investments	12	118,544,355	160,589,255	110,136,566	147,348,516
Assets held to cover linked liabilities	14		2,104,797		1,721,885
Debtors					
Debtors arising from direct insurance operations		253,744		306,033	
Other debtors		-	253,744	263,593	569,626
Other Assets					
Tangible Assets	15	953,693		947,061	
Stocks - Consumables		15,462		6,771	
Cash at Bank and in hand		5,155,490		1,965,077	
Net Pension Assets	18	409,173		332,671	
			6,533,818		3,251,580
Prepayments and accrued income					
Accrued Interest and Rent		1,299,588		1,280,669	
Other Prepayments and accrued income		200,567	1,500,155	24,703	1,305,372
			£170,981,769		£154,196,979
LIABILITIES					
Fund for Future Appropriations					
			33,940,674		28,482,345
Technical Provisions					
Long Term Business Provisions					
Gross		131,934,481		121,450,613	
Provision for Bonuses		1,661,576		1,549,573	
Loan Fund		12,132	133,608,189	88,703	123,088,889
Linked Liability Fund Provision			2,020,065		1,635,337
Creditors					
Arising out of direct insurance operations		121,068		206,465	
Other creditors including taxation and Social Security		769,316		289,664	
Accruals and Deferred Income		522,457	1,412,841	494,279	990,408
			£170,981,769		£154,196,979

These accounts were approved by the Managing Board on 14 March, 2006.
2004 has been restated as a result of adopting FRS 17.

D. C. BURGESS
Chairman

T. W. TRINDER
Chief Executive

Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 DECEMBER 2005

		2005	2004 <i>Re-stated</i>
	Note	£	£
Surplus for the financial year		5,323,402	9,298,797
Actuarial gain/(loss) on pension scheme		159,108	(784,762)
Deferred tax liability on pension asset		(24,181)	-
Total recognised gains and losses relating to the year		5,458,329	8,514,035
Prior year adjustment on adoption of FRS 17	18	361,310	-
Total gains and losses recognised since last annual report		5,819,639	8,514,035

2004 has been restated as a result of adopting FRS 17.

Notes to the Accounts

(1) Accounting Policies

Basis of Preparation

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.

Changes in accounting policies

FRS 17 "Retirement benefits" has been adopted in full in 2005. The effect of this change in accounting policy was to decrease profit for the year by £58,425 (2004 £73,200) and increase the transfer to the FFA by £361,310 (2004 £-) as shown in note 18.

Premiums

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

Transfer of Engagements of Customs Fund

The transfer of engagements of the CABF business into the Society have been accounted for as an acquisition in accordance with FRS 6 which deals with business combinations. Assets transferred were valued at open market value at the date of transfer. Liabilities transferred were valued on the statutory basis as measured at 5 January 2004. The Society prepares its financial statements under the Friendly Societies Act 1992 and related regulations.

The Society's financial statements at 31 December 2004 include CABF related transactions for the ten month period from 1 March 2004.

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

Bonuses

Bonuses charged to the long term business technical account in a given year comprise:

- new reversionary bonuses declared in respect of that year which are provided within the calculation of the long term business provision.

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

Notes to the Accounts

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 Acquisitions and on Business Process Improvements which are intended 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 Managing Board and is calculated on a statutory solvency basis to comply with reporting requirements under the Integrated Prudential Sourcebook for Insurers. The calculation uses a net premium method for With-Profit policies and as such includes explicit provision for annual reversionary bonuses declared prior to the valuation date. Implicit provision is made for future bonuses by using a valuation rate of interest lower than the expected return on the assets.

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

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

Pension Costs

The Society operates a defined benefit pension scheme. The pension asset recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

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

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the period to the extent they are attributable to shareholders. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

Taxation

Deferred tax is provided using the full provision method. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. It is calculated at rates expected to be applicable when the asset or liability crystallises on a non-discounted basis. Deferred tax assets are recognised only to the extent that there will be sufficient foreseeable future taxable profits from which the future reversal of timing differences can be deducted.

(2) Earned Premiums

	2005	2004
	£	£
Assurance	4,226,893	3,915,183
Endowment Bonds	871,370	272,870
Bonus Bonds	40,000	255,120
With-Profits Bonds and other Single Premiums	367,015	903,498
Sickness Premiums	402,108	421,051
Payments to Deposit	629,401	593,645
Unit Linked	191,343	140,952
	£6,728,130	£6,502,319

Notes to the Accounts

(3) Investment Return

	2005	2004
	£	£
Income from:		
Fixed Interest Stocks	3,512,943	3,897,651
Ordinary Shares	1,376,692	1,308,324
Listed investments	4,889,635	5,205,975
Land and Buildings	2,509,488	2,304,913
National Savings Bonds	-	3,448
Mortgages and Ground Rents	50,616	62,270
Realised gains	8,424,909	1,697,546
Bank Interest	164,166	85,216
Investment income	16,038,814	9,359,368
Movement in unrealised gains in the year	8,138,229	5,494,383
Total Investment Return	£24,177,043	£14,853,751

(4) Other Technical Income

Insurance Commission	42,202	33,158
Interest on Policy Loans	2,605	3,108
	£44,807	£36,266

(5) Transfer of Engagements

The whole of the Long Term Business other than certain excluded policies together with the related assets and liabilities of Customs Annuity and Benevolent Fund (CABF) were transferred to the Society on 29 February 2004. The assets and liabilities were:

	2004 Re-stated
	£
Assets	
Investments	
Freehold Land and Buildings	425,000
Other Financial Investments	12,439,283
Assets held to cover linked liabilities	1,453,144
Debtors	53,540
Tangible assets	1,333
Cash at Bank and in Hand	337,131
Prepayments and accrued income	36,346
Total assets	14,745,777
Less Current Liabilities	(662,986)
	14,082,791
Liabilities	
Long Term Business provision and Fund for Future Appropriations	12,629,647
Technical provisions for linked liabilities	1,453,144
	14,082,791
Impact of the adoption of FRS 17	
Recognition of FRS 17 pension provision in excess of SSAP 24	(6,848)
	£14,075,943

Valuation of the Long Term Business provision at £13 million (excluding the linked liability provision) at the year end on the basis of the current regulatory requirements represents an increase over the previous valuation of £0.5 million. No material fair value adjustments have been identified.

Deferred acquisition costs of £23,288 were written off in aligning accounting policies of CABF to those of the Society.

Notes to the Accounts

(9) Directors' Emoluments

Emoluments of individual directors, including emoluments of the Chairman and the highest paid director were as follows:

	Salary £	Performance Related Pay £	Other Benefits £	Total 2005 £	Total 2004 £
T. W. Trinder	99,000	12,000	13,703	124,703	113,929
G. R. Higham	66,250	3,000	10,840	80,090	80,465
G. F. Hicks*	66,000	1,650	9,412	77,062	78,768
A. H. Gledhill (From 1 July 2005)	31,375	6,000	4,506	41,881	-
P. McIlwraith	14,500	-	-	14,500	11,500
E. P. Malden	9,500	-	-	9,500	6,500
D. C. Burgess	9,500	-	-	9,500	6,500
C. D. Bielckus	9,500	-	-	9,500	6,500
D. C. Azubike	9,500	-	-	9,500	6,500

* Director to 30 June 2005. Company Secretary from 1 July 2005.

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

T. W. Trinder, G. R. Higham, G. F. Hicks, A. H. Gledhill are members of the Society's Staff Superannuation Fund, which is a defined benefit scheme.

The Society makes contributions to the Staff Superannuation Fund of 8.4% (2004 5%) of pensionable salaries in respect of all permanent staff, including executive directors.

Accrued pension at the end of period	2005 £	2004 £
T. W. Trinder	6,050	4,618
G. R. Higham	11,778	10,306
G. F. Hicks*	33,550	31,452
A. H. Gledhill	5,651	-

Related Party Transaction

One Director of the Society, Mr G F Hicks, had a mortgage outstanding during the year. The mortgage is secured by a first charge over the Director's principal residence. The balance outstanding on 31 December 2004 was £77,035 and this was reduced during the year leaving a balance outstanding as at 31 December 2005 of £67,160. The terms of this mortgage are the same as those available to other members of staff. Mortgage facilities are no longer made available to employees of the Society.

(10) Taxation

a) Tax attributable to Long Term Business

Tax charged in the long term business technical account comprises:

	2005 £	2004 £
Current Tax:		
UK Corporation tax	186,000	105,000
Prior year adjustments	20,000	12,943
Total current tax	206,000	117,943
Deferred tax:		
Origination and reversal of timing differences	655,000	(117,943)
Total deferred tax	655,000	(117,943)
Total tax charged in the long term business technical account	£861,000	-

Notes to the Accounts

b) Factors that may affect future tax charges

There are no deferred tax assets which have not been recognised. In 2004 there were realised losses of £84,353 not recognised due to the uncertainty of their recoverability in the foreseeable future.

c) Balance sheet

The deferred tax balance, included within (creditors)/debtors, comprises:

	2005 £	2004 £
Unrelieved expenses carried forward	176,000	249,654
Accelerated capital allowances	4,765	21,008
Other timing differences	-	(11,912)
Unrealised gains on investments	(839,474)	-
Realised losses	262,459	-
Undiscounted deferred tax (liability)/asset balance	£(396,250)	£258,750

INVESTMENTS

(11) Land and Buildings

	2005		2004	
	Cost	Valuation	Cost	Valuation
Freehold Properties	20,263,379	26,499,900	22,605,137	28,055,250
Freehold Properties -				
fully occupied by Society	647,187	2,400,000	586,443	1,698,775
partly occupied by Society	1,813,951	3,060,000	1,813,951	2,465,750
	22,724,517	31,959,900	25,005,531	32,219,775
Long Leasehold Properties	8,915,358	10,085,000	4,666,771	4,992,175
	£31,639,875	£42,044,900	£29,672,302	£37,211,950

The Society's properties are included at open market values. Significant property holdings with market values totalling £36,789,290 as at 31 December 2005 were valued independently by Mellersh and Harding, Chartered Surveyors, on an open market value basis as a part of the triennial valuation. The remaining properties with a current market value of £5,255,610 were valued by the Society's Property Manager and the Chief Executive at the same date on an existing use basis. 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

(12) Other Financial Investments

	2005		2004	
	Cost	Valuation	Cost	Valuation
UK listed fixed interest securities	64,422,308	66,071,022	64,609,308	65,331,109
UK listed shares	45,216,698	51,112,499	41,505,793	43,056,655
Mortgages	899,834	899,834	1,288,802	1,288,802
Other loans	13,500	461,000	13,500	460,000
	£110,552,340	£118,544,355	£107,417,403	£110,136,566

Of the UK listed fixed interest securities £186,566 (2004 £5,192,943) relates to overseas fixed interest securities.

(13) 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 (%)			
	2005	2004	2005		2004	
			Tax exempt	Taxable	Tax exempt	Taxable
With-Profit Endowments	AM92 ult	AM92 ult	2.50%	2.00%	2.50%	2.00%
With-Profit Whole of Life	AM92 ult	AM92 ult	2.50%	2.00%	2.50%	2.00%
Annuities in Payment	-2 years**	-2 years**	3.38%	2.70%	3.91%	3.13%
Annuities in Deferment	-4 years**	-4 years**	In deferment 2.00%	In payment 2.50%	In deferment 3.00%	In payment 2.50%

** PMA92(CY2020)ult or PFA92(2020)ult

* 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.

(14) Assets held to cover linked liabilities

Included within assets held to cover linked liabilities is £84,732 (2004 £86,548) representing units not yet purchased by policyholders.

(15) Tangible Assets

	Computer Equipment	Office Equipment	Motor Vehicles	Total
Cost				
At 1 January, 2005	3,263,374	760,883	323,257	4,347,514
Additions	166,712	26,336	158,638	351,686
Disposals	-	-	(123,689)	(123,689)
At 31 December, 2005	3,430,086	787,219	358,206	4,575,511
Depreciation				
At 1 January, 2005	2,789,875	447,144	163,434	3,400,455
Provided in year	219,632	49,564	71,970	341,166
Disposals	-	-	(119,801)	(119,801)
At 31 December, 2005	3,009,507	496,708	115,603	3,621,818
Net Book Value				
31 December, 2005	£420,579	£290,511	£242,603	£953,693
31 December, 2004	£473,499	£313,739	£159,823	£947,061

Notes to the Accounts

(16) Capital Commitments

Amounts authorised and contracted for at 31 December, 2005 £6,000 (2004 £112,664).

(17) Appointed Actuary

The FSA Policy Statement 04/16 introduced the Integrated Prudential Sourcebook for Insurers as a consequence of which the role of Appointed Actuary disappeared. BWCI Limited provide the roles of Head of Actuarial Function and With Profit Actuary.

(18) Pensions

The Society provides a funded pension scheme providing benefits based on final pensionable earnings. 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 projected unit method. The most recent actuarial valuation was at 31 December, 2004.

The pension charge for the period calculated in accordance with FRS17 was £183,903 (2004 £137,406). If the pension charge for the year had been calculated in accordance with SSAP24 the cost would have been £123,478 (2004 £70,207). The most recent actuarial valuation showed that the market value of the Scheme's assets were £17,038,297 and that the actuarial value of assets represented 107% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. The contributions of the employees representing either 5% or 7% of their pensionable earnings and the contributions of the Society represent 8.4% of employees' pensionable earnings, being the rates recommended by the Scheme Actuary.

For the year commencing 1 January 2006 the employer's contribution will be 10% of employees' pensionable earnings.

A full actuarial valuation was carried out as at 31 December 2004 and updated at 31 December 2005 by a qualified independent actuary.

The major assumptions used by the Actuary for FRS17 were:-

	2005	2004	2003
Discount Rate	4.7%	5.3%	5.4%
Inflation	2.9%	2.9%	2.8%
Increases to deferred benefits during deferment	2.9%	2.9%	2.7%
Increases to pensions in payment (Pre 6 April 2005 service)	2.8%	2.7%	2.7%
Increase to pensions in payment (Post 5 April 2005 service)	2.0%	1.8%	-
Increases to salaries	4.4%	4.4%	4.3%

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

	2005	% Return	2004	% Return	2003	% Return
	£		£		£	
Equities	6,780,753	8.00%	6,223,072	7.50%	5,783,847	7.75%
Bonds	9,795,511	4.12%	8,835,774	5.00%	8,391,852	5.10%
Property	2,516,500	7.00%	1,515,000	6.50%	1,851,750	6.75%
Cash	128,655	4.50%	489,220	4.75%	229,658	3.75%
Total Market Value of assets	19,221,419		17,063,066		16,257,107	
Present value of scheme liabilities	(18,509,065)		(16,699,395)		(14,892,475)	
Surplus in the scheme	712,354		363,671		1,364,632	
Related deferred tax liability	(39,749)		(26,039)		(54,694)	
Net pension asset	£672,605		£337,632		£1,309,938	

Notes to the Accounts

	2005 £	2004 £
Analysis of the amount charged to operating profit		
Current Service Cost	325,800	341,179
Past Service Cost	-	-
Total operating charge	325,800	341,179
Analysis of the amount charged to other financial costs		
Expected return on pension scheme assets	1,010,164	985,962
Interest on pension scheme liabilities	(868,267)	(782,189)
Net Return	141,897	203,773
Analysis of amount recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	1,629,444	329,898
Experience gains and losses arising on the scheme liabilities	667,305	(460,750)
Changes in assumptions underlying the present value of the scheme liabilities	(1,887,641)	(802,910)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	409,108	(933,762)
Movement in surplus during the year		
Surplus in scheme at beginning of year	363,671	1,364,632
Current Service Costs	(325,800)	(341,179)
Contributions	123,478	70,207
Past Service Costs	-	-
Other financial income	141,897	203,773
Actuarial gain/(loss) in the statement of total recognised gains and losses	409,108	(933,762)
Surplus in scheme at end of year	712,354	363,671

	2005 £	2004 £	2003 £	2002 £
History of experience gains and losses				
Difference between the actual and expected return on scheme assets				
Amount	£1,629,444	£329,898	£595,941	£(1,555,396)
Percentage of scheme assets	8%	2%	4%	(10%)
Experience gains/(losses) on scheme liabilities				
Amount	£667,305	£(460,750)	£196,305	£(656,438)
Percentage of the present value of the scheme liabilities	4%	(3%)	1%	(5%)
Total amount recognised in statement of total recognised gains and losses				
Amount	£409,108	£(933,762)	£(97,709)	£(4,280,554)
Percentage of the present value of the scheme liabilities	2%	(6%)	(1%)	(31%)

Notes to the Accounts

Customs Annuity Benevolent Fund:-

A full actuarial valuation was carried out as at 5 April 2003 which has been updated to 31 December, 2005 by a qualified independent actuary.

The major assumptions used by the Actuary were:-

	2005	2004	2003
Discount Rate	4.70%	5.16%	5.27%
Inflation	2.90%	2.82%	2.80%
Increases to deferred benefits during deferment	2.90%	2.82%	2.80%
Increases to pensions in payment - LP1	2.90%	2.82%	2.80%
Increases to salaries	4.40%	4.32%	4.30%

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

	2005 £	% Return	2004 £	% Return	2003 £	% Return
Equities	497,000	8.0%	800,000	7.0%	775,251	7.0%
Bonds	2,504,000	4.2%	1,824,000	5.0%	1,853,558	5.0%
Cash	58,000	4.5%	269,000	2.5%	152,861	2.5%
Total Market Value of assets	3,059,000		2,893,000		2,781,670	
Present value of scheme liabilities	(3,388,000)		(2,924,000)		(2,955,970)	
Deficit in the scheme	(279,000)		(31,000)		(174,300)	
Related deferred tax asset/(liability)	15,568		-		(33,400)	
Net pension liability	(263,432)		(31,000)		(140,900)	

Analysis of the amount charged to operating profit

Current Service Cost	-	11,000
Past Service Cost	-	111,000
Total operating charge	-	122,000

Analysis of the amount charged to other financial costs

Expected return on pension scheme assets	149,000	149,000
Interest on pension scheme liabilities	(147,000)	(152,000)
Net Return	2,000	(3,000)

Analysis of amount recognised in the statement of total recognised gains and losses

Actual return less expected return on pension scheme assets	167,000	42,000
Experience gains and losses arising on the scheme liabilities	(49,000)	165,000
Changes in assumptions underlying the present value of the scheme liabilities	(368,000)	(58,000)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(250,000)	149,000

Movement in (deficit)/surplus during the year

Deficit in scheme at beginning of year	(31,000)	(174,000)
Current Service Costs	-	(11,000)
Contributions	-	119,000
Past Service Costs	-	(111,000)
Other financial income	2,000	(3,000)
Actuarial (loss)/gain in the statement of total recognised gains and losses	(250,000)	149,000
Deficit in scheme at end of year	(279,000)	(31,000)

Notes to the Accounts

	2005 £	2004 £	2003 £	2002 £
History of experience gains and losses				
Difference between the actual and expected return on scheme assets				
Amount	£167,000	£42,000	£(3,300)	£(276,000)
Percentage of scheme assets	5.50%	1.40%	(0.11%)	(10.05%)
Experience (losses)/gains on scheme liabilities				
Amount	£(49,000)	£165,000	£(36,000)	£28,000
Percentage of the present value of the scheme liabilities	(1.50%)	5.70%	(1.22%)	1.08%
Total amount recognised in statement of total recognised gains and losses				
Amount	£(250,000)	£149,000	£(325,300)	£(343,000)
Percentage of the present value of the scheme liabilities	(7.50%)	5.10%	(11.00%)	(13.18%)

The combined effect of the Society and CABF pension schemes on adopting FRS 17:

	£
Society pension asset	363,671
CABF pension (liability)	(31,000)
Elimination of SSAP 24 net (prepayment)/creditor	28,639
Prior year adjustment	£361,310

(19) Assets attributable to the Long Term Business Fund

Other than assets of £2,104,797 (2004 £1,721,885) used to match linked liabilities all of the assets shown on page 15 are attributable to the long term business fund.

(20) 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.

(21) Subsidiary Undertakings

On 22 December 2005, two wholly owned subsidiary companies ND Member Services Limited and ND Partner Services Limited were incorporated. The companies did not trade for the period ending 31 December, 2005 and in accordance with Section 229(2) of the Companies Act 1989, the Society's financial statements have not been prepared on a consolidated basis as the inclusion of the subsidiary companies is not material for the purpose of giving a true and fair view at the balance sheet date when taken together.

List of Society Offices

The Society operates offices in the following locations:

Head Office:

4-5 Worcester Road, Clifton, Bristol BS8 3JL.

Telephone 0117 973 9003

310 High Street, Croydon CR9 2QL.

Telephone 020 8688 0894

79 London Road, Leicester LE2 0PF.

Telephone 0116 255 1856

15 Southernhay West, Exeter EX1 1PW.

Telephone 01392 274431

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

Telephone 01302 368363

194 Norfolk Street, Sheffield S1 2JH.

Telephone 0114 272 5348

Dorset House, Stamford Street, London SE1 9PY.

Telephone: 020 8929 2900

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, United Kingdom.
Telephone: 0117 973 9003 Fax: 0117 980 9358.
E-mail: enquiries@ndfs.co.uk www.nationaldeposit.co.uk

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

[Member of the Association of Friendly Societies. Authorised and Regulated by the Financial Services Authority.](#)