



**NATIONAL DEPOSIT**

**2007**

**Annual Report  
& Accounts**



**Proud to Care**



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## Contact us

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

## 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

### Bankers

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

### Custodians

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

### Internal Auditors

Mazars LLP,  
Clifton Down House,  
Beaufort Buildings, Clifton,  
Bristol BS8 4AN

### Investment Managers

Main Fund,  
Fidelity Investments,  
25 Cannon Street,  
London EC4M 5TA

Unit Linked Fund,  
Church House Investments,  
3 Goldcroft, Yeovil,  
Somerset BA21 4DQ

### Surveyors

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

### Solicitors

Lovells,  
Atlantic House,  
Holborn Viaduct,  
London, EC1A 2FG.

Thring Townsend Lee & Pembertons,  
Saint Bartholomews,  
Lewins Mead, Bristol BS1 2NH

Established 1868.

Registered and Incorporated  
Friendly Society No. 369F.

Chief Executive Officer: R. Sear  
Company Secretary: G. F. Hicks

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



INVESTOR IN PEOPLE

## Chairman's Review



Don Burgess

**“2007 has been an excellent year for new business.”**

I was pleased to announce last year the launch of our new strategy and our initial success in its implementation. This year, I take even greater pleasure in reporting that we have built upon that excellent start and again delivered well ahead of original expectations. We continue to meet all of our milestones that we set ourselves in 2005 and are gearing up our operations to meet the challenge of doing so again in 2008.

First and foremost, 2007 has been an excellent year for new business. We have seen both the successful launch of our new with profits ISA product in February and also sales of our Healthcare product, re-engineered in 2006, began to properly take hold. Furthermore, the bulk of these sales have been delivered through our affinity & direct and broker based sales channels upon which our sales and marketing team have placed significant focus in the past 2 years.

2007 has also seen a number of changes in our Managing Board. Richard Sear has joined us as Chief Executive Officer following the retirement of Terry Trinder at the end of the year. Jonathan Long was formally appointed as Finance Director following the retirement of Geoff Higham in April. John Greenhalgh was recruited on to the Board as a non-executive director in order to bring actuarial expertise and competencies to the Board. I strongly believe that with this new team we are well placed to meet the challenges ahead. I should also like to take this opportunity to thank Terry for his drive and

commitment in putting in place a framework for transformational change and to Geoff for his 12 years of loyal service.

Corporate governance continues to be a priority. We have developed our risk management capability significantly in the course of the year. We have created a With Profits Committee, to ensure that the interests of our with profit policyholders are properly represented, and we are in the process of clarifying our responsibilities in respect of our deposit based members. We also continue to embed the principles of treating customers fairly into our business.

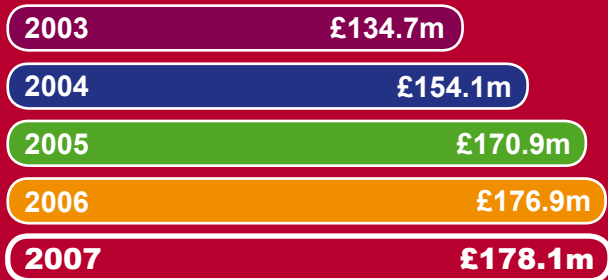
Overall, the prospects for National Deposit are exciting. We are seeking to continue to grow through the acquisition of new business and our direct and broker based channels are at the heart of this growth. We are also seeking to ensure that this business is retained through excellent customer service. And we continue to seek merger or acquisition opportunities to deliver a step change in assets coupled with operational efficiencies where it is in the best interest of members to do so.

I should like to thank the Managing Board and all of our staff for their dedication and commitment in ensuring that our targets are met and I look forward to working with them to continue this in future years.

**Don Burgess Chairman**  
28th March 2008

# Financial Highlights

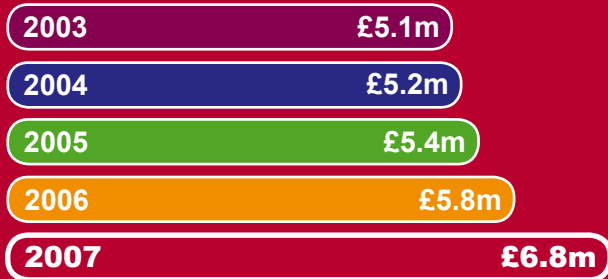
## Total assets



Positive investment returns have continued to drive the increase in total assets.

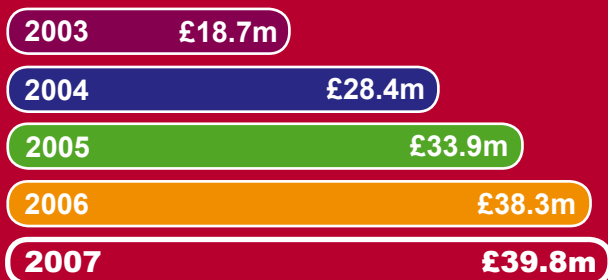
## Annual Premiums Earned and payments to deposit

Calculated using 10% of Single Premium Business



New business levels have more than doubled from 2006 leading to a significant increase in total premiums.

## Fund for Future Appropriations



Overall, in a year of difficult market conditions and increased new business strain, we have still managed to increase our Fund for Future Appropriations.

# Chief Executive Officer's Report



Richard Sear

**“2008 sees a challenging year ahead and the Society is seeking to accelerate further the progress made in the last two years.”**

## **Introduction**

I join the Society at an exciting and challenging time. 2007 has seen the business strategy, implemented in 2006, gain further momentum, and the results have been positive.

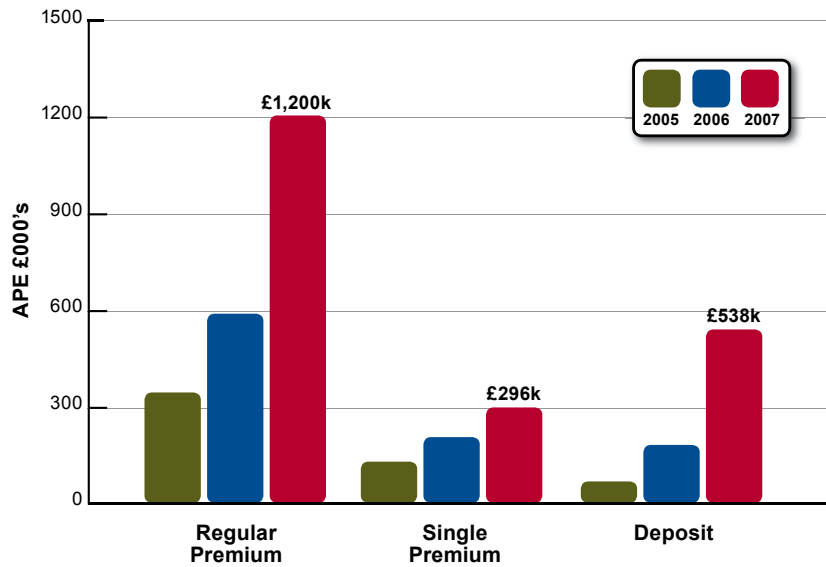
The launch of new products and a refreshed existing product range have been successful and exceeded our expectations. The growth in sales through both our direct and broker led channels has been extremely encouraging and our customer services team has been able to administer this within strict service level targets with no increase in resource.

2008 sees a challenging year ahead and the Society is seeking to accelerate further the progress made in the last two years. At the same time customer service standards must remain high, knowing that the new business created from the successful delivery of our strategy will need to be turned into long-term relationships with satisfied customers.

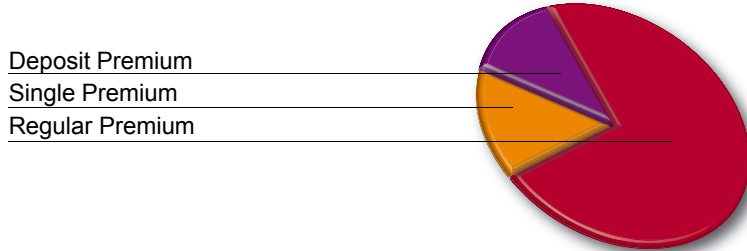
**Financial Performance**

Our financial performance for the year is highlighted by the 66% growth in the number of new policies written in comparison to 2006. Not only have we seen a year on year increase, we have exceeded our ambitious expectations for the year. The new business written has more than doubled on 2006 in terms of Annual Premium Equivalent ("APE"), the APE of regular premium business the most notable driver behind this. The sales of With Profits ISA and the re-engineered Healthcare products launched in 2007 and 2006 respectively have been particularly strong.

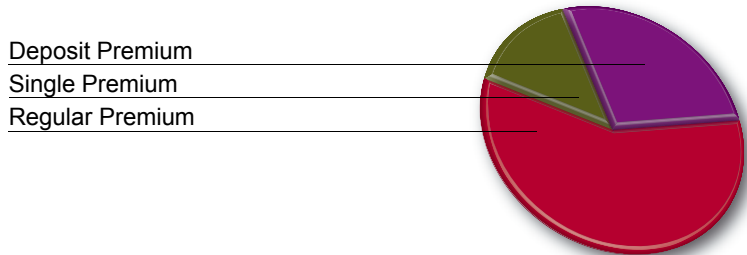
**New Business Year On Year Comparison**



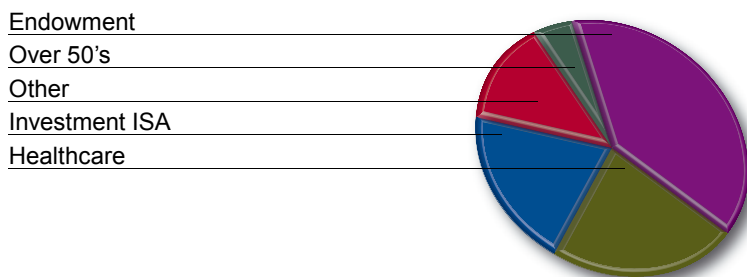
**New Business by Policy Numbers**



**New Business by Annual Premium Equivalent**



**New Business Product Analysis**



APE comprises twelve months premium for regular premium business and one-tenth of single premium business.

## Treating Customers Fairly

**National Deposit is fully committed to the principles of Treating Customers Fairly (“TCF”).**

The FSA’s TCF initiative defines six outcomes, as a benchmark for companies to follow and much work has been undertaken to ensure that:



**1** You can be confident that when dealing with National Deposit the fair treatment of our customers is central to our corporate culture.

**2** The products and services we market and sell are designed to meet the needs of identified consumer groups and are targeted accordingly.

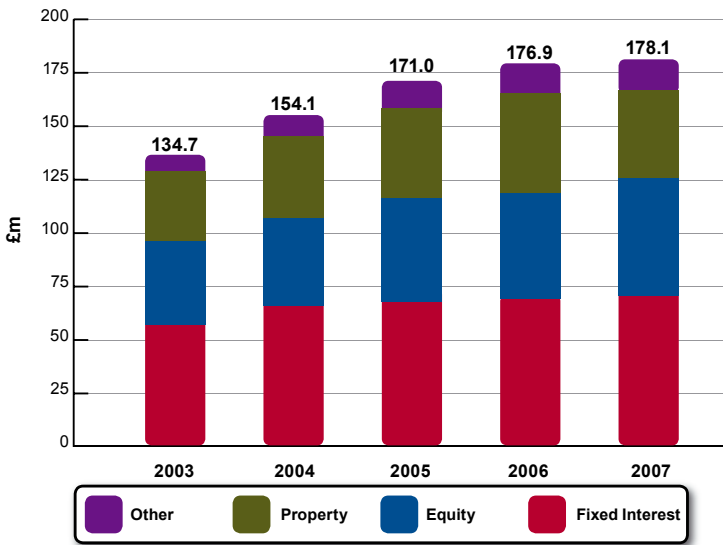
**3** We will provide our customers with clear information and will keep them appropriately informed before, during and after point of sale.

**4** When we give advice, the advice that we give will be suitable and will take into account our customers’ circumstances.

**5** Our customers will only be provided with products that perform as we lead them to expect them to and any associated service we provide will be of an acceptable standard and as they have been led to expect.

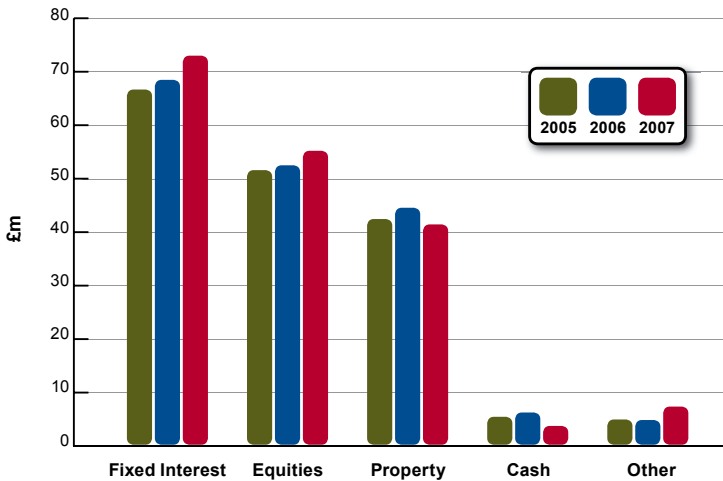
**6** We will not place unreasonable post-sale barriers in the way of our customers should they wish to change product, switch provider, submit a claim or make a complaint.

**Total Assets by Type**



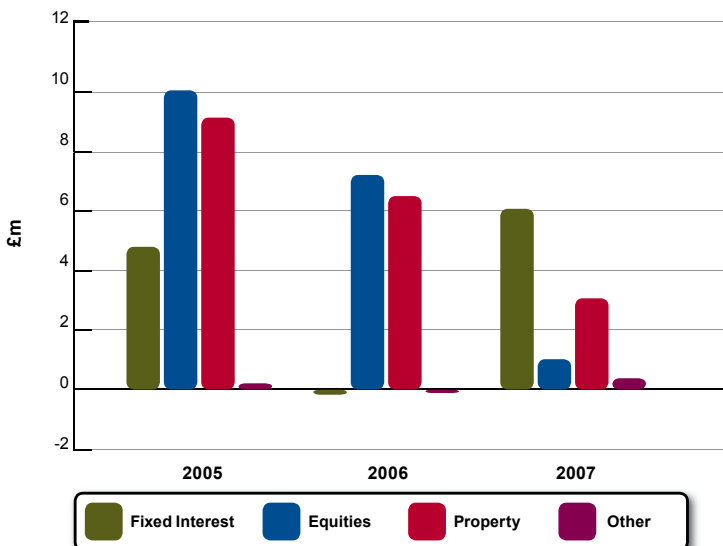
In the last five years National Deposit has seen a 32% growth in assets. This has been delivered by adopting a focused investment policy across a diversified range of asset classes and we continue to review asset allocation on a regular basis so as to enable the Society to respond quickly to changes in our liabilities brought on by our growth. The results of a recent review of our investment policy will see some changes in asset allocation take place in the first quarter of 2008 in particular to gain further exposure to corporate bonds and overseas equities.

**Asset Growth**



Our investment portfolio has stood up well to difficult market conditions and we expect it to continue to do so with the refined investment policy firmly supporting it in 2008. In the first part of 2007 we reviewed our property portfolio to ensure that we are well placed to meet any slowing of the property market and this has held us in good stead for the second half of the year and moving forwards into 2008. In doing so we realised £15.5m of our property investment in comparison to £7.4m realised in 2006.

**Investment Return**



Our business strategy has also delivered an increase in our income. Premiums have increased 45% on 2005 when our new strategy was launched. Investment income remains strong and is well above inflation, increasing 13% on 2005. Unrealised losses in the last two years have increased, but the Society, invested long, is firmly placed to ensure that any further adverse market movements are controlled and managed.

Operating expenditure in 2007 has been controlled. 2006 saw the Society invest in strategic development projects and 2007 has seen the Society closely control administration costs while still supporting new business acquisition.

Overall, in a year of difficult market conditions and increased new business strain, we have still managed to increase our Fund for Future Appropriations.



**Marketing**

The Society has seen its major marketing channels perform well. Direct marketing has produced good results by concentrating on its chosen target media. National newspaper campaigns have proved fruitful. Our intermediary channel has also had a positive year by building stronger relationships with independent financial advisers.

We continue to see our team of financial consultants serve at a more personal level and this year the team has been able to complement the Society's products with a range of carefully selected third party products and so have been able to cater for many of the needs of new and existing members.

The worksite channel has continued to provide a contact in various workplace outlets which arose on the transfer of the Customs Fund.

In the year ahead the Society will optimise worksite marketing further and develop its e-strategy. This year we have seen the development of the on line application for our term assurance product. A third of all of these product sales are now acquired on line. The With Profits ISA will follow suit in 2008. On line capabilities are essential, one of the benefits of which is a far lower acquisition cost. In the year ahead, the Society will optimize worksite marketing further and continue to develop its e-strategy.



**Customer Services**

Customer services has benefited this year from a full year of operation of the new telephony system. This has enabled the Society to have greater visibility of service levels reached in dealing with member enquiries. Careful monitoring will enable us to ensure that this is an area where we can say that we are only a phone call away. Systems such as these also provide useful training resources ensuring our teams are able to deal with real circumstances in professional and caring ways: the reinforcement of a Society that is "Proud to Care".

- ➔ 96% of calls answered within 20 seconds.
- ➔ Over 97% of calls answered by a human voice.
- ➔ Over 80% of claims, new business and other customer services administration were processed within 3 working days.

## Our People

In 2005 we were accredited as an Investors in People organisation and we will seek to be re-accredited as such in 2008. Staff welfare and development is essential to the Society's success. In 2007 the Society substantially invested in a management development programme to ensure that our leaders are able to respond to changes and are able to support and drive the business strategy at an operational level.

A positive year and continued momentum can only be attributable to a strong team effort. The National Deposit team has put in a huge effort in dealing with the new business levels achieved this year. Member feedback often highlights to me the positive impact that a professional and helpful team can have on our relationship with our members. Efforts such as these cannot go without appreciation and I express my thanks to all and implore us to go on in 2008 and prove we are "Proud to Care".



## The Society In Society

This year we have reached the required level of funding to launch the National Deposit Foundation in 2008 (this we referred to previously as the Mutuality Fund). This will serve the communities in which we operate through our membership.

The Society sees itself a part of the everyday community. In 2007 we have seen our fully depreciated computer equipment employed within the Bristol Community providing access to technology for those who would not necessarily be exposed to it in their everyday lives. We have also delivered training in financial matters to young people through our relationships with schools and provide support with their further education to three of our members each year by the award of the Further Education & Training Award.

Our Employee Forum will continue to look for ways in which we can contribute and give something back, be it through our new recycling programme, charitable giving or energy saving measures proactively being adopted within our offices.

>nd:forum  
news>views>issues

## The Future

The current state of the UK economy and the ambitious goals we set ourselves in our strategic plan mean that the year ahead is a difficult one. The strategy is still one of growth - through the acquisition of new business, through product innovation and, as always, by continuing to seek potential partners for schemes of transfer where it is in the best interest of the policyholders to merge.

The marketing channels will maintain their focus and look to build a stronger brand awareness of National Deposit Friendly Society Limited. Whilst a proactive marketing strategy will provide growth, our support teams look to enhance business process efficiencies, implement a more comprehensive risk strategy that was developed in 2007 and carefully monitor and control our strategies and policies to meet a challenging and rapidly changing business environment.

Richard Sear  
Chief Executive Officer  
28th March 2008

# Corporate Governance Review



Gary Hicks

“The Managing Board supports the general principles of corporate governance and is committed to maintaining a high standard”.

## Compliance with Myners Report

The Managing Board wishes to comply with the recommendations contained within the Myners Report and this has now become possible following the introduction of the new Rule Book on 1 December 2006. Compliance in some areas was not possible under the terms of the previous Rule Book.

The following activities have been undertaken in 2007 in order to strengthen our corporate governance framework:

- A review of the balance and composition of the Managing Board to assess the range of expertise and experience in place against that required to maintain a high standard of corporate governance. This review resulted in the selection and appointment of an individual with comprehensive actuarial skill and experience on to the Board, John Greenhalgh, as an Independent Non-Executive Director. This selection was undertaken by the Nominations Committee.
- A review of all of the Sub-Committees with special attention paid to the composition of each Committee and its frequency of meeting. A number of changes were made and the revised composition of each Committee is shown opposite. Of particular note is:
  - The creation of a With Profits Committee to represent the interests of the with profits policyholders of the Society.
  - The change in composition of the Nomination Committee with the appointment of two Non-Executive Directors on

to the Committee and the appointment of the Senior Independent Non-Executive Director as its Chairman.

- A reduction in the size of the Investment Committee and the Remuneration Committee to make the operation of these Committees more effective.
- Other minor non compliant issues remaining from 2006 have also been addressed.

## Role of the Managing Board

The Managing Board determines and reviews the Society's:

- Values, standards and ethics.
- Strategy and objectives, approving the annual business plan and monitoring performance in achieving it.
- Individual capital assessment report.
- Pension and remuneration policies.
- Significant risks affecting the Society, and the action being taken to manage and mitigate them.
- Assumptions used to determine the Long Term Business provision.
- Annual Report and Accounts.
- Principles and Practices of Financial Management.
- Acquisition or disposal of any significant asset.

The Managing Board reviews the operation and effectiveness of the Society's internal controls throughout the course of the year to confirm that they are adequate and are operating as prescribed.

### Annual General Meeting

The 2007 Annual General Meeting saw some significant changes to the structure of the meeting, reflecting the Society's endeavours to comply with the recommendations of the Myners Report following the adoption of the new Rule Book. One of the key changes meant that all members aged 18 and over had the opportunity to attend and vote at the Annual General Meeting in person. Many of those who could not attend exercised their new voting rights by appointing proxies to vote on their behalf, whilst others submitted votes by post; we were pleased to receive a total of 4,441 postal/proxy voting forms.

Another key change was that for the first time all Executive Directors and the Senior Independent Non-Executive Director stood down and offered themselves for re-election. To initiate this process, each Director was appointed for a different period of time to facilitate, after the initial election, each Director retiring in rotation and seeking re-election every three years.

In addition to the Annual General Meeting formalities, there were a number of business presentations to enable members to obtain a clearer insight into the Society and the activities undertaken since the last Annual General Meeting.

### Other Matters

The independence of the Non-Executive Directors has been reviewed and it was noted that four Non-Executive Directors held policies with the Society. These policies are not considered significant. They are held on normal commercial terms as made available to all members.

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

The role of Chairman and Chief Executive Officer are clearly defined and are distinct and separate.

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

Details of sub-committees, their membership and responsibilities are set out on pages 14 and 15.

**Gary Hicks** **Company Secretary**  
28th March 2008

Director	Managing Board		Audit Committee		Remuneration Committee	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
D C Burgess	7	7	4	4	2	2
D C Azubike	7	7	-	-	2	2
C D Bielckus	7	7	4	4	2	2
A H Gledhill	7	7	-	-	-	-
J Greenhalgh *	2	2	-	-	-	-
G R Higham **	2	2	-	-	-	-
J J Long ***	5	5	-	-	-	-
E P Malden	7	7	-	-	2	2
P McIlwraith	6	7	4	4	2	2
T Trinder	6	7	-	-	-	-

\* Appointed 1 October 2007

\*\* Resigned 30 April 2007

\*\*\* Appointed 1 May 2007

## Sub-committees

AUDIT COMMITTEE	
Members	Responsibilities
Colin Bielckus (Chairman) Don Burgess Peter Mcllwraith	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 both external and internal 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.
INVESTMENT COMMITTEE	
Members	Responsibilities
Peter Mcllwraith (Chairman) John Greenhalgh Jonathan Long Ed Malden Richard Sear Stephen Ainsworth (Head of Actuarial Function)	The Investment Committee meets at least twice a year to ensure compliance with the terms of the Principles and Practices of Financial Management in relation to the investment strategy and review its continuing appropriateness in the light of changing circumstances with consideration to the needs of both With-Profit and non With-Profit policyholders.  The Investment Committee also has responsibility for: <ul style="list-style-type: none"> <li>• Appointing the Society's Fund Managers.</li> <li>• Determining the asset allocation and performance benchmarks.</li> <li>• Monitoring the performance of the Funds.</li> </ul>
NOMINATION COMMITTEE	
Members	Responsibilities
Peter Mcllwraith (Chairman) Colin Bielckus Vernon Goulding (Delegate Board member) Alan Harvey (Delegate Board member)	The Nomination Committee meets as required to lead the appraisal process for appointments to the Managing Board and to make recommendations to the Managing Board and members on the appointment or re-appointment of Directors.
REMUNERATION COMMITTEE	
Members	Responsibilities
Dozie Azubike (Chairman) Colin Bielckus Ed Malden Vernon Goulding (Delegate Board member)	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. There is a performance related element within the remuneration, which is linked to the achievement of objectives.  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. Further details on directors' remuneration are set out in the Directors' Remuneration Report on pages 20 and 21.

<b>RISK MANAGEMENT COMMITTEE</b>	
<b>Members</b>	<b>Responsibilities</b>
Jonathan Long (Chairman) Colin Bielckus Alan Gledhill Lyn Goodfellow (HR Manager) Gary Hicks Martyn Love (Business Services Manager) Fay Randall (Compliance Manager) Richard Sear Stephen Ainsworth (Head of Actuarial Function)	The Risk Management Committee meets at least four times a year to ensure that robust risk management systems are in place to cover:- <ul style="list-style-type: none"> <li>• Governance and oversight.</li> <li>• Risk appetite.</li> <li>• Implementing risk management.</li> <li>• Management information on risk.</li> <li>• Impact of ICAS.</li> </ul>
<b>WITH-PROFITS COMMITTEE</b>	
<b>Members</b>	<b>Responsibilities</b>
John Greenhalgh (Chairman) Dozie Azubike Peter McIlwraith	The With-Profits Committee meets as required to independently monitor and bring independent judgment on the extent to which procedures, systems and controls are adequate and effective to ensure that the Society complies with the requirements of the FSA Handbook over the management and governance of with profits business.
<b>EXECUTIVE COMMITTEE</b>	
<b>Members</b>	<b>Responsibilities</b>
Richard Sear (Chairman) Nigel Killick (Head of Marketing and Product Development) Alan Gledhill Jonathan Long Gary Hicks Alun Thomas (Head of Customer Services)	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, to the Chief Executive, as provided by the Managing Board from time to time.

The terms of reference of all sub-committees are available on request to the Company Secretary.

# Engaging with Members



Tom Morley

**“The Society remains committed to being a mutual organisation and, as such, is keen to encourage members to engage in its operation.....”**

## Report of the Chairman of the Delegate Board

The primary purpose of the Delegate Board is to represent the views and aspirations of the members of the Society to its management. I am pleased to report that at the end of 2007 the Delegate Board adopted some changes in its way of working that will help to ensure that it is fully focused on meeting this purpose going forwards.

Meetings of the Delegate Board now take place at the Society's Head Office in Bristol, six times a year, and this is allowing the breadth of the agenda to increase across wider aspects of the Society's operations. It also allows the Board greater access to the management team of the Society, ensuring that members' interests may be taken account of in the running of the business.

Other changes are the incorporation of a member of the Delegate Board onto both the Nomination Committee and the Remuneration Committee of the Society.

The Society remains committed to being a mutual organisation and, as such, is keen to encourage members to engage in its operation through their participation in its Divisional Committee structure. To this end, we ran a member's road-show in Leicester in November and feedback from this event was very encouraging. 2008 will see more of these road-shows taking place as we seek to expand on this initial success.

In conclusion, I should like to take this opportunity to thank all of the existing members of both the Delegate Board and the Divisional Committees for their contribution to the Society over the past year.

**Tom Morley Chairman  
Delegate Board  
28th March 2008**



# The Managing Board



**Don Burgess  
(Chairman)**

Don was, prior to his retirement, a self-employed Design Consultant. He has chaired the Managing Board since its inception in 2003.



**Peter McIlwraith  
(Senior Independent  
Non-Executive Director)**

Peter is a Chartered Accountant. He was a partner with PricewaterhouseCoopers (and prior to that Price Waterhouse) and was the Regional Chairman for the West and Wales and Senior Partner in Bristol from 1991 to 2001.



**Dozie Azubike  
(Non-Executive Director)**

Dozie is an Inspector of Health and Safety and a Board Member of a Housing Association.



**Colin Bielckus  
(Non-Executive Director)**

Colin is a Chartered Accountant and Business Adviser. He worked as partner in general practice for ten years before establishing a practice of his own which has now operated for five years.



**John Greenhalgh  
(Non-Executive Director)**

John was appointed as a Director on 1 October 2007. He is a qualified Actuary and has extensive experience in financial services, having worked for Wesleyan & General, Worldwide Reassurance and Hearts of Oak Friendly Society.



**Ed Malden  
(Non-Executive Director)**

Ed is the Managing Director of a transport company, a property developer and has served as a Justice of the Peace for the past twelve years.



**Richard Sear (Chief Executive Officer)**

Richard was appointed as a Director on 1 January 2008. He has extensive experience in financial services, having held positions at Simplyhealth Group, HealthSure, Royal Liver Assurance and Shepherds Friendly Society. Before Royal Liver, Richard held senior positions at the CWS Ltd culminating as head of Logistics for the Non-Food Marketing and Distribution Group.



**Alan Gledhill  
(Sales & Marketing Director)**

Alan 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.



**Jonathan Long  
(Finance Director)**

Jonathan was appointed as a Director on 1 May 2007. After qualifying as a Chartered Accountant at Coopers & Lybrand, he went on to perform a variety of functions at Prudential and Barclays before joining the Society in 2006.

Not pictured are Terry Trinder, previously Chief Executive Officer, who resigned on 31 December 2007 and Geoff Higham, previously Finance Director, who resigned on 30 April 2007.

# Managing Board Report



**Managing Board**

The Directors are pleased to present their Annual Report and Accounts for the year ended 31st December 2007.

## **Board of Directors**

A list of Directors of the Managing Board who held office during the year, appears on page 17.

## **Corporate Governance**

The Managing Board supports the general principles of corporate governance and is committed to maintaining a high standard. Our approach to corporate governance is set out in our report on pages 12 and 13.

## **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 maximise the returns to its members through improving investment performance and by cost control.

The financial performance of the Society is reviewed by the Chief Executive on pages 6 to 11.

## **Statement of Responsibilities of the Directors**

The Managing Board 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 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.
- 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.

#### **Disclosure of information to auditors**

The Directors who held office at the date of approval of this Director's Report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditors are unaware, and each Director has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

#### **Statement of Solvency**

As at 31st December 2007 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 31st December 2007 amounted to 55,383 (2006: 55,297).

#### **Employees**

The average number of Directors and staff employed by the Society totalled 76 (2006: 77).

The aggregate remuneration paid to Directors and staff employed by the Society during the year amounted to £2.7 million (2006: £2.4 million).

Communication with staff is undertaken by monthly team briefings, an in-house magazine, open meetings with the Chief Executive and also through an Employee Forum.

The Society is committed to the ongoing development of its staff and has been recognised as an "Investor in People" since 2005.

#### **Member Relations**

The Managing Board is committed to maintaining good communications with members. The role of the Delegate Board and Divisional Committees in representing the views of members is an important platform in understanding their views and providing information throughout the year.

The Managing Board also firmly believes in the principles of treating customers fairly and adheres to these in its day to day operation. Our approach to treating customers fairly is set out on page 8.

#### **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. 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.

#### **Charitable Donations**

During the year the Society's charitable donations totalled £2,300 (2006: £1,000) to 8 (2006:4) organisations. In addition we have disposed of fully depreciated surplus IT equipment into the local community to enable access to technology to those that would not normally experience it.

There were no political donations (2006: NIL).

#### **Re-appointment of Auditors**

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

**Gary Hicks Company Secretary**  
28th March 2008

# Director's Remuneration Report



Dozie Azubike

## Introduction

This report sets out the remuneration policy for the Society in 2007.

The report has been prepared to comply with the requirements of the Combined Code on Corporate Governance annotated for mutual insurers, the Directors' Remuneration Report Regulations 2002 and the guidelines for corporate governance for mutual insurers issued by the Association of Friendly Societies.

The composition and responsibilities of the Society's Remuneration Committee are set out on page 14.

The Remuneration Committee keeps itself informed of relevant developments and best practice and is authorised at its discretion to obtain advice from external advisers.

## Policy

It is the Society's policy to enable it to attract, retain and motivate good quality staff.

Directors' Emoluments					
	Salaries & Fees	Performance Related Pay	Other Benefits#	Total 2007	Total 2006
<b>Chairman</b>					
Don Burgess	12,000	-	-	12,000	11,300
<b>Executive Directors</b>					
Terry Trinder	116,000	81,888	19,970	217,858	132,789
Alan Gledhill	80,000	13,600	16,010	109,610	116,771
Geoff Higham *	23,621	-	5,199	28,820	83,400
Jonathan Long **	53,333	13,600	11,574	78,507	-
<b>Non-Executive Directors</b>					
Dozie Azubike	11,500	-	-	11,500	10,800
Colin Bielckus	11,500	-	-	11,500	10,800
John Greenhalgh ***	3,750	-	-	3,750	-
Edmund Malden	11,000	-	-	11,000	10,300
Peter McIlwraith	16,150	-	-	16,150	15,450

\* Resigned 30 April 2007

\*\* Appointed 1 May 2007

\*\*\* Appointed 1 October 2007

Emoluments have been pro-rated to reflect the period of service as a director if less than one year.

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

Pension Entitlement						
	Years of Service	Pension accrued during 2007	Accrued pension as at 31/12/2007	Accrued pension as at 31/12/2006	Transfer value of accrued pension as at 31/12/2007	Increase in transfer value during the year net of Director's contribution
<b>Executive Directors</b>						
Terry Trinder	6	2,113	9,989	7,876	138,968	30,277
Alan Gledhill	8	2,058	11,000	8,942	96,011	20,184
Geoff Higham	12*	652	13,792	13,140	177,904*	(371)
Jonathan Long	1	673	1,038	365**	5,960	1,510

\* As at 30 April 2007, date of resignation

\*\* As at 1 May 2007, date of appointment

Remuneration for Executive Directors is in two parts comprising a basic salary and a non-pensionable annual performance award linked to each individual director's own contribution to the Society and designed to enhance overall business performance. In addition, Executive Directors receive a company car, or cash allowance, and access to benefits such as a defined benefit pension scheme and private medical insurance.

Remuneration for Non-Executive Directors comprises a basic fee plus where relevant a supplement for the Chairman of the Board and its Sub-Committees.

Pay and employment conditions in the financial services sector with particular reference to friendly societies is taken into account when determining remuneration packages. The Committee is authorised

to seek advice from specialist advisers and generally to obtain specific comparator information.

### Summary

This report, together with the disclosures opposite, is provided to give members a full explanation of the policy and application of director's remuneration. A resolution will be put to the Annual General Meeting inviting members to vote on the Directors Remuneration Report. This vote is advisory and the Managing Board will consider what action is required.

**Dozie Azubike Chairman**  
28th March 2008

## Executive Directors

### Base Salaries

Base salaries are normally reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations. Salary amendments are normally effective from 1 January each year.

### Performance Related Pay

All Executive Directors have a part of their total emoluments linked to performance. The current performance related pay scheme represents up to a maximum of 20% of base salaries.

The performance related pay scheme comprises two elements. The first which is assessed on a collective basis has identified six major corporate objectives and all Executive Directors participate on the same basis. The maximum amount payable under this element is 10% of base salaries.

The second element is an individual performance related programme where each Executive Director is assessed against personal goals and objectives. The individual performance related element of the scheme can award up to a maximum 10% of base salaries.

### Long Term Incentive Plan

The Society operated a Long Term Incentive Plan for the Chief Executive Officer only. This was payable at the end of contract term and included both a fixed sum and a variable sum dependant upon the achievement of specific performance objectives.

## Retirement and Related Benefits

Executive Directors are members of the National Deposit Staff Superannuation Scheme. This is a defined benefit retirement plan with a pension paid on retirement based on salary and length of service. Additionally the scheme provides a lump sum death in service benefit of four times basic salary at the date of death.

Executive Directors participate in the Staff Superannuation Scheme on terms and conditions which are identical to those of other staff members.

### Other Benefits

Executive Directors are entitled to private medical insurance and a company car or car allowance.

### Directors' Contract

All of the Executive Directors have service agreements which incorporate their terms and conditions of employment. Service agreements are normally terminable by the Society giving twelve months' notice or by the Executive Director giving twelve months' notice.

### Non-Executive Directors

All Non-Executive Directors including the Chairman have letters of appointment which set out their duties and responsibilities. The appointment of Non-Executive Directors is generally for a period of three years and is subject to election and re-election at the Society's Annual General Meeting.

Fees are benchmarked against similar roles in comparable organisations particularly other friendly societies. Fees are calculated on an annual rather than a daily basis. However, it is assumed that to fulfil the basic role of a Non-Executive Director requires an average of two days per month for review work and attendance at regular Board meetings, the Society's Annual General Meeting, Special General Meetings where appropriate, other ad hoc meetings with regulators and advisers as may be required and training courses.

Non-Executive Directors remuneration is not performance related nor pensionable and Non-Executive Directors do not participate in any incentive plans. However, a formal annual appraisal process is undertaken where the views of all directors and members of the Executive Committee are taken and the outcome of this is ratified by the Managing Board.

Fees for Non-Executive Directors are determined by the Executive Committee and subject to approval of the Board as a whole. They are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the future growth of the Society. In addition to the basic annual fee additional fees are awarded for the chairmanship of any committees.

# Auditors' Report

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

We have audited the financial statements of the National Deposit Friendly Society for the year ended 31 December 2007 which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Managing Board Report for the year ended 31 December 2007.

## • Respective responsibilities of Directors and Auditors

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

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 the Friendly Societies Act 1992 and the Regulations made under it 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 and the Regulations made under it. In addition, we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

We also report to you our opinion as to whether the Managing Board Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and as to whether the information given therein is consistent with the accounting records and financial statements.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, the Chairman's Review, the Chief Executive Officers' Report, Corporate Governance Review, Sub-committees, the Managing Board Report and the Directors' Remuneration Report. 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society'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 2007 and of its income and expenditure for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it.
- the Managing Board Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the financial year.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Bristol  
31st March 2008

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.

# Income and Expenditure Account

Long Term Business – Technical Account for the year ended 31 December 2007

	Note	2007		2006	
		£	£	£	£
Earned Premiums and Payments to Deposit	2	9,549,149		7,668,335	
Less reinsurance premiums		(43,267)		(63,382)	
			9,505,882		7,604,953
Investment Income	3		18,217,538		15,575,450
Unrealised (losses)/gains					
- investments	3		(7,677,629)		(2,168,718)
- assets held to cover linked liabilities			125,142		(128,032)
Other Technical Income	4		146,119		44,843
			<b>£20,317,052</b>		<b>£20,928,496</b>
Claims			11,463,545		9,121,934
<b>Change in Long Term Funds</b>					
Long Term Business Provision			(2,099,878)		(361,031)
Loan Fund			-		(12,132)
			(2,099,878)		(373,163)
Provision for linked liabilities			(84,539)		72,185
Bonuses and Rebates			1,724,116		1,647,833
<b>Net Operating Expenses</b>	5(a)				
Acquisition Costs			2,555,872		1,782,377
Administrative Cost			3,300,722		3,345,283
			5,856,594		5,127,660
Other Technical Charges - Project costs	(b)		951,357		931,432
- Others	(c)		177,798		38,601
Investment Management Expenses			679,546		595,668
Redundancy and end of contract term payments			154,978		6,527
Additional FRS17 Retirement Benefit Costs			(64,703)		11,286
Tax attributable to long term business	7(a)		(259,853)		439,166
Transfer to Fund for Future Appropriations			1,818,091		3,309,367
			<b>£20,317,052</b>		<b>£20,928,496</b>

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

# Balance Sheet

As at 31 December 2007

	Note	2007		2006	
		£	£	£	£
<b>ASSETS</b>					
<b>Investments</b>					
Land and Buildings	8	41,112,250		44,111,750	
Other financial investments	9	127,198,776		120,683,989	
Investment in subsidiaries	18	50,001		30,001	
			168,361,027		164,825,740
Assets held to cover linked liabilities	10		2,342,504		2,336,507
<b>Debtors</b>					
Debtors arising from direct insurance operations		425,307		275,593	
Deferred acquisition costs		218,372		14,856	
			643,679		290,449
<b>Other assets</b>					
Tangible Assets	11	653,576		828,539	
Cash at Bank and in hand		3,526,869		6,026,526	
Net Pension Assets	15	1,280,846		1,506,899	
Deferred Tax Asset	7(c)	21,857		-	
			5,483,148		8,361,964
<b>Prepayments and accrued income</b>					
Accrued Interest and Rent		983,963		1,007,385	
Other Prepayments and accrued income		292,117		100,892	
			1,276,080		1,108,277
			<b>£178,106,438</b>		<b>£176,922,937</b>

# Balance Sheet - continued

As at 31 December 2007

	Note	2007		2006	
		£	£	£	£
<b>LIABILITIES</b>					
<b>Fund for Future Appropriations</b>			<b>39,835,233</b>		38,334,872
<b>Technical Provisions</b>					
Long Term Business Provision	13		<b>132,782,981</b>		133,235,026
Provision for Bonuses			<b>1,724,116</b>		1,647,833
			<b>134,507,097</b>		134,882,859
Linked Liability Fund Provision			<b>2,007,711</b>		2,092,250
<b>Creditors</b>					
Arising out of direct insurance operations			<b>108,688</b>		120,469
Other creditors including taxation and Social Security			<b>518,281</b>		894,354
Accruals and Deferred Income			<b>1,129,428</b>		598,133
			<b>1,756,397</b>		1,612,956
			<b>£178,106,438</b>		<b>£176,922,937</b>

These accounts were approved by the Managing Board on 28th March 2008.

**Don Burgess**  
Chairman

**Richard Sear**  
Chief Executive

# Statement of Total Recognised Gains and Losses

For the year ended 31 December 2007

	2007	2006
	£	£
Surplus for the financial year	1,818,091	3,309,367
Actuarial gain/(loss) on pension scheme	(303,957)	1,154,186
Deferred tax liability on pension asset	(13,773)	(69,355)
<b>Total recognised gains and losses relating to the year</b>	<b>£1,500,361</b>	<b>£4,394,198</b>

# 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, with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practices issued by the Association of British Insurers.

### 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. However, the Society does review its costs on an annual basis with a view to identifying any such costs that may appropriately be deferred.

For the new Healthcare business written in 2006 and 2007, a deferred acquisition cost has been recognised in the balance sheet.

These costs related to commission costs on Healthcare business written through IFAs. Deferred acquisition costs are amortised over a period no longer than that in which they are expected to be recoverable out of related margins.

### Investment Income

Income from rents and securities is 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.

Investments in subsidiary companies are accounted for at current value.

### 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 - continued

## 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 rates calculated to write off each asset over its estimated useful life.

Motor Vehicles and Computer Equipment are depreciated at 25% per annum on a straight line basis.

Office Equipment is depreciated at 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.

# Notes to the Accounts - continued

	2007 £	2006 £
<b>(2) Earned Premiums</b>		
Assurance	6,393,983	4,377,259
Endowment Bonds	140,380	597,980
Bonus Bonds	51,000	117,000
With-Profits Bonds and other Single Premiums	1,493,571	1,336,172
Sickness Premiums	357,933	367,515
Payments to Deposit	984,241	722,632
Unit Linked	128,041	149,777
	<b>£9,549,149</b>	<b>£7,668,335</b>
New business premiums by product type are shown on page 7.		
<b>(3) Investment Return</b>		
Income from:		
Fixed Interest Stocks	4,181,957	3,371,065
Ordinary Shares	1,726,677	1,429,262
<b>Listed investments</b>	<b>£5,908,634</b>	<b>£4,800,327</b>
Land and Buildings	2,505,714	2,542,295
Mortgages and Ground Rents	31,519	32,859
Realised gains	9,539,637	7,902,408
Bank Interest	232,034	297,561
<b>Investment income</b>	<b>£18,217,538</b>	<b>£15,575,450</b>
Movement in unrealised gains and losses in the year	(7,677,629)	(2,168,718)
<b>Total Investment Return</b>	<b>£10,539,909</b>	<b>£13,406,732</b>
<b>(4) Other Technical Income</b>		
Insurance Commission	29,581	42,891
Interest on Policy Loans	3,982	1,952
Cost re-charge to subsidiary company	112,556	-
	<b>£146,119</b>	<b>£44,843</b>

## Notes to the Accounts - continued

	2007 £	2006 £
<b>(5) Net Operating Expenses</b>		
<b>(a) Included in operating expenses are:-</b>		
Fees payable to external auditors		
Auditing of accounts and other services pursuant to legislation	109,231	103,753
Services relating to taxation	48,680	38,540
Other services	-	30,842
Fees payable to internal auditors in respect of internal audit	31,180	48,216
Actuarial fees	443,140	506,577
Depreciation of tangible fixed assets	300,170	340,055
<b>(b) Project costs include:-</b>		
Computer enhancements and other projects	836,792	756,232
Costs re potential acquisitions	30,141	49,033
Strategic Projects (including process re-engineering)	63,861	48,380
Review of mutual capital	11,750	-
Independent review of ICA	8,813	-
Outsourcing set up costs	-	49,805
New memorandum and rule book	-	14,667
<b>(c) Other charges include:-</b>		
Unit linked charges	20,228	10,393
Pension Scheme Administration	7,050	23,973
Claims compensation	25,680	-
Commission paid to subsidiary company	112,556	-

## Notes to the Accounts - continued

	2007	2006
<b>(6) Staff Costs</b>		
Average Number of Employees:-		
Administration	53	54
Sales	18	18
	<b>71</b>	<b>72</b>

Includes part-time staff of 4 (2006:8)  
and excludes Non-Executive Directors of 5 (2006:5)

Directors' emoluments totalled £500,695 for the year (2006 £391,610). Details are directors' remuneration are set out on pages 20 and 21.

	2007 £	2006 £
Wages and Salaries (inc. Commission)	2,263,611	2,065,146
Social Security Costs	254,881	208,185
Pension Costs	190,123	158,405
	<b>£2,708,615</b>	<b>£2,431,736</b>

### (7) Taxation

<b>a) Tax attributable to Long Term Business</b>		
Tax charged in the long term business technical account comprises:		
<b>Current Tax:</b>		
UK Corporation tax	513,192	177,171
Prior year adjustments	(130,264)	37,291
Total current tax	£382,928	£214,462
<b>Deferred Tax:</b>		
Origination and reversal of timing differences	(642,781)	224,704
Total deferred tax	£(642,781)	£224,704
<b>Total tax charged in the long term business technical account</b>	<b>£(259,853)</b>	<b>£439,166</b>

## Notes to the Accounts - continued

### b) Factors that may affect future tax charges

There are no deferred tax assets that have not been recognised.

	2007 £	2006 £
<b>c) Balance sheet</b>		
The deferred tax balance, included within other assets, comprises:		
Unrelieved expenses carried forward	189,420	172,363
Accelerated capital allowances	76,273	59,394
Unrealised gains on investments	(243,836)	(852,681)
	<b>£21,857</b>	<b>£(620,924)</b>
<b>d) Reconciliation of deferred taxation balances</b>		
Opening deferred tax (liability)	(620,924)	(396,250)
Credit/(charge) to operating profit	642,781	(224,674)
	<b>£21,857</b>	<b>£(620,924)</b>

## Notes to the Accounts - continued

	2007		2006	
	Cost £	Valuation £	Cost £	Valuation £
<b>INVESTMENTS</b>				
<b>(8) Land and Buildings</b>				
Freehold Properties -	<b>18,537,762</b>	<b>22,145,750</b>	20,118,160	28,026,750
fully occupied by Society	<b>990,438</b>	<b>2,650,000</b>	1,037,522	2,900,000
partly occupied by Society	<b>1,220,724</b>	<b>2,084,000</b>	1,491,003	2,730,000
	<b>£20,748,924</b>	<b>£26,879,750</b>	£22,646,685	£33,656,750
Long Leasehold Properties	<b>13,452,069</b>	<b>14,232,500</b>	9,821,263	10,455,000
	<b>£34,200,993</b>	<b>£41,112,250</b>	<b>£32,467,948</b>	<b>£44,111,750</b>

The Society's properties are included at open market values. Significant property holdings with market values totalling £20,839,000 as at 31 December 2007 were valued independently by Mellersh and Harding, Chartered Surveyors, on an open market value basis as a part of the triennial valuation the most recent valuation being at 31 December 2005. The remaining properties with a current market value of £20,284,250

were valued by the Society's Property Manager, and reviewed by the Managing Board, at the same date on an existing use basis. Property valuations are adjusted for the results of annual reviews carried out by the Society's Property Manager, and reviewed by the Managing Board, to reflect fluctuations in the market values arising between the triennial valuations.

	2007		2006	
	Cost £	Valuation £	Cost £	Valuation £
<b>(9) Other Financial Investments</b>				
UK listed fixed interest securities	<b>72,040,517</b>	<b>71,746,383</b>	69,727,143	67,940,215
UK listed shares	<b>52,799,876</b>	<b>54,734,931</b>	45,596,721	51,966,176
Mortgages	<b>706,462</b>	<b>706,462</b>	766,598	766,598
Freehold Ground Rents	<b>8,500</b>	<b>11,000</b>	8,500	11,000
	<b>£125,555,355</b>	<b>£127,198,776</b>	<b>£116,098,962</b>	<b>£120,683,989</b>

Of the UK listed fixed interest securities £2,125,078 (2006: £136,076) relates to overseas fixed interest securities.

## Notes to the Accounts - continued

### (10) Assets held to cover linked liabilities

Included within assets held to cover Linked Liabilities is £334,793 (2006: £244,257) representing units not yet purchased by policyholders.

### (11) Tangible Assets

	Computer Equipment £	Office Equipment £	Motor Vehicles £	Total £
<b>Cost</b>				
At 1 January, 2007	3,559,659	809,097	383,115	4,751,871
Additions	36,186	13,337	111,441	160,964
Disposals	-	-	(103,024)	(103,024)
At 31 December, 2007	£3,595,845	£822,434	£391,532	£4,809,811
<b>Depreciation</b>				
At 1 January, 2007	3,217,147	541,518	164,667	3,923,332
Provided in year	166,482	40,989	92,699	300,170
Disposals	-	-	(67,267)	(67,267)
At 31 December, 2007	£3,383,629	£582,507	£190,099	£4,156,235
<b>Net Book Value</b>				
<b>31 December, 2007</b>	<b>£212,216</b>	<b>£239,927</b>	<b>£201,433</b>	<b>£653,576</b>
31 December, 2006	£342,512	£267,579	£218,448	£828,539

### (12) Capital Commitments

Amounts authorised and contracted for at 31 December, 2007 £NIL (2006 £6,000).

# Notes to the Accounts - continued

## (13) Long Term Business Provision

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

<b>Rates of Interest</b>	
<b>Deposit contracts</b>	3% per annum. Unchanged from the previous year.
<b>Other PHI contract</b>	3.68% per annum. The previous valuation used a rate of 3.73% per annum.
<b>With profits life assurance policies and CABF with-profits 2.5% per annum for tax exempt reversionary annuities</b>	2.5% per annum for tax exempt policies and 2% per annum for taxable policies. Unchanged from the previous year.
<b>With-profits bonds</b>	Not applicable since the basic reserve is equal to current death benefits.
<b>With profits personal pensions and retirement annuities</b>	3% per annum before vesting and 2.25% per annum after vesting (for retirement annuities). The previous valuation used rates of 3% per annum before vesting and 2% per annum after vesting.
<b>Other non profit business</b>	3.68% per annum for tax exempt policies and 2.94% for taxable policies. The previous valuation used a rate of 3.73% per annum for tax exempt policies and 2.98% for taxable policies.
<b>Rates of Mortality</b>	
<b>Deposit contracts</b>	90% of the AMN00 and AFN00 ultimate table for assured lives. The previous valuation used 100% of the AMN00 and AFN00 ultimate table for assured lives.
<b>PHI Deferred Sickness Claims in Payment</b>	Nil. Unchanged from the previous year.
<b>Other PHI contracts</b>	100% of the AMN00 ultimate table for assured lives. Unchanged from the previous year.
<b>Critical Illness policies</b>	Specific data provided by reinsurer combining mortality and sickness rates.
<b>50+ Life Plan policies</b>	150% of the AMN00 ultimate table for non-smokers or 150% of the AMS00 ultimate table for smokers.
<b>Other Life assurance policies</b>	100% of the AMN00 ultimate table for non-smokers or 100% of the AMS00 ultimate table for smokers. Unchanged from the previous year.
<b>Annuities in deferment (retirement annuity contracts)</b>	100% of the PNMA00 and PNFA00 mortality tables for pensioners with the medium cohort adjustment subject to a minimum improvement of 1.25% per annum. The previous valuation used 100% of the PMNA00 and PNFA00 mortality tables for pensioners, with the medium cohort adjustment subject to a minimum improvement of 0.75% per annum.
<b>Other contracts</b>	Nil. Unchanged from the previous year.

Full details of the method and assumptions used in calculating the long term business provision are given in the Society's FSA Return.

# Notes to the Accounts - continued

## (14) Capital Management

A summary of the statutory financial position is set out in the following table.

	Funding Position as at 31 December 2007 £m	Funding Position as at 31 December 2006 £m
Total Balance Sheet Assets	178.1	176.9
Inadmissible assets	(1.7)	(1.5)
Total Statutory Admissible Assets	£176.4	£175.4
Total Statutory Reserves	136.5	137.0
Total Other Liabilities	1.8	1.6
Total Statutory Liabilities	£138.3	£138.6
Statutory Surplus (before Capital Requirement)	£38.1	£36.8
Total Minimum Capital Requirement	11.7	10.6
Excess over Minimum Capital Requirement	£26.4	£26.2

## Changes in Capital

	2007 £m	2006 £m
Statutory Reserves at 31 December 2006	137.0	135.6
Net new business	(2.0)	(4.0)
Adjustment to terminal bonus rates	1.2	2.8
Provision for bonuses/benefits	1.7	1.7
Adjustment to per policy expenses	-	1.3
Adjustment to morbidity assumptions	(4.7)	-
Adjustment to interest rates	1.6	-
Adjustment to guarantees	1.3	-
Other adjustments	0.4	(0.4)
<b>Statutory Reserves as at 31 December 2007</b>	<b>£136.5</b>	<b>£137.0</b>

## Notes to the Accounts - continued

The Society maintains a single long term business fund and the rights of members to participate in surplus relate to the combined funds of the Society.

The available capital for the fund is represented by the Fund for Future Appropriations which represents the difference between the assets and liabilities of the Society. For statutory purposes certain assets are deemed inadmissible for meeting the capital requirement. As at the date of these accounts the most significant item deemed inadmissible was the net pension asset.

The capital requirement for the Society is determined as the greater of the statutory requirement based on formulae and calculations specified by regulations and the capital requirement determined by reference to the Society's Individual Capital Assessment ("ICA"). The ICA is subject to guidance but is not prescriptive and involves a significant level of judgement to be exercised by the Managing Board.

The ICA determined in 2007 was less than the statutory requirement. The ICA requirement is subject to review by the FSA and an additional capital requirement known as an ICG may be imposed in future.

The available capital resources on the statutory basis have increased by £0.3M. The main items that have affected this are the investment return achieved in 2007, the changes to the assumptions made in calculating the long term business provision and the provision for bonuses and benefit improvements.

The statutory solvency position of the Society is continually monitored and sufficient liquid low risk assets are held at any one time to cover the required solvency level.

In line with FSA rules, the capital requirement for 2007 is yet to be finally determined. The Directors confirm that the capital requirement above represents a best estimate and is not expected to change materially.

### Capital Resource Sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities, it is also sensitive to assumptions and experience relating to mortality, expenses and persistency.

The most significant sensitivity arises from the market risk in relation to the with-profits business, which would arise if adverse changes in the value of the assets supporting this business could not be reflected in payments to policyholders because of the effect of guarantees and options. The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the liability for guarantees and options.

### Analysis of Policyholder Liabilities

	2007 £m	2006 £m
<b>With-profit liabilities</b>		
Guarantees and Options	5.0	3.1
Other policyholder obligations	76.1	74.0
	<b>£81.1</b>	<b>£77.1</b>
Unit linked	2.0	2.1
Deposit and other non-profit liabilities	53.4	57.8
	<b>£136.5</b>	<b>£137.0</b>

# Notes to the Accounts - continued

## (15) Pensions

The Society provides two funded pension schemes providing benefits based on final pensionable earnings. The assets of the Schemes are held in separate trustee administered funds.

### National Deposit Staff Superannuation Fund

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 and 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 11% of employees' pensionable earnings, being the rates recommended by the Scheme Actuary.

For the year commencing 1 January 2008 the employer's contribution will be 11.8% of employees' pensionable earnings.

A full actuarial valuation was carried out as at 31 December 2004 and updated at 31 December 2007 by a qualified independent actuary.

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

	2007	2006	2005
Discount Rate	5.8%	5.1%	4.7%
Inflation	3.4%	3.1%	2.9%
Increases to deferred benefits during deferment	3.4%	3.1%	2.9%
Increases to pensions in payment (Pre 6 April 2006 service)	3.4%	3.1%	2.8%
Increase to pensions in payment (Post 5 April 2006 service)	2.4%	2.3%	2.0%
Increases to salaries	4.9%	4.6%	4.4%

Mortality rates used are as follows:

Mortality before retirement	AX92 ultimate
Mortality in retirement	PXA92 MC2023

## Notes to the Accounts - continued

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

	2007 £	% Return	2006 £	% Return	2005 £	% Return
Equities	7,256,768	8.0%	7,131,376	8.5%	6,780,753	8.00%
Bonds	8,159,503	4.54%	9,555,031	4.55%	9,795,511	4.12%
Property	3,900,000	7.0%	2,820,000	7.5%	2,516,500	7.00%
Cash	304,617	6.0%	122,747	5%	128,655	4.50%
Total Market Value of assets	£19,620,888		£19,629,154		£19,221,419	
Present value of scheme liabilities	(18,283,888)		(18,013,900)		(18,509,065)	
Surplus in the scheme	£1,337,000		£1,615,254		£712,354	
Related deferred tax liability	(56,154)		(71,071)		(39,749)	
Net pension asset	£1,280,846		£1,544,183		£672,605	

	2007 £	2006 £
<b>Analysis of the amount charged to operating profit</b>		
Current Service Cost	484,495	439,987
Past Service Cost	-	-
Total operating charge	£484,495	£439,987
<b>Analysis of the amount charged to other financial costs</b>		
Expected return on pension scheme assets	1,238,698	1,117,809
Interest on pension scheme liabilities	(899,150)	(852,513)
Net Return	£339,548	£265,296
<b>Analysis of amount recognised in the statement of total recognised gains and losses</b>		
Actual return less expected return on pension scheme assets	(638,715)	(137,537)
Experience (losses)/gains and arising on the scheme liabilities	(270,466)	686,696
Changes in assumptions underlying the present value of the scheme liabilities	579,224	370,027
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	£(329,957)	£919,186

## Notes to the Accounts - continued

	2007 £	2006 £
<b>Movement in surplus during the year</b>		
Surplus in scheme at beginning of year	1,615,254	712,354
Current Service Costs	(484,495)	(439,987)
Contributions	196,650	158,405
Past Service Costs	-	-
Other financial income	339,548	265,296
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(329,957)	919,186
Surplus in scheme at end of year	£1,337,000	£1,615,254

	2007	2006	2005	2004
<b>History of experience gains and losses</b>				
<b>Difference between the actual and expected return on scheme assets</b>				
Amount	£(638,715)	£(137,537)	£1,629,444	£329,898
Percentage of scheme assets	(3%)	(1%)	8%	2%
<b>Experience gains/(losses) on scheme liabilities</b>				
Amount	£(270,946)	£686,697	£667,305	£(460,750)
Percentage of the present value of the scheme liabilities	(1%)	4%	4%	(3%)
<b>Total amount recognised in statement of total recognised gains and losses</b>				
Amount	£(329,957)	£919,186	£409,108	£(933,762)
Percentage of the present value of the scheme liabilities	(2%)	5%	2%	(6%)

# Notes to the Accounts - continued

## Customs Annuity Benevolent Fund

A full actuarial valuation was carried out as at 5 April 2003 and updated at 31 December 2007 by a qualified independent actuary.

The major assumptions used by the Actuary were:-

	2007	2006	2005
Discount Rate	5.8%	5.1%	4.7%
Inflation	3.4%	3.1%	2.9%
Increases to deferred benefits during deferment	3.4%	3.1%	2.9%
Increases to pensions in payment - LP1	3.4%	3.1%	2.9%
Increases to salaries	-	4.6%	4.4%

Mortality rates used are as follows:

Mortality before retirement	AX92 ultimate
Mortality in retirement	PXA92 MC2023

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

	2007 £	% Return	2006 £	% Return	2005 £	% Return
Equities	656,000	8.0%	733,000	8.5%	497,000	8%
Bonds	2,130,000	4.6%	2,285,000	4.7%	2,504,000	4.2%
Cash	87,000	6.0%	47,000	5.0%	58,000	4.5%
Total Market Value of assets	£2,873,000		£3,065,000		£3,059,000	
Present value of scheme liabilities	2,865,000		(3,104,000)		(3,338,000)	
Surplus/(deficit) in the scheme	8,000		(39,000)		(279,000)	
Provision on recoverable surplus	(8,000)		-		-	
Related deferred tax asset/ (liability)	-		1,716		15,568	
Net pension liability	£NIL		£(37,284)		£(263,432)	

## Analysis of the amount charged to operating profit

The amount charged to operating profit was £NIL (2006: £NIL) to operating profit.

## Notes to the Accounts - continued

	2007 £	2006 £
<b>Analysis of the amount charged to other financial costs</b>		
Expected return on pension scheme assets	161,000	159,000
Interest on pension scheme liabilities	(148,000)	(154,000)
Net Return	£13,000	£5,000
<b>Analysis of amount recognised in the statement of total recognised gains and losses</b>		
Actual return less expected return on pension scheme assets	38,000	1,000
Experience gains and losses arising on the scheme liabilities	(24,000)	(33,000)
Changes in assumptions underlying the present value of the scheme liabilities	20,000	267,000
Provision on recoverable surplus	(8,000)	-
Actuarial gain recognised in the statement of total recognised gains and losses	£26,000	£235,000
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of year	(39,000)	(279,000)
Current Service Costs	-	-
Contributions	-	-
Past Service Costs	-	-
Other financial income	13,000	5,000
Actuarial gain in the statement of total recognised gains and losses	£26,000	£235,000
Deficit in scheme at end of year	£NIL	£(39,000)

## Notes to the Accounts - continued

	2007	2006	2005	2004
<b>History of experience gains and losses</b>				
<b>Difference between the actual and expected return on scheme assets</b>				
Amount	<b>£38,000</b>	£1,000	£167,000	£42,000
Percentage of scheme assets	<b>1.3%</b>	0%	5.5%	1.4%
<b>Experience gains/(losses) on scheme liabilities</b>				
Amount	<b>£(24,000)</b>	£(33,000)	£(49,000)	£165,000
Percentage of the present value of the scheme liabilities	<b>(0.8%)</b>	(1.1%)	(1.5%)	5.7%
<b>Total amount recognised in statement of total recognised gains and losses</b>				
Amount	<b>£26,000</b>	£(235,000)	£(250,000)	£149,000
Percentage of the present value of the scheme liabilities	<b>0.9%</b>	7.6%	(7.5%)	5.1%

### (16) Assets attributable to the Long Term Business Fund

Other than assets of £2,342,504 (2006: £2,336,507) used to match linked liabilities all of the assets shown on page 24 are attributable to the long term business fund.

### (17) Segmental Reporting

The Society principally transacts long term assurance business throughout the United Kingdom.

### (18) 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 2006. ND Partner Services commenced trading as a distributor of financial services products in the year ended 31 December 2007; ND Member Services did not trade in that year.

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.

### (19) Related Party Transactions

The Society paid £112,556 (2006: £NIL) in commission to its wholly owned subsidiary, ND Partner Services Limited, in respect of products sold on its behalf. ND Partner Services Limited was charged £112,556 (2006: £NIL) by the Society in respect of costs incurred on its behalf.

As at 31 December 2007, ND Partner Services Limited owed the Society a net amount of £6,393 (2006: £3,325) and ND Member Services Limited owed the Society a net amount of £10,224 (2006: £9,635).



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