

Product Accounts 2009–10

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of National Savings and Investments' Product Accounts for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to National Savings and Investments' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by National Savings and Investments; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of National Savings and Investments' Product Accounts as at 31 March 2010 and of the income and expenditure and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

In my opinion:

- the information given in the Management Commentary (excluding the tables headed 'Difference between resource budget and resource outturn 2009–10' and 'Reconciliation of resource expenditure between estimates, accounts and budgets') for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, my opinion:

- adequate accounting records have not been kept; or
- returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

7 July 2010

National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

The maintenance and integrity of National Savings and Investments' website is the responsibility of the Accounting Officer; 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 placed on the website.

Product Accounts background

Accounts

These accounts have been prepared under a direction issued by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000. This direction is disclosed in Annex 1 to these accounts.

Scope of the Product Accounts

These accounts record transactions for the year ended 31 March 2010 on retail savings and investment products administered by NS&I and balances in respect of these products as at that date. They do not include:

- *The investment or use of funds.* Customer funds are not directly invested by NS&I. They are passed to the National Loans Fund (NLF) to fund public sector activity and prior to 1 September 2009 certain funds were passed to the Commissioners for the Reduction of the National Debt (CRND), where they were invested mainly in Government securities.
- *NS&I's administration costs.* These are funded by Parliamentary Vote and accounted for separately in the Resource Accounts in the Annual Report. However, the interest costs on NS&I products are included in the total cost of servicing the national debt, and these costs are therefore reflected as a charge on both the NLF account and these accounts.
- *Tax foregone.* Some NS&I products are tax free. The notional cost of tax foregone by the Exchequer is not recognised as a cost in these accounts, but is considered as part of NS&I's overall Value Indicator measure when computing how cost-effective NS&I has been in financing the national debt.

The National Loans Fund (NLF)

The NLF is central government's main borrowing and lending account. The NLF undertakes borrowing and uses the proceeds to meet any deficits on the Consolidated

Fund. Most of the NLF's borrowing needs are met indirectly through borrowing on its behalf by NS&I and the Debt Management Office (DMO). The NLF ends each day with a nil balance on its bank account because any cash surpluses or deficits are offset by transfers to or from the Debt Management Account (DMA). HM Treasury is responsible for the operation of the NLF and guarantees to honour NS&I's products' terms and conditions.

The Commissioners for the Reduction of the National Debt (CRND)

Under the National Savings Bank Act 1971, Ordinary Account investments were passed to the CRND, who invested them under section 18 of that Act. The CRND form part of the DMO. Under the National Savings Stock Register Regulations 1976, some unclaimed funds were also passed to the CRND for inclusion in the Unclaimed Dividends Account.

In December 2007, NS&I made a submission to the Economic Secretary to the Treasury to have funds held by the CRND transferred to the NLF under the Residual Account. The Ordinary Account funds were transferred in June 2008, followed by the unclaimed funds on 1 September 2009. By transferring these funds, NS&I was able to modernise and standardise product accounting and reduce complexity with a single product-based system.

The final White Paper account for the Ordinary Deposits was prepared for the period 1 April 2009 to 1 September 2009 and certified by the Comptroller and Auditor General on 24 February 2010.

NS&I's products and regulation

NS&I's Product Accounts cover transactions and balances on all NS&I's products.

The products covered by these accounts and their governing legislation and regulations are as follows:

Products governed by the National Debt Act 1972

Capital Bonds	National Savings Stock Register Regulations 1976
Children's Bonus Bonds	Savings Certificates (Children's Bonus Bonds) Regulations 1991
First Option Bonds	National Savings Stock Register Regulations 1976
Guaranteed Income Bonds and Guaranteed Growth Bonds (previously known as Fixed Rate Savings Bonds)	National Savings Stock Register Regulations 1976
Guaranteed Equity Bonds	National Savings Stock Register Regulations 1976
Income Bonds	National Savings Stock Register Regulations 1976
Pensioners' Guaranteed Income Bonds	National Savings Stock Register Regulations 1976
Premium Bonds	Premium Savings Bonds Regulations 1972
Savings Certificates	Savings Certificates Regulations 1991

Products governed by the National Savings Bank Act 1971

Direct Saver Account	National Savings Bank Regulations 1972
Easy Access Savings Account	National Savings Bank Regulations 1972
Individual Savings Account	National Savings Bank Regulations 1972
Investment Account	National Savings Bank Regulations 1972
Residual Account	National Savings Bank Regulations 1972

As part of NS&I's dormancy strategy, matured funds that remain unclaimed after 30 days in Capital Bonds and Pensioners' Guaranteed Income Bonds were transferred to the Residual Account in order to continue earning interest for customers.

Audit

These accounts have been audited by the Comptroller and Auditor General, whose Certificate and Report appears on pages 82–83.

Statement of comprehensive income

for the year ended 31 March 2010

	2009-10	2008-09
Note	£000	£000
Interest and prizes financed by the NLF (excluding revaluation of embedded derivatives)	1,893,492	2,785,027
Gain/(loss) on revaluation of embedded derivatives	<u>17,536</u>	<u>(230,738)</u>
Interest and prizes financed by the NLF	1,911,028	2,554,289
Interest and prizes financed by the CRND	<u>–</u>	<u>732</u>
	<u>1,911,028</u>	<u>2,555,021</u>
Interest and prizes payable to investors (excluding revaluation of embedded derivatives)	(1,893,492)	(2,785,759)
(Loss)/gain on revaluation of embedded derivatives	<u>(17,536)</u>	<u>230,738</u>
Interest and prizes payable to investors	3 <u>(1,911,028)</u>	<u>(2,555,021)</u>
Net cost	–	–

An analysis of the income and expenditure by product is disclosed in note 2.

The notes on pages 89 to 99 form part of the Product Accounts.

Statement of financial position

as at 31 March 2010

		31 March 2010	31 March 2009	1 April 2008*
	Note	£000	£000	£000
Current assets				
Held by the NLF	4	98,120,139	96,551,545	83,707,804
Held by the CRND	5	–	45,894	336,186
Other receivables	6	180,116	207,887	215,946
Cash and cash equivalents		522,068	436,892	527,591
Total current assets		98,822,323	97,242,218	84,787,527
Current liabilities				
Liability to investors	7	(98,511,242)	(96,915,693)	(84,106,100)
Unclaimed funds	8	–	(35,862)	(42,602)
Other payables	9	(18,369)	(11,385)	(7,275)
Total current liabilities		(98,529,611)	(96,962,940)	(84,155,977)
Net current assets		292,712	279,278	631,550
Non-current liabilities				
Liability to investors	7	(292,712)	(279,278)	(631,550)
Total non-current liabilities		(292,712)	(279,278)	(631,550)
Assets less liabilities		–	–	–

A Statement of Changes in Taxpayers' Equity is not required for NS&I's Product Accounts due to the nature of the agency relationship between NS&I and HM Treasury and NS&I and its customers.

* There is no material difference between the Statement of Financial Position at 31 March 2008 under UK Generally Accepted Accounting Principles and 1 April 2008 under International Financial Reporting Standards.

The notes on pages 89 to 99 form part of the Product Accounts.

Jane Platt

Jane Platt
Chief Executive
National Savings and Investments
 30 June 2010

Statement of cash flows

for the year ended 31 March 2010

		2009-10	2008-09
	Note	£000	£000
Cash flow from operating activities			
Net operating costs		–	–
Increase in net funds held by the NLF and the CRND	10	(1,517,824)	(12,551,122)
Decrease in amortisation of Guaranteed Equity Bonds' principal liabilities		(4,876)	(2,327)
Decrease in other receivables		27,771	8,059
Increase in total funds invested		1,573,121	12,450,581
Increase in other payables		6,984	4,110
Net cash flow from operating activities		85,176	(90,699)
Net increase/(decrease) in cash and cash equivalents in the period		85,176	(90,699)
Cash and cash equivalents at beginning of the period		436,892	527,591
Cash and cash equivalents at end of the period		522,068	436,892

The notes on pages 89 to 99 form part of the Product Accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts are prepared in accordance with the *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. These financial statements are the first statements to be prepared in accordance with IFRS, including prior year comparatives. NS&I Product Accounts reflect the nature of the agency relationship between NS&I and HM Treasury and NS&I and its customers, therefore a Statement of Changes in Taxpayers' Equity is not required.

There is no material difference between the Statement of Financial Position at 31 March 2008 under UK Generally Accepted Accounting Principles and 1 April 2008 under IFRS, as a result no disclosure note showing the impact of first time adoption of IFRS has been provided. The application of IFRS 7 – Financial Instruments: Disclosure, International Accounting Standards (IAS) 32 – Financial Instruments: Presentation and IAS 39 – Financial Instruments: Recognition and Measurement is not materially different to the application of Financial Reporting Standards (FRS) 25 – Financial Instruments: Presentation, FRS 26 – Financial Instruments: Recognition and Measurement and FRS 29 – Financial Instruments: Disclosure.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of NS&I for the purpose of giving a true and fair view has been selected. The particular policies adopted by NS&I for the Product Accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of embedded derivatives.

1.2 New standards, interpretations and amendments to published standards that have not yet been early adopted

Certain new standards, amendments and interpretations to existing standards have been published that, where applicable, are mandatory for NS&I's accounting periods beginning on or after 1 April 2010 or later periods. NS&I has not early adopted the standards, amendments and interpretations described below:

IFRS 9 – Financial Instruments on classification and measurement (effective from annual periods beginning on or after 1 January 2013)

This is the first part of a new standard for financial instruments that deals with the classification and measurement of financial assets that will replace IAS 39. IFRS 9 allows only two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at Fair Value through Profit and Loss. Management is in the process of considering the potential implications on classification and measurement of financial instruments of adoption of the new requirements.

1.3 Interest and prizes recognition

Interest and prizes earned by investors are recognised in accordance with the terms and conditions applicable to each product. Capitalised interest is accrued and included in interest and prizes earned in the Statement of Comprehensive Income and liability to investors in the Statement of Financial Position. Interest, where applicable, is accrued from the date of receipt or most recent capitalisation to the end of the accounting period.

The monthly Premium Bond prizes are drawn on the first day of the following month. The prizes are accrued for Premium Bonds which are eligible and still held at the end of each month.

1.4 Financed by the CRND / NLF

The interest and prizes earned by investors are funded by the NLF except for the Ordinary Account, which was funded by the CRND until June 2008 when the product was transferred to the NLF under the Residual Account. The accounting policy for the CRND / NLF interest is as outlined in note 1.3 and is therefore equal and opposite in total, resulting in a net cost of zero.

1.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

1.6 Financial assets

On initial recognition, financial assets are classified as loans and receivables. Loans and receivables are assets with fixed or determinable repayments that are not quoted in an active market. Loans and receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, with the exception of Guaranteed Equity Bonds (GEBs), which have an embedded

derivative. The GEB embedded derivatives are measured at fair value, with the movements recognised through the Statement of Comprehensive Income. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Derecognition of financial assets only occurs when NS&I transfers both its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. Financial assets include other receivables.

1.7 Relationships with the CRND and the NLF

NS&I is the Government's retail savings agency. All funds from investors are payable to either the NLF or the CRND, and all liabilities to investors are discharged from funds payable by the NLF and the CRND, on a statutory basis. Risks relating to liabilities to investors are met wholly by the NLF and the CRND. Further, the Product Accounts present only a part of the Government's overall financing requirement managed by HM Treasury through the NLF and the CRND (with recourse to the Consolidated Fund), and is financed ultimately from the Government's tax revenues or borrowings. Due to the nature of these arrangements, the risk management and capital disclosure requirements of IFRS 7 are not applicable to these accounts.

The analysis by principal liability and accrued interest of the total funds held or financed by the NLF (note 4) and the CRND (note 5) does not equal the total funds invested by product (notes 7 and 8), i.e. liability to investors. This is due to timing differences in the flow of funding and defunding movements between NS&I and its agents and the NLF/CRND via HM Treasury's bank account at the Bank of England. This difference is represented by the net of cash plus debtors minus other creditors.

1.8 Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method unless stated otherwise. The treatment of GEBs is an exception, as explained in note 1.6. Financial liabilities are derecognised when the obligation is discharged. Financial liabilities include other payables.

A receipt from an investor is recognised as a liability when NS&I or one of its agents receives a payment instrument for a valid investment. Investments are considered valid when investors satisfy evidence of identity requirements. Payments are recognised as a reduction in the liability to the investor

on the date of the payment instrument. Where payment instruments are not cashed by the investor within their stipulated time limit, the liability to the investor is reinstated under Out of Date Warrants.

If an investor decides to reinvest funds in the same or another product, this is termed a reinvestment and is recognised as a payment and new receipt. An automatic or default roll-over of funds within the same product, which requires no action by the investor, is not recognised as a payment or receipt.

1.9 Derivative financial instruments

A derivative embedded in a product is accounted for as a stand-alone derivative if it is not evidently closely related to the product. It is recognised initially, and subsequently measured, at fair value. Gains and losses arising from changes in the fair value of a derivative are recognised in the Statement of Comprehensive Income.

In March 2002, NS&I began to issue GEBs in partnership with the DMO. GEBs include an embedded equity derivative, which is exposed to equity index risk and interest rate risk over the life of each of the GEB issues. These risks were transferred to the DMO to manage and mitigate for each of the GEB issues as NS&I does not hold any underlying position in this product.

IAS 39 requires all embedded derivatives that are not closely related to the host contract to be separately accounted for from the host contract. The separated embedded derivative must be measured at fair value through the Statement of Comprehensive Income.

The fair value of the GEB embedded derivative is calculated by an independent specialist and provided to NS&I by the DMO. The embedded derivative is an Asian option on the FTSE 100. The value is determined by the use of a local volatility model, which includes the following standard factors for options: FTSE 100 strike; FTSE dividend yield; time to maturity; implied FTSE volatility; and the risk-free yield.

The fair value of the embedded derivative is set at an equal and opposite value to the hedging derivative, with both values being reflected in the liability and the asset sides of the Statement of Financial Position.

2 Transactions with investors by product

	Received from investors	Interest and prizes earned	Paid to investors including tax deducted at source	Transfer to Residual Account	Increase/ (decrease) in investors' funds	Invested 31 March 2010	Invested 31 March 2009
	£000	£000	£000	£000	£000	£000	£000
Capital Bonds	–	29,902	(228,586)	(47,193)	(245,877)	581,388	827,265
Children's Bonus Bonds	34,151	47,945	(106,195)	–	(24,099)	1,273,666	1,297,765
Direct Saver	118,282	55	(400)	–	117,937	117,937	–
Easy Access Savings Account	816,776	20,187	(2,047,565)	–	(1,210,602)	2,628,431	3,839,033
First Option Bonds	–	3,738	(38,337)	–	(34,599)	127,895	162,494
Guaranteed Equity Bonds	75,312	27,506	(325,020)	–	(222,202)	382,009	604,211
Guaranteed Income Bonds and Guaranteed Growth Bonds	6,511,942	266,101	(1,911,367)	–	4,866,676	9,904,440	5,037,764
Income Bonds	1,462,524	157,524	(2,265,709)	–	(645,661)	8,549,362	9,195,023
Individual Savings Account	581,836	53,052	(1,194,000)	–	(559,112)	3,587,463	4,146,575
Investment Account	475,223	12,792	(1,106,987)	–	(618,972)	4,968,397	5,587,369
Pensioners' Guaranteed Income Bonds	(6)	50,154	(739,525)	(59,449)	(748,826)	811,822	1,560,648
Premium Bonds	6,498,450	524,088	(6,242,732)	–	779,806	41,572,648	40,792,842
Residual Account	21,426	543	(29,302)	106,642	99,309	443,927	344,618
Savings Certificates	1,559,792	717,441	(2,257,890)	–	19,343	23,854,569	23,835,226
Total	18,155,708	1,911,028	(18,493,615)	–	1,573,121	98,803,954	97,230,833

First Option Bonds, Guaranteed Income Bonds and Guaranteed Growth Bonds are the only products that have tax deducted at source. The total tax deducted during 2009–10 was £43,152,000 (2008–09: £13,801,000).

The GEB interest earned figure includes a revaluation gain from the embedded derivative at 31 March 2010 of £17,536,000 (31 March 2009: loss £230,738,000).

3 Interest and prizes payable to investors

	2009–10	2008–09
	£000	£000
National Loans Fund	1,911,028	2,554,289
Commissioners for the Reduction of the National Debt	–	732
Total	1,911,028	2,555,021

4 Amounts held by the NLF

	2009-10	2008-09
	£000	£000
As at 1 April	96,551,545	83,707,804
Interest and prizes earned by investors	1,911,028	2,554,289
Received from the NLF	(17,093,077)	(15,277,391)
Paid to the NLF	16,745,767	25,564,516
Amortisation of GEB principal liabilities due to fair value accounting	4,876	2,327
As at 31 March	98,120,139	96,551,545

The amounts held by the NLF as at 31 March 2010 relate to the following products:

	Principal liability	Accrued interest	Total
	£000	£000	£000
Capital Bonds	611,252	18,104	629,356
Children's Bonus Bonds	1,220,808	48,720	1,269,528
Direct Saver	49,430	55	49,485
Easy Access Savings Account	2,627,961	–	2,627,961
First Option Bonds	126,155	1,058	127,213
Guaranteed Equity Bonds	346,066	34,203	380,269
Guaranteed Income Bonds and Guaranteed Growth Bonds	9,786,540	100,261	9,886,801
Income Bonds	8,452,901	12,035	8,464,936
Individual Savings Account	3,508,188	49,205	3,557,393
Investment Account	4,940,219	2,953	4,943,172
Pensioners' Guaranteed Income Bonds	864,809	1,257	866,066
Premium Bonds	41,192,181	51,015	41,243,196
Residual Account	332,797	289	333,086
Savings Certificates	23,159,328	582,349	23,741,677
Total	97,218,635	901,504	98,120,139

The GEB accrued interest figure at 31 March 2010 of £34,203,000 (31 March 2009: £16,667,000) represents the fair value on the hedging derivative contained within the GEB products. Accordingly, the GEB principal liability is amortised using the effective interest rate method as described in note 1.6.

5 Amounts held by the CRND

	2009-10	2008-09
	£000	£000
As at 1 April	45,894	336,186
Interest and prizes earned by investors	–	732
Received from the CRND	(48,345)	(1,529)
Paid to the CRND	2,451	5,955
Transferred to the NLF in respect of the Residual Account	–	(295,465)
Loss recoveries paid to the CRND	–	15
As at 31 March	–	45,894

6 Other receivables

	31 March 2010	31 March 2009	1 April 2008
	£000	£000	£000
Agents	126,675	118,197	129,603
Post Office®	49,921	84,814	79,146
Other debtors	3,520	4,876	7,197
Total	180,116	207,887	215,946

Some NS&I products are distributed by the Post Office® and, until October 2009, by WHSmith. The latter changed to a marketing-based contract from November 2009. The Post Office® provides face-to-face counter and brochure pick-up services for customers, across its UK network.

7 Liability to investors

	Principal liability	Accrued interest	Liability 31 March 2010	Liability 31 March 2009	Liability 1 April 2008
	£000	£000	£000	£000	£000
Current liabilities					
Capital Bonds	563,284	18,104	581,388	827,265	1,017,086
Children's Bonus Bonds	1,224,946	48,720	1,273,666	1,297,765	1,306,302
Deposit Bonds	–	–	–	–	5,538
Direct Saver	117,882	55	117,937	–	–
Easy Access Savings Account	2,628,431	–	2,628,431	3,839,033	1,530,474
First Option Bonds	126,837	1,058	127,895	162,494	180,184
Guaranteed Equity Bonds	82,698	6,599	89,297	324,933	377,754
Guaranteed Income Bonds and Guaranteed Growth Bonds	9,804,179	100,261	9,904,440	5,037,764	863,498
Income Bonds	8,524,882	24,480	8,549,362	9,191,656	8,222,185
Individual Savings Account	3,538,258	49,205	3,587,463	4,146,575	3,993,408
Investment Account	4,965,444	2,953	4,968,397	5,587,369	5,434,264
Ordinary Account	–	–	–	–	307,292
Pensioners' Guaranteed Income Bonds	807,522	4,300	811,822	1,560,046	2,895,638
Premium Bonds	41,476,881	95,767	41,572,648	40,760,949	36,894,192
Residual Account	443,638	289	443,927	344,618	–
Save As You Earn	–	–	–	–	10,062
Savings Certificates	23,272,220	582,349	23,854,569	23,835,226	21,029,230
Treasurer's Account	–	–	–	–	19,465
Yearly Plan	–	–	–	–	19,528
	97,577,102	934,140	98,511,242	96,915,693	84,106,100
Non-current liabilities					
Guaranteed Equity Bonds	265,108	27,604	292,712	279,278	631,550
	265,108	27,604	292,712	279,278	631,550
Total liability to investors	97,842,210	961,744	98,803,954	97,194,971	84,737,650

All products are payable on demand and therefore are classified as current liabilities, except for GEBs, which have a five-year term and repay at maturity. A split of current and non-current liabilities was required upon conversion to IFRS.

8 Unclaimed funds

	31 March 2010	31 March 2009	1 April 2008
	£000	£000	£000
British Savings Bonds	–	–	2,656
Gift Tokens	–	–	1,531
Income Bonds	–	3,367	2,947
Pensioners' Guaranteed Income Bonds	–	602	431
Premium Bonds	–	31,893	29,264
Savings Stamps	–	–	5,773
	–	35,862	42,602
Aged one year or less	–	–	–
Aged more than one year but not more than two years	–	–	–
Aged more than two years but not more than five years	–	8,672	7,133
Aged more than five years	–	27,190	35,469
	–	35,862	42,602

Unclaimed funds represent old uncleared payments to investors. Unclaimed funds are repayable to investors on demand. All unclaimed funds were transferred to the Residual Account in April 2008, with the exception of Income Bonds, Pensioners' Guaranteed Income Bonds and Premium Bonds, which were transferred in September 2009.

9 Other payables

	31 March 2010	31 March 2009	1 April 2008
	£000	£000	£000
NLF	165	100	48
HM Revenue and Customs	4	2	–
Agents	150	–	–
Post Office®	521	–	173
Sales accruals and evidence of identity refunds	17,529	11,283	7,054
	18,369	11,385	7,275

10 Movement in net funds held by the NLF and the CRND

	2009–10	2008–09
	£000	£000
NLF		
Received from the NLF	17,093,077	15,277,391
Paid to the NLF	(16,745,767)	(25,564,516)
	347,310	(10,287,125)
CRND		
Received from the CRND	48,345	1,529
Paid to the CRND	(2,451)	(5,955)
Transferred to the NLF in respect of the Residual Account	–	295,465
Loss recoveries paid to the CRND	–	(15)
	45,894	291,024
Interest and prizes earned	(1,911,028)	(2,555,021)
Net cash outflow	(1,517,824)	(12,551,122)

Cash received from investors is not invested by NS&I but is passed daily to the NLF for all products. Cash is drawn from the NLF for payments to investors as and when required.

11 Categorisation of financial assets and liabilities

	31 March 2010	31 March 2009
	£000	£000
Assets		
Financial assets measured at fair value through statement of comprehensive income	34,203	16,667
Loans and receivables	98,266,052	96,788,659
Cash and cash equivalents	522,068	436,892
	98,822,323	97,242,218
Liabilities		
Financial liabilities measured at fair value through statement of comprehensive income	(34,203)	(16,667)
Financial liabilities measured at amortised cost	(98,788,120)	(97,225,551)
	(98,822,323)	(97,242,218)

12 Market, liquidity and credit risk

NS&I is an Executive Agency of the Chancellor of the Exchequer. NS&I's principal activity is to finance a part of the Government's borrowing by selling savings and investment products to retail savers and investors. Monies received by NS&I are passed to the NLF, which guarantees to honour the product terms and conditions in the form of a 100% HM Treasury guarantee. Therefore NS&I does not face any material market or credit risk. Credit risk relating to the agency and other debtors is mitigated by the short settlement period.

NS&I has no liquidity risk in respect of customer sales and repayments, as liquidity risk is managed through bank accounts held at the Bank of England and linked to the Ways and Means accounts at the NLF to ensure a smooth flow of funds between the NLF, NS&I and our customers. Interest rate risk belongs to the UK Government and is managed by the NLF in conjunction with the DMO. Liquidity is also managed by giving customers a fair deal in a highly competitive market. NS&I offers products that suit customers' needs, backed by excellent customer service and consistent product pricing. There is no currency exposure, as all assets and liabilities are denominated in sterling.

13 Product maturity profile

All products are repayable on demand, except for GEB products, which are repayable at maturity. As required by IFRS 7, the undiscounted maturity profile for the total liability for all products is as follows:

	Variable rate, prize-based and index-linked products 31 March 2010 £000	Fixed rate products 31 March 2010 £000	Non-interest bearing products 31 March 2010 £000	Total 31 March 2010 £000
Maturing in one year or less or repayable on demand	79,464,841	18,975,238	71,657	98,511,736
Maturing in more than one year but not more than two years	61,861	–	–	61,861
Maturing in more than two years but not more than five years	256,854	–	–	256,854
Maturing in more than five years	–	–	–	–
	79,783,556	18,975,238	71,657	98,830,451
	Variable rate, prize-based and index-linked products 31 March 2009 £000	Fixed rate products 31 March 2009 £000	Non-interest bearing products 31 March 2009 £000	Total 31 March 2009 £000
Maturing in one year or less or repayable on demand	81,366,538	15,428,838	159,236	96,954,612
Maturing in more than one year but not more than two years	84,671	–	–	84,671
Maturing in more than two years but not more than five years	223,104	–	–	223,104
Maturing in more than five years	–	–	–	–
	81,674,313	15,428,838	159,236	97,262,387

14 Fair values of assets and liabilities

	Total per accounts 31 March 2010 £000	Fair value 31 March 2010 £000
Assets		
Held by the NLF – all products apart from GEB	97,739,870	98,458,310
Held by the NLF – GEB	380,269	388,020
Held by the CRND	–	–
Cash and cash equivalents	522,068	522,068
Other receivables	180,116	180,116
	98,822,323	99,548,514
Liabilities		
Fixed rate products	(18,975,238)	(19,693,678)
GEB	(382,009)	(389,760)
Floating rate products	(79,375,050)	(79,375,050)
Non-interest bearing products	(71,657)	(71,657)
Other payables	(18,369)	(18,369)
	(98,822,323)	(99,548,514)
	Total per accounts 31 March 2009 £000	Fair value 31 March 2009 £000
Assets		
Held by the NLF – all products apart from GEB	95,953,158	96,141,783
Held by the NLF – GEB	598,387	607,668
Held by the CRND	45,894	45,894
Cash and cash equivalents	436,892	436,892
Other receivables	207,887	207,887
	97,242,218	97,440,124
Liabilities		
Fixed rate products	(15,428,837)	(15,617,462)
GEB	(604,211)	(613,492)
Floating rate products	(81,038,549)	(81,038,549)
Non-interest bearing products	(159,236)	(159,236)
Other payables	(11,385)	(11,385)
	(97,242,218)	(97,440,124)

There is no material difference between the carrying value and the fair value of the floating rate products (except GEBs), non-interest bearing products, other creditors and debtors. Therefore all of these balances are deemed to be at fair value. The fair value of the fixed rate products is derived by discounting future expected cash flows using the relevant gilt rates obtained from the DMO. Any impact of early repayments is ignored, as the impact of these is immaterial. The fair value of the assets held by the NLF is a mirror of the related liabilities which it guarantees subject to timing differences.

The fair value of the GEB product is the total of the fair value of the embedded derivative and the fair value of the related host contract. The fair value of the embedded derivative is calculated by an independent specialist company and provided to NS&I by the DMO. The fair value of the host contract is derived by discounting future expected cash flows at an appropriate zero coupon bond rate. The impact of early repayments on the GEB product has proven not to be material, and therefore does not impact upon the fair values shown. For each GEB issue a matched hedge is in place with the DMO.

15 Fair value hierarchy disclosures

In November 2009, an amendment was made to IFRS 7. The amendment provides enhanced disclosure about fair value measurement. It requires disclosure of any change in technique used to establish fair value, including reasons, and to classify the financial instrument measured at fair value into hierarchy level. There are three hierarchy levels which are based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy levels are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In the first year of application, comparative information need not be presented for the disclosures required by the amendment.

The following table presents financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy.

	Note	Level 2 31 March 2010 £000	Total 31 March 2010 £000
Assets			
GEB embedded derivative	(a)	34,203	34,203
		34,203	34,203
Liabilities			
GEB embedded derivative	(a)	(34,203)	(34,203)
		(34,203)	(34,203)

(a) GEB embedded derivative

When active market prices are not available (for example, for the equity leg of equity index / interest rate swaps), fair values are determined by using valuation techniques that refer to observable market data. Such instruments are classified as level 2 in the fair value hierarchy defined by IFRS 7. Note 1.9 contains further details of how the fair value of the GEB embedded derivative is calculated.

16 Related party transactions

NS&I is an Executive Agency of the Chancellor of the Exchequer. The Chancellor of the Exchequer is regarded as a related party. NS&I has not undertaken any material transactions with the Chancellor of the Exchequer during the year.

In addition to the DMO, NLF, CRND and HM Treasury (NS&I's relationships with these parties are mentioned in the 'Product Accounts background' and 'Our governance and board' sections), the Post Office® is a major distributor of NS&I products and, as a public body, the Post Office® is a related party. NS&I had a significant number of transactions with the Post Office® during the accounting period in relation to sales received from investors and repayments made to investors through Post Office® channels. The total amount received from the Post Office® during 2009–10 was £3.09 billion (2008–09: £8.02 billion) and the total amount transferred to the Post Office® for repayment during 2009–10 was £0.20 billion (2008–09: £0.23 billion).

The outstanding amount due from the Post Office® at 31 March 2010 is £49.92 million (2008–09: £84.81 million) and the outstanding amount due to the Post Office® at 31 March 2010 is £0.52 million (2008–09: £0).

Neither the Economic Secretary to HM Treasury nor the Financial Services Secretary to HM Treasury, no board member, key manager or other related party has undertaken any material transactions with NS&I during the year. Investments in NS&I products by members of staff are not considered to be related party transactions and are therefore excluded from this declaration.

17 Post balance sheet events

Following the general election in May 2010, Lord Sassoon was appointed Commercial Secretary to the Treasury with responsibility for NS&I. There are no other reportable post balance sheet events between the balance sheet date and 7 July 2010, the date of authorisation of the accounts. The financial statements do not reflect events after that date.