

# **NPI LIMITED**

**Annual FSA Insurance Returns for the year ended**

**31 December 2011**

**IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.6**

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**Statement of solvency - long-term insurance business**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2011	
	<b>3725037</b>	<b>GL</b>				<b>£000</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			<b>1</b>			<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	10000	10000
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	214317	154129
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	224317	164129

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	20364	18538
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	203953	145591

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	61092	55615
Resilience capital requirement	<b>32</b>	4661	4555
Base capital resources requirement	<b>33</b>	3056	3040
Individual minimum capital requirement	<b>34</b>	65754	60170
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	65754	60170
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	191440	134044
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	175002	119002

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	65754	60170

**Capital resources requirement (CRR)**

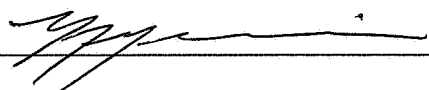
Capital resources requirement (greater of 36 and 40)	<b>41</b>	65754	60170
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	158563	103959

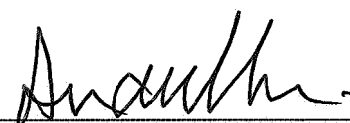
**Contingent liabilities**


Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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**Covering Sheet to Form 2**

Name of insurer                      **NPI LIMITED**  
Global business  
Financial year ended                **31 December 2011**

  
\_\_\_\_\_ **M J Merrick**                      **Chief Executive**

  
\_\_\_\_\_ **A Moss**                              **Director**

  
\_\_\_\_\_ **M D Ross**                              **Director**

Date                      20 March 2011

## Components of capital resources

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>

**Core tier one capital**

Permanent share capital	<b>11</b>		250000	250000	250000
Profit and loss account and other reserves	<b>12</b>		89875	89875	106335
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		339875	339875	356335

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	<b>21</b>				
Implicit Items	<b>22</b>				
Tier one waivers in related undertakings	<b>23</b>				
Total tier one waivers as restricted (21+22+23)	<b>24</b>				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>				
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		339875	339875	356335
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>		16086	16086	16086
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		18174	18174	15485
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		34259	34259	31571
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		305616	305616	324764

**Components of capital resources**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**

R3	Company registration number	GL/UK/CM	day month year			Units
			31	12	2011	
	<b>3725037</b>	<b>GL</b>				<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>				
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>				

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>				
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>				

**Components of capital resources**

Name of insurer

**NPI LIMITED**

Global business

Financial year ended

**31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units
	<b>R3</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		305616	305616	324764
Inadmissible assets other than intangibles and own shares	<b>73</b>		6601	6601	9839
Assets in excess of market risk and counterparty limits	<b>74</b>		74698	74698	150796
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				
Deductions of ineligible surplus capital	<b>77</b>				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		224317	224317	164129

**Available capital resources for GENPRU/INSPRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		224317	224317	164129
Available capital resources for 50% MCR requirement	<b>82</b>		224317	224317	164129
Available capital resources for 75% MCR requirement	<b>83</b>		224317	224317	164129

**Financial engineering adjustments**

Implicit items	<b>91</b>				
Financial reinsurance - ceded	<b>92</b>				
Financial reinsurance - accepted	<b>93</b>				
Outstanding contingent loans	<b>94</b>				
Any other charges on future profits	<b>95</b>				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>				

**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>	46029	44206
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield participations	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>	169476	112609
Rights under derivative contracts	<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	
	Other	<b>46</b>	
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	
	More than one month withdrawal	<b>55</b>	
Other financial investments	<b>56</b>		
Deposits with ceding undertakings	<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	
	Property linked	<b>59</b>	



**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3725037	GL	31	12	2011	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	
	Intermediaries	<b>72</b>	
Salvage and subrogation recoveries		<b>73</b>	
Reinsurance	Accepted	<b>74</b>	
	Ceded	<b>75</b>	
Dependants	due in 12 months or less	<b>76</b>	
	due in more than 12 months	<b>77</b>	
Other	due in 12 months or less	<b>78</b>	
	due in more than 12 months	<b>79</b>	

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>		
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	84	42

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	215590	156856
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**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3725037	GL	31	12	2011	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	215590	156856
Admissible assets in excess of market and counterparty limits	92	72234	150795
Inadmissible assets directly held	93	16086	16086
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	1252	(7)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	305162	323730
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	46029	44206

**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
	R13	3725037	GL	31	12	2011	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings				11			136448	140537

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41			
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43	146137	235592	
Rights under derivative contracts	44	115267	55235	
Fixed interest securities	Approved	45	497785	419200
	Other	46	537315	429485
Variable interest securities	Approved	47	44751	33209
	Other	48	38444	6411
Participation in investment pools	49			
Loans secured by mortgages	50	158	175	
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52	21	29	
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		3025
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	12477	10648
	Property linked	59	2637208	2956484

**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3725037	GL	31	12	2011	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

**Debtors and salvage**

Direct insurance business	Policyholders	71	230	
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	14272	17526
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	12378	11162
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	22253	19309
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	175	321

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	4215321	4338347
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**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3725037	GL	31	12	2011	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	4215321	4338347
Admissible assets in excess of market and counterparty limits	92	2462	
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99	6601	9839
Reinsurers' share of technical provisions excluded from line 89	100	909114	844930
Other asset adjustments (may be negative)	101	575	3925
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	5134074	5197041
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

**Long term insurance business liabilities and margins**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Total business/Sub fund **Total long term insurance business assets**Units **£000**

As at end of this financial year	As at end of the previous year
1	2

Mathematical reserves, after distribution of surplus	<b>11</b>	3348942	3552461	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	10000	10000	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	3358942	3562461	
Claims outstanding	Gross	<b>15</b>	6958	6189
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	6958	6189
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>23</b>	568540	535609	
Creditors	Direct insurance business	<b>31</b>	50	28
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	6071	26419
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	135174	141854	
Creditors	Taxation	<b>37</b>	393	262
	Other	<b>38</b>	127036	55197
Accruals and deferred income	<b>39</b>	4720	2713	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>	7437	7616	
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	856378	775886	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	4215320	4338347	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>		79
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	2637208	2956484

Total liabilities (11+12+49)	<b>71</b>	4205320	4328347
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	909114	844930
Other adjustments to liabilities (may be negative)	<b>74</b>	(21620)	(15079)
Capital and reserves and fund for future appropriations	<b>75</b>	41258	38843
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	<b>76</b>	5134073	5197041

**Liabilities (other than long term insurance business)**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R15</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>
				<b>As at end of this financial year 1</b>		<b>As at end of the previous year 2</b>	

**Technical provisions (gross amount)**

Provisions for unearned premiums	<b>11</b>		
Claims outstanding	<b>12</b>		
Provision for unexpired risks	<b>13</b>		
Equalisation provisions	Credit business	<b>14</b>	
	Other than credit business	<b>15</b>	
Other technical provisions	<b>16</b>		
Total gross technical provisions (11 to 16)	<b>19</b>		

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>		2720
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>	1251	7
Accruals and deferred income		<b>51</b>	22	
Total (19 to 51)		<b>59</b>	1273	2727
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>		
Total (59 to 63)		<b>69</b>	1273	2727

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance

**71**

Amounts deducted from technical provisions for discounting

**82**

Other adjustments (may be negative)

**83**

5273

3512

Capital and reserves

**84**

298616

317491

Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)

**85**

305162

323730

**Profit and loss account (non-technical account)**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**

		Company registration number	GL/ UK/ CM	day	month	year	Units
	<b>R16</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>
				<b>This financial year</b>		<b>Previous year</b>	
				<b>1</b>		<b>2</b>	
Transfer (to)/from the general insurance business technical account	From Form 20	<b>11</b>					
	Equalisation provisions	<b>12</b>					
Transfer from the long term insurance business revenue account		<b>13</b>			11454		23921
Investment income	Income	<b>14</b>			4808		4864
	Value re-adjustments on investments	<b>15</b>					
	Gains on the realisation of investments	<b>16</b>					
Investment charges	Investment management charges, including interest	<b>17</b>					
	Value re-adjustments on investments	<b>18</b>					
	Loss on the realisation of investments	<b>19</b>					
Allocated investment return transferred to the general insurance business technical account		<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)		<b>21</b>			(83)		30
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		<b>29</b>			16179		28815
Tax on profit or loss on ordinary activities		<b>31</b>			(448)		1370
Profit or loss on ordinary activities after tax (29-31)		<b>39</b>			16627		27445
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		<b>41</b>					
Tax on extraordinary profit or loss		<b>42</b>					
Other taxes not shown under the preceding items		<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))		<b>49</b>			16627		27445
Dividends (paid or foreseeable)		<b>51</b>			35000		
Profit or loss retained for the financial year (49-51)		<b>59</b>			(18373)		27445



**Analysis of derivative contracts**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>		Value as at the end of this financial year				Notional amount as at the end of this financial year			
		Assets <b>1</b>		Liabilities <b>2</b>		Bought / Long <b>3</b>		Sold / Short <b>4</b>	
Futures and contracts for differences	Fixed-interest securities	<b>11</b>			1957			59294	
	Interest rates	<b>12</b>	105535		54900		556050	391793	
	Inflation	<b>13</b>	1700					49572	
	Credit index / basket	<b>14</b>							
	Credit single name	<b>15</b>	92		8		10426		
	Equity index	<b>16</b>							
	Equity stock	<b>17</b>							
	Land	<b>18</b>							
	Currencies	<b>19</b>	1898		920		7878	128283	
	Mortality	<b>20</b>							
	Other	<b>21</b>	6042				29000		
In the money options	Swaptions	<b>31</b>							
	Equity index calls	<b>32</b>							
	Equity stock calls	<b>33</b>							
	Equity index puts	<b>34</b>							
	Equity stock puts	<b>35</b>							
	Other	<b>36</b>							
Out of the money options	Swaptions	<b>41</b>							
	Equity index calls	<b>42</b>							
	Equity stock calls	<b>43</b>							
	Equity index puts	<b>44</b>							
	Equity stock puts	<b>45</b>							
	Other	<b>46</b>							
Total (11 to 46)		<b>51</b>	115267		57785		603354	628942	
Adjustment for variation margin		<b>52</b>							
Total (51 + 52)		<b>53</b>	115267		57785				

**Long-term insurance business : Revenue account**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	85294	99558
Investment income receivable before deduction of tax	12	136035	120532
Increase (decrease) in the value of non-linked assets brought into account	13	99421	59172
Increase (decrease) in the value of linked assets	14	(159570)	283100
Other income	15	425	765
<b>Total income</b>	<b>19</b>	<b>161605</b>	<b>563126</b>

**Expenditure**

Claims incurred	21	252065	258269
Expenses payable	22	15450	13662
Interest payable before the deduction of tax	23	308	306
Taxation	24	(3256)	(4300)
Other expenditure	25	89102	69407
Transfer to (from) non technical account	26	11454	23921
<b>Total expenditure</b>	<b>29</b>	<b>365123</b>	<b>361265</b>

Business transfers - in	31	12257	11504
Business transfers - out	32	12257	11504
Increase (decrease) in fund in financial year (19-29+31-32)	39	(203519)	201862
Fund brought forward	49	3562461	3360599
Fund carried forward (39+49)	59	3358942	3562461

**Long-term insurance business : Analysis of premiums**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11	6504	21871		28375	31742
Single premiums	12	664	64622		65286	74563

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15	37	297		334	431
Single premiums	16		8033		8033	6317

**Net of reinsurance**

Regular premiums	17	6467	21574		28041	31311
Single premiums	18	664	56589		57253	68246

**Total**

Gross	19	7168	86493		93661	106305
Reinsurance	20	37	8330		8367	6747
Net	21	7131	78163		85294	99558

**Long-term insurance business : Analysis of claims**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11	12998	9674		22672	22263
Disability periodic payments	12					27
Surrender or partial surrender	13	38695	140694		179389	153087
Annuity payments	14	3765	71405		75170	72931
Lump sums on maturity	15	10769	34467		45236	76315
<b>Total</b>	<b>16</b>	<b>66227</b>	<b>256240</b>		<b>322467</b>	<b>324623</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Death or disability lump sums	31	2412	454		2866	2653
Disability periodic payments	32					
Surrender or partial surrender	33	14956	5353		20309	16149
Annuity payments	34		43826		43826	42816
Lump sums on maturity	35		3401		3401	4736
<b>Total</b>	<b>36</b>	<b>17368</b>	<b>53034</b>		<b>70402</b>	<b>66354</b>

**Net of reinsurance**

Death or disability lump sums	41	10586	9220		19806	19610
Disability periodic payments	42					27
Surrender or partial surrender	43	23739	135341		159080	136938
Annuity payments	44	3765	27579		31344	30115
Lump sums on maturity	45	10769	31066		41835	71579
<b>Total</b>	<b>46</b>	<b>48859</b>	<b>203206</b>		<b>252065</b>	<b>258269</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11				
Commission - other	12	123	465	588	625
Management - acquisition	13				
Management - maintenance	14	4849	10968	15817	13890
Management - other	15				
<b>Total</b>	<b>16</b>	<b>4972</b>	<b>11433</b>	<b>16405</b>	<b>14515</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34	355	600	955	853
Management - other	35				
<b>Total</b>	<b>36</b>	<b>355</b>	<b>600</b>	<b>955</b>	<b>853</b>

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42	123	465	588	625
Management - acquisition	43				
Management - maintenance	44	4494	10368	14862	13037
Management - other	45				
<b>Total</b>	<b>46</b>	<b>4617</b>	<b>10833</b>	<b>15450</b>	<b>13662</b>

**Long-term insurance business : Linked funds balance sheet**

Name of insurer **NPI LIMITED**  
 Total business  
 Financial year ended **31 December 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	11	4857	1734
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	2634330	2961754
<b>Total assets (excluding cross investment) (11+12+13)</b>	<b>14</b>	<b>2639187</b>	<b>2963488</b>
Provision for tax on unrealised capital gains	15	18	18
Secured and unsecured loans	16		
Other liabilities	17	738	6356
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>2638431</b>	<b>2957114</b>

**Directly held linked assets**

Value of directly held linked assets	21		
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**Total**

Value of directly held linked assets and units held (18+21)	31	2638431	2957114
Surplus units	32	1223	630
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>2637208</b>	<b>2956484</b>

**Long-term insurance business : Revenue account for internal linked funds**

Name of insurer **NPI LIMITED**  
 Total business  
 Financial year ended **31 December 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Value of total creation of units	11	127161	109611
Investment income attributable to the funds before deduction of tax	12	82735	61153
Increase (decrease) in the value of investments in the financial year	13	(159570)	283100
Other income	14		
<b>Total income</b>	<b>19</b>	<b>50326</b>	<b>453864</b>

**Expenditure**

Value of total cancellation of units	21	334568	304776
Charges for management	22	26334	25728
Charges in respect of tax on investment income	23	8099	7390
Taxation on realised capital gains	24	(121)	303
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	129	1040
Other expenditure	26		216
<b>Total expenditure</b>	<b>29</b>	<b>369009</b>	<b>339453</b>

Increase (decrease) in funds in financial year (19-29)	39	(318683)	114411
Internal linked fund brought forward	49	2957114	2842703
Internal linked funds carried forward (39+49)	59	2638431	2957114

**Long-term insurance business : Summary of new business**

Name of insurer **NPI LIMITED**  
 Total business  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11				
Single premium business	12				
<b>Total</b>	<b>13</b>				

**Amount of new regular  
premiums**

Direct insurance business	21	216	37		253	9
External reinsurance	22					
Intra-group reinsurance	23					23
<b>Total</b>	<b>24</b>	<b>216</b>	<b>37</b>		<b>253</b>	<b>32</b>

**Amount of new single  
premiums**

Direct insurance business	25	484	335		820	1771
External reinsurance	26					
Intra-group reinsurance	27	179	64287		64466	72473
<b>Total</b>	<b>28</b>	<b>664</b>	<b>64622</b>		<b>65286</b>	<b>74244</b>











**Long-term insurance business : Assets not held to match linked liabilities**

Name of insurer **NPI LIMITED**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11	136448	136448		4.12	
Approved fixed interest securities	12	504223	504223	19626	3.13	
Other fixed interest securities	13	550320	550320	28409	4.01	
Variable interest securities	14	85886	85886	1748	3.78	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	288757	288757	234	0.30	
<b>Total</b>	<b>19</b>	<b>1565635</b>	<b>1565635</b>	<b>50016</b>	<b>3.04</b>	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	<b>29</b>					

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

**Long-term insurance business : Fixed and variable interest assets**

Name of insurer **NPI LIMITED**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	133377	15.51	2.81	2.81

<b>Other approved fixed interest securities</b>	<b>21</b>	370847	11.31	3.24	3.17
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**Other fixed interest securities**

AAA/Aaa	31	9800	18.01	3.81	3.40
AA/Aa	32	88487	10.99	3.92	3.47
A/A	33	260373	8.38	3.94	3.34
BBB/Baa	34	185534	6.71	3.93	2.92
BB/Ba	35	6127	2.99	10.79	10.17
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
<b>Total other fixed interest securities</b>	<b>39</b>	550320	8.35	4.01	3.30

<b>Approved variable interest securities</b>	<b>41</b>	47038	18.41	2.83	2.83
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<b>Other variable interest securities</b>	<b>51</b>	38849	10.80	4.93	4.21
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	1140430	10.65	3.60	3.21
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**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12	39970	1267878	1307847	1134858
Form 52	13	99064	64721	163785	175258
Form 53 - linked	14	356872	2280336	2637208	2956484
Form 53 - non-linked	15	4991	96966	101957	91087
Form 54 - linked	16	1859	34252	36112	32402
Form 54 - non-linked	17	199	1733	1933	2301
<b>Total</b>	<b>18</b>	<b>502956</b>	<b>3745887</b>	<b>4248843</b>	<b>4392390</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>				

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32		658633	658633	595315
Form 52	33	96797	64721	161518	172999
Form 53 - linked	34				
Form 53 - non-linked	35	1	56107	56108	49857
Form 54 - linked	36		23635	23635	21753
Form 54 - non-linked	37		7	7	6
<b>Total</b>	<b>38</b>	<b>96798</b>	<b>803103</b>	<b>899900</b>	<b>839929</b>

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42	39970	609245	649215	539544
Form 52	43	2267	0	2267	2259
Form 53 - linked	44	356872	2280336	2637208	2956484
Form 53 - non-linked	45	4990	40859	45849	41230
Form 54 - linked	46	1859	10618	12477	10648
Form 54 - non-linked	47	199	1726	1926	2295
<b>Total</b>	<b>48</b>	<b>406158</b>	<b>2942784</b>	<b>3348942</b>	<b>3552461</b>





**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer

NPI LIMITED

Total business / subfund

Total long term insurance business assets

Financial year ended

31 December 2011

Units

£000

UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit		284					6569
400	Annuity non-profit (CPA)	14758	82500					1251754
435	Miscellaneous non-profit	11	731	2				39
440	Additional reserves non-profit OB							9516

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **NPI LIMITED**  
 Total long term insurance business assets  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
390	Deferred annuity non-profit		283					6434
400	Annuity non-profit (CPA)		46810					652199

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer

**NPI LIMITED**

Total business / subfund

**Total long term insurance business assets**

Financial year ended

**31 December 2011**

Units

**£000**

UK Life / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
500	Life WWP single premium	3730	96703		96553	87668	11215	98883
610	Additional reserves WWP						181	181

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Life / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium		96703		96553	87668	9129	96797

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer  
 Total business / subfund  
 Financial year ended  
 Units  
 UK Pension / Gross

**NPI LIMITED**  
**Total long term insurance business assets**  
**31 December 2011**  
**£000**

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP	942	17962	151	17962	16279	2119	18398
535	Group money purchase pensions UWP	5445	35339	69	35339	34822	2749	37571
570	Income drawdown UWP	62	9818		9818	8667	85	8752
605	Miscellaneous protection rider		1	0			0	0

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP		17962	151	17962	16279	2119	18398
535	Group money purchase pensions UWP		35339	69	35339	34822	2749	37571
570	Income drawdown UWP		9818		9818	8667	85	8752

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer  
 Total business / subfund  
 Financial year ended  
 Units  
 UK Life / Gross

**NPI LIMITED**  
 Total long term insurance business assets  
 31 December 2011  
 £000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	11936	237733		236712	236712	2853	239565
710	Life property linked whole life regular premium	3109	95910	1181	36313	35750	401	36151
715	Life property linked endowment regular premium - savings	10903	198357	4986	81563	81790	1731	83521
720	Life property linked endowment regular premium – target cash		5874	164	2619	2619	3	2623
770	Term assurance rider		675	12			1	1
790	Miscellaneous protection rider			5			2	2

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **NPI LIMITED**  
 Total long term insurance business assets  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
770	Term assurance rider		675	12			1	1



**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **NPI LIMITED**  
 Total long term insurance business assets  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked	70421	1877387	17619	1877033	1864337	89513	1953850
735	Group money purchase pensions property linked	17527	370432	2979	370432	367998	5698	373696
750	Income drawdown property linked	350	44870		44870	44870	(142)	44728
755	Trustee investment plan	11	1920		1920	1920		1920
790	Miscellaneous protection rider		438	21			28	28
795	Miscellaneous property linked	3	1211		1211	1211		1211
800	Additional reserves property linked						1869	1869

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked						56107	56107

**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **NPI LIMITED**  
 Total long term insurance business assets  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity (CPA)	70	229		1859	1859	199	2059

**Long-term insurance business : Valuation summary of index linked contracts****Name of insurer**  
NPI LIMITED**Total business / subfund****Financial year ended**  
31 December 2011**Units**

£000

**UK Pension / Gross****Total long term insurance business assets**

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
905	Index linked annuity (CPA)	128	2113		34252	34252	1733	35986

**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer

NPI LIMITED

Total business / subfund

Total long term insurance business assets

Financial year ended

31 December 2011

Units

£000

UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity (CPA)		1600		23635	23635	7	23642

**Long-term insurance business : Unit prices for internal linked funds**

Name of insurer **NPI LIMITED**

Total business

Financial year ended **31 December 2011**

Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
NPI - Pension Managed	12 - Individual Pension - Balanced Managed Fund	1271068	Ordinary Series 1 & 2	1.01	17.7860	16.9920	(4.46)
NPI - Pension UK Equity	15 - Individual Pension - UK Equity	173005	Ordinary Series 1 & 2	1.01	23.2250	21.9320	(5.57)
PAULP - Retirement Managed	14 - Individual Pension - Other Managed Fund	285482	Mixed Accumulation	1.00	4.4360	4.2870	(3.36)
PAUF - Balanced Managed	02 - Life - Balanced Managed Fund	103838	Mixed Accumulation	1.00	3.4080	3.2800	(3.76)

**Long-term insurance business: Analysis of valuation interest rate**Name of insurer **NPI LIMITED**Total business **Total long term insurance business assets**Financial year ended **31 December 2011**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UKL NP Code 395/440/905	40088	3.15	3.15	3.41
UKP NP Code 390/400/440/905	610932	3.15	3.15	3.41
UKL NP Code 700/710/715/720	4746	1.30	1.30	1.42
UKL WP Code 500/575	2267	1.30	1.30	1.42
UKP NP Code 725	9632	1.30	1.30	1.42
UKP NP Code 725	21873	2.50	2.50	2.63
UKP NP Code 725/735	7600	1.30	1.30	1.42
Misc	2119	n/a	n/a	1.42
<b>Total</b>	699257			

**Long-term insurance business : Distribution of surplus**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	3358943	3562461
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	11454	23921
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	3370397	3586382
Mathematical reserves	21	3348942	3552461
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	21455	33921

**Composition of surplus**

Balance brought forward	31	10000	10000
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	11454	23921
Total	39	21455	33921

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	11454	23921
Total distributed surplus (46+47)	48	11454	23921
Surplus carried forward	49	10000	10000
Total (48+49)	59	21455	33921

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		



**Long-term insurance business : With-profits payouts on maturity (normal retirement)**

Name of insurer **NPI LIMITED**  
 Original insurer **NPI LIMITED**  
 Date of maturity value / open market option **01 March 2012**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	25	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	27567	1532	0	UWP	N	27567
Regular premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	11919	0	0	UWP	N	11919
Single premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a

## Long-term insurance business : With-profits payouts on surrender

Name of insurer **NPI LIMITED**  
 Original insurer **NPI LIMITED**  
 Date of surrender value **01 March 2012**

Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	10	11187	0	-466	UWP	Y	11665
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	11561	0	-358	UWP	Y	11919

**Long-term insurance capital requirement**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2011**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%		0.50		
Classes I (other), II and IX	14	0.3%	9948	3823	15	28
Classes III, VII and VIII	15	0.3%	178927	178927	537	595
<b>Total</b>	<b>16</b>		<b>188875</b>	<b>182750</b>	<b>552</b>	<b>623</b>

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	1476492	651482	0.85	12550	11140
Classes III, VII and VIII (investment risk)	33	1%	187520	111315	0.85	1594	1570
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	278546	278546	1.00	2785	3065
Classes III, VII and VIII (other)	35	25%				1179	1090
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					<b>18108</b>	<b>16864</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	1476492	651482	0.85	37651	33419
Classes III, VII and VIII (investment risk)	43	3%	187520	111315	0.85	4782	4709
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	278546	278546			
Classes III, VII and VIII (other)	45	0%	2307600	2307600			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		<b>4250159</b>	<b>3348943</b>		<b>42432</b>	<b>38128</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>61092</b>	<b>55615</b>
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## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

#### Financial year ended 31 December 2011

#### Appendix 9.1

##### \*0201\* Modification to the Return

The FSA, on the application of the insurer made a direction under section 148 of the Financial Services and Markets Act 2000 in November 2007. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination.

The FSA, on the application of the firm, made a direction in December 2008 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to enable the firm to take into account 'reversionary interests in land' for the purposes of determining the yield and internal rate of return on assets in accordance with INSPRU 3.1.34R and INSPRU 3.1.39R respectively.

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in April 2009. The effect of the direction is to modify the provisions of INSPRU 2.1.22R so that a group of persons is not closely related by reason of the relationship described in INSPRU 2.1.40R (1) if control is exercised by, or on behalf of, HM Treasury.

##### \*0204\* Future developments

Subject to approval by the FSA and the High Court, during 2012 the Company plans to transfer, under Part VII of the Financial Services and Markets Act 2000, all of the long term business and the SHF to its parent, Phoenix Life Limited ("PLL") for £nil consideration.

##### \*0301\* Reconciliation of net admissible assets to total capital resources after deductions

	2011 £000	2010 £000
Net admissible assets:		
Total other than long term insurance business assets - Form 13 line 89	215,590	156,856
Total long term insurance business assets - Form 13 line 89	4,215,321	4,338,347
Less Liabilities - Form 14 line 71	(4,205,321)	(4,328,347)
Less Liabilities - Form 15 line 69	(1,273)	(2,727)
Total capital resources after deductions	<u>224,317</u>	<u>164,129</u>

##### \*0310\* Net valuation differences shown in Form 3 line 35

	2011 £000	2010 £000
Valuation differences included within Form 3 line 35		
Positive valuation differences in respect of liabilities		
Deferred tax liability	11,420	10,548
Negative valuation differences in respect of liabilities		
Provision for reasonably foreseeable adverse variations	(7,437)	(7,616)
FSA prudent reserves	(22,157)	(18,417)
Net valuation difference	<u>(18,174)</u>	<u>(15,485)</u>

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

##### \*0313\* Reconciliation of the movement in profit and loss account and other reserves

	2011 £000
Profit and loss account and other reserves – Form 3 line 12 column 3	89,875
Profit and loss account and other reserves – Form 3 line 12 column 4	106,335
Movement	<u>(16,460)</u>
Explained by:	
Profit or loss retained for the financial year – Form 16 line 59	(18,373)
Non-Profit fund IFRS profit	13,870
Transfer from Non-Profit fund to Shareholder Fund	(11,454)
Change in Deferred Tax Liability	(503)
	<u>(16,460)</u>

##### \*1305\* & \*1319\* Counterparty limits

- (a) The investment guidelines operated by the insurer limit exposure to any one counterparty by establishing limits for each type. These limits are set by reference to the individual and aggregated limits set out in the market and counterparty limits in Chapter 2.1 of the Prudential Sourcebook for Insurers.
- (b) The maximum permitted exposure to a counterparty other than an approved counterparty during the year was 5% of the business amount, calculated in accordance with Chapter 2.1 of the Prudential Sourcebook for Insurers. The exception to this is for loans to other insurers within the same group, where the application of these guidelines is just one of the factors considered in determining the most appropriate allocation of capital within the group.
- (c) There were no breaches of these limits during the year.

##### \*1306\* & \*1312\* Counterparty exposure at the end of the financial year

There was one case where the exposure of the insurer to any one counterparty at the end of the financial year exceeded 5% of the sum of the base capital resources requirement and the long-term insurance liabilities, excluding property linked benefits and net of reinsurance ceded.

This exposure is a loan to the insurer's parent undertaking, Phoenix Life Limited with a value of £118.3 million.

##### \*1308\* Unlisted and listed investments

The insurer has no unlisted investments or listed investments which are not readily realisable and which fall within lines 41, 42, 46 or 48 of Form 13.

There are no units or other beneficial interests in collective investment schemes, as specified in instruction 5 to Form 13.

There are no reversionary interests or remainders in property other than land and buildings.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

##### \*1309\* Hybrid securities

The aggregate value of these investments falling within lines 46 or 48 of Form 13 Total long term business insurance assets which are hybrid securities is £97.8m (2010: £58.2m).

##### \*1318\* Other asset adjustments

Included within line 101 of Form 13, for 2011 are the following amounts:

	Long Term	Other than long term
	£000	£000
Reclassification of other creditors	575	1,252
	<u>575</u>	<u>1,252</u>

Included within line 101 of Form 13, for 2010 are the following amounts:

	Long Term	Other than long term
	£000	£000
Reclassification of other creditors	3,925	(7)
	<u>3,925</u>	<u>(7)</u>

##### \*1401\* & \*1501\* Provision for reasonably foreseeable adverse variations

On 30 September 1999, the insurer entered into a refinancing arrangement with a wholly owned subsidiary of Santander UK plc (formerly Abbey National Group plc). The insurer has originated a portfolio of residential property investments subject to life tenancies (reversions) against which it has sold Extra Income Plan annuity contracts. The insurer has sold 93% of "shared growth" reversions and entered into an arrangement whereby the Santander subsidiary will commit to acquire future "shared growth" reversions which the insurer originates on pre-agreed terms. As part of the arrangement, the insurer has undertaken to indemnify the Santander subsidiary against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. There is an interest charge of LIBOR plus 1.125% on capital used for the reversion purchases. The insurer will be liable for the first 7% of any losses arising from sales proceeds underperforming the movement of the regional Halifax house price indices. Losses in excess of 7%, together with any loss arising from the movement of the regional Halifax house price indices; will be borne by the Santander subsidiary. On 30 April 2002, Santander UK plc ceased to refinance new reversions.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

The key assumptions used to calculate the reversion amounts were:

- Mortality: 80% IML92/IFL92 with CMI17 improvements together with a surrender assumption (50% increase) to allow for sale before death without immediate repurchase.
- Future specific house price inflation- 0.67% p.a.

A provision for adverse mortality and specific house price inflation experience was calculated based on a cashflow projection assuming:

- Mortality: 100% IML92 with 100% average medium and long cohort improvements with a 1.5% floor (C2012); 100% IFL92 with 75% average medium and long cohort improvements with a 1.25% floor (C2012).
- Future specific house price inflation -0.92% p.a. below the growth in the Halifax house price index (assumed to be -0.42% p.a.) is assumed.
- A future LIBOR rate of 2.08% p.a. plus an additional 1.125% and a discount rate of 1.83% p.a. were assumed in calculating the provision.

The total provision was £7.4million.

No other provision for reasonably foreseeable adverse variations is made as consideration is given to ensure assets of an identical or similar nature are held so that the derivative contracts are effectively covered. All contracts are reasonably covered and any potential provision is considered immaterial.

The assets of the insurer are valued at fair value. Consideration is given to any assets where the valuation requires judgement or where the asset is considered to be illiquid (with a lock up period of greater than one year) or is valued using an internal model.

These assets are subject to the rules set out in GENPRU 1.3.30R to GENPRU 1.3.33R, which are applied to all identified assets. In assessing the need for a provision the following assumptions have been made:

- The insurer, as part of its asset allocation strategy, invests in assets which are less liquid or where judgement is required within the valuation. The asset liability management process monitors liquidity on a monthly basis and ensures that there is sufficient liquidity at all times. A provision is established for less liquid positions.
- Opal assets are collateralised and the assets and liabilities are matched. Opal assets are regularly assessed to ensure that there is sufficient liquidity within the funds to meet its obligations therefore no further adjustments are considered necessary for Opal assets.

No additional provisions have been identified.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

#### \*1402\* & \*1502\* Liabilities

- (a) A reinsurance treaty between the insurer and Opal Reassurance Limited ("Opal") was signed during 2007. Under the terms of this agreement effective from 1 January 2007, the pension annuity in payment liabilities were reassured to Opal, thereby substantially removing longevity and investment risk from the insurer. The premium payable has been withheld by the insurer as collateral and Opal has a fixed charge over the assets. The aggregate value of the assets which are subject to the charge is £568.5 million (2010: £535.6 million) (see table below).

Assets which are subject to the charge	2011 £000	2010 £000
Form 13		
Line 43 – Holdings in collective investment schemes	98,512	173,374
Line 44 – Rights under derivative contracts	79,186	48,079
Line 45 – Approved fixed interest securities	191,585	159,614
Line 46 – Other fixed interest securities	254,263	172,500
Line 47 – Approved variable interest securities	18,235	15,895
Line 48 – Other variable interest securities	6,344	-
Line 81 – Deposits not subject to time restriction on withdrawal with approved institution	206	1,052
Line 84 – Accrued interest and rent	8,877	6,869
Less Form 14		
Line 38 – Creditors other	88,668	41,774
Total	<u>568,540</u>	<u>535,609</u>

- (b) There is no potential liability to taxation on capital gains, which could arise if the insurer were to dispose of its long term insurance business assets.
- (c) In common with other life companies in the United Kingdom which have written pension transfer and opt out business, the insurer has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated using data derived from detailed file reviews of specific cases and from a statistical review of other outstanding cases, are included in the mathematical reserves.

The Personal Investment Authority (PIA) issued guidelines in 1995 on the analysis of cases by priority and the method of calculation of compensation. The provision for possible redress included in the mathematical reserves for Phase 1 is £22.2 million (2010: £20.2 million). The provision for possible redress included in the mathematical reserves for Phase 2 cases is £0.1 million (2010: £0.1 million).

Included in the mathematical reserves are also provisions for additional associated costs of £0.3 million (2010: £0.4 million).

The above cost of the provision has fallen on shareholders so other policyholders' benefits have not been affected in any way.



## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

(d) The insurer has no guarantees, indemnities or other contractual commitments affected other than in the ordinary course of its insurance business in respect of related companies.

(e) In the opinion of the directors, there are no other fundamental uncertainties affecting the financial position of the insurer.

#### \*1405\* Other adjustments to liabilities

Included in line 74 of Form 14 are the following amounts:

	2011 £000	2010 £000
Positive valuation differences in respect of liabilities		
Deferred taxation liability	7,399	7,029
Reclassification of other creditors	575	3,925
Negative valuation differences in respect of liabilities		
Provision for reasonably foreseeable adverse variations	(7,437)	(7,616)
FSA prudent reserves	(22,157)	(18,417)
Total	<u>(21,620)</u>	<u>(15,079)</u>

#### \*1507\* Other adjustments to liabilities

Included within line 83 of Form 15 are the following amounts

	2011 £000	2010 £000
Deferred tax liability	4,021	3,519
Reclassification of other creditors	1,252	(7)
Form 15 line 83	<u>5,273</u>	<u>3,512</u>

#### \*1601\* Basis of conversion of foreign currency

Assets and liabilities denominated in foreign currency are translated using the closing rate method. Exchange differences on opening net assets are dealt with in the profit and loss account.

#### \*1603\* Other income and charges

Other income and charges comprise professional indemnity insurance.

#### \*1700\* Analysis of derivative contracts

In respect of Form 17 Other than long term insurance business, all amounts required to be shown would be zero and this Form has not been included in the Return.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

##### \*1701\* Variation margin

Our practice is to seek collateral for derivative asset positions from our counterparties as part of our overall credit risk.

Credit risk on exchange traded derivatives is managed through initial and variation margin. The insurer has a liability to repay "excess" variation margin received at the end of the financial year of £nil included in Form 13 Line 81 and has been reflected as "variation margin" in form 17 Line 52.

Credit risk on over the counter derivatives is managed through collateralisation and is received on the basis of "net" exposure from derivative assets and liabilities from each counterparty. Collateral is received in the form of cash or approved fixed interest securities.

Where cash is held as collateral, in line with IFRS accounting standards, it is reported in Form 13 Line 43 with an equal liability to repay the collateral in Form 14 Line 38 rather than reducing the value shown in form 13 Line 44. This balance of £68m has in consequence not been reflected as "variation margin" in Form 17 Line 52. Where collateral is received in the form of approved fixed interest securities, in line with IFRS accounting standards, such collateral is not reported as an asset in Form 13 or a liability in Form 14. This balance of £nil has not been reported in Form 13 line 45 and Form 17 Line 52.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.3

##### \*4002\* Other income and expenditure

	2011 £000	2010 £000
Other income		
Annual management charges	242	402
Administration fees and charges	183	363
Total	<u>425</u>	<u>765</u>
Other expenditure		
Annual management charges payable	16,102	13,935
Change in deposits received from reinsurers	73,000	55,472
Total	<u>89,102</u>	<u>69,407</u>

Annual management charges are payable to National Provident Life Limited and Pearl Assurance Limited. The change in deposits received from reinsurers represents the change in the value of collateral assets. Other technical charges are reinsurance related.

##### \*4004\* Business transfers

During the year £12.3m (2010: £11.5m) of vesting annuities have remained within the Fund. These amounts have not been recognised as part of premiums and claims on Form 41 and Form 42 respectively but as "business transfers – in" and "business transfers – out". As these amounts are not single premiums on Form 41 they have not been included in the new business Form 46 and Form 47.

##### \*4008\* Provision of management services

Pearl Group Services Limited has provided management services to the insurer. Ignis Investment Management Limited, Ignis Asset Management Limited and Henderson Global Investors Limited have provided investment services during the financial year to the insurer.

State Street Bank and Trust Company have provided custody and accounting, securities lending, transition management and associated services for the Ignis managed assets of the insurer for the whole of the financial year.

##### \*4401\* Basis of valuation of assets

Investments are stated at current value at the end of the financial year, calculated as follows:

- listed investments are stated at the bid market value
- short term deposits are included at cost
- other investments are shown at directors' estimates of market value

##### \*4502\* Other expenditure

Other expenditure consists of distributions paid out of Higher/Classic distribution funds and safe custody fees.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.3 (continued)

##### \*4702\* & \*5104\* & \*5204\* & \*5304\* Hybrid Contracts

Benefits on hybrid contracts have been included proportionally to the policyholder count in the appropriate forms.

##### \*4803\* Coupon Rates

Where the coupon rate of a sinkable bond exceeds the yield for that bond; it is assumed that the bond will be redeemed at the earliest possible date.

##### \*4901\* Credit rating agency

Ratings shown are the weaker of ratings provided by Moody's Investors Services and Standard & Poor's Corporation, otherwise the credit ratings used were provided by Ignis Investment Management Limited.

##### \*5600\* Long term insurance business: Index linked business

In respect of Form 56 Long term insurance business: index linked business, the form is not included in the return as index linked assets are less than £100 million.

##### \*5702\* Analysis of valuation of interest rates

The risk-adjusted yields on Form 57 determined from the cash flows of assets taken in combination in terms of the waiver specified in Note \*0201\* are:

<b>Product Group</b>	<b>Risk adjusted yield</b>
UKL NP Code 395/440/905	3.41%
UKP NP Code 390/400/440/905	3.41%
UKL WP Code 500/575	1.42%
UKP WP Code 725/735	1.42%
Misc	1.42%

## Returns under the Accounts and Statements Rules

### Statement of additional information on derivative contracts required by rule 9.29

#### NPI Limited

#### Global Business

#### Financial year ended 31 December 2011

- (a) During the financial year the insurer operated an investment policy for the use and control of derivatives. This policy lists the approved derivative contracts and the approved uses of derivatives, establishes procedures for introducing new contracts or uses, identifies areas of risk, and establishes a control framework for dealing, settlement and independent monitoring and reporting of derivatives.

The insurer uses derivatives in its portfolio management to hedge against market movements in the values of assets in the portfolio (reduction of investment risks), and as a means of effecting a change in exposure to different asset classes without disturbing underlying physical holdings (efficient portfolio management). In addition, the insurer uses derivatives to match liabilities to mitigate the effect of changes in market variables on its capital position.

It is the insurer's policy that all obligations to transfer assets or pay monetary amounts arising under derivative contracts are covered by cash, physical securities or other specific commitments. Consequently the insurer does not trade derivative contracts against uncovered positions, and portfolios may not be geared by means of derivatives.

The insurer controls market risks through the setting of exposure limits which are subject to detailed monitoring and review. Sophisticated risk management systems are employed to enable exposures, risks and sensitivities to be analysed on a total portfolio basis, providing for greater control. Market and liquidity risks are reduced by requiring all futures and options positions to be backed by cash or securities.

The insurer permits the purchase of partly paid shares, subject to the unpaid capital being covered by cash, and also convertible bonds as alternatives to investment in the underlying equities.

- (b) Subject to the investment principles described above, the investment policy permits the writing of contracts, under which the insurer has a right or an obligation to acquire or dispose of assets. The portfolio manager must be satisfied that the strike price is reasonable in terms of the current portfolio and market conditions at outset, in case the contract is subsequently exercised.

The investment policy for the use and control of derivatives imposes overriding provisions that the investment rationale for their use is clearly understood; that each contract is admissible in terms of the Prudential Sourcebook for Insurers (INSPRU) and that derivatives may not be used to gear a portfolio. The policy specifically excludes the use of derivatives that cannot be sufficiently well modelled using the Investment Manager's internal risk management systems, without the prior approval of the senior management of the Investment Manager.

- (c) The company was not a party to any such contracts of the kind described in (b) at any time during the financial year.
- (d) The insurer has not made use of any derivative contract at any time during the financial year which required a significant provision to be made under INSPRU 3.2.17R or did not fall within the definition of a permitted derivative contract.
- (e) The total value of fixed considerations received during the financial year in return for granting rights under derivative contracts was £nil.

## Returns under the Accounts and Statements Rules

### Statement of additional information on controllers required by rule 9.30

#### NPI Limited

#### Global Business

#### Financial year ended 31 December 2011

The persons who, to the knowledge of the insurer, were controllers at any time during the financial year were:

- a) Phoenix Life Limited;
- b) Pearl Life Holdings Limited;
- c) Impala Holdings Limited;
- d) Pearl Group Holdings (No. 2) Limited;
- e) Phoenix Life Holdings Limited;
- f) PGH (LCA) Limited;
- g) PGH (LCB) Limited;
- h) PGH (LC1) Limited;
- i) PGH (LC2) Limited;
- j) PGH (MC1) Limited;
- k) PGH (MC2) Limited;
- l) PGH (TC1) Limited;
- m) PGH (TC2) Limited;
- n) Phoenix Group Holdings;
- o) Xercise Limited;
- p) Alpha-Gamma Shares Limited\*;
- q) Alphabet Shares Limited\*;
- r) Delta Shares Limited\*;
- s) Zeta Shares Limited\*;
- t) Eta Shares Limited\*;
- u) Theta Shares Limited\*;
- v) Iota Shares Limited\*;
- w) Kappa Shares Limited\*;
- x) TDR Shares Limited\*;
- y) Lamda Shares Limited\*;
- z) Xercise 2 Limited\*;
- aa) Jambright Limited;
- bb) TDR Capital Nominees Limited; and
- cc) TDR Capital LLP

\* approved as a controller on 6 April 2011

The persons who, to the knowledge of the insurer, were controllers at the end of the financial year were:

#### 1. Phoenix Life Limited

As at 31 December 2011, Phoenix Life Limited owned 100% of the issued share capital of NPI Limited and was able to exercise 100% of the voting power at any general meeting.

#### 2. Pearl Life Holdings Limited

As at 31 December 2011, Pearl Life Holdings Limited owned 100% of the issued share capital of Phoenix Life Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **NPI Limited**

#### **Global Business**

#### **Financial year ended 31 December 2011**

(continued)

#### **3. Impala Holdings Limited;**

As at 31 December 2011, Impala Holdings Limited owned 100% of the issued share capital of Pearl Life Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

#### **4. Pearl Group Holdings (No. 2) Limited**

As at 31 December 2011, Pearl Group Holdings (No. 2) Limited owned 75% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 75% of the voting power at any general meeting.

#### **5. Phoenix Life Holdings Limited**

As at 31 December 2011, Phoenix Life Holdings Limited owned 100% of the issued share capital of Pearl Group Holdings (No. 2) Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

#### **6. PGH (LCA) Limited**

As at 31 December 2011, PGH (LCA) Limited owned 50% of the issued share capital of Phoenix Life Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

#### **7. PGH (LCB) Limited**

As at 31 December 2011, PGH (LCB) Limited owned 50% of the issued share capital of Phoenix Life Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

#### **8. PGH (LC1) Limited**

As at 31 December 2011, PGH (LC1) Limited owned 12.5% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power at any general meeting.

#### **9. PGH (LC2) Limited**

As at 31 December 2011, PGH (LC2) Limited owned 12.5% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 12.5% of the voting power at any general meeting.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **NPI Limited**

##### **Global Business**

##### **Financial year ended 31 December 2011**

(continued)

#### **10. PGH (MC1) Limited**

As at 31 December 2011, PGH (MC1) Limited owned 100% of the issued share capital of PGH (LC1) Limited which in turn owned 12.5% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking. PGH (MC1) Limited was not able to exercise, or control the exercise of, any voting power at a general meeting of NPI Limited or another company of which NPI Limited is a subsidiary undertaking.

#### **11. PGH (MC2) Limited**

As at 31 December 2011, PGH (MC2) Limited owned 100% of the issued share capital of PGH (LC2) Limited which in turn owned 12.5% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking. PGH (MC2) Limited was not able to exercise, or control the exercise of, any voting power at a general meeting of NPI Limited or another company of which NPI Limited is a subsidiary undertaking.

#### **12. PGH (TC1) Limited**

As at 31 December 2011, PGH (TC1) Limited owned 100% of the issued share capital of PGH (MC1) Limited which in turn owned 100% of the issued share capital of PGH (LC1) Limited which in turn owned 12.5% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking. PGH (TC1) Limited was not able to exercise, or control the exercise of, any voting power at a general meeting of NPI Limited or another company of which NPI Limited is a subsidiary undertaking.

#### **13. PGH (TC2) Limited**

As at 31 December 2011, PGH (TC2) Limited owned 100% of the issued share capital of PGH (MC2) Limited which in turn owned 100% of the issued share capital of PGH (LC2) Limited which in turn owned 12.5% of the issued share capital of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking. PGH (TC2) Limited was not able to exercise, or control the exercise of, any voting power at a general meeting of NPI Limited or another company of which NPI Limited is a subsidiary undertaking.

#### **14. Phoenix Group Holdings**

As at 31 December 2011, Phoenix Group Holdings owned 100% of the issued share capital of PGH (LCA) Limited, PGH (LCB) Limited, PGH (TC1) Limited and PGH (TC2) Limited, which between them indirectly owned 100% of the ordinary shares of Impala Holdings Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power of PGH (LCA) Limited, PGH (LCB) Limited, PGH (TC1) Limited and PGH (TC2) Limited at any general meeting of these companies.



## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **NPI Limited**

##### **Global Business**

##### **Financial year ended 31 December 2011**

(continued)

#### **15. Xercise Limited**

As at 31 December 2011, Xercise Limited owned one share in Phoenix Group Holdings (equivalent to 0.00000057%), a company of which NPI Limited is a subsidiary undertaking, and was able to exercise its voting rights in respect of the one share (equivalent to 0.00000057%) at any general meeting of Phoenix Group Holdings.

#### **16. Alpha-Gamma Shares Limited**

As at 31 December 2011, Alpha-Gamma Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 3.89% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 3.89% of the voting power at any general meeting.

#### **17. Alphabet Shares Limited**

As at 31 December 2011, Alphabet Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.43% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.43% of the voting power at any general meeting.

#### **18. Delta Shares Limited**

As at 31 December 2011, Delta Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.34% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.34% of the voting power at any general meeting.

#### **19. Zeta Shares Limited**

As at 31 December 2011, Zeta Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 1.14% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 1.14% of the voting power at any general meeting.

#### **20. Eta Shares Limited**

As at 31 December 2011, Eta Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 1.32% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 1.32% of the voting power at any general meeting.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **NPI Limited**

#### **Global Business**

#### **Financial year ended 31 December 2011**

(continued)

#### **21. Theta Shares Limited**

As at 31 December 2011, Theta Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.41% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.41% of the voting power at any general meeting.

#### **22. Iota Shares Limited**

As at 31 December 2011, Iota Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.57% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.57% of the voting power at any general meeting.

#### **23. Kappa Shares Limited**

As at 31 December 2011, Kappa Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.06% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.06% of the voting power at any general meeting.

#### **24. TDR Shares Limited**

As at 31 December 2011, TDR Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.44% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.44% of the voting power at any general meeting.

#### **25. Lamda Shares Limited**

As at 31 December 2011, Lamda Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.01% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 0.01% of the voting power at any general meeting.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **NPI Limited**

##### **Global Business**

##### **Financial year ended 31 December 2011**

(continued)

#### **26. Xercise2 Limited**

As at 31 December 2011, Xercise2 Limited directly owned 4.7% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to directly exercise 4.7% of the voting power at any general meeting.

As at 31 December 2011, Xercise2 Limited and its subsidiary undertakings, which are associates within the meaning of the Financial Services and Markets Act 2000, in aggregate owned 13.3% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and were able to exercise 13.3% of the voting power at any general meeting.

#### **27. Jambright Limited**

As at 31 December 2011, Jambright Limited, which is an associate of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 2.6% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 2.6% of the voting power at any general meeting.

#### **28. TDR Capital Nominees Limited**

As at 31 December 2011, TDR Capital Nominees Limited, which is an associate of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 13.7% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 13.7% of the voting power at any general meeting.

In addition, TDR Capital Nominees Limited's ownership of 100% of the B Ordinary class of shares in Xercise2 Limited, ultimately entitles them to the 0.44% interest in the share capital of Phoenix Group Holdings owned by TDR Shares Limited.

#### **29. TDR Capital LLP**

As at 31 December 2011, TDR Capital LLP and its subsidiary undertakings, which are associates within the meaning of the Financial Services and Markets Act 2000, in aggregate owned 16.7% of the share capital of Phoenix Group Holdings, a company of which NPI Limited is a subsidiary undertaking, and were able to exercise 16.7% of the voting power at any general meeting.

# NPI Limited

## Appendix 9.4

### Abstract of Valuation Report

#### Introduction

1. (1) The date of the actuarial investigation (the valuation date) is 31 December 2011.
- (2) The date of the previous actuarial investigation under rule 9.4 was 31 December 2010.
- (3) Since the previous valuation date, there have been no interim valuations (for the purposes of rule 9.4).

#### Product range

2. On 1 October 2006, under the terms of Part VII of the Financial Services and Markets Act 2000, all the long term insurance business of Pearl Assurance (Unit Funds) Limited, Pearl Assurance (Unit Linked Pensions) Limited, and London Life Linked Assurances Limited was transferred to NPI Limited.

Throughout the rest of this report, "PAUF" refers to the business transferred from Pearl Assurance (Unit Funds) Limited, "PAULP" refers to the business transferred from Pearl Assurance (Unit Linked Pensions) Limited, "LLLA" refers to the business transferred from London Life Linked Assurances Limited, and "NPIL" refers to the business already being conducted by NPI Limited at the time of the transfer.

There were no significant changes to NPIL, PAUF, PAULP, or LLLA products during the financial year.

#### Discretionary charges and benefits

3. (1) Market value reductions ("MVRs") were applied on NPIL business as follows:

Product	Premium Investment Date	Period applied
Portfolio Bond Series 1	Jan 2000 to 16 Sep 2001	Throughout 2011
	17 Sep 2001 to Mar 2002	Until 29 Jun 2011 and from 30 Sep 2011
	Apr 2002 to Jun 2002	Until 30 Mar 2011 and from 30 Sep 2011
	Oct 2005 to Jun 2006	Until 30 Mar 2011 and from 30 Sep 2011
	July 2006 to Sep 2006	Until 29 Jun 2011 and from 30 Sep 2011
	Oct 2006 to Dec 2007	Throughout 2011
	Jan 2008 to Mar 2008	Until 30 Mar 2011 and from 30 Sep 2011
	Apr 2011 to Jun 2011	From 30 Sep 2011
Portfolio Bond Series 2	Jan 2000 to Aug 2001	Throughout 2011
	Sep 2001 to Mar 2002	Until 29 Jun 2011 and from 30 Sep 2011
	Apr 2002 to Jun 2002	Until 30 Mar 2011 and from 30 Sep 2011
	Oct 2005 to Jun 2006	Until 30 Mar 2011 and from 30 Sep 2011
	July 2006 to Sep 2006	Until 29 Jun 2011 and from 30 Sep 2011
	Oct 2006 to Dec 2007	Throughout 2011
	Jan 2008 to Mar 2008	Until 30 Mar 2011 and from 30 Sep 2011

	Apr 2011 to Jun 2011	From 30 Sep 2011
Investment Bond	Oct 2000 to Mar 2002	Throughout 2011
	Apr 2002 to Jun 2002	Until 29 Jun 2011 and from 30 Sep 2011
	Jul 2005 to Dec 2005	Until 30 Mar 2011 and from 30 Sep 2011
	Jan 2006 to Dec 2007	Throughout 2011
	Jan 2008 to Mar 2008	Until 29 Jun 2011 and from 30 Sep 2011
	Apr 2008 to Jun 2008	Until 30 Mar 2011 and from 30 Sep 2011
	Apr 2011 to Jun 2011	From 30 Sep 2011
Socially Responsible Investment Bond	Oct 2000 to Mar 2001	Throughout 2011
	Apr 2001 to Jun 2001	Until 30 Mar 2011 and from 30 Sep 2011
	Oct 2006 to Dec 2006	From Sep 2011
	Jan 2007 to Mar 2007	Until 30 Mar 2011 and from 30 Sep 2011
	Apr 2007 to Jun 2007	Throughout 2011
	Jul 2007 to Dec 2007	Until 29 Jun 2011 and from 30 Sep 2011
	Jan 2011 to Jun 2011	From 30 Sep 2011
Pensions business (excluding Capital Account)	Jan 2000 to 16 Sep 2001	Throughout 2011
	17 Sep 2001 to Mar 2002	Until 29 Jun 2011 and from 30 Sep 2011
	Apr 2002 to Jun 2002	Until 30 Mar 2011 and from 30 Sep 2011
	Oct 2005 to Dec 2005	Until 30 Mar 2011
	Jan 2006 to Jun 2006	Until 30 Mar 2011 and from 30 Sep 2011
	Jul 2006 to Sep 2006	Until 29 Jun 2011 and from 30 Sep 2011
	Oct 2006 to Dec 2007	Throughout 2011
	Jan 2008 to Mar 2008	Until 29 Jun 2011 and from 30 Sep 2011
	Apr 2008 to Jun 2008	Until 30 Mar 2011 and from 30 Sep 2011
	Jul 2008 to Sep 2008	Until 30 Mar 2011
	Oct 2010 to Jun 2011	From 30 Sep 2011
Socially Responsible With-profit Pensions business	Feb 2001 to Mar 2001	Throughout 2011
	Apr 2001 to Jun 2001	Until 29 Jun 2011 and from 30 Sep 2011
	Jul 2001 to 16 Sep 2001	From 30 Sep 2011
	Oct 2006 to Dec 2006	From 30 Sep 2011
	Jan 2007 to Mar 2007	Until 30 Mar 2011 and from 30 Sep 2011
	Apr 2007 to Jun 2007	Throughout 2011
	Jul 2007 to Dec 2007	Until 29 Jun 2011 and from 30 Sep 2011
	Jan 2008 to Mar 2008	From 30 Sep 2011
	Oct 2010 to Sep 2011	From 30 Sep 2011

(2) There are no such policies.

(3) There are no such policies.

(4) Policy fees on NPIL linked policies were increased by 3.16% on 1 January 2011 in line with the September 2009 to September 2010 increase in the Retail Prices Index.

Policy fees on PAULP Prosperity Personal Pension Version 1 policies increased by 1.5% on 1 January 2011 in line with the July 2009 to July 2010 increase in the National Average Earnings Index.

- (5) During the financial year benefit charges on linked business remained unchanged.
- (6) During the financial year, unit management charges for accumulating with-profits and linked business remained unchanged.
- (7) (a) Units are of two main types. They are called initial and ordinary in NPIL and the corresponding types are capital and accumulation in PAUF and PAULP. LLLA has only accumulation units. The following method applies to all units.
- (i) The creation or cancellation of units in the internal linked funds is performed at unrounded bid price values. This ensures that unit prices are unaffected by the creation or cancellation of units and that the interests of unit holders not taking part in a unit transaction are unaffected by that transaction
  - (ii) Base prices are derived from the internal fund valuations, which are adjusted for fund specific charges. Increasing the base price by the bid-offer spread and rounding to the higher tenth of a penny gives the "offer price". The "bid price" is the base price rounded to the lower tenth of a penny, except on certain PAUF and PAULP policies whose bid prices are rounded to the higher tenth of a penny. Units are allocated to policies at the offer price and cancelled at the bid price. Units are allocated to Stakeholder policies at bid price. Switches in and out of units within a policy are processed at bid prices.
  - (iii) The asset values of the internal linked funds are calculated on a "bid" basis, as the expected cash flows are negative for all asset categories. The valuation includes the income since the last valuation and allowances for tax on income and realised and unrealised capital gains.
  - (iv) The assets of the internal linked funds are valued at noon on each working day. If markets move significantly between noon and 4 pm, allowance for this market movement is made. This market adjustment is made automatically every day for LLLA business.
- (b) During the financial year there was no time at which different pricing bases applied to different policies.
- (c) A mid-market price applies to the collective investment schemes, although this price may swing up or down if the net transactions on any trading day exceed a set threshold. The time on each working day at which the assets in the internal linked funds are valued is the same as that at which the units in the underlying collective investment schemes are valued (except for the NPIL Multi Manager Pension Fund, whose unit price is based on the previous pricing day's prices of the underlying funds).
- (8) Tax on realised and unrealised gains and losses is accrued daily in the internal linked Life funds. Gains in Life equity funds are index-adjusted. There are no tax accruals in Pension funds.

As at the end of 2011, all Equity funds (PAUF, NPIL and LLLA) had accumulated losses and tax rates for both losses and gains (realised and unrealised) were set to zero.

In the event that tax rates are non zero, the practice is that accruals for realised gains and losses in Equity funds are cleared at the end of each month. Accruals for unrealised gains and losses would be cleared at the end of each financial year under the "deemed disposal" regime.

For Fixed Interest Funds (PAUF, NPIL and LLLA) a tax rate of 20% is currently applied to all realised and unrealised gains and tax relief of 20% applied to all realised and unrealised losses. Fixed interest tax accruals are cleared at the end of the month.

- (9) See (8) above.
- (10) The internal linked funds receive an initial charge discount and an annual management charge rebate when purchasing, selling or holding units in collective investment funds. This ensures

that the policyholder is not subject to two sets of charges.

#### **Valuation basis (other than for special reserves)**

4. (1) The general principles and methods adopted in the valuation are:

##### **Non-Linked Business**

Mathematical reserves have been determined using a gross premium method except as mentioned below.

Some non-profit assurances have been valued using the net premium method of valuation. It is unmodified, except that:

- (i) Policies subject to an extra premium are valued as if effected at the standard premium and a further provision of one year's extra office premium is held.
- (ii) If the net premium on the valuation basis exceeds the office premium, the premium valued is the office premium.
- (iii) For classes of business where the difference between the office premium and the net premium is considered insufficient to cover future expenses an additional reserve is held.

A provision for the immediate payment of claims is made.

A reserve for policies where premiums are unpaid is held. This reserve is equivalent to the normal net premium reserve assuming premiums are paid to date, less the outstanding office premiums.

All deferred annuities with a return on death are valued ignoring mortality before vesting.

The amount of the gross mathematical reserve for unitised with-profit, unitised Socially Responsible with-profit, and capital accounts is calculated as follows:

- (i) The present value of the units is determined by accumulating the existing units at the guaranteed minimum bonus rates to the retirement date for Pensions, or over the expected lifetime of the policyholder for Life, and discounting the resulting sum at the valuation rate of interest. Under Portfolio Bond 2 any guaranteed bonus payable at the first policy anniversary, if it has not yet been reached, any remaining fees due in the first five years, and the additional bonus payable at the fifth policy anniversary and every five years thereafter are all taken into account. Under PPP Series 2 and FIP (nil bid-offer spread version) the number of existing units is increased by the number of loyalty bonus units due at the retirement date.

For regular premium policies the units that will be bought from future premiums are accumulated at the guaranteed minimum bonus rates to the retirement date and discounted at the valuation rate of interest. From this the value of the future premiums less future commission (discounted at the valuation rate of interest) is deducted. Allowance is made for the possibility that the policy is made paid-up, and hence future premiums not paid, in these calculations.

- (ii) An expense reserve is calculated by applying an annuity factor for the appropriate term to the expense provision, net of a prudent allowance for charges recoverable. The annuity factor is calculated at a rate of interest that allows for future inflation at an assumed rate. An extra reserve for any future fund based renewal commission is added, if appropriate.

##### **Index Linked Business**

Mathematical reserves have been determined using a gross premium method.

## Property Linked Business

Mathematical reserves have been determined by valuing the units allocated to policies and adding a non-unit reserve for mortality and expenses.

The non-unit reserve is calculated using a discounted cashflow approach. Where the projected cashflows show no future shortfall in any year there is no recourse to additional finance and no sterling reserve is required. Where the projection produces a shortfall, the discounted value of the cashflows is calculated. This is the sterling reserve required to ensure that no recourse to additional finance is required.

(2) The valuation rates of interest are:

Product Group	Current Valuation	Previous Valuation
<b>Sterling reserve discount rates</b>		
Life	1.30%	3.40%
Pensions	1.30%	3.40%
<b>Annuities</b>		
NPIL Annuities in Payment	3.15%	3.95%
NPIL Index-linked Annuities in Payment	2.20%	3.35%
PAULP Annuities in Payment	3.77%	4.15%
PAULP Index-linked Annuities in Payment	2.97%	3.95%
<b>Other</b>		
Life Non Profit	1.30%	3.40%
Pension Non Profit	1.30%	3.40%
Life Unitised With Profit	1.30%	3.40%
Pension Unitised With Profit	3.60%	4.10%

### (3) Approved Securities

No reduction was applied other than a yield deduction on sovereign debt rated below AAA, or sovereign debt rated AAA but notched downwards to below AAA in line with the description for other securities below.

#### Other securities

A deduction was applied to the yield on an individual stock by stock basis to allow for the risk of default. The individual stock risk margins were calculated as a long term average default rate plus an additional allowance for short-term factors and expected deviations from the historic average.

The long term average default rates (in basis points), net of an allowance for recovery on default, were:

Rating	5yr	10yr	20yr
AAA	4.3	12.3	15.2
AA	19.0	32.1	48.2
A	33.2	47.7	65.3
BAA	82.8	104.1	122.4
BA	261.3	277.3	287.2
B	591.3	524.7	442.5

A number of different techniques were then employed to arrive at an additional haircut, namely:

- Stocks were 'notched' downwards where the credit rating was considered to be inappropriate (after analysis of the current market spread and other factors).
- For bank subordinated debt the haircut was based on the rating of senior debt issued by the borrowing company, with an assumption of nil recovery on default. If a materially more onerous result was obtained by the standard approach described above then the standard approach was adopted for bank subordinated debt. This assessment was



performed at an aggregated portfolio level; for this fund, bank subordinated debt adopted the approach based on senior debt with no recovery.

- For corporate bonds rated below B no value was taken for the yield.
- An additional reserve of £2.6m is held to allow for higher levels of default in the medium term. This is not reflected in the default rates in the table above.

For sovereign debt, the above principles were also applied. Where a sovereign debt holding was rated A or below, or where notching was applied to treat the holding as being rated A or below, default allowances were as per the table above. For sovereign debt holdings rated AA, or notched to AA, default allowances were one-third of those indicated in the above table. For sovereign debt holdings rated AAA no default allowance was made.

There are no significant equity or property holdings in NPI Limited other than those held in linked funds. Yields on equities are taken to be the same as those on the unit trust holdings.

(4) The mortality bases<sup>(1)</sup> are:

Product Group	2011		2010	
	Males	Females	Males	Females
NPIL Pre-vesting				
All business	100% AM92	100% AF92	100% AM92	100% AF92
NPIL Post-vesting/In payment				
Pension annuities	85.5% RMV00 <sup>(2)</sup>	103.5% RFV00 <sup>(2)</sup>	85% RMV00 <sup>(2)</sup>	101% RFV00 <sup>(2)</sup>
Pensions deferred annuities	85.5% RMV00 <sup>(2)</sup>	103.5% RFV00 <sup>(2)</sup>	85% RMV00 <sup>(2)</sup>	101% RFV00 <sup>(2)</sup>
Group GAF annuities	85.5% RMV00 <sup>(2)</sup>	103.5% RFV00 <sup>(2)</sup>	85% RMV00 <sup>(2)</sup>	101% RFV00 <sup>(2)</sup>
Life/IRS/Individual GAF annuities	100% IML92 <sup>(3)</sup>	100% IFL92 <sup>(4)</sup>	100% IML92 <sup>(3)</sup>	100% IFL92 <sup>(4)</sup>
Life deferred annuities	100% IML92 <sup>(3)</sup>	100% IFL92 <sup>(4)</sup>	100% IML92 <sup>(3)</sup>	100% IFL92 <sup>(4)</sup>
PAUF Single Premium	95% AMC00	95% AFC00	95% AMC00	95% AFC00
PAUF Regular Premium	116% AMC00	116% AFC00	116% AMC00	116% AFC00
PAULP linked products	79% AMC00	79% AFC00	79% AMC00	79% AFC00
PAULP immediate annuities	106% RMV00 <sup>(2)</sup>	118% RFV00 <sup>(2)</sup>	106% RMV00 <sup>(2)</sup>	118% RFV00 <sup>(2)</sup>
LLLA all business	100% A67/70	100% A67/70 rated down 4 years	100% A67/70	100% A67/70 rated down 4 years

Notes:

1. Ultimate mortality has been used in all cases.
2. CMI 2009 improvements: 3.25% for ages up to age 60, reducing linearly to 0% at age 120.
3. Annual improvements: average of Medium and Long cohort improvements, with 1.5% floor.
4. Annual improvements: 75% of average of Medium and Long cohort improvements, with minimum of the CMI17 floor and 1.25%.

For annuity contracts, life expectations in years for males are:

Product Group	Annuities in payment		Deferred annuities: life expectation at age 65	
	Age 65	Age 75	Age 45	Age 55
<b>NPIL</b>				
Pensioners annuities	24.9	15.6		
Group GAF annuities	24.9	15.6		
Life/IRS/Ind GAF annuities	24.0	15.0		
Life deferred annuities			26.8	25.4
Pensions deferred annuities			28.0	26.5
<b>PAULP</b>				
Immediate annuities	23.0	14.0		

For annuity contracts, life expectations in years for females are:

Product Group	Annuities in payment		Deferred annuities: life expectation at age 65	
	Age 65	Age 75	Age 45	Age 55
<b>NPIL</b>				
Pensioners annuities	26.3	16.3		
Group GAF annuities	26.3	16.3		
Life/IRS/Ind GAF annuities	25.5	16.0		
Life deferred annuities			27.7	26.6
Pensions deferred annuities			29.0	27.7
<b>PAULP</b>				
Immediate annuities	25.7	15.8		

- (5) There are no products representing a significant amount of business that require a morbidity basis.

(6) The expense bases are:

Product Group	£ Per Policy (p.a.)		% of Assets under Management (p.a.)	
	2011	2010	2011	2010
<b>NPIL</b>				
UWP Life Bonds	56.16	52.98	n/a	n/a
UWP Pension Sing Prem	67.29	63.48	0.40	0.43
UWP Pension Reg Prem	36.71	34.63	0.40	0.43
UL Life Bonds	20.87	19.69	0.97	0.86
UL Life increments	20.87	19.69	0.58	0.55
UL Pension Sing Prem	27.02	25.48	0.40	0.53
UL Pension Reg Prem	27.02	25.48	0.40	0.53
UL Grp Pension Sing Prem	27.02	25.48	0.40	0.53
UL Grp Pension Reg Prem	27.02	25.48	0.40	0.53
UL Pensions increments	27.02	25.48	0.23	0.25
Immediate Annuities	29.41	27.74	0.095	0.095
<b>PAUF</b>				
UL Life Reg Prem	22.92	21.82	0.80	0.78
UL Life Sing Prem	22.92	21.82	0.80	0.78
<b>PAULP</b>				
UL Pension Reg Prem	28.52	27.17	0.39	0.43
UL Pension Sing Prem	28.52	27.17	0.39	0.43
Immediate Annuities (up to March 2018)	27.01	25.20	0.09	0.10
Immediate Annuities (after March 2018)	50.14	47.54	0.09	0.10
<b>LLLA</b>				
Unit Linked	44.49	42.37	0.42	0.43

The “% of Assets under Management” figures above include investment management expenses.

No tax relief is applied to any of the figures in the table above.

(7) Unit Growth, Expense Inflation, and Policy Fee inflation rates are:

Product Group	Gross Unit Growth Rate (% p.a.)		Expense Inflation Rate (% p.a.)		Policy Fee Inflation Rate (% p.a.)	
	2011	2010	2011	2010	2011	2010
NPIL						
UWP	n/a	n/a	4.0	4.4	2.6	3.0
Unit Linked	3.4	4.7	4.0	4.4	2.6	3.0
Immediate Annuities	n/a	n/a	4.0	4.4	n/a	n/a
PAUF						
Unit Linked	3.4	4.7	3.0	3.4	n/a	n/a
PAULP						
Unit Linked	3.4	4.7	3.0	3.4	3.1	3.5
Immediate Annuities	n/a	n/a	3.7	4.0	n/a	n/a
LLLA						
Unit Linked	3.4	4.7	3.0	3.4	n/a	n/a

The unit growth rates for Life business are reduced to allow for tax at the nominal rate of 20%, adjusted to allow for franking of UK dividends and indexation relief on equity capital gains.

- (8) All with-profits business is reinsured out, so the future bonus assumptions are not relevant. In calculating the gross and reinsurance ceded reserves the assumption is that existing unit values are accumulated at any guaranteed minimum bonus rates. Under Portfolio Bond 2 any guaranteed bonus payable at the first policy anniversary, if it has not been reached, and the additional bonus payable at each fifth policy anniversary are all taken into account. Under PPP Series 2 and FIP (nil bid-offer spread version) the number of existing units is increased by the loyalty bonus units due at retirement date.

(9) A summary of the lapse, surrender, and paid-up assumptions is:

Product Group	Decrement Type	Average lapse/ surrender/ paid-up rate for the policy years (% p.a)			
		1-5	6-10	11-15	16-20
NPIL					
Life					
• All business	Surrender	0	0	0	0
• All business	Automatic withdrawals	1.00	1.00	1.00	1.00
Pension					
• UWP indiv regular premium	Paid-Up	15.0	15.0	15.0	15.0
• UWP indiv regular premium	Surrender	0.0	0.0	0.0	0.0
• UWP indiv single premium	Surrender	0.0	0.0	0.0	0.0
• UL indiv regular premium	Paid-Up	15.0	15.0	15.0	15.0
• UL indiv regular premium	Surrender	2.5	2.5	2.5	2.5
• UL group regular premium	Paid-Up	33.0	33.0	33.0	33.0
• UL group regular premium	Surrender	3.2	3.2	3.2	3.2
• UL indiv single prem (ALIS)	Surrender	3.1	3.1	3.1	3.1
PAUF (all Life)					
UL savings endowment	Surrender	4.0	4.0	4.0	4.0
UL target cash endowment	Surrender	4.0	4.0	4.0	4.0
UL bond	Surrender	4.0	4.0	4.0	4.0
UL bond	Automatic withdrawals	2.2	2.2	2.2	2.2
PAULP (all Pension)					
UL indiv regular premium	Paid-Up	10.5	10.5	10.5	10.5
UL indiv regular premium	Surrender	1.5	1.5	1.5	1.5
UL indiv single premium	Surrender	1.0	1.0	1.0	1.0
LLLA (all Life)					
UL bond	Surrender	3.75	3.75	3.75	3.75
UL bond	Automatic withdrawals	0	0	0	0

(10) Other material basis assumptions:

(i) Tax rates on investment income are:

Type of business	2011	2010
UK Life – UK dividend income	0%	0%
UK Life – income from assets backing life annuities	0%	0%
UK Life – other income	20%	20%
UK Pensions – all income	0%	0%

(11) Derivative contracts may be held within some of the collective investment schemes in which the unit-linked funds invest. Their market value is reflected within the unit liabilities.

NPI Limited has purchased an inflation hedge to protect its realistic per policy expense cash flows (defined in terms of its Management Services Agreement with Pearl Group Services Limited). The derivation of the expense inflation assumptions allows for this hedge.

When deriving the valuation rate of interest an adjustment for swaps has been calculated as the difference in IRR on the assets excluding the swaps and their cashflows, and the IRR on the assets including the swaps and their cashflows.

Derivatives were allowed for in determining the liability for guaranteed annuity options, as described below.

(12) Changes were shown at 31 December 2007.

### Options and guarantees

5. (1) (a) The guaranteed annuity option reserve (which applies only to PAULP business written before 25 October 1985) is calculated by valuing a portfolio of swaptions whose payoffs replicate the excess of the guaranteed annuity payments over the expected annuity payments from the contracts that have this option.

The expected annuity rate takes into account the annuity pricing basis and choices of retirement age, tax free cash percentages, escalation rate and guarantee period; it is also calculated using interest rates derived from a properly calibrated model of future risk free yields from the gilts market.

The valuation is calculated at individual policy level and allows for the take up rate of the guarantee and the terms of the guarantee.

- (b) The reserve for the annuity rate guarantee reinsured into Pearl Assurance Limited has been determined in accordance with the basis set out below:

Assumption	2011		2010	
Surrender Rate	2% single premium 0.88% regular premium		2% single premium 0.88% regular premium	
Take up Rate	100%		100%	
Rate of interest	Min (Gilts, LIBOR)		Min (Gilts, LIBOR)	
Mortality in payment	106.0% RMV00 <sup>(1)</sup> 118.0% RFV00 <sup>(1)</sup>		104.0% RMV00 <sup>(1)</sup> 118.0% RFV00 <sup>(1)</sup>	
Expected annuity guarantee periods	0 years	55%	0 years	55%
	5 years	10%	5 years	10%
	10 years	35%	10 years	35%
Tax free lump sum	10% decreasing at 0.25% p.a. to 5% after 20 years		10% decreasing at 0.25% p.a. to 5% after 20 years	
Retirement Rates	See below		See below	

Notes:

1. CMI 2009 improvements: 3.25% up to age 60, declining to nil at age 120.

## Retirement Rates

The following proportions of policyholders retiring at each possible retirement age have been assumed:

Age Attained	2011	2010
60	27%	27%
61	7%	7%
62	6%	6%
63	6%	6%
64	12%	12%
65	67%	67%
66	18%	18%
67	12%	12%
68	12%	12%
69	11%	11%
70	16%	16%
71	11%	11%
72	6%	6%
73	5%	5%
74	24%	24%
75	100%	100%

Note:

1. Or current age, if older

Details of the products concerned are summarised below:

Product Names	Retirement Bonds, Retirement Plans
Product Code	725
Basic Reserve	£52.8 million
Spread of outstanding durations	Gradual run-off, max 22 yrs, min 0 yrs
Guarantee Reserve	£34.2 million
GAR (% of fund for 65 year old male)	10%
Increments Allowed?	No
Form of Annuity	Single life, monthly in advance, level annuity, 0, 5 or 10 year guarantee period
Retirement Ages	60-75

- (2) The only unit linked investment performance guarantee is that the value of units invested in any of the NPIL or LLLA Deposit funds is guaranteed not to fall. Previously an additional provision has been held for the cost of this guarantee, but it is now allowed for directly in the unit pricing.

There are no other guaranteed surrender or maturity unit-linked values.

- (3) There are no guaranteed insurability options.
- (4) (a) Additional provision has been made of £1.9 million for guaranteed minimum pension (GMP) guarantees in respect of transfers from contracted out schemes.
- (b) A reserve has been made for guaranteeing benefits in respect of certain PAULP Personal Pension policyholders where failure to adhere to the best advice rules may have occurred.

The following method is used to determine the reserve:

- (1) For cases that have been given a guarantee: on a case by case basis using the actual information available to calculate or estimate the liability period, current salary, policy value offsets and thus calculate the overall liability. All the calculations assume a model pension scheme benefit rather than the actual scheme benefits of the fund of which the policyholder was or could have been a member.

- (2) For other cases which have not been given a guarantee, or where the guarantee has been satisfied but where the internal accounting on the case is not yet finally complete: by allocating a notional settlement cost as necessary to each case on the basis of a potential liability period, or if this is unknown, an appropriate average liability period. The notional settlement cost per year of liability period is appropriately determined from recent settlement statistics.

This reserve has been determined in accordance with the basis set out below:

<b>Assumption</b>	<b>2011</b>	<b>2010</b>
Real rate of interest	-0.60% p.a.	-0.20% p.a.
Real rate of salary inflation (including an allowance for salary progression)	1.85% p.a.	1.50% p.a.
Expense loading for annuity in payment	15.0%.	15.0%.
Mortality in deferment	79% AM/AFC00 ultimate	79% AM/AFC00 ultimate
Mortality in payment	106.9% RMV00 <sup>(1)</sup> 111.6% RFV00 <sup>(1)</sup>	104.0% RMV00 <sup>(1)</sup> 118.0% RFV00 <sup>(1)</sup>
Percentage assumed married	100%	100%
Allowance for future service	Up to 14 years for those unable to rejoin their pension scheme	Up to 14 years for those unable to rejoin their pension scheme

Notes:

1. CMI 2009 improvements: 3.25% for ages up to 60, declining linearly to nil at age 120.

50% of the cost of this reserve is reinsured to Pearl Assurance Limited. The liability (net of reinsurance) is £21.9 million, including an allowance for future expenses and policies where the compensation process is yet to be completed. The basic reserve to which this additional amount applies is £188 million.



## Expense reserves

6. (1) The aggregate amounts of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 months from the "valuation date" are:

Homogeneous Risk Group	Implicit Allowances £M	Explicit Allowances (Investment) £M	Explicit Allowances (Other) £M	Non-attributable Expenses £M	Total £M
NPIL					
Non-unitised business	0.0	1.1	3.4	0.3	4.8
Unitised business	0.0	4.8	2.7	0.3	7.7
PAUF					
Direct business	0.0	0.8	0.9	0.1	1.8
Reinsured In business	0.0	0.0	0.0	0.0	0.1
PAULP					
Direct business	0.0	1.2	1.6	0.2	3.0
LLLA					
Direct business	0.0	0.4	0.2	0.0	0.6
Reinsured In business	0.0	0.0	0.0	0.0	0.1
<b>Total</b>	<b>0.0</b>	<b>8.4</b>	<b>8.9</b>	<b>0.8</b>	<b>18.1</b>

- (2) All provisions for future expenses have been made using explicit methods with the exception of an immaterial block of non-linked non-profit business values using a net premium method.
- (3) There is no significant difference between the allowance for maintenance expenses shown above and those shown in Form 43.
- (4) NPI Limited has ceased to write new business, except for annuities arising from maturing policies and annuity business and incremental linked business reassured from National Provident Life Limited, Pearl Assurance Limited, and London Life Limited. No new business expense overrun reserve is held owing to the management services agreement in place with Pearl Group Services Limited.
- (5) The company is largely closed to new business and the future volume of business will be significantly less than that assumed when the expense charges were agreed with Pearl Group Services Limited. There is a risk the unit costs will be higher than that expected and this cost could be passed on to NPI Limited. A 5% prudent margin is applied to the contractual per policy expenses agreed with Pearl Group Services Limited to cover this risk.
- (6) The reserve for non-attributable expenses was determined by expressing a prudent estimate of future non-attributable expenses as a percentage of funds under management for each homogeneous risk group and testing, for each homogeneous risk group, that:
- if negative reserves were permitted, and
  - the non-unit reserve with allowance for non-attributable expenses for each homogeneous risk group was negative;
- and therefore the non-attributable expenses need not be explicitly allowed for in setting the reserves for that homogeneous risk group.

Accordingly, except for LLLA business (for which a total reserve of £0.109 million has been established), the reserve for non-attributable expenses for each homogeneous risk group in the table in 6(1) above is nil.

## Mismatching reserves

7. (1) All liabilities and assets are denominated in sterling.

- (3) No currency mismatch reserve is held.
- (4) The more onerous scenario under INSPRU 3.1.16R for assets invested in the United Kingdom and other assets that fall under this rule for the purposes of calculating the resilience capital requirement is described below:
- (i) a fall in the market value of equities of at least 10% or, if greater, the lower of:
    - (a) a percentage fall in the market value of equities which would produce an earnings yield on the FTSE Actuaries All Share Index equal to 4/3rds of the long-term gilt yield; and
    - (b) a fall in the market value of equities of 25% less the equity market adjustment ratio;

This resulted in a fall of 10.0%.
  - (ii) a fall in real estate values of 20% less the real estate market adjustment ratio for an appropriate real estate index;

This resulted in a fall of 18.7%.

  - (iii) a fall in yields on all fixed interest securities by a percentage point amount equal to 20% of the long-term gilt yield.

This resulted in a fall of 50 basis points.
- (5) All assets invested outside the UK were fixed-interest securities denominated in sterling so the United Kingdom fall in fixed interest yields was used as the nearest equivalent.
- (6) (a) The amount of the resilience capital requirement is £4.7 million.
- (b) Under the more onerous scenario the long term insurance liabilities fell by £43.4 million.
- (c) Under this scenario, the value of assets allocated to match these liabilities fell by £48.0 million.
- (7) No further reserve is held as a result of the test on assets in INSPRU 1.1.34R(2).

### **Other significant special reserves**

#### **8. Provision for reasonably foreseeable adverse variations**

This provision is for “shared reversion” assets refinanced to a subsidiary of Santander UK plc (formerly Abbey National Group plc) (“Santander”). NPI Limited has undertaken to indemnify Santander against losses arising from mortality or surrender experience which differs from the basis used to determine the terms of the refinancing. NPIL is also liable for the first 7% of any underperformance relative to the regional Halifax house price indices on property sales. The best estimate mortality basis has changed since the refinancing began, and so an accounting provision is first calculated using surrender and mortality assumptions which are intended to be slightly more prudent than the best estimate assumptions. The amount of this accounting provision is £17.8 million.

The provision is then recalculated using the regulatory valuation assumptions together with a more prudent (higher) projection rate and greater assumed underperformance compared with the Halifax regional price index. The difference between the recalculated provision and the accounting provision described above is shown in Form 14 as a provision for reasonably foreseeable adverse deviation. The amount of this additional provision is £7.4 million.

#### **Strengthening annuitant mortality assumptions**

A reserve of £5.0 million has been made to cover the risk of having to pay Opal Reassurance Limited a portion of any increase in best estimate reserves resulting from mortality improvements on annuities in payment.

## Reinsurance

9. (1) There were no reinsurance arrangements on a facultative basis in force at any time during the period of the report with any company not authorised to carry on insurance business in the United Kingdom.

(2) (a) – (k) The material treaty reinsurances in force at the valuation date are summarised below.

Reinsurer	Nature and Extent of the Cover	Premium £M	Premium Withheld £M	Closed to New Business?	Amount of any Un-discharged Obligation	Math-ematical Reserves Ceded £M	Retention by the Insurer
Pearl Assurance Limited	NPIL Life unitised with profit fully reinsured on original terms except for MVRs on Portfolio Bond 1 switches from unitised with profit to unit-linked	Nil	Nil	Yes	Nil	96.8	Nil
Pearl Assurance Limited	NPIL Pensions unitised with-profit and capital account fully reinsured on original terms	0.3	Nil	Yes	Nil	64.7	Nil
Pearl Assurance Limited	PAULP Personal Pensions Guarantees	Nil	Nil	No	Nil	21.9	Nil
Pearl Assurance Limited	PAULP Immediate Annuities in payment and Guaranteed Annuity Rates	8.0	Nil	No	Nil	116.9	Nil
Opal Reassurance Limited	NPIL Pension Immediate Annuities in payment	Nil	568.5	Yes	Nil	599.6	Nil

- (l) Pearl Assurance Limited is authorised to carry on insurance business in the United Kingdom. Opal Reassurance Limited is not authorised to carry on insurance business in the United Kingdom.
- (m) NPI Limited, Pearl Assurance Limited, and Opal Reassurance Limited are part of the Phoenix Group of companies.
- (n) No treaty is subject to any material contingencies such as credit or legal risk.
- (o) No reinsurance commission is payable on any of the treaties above.
- (p) No treaty is a “financing arrangement”.

## Reversionary (or annual) bonus

10. (1) The following table sets out the annual bonus rates for each class of business:

Bonus Series	31 Dec 2011 Basic mathematical reserve £000	31 Dec 2011 Reversionary bonus %	31 Dec 2010 Reversionary bonus %	31 Dec 2011 Total guaranteed bonus %
WP09L, WP10L (Portfolio Bond 1b & 2)	8,373	1.00%	1.00%	-
WP11L EWP1L Series 1 (Investment Bond)	88,424	1.00%	1.00%	-
WP05P, CA05P, EWP1P Series 2 (PPP (Series 2), Flexible PPP FSAVC, FIP, FIP (nil bid-offer spread version), PRA and PTP)	20,694	1.50% <sup>(1)</sup> 5.25% <sup>(2)</sup>	1.50% <sup>(1)</sup> 3.25% <sup>(2)</sup>	-
WP07P, CA07P, EWP1P Series 4 (FIP and Flexible PPP (AMC only versions))	278	1.76% <sup>(1)</sup> 5.52% <sup>(2)</sup>	1.76% <sup>(1)</sup> 3.51% <sup>(2)</sup>	-
WP06P, CA06P, EWP1P Series 3 (New Approach PPP, FSAVC and EPP)	774	2.37% <sup>(1)</sup> 6.15% <sup>(2)</sup>	2.37% <sup>(1)</sup> 4.14% <sup>(2)</sup>	-
Funds 19, 20 and 35 (with underlying AMC of 1%) (GMP, VGPP, GAVC and TTP)	41,617	1.50% <sup>(1)</sup> 5.25% <sup>(2)</sup>	1.50% <sup>(1)</sup> 3.25% <sup>(2)</sup>	-

### Notes:

- Bonus rates suffixed with (1) applied to units invested in the unitised with-profit account (e.g. WP05P) and the socially responsible with-profit account (e.g. EWP1P) where applicable.
- Bonus rates suffixed by (2) applied to units invested in the unitised capital account (e.g. CA05P).
- All bonus rates are the compound increases in unit price during the year.
- For GMP, VGPPP, GAVC, TTP, and PTP unitised with-profit accounts and capital accounts with other rates of underlying annual management charge (AMC), the bonus rate was determined by the following formulae:

$$(1.015 / 0.99) \times (1 - a) - 1 \text{ for unitised with-profit accounts}$$

$$(1.0325 / 0.99) \times (1 - a) - 1 \text{ for capital accounts}$$

where "a" was the level of AMC and the result was rounded to a percentage with two decimal places.

The basic mathematical reserves in the above tables are the gross mathematical reserves calculated in accordance with paragraph 4 and exclude the special reserves and capital requirements detailed in paragraphs 5 to 8.

## **Returns under the Accounts and Statements Rules**

### **Statement of information on the actuary who has been appointed to perform the with-profits actuary function as required by rule 9.36**

#### **NPI LIMITED**

#### **Global Business**

#### **Financial year ended 31 December 2011**

The with-profits actuary throughout the period was D Addison. In accordance with rule 9.36 of the Accounts and Statements Rules, the following information relating to Mr D Addison is in respect of the year 2011:

1. a) Mr Addison held no shares or share options in 2011.  
b) Mr Addison had no transactions with the insurer throughout 2011.  
c) The aggregate of the remuneration and value of other benefits receivable by Towers Watson Limited (the employer of Mr Addison), from the insurer during the period specified was £8,262,090 exclusive of VAT.  
d) Mr Addison was not a member of any Phoenix Group Staff Pension Scheme in 2011 and was not entitled to any benefits under the rules of such scheme. Mr Addison did not therefore accrue pension benefits in such scheme throughout 2011.
2. The insurer has made a request to Mr Addison to furnish it the particulars specified in rule 9.36(1) of the Accounts and Statements Rules. The above particulars were obtained with the agreement of Mr Addison.

#### Note 1

Under rule 9.36(4) of the Accounts and Statements Rules, reference to the insurer includes reference to any body corporate which is the insurer's subsidiary undertaking or parent undertaking and to other subsidiary undertakings of its parent undertaking.

#### Note 2

Regarding Section 1(c) the remuneration details supplied relate to the contractual sums paid to Towers Watson Limited for the provision of actuarial services. These services include the performance of the with-profits actuary function by Mr D Addison.

**Returns under the Accounts and Statements Rules**

**Certificate required by rule 9.34(1)**

**NPI LIMITED**

**Global Business**

**Financial year ended 31 December 2011**

We certify that: -

1. (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and
- (b) we are satisfied that:
  - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) in our opinion, premiums for contracts of long-term business entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- (b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14, constitute proper provision at the end of the financial year for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business; and
- (c) the with profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COBS 20.3; and
- (d) we have, in preparing the return, taken and paid due regard to:
  - (i) advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
  - (ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.



M J Merrick  
Chief Executive



A Moss  
Director



M D Ross  
Director

Date: 20 March 2012

## **Returns under the Accounts and Statements Rules**

### **Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers**

#### **NPI Limited**

#### **Global business**

#### **Financial year ended 31 December 2011**

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 17, 40 to 45, 48, 49, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the valuation report required by IPRU(INS) rule 9.31(a) ("the valuation report").

We are not required to audit and do not express an opinion on:

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate required by IPRU(INS) rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with IPRU(INS) rule 9.35. Our audit work has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the insurer and its auditor**

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. The requirements of the Rules have been modified by the directions issued under section 148 of the Act, referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report are required to reflect appropriately the requirements of INSPRU 1.2.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation report meet these requirements, and to report our opinion to you. We also report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

## Returns under the Accounts and Statements Rules

### Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

**NPI Limited**

**Global business**

**Financial year ended 31 December 2011**

#### Respective responsibilities of the insurer and its auditors (continued)

- the Forms, the statement and the valuation report are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

#### Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 21 March 2012. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation report.

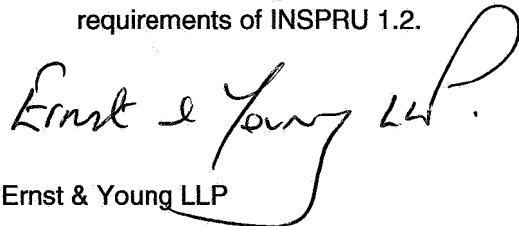
We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

#### Opinion

In our opinion:

- (a) the Forms, the statement and the valuation report fairly state the information provided on the basis required by the Rules, as modified, and have been properly prepared in accordance with the provisions of those Rules; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.



Ernst & Young LLP

Statutory Auditor

London

21 March 2012