

# **NPI LIMITED**

Registered in England - No. 3725037

Registered Office

The Pearl Centre  
Lynch Wood  
Peterborough  
PE2 6FY

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

**31 December 2007**

**Appendices 9.1 , 9.3 , 9.4 , 9.6**

**Statement of solvency - long-term insurance business**

Name of insurer **NPI LIMITED**  
 Global business  
 Financial year ended **31 December 2007**  
 Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2007	
	3725037	GL				£000
			As at end of this financial year			As at end of the previous year
			1			2

**Capital resources**

Capital resources arising within the long-term insurance fund	11	38942	25000
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	159650	148539
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	198592	173539

**Guarantee fund**

Guarantee fund requirement	21	16797	16983
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	181795	156556

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	31	50391	50949
Resilience capital requirement	32	536	6234
Base capital resources requirement	33	2231	2139
Individual minimum capital requirement	34	50927	57183
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	50927	57183
Excess (deficiency) of available capital resources to cover 50% of MCR	37	173129	144947
Excess (deficiency) of available capital resources to cover 75% of MCR	38	160397	130652

**Enhanced capital requirement**

With-profits insurance capital component	39		
Enhanced capital requirement	40	50927	57183

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	41	50927	57183
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	147665	116356

**Contingent liabilities**

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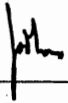
Covering Sheet to Form 2

Form 2

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**



J S Moss

**Managing Director**



J S B Smith

**Director**



J R Cusins

**Director**

Date **20** March 2008

## Components of capital resources

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**

R3	Company registration number	GL/UK/CM	day month year			Units
			31	12	2007	
	3725037	GL	31	12	2007	£000
		General insurance business			Total as at the end of this financial year	Total as at the end of the previous year
		1	2	3	4	

## Core tier one capital

Permanent share capital	11		250000	250000	250000
Profit and loss account and other reserves	12		111928	111928	54099
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		361928	361928	304099

## Tier one waivers

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

## Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		361928	361928	304099
Investments in own shares	32				
Intangible assets	33		12567	12567	12567
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		16439	16439	23315
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		29006	29006	35882
Total tier one capital after deductions (31-37)	39		332922	332922	268217

## Components of capital resources

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**

Company registration number		GL/UK/CM	day month year			Units
R3	3725037	GL	31	12	2007	£000
		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	
		1	2	3	4	

## Tier two capital

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

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

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

## Components of capital resources

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	3725037	GL	31	12	2007	£000
			General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

## Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>			332922	332922	268217
Inadmissible assets other than intangibles and own shares	73			26100	26100	27940
Assets in excess of market risk and counterparty limits	74			108230	108230	66738
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>			198592	198592	173539

## Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81			198592	198592	173539
Available capital resources for 50% MCR requirement	82			198592	198592	173539
Available capital resources for 75% MCR requirement	83			198592	198592	173539

## Financial engineering adjustments

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93					
Outstanding contingent loans	94					
Any other charges on future profits	95					
<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 2007**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CN	day	month	year	Units	Category of assets	
R13	3725037	GL	31	12	2007	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

**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	15303	14730
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	133304	49484
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	11938
	Other	46	
Variable interest securities	Approved	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	36136
	More than one month withdrawal	55	2782
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	

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

Global business

Financial year ended **31 December 2007**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	2007	£000	1
					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	
	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	950
	due in more than 12 months	79	

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	2802	48105
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	207	464
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	459	97

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	164963	151798
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## Analysis of admissible assets

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**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	2007	£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	164963	151798
Admissible assets in excess of market and counterparty limits	92	108230	66738
Inadmissible assets directly held	93	12567	
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		12567
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	285760	231103
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	950	

## Analysis of admissible assets

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**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	2007	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11	175530		148795	

## 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	293534	134869
Rights under derivative contracts		44	11574	87
Fixed interest securities	Approved	45	365209	393440
	Other	46	158588	215386
Variable interest securities	Approved	47	18948	227
	Other	48	3390	2622
Participation in investment pools		49		
Loans secured by mortgages		50	363	376
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52	57	63
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	2614	
	More than one month withdrawal	55		9677
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	5435	26283
	Property linked	59	3556565	3744732

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

Global business

Financial year ended **31 December 2007**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	2007	£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		122
	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	19147	28714
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	24079	325
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	21123	21741
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	1020	665

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	4657176	4728124
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**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**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	2007	£000	10
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**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	4657176	4728124
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	5173	
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	20927	27940
Reinsurers' share of technical provisions excluded from line 89	100	952042	486219
Other asset adjustments (may be negative)	101	(998)	
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	5634320	5242283
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	13238	17494

## Long term insurance business liabilities and margins

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**Total business/Sub fund **Total long term insurance business assets**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	11	3820571	4470814	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12			
Balance of surplus/(valuation deficit)	13	38942	25000	
Long term insurance business fund carried forward (11 to 13)	14	3859513	4495814	
Claims outstanding	Gross	15	7596	9409
	Reinsurers' share	16		
	Net (15-16)	17	7596	9409
Provisions	Taxation	21	4000	
	Other risks and charges	22	300	300
Deposits received from reinsurers	23	530432		
Creditors	Direct insurance business	31	37	29
	Reinsurance accepted	32		
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions	36	191433	167577	
Creditors	Taxation	37	9396	8843
	Other	38	41107	31136
Accruals and deferred income	39	1739	1601	
Provision for "reasonably foreseeable adverse variations"	41	11623	13415	
Total other insurance and non-insurance liabilities (17 to 41)	49	797663	232310	
Excess of the value of net admissible assets	51			
Total liabilities and margins	59	4657176	4728124	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	22637	12968
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	3556565	3744732

Total liabilities (11+12+49)	71	4618234	4703124
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	952042	486219
Other adjustments to liabilities (may be negative)	74	(17437)	(23315)
Capital and reserves and fund for future appropriations	75	81481	76255
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	76	5634320	5242283

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

Global business

Financial year ended **31 December 2007**

Company registration number	GL/UK/CM	day	month	year	Units	
R15	3725037	GL	31	12	2007	£000
				As at end of this financial year	As at end of the previous year	
				1	2	

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers	31			
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions	46			
Creditors	Taxation	47		
	Foreseeable dividend	48		
	Other	49	5313	3256
Accruals and deferred income	51		3	
Total (19 to 51)	59	5313	3259	
Provision for "reasonably foreseeable adverse variations"	61			
Cumulative preference share capital	62			
Subordinated loan capital	63			
Total (59 to 63)	69	5313	3259	

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71	5313	3256
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		
Capital and reserves	84	280447	227844
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	285760	231103

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

Global business

Financial year ended **31 December 2007**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	3725037	GL	31	12	2007	£000
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		11					
	Equalisation provisions		12					
Transfer from the long term insurance business revenue account			13			45000	87877	
Investment income	Income		14			13304	4135	
	Value re-adjustments on investments		15					
	Gains on the realisation of investments		16				183	
Investment charges	Investment management charges, including interest		17			70	58	
	Value re-adjustments on investments		18					
	Loss on the realisation of investments		19					
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21			(431)	(490)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			57803	91647	
Tax on profit or loss on ordinary activities			31			3900	1131	
Profit or loss on ordinary activities after tax (29-31)			39			53903	90516	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49			53903	90516	
Dividends (paid or foreseeable)			51			1300		
Profit or loss retained for the financial year (49-51)			59			52603	90516	

## Analysis of derivative contracts

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2007**

Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	3725037	GL	31	12	2007	£000	10
Derivative contracts			As at the end of this financial year			As at the end of the previous year			
			Assets 1	Liabilities 2			Assets 3	Liabilities 4	
Futures contracts	Fixed-interest securities	11	126						
	Equity shares	12							
	Land	13							
	Currencies	14			5173				
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34							
	Other	35	11574		9	87	128		
Adjustment for variation margin		41	(126)						
Total (11 to 41)		49	11574		5182	87	128		



## 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 2007**  
 Units **£000**

Financial year 1	Previous year 2
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## Income

Earned premiums	11	(348109)	170107
Investment income receivable before deduction of tax	12	149038	132423
Increase (decrease) in the value of non-linked assets brought into account	13	(12054)	(42459)
Increase (decrease) in the value of linked assets	14	155299	238271
Other income	15	4701	4927
<b>Total income</b>	<b>19</b>	<b>(51125)</b>	<b>503269</b>

## Expenditure

Claims incurred	21	471212	492696
Expenses payable	22	18843	13087
Interest payable before the deduction of tax	23	1211	1188
Taxation	24	24162	(10503)
Other expenditure	25	24748	16969
Transfer to (from) non technical account	26	45000	87877
<b>Total expenditure</b>	<b>29</b>	<b>585176</b>	<b>601314</b>

Business transfers - in	31		915520
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(636301)	817475
Fund brought forward	49	4495814	3678339
Fund carried forward (39+49)	59	3859513	4495814

## 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 2007**  
 Units **£000**

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

**Gross**

Regular premiums	11	12898	37927		50825	43588
Single premiums	12	2275	142378		144653	137392

**Reinsurance - external**

Regular premiums	13					
Single premiums	14		559691		559691	

**Reinsurance - intra-group**

Regular premiums	15	24	720		744	1063
Single premiums	16		(16848)		(16848)	9810

**Net of reinsurance**

Regular premiums	17	12874	37207		50081	42525
Single premiums	18	2275	(400465)		(398190)	127582

**Total**

Gross	19	15173	180305		195478	180980
Reinsurance	20	24	543563		543587	10873
Net	21	15149	(363258)		(348109)	170107

## 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 2007**  
 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	16971	6854	23825	17944
Disability periodic payments	12				
Surrender or partial surrender	13	162246	284770	447016	451744
Annuity payments	14	5631	50016	55647	50469
Lump sums on maturity	15	19806	98937	118743	109285
<b>Total</b>	<b>16</b>	<b>204654</b>	<b>440577</b>	<b>645231</b>	<b>629442</b>

**Reinsurance - external**

Death or disability lump sums	21				
Disability periodic payments	22				
Surrender or partial surrender	23				
Annuity payments	24		41410	41410	
Lump sums on maturity	25				
<b>Total</b>	<b>26</b>		<b>41410</b>	<b>41410</b>	

**Reinsurance - intra-group**

Death or disability lump sums	31	3219	261	3480	4654
Disability periodic payments	32				
Surrender or partial surrender	33	103000	20204	123204	128539
Annuity payments	34		2826	2826	654
Lump sums on maturity	35		3099	3099	2899
<b>Total</b>	<b>36</b>	<b>106219</b>	<b>26390</b>	<b>132609</b>	<b>136746</b>

**Net of reinsurance**

Death or disability lump sums	41	13752	6593	20345	13290
Disability periodic payments	42				
Surrender or partial surrender	43	59246	264566	323812	323205
Annuity payments	44	5631	5780	11411	49815
Lump sums on maturity	45	19806	95838	115644	106386
<b>Total</b>	<b>46</b>	<b>98435</b>	<b>372777</b>	<b>471212</b>	<b>492696</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 2007**  
 Units **£000**

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

## Gross

Commission - acquisition	11		265		265	1004
Commission - other	12		715		715	1175
Management - acquisition	13					2829
Management - maintenance	14	5482	11243		16725	13985
Management - other	15	845	987		1832	(5391)
<b>Total</b>	<b>16</b>	<b>6327</b>	<b>13210</b>		<b>19537</b>	<b>13602</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	394	300		694	515
Management - other	35					
<b>Total</b>	<b>36</b>	<b>394</b>	<b>300</b>		<b>694</b>	<b>515</b>

## Net of reinsurance

Commission - acquisition	41		265		265	1004
Commission - other	42		715		715	1175
Management - acquisition	43					2829
Management - maintenance	44	5088	10943		16031	13470
Management - other	45	845	987		1832	(5391)
<b>Total</b>	<b>46</b>	<b>5933</b>	<b>12910</b>		<b>18843</b>	<b>13087</b>

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

Name of insurer **NPI LIMITED**  
 Total business  
 Financial year ended **31 December 2007**  
 Units **£000**

Financial year	Previous year
1	2

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

Directly held assets (excluding collective investment schemes)	11	270507	274808
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	3297830	3496136
<b>Total assets (excluding cross investment) (11+12+13)</b>	<b>14</b>	<b>3568337</b>	<b>3770944</b>
Provision for tax on unrealised capital gains	15	2056	3367
Secured and unsecured loans	16		
Other liabilities	17	4716	7666
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>3561565</b>	<b>3759911</b>

**Directly held linked assets**

Value of directly held linked assets	21		
--------------------------------------	----	--	--

**Total**

Value of directly held linked assets and units held (18+21)	31	3561565	3759911
Surplus units	32	5000	15179
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>3556565</b>	<b>3744732</b>

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

Name of insurer **NPI LIMITED**  
 Total business  
 Financial year ended **31 December 2007**  
 Units **£000**

Financial year 1	Previous year 2
---------------------	--------------------

## Income

Value of total creation of units	11	169860	247479
Investment income attributable to the funds before deduction of tax	12	89008	71026
Increase (decrease) in the value of investments in the financial year	13	155299	238271
Other income	14	1123	854576
<b>Total income</b>	<b>19</b>	<b>415290</b>	<b>1411352</b>

## Expenditure

Value of total cancellation of units	21	570281	622841
Charges for management	22	30742	28807
Charges in respect of tax on investment income	23	10537	6510
Taxation on realised capital gains	24	198	280
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	1337	1895
Other expenditure	26	541	614
<b>Total expenditure</b>	<b>29</b>	<b>613636</b>	<b>660947</b>

Increase (decrease) in funds in financial year (19-29)	39	(198346)	750405
Internal linked fund brought forward	49	3759911	3009506
Internal linked funds carried forward (39+49)	59	3561565	3759911

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

Name of insurer **NPI LIMITED**  
 Total business  
 Financial year ended **31 December 2007**  
 Units **£000**

UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
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**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11					42
Single premium business	12	101	903		1004	649
<b>Total</b>	<b>13</b>	<b>101</b>	<b>903</b>		<b>1004</b>	<b>691</b>

**Amount of new regular  
premiums**

Direct insurance business	21	328	205		533	214
External reinsurance	22					
Intra-group reinsurance	23		28		28	401
<b>Total</b>	<b>24</b>	<b>328</b>	<b>233</b>		<b>561</b>	<b>615</b>

**Amount of new single  
premiums**

Direct insurance business	25	1530	12273		13803	15826
External reinsurance	26					
Intra-group reinsurance	27	745	130105		130850	121566
<b>Total</b>	<b>28</b>	<b>2275</b>	<b>142378</b>		<b>144653</b>	<b>137392</b>











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

Name of insurer **NPI LIMITED**  
 Category of assets **Total long term insurance business assets**  
 Financial year ended **31 December 2007**  
 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	175530	175530			
Approved fixed interest securities	12	373608	374178	18356	4.73	
Other fixed interest securities	13	161920	161920	9427	6.12	
Variable interest securities	14	22724	22724	231	2.01	
UK listed equity shares	15		2460	105	4.27	
Non-UK listed equity shares	16		1648	28	1.70	
Unlisted equity shares	17					
Other assets	18	361394	356716	8531	2.13	
<b>Total</b>	<b>19</b>	<b>1095176</b>	<b>1095176</b>	<b>36678</b>	<b>3.27</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 **Total long term insurance business assets**  
 Financial year ended **31 December 2007**  
 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>	29758	10.00	4.57	4.57
<b>Other approved fixed interest securities</b>	<b>21</b>	344420	11.00	4.91	4.90
<b>Other fixed interest securities</b>					
AAA/Aaa	31	25313	12.00	5.45	5.34
AA/Aa	32	44829	12.00	6.21	5.59
A/A	33	71942	12.00	6.16	5.35
BBB/Baa	34	19836	6.00	6.58	5.52
BB/Ba	35				
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
<b>Total other fixed interest securities</b>	<b>39</b>	161920	11.26	6.12	5.44
<b>Approved variable interest securities</b>	<b>41</b>	19119	11.00	1.23	1.23
<b>Other variable interest securities</b>	<b>51</b>	3605	15.00	6.15	5.55
<b>Total (11+21+39+41+51)</b>	<b>61</b>	558822	11.05	5.12	4.92

## 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 2007**  
 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	58485	751535	810020	685832
Form 52	13	185533	95552	281085	391825
Form 53 - linked	14	572990	2983575	3556565	3744732
Form 53 - non-linked	15	9377	86081	95458	107042
Form 54 - linked	16	2215	25870	28085	26283
Form 54 - non-linked	17	296	1105	1401	1296
<b>Total</b>	<b>18</b>	<b>828896</b>	<b>3943718</b>	<b>4772614</b>	<b>4957010</b>

## Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22		535951	535951	
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		22511	22511	
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		<b>558462</b>	<b>558462</b>	

## Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32		54274	54274	48698
Form 52	33	183317	95533	278850	380393
Form 53 - linked	34				
Form 53 - non-linked	35	2	60316	60318	56974
Form 54 - linked	36		139	139	
Form 54 - non-linked	37				131
<b>Total</b>	<b>38</b>	<b>183319</b>	<b>210262</b>	<b>393581</b>	<b>486196</b>

## Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42	58485	161310	219795	637134
Form 52	43	2216	19	2235	11432
Form 53 - linked	44	572990	2983575	3556565	3744732
Form 53 - non-linked	45	9375	25765	35140	50068
Form 54 - linked	46	2215	3220	5435	26283
Form 54 - non-linked	47	296	1105	1401	1165
<b>Total</b>	<b>48</b>	<b>645577</b>	<b>3174994</b>	<b>3820571</b>	<b>4470814</b>











































**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 2007**  
 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 395/905	58387	4.50	4.50	4.83
UKL NP Code 700/710/715/720	9341	3.00	3.80	5.15
UKP NP Code 390/400/905	161288	4.50	4.50	4.83
UKP NP Code 725	19247	(0.30)	(0.30)	5.15
UKP NP Code 725	4597	3.80	3.80	5.15
UKP NP Code 800	29	3.80	3.80	4.03
UKL WP Code 500/575	2216	3.80	3.80	4.03
UKP WP Code 725/735	1863	3.80	3.80	4.03
Misc	1603			4.03
<b>Total</b>	<b>258571</b>			

**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 2007**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	3859513	4495814
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	45000	87877
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	3904513	4583691
Mathematical reserves	21	3820571	4470814
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	83942	112877

**Composition of surplus**

Balance brought forward	31	25000	24984
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		6462
Surplus arising since the last valuation	34	58942	81431
Total	39	83942	112877

**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	45000	87877
Total distributed surplus (46+47)	48	45000	87877
Surplus carried forward	49	38942	25000
Total (48+49)	59	83942	112877

**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 2008**

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	14143	1644	0	UWP	Yes	14143
Regular premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
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	13854	2859	0	UWP	Yes	13854
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
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 2008**

1	2	3	4	5	6	7	8
Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
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	12441	1714	0	UWP	Yes	12565
With-profits bond	10	n/a	n/a	n/a	n/a	n/a	n/a
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	13854	2859	0	UWP	Yes	13854
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a

**Long-term insurance capital requirement**

Name of insurer **NPI LIMITED**  
 Global business  
 Financial year ended **31 December 2007**  
 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%	24177	9804	36	68
Classes III, VII and VIII	15	0.3%	307769	307769	923	1032
<b>Total</b>	<b>16</b>		<b>331946</b>	<b>317573</b>	<b>959</b>	<b>1100</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%	1088767	222031	0.85	9255	9193
Classes III, VII and VIII (investment risk)	33	1%	216517	133691	0.85	1840	1971
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	365121	365121	1.00	3651	3624
Classes III, VII and VIII (other)	35	25%				1401	1569
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					<b>16147</b>	<b>16357</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	1088767	222031	0.85	27764	27579
Classes III, VII and VIII (investment risk)	43	3%	216517	133691	0.85	5521	5913
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	365121	365121			
Classes III, VII and VIII (other)	45	0%	3099729	3099728			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		<b>4770134</b>	<b>3820571</b>		<b>33285</b>	<b>33492</b>

Long term insurance capital requirement	51					50391	50949
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## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2007

#### 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.

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

	2007 £000	2006 £000
Net admissible assets:		
Form 13 Line 89 (other than long term business)	164,963	151,798
Form 13 Line 89 (long term business)	4,657,176	4,728,124
Less Form 14 Line 71	(4,618,234)	(4,703,124)
Less Form 15 Line 69	(5,313)	(3,259)
Total capital resources after deductions	<u>198,592</u>	<u>173,539</u>

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

	2007 £000	2006 £000
Valuation differences included within Form 3 Line 35:		
Positive valuation differences in respect of liabilities		
Deferred taxation liability	1,200	6,000
Onerous contracts provisions in respect of unitised contracts	1,074	2,048
Deposit received from reinsurers	5,173	-
Negative valuation differences in respect of liabilities		
Provision for reasonably foreseeable adverse variations	(11,623)	(13,415)
Mathematical reserves	(12,263)	(17,948)
Net valuation difference	<u>(16,439)</u>	<u>(23,315)</u>

Returns under the Accounts and Statements Rules

Supplementary Notes

NPI Limited

Global Business

Financial year ended 31 December 2007

Appendix 9.1 (continued)

**\*0313\* Reconciliation of profit and loss account and other reserves**

	2007 £000
Form 3 Line 12 at 1 January 2007	54,099
Form 16 Line 59	52,603
Increase in balance of long term insurance business surplus	13,942
Movement in inadmissible assets	(1,840)
Movement in Net valuation difference (Note 0310)	(6,876)
Form 3 Line 12 at 31 December 2007	<u>111,928</u>

**\*1305\* Counterparty limits**

**\*1319\***

- (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 companies 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.

Returns under the Accounts and Statements Rules

Supplementary Notes

NPI Limited

Global Business

Financial year ended 31 December 2007

Appendix 9.1 (continued)

**\*1306\* Counterparty exposure at the end of the financial year**

**\*1312\***

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, Pearl Group Limited, with a value of £123.7 million.

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

- (a) There are no investments in lines 41, 42, 46 or 48 which are unlisted.
- (b) There are no investments in lines 41, 42, 46 or 48 which are listed or not readily realisable.
- (c) The value of units held in the Axial Strategic Solutions Fund 1 which is not a UCITS Directive/FSMA recognised scheme is £164.4 million.
- (d) There are no reversionary interests or remainders in property other than land and buildings.

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

Included within line 101 of Form 13 in the long term insurance business assets is an adjustment of £1 million in respect of an intra fund creditor reclassification.

The value shown in line 101, column 2 of Form 13 in the other than long term insurance business assets represents the present value of acquired in force long term business and is inadmissible. For the reporting period ending 31 December 2007, this value appears in line 93.



## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2007

#### Appendix 9.1 (continued)

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

On 30 September 1999, the insurer entered into a refinancing arrangement with a wholly owned subsidiary of 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 Abbey National 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 Abbey National 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 Abbey National Subsidiary. On 30 April 2002, Abbey National Group plc ceased to refinance new reversions.

The key assumptions used to calculate the reversion amounts were:

Mortality: 80% IML/IFL 1992 with CMIR17 improvement factors (c2015) together with a surrender assumption to allow for sale before death without immediate repurchase.  
Future specific house price inflation 2.29% p.a.

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

Mortality: 72% IML/IFL 1992 with CMIR17 improvement factors (c2015) together with a surrender assumption to allow for sale before death without immediate repurchase set at three quarters the rate assumed in the reversion basis.  
Future specific house price inflation 0.5% p.a. below the growth in the Halifax house price index is assumed (of 2.54%).

A future LIBOR rate of 5.4% p.a. plus an additional 1.125% and a discount rate of 4.49% p.a. were assumed in calculating the provision.

The total provision was £11.6 million

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.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2007

#### Appendix 9.1 (continued)

#### \*1402\* Liabilities

#### \*1502\*

- (a) A reinsurance treaty between the insurer and an external reinsurer was signed during the period. Under the terms of this agreement effective from 1 January 2007, the pension annuity in payment liabilities were reinsured to the external reinsurer, thereby substantially removing longevity and investment risk from the insurer. The premium payable has been withheld by the insurer as collateral and the external reinsurer has a fixed charge over the assets. The aggregate value of the assets which are subject to the charge is £535.6 million (2006: Nil) (see table below).

Assets which are subject to the charge (Form 13)	2007 £000
Line 43 – Holdings in collective investment schemes	164,415
Line 44 – Rights under derivative contracts	10,047
Line 45 – Approved fixed interest securities	233,411
Line 46 – Other fixed interest securities	79,022
Line 47 – Approved variable interest securities	18,863
Line 48 – Other variable interest securities	5,902
Line 54 – Bank and approved credit institution deposits – One month or less	750
Line 81 – Cash in hand	15,945
Line 84 – Accrued interest and rent	7,260
<b>Total</b>	<b>535,614</b>

- (b) The total potential liability to taxation on capital gains, which might arise if the insurer were to dispose of its long term insurance business assets, is £4.2 million (2006: Nil). In accordance with FRS 19, the discounted value of £3.7 million (2006: Nil) for this liability has been recognised together with further deferred tax liabilities totalling £0.3 million (2006: Nil) to give the figure of £4.0 million (2006: Nil) shown on line 21 of Form 14.
- (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 £18.5 million (2006: £20.9 million). The provision for possible redress included in the mathematical reserves for Phase 2 cases is £0.3 million (2006: £0.3 million).

Included in the mathematical reserves are also provisions for additional associated costs of £0.4 million (2006: £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 2007

#### 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:

	2007 £000	2006 £000
<b>Positive valuation differences in respect of liabilities</b>		
Deferred taxation liability	1,200	6,000
Onerous contracts provisions in respect of unissued contracts	1,074	2,048
Deposit received from reinsurers	5,173	-
<b>Negative valuation differences in respect of liabilities</b>		
Provision for reasonably foreseeable adverse variations	(11,623)	(13,415)
Mathematical reserves	(12,263)	(17,948)
Intra fund balance	(998)	-
<b>Total</b>	<u>(17,437)</u>	<u>(23,315)</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 on the profit and loss account.

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

Other charges comprise of consultancy services, professional indemnity insurance and administration fees.

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

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

#### \*1701\* Variation margin

The insurer had no liability to repay "excess" variation margin at the end of the financial year. Variation margin received of £0.1 million is included in Form 13 Line 54.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2007

#### Appendix 9.3

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

Other income includes an amount of £3.2 million representing annual management charges and £1.3 million representing compensation. The balance of line 15 is represented by administration fees and expense charges.

Other expenditure in line 25 represents £16.6 million of annual management charge payable to National Provident Life Limited and £8.2 million representing the change in provision for future annuity claims payable directly by the insurer under the reinsurance agreement with Opal Reassurance Limited.

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

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

##### **\*4009\* Material connected-party transactions**

Since 1 January 2000, NPI Limited has entered into a number of reinsurance treaties with Pearl Assurance plc and National Provident Life Limited. Details of these reinsurance treaties are to be found in paragraph 9 of the Abstract of valuation report.

On 6 December 2007 the insurer made an interest bearing loan of £36 million to its parent company, Pearl Group Limited, maturing on 13 December 2013 and attracting interest at a rate of 6 month LIBOR plus a margin of 1.25%.

##### **\*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

Returns under the Accounts and Statements Rules

Supplementary Notes

NPI Limited

Global Business

Financial year ended 31 December 2007

Appendix 9.3 (continued)

**\*4402\* Information on derivative contracts**

<b>Options</b>	<b>2007 £000</b>	<b>2006 £000</b>
The aggregate value of assets	-	496
The aggregate value of liabilities	-	(170)

**\*4502\* Other income and expenditure**

Other income contains management fee rebates.

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

**\*4702\* Hybrid Contracts**

**\*5104\***

**\*5204\***

**\*5304\***

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 Agency**

The credit agency used to provide the Form 49 split is UBS.

**\*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 395/905	4.83%
UKP NP Code 390/400/905	4.83%
UKL WP Code 500/575	4.03%
UKP NP Code 800	4.03%
UKP WP Code 725/735	4.03%
Misc	4.03%

## 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 2007

- (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 either 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) There were no options bought or sold during the financial year where the difference at inception between the price of the underlying and the strike price was greater than 5%.

## 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 2007

(continued)

- (d) The extent to which Form 13 would be changed if assets which the insurer had agreed to acquire or dispose of under derivative contracts outstanding at the end of the financial year (being, in the case of options, only those options which it would have been prudent to assume would be exercised) had been so acquired and disposed of, is as follows:

	Actual Holding £m	Exposure due to derivatives £m	Combined Economic Exposure £m
Fixed Interest - Approved	365.2	11.6	376.8
Deposits	26.7	(11.6)	15.1

If options outstanding at the end of the financial year had been exercised so as to change exposures by the maximum amount (allowing for options that either must be exercised together, or the exercise of one precludes the possibility of the other being exercised), the numbers in (d) above would not be materially different.

- (e) The maximum extent to which the information provided in (d) above would have been different if (d) had applied to derivative contracts at other points during year is as follows:

	Change due to derivatives £m	Date
Deposits	(12.2)	5 December 2007
Fixed Interest - Approved	12.2	5 December 2007

The maximum extent to which the information supplied in (e) above would have been different if (e) had applied to derivative contracts at other points during the year is not materially different from those quoted in the table above.

- (f) The maximum loss which would have been incurred by the insurer on the failure by any one other person to fulfil its obligations under derivative contracts outstanding at the end of the financial year under existing market conditions was £1.8 million.
- (g) The maximum loss which would have been incurred by the insurer on the failure by any one other person to fulfil its obligations under derivative contracts outstanding at the end of the financial year, in the event of other foreseeable market conditions, was £1.9 million.

The maximum potential loss at any other time during the year due to the failure of a single counterparty to fulfil its obligations under derivative contracts was not materially different than the amount quoted above.

- (h) 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.
- (i) 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 2007

The persons who, to the knowledge of the Company, were controllers at any time during the financial year were Pearl Group Limited, Sun Capital Investments Limited, Hera Investments One Limited, Xercise Limited, Jambright Limited, Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill, Marc Jonas, TDR Capital Nominees Limited and TDR Capital LLP.

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

#### 1. Pearl Group Limited

As at 31 December 2007, Pearl Group Limited owned 100% of the shares of NPI Limited and was able to exercise 100% of the voting power at any general meeting.

#### 2. Sun Capital Investments Limited

As at 31 December 2007, Sun Capital Investments Limited owned 50% of the ordinary shares of Pearl Group 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.

#### 3. Hera Investments One Limited

As at 31 December 2007, Hera Investments One Limited owned 50% of the ordinary shares of Pearl Group 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.

#### 4. Xercise Limited

As at 31 December 2007, Sun Capital Investments Limited, which is an associate of Xercise Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group 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.

#### 5. Jambright Limited

As at 31 December 2007, Hera Investments One Limited which is an associate of Jambright Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group 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.



## **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 2007**

**(continued)**

#### **6. Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill, Marc Jonas**

As at 31 December 2007, Hugh Osmond, Alan McIntosh and Matthew Allen, together with Edward Spencer-Churchill and Marc Jonas, who were associates of Hugh Osmond and Alan McIntosh within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being partners, jointly owned 79.2% of the ordinary shares of Xercise Limited and were able to exercise 79.2% of the voting power at any general meeting. Sun Capital Investments Limited is a subsidiary undertaking of Xercise Limited and owns 50% of the ordinary shares of Pearl Group 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. TDR Capital Nominees Limited**

As at 31 December 2007, TDR Capital Nominees Limited acted as nominee for the TDR funds, which own 89.4% of the ordinary shares of Jambright Limited and were able to exercise 89.4% of the voting power at any general meeting. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group 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. TDR Capital LLP**

As at 31 December 2007, 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, acted as nominee for the TDR funds, which own 89.4% of the ordinary shares of Jambright Limited and were able to exercise 89.4% of the voting power at any general meeting. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group 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.

## 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 2007

The with-profits actuary for the period from 1 January 2007 to 28 September 2007 was P Turnbull. In accordance with rule 9.36 of the Accounts and Statements Rules, the following information relating to Mr Turnbull is in respect of the year 2007:

1. a) Mr Turnbull holds no shares or share options in 2007.
  - b) Mr Turnbull had no transactions with the insurer throughout the year but his spouse held a number of minor policies issued by the insurer.
  - c) The aggregate of the remuneration and value of other benefits receivable by Watson Wyatt Limited, (the employer of Mr Turnbull), from the insurer in respect of 2007 was £3,479,527.
  - d) Mr Turnbull was throughout the period a member of the Pearl Staff Pension Scheme (NPI Limited being a subsidiary of Pearl Group Limited) and was entitled to the standard benefits under the rules of the scheme in respect of a prior period of employment by a subsidiary of Pearl Group Limited. Mr Turnbull did not accrue further pension benefits in the scheme throughout the period.
2. The insurer has made a request to Mr Turnbull to furnish to 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 Turnbull.

#### 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 Watson Wyatt Limited for the provision of actuarial services. These services include the performance of the with-profits actuary function by Mr P Turnbull.

## 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 2007

The with-profits actuary for the period from 28 September 2007 to 31 December 2007 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 2007:

1. a) Mr Addison holds no shares or share options in 2007.
  - b) Mr Addison had no transactions with the insurer throughout 2007.
  - c) The aggregate of the remuneration and value of other benefits receivable by Watson Wyatt Limited, (the employer of Mr Addison), from the insurer in respect of 2007 was £3,479,527.
  - d) Mr Addison was not a member of any Pearl Staff Pension Scheme (NPI Limited being a subsidiary of Pearl Group Limited) in 2007 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 2007.
2. The insurer has made a request to Mr Addison to furnish to 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 Watson Wyatt Limited for the provision of actuarial services. These services include the performance of the with-profits actuary function by Mr D Addison.

# NPI Limited

## Appendix 9.4

### Abstract of Valuation Report

#### Introduction

- (1) The date of the actuarial investigation (the valuation date) is 31 December 2007.
- (2) The date of the previous actuarial investigation under rule 9.4 was 31 December 2006.
- (3) Since the previous valuation date, there have been no interim valuations (for the purposes of rule 9.4):

#### Product range

- 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

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

Product	Policy Year of Entry	Period applied
Portfolio Bond Series 1	Jan 2000 to 16 Sep 2001	Throughout 2007
	17 Sep 2001 to Jun 2002	Jan 2007 to Jun 2007
Portfolio Bond Series 2	Jan 2000 to 16 Sep 2001	Throughout 2007
	17 Sep 2001 to Jun 2002	Jan 2007 to Jun 2007
Investment Bond	Oct 2000 to Jun 2002	Throughout 2007
	Jan 2006 to Sep 2006	Jan 2007 to Jun 2007
	Oct 2006 to Mar 2007	Jul 2007 to Dec 2007
Socially Responsible Investment Bond	Oct 2000 to Jun 2001	Throughout 2007
	Jul 2001 to 16 Sep 2001	Jan 2007 to Jun 2007
	Jan 2006 to Jun 2006	Jan 2007 to Jun 2007
Pensions business (excluding Capital Account)	Jan 2000 to 16 Sep 2001	Throughout 2007
Socially Responsible With-profit Pensions business	Feb 2001 to Mar 2001	Throughout 2007
	Apr 2001 to Jun 2001	Jan 2007 to Jun 2007

- (2) There are no such policies.

- (3) There are no such policies.
- (4) Policy fees on NPIL linked policies were increased by 3.6% on 1 January 2007 in line with the September 2005 to September 2006 increase in the Retail Prices Index.

Policy fees on PAULP Prosperity Personal Pension Version 1 policies were increased by 3.8% on 1 January 2007 in line with the July 2005 to July 2006 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 unit price is determined by valuing the assets at the offered dealing price including all costs that would be incurred in buying assets and net of charges and deductions, if any, for tax. This total is divided by the number of units. The cancellation unit price is calculated by valuing the assets at the price at which they could be sold and deducting the dealing costs, management charges and taxes if applicable. This total is divided by the number of units.
  - (ii) The offer price is determined as the creation or cancellation price divided by 95%, plus any rounding adjustment. Units are cancelled at 95% of the offer price less any rounding adjustment. For the NPIL Pooled Managed Fund, which has a 1.75% bid-offer spread the 95% used in the calculation of the offer and bid prices, is replaced by 98.25%. Similarly, where there is no bid-offer spread the 95% is replaced by 100%.
  - (iii) Units are allocated to policies at the offer price and cancelled at the bid price.
  - (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) Since 16 May 2007, all internal linked funds have been valued 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.
- (c) Where the funds invest in unit trusts or open-ended investment companies the units are valued at the price at which NPI Limited would have been able to buy the investments. To ensure that unit holders are not subject to two sets of initial charges arrangements are in place to ensure that the unit trust investments are undertaken free of any manager's initial charges.

- (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.

The table below summarises the current Life tax rates and the times at which the accruals are cleared.

Fund Type	Realised Gains	Unrealised Gains	Realised Losses	Unrealised Losses
Gross Priced Equity (PAUF only)	19.9%	Nil	19.9% †	Nil

PAUF policies sold before 25 October 1985 invest in Gross Priced Units. Their unit prices do not contain provisions for tax on unrealised gains or losses. When a policy terminates, a deduction for any index-adjusted realised gains attributable to the policy is made from the gross policy proceeds. The rate applying to such deductions was 19.9% during 2007.

Net Priced Equity (PAUF & NPIL)	19.9%	17.6%	19.9%	17.6%
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Accruals for realised gains and losses in both Gross and Net Priced Equity funds are cleared at the end of each month.

Accruals for unrealised gains and losses are cleared at the end of each financial year under the "deemed disposal" regime. The tax rate used for this purpose at the end of 2007 was 17.6%.

All LLLA Life equity and some NPIL Life equity funds have accumulated capital losses and their tax rates are currently nil.

Net Priced Fixed Interest (PAUF, NPIL, LLLA)	20%	20%	20%	20%
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Fixed Interest tax accruals are cleared at the end of each 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 dues 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	2007	2006	Product Code
NPIL Life non profit	3.60%	3.80%	435, 440, 790, 800
NPIL Life sterling reserves	3.00%	3.10%	700, 715
NPIL Pension non profit	3.80%	3.90%	390, 400, 435, 440, 790, † 800
NPIL Pension sterling reserves	3.80%	3.90%	725, 735, 750, 755, 790, 795, 800
NPIL Life unitised with profit	3.00%	3.10%	500, 610
NPIL Pension unitised with profit	4.78%	3.90%	525, 535, 570, 605
NPIL level annuities	4.50%	4.75%	395, 400
NPIL index linked annuities	4.00%	4.75%	905
PAUF sterling reserves	3.00%	3.10%	700, 710, 715, 720
PAULP sterling reserves	3.80%	3.80%	725
PAULP level annuities	4.78%	4.83%	400
PAULP index linked annuities	4.78%	4.71%	905
LLLA sterling reserves	3.00%	3.10%	700, 710

(3) Yields on other fixed interest or variable yield securities were reduced to allow for the risk of default while retaining the margin over gilt yields for reduced liquidity of corporate bonds. The level of the reduction was assessed by reference to the term and credit ratings of the assets. The reductions were obtained from a base table derived from published rates of default and rating changes, adjusted for market movements since the publication, and increased by 25% as a margin for adverse deviation.

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	2007		2006		Product Code
	Males	Females	Males	Females	
NPIL Pre-vesting					
All business	100% AM92	100% AF92	100% AM92	100% AF92	All
NPIL Post-vesting/In payment					
Pension annuities	107.5% RMV92 <sup>(2)</sup>	107.5% RFV92 <sup>(2)</sup>	105% RMV92 <sup>(3)</sup>	105% RFV92 <sup>(3)</sup>	390, 400, 905
Pensions deferred annuities	107.5% RMV92 <sup>(2)</sup>	107.5% RFV92 <sup>(2)</sup>	105% RMV92 <sup>(3)</sup>	105% RFV92 <sup>(3)</sup>	390
Group GAF annuities	107.5% RMV92 <sup>(2)</sup>	107.5% RFV92 <sup>(2)</sup>	105% RMV92 <sup>(2)</sup>	105% RFV92 <sup>(2)</sup>	395
Life/IRS/Individual GAF annuities	72% IML92 <sup>(4)</sup>	72% IFL92 <sup>(4)</sup>	72% IML92 <sup>(4)</sup>	72% IFL92 <sup>(4)</sup>	395,905
Life deferred annuities	72% IML92 <sup>(4)</sup>	72% IFL92 <sup>(4)</sup>	72% IML92 <sup>(4)</sup>	72% IFL92 <sup>(4)</sup>	390
PAUF Single Premium	65% AM80	65% AF80	65% AM80	65% AF80	700
PAUF Regular Premium	85% AM80	85% AF80	85% AM80	85% AF80	710, 715, 720
PAULP linked products	65% AM80	65% AF80	65% AM80	65% AF80	725
PAULP immediate annuities	97.5% RMV00 <sup>(5)</sup>	100% RFV00 <sup>(5)</sup>	110% RMV92 <sup>(6)</sup>	100% RFV92 <sup>(6)</sup>	400, 905
LLLA all business	100% A67/70	100% A67/70 rated down 4 years	100% A67/70	100% A67/70 rated down 4 years	700, 710

Notes:

1. Ultimate mortality has been used in all cases.
2. Annual improvements: average of Medium and Long cohort improvements, with 3% floor declining from age 60 to nil at age 110.
3. Annual improvements: maximum of [average of Medium and Long cohort improvements, 1%]
4. Annual improvements: CMI17 improvements
5. Annual improvements: 85% of average of Medium and Long cohort improvements, with 3% floor declining from age 60 to nil at age 110.
6. Annual improvements: maximum of [75% of (average of Medium and Long cohort improvements), CMI17 improvements, 1%]

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	23.4	14.8		
Group GAF annuities	23.4	14.8		
Life/IRS/Ind GAF annuities	22.5	14.1		
Life deferred annuities			23.8	23.2
Pensions deferred annuities			26.1	24.8
<b>PAULP</b>				
Immediate annuities	22.3	13.8		

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	26.0	16.7		
Group GAF annuities	26.0	16.7		
Life/IRS/Ind GAF annuities	25.4	16.2		
Life deferred annuities			26.3	25.9
Pensions deferred annuities			28.2	27.1
<b>PAULP</b>				
Immediate annuities	25.7	16.3		

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

(6) The expense bases (before allowance for 20% tax relief on Life business) are:

Product Group	£ Per Policy (p.a.)		% of Assets under Management (p.a.)		Product Code
	2007	2006	2007	2006	
<b>NPIL</b>					
UWP Life Bonds	46.87	42.35	n/a	n/a	500
UWP Pension Sing Prem	56.15	50.74	0.69	† 0.31	525
UWP Pension Reg Prem	30.63	27.68	0.69	0.31	535
UL Life Bonds	17.41	15.73	0.75	0.41	700
UL Life increments	17.41	15.73	0.48	0.41	700
UL Pension Sing Prem	22.55	20.37	0.45	0.32	725
UL Pension Reg Prem	22.55	20.37	0.45	0.32	725
UL Grp Pension Sing Prem	22.55	20.37	0.45	0.32	735
UL Grp Pension Reg Prem	22.55	20.37	0.45	0.32	735
UL Pensions increments	22.55	20.37	0.28	0.32	735
Immediate Annuities	24.54	22.18	0.07	0.06	400, 905
<b>PAUF</b>					
UL Life Reg Prem	19.54	18.03	0.75	0.75	710, 715, 720
UL Life Sing Prem	19.54	18.03	0.75	0.75	700
<b>PAULP</b>					
UL Pension Reg Prem	24.32	22.44	0.44	0.43	725
UL Pension Sing Prem	24.32	22.44	0.44	0.43	725
Immediate Annuities	45.72	45.26	0.08	0.10	400, 905
<b>LLLA</b>					
Unit Linked	37.94	35.01	0.44	0.50	700, 710

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

The figures in the table above are before any tax relief, which is applied at 20% for non-annuity Life business. There is no tax relief applied to Life annuity business or Pension business.

(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.)		Product Code
	2007	2006	2007	2006	2007	2006	
	NPIL						
UWP	n/a	n/a	4.4	4.4	3.2	3.2	500, 525, 535, 570
Unit Linked	5.4	5.8	4.4	4.4	3.2	3.2	700, 715, 725, 735, 750, 755, 795
Immediate Annuities	n/a	n/a	4.4	4.4	n/a	n/a	400, 905
PAUF							
Unit Linked	5.4	5.6	3.4	3.7	n/a	n/a	700, 710, 715, 720
PAULP							
Unit Linked	5.4	5.6	3.4	3.7	3.7	4.2	725
Immediate Annuities	n/a	n/a	3.6	3.9	n/a	n/a	400, 905
LLLA							
Unit Linked	5.4	5.6	3.4	3.7	n/a	n/a	700, 710

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, 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
<b>NPIL</b>					
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	6.6	6.6	6.6	6.6
• UWP indiv single premium	Surrender	6.6	6.6	6.6	6.6
• UL indiv regular premium	Paid-Up	15.0	15.0	15.0	15.0
• UL indiv regular premium	Surrender	6.6	6.6	6.6	6.6
• UL group regular premium	Paid-Up	33.0	33.0	33.0	33.0
• UL group regular premium	Surrender	10.0	10.0	10.0	10.0
• UL indiv single premium	Surrender	6.6	6.6	6.6	6.6
<b>PAUF (all Life)</b>					
UL savings endowment	Surrender	4.25	4.25	4.25	4.25
UL target cash endowment	Surrender	4.25	4.25	4.25	4.25
UL bond	Surrender	6.0	6.0	6.0	6.0
UL bond	Automatic withdrawals	2.2	2.2	2.2	2.2
<b>PAULP (all Pension)</b>					
UL indiv regular premium	Paid-Up	10.5	10.5	10.5	10.5
UL indiv regular premium	Surrender	2.5	2.5	2.5	2.5
UL indiv single premium	Surrender	2.5	2.5	2.5	2.5
<b>LLLA (all Life)</b>					
UL bond	Surrender	5.0	5.0	5.0	5.0
UL bond	Automatic withdrawals	0	0	0	0

(10) Other material basis assumptions:

(i) Tax rates on investment income are:

Type of business	2007	2006
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.

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

- (12) With effect from 31 December 2006, allowance was made as a result of changes in the valuation rules introduced by INSPRU for lapses and non-attributable expenses on property linked business. The lapse allowance was not applied to all the groups of policies to which it could have been applied. With effect from 31 December 2007, there has been a further reduction in the mathematical reserves caused by extending the lapse allowance to further groups of policies. The further reduction is estimated as:

Allowance for lapses: £4.8 million

### 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 plc has been determined in accordance with the basis set out below:

Assumption	2007		2006	
Surrender Rate	2% single premium		Nil	
	0.9% regular premium		Nil	
Take up Rate	100%		100%	
Rate of interest	BoE Gilts spot curve		BoE Gilts spot curve	
Mortality in payment	97.5% RMV00 <sup>(1)</sup>		110% RMV92 <sup>(2)</sup>	
	100% RFV00 <sup>(1)</sup>		100% RFV92 <sup>(2)</sup>	
Expected annuity guarantee periods	0 years	40%	0 years	40%
	5 years	15%	5 years	20%
	10 years	45%	10 years	40%
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. Annual improvements: 85% of average of Medium and Long cohort improvements, with 3% floor declining from age 60 to nil at age 110.
2. Annual improvements: maximum of [75% of (average of Medium and Long cohort improvements), CMI17, 1%]

**Retirement Rates**

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

Age Attained	2007	2006
60	15%	15%
61	2%	2%
62	2%	2%
63	2%	2%
64	2%	2%
65	40%	40%
66	10%	10%
67	2%	2%
68	2%	2%
69	2%	2%
70	5%	5%
71	5%	5%
72	2%	2%
73	2%	2%
74	2%	2%
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	£79.1 million
Spread of outstanding durations	Gradual run-off, mean term of 13 years
Guarantee Reserve	£41.1 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. No additional provision is required as the assets backing these funds will not fall in value.

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:

Assumption	2007	2006
Real rate of interest	-0.30% p.a.	-0.10% p.a.
Real rate of salary inflation (including an allowance for salary progression)	1.5% p.a.	2% p.a.
Expense loading for annuity in payment	11.1%.	22.5%
Mortality in deferment	65% AM/AF80 ultimate	65% AM/AF80 ultimate
Mortality in payment	97.5% RMV00 <sup>(1)</sup> 100% RFV00 <sup>(1)</sup>	110% RMV922 <sup>(1)</sup> 100% RFV92 <sup>(2)</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. Annual improvements: 85% of average of Medium and Long cohort improvements, with 3% floor declining from age 60 to nil at age 110.
2. Annual improvements: maximum of [75% of (average of Medium and Long cohort improvements), CMI17, 1%]

50% of the cost of this reserve is reinsured to Pearl Assurance plc. The liability (net of reinsurance) is £19.2 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 £227 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
<b>NPIL</b>					
Non-unitised business	0.544	0.000	2.276	†0.238	3.059
Unitised business	0.000	7.618	3.093	0.468	11.179
<b>PAUF</b>					
Direct business	0.191	1.292	1.518	0.159	3.160
Reinsured In business	0.007	0.044	0.050	0.006	0.107
<b>PAULP</b>					
Direct business	0.288	1.644	1.690	0.240	3.862
<b>LLLA</b>					
Direct business	0.098	0.613	0.205	0.081	0.997
Reinsured In business	0.012	0.074	0.015	0.010	0.111
<b>Total</b>	<b>1.140</b>	<b>11.285</b>	<b>8.847</b>	<b>1.202</b>	<b>22.475</b>

- (2) Non-linked, non-profit business has been valued using the net premium method of valuation. The implicit allowance for expenses has been taken as the difference between the office premium and the net premium calculated on the valuation basis. Where the net premium on the valuation basis is greater than the actual office premium, the premium valued is the office premium. 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 has been established. Investment expense allowances are implicitly calculated by a margin in the valuation interest rate.
- (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 plc, 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 verifying, for each homogenous 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, the reserve for non-attributable expenses for each homogenous 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%.
- (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 10%.
- (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 92 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 £0.5 million.
- (b) Under the more onerous scenario the long term insurance liabilities fell by £19.0 million.
- (c) Under this scenario, the value of assets allocated to match these liabilities fell by £19.5 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 Abbey National Group plc ("Abbey National"). NPI Limited has undertaken to indemnify Abbey National 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 £37.4 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 £11.6 million.

## Provision for Unit Pricing Errors on PAUF and PAULP business

A provision of £7.5 million was held at 31 December 2007 for compensation to current and past PAUF and PAULP policyholders for various historical unit pricing errors, and for distribution of the Terminal Deduction Reserve to current and past holders of PAUF Gross Priced policies.

## Strengthening annuitant mortality assumptions

A £5 million reserve has been made to cover the risk of having to pay a reinsurer 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	Premium Withheld	Closed to New Business?	Amount of any Un-discharged Obligation	Mathematical Reserves Ceded	Retention by the Insurer
		£M	£M			£M	
Pearl Assurance plc	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	183.3	Nil
Pearl Assurance plc	NPIL Pensions unitised with-profit and capital account fully reinsured on original terms	4.0	Nil	Yes	Nil	95.5	Nil
Pearl Assurance plc	PAULP Personal Pensions Guarantees	Nil	Nil	No	Nil	19.2	Nil
Pearl Assurance plc	PAULP Immediate Annuities in payment and Guaranteed Annuity Rates	4.8	Nil	No	Nil	95.3	Nil
Opal Reassurance Limited	NPIL Pension Immediate Annuities in payment	561.0	530.4	Yes	Nil	558.5	Nil

(l) Pearl Assurance plc 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) Both NPI Limited and Pearl Assurance plc are part of the Pearl Group of companies.

(n) No treaty with Pearl Assurance plc 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 2007 Basic mathematical reserve £000	31 Dec 2007 Reversionary bonus %	31 Dec 2006 Reversionary bonus %	31 Dec 2007 Total guaranteed bonus %	Product Code
WP09L, WP10L (Portfolio Bond 1b & 2)	12,326	1.00%	1.00%	-	500
WP11L EWP1L Series 1 (Investment Bond)	170,991	1.00%	1.00%	-	500
WP05P, CA05P, EWP1P Series 2 (PPP (Series 2), Flexible PPP FSAVC, FIP, FIP (nil bid-offer spread version), PRA and PTP)	38,460	1.50% <sup>(1)</sup> 3.25% <sup>(2)</sup>	1.50% <sup>(1)</sup> 3.25% <sup>(2)</sup>	-	525, 570
WP07P, CA07P, EWP1P Series 4 (FIP and Flexible PPP (AMC only versions))	366	1.76% <sup>(1)</sup> 3.51% <sup>(2)</sup>	1.76% <sup>(1)</sup> 3.51% <sup>(2)</sup>	-	525, 570
WP06P, CA06P, EWP1P Series 3 (New Approach PPP, FSAVC and EPP)	795	2.37% <sup>(1)</sup> 4.14% <sup>(2)</sup>	2.37% <sup>(1)</sup> 4.14% <sup>(2)</sup>	-	525
Funds 19, 20 and 35 (with underlying AMC of 1%) (GMP, VGPP, GAVC and TTP)	54,632	1.50% <sup>(1)</sup> 3.25% <sup>(2)</sup>	1.50% <sup>(1)</sup> 3.25% <sup>(2)</sup>	-	535

### Notes:

1. 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.
2. Bonus rates suffixed by (2) applied to units invested in the unitised capital account (e.g. CA05P).
3. All bonus rates are the compound increases in unit price during the year.
4. 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**

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

**NPI Limited**

**Global Business**

**Financial year ended 31 December 2007**

**We certify that: -**

1. (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and  
(b) the directors 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 the directors' 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;  
(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) the directors 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.



J S Moss  
Managing Director



J S B Smith  
Director



J R Cusins  
Director

Date: 20 March 2008

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

### **Independent auditors' report to the directors pursuant to rule 9.35**

#### **NPI Limited**

#### **Global business**

#### **Financial year ended 31 December 2007**

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 of 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, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the report required by IPRU(INS) rule 9.31(a) ("the valuation report");

We are not required to examine and do not express an opinion on the following:

- 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 signed in accordance with 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 examination 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 auditors' 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 examination, for this report, or for the opinions we have formed.

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

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and valuation report) under the provisions of the Rules. Under IPRU(INS) rule 9.11 the Forms, the statement, and the valuation report are required to be prepared in the manner set out in the Rules and to state fairly the information provided on the basis required by the Rules. The requirements of the Rules have been modified by the direction referred to in the supplementary note 0201. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU(INS) rule 9.31(a) 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, the insurer has not kept proper accounting records or if we have not received all the information we require for our examination.

**Returns under the Accounts and Statements Rules**

**Independent auditors' report to the directors pursuant to rule 9.35**

**NPI Limited**

**Global business**

**Financial year ended 31 December 2007**

**(continued)**

**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 statements 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 20 March 2008. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statements and the valuation report.

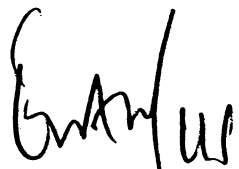
We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statements and the valuation report are free from material misstatement, whether caused 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  
Registered Auditor  
London

Date: 10 March 2008