

# **NATIONAL PROVIDENT LIFE LIMITED**

Registered in England - No 3641947

Registered Office

The Pearl Centre  
Lynchwood  
Peterborough  
PE2 6FY

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

**31 December 2006**

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

**Statement of solvency - long-term insurance business**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2006	
	3641947	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	124506	215848
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	208097	204465
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	332603	420313

**Guarantee fund**

Guarantee fund requirement	21	79907	87281
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	252696	333032

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	31	239722	261846
Resilience capital requirement	32		25608
Base capital resources requirement	33	2139	2030
Individual minimum capital requirement	34	239722	287454
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	239722	287454
Excess (deficiency) of available capital resources to cover 50% of MCR	37	121866	88084
Excess (deficiency) of available capital resources to cover 75% of MCR	38	94702	146123

**Enhanced capital requirement**

With-profits insurance capital component	39		
Enhanced capital requirement	40	239722	287454

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	41	239722	287454
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	92881	132859

**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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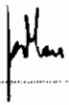
Covering Sheet to Form 2

Form 2

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**



J S Moss

Managing Director



J S B Smith

Director



J Cusins

Director

Date **28** March 2007

**Components of capital resources**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/UK/CM	day month year			Units	
	<b>R3</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		10000	10000	10000
Profit and loss account and other reserves	<b>12</b>		229907	229907	219465
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>		75464	75464	136269
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		315371	315371	365734

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		315371	315371	365734
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>		73644	73644	133923
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>				
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		73644	73644	133923
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		241727	241727	231811

**Components of capital resources**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>		32766	32766	129902
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>		32766	32766	129902

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>		59930	59930	60489
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>		59930	59930	60489

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>		92696	92696	190391
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>		92696	92696	190391

**Components of capital resources**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R3</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		334423	334423	422202	
Inadmissible assets other than intangibles and own shares	<b>73</b>		1820	1820	1889	
Assets in excess of market risk and counterparty limits	<b>74</b>					
Deductions for related ancillary services undertakings	<b>75</b>					
Deductions for regulated non-insurance related undertakings	<b>76</b>					
Deductions of ineligible surplus capital	<b>77</b>					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		332603	332603	420313	

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

Available capital resources for guarantee fund requirement	<b>81</b>		332603	332603	420313	
Available capital resources for 50% MCR requirement	<b>82</b>		241727	241727	231811	
Available capital resources for 75% MCR requirement	<b>83</b>		274493	274493	361713	

**Financial engineering adjustments**

Implicit items	<b>91</b>					
Financial reinsurance - ceded	<b>92</b>					
Financial reinsurance - accepted	<b>93</b>					
Outstanding contingent loans	<b>94</b>		183306	183306	218683	
Any other charges on future profits	<b>95</b>		88482	88482	63872	
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		271788	271788	282555	

**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		33713
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>		9470	
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>		83925	88915
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	75459	77017
	Other	<b>46</b>	3064	
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	35	6916
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	14431	4332
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	1152	
Cash in hand	<b>82</b>		489
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	937	888
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	400	399

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	222586	212669
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**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**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	3641947	GL	31	12	2006	£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 its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	222586	212669
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97	25000	20668
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100	60117	
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 100)	101	307703	233337
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	33713	33713

**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>		164906	159951	

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		1643
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>		39134	162255
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>		595164	578998
Rights under derivative contracts	<b>44</b>		184172	193103
Fixed interest securities	Approved	<b>45</b>	2191498	2578398
	Other	<b>46</b>	2213048	2330877
Variable interest securities	Approved	<b>47</b>	2831	2834
	Other	<b>48</b>	94714	97166
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>		45	212
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>		704	892
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>		
	More than one month withdrawal	<b>55</b>	40005	66430
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>	927	1275
	Property linked	<b>59</b>	4213	3937

**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2006	£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>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	1820	1889
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	1	1
	Ceded	<b>75</b>	4537	6519
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	38824	19669
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	156172	131629
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	76001	80634
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	23933	3687

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	5832649	6421999
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**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2006	£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 its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	5832649	6421999
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>	(25000)	(25000)
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>	3700408	3821443
Other asset adjustments (may be negative)	<b>100</b>	(2375)	135812
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 100)	<b>101</b>	9505682	10354254
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>	9565	15238

**Long term insurance business liabilities and margins**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Total business/Sub fund **Long Term Insurance Business**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		<b>11</b>	5386909	5986483
Cash bonuses which had not been paid to policyholders prior to end of the financial year		<b>12</b>		
Balance of surplus/(valuation deficit)		<b>13</b>	90000	25000
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	5476909	6011483
Claims outstanding	Gross	<b>15</b>	17110	15665
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	17110	15665
Provisions	Taxation	<b>21</b>	4200	1600
	Other risks and charges	<b>22</b>	6020	4164
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>		
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>	32766	190392
Amounts owed to credit institutions		<b>36</b>	123478	137612
Creditors	Taxation	<b>37</b>	11120	10993
	Other	<b>38</b>	154674	45118
Accruals and deferred income		<b>39</b>	4632	4515
Provision for "reasonably foreseeable adverse variations"		<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)		<b>49</b>	354000	410059
Excess of the value of net admissible assets		<b>51</b>	1740	457
Total liabilities and margins		<b>59</b>	5832649	6421999

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		<b>61</b>	1383	7702
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		<b>62</b>	4213	3937

Total liabilities (11+12+49)		<b>71</b>	5740909	6396542
Increase to liabilities - DAC related		<b>72</b>		
Reinsurers' share of technical provisions		<b>73</b>	3700408	3821442
Other adjustments to liabilities (may be negative)		<b>74</b>	64365	136270
Capital and reserves and fund for future appropriations		<b>75</b>		
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)		<b>76</b>	9505682	10354254

**Liabilities (other than long term insurance business)**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**

Company registration number	GL/UK/CM	day	month	year	Units	
<b>R15</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
				<b>1</b>	<b>2</b>	

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>		
	Declared dividend	<b>48</b>		
	Other	<b>49</b>	6576	7861
Accruals and deferred income		<b>51</b>	2844	342
Total (19 to 51)		<b>59</b>	9420	8203
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>	65000	
Total (59 to 63)		<b>69</b>	74420	8203

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>	65071	391
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Reinsurers' share of DAC	<b>81</b>		
Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>	(6624)	(4332)
Capital and reserves	<b>84</b>	239907	229466
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	<b>85</b>	307703	233337

**Profit and loss account (non-technical account)**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>			(65000)	(15000)	
Investment income	Income		<b>14</b>			11925	10296	
	Value re-adjustments on investments		<b>15</b>				498	
	Gains on the realisation of investments		<b>16</b>				353	
Investment charges	Investment management charges, including interest		<b>17</b>			3226	1249	
	Value re-adjustments on investments		<b>18</b>			1397		
	Loss on the realisation of investments		<b>19</b>			1095		
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			(58793)	(5102)	
Tax on profit or loss on ordinary activities			<b>31</b>			(2494)	(423)	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			(56299)	(4679)	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			(56299)	(4679)	
Dividends (paid or declared)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			(56299)	(4679)	

**Analysis of derivative contracts**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>3641947</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
		As at the end of this financial year			As at the end of the previous year				
		Assets			Liabilities				
		1			2			3	
		4			5			6	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	11			1424				
	Equity shares	12							
	Land	13							
	Currencies	14							
	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		184172		56027		193103	12837
Adjustment for variation margin		41			(1424)				
Total (11 to 41)		49		184172		56027		193103	12837



**With-profits insurance capital component for the fund**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**With-profits fund **Long Term Insurance Business**Financial year ended **31 December 2006**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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**Regulatory excess capital**

Regulatory value of assets	Long-term admissible assets of the fund	<b>11</b>	5832649	6421999
	Implicit items allocated to the fund	<b>12</b>		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	<b>13</b>	210156	256254
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	<b>14</b>		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	<b>15</b>		
	Total (11+12-(13+14+15))	<b>19</b>	5622493	6165745
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	<b>21</b>	5176752	5730229
	Regulatory current liabilities of the fund	<b>22</b>	354000	410059
	Total (21+22)	<b>29</b>	5530752	6140288
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		<b>31</b>	185863	205461
Resilience capital requirement in respect of the fund's with-profits insurance contracts		<b>32</b>		25608
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		<b>39</b>	5716615	6371357
Regulatory excess capital (19-39)		<b>49</b>	(94122)	(205612)

**Realistic excess capital**

Realistic excess capital	<b>51</b>	7940	(63952)
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**Excess assets allocated to with-profits insurance business**

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	<b>61</b>	(102062)	(141660)
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	<b>62</b>	65000	130000
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	<b>63</b>	72211	167133
Present value of future shareholder transfers arising from distribution of surplus	<b>64</b>		
Present value of other future internal transfers not already taken into account	<b>65</b>		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	<b>66</b>		

**Realistic balance sheet**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 With-profits fund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Realistic value of assets available to the fund**

Regulatory value of assets	11	5622493	6165745
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	112813	133923
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	5735306	6299668
Support arrangement assets	27		
Assets available to the fund (26+27)	29	5735306	6299668

**Realistic value of liabilities of fund**

With-profits benefit reserve	31	4115766	4628460	
Future policy related liabilities	Part miscellaneous surplus attributed to with-profits benefits reserve	32		
	Part miscellaneous deficit attributed to with-profits benefits reserve	33		
	Planned enhancements to with-profits benefits reserve	34		
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	16863	30194
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	354153	299623
	Future costs of contractual guarantees (other than financial options)	41	1133412	1054916
	Future costs of non-contractual commitments	42	3090	3463
	Future costs of financial options	43	9894	10906
	Future costs of smoothing (possibly negative)	44		
	Financing costs	45	422118	667560
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	37186	70622
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1234684	1477650	
Realistic current liabilities of the fund	51	317241	185679	
Realistic value of liabilities of fund (31+49+51)	59	5667691	6291789	

**Realistic balance sheet**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 With-profits fund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Realistic excess capital and additional capital available**

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	<b>62</b>	5727366	6363620
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	<b>63</b>		
Value of relevant assets before applying the most adverse scenario (62+63)	<b>64</b>	5727366	6363620
Risk capital margin for fund (62-59)	<b>65</b>	59675	71831
Realistic excess capital for fund (26-(59+65))	<b>66</b>	7940	(63952)
Realistic excess available capital for fund (29-(59+65))	<b>67</b>	7940	(63952)
Working capital for fund (29-59)	<b>68</b>	67615	7879
Working capital ratio for fund (68/29)	<b>69</b>	1.18	0.00

**Other assets potentially available if required to cover the fund's risk capital margin**

Additional amount potentially available for inclusion in line 62	<b>81</b>	102248	140855
Additional amount potentially available for inclusion in line 63	<b>82</b>		

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	51861	87695
Investment income receivable before deduction of tax	12	276938	292616
Increase (decrease) in the value of non-linked assets brought into the account	13	(205842)	456133
Increase (decrease) in the value of linked assets	14	276	219
Other income	15	16969	19531
<b>Total income</b>	<b>19</b>	<b>140202</b>	<b>856194</b>

**Expenditure**

Claims incurred	21	666086	640293
Expenses payable	22	44760	35792
Interest payable before the deduction of tax	23	26330	33219
Taxation	24	2600	16200
Other expenditure	25		129902
Transfer to (from) non technical account	26	(65000)	(15000)
<b>Total expenditure</b>	<b>29</b>	<b>674776</b>	<b>840406</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(534574)	15788
Fund brought forward	49	6011483	5995695
Fund carried forward (39+49)	59	5476909	6011483

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	2847	60527		63374	78809
Single premiums	12	633	133081		133714	157432

**Reinsurance - external**

Regular premiums	13					36
Single premiums	14					128

**Reinsurance - intra-group**

Regular premiums	15	224	23454		23678	30359
Single premiums	16	633	120916		121549	118023

**Net of reinsurance**

Regular premiums	17	2623	37073		39696	48414
Single premiums	18		12165		12165	39281

**Total**

Gross	19	3480	193608		197088	236241
Reinsurance	20	857	144370		145227	148546
Net	21	2623	49238		51861	87695

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 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	16408	21601		38009	42771
Disability periodic payments	12					
Surrender or partial surrender	13	127541	586115		713656	644502
Annuity payments	14	2799	118776		121575	116693
Lump sums on maturity	15	21920	213652		235572	264523
<b>Total</b>	<b>16</b>	<b>168668</b>	<b>940144</b>		<b>1108812</b>	<b>1068489</b>

**Reinsurance - external**

Death or disability lump sums	21					761
Disability periodic payments	22					
Surrender or partial surrender	23					3938
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>					<b>4699</b>

**Reinsurance - intra-group**

Death or disability lump sums	31	886	8733		9619	8476
Disability periodic payments	32					
Surrender or partial surrender	33	16061	271360		287421	267594
Annuity payments	34	655	118775		119430	109067
Lump sums on maturity	35		26256		26256	38360
<b>Total</b>	<b>36</b>	<b>17602</b>	<b>425124</b>		<b>442726</b>	<b>423497</b>

**Net of reinsurance**

Death or disability lump sums	41	15522	12868		28390	33534
Disability periodic payments	42					
Surrender or partial surrender	43	111480	314755		426235	372970
Annuity payments	44	2144	1		2145	7626
Lump sums on maturity	45	21920	187396		209316	226163
<b>Total</b>	<b>46</b>	<b>151066</b>	<b>515020</b>		<b>666086</b>	<b>640293</b>

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11				
Commission - other	12	419	1430	1849	2506
Management - acquisition	13				
Management - maintenance	14	9732	33179	42911	33286
Management - other	15				
<b>Total</b>	<b>16</b>	<b>10151</b>	<b>34609</b>	<b>44760</b>	<b>35792</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				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42	419	1430	1849	2506
Management - acquisition	43				
Management - maintenance	44	9732	33179	42911	33286
Management - other	45				
<b>Total</b>	<b>46</b>	<b>10151</b>	<b>34609</b>	<b>44760</b>	<b>35792</b>

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

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

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

**Directly held linked assets**

Value of directly held linked assets	21	4213	3937
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**Total**

Value of directly held linked assets and units held (18+21)	31	4213	3937
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>4213</b>	<b>3937</b>



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

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

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

Regular premium business	11				267
Single premium business	12	97	6668	6765	4286
<b>Total</b>	<b>13</b>	97	6668	6765	4553

**Amount of new regular  
premiums**

Direct insurance business	21		729	729	716
External reinsurance	22				
Intra-group reinsurance	23				
<b>Total</b>	<b>24</b>		729	729	716

**Amount of new single  
premiums**

Direct insurance business	25	633	133081	133714	157432
External reinsurance	26				
Intra-group reinsurance	27				
<b>Total</b>	<b>28</b>	633	133081	133714	157432

Long-term insurance business : Analysis of new business

NATIONAL PROVIDENT LIFE LIMITED

Name of insurer

Total business

Financial year ended

31 December 2006

Units

£000

UK Life / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
120	Conventional endowment with-profits OB savings				
325	Level term assurance				
390	Deferred annuity non-profit				
395	Annuity non-profit (PLA)			97	633
410	Group life				

## Long-term insurance business : Analysis of new business

Name of insurer  
NATIONAL PROVIDENT LIFE LIMITED

Total business

Financial year ended  
31 December 2006Units  
£000

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
170	Conventional deferred annuity with-profits - increments		16		
325	Level term assurance		4		
395	Annuity non-profit (PLA)				
400	Annuity non-profit (CPA)			6668	105746
530	Individual pensions UWP - increments		289		11717
535	Group money purchase pensions UWP				1043
540	Group money purchase pensions UWP - increments		5		426
730	Individual pensions property linked - increments		382		13482
735	Group money purchase pensions property linked				667
740	Group money purchase pensions property linked - increments		33		

**Long-term insurance business : Non- linked assets**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Category of assets **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 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					
Approved fixed interest securities	12	91619	91619	4153	4.71	
Other fixed interest securities	13	50271	112333	3387	5.21	
Variable interest securities	14				0.00	
UK listed equity shares	15				0.00	
Non-UK listed equity shares	16				0.00	
Unlisted equity shares	17				0.00	
Other assets	18	63126	1064		0.00	
<b>Total</b>	<b>19</b>	<b>205016</b>	<b>205016</b>	<b>7540</b>	<b>4.96</b>	

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

Land and buildings	21	164906	596343	20865	3.50	22.26
Approved fixed interest securities	22	2124366	2227835	103098	4.57	(5.22)
Other fixed interest securities	23	2212255	2649797	115730	5.40	(1.36)
Variable interest securities	24	98977	14883	729	5.42	7.87
UK listed equity shares	25	454	7704			11.76
Non-UK listed equity shares	26	55	55			53.96
Unlisted equity shares	27	38625	3161			29.34
Other assets	28	982855	122715	1154	0.94	8.95
<b>Total</b>	<b>29</b>	<b>5622493</b>	<b>5622493</b>	<b>241576</b>	<b>4.76</b>	<b>(0.10)</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					1.83
Return allocated to non taxable 'asset shares'	32					1.54
Return allocated to taxable 'asset shares'	33					1.20

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Category of assets **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 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>	1189839	13.56	4.48	4.48
<b>Other approved fixed interest securities</b>	<b>21</b>	1129615	14.42	4.68	4.66
<b>Other fixed interest securities</b>					
AAA/Aaa	31	915301	14.42	4.95	4.88
AA/Aa	32	985373	6.38	5.72	5.65
A/A	33	859083	11.72	5.49	5.15
BBB/Baa	34	2373	9.24	6.06	5.52
BB/Ba	35				
B/B	36				
CCC/Caa	37		0.00	0.00	0.00
Other (including unrated)	38		0.00	0.00	0.00
<b>Total other fixed interest securities</b>	<b>39</b>	2762130	10.71	5.39	5.24
<b>Approved variable interest securities</b>	<b>41</b>	1930	6.01	1.99	1.99
<b>Other variable interest securities</b>	<b>51</b>	12953	11.48	5.48	5.23
<b>Total (11+21+39+41+51)</b>	<b>61</b>	5096467	12.20	5.02	4.93

**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Form 51 - with-profits	11	84286	2244959		2329244	2546888
Form 51 - non-profit	12	35729	1461660		1497389	1570693
Form 52	13	515774	2370781		2886555	3239535
Form 53 - linked	14	134070	2149391		2283461	2341065
Form 53 - non-linked	15	535	50397		50932	68706
Form 54 - linked	16	865	32633		33498	
Form 54 - non-linked	17	51	1775		1826	37054
<b>Total</b>	<b>18</b>	<b>771310</b>	<b>8311596</b>		<b>9082906</b>	<b>9803941</b>

**Reinsurance - external**

Form 51 - with-profits	21					317
Form 51 - non-profit	22	13	341		354	892
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					2
Form 54 - linked	26					
Form 54 - non-linked	27					
<b>Total</b>	<b>28</b>	<b>13</b>	<b>341</b>		<b>354</b>	<b>1211</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32	292	1341857		1342149	1383872
Form 52	33	42944			42944	59855
Form 53 - linked	34	129857	2149391		2279248	2337129
Form 53 - non-linked	35	1	1499		1500	4393
Form 54 - linked	36		32571		32571	
Form 54 - non-linked	37		1129		1129	34983
<b>Total</b>	<b>38</b>	<b>173094</b>	<b>3526447</b>		<b>3699540</b>	<b>3820232</b>

**Net of reinsurance**

Form 51 - with-profits	41	84286	2244959		2329244	2546571
Form 51 - non-profit	42	35424	119462		154886	185929
Form 52	43	472831	2370781		2843612	3179680
Form 53 - linked	44	4213			4213	3936
Form 53 - non-linked	45	534	48898		49433	64311
Form 54 - linked	46	865	62		927	
Form 54 - non-linked	47	51	646		698	2071
<b>Total</b>	<b>48</b>	<b>598203</b>	<b>4784809</b>		<b>5383012</b>	<b>5982498</b>

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	1127	17373	111				13740
120	Conventional endowment with-profits OB savings	8355	83066	2041				69136
165	Conventional deferred annuity with-profits	29	16	0				146
205	Miscellaneous conventional with-profits	103	258	2				655
210	Additional reserves with-profits OB							608
390	Deferred annuity non-profit	31	20					244
395	Annuity non-profit (PLA)	3191	3669					26867
435	Miscellaneous non-profit	6454	190601	697				8618
440	Additional reserves non-profit OB							

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**Total business / subfund **Long Term Insurance Business**Financial year ended **31 December 2006**Units **£000**

UK Life / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
395	Annuity non-profit (PLA)		0					2
435	Miscellaneous non-profit			0				11



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund **Long Term Insurance Business**

Financial year ended **31 December 2006**

Units **£000**

UK Life / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
395	Annuity non-profit (PLA)		23					292

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

Name of insurer

NATIONAL PROVIDENT LIFE LIMITED

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
155	Conventional pensions endowment with-profits	12419	491842	2319				530881
165	Conventional deferred annuity with-profits	79099	176471	14108				1714066
205	Miscellaneous conventional with-profits	1	231	4				11
390	Deferred annuity non-profit	2207	5583					62047
400	Annuity non-profit (CPA)	87490	126032					1363898
435	Miscellaneous non-profit	11231	300781	1139				15701
440	Additional reserves non-profit OB							20014

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund **Long Term Insurance Business**

Financial year ended **31 December 2006**

Units **£000**

UK Pension / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
400	Annuity non-profit (CPA)		74					339
435	Miscellaneous non-profit		6793	2				2

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund **Long Term Insurance Business**

Financial year ended **31 December 2006**

Units **£000**

UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit		359					5154
400	Annuity non-profit (CPA)		125958					1336703

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	22528	532581		528437	478099	11556	489655
610	Additional reserves UWP						26120	26120

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Life / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
500	Life UWP single premium		51457		51405	42559	385	42944

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP	133890	2020402	14713	2020423	1890695	104809	1995504
535	Group money purchase pensions UWP	13324	202867	1620	202869	181728	10622	192350
545	Individual deposit administration with-profits	781	9660		9660	9660	253	9913
555	Group deposit administration with-profits	1846	40805	1664	40805	40805	15975	56781
570	Income drawdown UWP	145	32139		32139	30382	154	30536
605	Miscellaneous protection rider		8553	13			5	5
610	Additional reserves UWP						85692	85692

**Long-term insurance business : Valuation summary of property linked contracts**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	8994	117927		116823	116823	497	117320
715	Life property linked endowment regular premium - savings	506	13034	185	13034	13034	33	13067
790	Miscellaneous protection rider		0	12			2	2
795	Miscellaneous property linked	115	4213	10	4213	4213	2	4215



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund **Long Term Insurance Business**

Financial year ended **31 December 2006**

Units **£000**

UK Life / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium		117927		116823	116823	1	116824
715	Life property linked endowment regular premium - savings		13034	185	13034	13034		13034

**Long-term insurance business : Valuation summary of property linked contracts**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**Total business / subfund **Long Term Insurance Business**Financial year ended **31 December 2006**Units **£000**

UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
725	Individual pensions property linked	151260	1776690	17781	1776690	1761186	35184	1796370
735	Group money purchase pensions property linked	24014	332090	4387	332090	324135	13117	337252
750	Income drawdown property linked	632	55126		55126	55126	(575)	54551
790	Miscellaneous protection rider		53997	412			836	836
795	Miscellaneous property linked		8943		8943	8943	336	9279
800	Additional reserves property linked						1500	1500

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

Name of insurer

**NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2006

Units

£000

UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked		1776690	17781	1776690	1761186	(1383)	1759903
735	Group money purchase pensions property linked		332090	4387	332090	324135	2917	327052
750	Income drawdown property linked		55126		55126	55126	(34)	55092
795	Miscellaneous property linked		8943		8943	8943		8943

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
Total business / subfund **Long Term Insurance Business**  
Financial year ended **31 December 2006**  
Units **£000**

UK Pension / Reinsurance ceded external

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
790	Miscellaneous protection rider		4214	9				

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund **Long Term Insurance Business**

Financial year ended **31 December 2006**

Units **£000**

UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity	50	114		865	865	51	916

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund **Long Term Insurance Business**

Financial year ended **31 December 2006**

Units **£000**

UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity	954	2489		32571	32571	1595	34166
910	Miscellaneous index linked	54	19		62	62	180	242

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

UK Pension / Reinsurance ceded intra-group

Product code number	1	2	Product description	3	4	5	6	7	8	9
Product code number			Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves	
905	Index linked annuity			2489		32571	32571	1129	33700	

**Long-term insurance business : Index linked business**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business

Financial year ended **31 December 2006**

Units **£000**

Type of assets and liabilities	Name of index link  1	Value of assets or liabilities  2	Gross derivative value  3
UK TREASURY 2.5% INDEX-LINKED 23/08/11	RPI	464	
UK TREASURY 2.5% INDEX-LINKED 26/07/16	RPI	463	
<b>Total assets</b>		<b>927</b>	
<b>Total liabilities</b>			
<b>Net total assets</b>		<b>927</b>	



**Long-term insurance business: analysis of valuation interest rate**

Name of insurer           **NATIONAL PROVIDENT LIFE LIMITED**

Total business           **Long Term Insurance Business**

Financial year ended      **31 December 2006**

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
UK Life WP Code 100/120/205/210	69745	4.20	5.25	5.25
UK Pension WP Code 155	530727	4.80	4.80	4.83
UK Pension WP Code 165	1699408	4.39	4.39	4.41
UK Life WP Code 500	440032	3.70	4.63	5.11
UK Life WP Code 610	26120	3.70	4.63	5.11
UK Pension WP Code 525/535/570	1959003	4.31	4.31	4.56
UK Pension WP Code 525/535/570	173676	4.74	4.74	4.91
UK Pension WP Code 525/535/570	86612	4.50	4.50	4.51
UK Pension WP Code 545/555	68179	4.50	4.50	4.51
UK Pension WP Code 610	83912	4.62	4.62	4.77
Misc	244356	n/a	n/a	4.24
<b>Total</b>	5381769			

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Valuation result**

Fund carried forward	11	5476909	6011483
Bonus payments in anticipation of a surplus	12	5505	4885
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	5482414	6016368
Mathematical reserves	21	5383012	5982498
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	99402	33870

**Composition of surplus**

Balance brought forward	31	25000	10000
Transfer from non-technical account	32	65000	15000
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	9402	8870
Total	39	99402	33870

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41	5505	4885
Cash bonuses	42		
Reversionary bonuses	43	3897	3985
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	9402	8870
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48	9402	8870
Surplus carried forward	49	90000	25000
Total (48+49)	59	99402	33870

**Percentage of distributed surplus allocated to policyholders**

Current year	61	100.00	100.00
Current year - 1	62	100.00	100.00
Current year - 2	63	100.00	100.00
Current year - 3	64	100.00	100.00

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Original insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Date of maturity value / open market option **01 March 2007**

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	10516	0	0	CWP	No	10516
Endowment assurance	20	17399			CWP	No	17399
Endowment assurance	25	27491			CWP	No	27491
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	25876	1390	0	UWP	Yes	25876
Regular premium pension	15	48494	159	0	UWP	Yes	48494
Regular premium pension	20	104523		0	CWP	No	104523
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	14088	751	0	UWP	Yes	14088
Single premium pension	15	23277	965	0	UWP	Yes	23277
Single premium pension	20	62334		0	CWP	No	62334

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

Name of insurer  
Original insurer

NATIONAL PROVIDENT LIFE LIMITED  
NATIONAL PROVIDENT LIFE LIMITED

Date of surrender value

01 March 2007

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	9250	n/a	n/a	CWP	No	17786
Endowment assurance	20	16255	n/a	n/a	CWP	No	21903
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	10	12868	n/a	(909)	UWP	Yes	13915
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	14088	751	n/a	UWP	Yes	14502

**Long-term insurance capital requirement**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2006**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%		0		
Classes I (other), II and IX	13	0.15%		0.98		
Classes I (other), II and IX	14	0.3%	1086501	1066468	3199	3270
Classes III, VII and VIII	15	0.3%	32687	29668	89	103
<b>Total</b>	<b>16</b>		<b>1119188</b>	<b>1096136</b>	<b>3288</b>	<b>3373</b>

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

Class IV supplementary classes 1 and 2 and life protection reinsurance	21				4	10
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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%	6750684	5331035	0.85	57381
Classes III, VII and VIII (investment risk)	33	1%	101992	49433	0.85	867
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%				
Classes III, VII and VIII (other)	35	25%	2232401	4213	0.85	3349
Class IV (other)	36	1%	2239	2228	1.00	22
Class V	37	1%				
Class VI	38	1%				
<b>Total</b>	<b>39</b>					<b>61619</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	6750684	5331035	0.85	172142
Classes III, VII and VIII (investment risk)	43	3%	101992	49433	0.85	2601
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%				
Classes III, VII and VIII (other)	45	0%	2232401	4213		
Class IV (other)	46	3%	2239	2228	1.00	67
Class V	47	0%				
Class VI	48	3%				
<b>Total</b>	<b>49</b>		<b>9087318</b>	<b>5386909</b>		<b>174810</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>239722</b>
						<b>261846</b>

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1

#### \*0201\* Modification to the provisions of the Accounts and Statements Rules

The Financial Services Authority, on the application of the firm, made a direction in January 2007, effective from 31 December 2006, under section 148 of the Act. The effect of this direction is to modify INSPRU 2.1.22(3) to enable the firm to apply a business amount of 2% to investments in Henderson Central London Office Fund, in aggregate. £90 million in line 43 of Form 13 relates to the firm's investment in those assets

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

	2006 £'000	2005 £'000
Form 13 Line 89 (Other than long term business)	222,586	212,669
Form 13 Line 89 (Long term business)	5,832,649	6,421,999
Less Form 14 Lines 11, 12 and 49	(5,740,909)	(6,396,542)
Less Form 15 Line 69	(74,420)	(8,203)
Net admissible assets	<u>239,906</u>	<u>229,923</u>
Subordinated debt	59,930	129,902
Contingent loan	32,766	60,489
Rounding difference	1	(1)
Total capital resources after deductions	<u>332,603</u>	<u>420,313</u>

#### \*0308\* Outstanding contingent loans

At the financial year ended 31 December 2006, the total amount of contingent loan drawn down is £671,679,000. As at the end of the financial year the statutory valuation of the loan was £216,072,000 the amount included in Form 14 line 35 was £32,766,000. The difference of £183,306,000 is reported in Form 3 line 94 which represents a potential charge against future profits not recognised in Form 14.

#### \*0309\* Any other charges on future profits

In April 1998 the insurer entered into a securitised loan agreement which raised £260 million (£140 million of 7.39169% Class A1 Limited Recourse Bonds due 2012 and £120 million of 7.5873% due 2022). The block of business securitised consists of portfolio of unit linked, unitised with profit and capital account policies. Under the securitised loan agreement interest and principal payments are made out of surplus emerging (as defined in the agreement).

As at the end of the financial year, the undischarged liability is £200,997,000 (£260,000,000 less £59,003,000 capital repayment). Of this amount £88,482,000 is reported in Form 3 Line 95, which represents a potential charge against future profits not recognised in Form 14.

Further details are disclosed in paragraph 8 of the "Abstract of valuation report" and Note 21 of the Report and Accounts.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

#### \*0310\* Net valuation differences in Form 3

	2006 £'000	2005 £'000
Securitised loan valuation difference	88,482	63,872
Contingent loan valuation difference	183,306	218,683
Liability valuation difference	(197,314)	(146,286)
Provision for investment contracts	990	-
Net valuation difference	<u>75,464</u>	<u>136,269</u>

#### \*1305\*

#### \*1319\* Counterparty limits

- (a) The investment guidelines operated by the Company 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 1% of the business amount, calculated in accordance with Chapter 2.1 of the Prudential Sourcebook for Insurers. The exceptions to this are for strategic investment opportunities where, in order to achieve a target asset mix or diversification, excess exposures may be permitted for a short duration. Where these excess exposures persist for the long term, modifications may be sought.
- (c) There were no breaches of these limits during the financial year.

#### \*1306\*

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

As at 31 December 2006, there were 2 counterparty exposures greater than 5% of the sum of the insurer's base capital resource requirement and long term insurance liabilities, net of reinsurance ceded.

	2006 £'000
European Investment Bank	399,497
UK Treasury Securities	1,166,438

#### \*1307\*

#### \*1313\* Aggregate value of certain fully secured rights

The aggregate value of rights over collateral in respect of approved stock lending transactions is £1,205m.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

**\*1301\***

#### **\*1308\* Unlisted and Listed investments**

Included within Form 13 are the following amounts:

	2006 £'000	2005 £'000
Unlisted Investments valued in accordance with the rules in GENPRU 1.3	3,300	4,700
Listed Investments valued in accordance with the rules in GENPRU 1.3 and which are not readily realisable.	100	100
Collective Investment Schemes, as specified in instruction 5 to Form 13	312,902	335,400
Total	<u>316,302</u>	<u>340,200</u>

The above amounts in respect of unlisted investments and listed investments that are not readily realisable, fall within any of lines 41, 42, 46 or 48 of Form 13 Total long term business insurance assets. Units or other beneficial interest in collective investment schemes, as specified in instruction 5 to Form 13, are reported within Form 13 line 43 alongside other collective investment schemes.

Included within Collective Investment Schemes are the following assets:

	2006 £'000
Henderson Retail Warehouse Fund	40,689
Henderson Central London Office Fund	89,778
Henderson Shopping Centre Fund	42,822
Henderson Shop Unit Fund	28,408
Henderson CASPAR Fund	60,902
Industrial Property Investment Fund	<u>50,303</u>
Total	<u>312,902</u>

#### **\*1309\* Hybrid Securities**

Included within line 46 and line 48 of Form 13 Total long term insurance business assets are hybrid securities of £261.8 million (2005: £385.5m)



## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

#### Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

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

Included within line 100 of Form 13, for 2006, are the following amounts:

	Long term £'000	Other than long term £'000
Present value of future profits on non-participating business written in the with profits fund	73,644	-
Subordinated loan	(65,000)	65,000
Outstanding premiums	1,820	-
Reclassification of tax creditor	(11,099)	(4,134)
Interest on subordinated loan	-	(2,490)
Return on 'Earmarked Asset' (see below)	(1,740)	1,740
Rounding difference	-	1
	<u>(2,375)</u>	<u>60,117</u>

Included within line 100 of Form 13, for 2005, are the following amounts:

	Long term £'000	Other than long term £'000
Present value of future profits on non-participating business written in the with profits fund	133,923	-
Outstanding premiums	1,889	-
	<u>135,812</u>	<u>-</u>

The return on the 'Earmarked Asset' refers to £25m of regulatory support received by the long term fund from the other than long term fund.

#### \*1405\* Other adjustment to liabilities

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

	2006 £'000	2005 £'000
Provision for investment contracts	990	-
Taxation reclassification	(11,099)	-
Contingent Loan valuation difference	183,306	218,683
Securitised loan valuation difference	88,482	63,872
Liability valuation difference	(197,314)	(146,286)
Rounding Difference	-	1
Total	<u>64,365</u>	<u>136,269</u>

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

**\*1401\***

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

No other provision for adverse changes 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.

#### **\*1402\* Additional liability details**

**\*1502\***

- (a) No charge has been made on the assets of the insurer.
- (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 £4.7 million (2005: £2million). A provision of £4.2 million (2005: £1.6 million) has been included within Form 14 line 21 for taxation on capital gains.
- (c) The insurer has a £32.8 million (2005 £60.5 million) contingent loan from the immediate parent undertaking. The loan is repayable at the shareholders' discretion if and to the extent that the actuarial function holder determines that a deficit will not arise. A deficit arises where in the actuarial function holder's opinion there would otherwise be insufficient assets to cover either statutory reserving requirements or to meet policyholder reasonable expectations. The loan bears interest at a rate equal to the earnings on the underlying assets together with an additional amount of 1.75%pa from the date of advance. On this occasion the contingent loan was not repayable at the year end due to the latter contingency.
- (d) There are no guarantees, indemnities or other contractual commitments, other than in the ordinary course of its insurance business, in respect of the existing or future liabilities of any related companies.
- (e) In the opinion of the directors, there are no fundamental uncertainties affecting the position of the insurer.

#### **\*1507\* Other adjustments**

Included within line 83 of Form 15 Other than long term insurance business liabilities are interest of £2,490,000 due on the subordinated loan and a tax reclassification of £4,134,000.

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

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

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

#### Financial year ended 31 December 2006

#### Appendix 9.3

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

Other income represents annual management income of £17.0 million (2005: £19.5 million).

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

Throughout the whole of the financial year Pearl Group Services Limited has provided management services to the insurer. Henderson Global Investors Limited has provided investment management services throughout the whole of the financial year.

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

Since 1 January 2000, the insurer has entered into a number of reinsurance treaties with Pearl Assurance Limited (formerly Pearl Assurance plc) and NPI Limited. Details of these reinsurance treaties are to be found in paragraph 9 of the Abstract of valuation report required by rule 9.31(a).

##### **\*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 bid market value

##### **\*4411\* Restatement of comparatives**

Assets previously reported at line 13 in 2005 have been reclassified to line 21 as this is a more appropriate presentation.

##### **\*4500\* &\*5500\* Internal linked funds**

The insurer's internal linked funds are wholly reinsured to NPI Limited and all amounts required to be shown would be zero. These Forms have, therefore, not been included in the Return.

##### **\*4803\* Yield before adjustment**

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

##### **\*4806\* Assets used to calculate column 5 Form 48**

The assets used in the calculation of the with profit return are all assets backing asset share excluding deposit administration, capital account and the estate fund.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### National Provident Life Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.3 (continued)

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

The credit agency used to provide the split was UBS.

##### **\*5104\*, \*5204\*, \*5304\* Number of policyholders / scheme members**

Where a policy can have a combination of profit sharing (conventional with profit code 155), capital account (unitized with profit code 525 or 535), or unit linked (code 725 or 735) elements, it has been counted as a unit linked policy and included in column 3 for Form 53 if there is a unit linked element. Otherwise it has been included in column 3 for Form 51 if there is a profit sharing element or in column 3 of Form 52 if there is only capital account.

##### **\*6001\* Estimation of the insurance health risk capital component**

The gross annual office premium of Class IV business was £24,000. The insurance health risk capital component was estimated as 18% of this premium amount for consistency with INSPRU 1.1.85R.

## Returns under the Accounts and Statements Rules

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

#### National Provident Life Limited

#### Global business

#### Financial year ended 31 December 2006

- (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).

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. 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 principles described above, the investment policy permits the writing of contracts, under which the insurer had an obligation to acquire or dispose of assets, which were not reasonably likely to be exercised, at the time when the contract was entered into. In these circumstances 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 exotic options, including barrier options, without the prior approval of the senior management of the Investment Manager. The purchase of free-standing out of the money call options is not permitted.

- (c) There were no options bought or sold during the financial year which were over 5% of the strike price.
- (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 that no change would occur.

	Actual Holding £m	Exposure due to derivatives £m	Combined Economic Exposure £m
Fixed Interest - Approved	2191.5	102.5	2294.0
Deposits	196.2	(102.5)	93.7

## Returns under the Accounts and Statements Rules

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

#### National Provident Life Limited

#### Global business

Financial year ended 31 December 2006

(continued)

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

	Change due to derivatives £m	Date
Fixed Interest - Approved	316.6	24 February 2006
Deposits	(316.6)	24 February 2006

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 than those quoted in the table above.

- (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 under existing market conditions was £1.4m.

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 £1.6m.

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 £18m.

- (h) The insurer has not made use of any derivative contract at any time during the financial year, which does not fall within INSPRU 3.2.17R.
- (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**

#### **National Provident Life Limited**

##### **Global Business**

##### **Financial year ended 31 December 2006**

The persons who, to the knowledge of the Company, were controllers at any time during the financial year were NP Life Holdings Limited, Pearl Assurance Limited (formerly Pearl Assurance plc), 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. NP Life Holdings Limited**

As at 31 December 2006, NP Life Holdings Limited owned 100% of the issued share capital of National Provident Life Limited and was able to exercise 100% of the voting power at any general meeting.

##### **2. Pearl Assurance Limited (formerly Pearl Assurance plc)**

As at 31 December 2006, Pearl Assurance Limited (formerly Pearl Assurance Plc) owned 100% of the issued share capital of NP Life Holdings Limited, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

##### **3. Pearl Group Limited**

As at 31 December 2006, Pearl Group Limited owned 100% of the shares of Pearl Assurance Limited (formerly Pearl Assurance Plc), a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

##### **4. Sun Capital Investments Limited**

As at 31 December 2006, Sun Capital Investments Limited owned 50% of the ordinary shares of Pearl Group Limited, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **5. Hera Investments One Limited**

As at 31 December 2006, Hera Investments One Limited owned 50% of the ordinary shares of Pearl Group Limited, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **6. Xercise Limited**

As at 31 December 2006, 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 National Provident Life 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**

#### **National Provident Life Limited**

##### **Global Business**

**Financial year ended 31st December 2006**

**(continued)**

#### **7. Jambright Limited**

As at 31 December 2006, 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 National Provident Life Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

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

As at 31 December 2006, 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 70.4% of the ordinary shares of Xercise Limited and were able to exercise 70.4% 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 National Provident Life Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

#### **9. TDR Capital Nominees Limited**

As at 31 December 2006, 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 National Provident Life Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

#### **10. TDR Capital LLP**

As at 31 December 2006, 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 National Provident Life 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**

#### **National Provident Life Limited**

#### **Global Business**

#### **Financial year ended 31 December 2006**

The with-profits actuary throughout the period was Paul 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 2006:

1. a) Mr Turnbull holds no shares or share options in 2006.
  - 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 during the period specified was £3,352,000.
  - d) Mr Turnbull was throughout the period a member of the Pearl Staff Pension Scheme (National Provident Life 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 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.

## NATIONAL PROVIDENT LIFE LIMITED

### APPENDIX 9.4

#### ABSTRACT OF VALUATION REPORT

##### Introduction

1. (1) The date to which the actuarial investigation relates is 31 December 2006.
- (2) The date to which the previous actuarial investigation under rule 9.4 related was 31 December 2005.
- (3) Since the previous valuation date, there have been no interim valuations (for the purposes of rule 9.4).

##### Product range

2. There have been no significant changes to products during the financial year.

##### Discretionary charges and benefits

3. (1) Market value reductions ("MVR") were applied as follows:

<b>Product</b>	<b>Premium Investment Date</b>	<b>Period applied</b>
PPP, FSAVC, PRA & FIP Unitised With-profit Series 1:		
Initial units	Jan 1988 to Dec 2005	Throughout 2006
Ordinary units	Jan 1988 to Dec 1990	Throughout 2006
	Jan 1993 to Dec 2002	Throughout 2006
PPP, FSAVC, PRA & FIP Unitised With-profit Series 2:		
Initial units	Jan 1994 to Dec 2005	Throughout 2006
Ordinary units	Jan 1998 to Dec 2001	Throughout 2006
PPP, FSAVC, PRA & FIP Capital Account:		
Initial units	Jan 1994 to Dec 2005	Throughout 2006
Ordinary units	Jan 1994 to Dec 1994	Throughout 2006
	Jan 1996 to Dec 2000	Throughout 2006
New Approach PPP, FSAVC and EPP Unitised With-profit	Jan 1999 to Dec 2000	Throughout 2006
New Approach PPP, FSAVC and EPP Capital Account	Jan 1998 to Dec 2000	Throughout 2006
GMP, VGPPP, GAPP, GIA Unitised With-profit Series 1:		
Initial units	Jan 1988 to Dec 2005	Throughout 2006
Ordinary units	Jan 1988 to Dec 1990	Throughout 2006
	Jan 1993 to Dec 2002	Throughout 2006

<b>Product</b>	<b>Premium Investment Date</b>	<b>Period applied</b>
Penfund Series 1	Jul 1990 to Dec 1990 Jan 1993 to Dec 2002	Throughout 2006 Throughout 2006
Trustee With Profit Bond	Jan 1997 to Dec 2001	Throughout 2006
With Profit Bond Series 1	Apr 1991 to Jun 1992 Oct 1992 to Dec 2001	Throughout 2006 Throughout 2006
With Profit Bond Series 2	Sep 1993 to Dec 1994 Jul 1995 to Dec 2001	Throughout 2006 Throughout 2006
With Profit Bond Series 3	Oct 1995 to Dec 2001	Throughout 2006
With Profit Bond Series 4	Jan 1997 to Dec 2001	Throughout 2006
With Profit Bond Series 5	Dec 1997 to Dec 2001	Throughout 2006
With Profit Bond Series 6	Sep 1998 to Dec 2001	Throughout 2006
With Profit Bond Series 7	Jan 1999 to Dec 2001	Throughout 2006
Portfolio Bond Series 1	Jul 1999 to Jun 2002	Throughout 2006

Note: MVRs apply by date of each investment in the fund, not by policy date

- (2) National Provident Life Limited has not sold any reviewable protection business.
- (3) No policies have been sold in this category.
- (4) Policy fees on linked policies were increased on 1 January 2006 in line with either the Retail Prices Index, an increase of 2.7%, or National Average Earnings, an increase of 3.7%.
- (5) During the financial year benefit charges remained unchanged on linked policies.
- (6) During the financial year, unit management charges for unitised accumulating with-profits and linked business remained unchanged.
- (7) All National Provident Life Limited's unit-linked liabilities, other than for Unilink policies, are reassured to NPI Limited with effect from 1 January 2000. As a consequence, the information in the following paragraphs relate to NPI Limited's practice.
  - (a) Units are of two types – initial and ordinary. The following method is applied to both types of 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 purchasing assets and net of all investment management charges, 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 deallocated at 95% of the offer price plus any rounding adjustment. For the 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 deallocated at the bid price. NPI Limited values the assets on an offer basis where there is a net creation of units and a bid basis where there a net cancellation of units. During 2006 all prices were calculated on an offer basis with two exceptions: the pension Protected Equity 100 (NUPS15) and pension Bonusbuilder 90 (NUPS16) funds. NPI Limited retains the right to price on a bid basis.
  - (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.
- (b) During the financial year there were no times at which different pricing bases applied to different policies.
- (c) Where the funds invest in unit trusts or open-ended investment companies managed by NPI Limited the units are valued at the price at which NPI Limited would have been able to purchase the investments. To ensure 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.

<b>Fund Type</b>	<b>Realised Gains</b>	<b>Unrealised Gains</b>	<b>Realised Losses</b>	<b>Unrealised Losses</b>
Equity	19.9%	17.3%	19.9%	17.3%

Accruals for realised gains and losses on Equity funds are cleared at the end of each month.

Accruals for unrealised gains and losses on Equity funds 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 2006 was 17.3%.

One Life equity fund has accumulated capital losses and its tax rates are currently nil.

Fixed Interest	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:

- (i) Where the net premium on the valuation basis is greater than the actual office premium, the premium valued is the office premium.
- (ii) 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.
- (iii) A provision for immediate payment of claims is made.
- (iv) 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.

Policies on below average lives accepted at a premium for an increased age are valued as if effected at that age. Policies subject to an extra premium are valued as if effected at the ordinary premium and a further provision of one year's extra office premium is made. Liens are ignored.

For with-profits business mathematical reserves have been determined using an individual gross premium method except for those mentioned below. The reserve for each policy is subject to a minimum of any guaranteed surrender value. Where it has been considered appropriate to do so, the mathematical reserves include additional amounts for future expenses and options and guarantees.

Visible Growth Fund, Capital Pension Plan and Cash Accumulation Plan contracts are valued by taking the liability as the amount in the deposit account. In addition there is an allowance for future expenses. For Capital Pension Plan policies an additional reserve has been established to allow for the cost of the annuity guarantees.

Unitised with-profits and capital account policies are valued using the Discounted Value of Future Liability Outgo method. This involves calculating the same cashflows as in the gross premium method. However the method of calculating the reserve is different as the method involves accumulating backwards, starting with the last cashflow, to ensure that the reserve at the start is big enough so that no valuation strains ever occur (if the valuation assumptions are borne out in practice). The reserve for each policy is subject to a minimum of any guaranteed surrender value.

Under with-profit S620 annuities issued after April 1971 provision is made for the option that policies may vest prior to the vesting date written in the policy. It is assumed for policyholders under 60 at the valuation date that 40% of policies vest at age 60, 50% at age 65 and 10% at age 70. If the member is between 60 and 65 at the valuation date it is assumed that 83.3% retire at age 65 and 16.7% at age 70. If the member is between 65 and 70 it is assumed that the benefits are taken at age 70, and if the member is over 70 it is assumed that the benefits are taken at age 75. The benefits discounted are calculated on both the cash sum available at the pension date and the deferred annuity and the higher reserve is taken.

For policyholders older than 59, the reserve is the greater of the reserve calculated using the method mentioned above and that assuming immediate vesting.

If valued as a deferred annuity an additional expense reserve is included to allow for expenses after vesting in line with the present expense assumptions for annuities in payment. Also if valued as a deferred annuity the post retirement mortality is adjusted to make allowance for future mortality improvements between the year end and the vesting date in line with the Pensioner Mortality Improvement model issued by the CMI bureau.

## INDEX LINKED BUSINESS

Mathematical reserves have been determined using a gross premium method.

## 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 unit-linked business is reassured to NPI Limited on an investment basis and as a result the net liabilities are equal to the non-unit reserves.

The non-unit reserve is calculated using a discounted cash flow 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 following table sets out the rates of interest used for all classes of business:

Product Group	2006	2005	Product Code
<b>Net premium basis</b>			
Deposit administration	4.50%	3.70%	545, 555
Other pensions business	4.65%	3.70%	435
Other life business	3.90%	2.80%	100, 435
<b>Gross premium basis</b>			
Capital account	4.50%	3.60%	525, 535, 570
Life annuities	4.65%	3.70%	390, 395
Pension annuities	4.65%	3.70%	390, 400
SERP	4.39%	4.10%	165
Life with-profit endowments	4.20%	2.80%	120, 205
Life Unitised With-profit guaranteed (Series 1)	3.70%	3.00%	500
Life Unitised With-profit non-guaranteed	3.70%	2.80%	500
Pensions Unitised With-profit guaranteed (Series 1)	4.31%	4.10%	525, 535
Pensions Unitised With-profit non-guaranteed	4.74%	3.70%	525, 535, 570
Profit Sharing Account	4.80%	3.70%	155
Index linked annuities	1.00%	1.00%	905

**Unit-linked**

Life sterling reserves	3.90%	2.70%	700, 715, 795
Pensions sterling reserves	4.65%	3.70%	725, 735, 750, 755

**Notes:**

For index linked annuities a net interest rate is used after allowing for RPI/LPI.

- (3) Yields on other fixed interest or variable yield were reduced to allow for the risk of default whilst retaining the margin over gilt yields in respect of reduced liquidity of corporate bonds. The levels of the reductions were assessed by reference to the term, seniority and credit rating of the assets. The reductions were obtained from a base table derived from published rates of default and rating changes then adjusted for market movements since the publication and uplifted by 25% as a margin for adverse variation.

Properties were categorised into directly owned and indirectly owned. The yield was determined for each individual property based on the lower of the current rental yield and prospective rental yield and then the aggregated yield was reduced by 54 basis points.

For each equity a prudent dividend and earnings yield were calculated as the minimum of the published and consensus yields. An arithmetic average of the prudent dividend and prudent earnings yield was then calculated. The greater of these two values was then compared with the consensus earnings yield and the lower value taken.

Equities were divided into UK quoted, overseas quoted and unquoted and either zero or non-zero yield bands.

- (4) The following table sets out the mortality bases used for all classes of business:

Product Group	2006		2005		Product Code
	Males	Females	Males	Females	
<b>Pre-vesting</b>					
SERP	70% AM92	70% AF92	70% AM92	70% AF92	165
All other business	100% AM92	100% AF92	100% AM92	100% AF92	All others
<b>Post-vesting/In payment</b>					
SERP	108% RMV92	108% RFV92	102% RMV92	85% RFV92	165
Immediate and deferred pension annuities	108% RMV92	108% RFV92	102% RMV92	85% RFV92	390, 400, 905
Group GAF annuities	108% RMV92	108% RFV92	102% RMV92	85% RFV92	395
Life / IRS / Individual GAF annuities	72% IML92	72% IFL92	72% IML92	72% IFL92	395, 905
Life deferred annuities	72% IML92	72% IFL92	72% IML92	72% IFL92	390

**Notes:**

1. Ultimate mortality has been used in all cases.
2. For post-vesting mortality using the RMV92 and RFV92 tables, future mortality improvements in line with the average of CMI medium cohort and long cohort projections with a 1% floor for both males and females have been assumed at 31 December 2006. At 31 December 2005 future mortality improvements in line with the CMI medium cohort projections for males and short cohort projection for females were assumed.

3. For post-vesting mortality using the IML92 and IFL92 tables, future mortality improvements in line with CMI17 projections at both 31 December 2006 and 31 December 2005.
4. Where appropriate, additional reserves for the extra mortality that may arise from AIDS have been established. These additional reserves are calculated assuming that the additional mortality will be one-half of basis R6A, this provides a margin over the one-third recommended in the letter dated 29 October 1996 from the Government Actuary's Department. The additional reserves calculated have all been included within the reserves for the relevant individual product lines.

Male life expectations for annuity contracts are as follows:

Product Group	Annuities in payment		Deferred annuities: life expectation at age 65	
	Age 65	Age 75	Age 45	Age 55
Pension annuities	23.1	14.6		
Group GAF annuities	23.1	14.6		
Life/IRS/Ind GAF annuities	22.5	14.1		
SERP			25.2	24.2
Life deferred annuities			23.8	23.2
Other pension deferred annuities			25.2	24.2

Female life expectations for annuity contracts are as follows:

Product Group	Annuities in payment		Deferred annuities: life expectation at age 65	
	Age 65	Age 75	Age 45	Age 55
Pension annuities	25.8	16.5		
Group GAF annuities	25.8	16.5		
Life/IRS/Ind GAF annuities	25.4	16.2		
SERP			27.6	26.7
Life deferred annuities			26.3	25.9
Other pension deferred annuities			27.6	26.7

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



(6) The expense bases are as follows:

### LINKED AND NON-LINKED BUSINESS

Per policy expenses, before allowance for tax relief, were as follows:

Product Group	Premium paying		Paid up & single premium		Product Code
	2006 £pa	2005 £pa	2006 £pa	2005 £pa	
CWP savings endowments	83.95	81.25	41.91	40.56	120
CWP pensions	50.27	48.66	20.20	19.56	165
Annuity			31.37	30.37	400
UWP bond			41.95	40.60	500
UWP regular premium pension	70.35	53.78	44.30	31.93	525
UWP single premium pension			44.30	31.93	525
UWP group regular premium pension	61.65	167.05	55.99	90.68	535
UWP group single premium pension			55.99	90.68	535
UL bond			41.95	40.60	700
UL savings endowment	112.52	108.90	89.96	87.08	715
UL regular premium pension	70.35	53.78	44.30	31.93	725
UL single premium pension			44.30	31.93	725
UL group regular premium pension	61.65	167.05	55.99	90.68	735
UL group single premium pension			55.99	90.68	735

**Notes:**

All expenses above are shown as per policy rather than per benefit. The Scheme requires an expense charge per benefit for some products, in which case this is derived by applying the ratio of the benefit count to the policy count.

Under each policy valued on the net premium basis the reserve is increased by an allowance for future expenses for any part of the term where premiums are not payable. If there are no further premiums payable, this will be for the full outstanding term.

An allowance for expenses for the full outstanding term has also been added to other contracts not valued on the net premium basis.

If there is more than one investment fund, including unit-linked unitised with-profits and capital account, attaching to one benefit then the per policy expenses are split in proportion to the premiums payable to each fund for regular premiums and to the unit values for single premium and paid up policies..

For group life insurance provided by a separate contract the reserve of 50% of one year's premium contains a provision for expenses.

## Gross Investment Expenses

Investment expenses, before allowance for tax, have been allowed for through a reduction to the valuation interest rates. The table below sets out the basis point ("bp") reductions applied:

Fund	2006 bps	2005 bps
All business	11.25	11.25

Notes:

1. These rates are before applying VAT at 17.5% for unit linked funds and 10% for non-unit linked funds
2. Where the policy is invested in external funds, for some of these funds the projected unit growth rate is reduced by the fee payable to the external fund manager assuming mid-table performance is achieved

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

Product Group	Gross Unit Growth Rate		Expense Inflation		Policy Fee Inflation		Product Code
	(% p.a.)		Rate (% p.a)		Rate (% p.a.)		
	2006	2005	2006	2005	2006	2005	
Life business	5.78	5.00	4.40	4.50	3.20	4.50	700, 715, 795
Pensions business	5.93	5.10	4.40	4.50	3.20	4.50	725, 735, 750

(8) As a realistic basis life firm, no allowance has been made in the determination of mathematical reserves for future bonuses in accordance with INSPRU 1.2.9R except for the following:

Product Group	Reversionary bonus rate pa	Product Code
Unitised With-profit Life series 1	3.00%	500
Unitised With-profit Pensions series 1	4.00%	525, 535

Note:

The above rates only apply where the products contain guaranteed bonus rates and are equal to the guaranteed rates. For all other products the future bonus rate is zero.

(9) Surrender and Paid Up Rates

Product		Average lapse / surrender / paidup rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	2.7%	2.7%	2.7%	2.7%
CWP target cash endowment	surrender	2.7%	2.7%	2.7%	2.7%
UL savings endowment	surrender	0.0%	0.0%	0.0%	0.0%
UWP bond	surrender	12.2%	12.2%	12.2%	12.2%
UWP bond	automatic withdrawal	100% of current	100% of current	100% of current	100% of current
UL bond	surrender	5.4%	5.4%	5.4%	5.4%

UL bond	automatic withdrawal	100% of current	100% of current	100% of current	100% of current
CWP pension regular premium	PUP	0.0%	0.0%	0.0%	0.0%
CWP pension regular premium	surrender	1.7%	1.7%	1.7%	1.7%
CWP pension single premium	surrender	1.7%	1.7%	1.7%	1.7%
UWP indiv pension regular premium	PUP	15.0%	15.0%	15.0%	15.0%
UWP indiv pension regular premium	surrender	4.1%	4.1%	4.1%	4.1%
UWP indiv pension single premium	surrender	4.1%	4.1%	4.1%	4.1%
UL indiv pension regular premium	PUP	15.0%	15.0%	15.0%	15.0%
UL indiv pension regular premium	surrender	0.0%	0.0%	0.0%	0.0%
UL group pension regular premium	PUP	33.0%	33.0%	33.0%	33.0%
UL group pension regular premium	surrender	0.0%	0.0%	0.0%	0.0%
UL indiv pension single premium	surrender	0.0%	0.0%	0.0%	0.0%

Notes:

1. There is an additional surrender rate of 100% on With Profit Bond Series 5 policies and some With Profit Bond Series 6 and 7 policies applying on the 10th policy anniversary (the date at which the no-MVR guarantee applies).
2. For SERP policies the surrender rate applies to policyholders below age 60. For policyholders aged 60 and above the surrender rate is assumed to be zero.

(10) Other material basis assumptions:

Relief for tax applied to expenses is 20% for UK Life (excluding life annuities) business and 0% for other business. Tax on investment income is set out in the following table:

Type of business	2005	2004
UK Life – dividend income	0%	0%
UK Life – income from assets backing life annuities	0%	0%
UK Life – other income	20%	20%
UK Life – unit linked gains	20%	20%
UK Pensions – all income	0%	0%
UK Pensions – all gains	0%	0%

(11) Derivative contracts are held by the company. There are inflation hedge swaps, interest rate swaps, swaptions and futures.

We have treated each swaption as covering a bond maturing at the same time as the swaption with capital redemption amount equal to the nominal of the swaption. Payoffs on the swaptions are calculated assuming no change in the yield curve (in line with the statutory valuation scenario). The valuation yield is then the IRR on the combined asset (bond plus swaption), after making a suitable allowance for credit risk.

(12) With effect from 31st December 2006, allowance has been made, as a result of changes in the valuation rules introduced by INSPRU, for non-attributable expenses on property linked business. The reduction in the mathematical reserves caused by these valuation methodology adjustments are estimated as:

Allowance for non-attributable expenses: £8.4million

## Options and guarantees

### 5. (1) (a) Capital Pension Plan

These policies have guaranteed annuity rates available for converting the cash sum available at normal retirement age to an annuity. The reserve for this guarantee is calculated as the uplift required based on the ratio of the value of the annuity on the valuation basis and the value of the annuity on the guaranteed basis..

(b) Table detailing guaranteed annuity rate option reserves:

<b>Product Code</b>	555
<b>Product name</b>	Capital Pension Plan
<b>Basic reserve, £'000</b>	32,961
<b>Spread of outstanding durations</b>	Gradual run-off mean term to vesting date of 2.2 years. Vesting assumed at age 60 or immediately if older.
<b>Guarantee reserve, £'000</b>	13,792
<b>Guaranteed annuity rate (% of cash sum for 65 year old male <sup>(1)</sup>)</b>	10%
<b>Increments allowed</b>	No
<b>Form of the annuity</b>	See note 2
<b>Retirement ages</b>	Normal Retirement age under the scheme is normally between 60 and 70

Notes:

1. The guaranteed annuity rate shown has been based on a single life, monthly in advance, level annuity with a five-year guaranteed period. Other forms of annuity will have different guaranteed rates.
2. Guaranteed annuity rates are available for the following forms of annuity: Single life, monthly in advance, Level, 3%, 4% or 5% escalation, five-year guarantee period.

### (2) (a) With Profit Bond Series 5, 6 and 7

A guarantee that at the tenth policy anniversary no market value reduction will be applied on surrender applies to all With Profit Bond Series 5 policies and With Profit Bond Series 6 and 7 where an option was selected at outset. The units are accumulated to the tenth policy anniversary at the appropriate reversionary bonus rates and discounted at the valuation interest rate. It is assumed that all policies will surrender at the tenth policy anniversary.

(b) Table detailing guaranteed surrender value reserves

<b>Product Code</b>	500	500
<b>Product name</b>	With Profit Bonds Series 5	With Profit Bonds Series 6 and 7 (with option)
<b>Basic reserve, £'000</b>	95,183	629
<b>Spread of outstanding durations</b>	All anniversaries in 2007 & 2008	All anniversaries in 2008 & 2009
<b>Guarantee reserve, £'000</b>	Included in basic reserve shown above	Included in basic reserve shown above
<b>Guaranteed amount, £'000</b>	99,529	689
<b>MVR free conditions</b>	10 <sup>th</sup> policy anniversary	10 <sup>th</sup> policy anniversary
<b>In force premium, £'000</b>	All single premium	All single premium
<b>Increments allowed</b>	No	No

Notes:

The guaranteed amount shown is the full current surrender value without any market value reduction applied.

The only investment performance guarantee is that the value of units invested in any of the Deposit Funds that place money on short-term deposit 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 unit-linked maturity values.

- (3) (a) There are guaranteed insurability options under a number of products including endowment assurances, group life, life cover attached to Executive Pension Plans and convertible term assurances. The options under endowment assurances life cover attached to Executive Pension Plans allow for increases in amounts assured to be increased whereas the options under group life and convertible term assurances are options to replace existing cover by a cover of longer term (possibly whole of life).

(4) **Pension Transfer Plan**

These policies have a guarantee to pay the Guaranteed Minimum Pension ("GMP") at normal retirement age. The reserve for this guarantee is calculated as the projected shortfall (if any) in the policy's asset share compared to the value of the GMP at normal retirement age on the valuation basis.

**Self Employed Retirement Plan**

These policies have an option to convert their annuity at retirement to a cash value on guaranteed terms. The reserve for this Guaranteed Cash Fund ("GCF") is valued stochastically on a market consistent basis using 2,000 simulations. The reserve is the average over 2,000 simulations of the discounted value of the excess of the GCF over the fund using market annuity rates, if positive, for each simulation.

Table detailing other guarantee reserves:

<b>Product Code</b>	155, 525, 725	165
<b>Product name</b>	Pension Transfer Plan	Self Employed Retirement Plan
<b>Basic reserve, £'000</b>	452,073	1,699,160
<b>Spread of outstanding durations</b>	Gradual run-off mean term of 6.3 years	Gradual run-off mean term of 6.5 years to assumed vesting dates.
<b>Guarantee reserve, £'000</b>	71,201	100
<b>Increments allowed</b>	No	No
<b>Form of the annuity</b>	Varies from policy to policy	Consistent with that taken at policy inception
<b>Retirement ages</b>	Normal Retirement Age under the policy, usually between 60 and 70	60, 65, 70 or 75. See section 4(1)

#### Expense reserves

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

Homogeneous Risk Group	Implicit Allowances £M	Explicit Allowances (Investment) £M	Explicit Allowances (Other) £M	Non-attributable Expenses £M	Total £M
Non-unitised business	0.80	3.01	7.53	0.57	11.91
Unitised business	0	5.66	20.86	1.08	27.60
<b>Total</b>	<b>0.80</b>	<b>8.67</b>	<b>28.39</b>	<b>1.65</b>	<b>39.51</b>

- (2) Selected 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) National Provident Life Limited has ceased to write new business, except for increments on existing policies which are reassured to NPI Limited. No new business expense overrun reserve is held due to the management services agreement in place with Pearl Group Services Limited.

- (5) The company is largely closed to new business and the expense charges paid to Pearl Group Services Limited are determined by the Schedule 2C scheme from the demutualisation of National Provident Institute. No additional expense reserve is required in respect of these expenses. An additional reserve of £20.4 million is held to cover project costs and other costs that might be incurred by National Provident Life Limited in addition to the expense charges detailed in the scheme of transfer.
- (6) There is an additional reserve to cover overhead costs (such as audit fees) met by the long term business fund in future years. The reserve assumes costs continue over the next 23.5 years (except the reciprocation costs which we assume run for 14 years), annual growth of 4.7% per annum, and discounted at 4.1% per annum. The term of 23.5 years is consistent with section 33 of the Scheme that allows wind up of the with-profits fund when the with-profit liabilities fall below £500 million subject to increases in RPI since January 2000. However this additional reserve has been reduced to allow for such costs hypothecated to unitised business being, where possible, covered by any remaining margins in the valuation basis.

Homogeneous Product Group	Non-attributable expenses reserve £M
Non-Unitised Business	19.5
Unitised Business	0.0

### Mismatching reserves

7. (1) The liabilities are sterling liabilities.

The following table shows the sum of the mathematical reserves (other than liabilities for property linked benefits), analysed by reference to the currencies in which the liabilities are expressed to be payable, together with the value of the assets, analysed by reference to currency, which match the liabilities:

Currency	Liabilities £m	Assets £m
Sterling	5,382.7	5,381.1
Other		1.6
Total	5,382.7	5,382.7

- (3) No currency mismatch reserve is held.
- (4) - (6) National Provident Life Limited is not a regulatory-only basis company and therefore not required to hold resilience capital.

### Other special reserves

#### 8. Securitised loan reserve

National Provident Life Limited has a securitised loan which is secured on future profits arising on a defined basis from specific unit-linked and unitised with-profits business within National Provident Life Limited. This provision is equal to the discounted value of further interest and capital payments due to bondholders under the securitisation to the extent that payments exceed the value of surpluses that may be expected to arise from the securitised business based on the valuation assumptions. The amount of this reserve is £110.0 million.

## 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) The following financing arrangement was in force at the valuation date:

- |                                  |  |
|----------------------------------|--|
| (d) Issuer                       | Mutual Securitisation plc  |
| (e) Nature and extent            | £260 million of debt capital was raised in 1998, securitised against a specified fixed block of unit-linked, unitised with-profit and capital account business. Interest and principal payments are made from surpluses emerging from this block of business as defined in the securitisation agreement. |
| (f) Premiums paid in 2006, £'000 | No premiums are payable. A repayment of interest and principal of 27,020 was made in 2006.   |
| (g) Deposit back                 | Not applicable   |
| (h) Open or Closed               | Closed   |
| (i) Undischarged obligations     | The undischarged obligation was £198 million at the valuation date.  |
| (j) Reserves ceded £'000s        | Not applicable   |
| (k) Retention for new business   | Not applicable   |
- (l) Mutual Securitisation plc is not authorised to carry on insurance business in the United Kingdom.
- (m) Mutual Securitisation plc is not a connected company of the insurer.
- (n) There are certain specified events where the bond trustee may demand immediate repayment of the loan.
- (o) Refund of reinsurance commission is not applicable to this arrangement.
- (p) (i) National Provident Life is required to make interest and principal payments from surplus emerging as defined under the agreement.  
(ii) A reserve is held for the future repayments in excess of emerging surplus under this arrangement as described in Section 8. The existence of the agreement has the impact of improving the regulatory peak solvency position to the extent that the additional capital exceeds the Securitised Loan Reserve.



The following other treaties were in force at the valuation date:

(d) Reinsurer	Pearl Assurance Limited (formerly Pearl Assurance plc)	NPI Limited	NPI Limited	Pearl Assurance Limited (formerly Pearl Assurance plc)
(e) Nature and extent	Pensions Annuities written prior to 1/1/2000 are fully reassured except for the expense of administration.	Unit Linked funds on policies written prior to 1/1/2000 are ceded as investment-only reinsurance.	All new policies and increments written from 1/1/2000 except conventional with-profit business are fully reassured on original terms.	Portfolio Bond policies written 1 July 1999 to 31 December 1999 are fully reassured on original terms.
(f) Premiums paid in 2006 £'000s	Nil	145,225 in aggregate to NPI Limited	Nil	Nil
(g) Deposit Back	Nil	Nil	Nil	Nil
(h) Open or closed	Closed	Open	Open	Closed
(i) Undischarged obligations	Expenses of administration	This is investment-only reinsurance	Nil – this is original terms reinsurance	Nil – this is original terms reinsurance
(j) Reserves ceded £'000s	797,134	1,956,950	902,513	42,943
(k) Retention for new business	Not applicable	Not applicable	Nil	Nil

- (l) Both Pearl Assurance Limited (formerly Pearl Assurance plc) and NPI Limited are authorised to carry on insurance business in the UK.
- (m) Both these companies are connected companies of the insurer, all three of which are since 13 April 2005 members of the Pearl Group Limited, having previously been part of HHG plc.
- (n) There are no material contingencies under any of these treaties;
- (o) There is no provision to refund any reinsurance commission, except under the reinsurance covering new policies and increments. Any refund under that arrangement would be matched by a reclaim of commission from the seller of the insurance.

#### Reversionary (or annual) bonus

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

#### Simple Bonus

Bonus series	31.12.2006	31.12.2006	31.12.2005	31.12.2006	Product code
	Basic mathematical reserve	Reversionary bonus	Reversionary bonus	Total guaranteed bonus	
	£000	%	%	%	
Life Conventional With-profit	16,612	0.00%	0.00%	-	100, 120, 05

## Compound Bonus

Bonus series	31.12.2006	31.12.2006	31.12.2005	31.12.2006	Product code
	Basic mathematical reserve	Reversionary bonus	Reversionary bonus	Total guaranteed bonus	
	£000	%	%	%	
Life Unitised With-profit Series 1	114,700	3.00%	3.00%	3.00%	500
Life Unitised With-profit Series 2 to 7	325,332	0.00%	0.00%	-	500
Portfolio Bond 1	42,944	1.00%	1.00%	-	500
Pensions Unitised With-profit Series 1	1,959,003	0.00% (1) 4.00% (2)	0.00% (1) 4.00% (2)	0.00% (1) 4.00% (2)	525, 535
Pensions Unitised With-profit Series 2 (PRA, FIP and new PPP & FSAVC)	154,029	0.00% (1) 0.00% (2)	0.00% (1) 0.00% (2)	- -	525, 535, 570
Trustee With Profit Bond Series 1, 3 and 4	12,725	0.00%	0.00%	-	535
Pensions Unitised With-profit Series 3 (New Approach PPP, FSAVC and EPP)	6,922	0.00%	0.00%	-	525
Pension Capital Accounts (EPP, PTP, PPP, FSAVC, GMP and VGPPP)	71,846	0.00% (1) 3.00% (2)	0.00% (1) 2.50% (2)	- -	525, 535
Pension Capital Accounts (FIP and PRA)	9,596	3.00%	2.50%	-	525, 570
Pension Capital Accounts (Penfund and Trustee Transfer Plan)	2,695	3.00%	2.50%	-	535
Pension Capital Accounts (New Approach PPP, FSAVC and EPP)	74	3.85%	3.35%	-	525
With-profit S620 deferred annuities (SERP)	1,699,308	0.00%	0.00%	-	165
Life Conventional With-profit	63,384	0.00%	0.00%	-	100, 120, 165, 205
Pension Conventional With-profit	441	0.00%	0.00%	-	165, 205
Profit Sharing Account (EPP and PTP)	446,856	0.00%	0.0%	-	155

### Notes:

1. Bonus rate applies to initial units where applicable.
2. Bonus rate applies to ordinary units where applicable.

For Visible Growth Fund and Capital Pension Plans the bonus addition was such as to increase the return on the amounts held in the deposit accounts by 3.00% per annum.

For Cash Accumulation Plans the return on amounts held in ordinary interest accounts was 0% per annum and in higher interest accounts was 3.00% per annum.

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.

## National Provident Life Limited

### Appendix 9.4A

#### Abstract of valuation report for realistic valuation

##### 1. Introduction

- (1) The date to which the actuarial investigation relates is 31 December 2006.
- (2) The date of the previous valuation was 31 December 2005.
- (3) Since the previous valuation date, an interim valuation was carried out at 30 June 2006.

##### 2. Assets

- (1) A market-consistent valuation was used to determine the value of future profits on non-profit insurance contracts written within the National Provident Life Limited Fund. The zero coupon curve used for this valuation as at 31 December 2006 is set out below, together with comparative figures as at 31 December 2005:

Year	Implied zero curve (gilts + 10bp)	
	Zero curve	
	31 December 2006	31 December 2005
1	5.42%	4.30%
2	5.34%	4.32%
3	5.30%	4.33%
4	5.21%	4.33%
5	5.15%	4.31%
10	4.83%	4.25%
15	4.71%	4.23%
20	4.48%	4.13%
25	4.25%	4.10%
30	4.10%	4.05%
35	3.98%	4.00%
40	3.89%	3.97%

- (2) Not applicable.
- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.

##### 3. With-profits benefits reserve liabilities

- (1) A retrospective method has been used to calculate the with-profits benefits reserves for all significant classes of with-profits insurance contracts. This method is the calculation of an asset share.

Method 1: For conventional with-profits policies the asset shares are calculated by accumulating the premiums paid at the investment return applicable to the with-profits fund, less the expenses incurred. Deductions are made for tax where applicable. An adjustment is made for the expected death strains or surpluses where applicable. No other "miscellaneous" surpluses are credited to the asset shares as these accrue to the Estate.

Method 2: For unitised with-profits, capital account and deposit administration policies the asset shares are calculated by accumulating the allocated premiums (i.e. after the allocation rate and the bid-offer spread have been applied) at the investment return applicable to the with-profits fund. Deductions are made for the charges that would apply on the unit-linked counterpart of the product.

The following table shows the method used to calculate the with-profits benefits reserve for each class of product and the amount of the with-profits benefits reserve and the future policy related liabilities for each class:

<b>Product class</b>	<b>Method</b>	<b>With-profits benefits reserve, £million</b>	<b>Future policy related liabilities, £million</b>
Conventional with-profit life	1	69	6
Conventional with-profit pensions	1	1,467	701
Accumulating with-profit life	2	429	(9)
Accumulating with-profit pensions	2	2,011	69
Capital Account/Deposit Administration	2	140	8
<b>Total</b>		<b>4,116</b>	<b>775</b>

(2) The future policy related liabilities shown at line 49 in Form 19 also include allowance for financing costs of £422 million and £37 million of other long-term insurance liabilities.

(3) Not applicable.

#### **4. With-profits benefits reserve – retrospective method**

(1) (a) 100% of the with-profits benefits reserve that has been calculated using a retrospective method has been calculated on an individual basis.

(b) Not applicable.

(c) Not applicable.

(2) (a) For SERP and conventional endowment products a deduction or credit has been made to the with-profits benefits reserve for the expected death strains or surpluses arising from the difference between the amount payable on death and the with-profits benefits reserve. These deductions/credits are calculated annually using AM/F92 mortality factors. This change brings the calculation of the with-profits benefits reserve into line with the actual asset share calculations to determine payouts in line with the Principles and Practices of Financial Management.

(b) Not applicable.

(3) The Scheme of Transfer effected at the time of the demutualisation, 1 January 2000, specifies the calculation basis for determining the aggregate expenses to be charged to the fund in respect of administration and investment management. The administration expenses are expressed as an amount per policy or per benefit, with the policy and benefit counts calculated as at 1 July each year. Investment management expenses are expressed as a percentage of funds under management. Expenses that are not deemed to be administration or investment management expenses can only be charged to the fund if deemed appropriate by the National Provident Life Limited Actuarial Function Holder.

(a) The calculation of the administration expenses chargeable to the fund was last performed as at 1 July 2006.

(b) The calculation of the administration expenses chargeable to the fund is performed annually.

(c) (i) No expenses were identified as initial expenses.

(ii) A table of maintenance expenses allocated to the with-profits benefit reserves during 2006:

	<b>Maintenance expenses, £million</b>	<b>Investment management expenses, £million</b>
Conventional with-profit life	0.8	0.1
Conventional with-profit pensions	4.3	1.9
Accumulating with-profit life	1.0	0.6
Accumulating with-profit pensions	14.1	2.7
Capital Account/Deposit Administration	0.9	0.2
<b>Total</b>	<b>21.2</b>	<b>6.2</b>

The maintenance expenses above are in line with Schedule 2C scheme.

(iii) For products where the with-profits benefits reserve is calculated using method 1 above, the expenses charged to individual with-profits benefits reserves are the maintenance expenses expressed as per policy amounts, together with investment management expenses expressed as a percentage of the with-profits benefits reserves. The maintenance expenses vary by product line, as set out in the Scheme of Transfer.

For products where the with-profits benefits reserve is calculated using method 2 above, an allowance for expenses is made through the annual management charge expressed as a percentage of the with-profits benefits reserves rather than the per policy amount set out in the Schedule 2C scheme.

(iv) The following table shows the expense amounts charged to the fund in addition to the administration expenses and investment management fees. None of these expenses were charged to the with-profits benefits reserves.

	<b>Additional expenses, £m</b>
Audit fees	0.324
Regulatory fees	0.540
Securitised loan/Bank of Ireland administration costs	0.557
Fees for independent members of the Supervisory Board	0.105
Salary for the AFH plus secretary	0.203
Charges including professional indemnity fee	0.051
Reciprocation costs with Premier Pension Trustees on business within NPLL	0.114
<b>Total</b>	<b>1.894</b>

- (4) No charges were deducted from the with-profits benefits reserves in respect of costs of guarantees or the cost of capital. Smoothing charges of £14 million (2005: £55 million) were deducted from the with-profits benefits reserves during the financial year.
- (5) No charges were deducted from the with-profits benefits reserves in respect of non-insurance risk.
- (6) The ratio of the total claims paid on with-profits insurance contracts to the with-profits benefits reserves plus (or minus) any past miscellaneous surplus (or deficit) attributed to those claims were: 112% for 2004, 112% for 2005 and 110% for 2006.
- (7) The investment return (before tax and expenses) allocated to the with-profits benefits reserve (other than Capital Account and Deposit Administration business) in respect of the financial year was 1.96%. The investment return allocated to the with-profits benefits reserve for Capital Account and Deposit Administration business in respect of the financial year was 5.48%. The investment return in respect of Capital Account and Deposit Administration business is calculated from the assets hypothecated to that business.

#### **5. With-profits benefits reserve – prospective method**

- (1) Not applicable.
- (2) Not applicable.

#### **6. Cost of guarantees, options and smoothing**

- (2) (a) The cost of all guarantees, options and smoothing have been calculated using a full stochastic model approach.
- (b) (i) None
- (ii) 100% of the with-profits insurance contracts for which costs have been valued have been valued on a grouped basis.
- (iii) The individual policies have been grouped in a manner consistent with the methods used in practice to determine reversionary and terminal bonuses and MVAs. There are separate groupings for product lines that have separate bonus series or have separate terminal bonus

scales. Product lines where the terminal bonus scales are determined in practice according to the policy year of entry are grouped accordingly.

The following table sets out the grouping criteria used for each product class:

<b>Product class</b>	<b>Grouping criteria</b>
Conventional with-profit life	Entry year and maturity year
Conventional with-profit pensions	Entry year, maturity year, age at maturity and premium payment type
Accumulating with-profit life	Entry year
Accumulating with-profit pensions	Maturity year and age at maturity
Capital Account	Maturity year and age at maturity
Deposit Administration	Maturity year

In total there are 453,811 individual policies and members of group schemes, which have been grouped together into 5,106 model points.

The grouping is validated by comparing a deterministic projection of all cashflows arising from the business using grouped data with an independent projection using the individual data.

(c) Not applicable.

(3) Not applicable.

(4) (a) (i) The main contractual guarantee costs valued are:

Lump sum benefits, where the sum assured and attaching reversionary bonuses, plus any guaranteed or discretionary future reversionary bonuses, payable either at maturity, death or at points where no MVA can be applied. Some of these guarantees are in the money and others are out of the money, depending on the date that the premium was paid.

Deferred annuity benefits, where the contract is written as a basic deferred annuity plus attaching reversionary bonus at vesting. This guarantee applies to the SERP policies. These guarantees are largely in the money.

The Pension Transfer Plan product includes, for a large proportion of cases, a commitment to pay a pension of at least the amount of the attaching Guaranteed Minimum Pension. These guarantees are largely in the money.

The future costs of non-contractual guarantees relate to the Mortgage Endowment Promise where National Provident Life Limited will pay an amount at least equal to the mortgage the policy was originally taken out to cover, subject to certain conditions on the fund's investment performance. These guarantees are largely in the money.

The costs of financial options relate to guaranteed annuity rates applying on Deposit Administration business, where a guaranteed annuity rate specified in the contract can be applied at retirement to convert the cash benefits into annuity benefits. Generally, these annuity rate guarantees are in the money. In addition, the costs of financial options includes the value of the guaranteed cash factors on SERP, where the contracts are written with a guaranteed rate of conversion from annuity to cash. These conversion options are significantly out of the money.



There are no smoothing costs assumed in accordance with National Provident Life Limited's policy of targeting payouts at 100% of asset share.

(ii) The asset model assumes that:

- Interest rates follow a 1-factor Hull & White process.
- Corporate bond spreads also follow a 1-factor Hull & White process.
- Equity and property returns follow an extension of the Black-Scholes lognormal model with a stochastic, rather than deterministic, drift term.

The interest rate calibration process is in two steps:

- A zero-coupon yield curve is initially derived, which is calibrated to the gilt curve with a 10bp adjustment. The 10bp adjustment is made to move the gilt curve closer to repo rates, which are considered to be a better measure of "true" risk-free rates.
- The two parameters that govern the evolution of the interest rate model are chosen so that, given this yield curve, the model replicates swaption prices that would be implied by the yield curve and market swaption volatilities.

The equity model is parameterised by two parameters that represent the equity dividend yield and equity process volatility respectively. The dividend yield parameter is set to zero, so as to output total equity returns. The volatility parameter is set to reflect the prices of long term at-the-money equity puts and calls and is fitted using least squares estimation. This parameter is not directly comparable to the observed market equity volatility, as the realised equity process is also a function of the stochastic interest rate and therefore some of the interest rate volatility defined by the interest rate volatility parameter is also included in the equity process.

The following table shows the market data used to calibrate the equity process.

Implied volatility of at the money FTSE-100 put options (%)					
Option Term	1 year	2 years	3 years	4 years	5 years
29 December 2006	14.25	15.15	15.79	16.10	16.38

Source: UBS

The correlation assumptions used are listed in the table below. These assumptions are set based on historic data on the correlation between equity and property and long dated bond price movements, rather than derived directly from market instruments, as there are few instruments whose price is significantly affected by the assumption.

Correlation factors between asset classes			
	Long dated bond returns	Equity returns	Property returns
Long dated bond returns	100%		
Equity returns	30%	100%	
Property returns	10%	30%	100%

Source: Tillinghast analysis

The property model is parameterised by two parameters that represent the rental yield and property process volatility respectively. The rental yield parameter is set to zero, in order to model total property returns. Ideally, the volatility parameter would be set to reflect the prices of long-term at-the-money property options. However, since this market is in its infancy, the parameter has been set to 15% based on analysis of historic volatility of property indexes. Note that, as with the equity process, the property volatility parameter is not the observed market property volatility as the property process is a function of the stochastic interest rate process and therefore some of the interest rate volatility is also included in the property process.

The corporate bond process models the variation in the spread over risk free bonds. The calibration of this process is in two steps:

- Firstly, the model is calibrated to market zero coupon corporate bond yields at the valuation date, so that the model will exactly reproduce the prices of corporate bonds traded in the market at the valuation date.
- Secondly, two parameters are chosen so that the model optimally replicates the historic volatility of corporate bond spreads.

(iii) The following table shows the annualised compound equivalent of the risk free rate assumed for each duration and values derived from the asset model of specified assets/options:

	Asset type (all assets)	K=0.75					K=1					K=1.5					
		5	15	25	35	5	15	25	35	5	15	25	35	5	15	25	35
n		5	15	25	35	5	15	25	35	5	15	25	35	5	15	25	35
r	Annualised compound equivalent of the risk free rate assumed for the period (to two decimal places)	5.19%	4.71%	4.25%	3.97%	5.19%	4.71%	4.25%	3.97%	5.19%	4.71%	4.25%	3.97%	5.19%	4.71%	4.25%	3.97%
1	Risk-free zero coupon bond	776,598	501,316	353,066	255,600	x	x	x	x	x	x	x	x	x	x	x	x
2	FTSE All Share Index (p=1)	37,500	116,008	166,808	225,118	142,181	250,427	314,901	383,345	531,343	620,983	690,619	763,015				
3	FTSE All Share Index (p=0.8)	28,996	76,098	101,350	131,239	115,585	117,558	202,089	233,463	466,563	467,476	472,614	487,755				
4	Property (p=1)	34,717	100,988	162,964	224,308	140,472	231,089	311,551	387,019	530,244	600,072	681,351	771,389				
5	Property (p=0.8)	26,013	65,425	98,184	129,217	113,876	158,995	198,095	232,892	465,062	447,484	465,680	493,268				
6	15 year risk free zero coupon bonds (p=1)	858	1,963	3,529	16,078	55,829	66,131	71,342	104,912	500,564	500,652	501,186	510,653				
7	15 year risk free zero coupon bonds (p=0.8)	238	241	169	1,621	33,906	17,232	9,808	18,627	428,259	313,783	234,740	201,220				
8	15 year corporate bonds (p=1)	2,233	6,189	7,394	21,284	64,797	81,853	86,366	116,012	500,889	502,698	503,090	514,816				
9	15 year corporate bonds (p=0.8)	1,011	974	669	2,461	41,868	28,895	17,127	24,207	428,887	320,474	244,402	211,302				
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	22,801	78,812	124,904	179,512	117,727	203,750	262,385	330,122	517,026	574,675	638,453	707,919				
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	16,279	46,372	68,029	95,373	91,839	133,782	156,295	187,254	450,020	419,878	416,176	433,022				
12	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)	13,419	53,787	85,796	130,140	98,395	169,423	212,417	268,394	508,228	548,752	586,891	639,720				
13	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)	8,839	28,235	40,031	58,803	73,614	102,991	113,565	137,086	439,748	388,525	363,705	366,459				
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon	5,054	24,855	46,060	83,782	76,153	123,088	157,549	210,693	502,620	516,752	542,690	584,379				

	bonds and 22.5% 15 year corporate bonds (p=1)																		
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	2,558	8,969	15,840	30,052	52,411	62,427	68,069	89,585	431,686	348,266	309,387	307,368						
		<b>L=15</b>				<b>L=20</b>				<b>L=25</b>									
16	Receiver swaptions	7.64%	9.83%	8.22%	6.22%	10.61%	12.31%	10.07%	7.61%	13.17%	14.38%	11.62%	8.77%						

Note: The values in the above table were produced using the stochastic scenarios used to derive the realistic balance sheet with one exception; the corporate bond scenarios used to derive the values in the table are consistent with those used to determine the realistic balance sheet, but have been calibrated to AA corporate bonds. The actual scenarios used to determine the realistic balance sheet reflect the average credit quality of the corporate bond portfolio.

- (iv) As described in the answer to 6(4)(a)(ii) the equity dividend yield has been set to zero. The property rental yield is also set to zero, so as to output total property returns. For the purposes of calculating a net of tax return, the equity dividend yield has been set to 3.58% and the property rental yield to 3.58%.
- (v) For the purposes of INSPRU 1.3.63R there are no significant overseas territories.
- (vi) The average outstanding durations of significant guarantees by main product type are shown in the table below:

<b>Product type</b>	<b>Outstanding duration of guarantees (years)</b>
Endowments	3
SERP	17
UWP Bonds	4
UWP Pensions	10
Profit Sharing Account	5
Capital Account/Deposit Administration	6

The fit of the asset model to specimen swaptions and put options is demonstrated below:

<b>Ratio of simulated swaption values to pseudo swaption prices</b>		
<b>Option maturity</b>	<b>Swap length</b>	
	<b>10 years</b>	<b>15 years</b>
10 years	100.5%	104.9%
15 years	106.0%	106.0%

Note: The figures are based on swaptions consistent with the gilts + 10bp risk free rate and market swaption volatilities as opposed to swap rates and swaption volatilities.

The table above demonstrates that the scenarios can be used to reproduce market prices of swaptions at the average outstanding durations of significant guarantees.

<b>Volatility of Put Options</b>			
<b>Term</b>	<b>Observed</b>	<b>Simulated</b>	<b>Closed Form</b>
5 years	16.4%	16.0%	16.4%
10 years	n/a	16.2%	16.2%
15 years	n/a	16.4%	16.2%

Source: Lehman Brothers

The observed volatility is that taken from market data for a 5 year at-the-money put option. The simulated volatility is that implied from the 2,000 scenarios that were used in the calculation of the realistic balance sheet. The closed form volatilities are those that were input into the calibration of the model. The simulated volatilities closely follow the closed form volatilities, demonstrating that the error introduced by simulation is small and market consistency is satisfied at the average outstanding durations of the significant guarantees.

- (vii) It was demonstrated that the scenarios used are arbitrage free up to suitable simulation error. In a market-consistent model, the expected value (or average discounted value) of £1 invested in a traded asset (e.g. cash, bonds or equities) equals £1 (the "one=one" test). The observed error was small and the scenarios are considered to have passed the no-arbitrage test.

- (viii) Simulations were performed using all 2,000 scenarios from the scenario file. This will allow reasonable convergence of the results as can be gauged from the validation test described in (a) (vii) above.

In addition the validation process performed a further test to check that the market prices of relevant traded instruments can be replicated. This validation test requires that the scenarios themselves can be used to reproduce (by stochastic simulation) market prices. This was tested separately for swaptions, equity options and the initial yield curve. The observed errors are small, showing that the simulation process does not introduce significant additional error over and above that arising from the calibration process. It is not possible to illustrate the fit of the property scenarios to market data; however, the fit of the property volatility assumption has also been validated.

(b) Not applicable.

(c) Not applicable.

- (5) (a) The management actions implemented within the model are such that at the end of each annual projection period, an estimate of the realistic balance sheet position is derived from the model. If the realistic value of the liabilities (excluding the Risk Capital Margin) exceeds the value of the long-term assets by more than 5%, then the following actions are all applied:

- moving the fund into a gilts/cash investment strategy;
- removing all discretionary reversionary and terminal bonuses; and
- making a flat 5% charge to the asset shares of all policies.

Also at the end of each annual projection period, if the total value of the Estate plus the value of in-force less the future value of all the financing costs is less than zero then this deficit is charged to asset shares. However the total charge to asset shares in any year is never more than 5%.

If, at the end of a subsequent annual projection period, the value of the assets exceeds the value of the liabilities by more than 5%, then the discretionary bonuses are re-introduced, along with any support charge payments due.

- (b) The estimated proportions of equities (both UK and non-UK) backing the with-profits benefits reserves are as follows:

	<b>31 December 2006</b>	<b>31 December 2011</b>	<b>31 December 2016</b>
Proportion of equities backing with-profits benefits reserves	0%	0%	0%

These proportions apply in each of the three scenarios.

Current reversionary bonus rates on UWP Life business are 3% on Series I units and 0% on Series II to Series VII units. Current reversionary bonus rates are 4% on Pensions UWP Series I ordinary units and 0% on both Pensions UWP Series I initial units and Series II ordinary units.

These rates are not expected to change in the future and the modelling assumes that this is the case.

- (6) Persistency assumptions used to determine the costs of guarantees, options and smoothing are set out in the table below:

Product		age lapse / surrender / paid up	
		for the policy years	
		<u>All Durations</u>	
CWP savings endowment		surrender	4.00%
CWP target cash endowment		surrender	4.00%
UWP bond		surrender	18.07%
UWP bond		automatic withdrawal	100% of current
CWP pension regular premium		PUP	0.00%
CWP pension regular premium		surrender	2.52%
CWP pension single premium		surrender	2.52%
UWP pension indiv regular premium		PUP	22.22%
UWP pension indiv regular premium		surrender	6.07%
UWP pension indiv single premium		surrender	6.07%

The stochastic model uses the simplified assumption for SERP business that all retirements are assumed to occur at age 65, or if the policyholder is already aged over 65 at the valuation date, then retirement is assumed to take place at age 70. Above age 60 no surrenders are assumed.

For other products retirements are assumed to take place at the no-MVA date (normally 65) unless the policyholder has specified a particular retirement date.

100% take up rate is assumed on all guaranteed annuity options or guaranteed conversion options.

For With Profit Bond Series 5, where a no-MVA guarantee applies on the 10th policy anniversary, an additional 70% of the policyholders are assumed to surrender their policies at that date.

The annuitant mortality assumptions used are:

Male lives: 115% RMV92 with an average of medium and long Cohort Improvement Factors with a floor of 1% per annum.

Female lives: 115% RFV92 with an average of medium and long Cohort Improvement Factors with a floor of 1% per annum.

- (7) For most product lines the guarantees are currently in the money, and have been so for a number of years. Therefore the persistency assumptions in (6) are appropriate and no additional policyholder actions are warranted.

## 7. **Financing costs**

The future policy related liabilities also include allowance for three financing arrangements:

Securitised loan:

Future profits from a particular block of accumulating with-profits and unit linked business have been securitised. The repayments follow a fixed payments schedule until 2023 and are met from the surplus arising on the securitised block of business. The nominal amount outstanding currently stands at £201 million, which includes interest payments calculated at 7.39169% and 7.5873% for the Class A1 and A2 bonds respectively. The stochastic model tests whether the surplus on the appropriate classes of business is sufficient to meet the scheduled payment, and the cashflows are then discounted using the scenario specific discount rates. The expected market consistent value of the amounts to be repaid is £236 million.

Subordinated debt:

A new subordinated loan arrangement of £65 million was issued on 30 June 2006. The initial term of the loan is 5 years. The payments of interest and capital will be made on the 30 June each year. The sub loan is subject to a financing charge of 4.25% per annum. The financing charge will increase by 0.5% after year 5 if the subordinated loan has not been paid off by the end of the initial term.

Contingent loan:

At the time of the demutualisation in December 2000, £800 million of capital support, was provided by Pearl to the National Provident Life Limited Fund.

Repayments of capital and of the accumulated investment return are made according to a formula in the Scheme, but only to the extent that a "deficit" has not arisen. A deficit in this context exists when, and to the extent that, in the opinion of the Actuarial Function Holder, the admissible value of the assets in the long-term fund falls short of the greater of:

- (a) The liabilities in the long term fund; and



(b) Amounts determined by the Actuarial Function Holder as necessary to be held in the long term fund to meet Policyholders Reasonable Expectations (PRE) and to manage the fund in accordance with the Principles of Financial Management (as described in the Scheme).

Support charges of up to 1.75% per annum are payable provided there is a Form 58 surplus arising or there would be a surplus arising but for the payment of the support charge.

The total amount of the contingent loan drawn down as at 31 December 2006 was £671,679,000.

The support charge represents a repayment of accumulated investment return.

The stochastic model assumes that repayment occurs in accordance with the rules governing the repayment as set out in the Scheme. The expected amount to be repaid is £75 million, this amount excludes the support charges.

#### **8. Other long-term insurance liabilities**

The amount in Form 19 Line 47 represents liabilities in respect of:

- potential FSCS levies;
- the reserve in respect of Guaranteed Minimum Pensions attaching to certain Pensions Transfer Plans;
- the reserve in respect of MVAs on Portfolio Bond 1 switches on business reassured to Pearl Assurance plc where the National Provident Life Fund cannot pass this cost onto the policyholders; and
- the potential amount of future tax and investment expenses charged to the estate.

#### **9. Realistic current liabilities**

The amount in Form 19 Line 51 is the figure in Form 14 line 49 adjusted for the following items:

- reduced by the figure in Form 14 line 34 in respect of the subordinated debt which is modelled in the stochastic model;
- reduced by the accruals in respect of the financing arrangements, to the extent that these are included in the stochastic model.

#### **10. Risk capital margin**

(a) The risk capital margin for National Provident Life Limited at 31 December 2006 was £59.7 million.

The most onerous scenario for National Provident Life Limited is that which combines:

- (i) The percentage changes in the market value of equities and real estate for the purposes of the market risk scenario for UK assets were 20% and 12.5% respectively. A fall in the market value of these assets was the more onerous in each case.

There were no significant territories for the purposes of INSPRU 1.3.62R(1)(b).

- (ii) The nominal change in yields assumed for fixed interest securities for the purpose of the market risk scenario for UK assets was 0.81%. This represented a change of 17.5% in the level of the long-term gilt yield from a level of 4.62%. A fall in the level of yields was the more onerous change.

There were no significant territories for the purposes of INSPRU 1.3.62R(1)(b).

- (iii) The average increase in spread for bonds (weighted by value) that resulted from applying the credit risk scenario to the with-profits sub fund's assets was 41 basis points.

- (a) The change in value for the with-profits sub fund bond assets was a 3.6% fall in asset value.

- (b) Not applicable.

- (c) Not applicable.

- (d) Not applicable.

- (e) The change in value for the with-profits sub fund other assets was a 5.5 % fall in asset value.

- (iv) The persistency risk scenario resulted in a 0.5% increase in the realistic value of liabilities.

- (v) Not applicable.

- (b) (i) No additional management actions other than those described in 6(5)(a) above were assumed for the purposes of calculating the risk capital margin.

- (ii) Not applicable.

- (iii) Not applicable.

- (iv) Not applicable.

- (c) (i) Assets within the long-term fund cover £59.7 million of the risk capital margin.

- (ii) The assets of the Shareholder Fund are available to support the solvency of the long-term fund. Should the working capital become negative, shareholder assets would be transferred into the long-term fund, in an Earmarked Portfolio subject to an undertaking given by National Provident Life Limited to the FSA. As at 31 December 2006 the Earmarked Portfolio stood at £90 million.

## 11. Tax

- (i) For assets backing the with-profits benefits reserve, policyholder taxes are calculated on an "I-E" tax basis applicable to BLAGAB business and deducted from the with-profits benefit reserve. The tax rate assumed was 20% on savings income, rental income and indexed capital gains. Tax relief on expenses has been assumed to be at 20%. No tax is assumed on pensions business.
- (ii) Allowance is made for the "I-E" tax due on assets needed to back the excess of realistic liabilities over and above the with-profits benefits reserve and is included in the other long term insurance liabilities shown in Form 19 line 47.
- (iii) The allowance made for tax on the assets backing realistic current liabilities is similar to that outlined in (ii) above.

## 12. Derivatives

The fund holds a number of sterling receiver swaptions executed with Goldman Sachs International and UBS AG. The table below contains a summary of the trades.

Company	Notional amount, £000s	Strike level	Maturity date	Expiry date
UBS	65,000	5.11%-5.16%	2007	2022
UBS	20,000	6.00%	2007	2022
UBS	105,320	5.05% - 5.10%	2008	2023
UBS	16,000	4.99% - 5.03%	2009	2024
GSI	114,000	6.00%	2009	2024
UBS	53,120	4.93% - 4.98%	2010	2025
GSI	81,900	6.00%	2010	2025
UBS	52,800	4.88% - 4.92%	2011	2026
GSI	96,240	6.00%	2011	2026
UBS	53,000	4.83% - 4.87%	2012	2027
GSI	121,540	6.00%	2012	2027
UBS	32,800	4.79% - 4.82%	2013	2028
GSI	86,320	6.00%	2013	2028
UBS	26,000	4.74% - 4.77%	2014	2029
UBS	70,000	6.00%	2014	2029
UBS	22,200	4.70% - 4.73%	2015	2030
UBS	80,000	6.00%	2015	2030
UBS	108,000	6.00%	2016	2031

The fund also holds a number of interest rate receiver and payer swaps executed with UBS. The table below contains a summary of the trades.

<b>Security name</b>	<b>Nominal amount £000s</b>	<b>Pay/Receive</b>	<b>Strike level</b>	<b>Maturity date</b>
UBS - Swaps 1 R	89,500	Receive	4.69%	2007
UBS - Swaps 1 R	141,500	Receive	4.71%	2008
UBS - Swaps 1 R	130,100	Receive	4.69%	2009
UBS - Swaps 1 R	147,200	Receive	4.67%	2010
UBS - Swaps 1 R	152,100	Receive	4.66%	2011
UBS - Swaps 1 R	119,300	Receive	4.64%	2012
UBS - Swaps 1 R	110,600	Receive	4.62%	2013
UBS - Swaps 1 P	55,600	Pay	4.62%	2014
UBS - Swaps 1 P	(130,600)	Pay	4.60%	2015
UBS - Swaps 1 R	117,100	Receive	4.54%	2017
UBS - Swaps 1 P	(348,700)	Pay	4.49%	2020
UBS - Swaps 1 P	80,300	Pay	4.41%	2025
UBS - Swaps 1 P	(265,900)	Pay	4.35%	2030
UBS – Swaps 1R	840,000	Receive	5.01%	2013
UBS – Swaps 1R	315,000	Receive	4.94%	2016
UBS – Swaps 1P	(190,000)	Pay	4.71%	2026
UBS – Swaps 1P	(380,000)	Pay	4.71%	2026
UBS – Swaps 1P	(395,000)	Pay	4.62%	2031
UBS – Swaps 1R	437,000	Receive	4.78%	2018
UBS – Swaps 1P	(164,000)	Pay	4.34%	2036
UBS – Swaps 1P	(61,000)	Pay	4.10%	2056
UBS – Swaps 1R	127,600	Receive	4.18%	2045
UBS – Swaps 1P	(191,700)	Pay	4.41%	2025
UBS – Swaps 1R	22,505	Receive	4.92%	2021

The fund also holds a number of RPI swaps executed with Deutsche Bank. These are summarised in the table below:

<b>Security name</b>	<b>Notional amount</b>	<b>Pay/Receive</b>	<b>Strike level</b>	<b>Maturity date</b>
Deutsche Bank Break	3,566,000	Receive	3.07%pa	20-Jun-07
Deutsche Bank Break	2,943,000	Receive	3.07%pa	20-Jun-08
Deutsche Bank Break	2,401,000	Receive	3.07%pa	20-Jun-09
Deutsche Bank Break	1,964,000	Receive	3.07%pa	20-Jun-10
Deutsche Bank Break	1,615,000	Receive	3.07%pa	20-Jun-11

<b>Security name</b>	<b>Notional amount</b>	<b>Pay/Receive</b>	<b>Strike level</b>	<b>Maturity date</b>
Deutsche Bank Break	1.323.000	Receive	3.07%pa	20-Jun-12
Deutsche Bank Break	1.077.000	Receive	3.07%pa	20-Jun-13
Deutsche Bank Break	875.000	Receive	3.07%pa	20-Jun-14
Deutsche Bank Break	710.000	Receive	3.07%pa	20-Jun-15
Deutsche Bank Break	573.000	Receive	3.07%pa	20-Jun-16
Deutsche Bank Break	459.000	Receive	3.07%pa	20-Jun-17
Deutsche Bank Break	364.000	Receive	3.07%pa	20-Jun-18
Deutsche Bank Break	287.000	Receive	3.07%pa	20-Jun-19
Deutsche Bank Break	224.000	Receive	3.07%pa	20-Jun-20
Deutsche Bank Break	173.000	Receive	3.07%pa	20-Jun-21
Deutsche Bank Break	131.000	Receive	3.07%pa	20-Jun-22
Deutsche Bank Break	99.000	Receive	3.07%pa	20-Jun-23
Deutsche Bank Break	73.000	Receive	3.07%pa	20-Jun-24
Deutsche Bank Break	52.000	Receive	3.07%pa	20-Jun-25
Deutsche Bank Break	37.000	Receive	3.07%pa	20-Jun-26
Deutsche Bank Break	26.000	Receive	3.07%pa	20-Jun-27
Deutsche Bank Break	18.000	Receive	3.07%pa	20-Jun-28
Deutsche Bank Break	12.000	Receive	3.07%pa	20-Jun-29
Deutsche Bank Break	8.000	Receive	3.07%pa	20-Jun-30
Deutsche Bank Break	5.000	Receive	3.07%pa	20-Jun-31
Deutsche Bank Break	3.000	Receive	3.07%pa	20-Jun-32
Deutsche Bank Break	2.000	Receive	3.07%pa	20-Jun-33
Deutsche Bank Break	1.000	Receive	3.07%pa	20-Jun-34
Deutsche Bank Break	22,823.000	Receive	3.093%pa	20-Jun-07
Deutsche Bank Break	20,709.000	Receive	3.093%pa	20-Jun-08
Deutsche Bank Break	18,785.000	Receive	3.093%pa	20-Jun-09
Deutsche Bank Break	17,056.000	Receive	3.093%pa	20-Jun-10
Deutsche Bank Break	15,498.000	Receive	3.093%pa	20-Jun-11
Deutsche Bank Break	14,080.000	Receive	3.093%pa	20-Jun-12
Deutsche Bank Break	12,793.000	Receive	3.093%pa	20-Jun-13
Deutsche Bank Break	11,634.000	Receive	3.093%pa	20-Jun-14
Deutsche Bank Break	10,603.000	Receive	3.093%pa	20-Jun-15
Deutsche Bank Break	9,687.000	Receive	3.093%pa	20-Jun-16
Deutsche Bank Break	8,846.000	Receive	3.093%pa	20-Jun-17
Deutsche Bank Break	8,060.000	Receive	3.093%pa	20-Jun-18

<b>Security name</b>	<b>Notional amount</b>	<b>Pay/Receive</b>	<b>Strike level</b>	<b>Maturity date</b>
Deutsche Bank Break	7,330,000	Receive	3.093%pa	20-Jun-19
Deutsche Bank Break	6,650,000	Receive	3.093%pa	20-Jun-20
Deutsche Bank Break	6,022,000	Receive	3.093%pa	20-Jun-21
Deutsche Bank Break	5,441,000	Receive	3.093%pa	20-Jun-22
Deutsche Bank Break	4,900,000	Receive	3.093%pa	20-Jun-23
Deutsche Bank Break	4,390,000	Receive	3.093%pa	20-Jun-24
Deutsche Bank Break	3,908,000	Receive	3.093%pa	20-Jun-25
Deutsche Bank Break	3,463,000	Receive	3.093%pa	20-Jun-26
Deutsche Bank Break	3,056,000	Receive	3.093%pa	20-Jun-27
Deutsche Bank Break	2,678,000	Receive	3.093%pa	20-Jun-28
Deutsche Bank Break	2,326,000	Receive	3.093%pa	20-Jun-29
Deutsche Bank Break	2,001,000	Receive	3.093%pa	20-Jun-30
Deutsche Bank Break	1,706,000	Receive	3.093%pa	20-Jun-31
Deutsche Bank Break	1,440,000	Receive	3.093%pa	20-Jun-32
Deutsche Bank Break	1,199,000	Receive	3.093%pa	20-Jun-33
Deutsche Bank Break	984,000	Receive	3.093%pa	20-Jun-34
Deutsche Bank Break	800,000	Receive	3.093%pa	20-Jun-35
Deutsche Bank Break	646,000	Receive	3.093%pa	20-Jun-36
Deutsche Bank Break	522,000	Receive	3.093%pa	20-Jun-37
Deutsche Bank Break	426,000	Receive	3.093%pa	20-Jun-38
Deutsche Bank Break	353,000	Receive	3.093%pa	20-Jun-39
Deutsche Bank Break	293,000	Receive	3.093%pa	20-Jun-40
Deutsche Bank Break	245,000	Receive	3.093%pa	20-Jun-41
Deutsche Bank Break	206,000	Receive	3.093%pa	20-Jun-42
Deutsche Bank Break	173,000	Receive	3.093%pa	20-Jun-43
Deutsche Bank Break	146,000	Receive	3.093%pa	20-Jun-44
Deutsche Bank Break	123,000	Receive	3.093%pa	20-Jun-45

### 13. Analysis of working capital

The following table sets out the significant movements in the working capital, shown in Form 19 line 68, from 31 December 2005 to 31 December 2006.

	<b>£million</b>
<b>Working capital at 31 December 2005</b>	<b>8</b>

<b>Roll forward</b>	
Unwind of discount rate	(1)
Policy movements	1
Change in investment scenario file	(6)
<b>Methodology changes:</b>	
Modelling the matching of the estate and contingent loan	(1)
Change in methodology of closed form solution volatilities	16
New subordinated debt	1
<b>Model refinements:</b>	
Cessation criteria for management action on support charges	(4)
Other refinements	(1)
<b>Basis change:</b>	
New SERP persistency basis	(6)
New annuitant mortality	(4)
<b>Investment returns variance:</b>	
Variance on UL business	3
Property variance on other business	6
Variance on other assets	(6)
<b>Miscellaneous</b>	
Increase in earmarked portfolio	65
Unexplained	(4)
<b>Working capital at 31 December 2006</b>	<b>68</b>

**14. Optional disclosure**

Not applicable.

## Returns under the Accounts and Statements Rules

Certificate required by rule 9.34(1)

National Provident Life Limited

Global Business

Financial year ended 31 December 2006

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) and either PRU or GENPRU and INSPRU as applicable; 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 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 in question 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 COB 6.10; and  
(d) the directors have taken and paid due regard to:
  - (i) advice in preparing the return 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 Cusins  
Director

Date: 28 March 2007



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

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

#### **National Provident Life Limited**

##### **Global business**

##### **Financial year ended 31 December 2006**

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 of the Interim Prudential Sourcebook for Insurers, the General Prudential Sourcebook and 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 19, 40 to 44, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by rule 9.29 ("the statement"); and
- the reports required by rule 9.31("the valuation reports");

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 rules 9.30 and 9.36; and
- the certificate signed in accordance with rule 9.34(1)

This report is made solely to the insurer's directors, in accordance with rule 9.35 of the Accounts and Statements Rules. 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 reports) under the provisions of the Rules. The requirements of the rules have been modified by the direction referred to in Supplementary note 0201. Under rule 9.11 the Forms, the statement, and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports 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.

## Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. 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 28 March 2007. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statement and the valuation reports.


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

In accordance with rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to 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 reports 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 reports prepared in accordance with rule 9.31 appropriately reflect the requirements of INSPRU 1.2 and 1.3.

  
Ernst & Young LLP  
Registered Auditor  
London

Date: 21 March 2007