

# **NATIONAL PROVIDENT LIFE LIMITED**

Registered in England - No 3641947

Registered Office

The Pearl Centre

Lynch Wood

Peterborough

PE2 6FY

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

**31 December 2009**

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

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

Global business

Financial year ended **31 December 2009**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2009	
	<b>3641947</b>	<b>GL</b>				<b>£000</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			<b>1</b>			<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	16296	139110
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	313831	224686
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	330127	363796

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	68209	68241
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	225340	295555

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	204626	204722
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	3128	2518
Individual minimum capital requirement	<b>34</b>	204626	204722
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	204626	204722
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	117895	197768
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	66738	146587

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		100290
Enhanced capital requirement	<b>40</b>	204626	305012

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	204626	305012
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	125501	58784

**Contingent liabilities**

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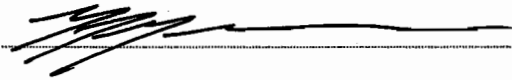
**Covering Sheet to Form 2**

**Form 2**


Name of insurer      **NATIONAL PROVIDENT LIFE LIMITED**

Global business

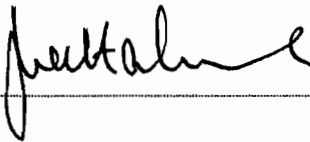
Financial year ended    **31 December 2009**

  
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**M J Merrick      Chief Executive**

  
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**J S B Smith      Director**

  
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**J P Evans      Director**

Date      *25*      **March 2010**

## Components of capital resources

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	3641947	GL	31	12	2009	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

## Core tier one capital

Permanent share capital	11		10000	10000	10000
Profit and loss account and other reserves	12		335678	335678	224443
Share premium account	13				
Positive valuation differences	14				101001
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		345678	345678	335444

## Tier one waivers

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

## Other tier one capital

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		<b>345678</b>	<b>345678</b>	<b>335444</b>
Investments in own shares	32				
Intangible assets	33		35315	35315	35315
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		90155	90155	
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		125470	125470	35315
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		<b>220208</b>	<b>220208</b>	<b>300129</b>

## Components of capital resources

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2009**

	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>2009</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

## Tier two capital

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

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>		115000	115000	65000
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>		115000	115000	65000

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>		115000	115000	65000
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>		4896	4896	
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>		110104	110104	65000

## Components of capital resources

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	3641947	GL	31	12	2009	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

## Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		330312	330312	365129	
Inadmissible assets other than intangibles and own shares	73		185	185	1333	
Assets in excess of market risk and counterparty limits	74					
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		330127	330127	363796	

## Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81		293549	293549	363796	
Available capital resources for 50% MCR requirement	82		220208	220208	300129	
Available capital resources for 75% MCR requirement	83		220208	220208	300129	

## Financial engineering adjustments

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93					
Outstanding contingent loans	94		67502	67502	70515	
Any other charges on future profits	95		50735	50735	55754	
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		118237	118237	126269	

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

Global business

Financial year ended **31 December 2009**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>2009</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	33713
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>	31875	88644	
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	148818	25556	
Rights under derivative contracts	<b>44</b>	480	6661	
Fixed interest securities	Approved	<b>45</b>	41980	41286
	Other	<b>46</b>	1381	6656
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		9758
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>	1380	
	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 2009**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>2009</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>	65864	13495
	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>	1634	8684
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>	588	779
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	68	25

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	326401	236637
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**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2009**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	2009	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					1	2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	326401	236637
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	141071	74512
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	467472	311149
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

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

Global business

Financial year ended **31 December 2009**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	2009	£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>	
Land and buildings			11		130595	134519	

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	41	3039	3862	
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43	548772	750288	
Rights under derivative contracts	44	521549	741588	
Fixed interest securities	Approved	45	1910433	2124161
	Other	46	1130604	1267922
Variable interest securities	Approved	47	2427	2309
	Other	48	391698	74886
Participation in investment pools	49			
Loans secured by mortgages	50	51	34	
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52	502	586	
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	444	
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	746	672
	Property linked	59	2432	1595

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

Global business

Financial year ended **31 December 2009**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	2009	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	71	133	277
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75	7	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	34569	23474
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	189942	184595
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	47101	53142
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	2173	25568
Deductions from the aggregate value of assets	87		
Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	4916773	5389922

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

Global business

Financial year ended **31 December 2009**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	2009	£000	10
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	4916773	5389922
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	35500	36648
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	3363717	3068335
Other asset adjustments (may be negative)	<b>101</b>	(148214)	(86537)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	<b>102</b>	8167776	8408368
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>	9285	4915

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

Global business

Financial year ended **31 December 2009**Total business **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>	4215562	4311658	
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>	16296	139110	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	4231858	4450768	
Claims outstanding	Gross	<b>15</b>	8997	14110
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	8997	14110
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	1676	2339
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	6282	
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	102287	114738	
Creditors	Taxation	<b>37</b>		
	Other	<b>38</b>	560503	802900
Accruals and deferred income	<b>39</b>	5170	5067	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	684915	939154	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	4916773	5389922	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	1716	669
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	2432	1595

Total liabilities (11+12+49)	<b>71</b>	4900477	5250812
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	3363717	3068335
Other adjustments to liabilities (may be negative)	<b>74</b>	(96418)	89221
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 of its external financial reporting (71 to 75)	<b>76</b>	8167776	8408368

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

Global business

Financial year ended **31 December 2009**

	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>2009</b>	<b>£000</b>
				<b>As at end of this financial year 1</b>		<b>As at end of the previous year 2</b>	

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>			
	Other risks and charges	<b>22</b>			
Deposits received from reinsurers		<b>31</b>			
Creditors	Direct insurance business	<b>41</b>			
	Reinsurance accepted	<b>42</b>			
	Reinsurance ceded	<b>43</b>			
Debenture loans	Secured	<b>44</b>			
	Unsecured	<b>45</b>			
Amounts owed to credit institutions		<b>46</b>			
Creditors	Taxation	<b>47</b>		8	108
	Foreseeable dividend	<b>48</b>			
	Other	<b>49</b>		5349	8460
Accruals and deferred income		<b>51</b>		2317	3383
Total (19 to 51)		<b>59</b>		7674	11951
Provision for "reasonably foreseeable adverse variations"		<b>61</b>			
Cumulative preference share capital		<b>62</b>			
Subordinated loan capital		<b>63</b>		115000	65000
Total (59 to 63)		<b>69</b>		122674	76951

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>		115000	65000
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Amounts deducted from technical provisions for discounting	<b>82</b>			
Other adjustments to liabilities (may be negative)	<b>83</b>		(880)	(245)
Capital and reserves	<b>84</b>		345678	234443
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	<b>85</b>		467472	311149

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

Global business

Financial year ended **31 December 2009**

		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>2009</b>	<b>£000</b>
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		11					
	Equalisation provisions		12					
Transfer from the long term insurance business revenue account			13			(250000)	(30000)	
Investment income	Income		14			6279	22507	
	Value re-adjustments on investments		15			(15672)	10065	
	Gains on the realisation of investments		16					
Investment charges	Investment management charges, including interest		17			10792	9216	
	Value re-adjustments on investments		18					
	Loss on the realisation of investments		19			723	14858	
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			(270908)	(21502)	
Tax on profit or loss on ordinary activities			31			(64950)	5100	
Profit or loss on ordinary activities after tax (29-31)			39			(205958)	(26602)	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49			(205958)	(26602)	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59			(205958)	(26602)	



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

Global business

Financial year ended **31 December 2009**Category of assets **Total other than long-term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	3641947	GL	31	12	2009	£000	1
<b>Derivative contracts</b>		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets <b>1</b>		Liabilities <b>2</b>		Bought / Long <b>3</b>		Sold / Short <b>4</b>	
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12							
	Inflation	13							
	Credit index / basket	14				2374		188356	
	Credit single name	15							
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19		480		933		79496	21702
	Mortality	20							
	Other	21							
In the money options	Swaptions	31							
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
	Other	46							
<b>Total (11 to 46)</b>		<b>51</b>		480		3307		79496	210058
<b>Adjustment for variation margin</b>		<b>52</b>							
<b>Total (51 + 52)</b>		<b>53</b>		480		3307			

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.  
Please see instructions 11 and 12 to this Form for the meaning of these figures.

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

Global business

Financial year ended **31 December 2009**Category of assets **Total long-term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	3641947	GL	31	12	2009	£000	10
Derivative contracts		Value as at the end of this financial year				Notional amount as at the end of this financial year			
		Assets 1		Liabilities 2		Bought / Long 3		Sold / Short 4	
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12	461036	312638	5887865	4900410			
	Inflation	13	1944	99		179795			
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19	2943	368	173095				
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	7643		386000				
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41	47983		497920				
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	521549	313105	6944880	5080205			
Adjustment for variation margin		52							
Total (51 + 52)		53	521549	313105					

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.  
Please see instructions 11 and 12 to this Form for the meaning of these figures.

**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 2009**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	11	4916773	5389922
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	204680	194760
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	4712093	5195162
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	4010882	4116898
	Regulatory current liabilities of the fund	22	684915	939154
	Total (21+22)	29	4695797	5056052
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	162858	166270
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	4858655	5222322
Regulatory excess capital (19-39)		49	(146562)	(27160)

**Realistic excess capital**

Realistic excess capital	51	19639	(127450)
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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)	61	(166201)	100290
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62	65000	65000
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63	73625	71020
Present value of future shareholder transfers arising from distribution of surplus	64		
Present value of other future internal transfers not already taken into account	65		
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)	66		100290

**Realistic balance sheet**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**With-profits fund **Long-term insurance business**Financial year ended **31 December 2009**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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**Realistic value of assets available to the fund**

Regulatory value of assets	11	4712093	5195162
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	85186	73248
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	4797279	5268410
Support arrangement assets	27		
Assets available to the fund (26+27)	29	4797279	5268410

**Realistic value of liabilities of fund**

With-profits benefit reserve	31	2722405	2756861	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32		
	Past 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	17692	21973
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	143345	270820
	Future costs of contractual guarantees (other than financial options)	41	1164589	1529306
	Future costs of non-contractual commitments	42	2844	2929
	Future costs of financial options	43	10000	12429
	Future costs of smoothing (possibly negative)	44		
	Financing costs	45	249396	268122
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	16584	7436
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1282376	1527429
Realistic current liabilities of the fund	51	680948	924492	
Realistic value of liabilities of fund (31+49+51)	59	4685729	5208782	

**Realistic balance sheet**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**With-profits fund **Long-term insurance business**Financial year ended **31 December 2009**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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**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>	4777640	5395860
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>	4777640	5395860
Risk capital margin for fund (62-59)	<b>65</b>	91911	187078
Realistic excess capital for fund (26-(59+65))	<b>66</b>	19639	(127450)
Realistic excess available capital for fund (29-(59+65))	<b>67</b>	19639	(127450)
Working capital for fund (29-59)	<b>68</b>	111550	59628
Working capital ratio for fund (68/29)	<b>69</b>	2.33	1.13

**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>	296599	58698
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 **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	(99050)	(98168)
Investment income receivable before deduction of tax	12	196104	234714
Increase (decrease) in the value of non-linked assets brought into account	13	(261446)	(99897)
Increase (decrease) in the value of linked assets	14	837	(1750)
Other income	15	13457	14530
<b>Total income</b>	<b>19</b>	<b>(150098)</b>	<b>49429</b>

**Expenditure**

Claims incurred	21	258437	437814
Expenses payable	22	32183	37386
Interest payable before the deduction of tax	23	27898	36022
Taxation	24	294	(1200)
Other expenditure	25		
Transfer to (from) non technical account	26	(250000)	(30000)
<b>Total expenditure</b>	<b>29</b>	<b>68812</b>	<b>480022</b>

Business transfers - in	31	119313	
Business transfers - out	32	119313	
Increase (decrease) in fund in financial year (19-29+31-32)	39	(218910)	(430593)
Fund brought forward	49	4450768	4881361
Fund carried forward (39+49)	59	4231858	4450768

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 Units **£000**

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

**Gross**

Regular premiums	11	1355	35359		36714	40773
Single premiums	12	130	985		1115	2417

**Reinsurance - external**

Regular premiums	13					9
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15	34	13839		13873	16517
Single premiums	16	27	122979		123006	124832

**Net of reinsurance**

Regular premiums	17	1321	21520		22841	24247
Single premiums	18	103	(121994)		(121891)	(122415)

**Total**

Gross	19	1485	36344		37829	43190
Reinsurance	20	61	136818		136879	141358
Net	21	1424	(100474)		(99050)	(98168)

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 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	12147	17394		29541	32752
Disability periodic payments	12					
Surrender or partial surrender	13	33008	229670		262678	482400
Annuity payments	14	2229	124568		126797	126760
Lump sums on maturity	15	15383	96348		111731	111433
<b>Total</b>	<b>16</b>	<b>62767</b>	<b>467980</b>		<b>530747</b>	<b>753345</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23	(1)			(1)	228
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>	<b>(1)</b>			<b>(1)</b>	<b>228</b>

**Reinsurance - intra-group**

Death or disability lump sums	31	3109	5500		8609	7754
Disability periodic payments	32					
Surrender or partial surrender	33	12380	96125		108505	151684
Annuity payments	34	185	123857		124042	123991
Lump sums on maturity	35	309	30846		31155	31874
<b>Total</b>	<b>36</b>	<b>15983</b>	<b>256328</b>		<b>272311</b>	<b>315303</b>

**Net of reinsurance**

Death or disability lump sums	41	9038	11894		20932	24998
Disability periodic payments	42					
Surrender or partial surrender	43	20629	133545		154174	330488
Annuity payments	44	2044	711		2755	2769
Lump sums on maturity	45	15074	65502		80576	79559
<b>Total</b>	<b>46</b>	<b>46785</b>	<b>211652</b>		<b>258437</b>	<b>437814</b>



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 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	149	675	824	894
Management - acquisition	13				
Management - maintenance	14	5768	26092	31860	34487
Management - other	15	(91)	(410)	(501)	2005
<b>Total</b>	<b>16</b>	<b>5826</b>	<b>26357</b>	<b>32183</b>	<b>37386</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	149	675	824	894
Management - acquisition	43				
Management - maintenance	44	5768	26092	31860	34487
Management - other	45	(91)	(410)	(501)	2005
<b>Total</b>	<b>46</b>	<b>5826</b>	<b>26357</b>	<b>32183</b>	<b>37386</b>

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business  
 Financial year ended **31 December 2009**  
 Units **£000**

Financial year 1	Previous year 2
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**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	2432	1595
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**Total**

Value of directly held linked assets and units held (18+21)	31	2432	1595
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>2432</b>	<b>1595</b>

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business  
 Financial year ended **31 December 2009**  
 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		20		20	33
Single premium business	12	3	2		5	18
<b>Total</b>	<b>13</b>	<b>3</b>	<b>22</b>		<b>25</b>	<b>51</b>

**Amount of new regular  
premiums**

Direct insurance business	21		305		305	20
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>		<b>305</b>		<b>305</b>	<b>20</b>

**Amount of new single  
premiums**

Direct insurance business	25	130	985		1115	2326
External reinsurance	26					
Intra-group reinsurance	27					
<b>Total</b>	<b>28</b>	<b>130</b>	<b>985</b>		<b>1115</b>	<b>2326</b>

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

**NATIONAL PROVIDENT LIFE LIMITED**

Name of insurer

Total business

Financial year ended

31 December 2009

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
395	Annuity non-profit (PLA)			3	130

**Long-term insurance business : Analysis of new business****Name of insurer**  
**NATIONAL PROVIDENT LIFE LIMITED****Total business****Financial year ended**  
**31 December 2009****Units**  
**£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
530	Individual pensions UWP - increments				191
540	Group money purchase pensions UWP - increments				145
550	Individual deposit administration with-profits - increments				7
565	DWP National Insurance rebates UWP				151
730	Individual pensions property linked - increments		300		281
735	Group money purchase pensions property linked	20	5	2	111
745	DWP National Insurance rebates property linked				99

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Category of assets **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 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	197896	197896	11111	4.37	
Other fixed interest securities	13	1303	1303	371	7.55	
Variable interest securities	14	2303	2303	856	3.50	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18					
<b>Total</b>	<b>19</b>	<b>201502</b>	<b>201502</b>	<b>12338</b>	<b>4.38</b>	

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

Land and buildings	21	130595	161604	9006	5.57	(1.58)
Approved fixed interest securities	22	1735210	1735210	89923	4.55	(0.92)
Other fixed interest securities	23	1150909	1479474	85832	5.97	16.60
Variable interest securities	24	394350	152	57	3.50	0.00
UK listed equity shares	25	220	492			(33.51)
Non-UK listed equity shares	26					
Unlisted equity shares	27	2819	2791			1.69
Other assets	28	1297990	1332370	81531	1.13	20.23
<b>Total</b>	<b>29</b>	<b>4712093</b>	<b>4712093</b>	<b>266349</b>	<b>4.06</b>	<b>10.54</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					11.87
Return allocated to non taxable 'asset shares'	32					9.20
Return allocated to taxable 'asset shares'	33					6.89

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Category of assets **Long-term insurance business**  
 Financial year ended **31-Dec-09**  
 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>	1219634	12.94	4.37	4.37
<b>Other approved fixed interest securities</b>	<b>21</b>	713472	13.13	4.80	4.78
<b>Other fixed interest securities</b>					
AAA/Aaa	31	469508	11.71	5.65	5.52
AA/Aa	32	231352	10.88	5.79	5.25
A/A	33	603220	10.62	5.97	5.19
BBB/Baa	34	176387	8.60	7.09	5.73
BB/Ba	35	186	7.31	12.03	8.50
B/B	36	124	12.58	8.71	8.50
CCC/Caa	37				
Other (including unrated)	38				
<b>Total other fixed interest securities</b>	<b>39</b>	1480777	10.77	5.97	5.37
<b>Approved variable interest securities</b>	<b>41</b>	2455	3.46	3.50	3.50
<b>Other variable interest securities</b>	<b>51</b>				
<b>Total (11+21+39+41+51)</b>	<b>61</b>	3416338	12.03	5.15	4.89

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 Units **£000**

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

**Gross**

Form 51 - with-profits	11	39443	1731206		1770649	1870505
Form 51 - non-profit	12	26667	1676480		1703147	1576575
Form 52	13	254618	2006041		2260659	2266699
Form 53 - linked	14	85859	1669668		1755527	1581873
Form 53 - non-linked	15	719	48651		49370	45587
Form 54 - linked	16	696	36765		37461	34363
Form 54 - non-linked	17	38	2188		2226	1702
<b>Total</b>	<b>18</b>	<b>408040</b>	<b>7170999</b>		<b>7579039</b>	<b>7377304</b>

**Reinsurance - external**

Form 51 - with-profits	21					
Form 51 - non-profit	22					10
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
<b>Total</b>	<b>28</b>					<b>10</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32	1953	1547336		1549289	1428249
Form 52	33	20426			20426	22704
Form 53 - linked	34	83427	1669668		1753095	1580278
Form 53 - non-linked	35	1	2299		2300	1934
Form 54 - linked	36		36715		36715	33691
Form 54 - non-linked	37		1652		1652	1178
<b>Total</b>	<b>38</b>	<b>105807</b>	<b>3257670</b>		<b>3363477</b>	<b>3068034</b>

**Net of reinsurance**

Form 51 - with-profits	41	39443	1731206		1770649	1870505
Form 51 - non-profit	42	24714	129144		153858	148316
Form 52	43	234192	2006041		2240233	2243995
Form 53 - linked	44	2432	(0)		2432	1595
Form 53 - non-linked	45	718	46352		47070	43653
Form 54 - linked	46	696	50		746	672
Form 54 - non-linked	47	38	536		574	524
<b>Total</b>	<b>48</b>	<b>302233</b>	<b>3913329</b>		<b>4215562</b>	<b>4309260</b>



**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**Total business **Long-term insurance business**Financial year ended **31 December 2009**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	1022	16109	95				13394
120	Conventional endowment with-profits OB savings	2998	29585	779				25534
165	Conventional deferred annuity with-profits	16	7					73
205	Miscellaneous conventional with-profits	95	140	1				72
210	Additional reserves with-profits OB							370
390	Deferred annuity non-profit	24	18					259
395	Annuity non-profit (PLA)	2615	2881					18947
435	Miscellaneous non-profit	4074	101030	391				7481

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

Name of insurer  
 Total business  
 Financial year ended  
 Units  
 UK Life / Reinsurance ceded intra-group

**NATIONAL PROVIDENT LIFE LIMITED**

Long-term insurance business

31 December 2009

£000

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
395	Annuity non-profit (PLA)		29					1953

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**Total business **Long-term insurance business**Financial year ended **31 December 2009**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	9561	381070	1174				432402
165	Conventional deferred annuity with-profits	56049	125230	8618				1298800
205	Miscellaneous conventional with-profits		93	1				4
390	Deferred annuity non-profit	2179	6861					73363
400	Annuity non-profit (CPA)	98869	139773					1566411
435	Miscellaneous non-profit	5084	200733	725				3878
440	Additional reserves non-profit OB							32828

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

Name of insurer

**NATIONAL PROVIDENT LIFE LIMITED**

Total business

Long-term insurance business

Financial year ended

31 December 2009

Units

£000

UK Pension / Reinsurance ceded external

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
435	Miscellaneous non-profit		3286					

**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 **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 Units **£000**

**UK Pension / Reinsurance ceded intra-group**

<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>
390	Deferred annuity non-profit		328					5661
400	Annuity non-profit (CPA)		139773					1541675

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

**NATIONAL PROVIDENT LIFE LIMITED**

**Long-term insurance business**

**31 December 2009**

**£000**

Name of insurer

Total business

Financial year ended

Units

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	12848	273462		271317	229525	7461	236986
610	Additional reserves UWP						17632	17632

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

**NATIONAL PROVIDENT LIFE LIMITED**  
**Long-term insurance business**  
**31 December 2009**  
**£000**

UK Life / Reinsurance ceded intra-group

Product code	Product description	Number of policyholders /	Amount of benefit	Amount of annual office	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical
1	2	3	4	5	6	7	8	9
500	Life WWP single premium		23958		23934	20161	265	20426

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

**NATIONAL PROVIDENT LIFE LIMITED**

Long-term insurance business

31 December 2009

£000

Name of insurer

Total business

Financial year ended

Units

UK Pension / 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
525	Individual pensions UWP	117256	1877760	9489	1877760	1649269	89975	1739244
535	Group money purchase pensions UWP	9169	141797	711	141797	125952	11095	137047
545	Individual deposit administration with-profits	509	5387		5387	5386	99	5485
555	Group deposit administration with-profits	1244	24822	1006	24822	24822	9368	34190
570	Income drawdown UWP	49	9387		9387	8382	67	8449
605	Miscellaneous protection rider		4092	1			1	1
610	Additional reserves UWP						81625	81625



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

Name of insurer NATIONAL PROVIDENT LIFE LIMITED

Total business Long-term insurance business

Financial year ended 31 December 2009

Units £000

UK Life / Gross

Product code number	1	2	Product description	3	4	5	6	7	8	9
	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	
700	6598		Life property linked single premium	78085		77349	77350	677	78027	
715	252		Life property linked endowment regular premium - savings	6077	32	6077	6078	36	6114	
790			Miscellaneous protection rider		5			1	1	
795	90		Miscellaneous property linked	2432	7	2432	2431	5	2436	

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

**Name of insurer** NATIONAL PROVIDENT LIFE LIMITED  
**Total business** Long-term insurance business  
**Financial year ended** 31 December 2009  
**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		78085		77349	77350	1	77351
715	Life property linked endowment regular premium - savings		6077	32	6077	6077		6077

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business **Long-term insurance business**

Financial year ended **31 December 2009**

Units **£000**

UK Pension / 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
725	Individual pensions property linked	128992	1437120	11442	1437034	1428850	35001	1463851
735	Group money purchase pensions property linked	17867	213676	2333	213676	210041	12668	222709
750	Income drawdown property linked	330	22157		22157	22157	(111)	22046
790	Miscellaneous protection rider		30626	249			533	533
795	Miscellaneous property linked		8620		8620	8620	335	8955
800	Additional reserves property linked						225	225

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 Units **£000**

UK Pension / Reinsurance ceded external

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
790	Miscellaneous protection rider		3471	5				

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

**Name of insurer NATIONAL PROVIDENT LIFE LIMITED**

**Total business Long-term insurance business**

**Financial year ended 31 December 2009**

**Units £000**

**UK Pension / Reinsurance ceded intra-group**

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked		1437120	11442	1437034	1428850	(697)	1428153
735	Group money purchase pensions property linked		213676	2333	213676	210041	3005	213046
750	Income drawdown property linked		22157		22157	22157	(9)	22148
795	Miscellaneous property linked		8620		8620	8620		8620

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business **Long-term insurance business**

Financial year ended **31 December 2009**

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
905	Index linked annuity	44	114		695	696	38	734

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

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

**NATIONAL PROVIDENT LIFE LIMITED**  
**Long-term insurance business**  
**31 December 2009**  
**£000**

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity	1055	2846		36715	36715	2134	38849
910	Miscellaneous index linked	21	10		50	50	54	104

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

**NATIONAL PROVIDENT LIFE LIMITED**

Long-term insurance business

31 December 2009

£000

UK Pension / Reinsurance ceded intra-group

Name of insurer

Total business

Financial year ended

Units

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		2846		36715	36715	1652	38367



**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 2009**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 Non Profit	25470	3.36	4.20	4.26
UK Life With Profit	273633	3.68	4.60	4.64
UK Pension Non Profit	176032	4.20	4.20	4.26
UK Pension With Profit	3711787	4.60	4.60	4.64
Misc	25462			
<b>Total</b>	<b>4212384</b>			

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business **Long-term insurance business**  
 Financial year ended **31 December 2009**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	4231858	4450768
Bonus payments in anticipation of a surplus	12	327	1960
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	4232185	4452728
Mathematical reserves	21	4215562	4309260
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	16623	143468

**Composition of surplus**

Balance brought forward	31	139110	62069
Transfer from non-technical account	32	250000	30000
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(372487)	51399
Total	39	16623	143468

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41	327	1960
Cash bonuses	42		
Reversionary bonuses	43		2398
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	327	4358
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48	327	4358
Surplus carried forward	49	16296	139110
Total (48+49)	59	16623	143468

**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  
 Original insurer

Date of maturity value / open market option: 01 March 2010

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	15195			CWP	N	15195
Endowment assurance	25	23984			CWP	N	23984
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	15	47245			UWP	N	47245
Regular premium pension	20	73477			UWP	N	73477
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	15	16131			UWP	N	16131
Single premium pension	20	30584			UWP	N	30584

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Original insurer **NATIONAL PROVIDENT LIFE LIMITED**

Date of surrender value **01 March 2010**

1	2	3	4	5	6	7	8
Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	13985		n/a	CWP	N	19128
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	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a

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

Global business

Financial year ended **31 December 2009**Units **£000**

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

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%	976821	966293	0.99	2899
Classes III, VII and VIII	15	0.3%	15736	13800	0.88	41
<b>Total</b>	<b>16</b>		<b>992557</b>	<b>980093</b>		<b>2940</b>
						<b>3241</b>
						<b>44</b>
						<b>3285</b>

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

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					3	3
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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%	5772860	4164536	0.85	49069	48884
Classes III, VII and VIII (investment risk)	33	1%	84658	47073	0.85	720	767
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%				2466	2773
Class IV (other)	36	1%	1521	1521	1.00	15	14
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					<b>52270</b>	<b>52438</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	5772860	4164536	0.85	147208	146652
Classes III, VII and VIII (investment risk)	43	3%	84658	47073	0.85	2159	2301
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%	1720240	2432			
Class IV (other)	46	3%	1521	1521	1.00	46	43
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		<b>7579279</b>	<b>4215562</b>		<b>149413</b>	<b>148996</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>204626</b>	<b>204722</b>
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## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

#### Global Business

Financial year ended 31 December 2009

#### Appendix 9.1 (continued)

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

The Financial Services Authority, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in June 2007. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.3 so that a more appropriate rate of interest may be used for its assets taken in combination.<sup>7</sup>

The Financial Services Authority, on the application of the firm, made a direction in December 2008 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to modify INSPRU 3.1.46R so that the risk-adjusted yield assumed for the investment or reinvestment of sums denominated in sterling for the firm's with-profit business must be no more than the greater of (i) the forward gilts yield and (ii) the forward rate on sterling interest rate swaps as reduced by that part of the rate that represents compensation for credit risk.

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

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

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

	2009 £000	2008 £000
Total other than long-term insurance business assets - Form 13 line 89	326,401	236,637
Total long-term business assets - Form 13 line 89	4,916,773	5,389,922
Less: Liabilities - Form 14 line 71	(4,900,477)	(5,250,812)
Less: Liabilities - Form 15 line 69	(122,674)	(76,951)
Net admissible assets	220,023	298,796
Subordinated debt – Form 3 line 52	65,000	65,000
Intergroup loan – Form 3 line 52	50,000	-
Excess lower tier two capital – Form 3 line 63	(4,896)	-
Total capital resources after deductions – Form 3 line 79	330,127	363,796

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

At the end of the financial year, the total amount of contingent loan drawn down from the immediate parent undertaking is £421,679,000 (being the balance drawn down at 31 December 2008 of £671,679,000 less a repayment during the year of £250,000,000). As at the end of the financial year, the statutory valuation of the loan was £67,502,000 and the amount included in Form 14 line 35 (Debenture loans – unsecured) was £nil. The difference of £67,502,000 is reported in Form 3 line 94 (Outstanding contingent loans), which represents a potential charge against future profits not recognised in Form 14. Further detail is provided in note 1402 (c).

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

##### Global Business

Financial year ended 31 December 2009

##### Appendix 9.1 (continued)

###### \*0308\* 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 a 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 £151,485,000 (£260,000,000 less £99,515,000 capital repayment less a £9,000,000 impairment on the Class A2 Limited Recourse Bonds). Of this amount £50,735,000 is reported in Form 3 Line 95 (Any other charges on future profits), 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" in Appendix 9.4 and Note 21 of the Report and Accounts.

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

	2009 £000	2008 £000
Securitised loan valuation difference	50,735	55,754
Contingent loan valuation difference	67,502	70,515
Liability valuation difference	(210,529)	(27,834)
Difference in provision for investment contracts	2,137	2,566
Net valuation difference	<u>(90,155)</u>	<u>101,001</u>

###### \*0313\* Reconciliation of profit and loss and other reserves in Form 3

	£000
Profit and loss account and other reserves at 1 January 2009 - Form 3 line 12	224,443
Profit and loss account (non-technical account) - Form 16 line 59	(205,958)
Capital Contribution	250,000
Reversal of long term fund original earmarked assets impairment	67,193
Profit and loss account and other reserves at 31 December 2009 - Form 3 line 12	<u>335,678</u>

The original earmarked assets refer to capital support held by the long-term fund.

###### \*1100\* Calculation of long-term insurance business capital requirement – premiums amount and brought forward amount

Form 11, calculation of long-term insurance business capital requirement – premiums amount and brought forward amount, has not been included, as the insurer satisfies the de-minimis limit.

###### \*1200\* Calculation of long-term insurance business capital requirement – claims amount and result

Form 12, calculation of long-term insurance business capital requirement – claims amount and result, has not been included, as the insurer satisfies the de-minimis limit.

Returns under the Accounts and Statements Rules

Supplementary Notes

NATIONAL PROVIDENT LIFE LIMITED

Global Business

Financial year ended 31 December 2009

Appendix 9.1 (continued)

\*1301\*

\*1308\* Unlisted and listed investments

Included within Form 13 are the following amounts:

	Long-term		Other than long-term	
	2009	2008	2009	2008
	£000	£000	£000	£000
Unlisted investments valued in accordance with the rules in GENPRU 1.3	2,791	3,620	31,875	88,645
Listed investments valued in accordance with the rules in GENPRU 1.3 and which are not readily realisable.	142,034	176,699	-	13,866
Collective investment schemes, as specified in instruction 5 to Form 13	68,187	121,920	-	-
<b>Total</b>	<b>213,012</b>	<b>302,239</b>	<b>31,875</b>	<b>102,511</b>

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 (Other financial investments) of Form 13. Units or other beneficial interest in collective investment schemes, as specified in instruction 5 to Form 13, are reported within Form 13 line 43 (Holdings in collective investment schemes).

Included within collective investment schemes are the following assets:

	2009	2008
	£000	£000
Henderson Retail Warehouse Fund	12,355	15,947
Henderson Central London Office Fund	44,119	45,401
Henderson Shopping Centre Fund	9,030	17,544
Henderson Shop Unit Fund	-	16,964
Henderson CASPAR Fund	2,683	9,005
Industrial Property Investment Fund	-	17,059
<b>Total</b>	<b>68,187</b>	<b>121,920</b>

\*1305\*

\*1319\* Counterparty limits

- The investment guidelines, operated by the insurer, limit exposure to any one counterparty by establishing limits for each type. These limits are set by reference to the individual and aggregated limits set out in the market and counterparty limits in Chapter 2.1 of the Prudential Sourcebook for Insurers.
- The maximum permitted exposure to a counterparty other than an approved counterparty during the year was 5% of the business amount, calculated in accordance with Chapter 2.1 of the Prudential Sourcebook for Insurers. The 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.
- There were no breaches of these limits during the financial year.

\*1307\*

\*1313\* Aggregate value of fully secured rights

The aggregate value of rights over collateral in respect of derivative contracts is £nil (2008: £nil).



## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

#### Global Business

Financial year ended 31 December 2009

#### Appendix 9.1 (continued)

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

Included in Form 13 line 101 (Other asset adjustments) for 2009, are the following amounts:

	Long-term	Other than long-term
	£000	£000
New earmarked assets	(65,000)	65,000
Reclassification of tax creditor	(3,635)	(8)
Reclassification of intra fund balance	(1,717)	(872)
Original earmarked assets	(76,951)	76,951
Reclassification of interest payable on new earmarked assets	(911)	-
	<u>(148,214)</u>	<u>141,071</u>

Included in Form 13 line 101 (Other asset adjustments) for 2008, are the following amounts:

	Long-term	Other than long-term
	£000	£000
New earmarked assets	(65,000)	65,000
Reclassification of tax creditor	-	(108)
Reclassification of other creditors	(422)	(137)
Original earmarked assets	(9,757)	9,757
Interest payable on new earmarked assets	(11,358)	-
	<u>(86,537)</u>	<u>74,512</u>

The original earmarked assets and new earmarked assets refer to capital support held by the long-term fund.

##### \*1401\*

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

The assets of the insurer are valued at fair value. Consideration is given to any assets where the valuation requires judgement or where the asset is considered to be illiquid (with a lock up period of greater than one year) or is valued using an internal model. These assets are subject to the rules set out in GENPRU 1.3.30R to GENPRU 1.3.33R which are applied to all identified assets. In assessing the need for a provision the following assumptions have been made:

The insurer, as part of its asset allocation strategy, invests in assets which are less liquid or where judgement is required within the valuation. The asset liability management process monitors liquidity on a monthly basis and ensures that there is sufficient liquidity at all times. A provision is established for less liquid positions.

No additional provisions have been identified.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

##### Global Business

Financial year ended 31 December 2009

#### Appendix 9.1 (continued)

**\*1402\***

#### **\*1502\* Additional liability details**

- (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 £nil (2008: £nil). In accordance with FRS 19, the discounted value of £nil (2008: £nil) has been recognised and included within Form 14 line 21 (Provisions – taxation) for taxation on capital gains.
- (c) The insurer has a 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. Support charges of up to 1.75% are payable out of previously accrued interest provided there is a Form 58 surplus arising. No new interest is payable under the terms of a moratorium which is in place up to 31 December 2014. There are no support charges payable in respect of the financial year ended 31 December 2009 as there is no Form 58 surplus arising during the year.
- (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.

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

Included in Form 14 line 74 (Long-term insurance business - Other adjustments to liabilities) are the following amounts:

	2009 £000	2008 £000
Positive valuation difference (see note '0310')	-	101,001
Reclassification of tax creditor	(3,635)	-
Reclassification of other creditors	(1,717)	(422)
Interest payable on new earmarked assets	(911)	(11,358)
Negative valuation difference (see note '0310')	(90,155)	-
Total	<u>(96,418)</u>	<u>89,221</u>

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

Included in Form 15 line 83 (Other than long-term insurance business - Other adjustments to liabilities) are the following amounts:

	2009 £000	2008 £000
Reclassification of tax creditor	(8)	(108)
Reclassification of other creditors	(872)	(137)
Total	<u>(880)</u>	<u>(245)</u>

#### **\*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 2009

#### Appendix 9.3 (continued)

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

Other income includes annual management income of £13.5 million (2008: £14.5 million).

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

During the year, £119.3m of vesting annuities have remained within the Fund. These amounts have not been recognised as part of premiums and claims on Form 41 and Form 42 respectively but as "business transfers - in" and "business transfers - out". As these amounts are not single premiums on Form 41 they have not been included in the new business Form 46 and Form 47. This is a different approach from last year, but the comparatives have not been restated.

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

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

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

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

Since 1 January 2000, the insurer has entered into a number of reinsurance treaties with Pearl Assurance plc and NPI Limited. Details of these reinsurance treaties are to be found in paragraph 9 of the "Abstract of Valuation Report" in Appendix 9.4, 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.

##### **\*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\* Assumptions regarding redemption dates**

For assets that may be redeemed in full at the option of the guarantor or the issuer on specified dates, it has been assumed that they will be redeemed at the last possible date, or not redeemed in the case of a callable perpetual bond. This is consistent with recent market experience that call dates are being missed and with the market valuations.

The value of callable corporate bonds at the valuation date was £68 million. It has been assumed the sinking bonds will be redeemed according to schedules of planned redemptions provided by the investment manager. The value of sinking bonds was £254 million at the valuation date.

##### **\*4806\* Assets used to calculate investment returns in column 5 Form 48 (Yield before adjustment)**

The assets used in the calculation of the with-profit return are all assets backing asset shares 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 2009**

**Appendix 9.3 (continued)**

**\*4807\* Allocation of assets to column 2 of Form 48 (Economic exposure)**

A number of reallocations are made between columns 1 and 2 according to instructions 2, 3 and 4.

The following additional reallocation does not have an explicit instruction but has been made to reflect the underlying assets: £65.6 million from 14.1/24.1 (Variable interest securities) is allocated to 11.2/21.2 (Land and buildings) in respect of variable interest securities that are part of a property collateralisation. The unit trust part of the property vehicle holding is reallocated between 18.1/28.1 (Other assets) to 11.2/21.2 (Land and buildings) in accordance with instruction 2.

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

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

**\*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 / unitised with-profit (unitised 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 (Number of policyholders / scheme members – property-linked contracts), if there is a unit-linked element.

Otherwise, it has been included in column 3 for Form 51 (Number of policyholders / scheme members – non-linked contracts), if there is a profit-sharing element, or in column 3 of Form 52 (Number of policyholders / scheme members – accumulating with-profit contracts), if there is only capital account / unitised with-profit.

**\*5600\* Long-term insurance business: index-linked business**

Form 56, long-term insurance business: index-linked business, has not been included, as the insurer satisfies the de-minimis limit.

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

The gross annual office premium of Class IV business was £14,000. The insurance health risk capital component was estimated as 21% of this premium amount for consistency with INSPRU 1.1.85R.

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

### **Statement of additional information on derivatives contracts required by rule 9.29**

#### **NATIONAL PROVIDENT LIFE LIMITED**

##### **Global business**

##### **Financial year ended 31 December 2009**

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

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

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

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

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

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

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

- (c) There were no options bought or sold during the financial year where the difference at inception between the price of the underlying and the strike price was greater than 5%.
- (d) The insurer has not made use of any derivatives contract at any time during the financial year which required a significant provision to be made under INSPRU 3.2.17R or did not fall within the definition of a permitted derivatives contract.
- (e) The total value of fixed considerations received during the financial year in return for granting rights under derivatives 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 2009

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

- a) NP Life Holdings Limited;
- b) Pearl Assurance plc;
- c) Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited);
- d) Phoenix Life Holdings Limited;
- e) PGH (LCA) Limited (formerly Sun Capital Investments Limited);
- f) PGH (LCB) Limited (formerly Hera Investments One Limited);
- g) Xercise Limited;
- h) TDR Capital Nominees Limited; and
- i) TDR Capital LLP

all of which were controllers throughout the financial year.

- j) Pearl Group,  
which became a controller on 28 August 2009, and subsequently changed its name to Phoenix Group Holdings on 15 March 2010.

Together with:

- k) Jambright Limited; and
- l) Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill and Marc Jonas,  
which ceased to be controllers on 28 August 2009.

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 2009, 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 plc

As at 31 December 2009, 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 Holdings (No. 2) Limited

As at 31 December 2009, Pearl Group Holdings (No.2) Limited owned 100% of the shares of 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.

## **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 2009**

**(continued)**

#### **4. Phoenix Life Holdings Limited**

As at 31 December 2009, Phoenix Life Holdings Limited owned 100% of the ordinary shares of Pearl Group Holdings (No. 2) 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.

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

As at 31 December 2009, PGH (LCA) Limited owned 50% of the ordinary shares of Phoenix Life Holdings 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. PGH (LCB) Limited**

As at 31 December 2009, PGH (LCB) Limited owned 50% of the ordinary shares of Phoenix Life Holdings 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.

#### **7. Phoenix Group Holdings (formerly Pearl Group)**

Phoenix Group Holdings owned 100% of the ordinary shares of PGH (LCA) Limited and 100% of the ordinary shares of PGH (LCB) Limited, which between themselves own 100% of the ordinary shares of Phoenix 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 of PGH (LCA) Limited and 100% of the voting power of PGH (LCB) Limited at any general meeting.

#### **8. Xercise Limited**

As at 31 December 2009, Xercise Limited owned 10.66% of the share capital of Phoenix Group Holdings, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 10.66% of the voting power at any general meeting.

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

As at 31 December 2009, TDR Capital Nominees Limited owned 13.24% of the share capital of Phoenix Group Holdings, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 13.24% of the voting power at any general meeting.

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

As at 31 December 2009, 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 a nominee for the TDR funds and owned 13.24% of the share capital of Phoenix Group Holdings, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 13.24% of the voting power at any general meeting.

**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 2009.
- (2) The date to which the previous actuarial investigation under rule 9.4 related was 31 December 2008.
- (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 2008	Throughout 2009
Ordinary units	Jan 1988 to Dec 2008	Throughout 2009
PPP, FSAVC, PRA, & FIP Unitised With-profit Series 2:		
Initial units	Jan 1994 to Dec 2008	Throughout 2009
Ordinary units	Jan 1994 to Dec 2002	Throughout 2009
	Jan 2003 to Dec 2004	1 Jan 2009 to 26 Oct 2009
	Jan 2005 to Dec 2008	Throughout 2009
PPP, FSAVC, PRA & FIP Capital Account:		
Initial units	Jan 1994 to Dec 2008	Throughout 2009
Ordinary units	Jan 1994 to Dec 2001	Throughout 2009
	Jan 2002 to Dec 2002	Up to 30 Jun 2009
	Jan 2005 to Dec 2008	Throughout 2009
New Approach PPP, FSAVC and EPP Regular Premium Unitised With-profit	Jan 1998 to Dec 2001	Throughout 2009
	Jan 2002 to Dec 2002	Up to 26 Oct 2009
	Jan 2005 to Dec 2005	Up to 26 Oct 2009
	Jan 2006 to Dec 2007	Throughout 2009
	Jan 2008 to Dec 2008	Up to 26 Oct 2009
New Approach PPP, FSAVC and EPP Capital Account	Jan 1998 to Dec 2001	Throughout 2009
	Jan 2002 to Dec 2002	Up to 30 Jun 2009
	Jan 2005 to Dec 2008	Throughout 2009



Product	Premium Investment Date	Period applied
GMP, VGPPP, GAPP, GIA Unitised With-profit Series 1:		
Initial units	Jan 1988 to Dec 2008	Throughout 2009
Ordinary units	Jan 1988 to Dec 2008	Throughout 2009
Penfund Series 1	Jul 1990 to Dec 2008	Throughout 2009
Trustee With Profit Bond	Jan 1997 to Dec 2000 Jan 2001 to Dec 2001	Throughout 2009 30 Jun 2009 to 31 Dec 2009
With Profit Bond Series 1	Apr 1991 to Dec 2001	Throughout 2009
With Profit Bond Series 2	Jul 1993 to Dec 2001	Throughout 2009
With Profit Bond Series 3	Oct 1995 to Dec 2001	Throughout 2009
With Profit Bond Series 4	Jan 1997 to Dec 2001	Throughout 2009
With Profit Bond Series 5	Oct 1997 to Dec 2001	Throughout 2009
With Profit Bond Series 6	Jul 1998 to Dec 2001	Throughout 2009
With Profit Bond Series 7	Jan 1999 to Dec 2001	Throughout 2009
Portfolio Bond Series 1	Jul 1999 to Dec 1999	Throughout 2009

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 2009 in line with either the Retail Prices Index, an increase of 5.00%, or National Average Earnings, an increase of 3.09%.
- (5) During the financial year, benefit charges remained unchanged on linked policies.
- (6) During the financial year, unit management charges for unitised accumulating with-profit 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 main types. They are called initial and ordinary in NPIL and the corresponding types are capital and accumulation in PAUF and PAULP. LLLA has only accumulation units. The following method applies to all units:
    - (i) The creation unit price is determined by valuing the assets at the offered dealing price including all costs that would be incurred in buying assets and net of charges and deductions, if any, for tax. This total is divided by the number of units. The cancellation unit price is calculated by valuing the assets at the price at which they

could be sold and deducting the dealing costs, management charges and taxes if applicable. This total is divided by the number of units.

- (ii) The offer price is determined as the creation or cancellation price divided by 95%, plus any rounding adjustment. Units are cancelled at 95% of the offer price less any rounding adjustment. For the NPIL Pooled Managed Fund, which has a 1.75% bid-offer spread the 95% used in the calculation of the offer and bid prices, is replaced by 98.25%. Similarly, where there is no bid-offer spread the 95% is replaced by 100%.
  - (iii) Units are allocated to policies at the offer price and cancelled at the bid price.
  - (iv) The assets of the internal linked funds are valued at noon on each working day. If markets move significantly between noon and 4 pm, allowance for this market movement is made. This market adjustment is made automatically every day for LLLA business.
- (b) All internal linked funds are valued on a bid basis as the expected cash flows are negative for all asset categories. The valuation includes the income since the last valuation and allowances for tax on income and realised and unrealised capital gains.
- (c) Where the funds invest in unit trusts or open-ended investment companies the units are valued at the price at which NPI Limited would have been able to buy the investments. To ensure that unit holders are not subject to two sets of initial charges arrangements are in place to ensure that the unit trust investments are undertaken free of any manager's initial charges.
- (8) Tax on realised and unrealised gains and losses is accrued daily in the internal linked Life funds. Gains in Life equity funds are index-adjusted. There are no tax accruals in Pension funds.

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

Fund Type	Realised Gains	Unrealised Gains	Realised Losses	Unrealised Losses
Equity	19.9%	18.8%	19.9%	18.8%
<p>Accruals for realised gains and losses on Equity funds are cleared at the end of each month.</p> <p>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 2009 was 18.8%.</p> <p>One Life equity fund has accumulated capital losses and its tax rates are currently nil.</p>				
Fixed Interest	20%	20%	20%	20%
<p>Fixed Interest tax accruals are cleared at the end of each month.</p>				

- (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-profit 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-profit 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 (SERP) issued after April 1971, provision is made for the option that policies may vest prior to the vesting date written in the policy. The percentage of policyholders assumed to vest on reaching each retirement age is as follows:

Age	Percentage retiring
60	45.0%
65	60.0%
70	100.0%
75	100.0%

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	2009	2008	Product Code
<b>Net premium basis</b>			
Deposit administration	4.60%	4.60%	545, 555
Other pensions business	4.20%	4.60%	435
Other life business	3.36%	3.68%	100, 435
<b>Gross premium basis</b>			
Capital account	4.60%	4.60%	525, 535, 570
Life annuities	4.20%	4.60%	390, 395
Pension annuities	4.20%	4.60%	390, 400

<b>Product Group</b>	<b>2009</b>	<b>2008</b>	<b>Product Code</b>
SERP	4.60%	4.60%	165
Life with-profit endowments	3.68%	3.68%	120, 205
Life Unitised With-profit guaranteed (Series 1)	3.68%	3.68%	500
Life Unitised With-profit non-guaranteed	3.68%	3.68%	500
Pensions Unitised With-profit guaranteed (Series 1)	4.60%	4.60%	525, 535
Pensions Unitised With-profit non-guaranteed	4.60%	4.60%	525, 535, 570
Profit Sharing Account	4.60%	4.60%	155
Index-linked annuities	1.00%	1.00%	905
<b>Unit-linked</b>			
Life sterling reserves	3.36%	3.68%	700, 715, 795
Pensions sterling reserves	4.20%	4.60%	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 securities were reduced to allow for the risks of default while retaining some margin over gilt yields for reduced liquidity of corporate bonds.

The level of the reduction was assessed by reference to long-term average default rates plus an allowance for shorter-term factors and expected deviations from the historic average. The rates assume a doubling of historical default experience, net of an allowance for 37% recovery on default. As an additional prudential allowance, all default deductions were further increased by a margin of 25% for adverse deviation.

Previously, an additional ad hoc deduction was applied to around 10% of stocks, which was used to allow for abnormal default or coupon deferment risk associated with particular financial institutions. For 31 December 2009, these deductions are no longer made, and whilst there is still an incomplete picture of the future for some of these institutions, other parts of the methodology are considered sufficiently flexible to allow for any concerns that may remain about certain issuers.

For the valuation as at 31 December 2009, there is a new treatment of bank subordinated debt. Rather than have regard to the agency rating of the debt, the issuer's senior debt rating is used, together with a nil recovery rate rather than a 37% one (to reflect the lower priority on wind-up).

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

Product Group	2009		2008		Product Code
	Males	Females	Males	Females	
<b>Pre-vesting</b>					
SERP	80% AM92	80% AF92	70% AM92	70% AF92	165
All other business	80% AM92	80% AF92	100% AM92	100% AF92	All others
<b>Post-vesting/In payment</b>					
SERP	92% RMV00	104% RFV00	113% RMV92	113% RFV92	165
Immediate and deferred pension annuities	92% RMV00	104% RFV00	113% RMV92	113% RFV92	390, 400, 905
Group GAF annuities	92% RMV00	104% RFV00	113% RMV92	113% RFV92	395
Life / IRS / Individual GAF annuities	100%IML92	100% IFL92	100%IML92	100% IFL92	395, 905

Notes:

1. Ultimate mortality has been used in all cases.
2. At 31 December 2009, for post-vesting mortality using the RMV00 and RFV00 tables, future mortality improvements in line with the CMI Mortality Projections model v0.0 with a 3.25% floor up to age 60 reducing to 0% at age 120 for both males and females have been assumed  
  
For post-vesting mortality using the RMV92 and RFV92 tables at 31 December 2008, future mortality improvements in line with the average of CMI medium cohort and long cohort projections with a 3% floor at age 60 reducing to 0% at age 110 for both males and females have been assumed.
3. For post-vesting mortality using the IML92 and IFL92 tables, future mortality improvements in line with the average of CMI medium cohort and long cohort projections with a 1.5% floor for males and 75% of the average of CMI medium cohort and long cohort projections with 1.25% and CMI17 floors for females have been assumed at 31 December 2009 and 31 December 2008.
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 complete 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	24.0	14.8		
Group GAF annuities	24.0	14.8		
Life/IRS/Ind GAF annuities	23.7	14.7		
SERP			27.2	25.5
Other pension deferred annuities			27.2	25.5

Female complete 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	26.0	16.1		
Group GAF annuities	26.0	16.1		
Life/IRS/Ind GAF annuities	25.2	15.8		
SERP			28.9	27.5
Other pension deferred annuities			28.9	27.5

- (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
	2009 £pa	2008 £pa	2009 £pa	2008 £pa	
CWP savings endowments	92.88	93.44	46.37	46.65	120
CWP pensions	55.63	55.97	22.35	22.49	165
Annuity			34.70	34.91	400
UWP bond			46.41	46.69	500
UWP regular premium pension	75.85	76.31	49.14	49.43	525
UWP single premium pension			49.14	49.43	525
UWP group regular premium pension	69.75	70.17	61.55	61.92	535
UWP group single premium pension			61.55	61.92	535
UL bond			46.41	46.69	700
UL savings endowment	124.49	125.24	99.54	100.14	715
UL regular premium pension	75.85	76.31	49.14	49.43	725
UL single premium pension			49.14	49.43	725
UL group regular premium pension	69.75	70.17	61.55	61.92	735
UL group single premium pension			61.55	61.92	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-profit 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, after allowance for VAT where appropriate, have been allowed for through a reduction to the projected unit growth rates and valuation interest rates. The table below sets out the basis point ("bp") reductions applied:

Fund	2009 bps	2008 bps
Unit-linked	13.22	13.22
Non-Linked		
Bonds & Derivatives	6.00	6.00
Property	11.25	11.25
Equity	11.25	11.25
Cash	11.25	11.25

**Notes:**

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.)		
	2009	2008	2009	2008	2009	2008	
Life business	4.79	4.06	4.80	3.40	2.90	2.00	700, 715, 795
Pensions business	4.90	4.20	4.80	3.40	2.90	2.00	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 / paid up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	1.9%	1.9%	1.9%	1.9%
CWP target cash endowment	surrender	1.9%	1.9%	1.9%	1.9%
UL savings endowment	surrender	0.0%	0.0%	0.0%	0.0%
UWP bond	surrender	8.3%	8.3%	8.3%	8.3%
UWP bond	automatic withdrawal	100% of current	100% of current	100% of current	100% of current
UL bond	surrender	0%	0%	0%	0%
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	1.3%	1.3%	1.3%	1.3%
CWP pension single premium	surrender	1.3%	1.3%	1.3%	1.3%
UWP ind pension regular premium	PUP	15.0%	15.0%	15.0%	15.0%
UWP ind pension regular premium	surrender	4.5%	4.5%	4.5%	4.5%
UWP ind pension single premium	surrender	4.5%	4.5%	4.5%	4.5%
UL ind pension regular premium	PUP	15.0%	15.0%	15.0%	15.0%
UL ind 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 ind pension single premium	surrender	0.0%	0.0%	0.0%	0.0%

## Notes:

1. There is an additional surrender rate of 100% on Withprofit 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 CWP pension (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	2009	2008
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 and swaptions. The cashflows expected to arise from derivatives are projected assuming the current yield curve (in line with the statutory valuation scenario). The valuation yield is derived from the IRR on the combined cashflows from fixed interest securities and derivatives.
- (12) With effect from 31st December 2006, allowance has been made as a result of changes in the valuation rules introduced into INSPRU for non-attributable expenses on property-linked business. The reduction in the mathematical reserves caused by these valuation methodology adjustments as at 31 December 2009 are:

Allowance for non-attributable expenses: £3.9 million

## 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>	26,394
<b>Spread of outstanding durations</b>	Gradual run-off mean term to vesting date of 1.6 years. Vesting assumed at age 60 or immediately if older.
<b>Guarantee reserve, £'000</b>	7,869
<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:

- 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.
- 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 (in force for less than ten years)	With-profit Bonds Series 6 and 7 (with option)
<b>Basic reserve, £'000</b>	265	89
<b>Spread of outstanding durations</b>	All future anniversaries in 2010 and 2011	All future anniversaries in 2010
<b>Guarantee reserve, £'000</b>	Included in basic reserve shown above	Included in basic reserve shown above
<b>Guaranteed amount, £'000</b>	273	108
<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. Note that most With-profit Bond Series 5 contracts in force passed their tenth policy anniversary in 2008.

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 policies' fund-based maturity values compared to the value of the GMP at normal retirement age on the valuation basis.

The projection uses a closed-form stochastic method to calculate a time value in addition to the intrinsic value of the guarantee to reflect future interest rate volatility.

**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>	320,303	1,273,040
<b>Spread of outstanding durations</b>	Gradual run-off mean term of 11.45 years	Gradual run-off mean term of 6.1 years to assumed vesting dates.
<b>Guarantee reserve, £'000</b>	59,686	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	0.88	5.76	0.54	7.99
Unitised business	0	1.64	17.89	1.00	20.54
<b>Total</b>	<b>0.80</b>	<b>2.53</b>	<b>23.65</b>	<b>1.55</b>	<b>28.53</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) The difference between the allowance for maintenance expenses shown above and those shown in Form 43 in partly in respect of annual management charges payable to NPI Limited in respect of reassured incremental UWP policies. The remainder is due to one-off expenses incurred during the year and run-off of business.
- (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 Institution. No additional expense reserve is required in respect of these expenses.

- (6) The non-attributable expenses includes the reserve held 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 20.5 years (except the reciprocation costs which we assume run for 11 years), annual growth of 5.4% per annum, and discounted at 4.2% per annum. The term of 20.5 years is consistent with section 33 of the Scheme that allows wind up of the with-profit 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	11.3
Unitised Business	21.1

## 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:

<b>Currency</b>	<b>Liabilities £m</b>	<b>Assets £m</b>
Sterling	4,212.4	4,212.4
Euro	0.0	0.0
<b>Total</b>	<b>4,212.4</b>	<b>4,212.4</b>

- (3) No currency mismatch reserve is held. A Euro exchange forward is held to minimise the currency risk from the non-Sterling assets.
- (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 that is secured on future profits arising on a defined basis from specific unit-linked and unitised with-profit 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 £100.7 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:

- |                                |  |
|--------------------------------|--|
| (a) Issuer                     | Mutual Securitisation plc  |
| (b) 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.     |
| (c) Premiums paid in 2009      | No premiums are payable. A repayment of interest and principal of £26,658,000 was made in 2009.  |
| (d) Deposit back               | Not applicable   |
| (e) Open or Closed             | Closed   |
| (f) Undischarged obligations   | The undischarged obligation was £162 million at the valuation date.  |
| (g) Reserves ceded £'000s      | Not applicable   |
| (h) Retention for new business | Not applicable   |
| (i)                            | Mutual Securitisation plc is not authorised to carry on insurance business in the United Kingdom.  |
| (j)                            | Mutual Securitisation plc is not a connected company of the insurer.   |
| (k)                            | There are certain specified events where the bond trustee may demand immediate repayment of the loan.  |
| (l)                            | Refund of reinsurance commission is not applicable to this arrangement.  |
| (m) (i)                        | National Provident Life Limited 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:

(a) Reinsurer	Pearl Assurance plc	NPI Limited	NPI Limited	Pearl Assurance plc	Pearl Assurance plc
(b) 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.	Some of the longevity risk of all SERP policies in-force at the close of business on 31 August 2009. The insurer's liability to the aggregate longevity risk of claims arising from the covered policies is restricted to pre-set upper and lower limits.
(c) Premiums paid in 2009 £'000s	Nil	139,440 in aggregate to NPI Limited		Nil	Nil
(d) Deposit Back	Nil	Nil	Nil	Nil	Nil
(e) Open or closed	Closed	Open	Open	Closed	Closed
(f) Undischarged obligations	Expenses of administration	This is investment-only reinsurance	Nil – this is original terms reinsurance	Nil – this is original terms reinsurance	Nil
(g) Reserves ceded £'000s	699,871	1,492,013	1,149,599	20,665	Nil
(h) Retention for new business	Not applicable	Not applicable	Nil	Nil	Nil

- (i) Both Pearl Assurance plc and NPI Limited are authorised to carry on insurance business in the UK.
- (j) Pearl Assurance plc, NPI Limited and National Provident Life Limited are part of the Phoenix Group of companies.
- (k) There are no material contingencies under any of these treaties.
- (l) 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:

### Compound Bonus

Bonus series	31.12.2009	31.12.2009	31.12.2008	31.12.2009	Product code
	Basic mathematical reserve	Reversionary bonus	Reversionary bonus	Total guaranteed bonus	
	£000	%	%	%	
Life Unitised With-profit Series 1	84,390	3.00%	3.00%	3.00%	500
Life Unitised With-profit Series 2 to 7	129,715	0.00%	0.00%	-	500
Portfolio Bond 1	20,426	1.00%	1.00%	-	500
Pensions Unitised With-profit Series 1	1,708,785	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, PPP & FSAVC)	101,565	0.00% (1) 0.00% (2)	0.00% (1) 0.00% (2)	- -	525, 535, 570
Pension Capital Accounts (EPP & PTP)	48,466	0.00% (1) 1.75% (2)	0.00% (1) 2.00% (2)	- -	525, 535
Pension Capital Accounts (GMP VGPPP, Penfund and TTP)	11,457	0.00% (1) 1.75% (2)	0.00% (1) 2.00% (2)	- -	535
Deposit administration (VGF, CPP and Plan32)	31,806	1.75%	2.00%	-	545 555
With-profit S620 deferred annuities (SERP)	1,273,092	0.00%	0.00%	-	165
Life Conventional With-profit	26,694	0.00%	0.00%	-	100, 120, 165, 205
Profit Sharing Account (EPP and PTP)	351,909	0.00%	0.00%	-	155

#### Notes:

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

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**

**Introduction**

1. (1) The date to which the actuarial investigation relates is 31 December 2009.
- (2) The date of the previous valuation was 31 December 2008.
- (3) Since the previous valuation date, an interim valuation was carried out at 30 June 2009 for the purposes of rule 9.3A.

**Assets**

2. (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 2009 is set out below, together with comparative figures as at 31 December 2008:

<b>Implied zero curve (gilts + 10bp)</b>		
<b>Year</b>	<b>Zero curve</b>	
	<b>31 December 2009</b>	<b>31 December 2008</b>
1	0.97%	1.22%
2	1.60%	1.87%
3	2.19%	2.31%
4	2.70%	2.63%
5	3.13%	2.87%
10	4.35%	3.58%
15	4.80%	4.13%
20	4.86%	4.34%
25	4.79%	4.08%
30	4.69%	3.91%
35	4.61%	3.83%
40	4.54%	3.75%

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

**With-profit benefits reserve liabilities**

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

Method 1: For conventional with-profit policies the asset shares are calculated by accumulating the premiums paid at the investment return applicable to the with-profit 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-profit, 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-profit 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-profit benefits reserve for each class of product and the amount of the with-profit benefits reserve and the future policy-related liabilities for each class:

<b>Product class</b>	<b>Method</b>	<b>With-profit benefits reserve, £million</b>	<b>Future policy-related liabilities, £million</b>
Conventional with-profit life	1	19	10
Conventional with-profit pensions	1	896	724
Accumulating with-profit life	2	197	11
Accumulating with-profit pensions	2	1,516	254
Capital Account/Deposit Administration	2	94	13
<b>Total</b>		<b>2,722</b>	<b>1,016</b>

- (2) The future policy-related liabilities shown at line 49 in Form 19 also include allowance for financing costs of £249 million and £17 million of other long-term insurance liabilities.
- (3) Not applicable.

#### **With-profit benefits reserve – retrospective method**

4. (1) (a) 100% of the with-profit 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-profit benefits reserve for the expected death strains or surpluses arising from the difference between the amount payable on death and the with-profit benefits reserve. These deductions/credits are calculated annually using AM/F92 mortality factors. This change brings the calculation of the with-profit 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 2009.
- (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-profit benefit reserves during 2009:

	Maintenance expenses, £million	Investment management expenses, £million
Conventional with-profit life	0.4	0.0
Conventional with-profit pensions	3.4	0.6
Accumulating with-profit life	0.6	0.1
Accumulating with-profit pensions	11.2	1.1
Capital Account/Deposit Administration	0.6	0.1
<b>Total</b>	<b>16.2</b>	<b>1.9</b>

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

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

For products where the with-profit 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-profit 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-profit benefits reserves.

	Additional expenses, £m
Audit fees	0.172
Regulatory fees	0.331
Securitised loan/Bank of Ireland administration costs	0.399
Fees for independent members of the Supervisory Board	0.107
Salary for the AFH plus secretary	0.234
Charges including professional indemnity fee	0.027
Reciprocation costs with Premier Pension Trustees on business within NPLL	0.022
<b>Total</b>	<b>1.293</b>

(4) A charge of 2% was deducted from the with-profit benefits reserves during the financial year and held in an earmarked account in accordance with the management actions described below. Smoothing charges of £19 million (2008: £11 million) were deducted from the with-profit benefits reserves during the financial year.

- (5) No charges were deducted from the with-profit benefits reserves in respect of non-insurance risk.
- (6) The ratio of the total claims paid on with-profit insurance contracts to the with-profit benefits reserves plus (or minus) any past miscellaneous surplus (or deficit) attributed to those claims were: 119% for 2007, 129% for 2008 and 140% for 2009.
- (7) The investment return (before tax and expenses) allocated to the with-profit benefits reserve (other than Capital Account and Deposit Administration business) in respect of the financial year was 12.06%. The investment return allocated to the with-profit benefits reserve for Capital Account and Deposit Administration business in respect of the financial year was 1.45%. The investment return in respect of Capital Account and Deposit Administration business is calculated from the assets hypothecated to that business.

**With-profit benefits reserve – prospective method**

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

**Cost of guarantees, options and smoothing**

6. (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-profit 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:

Product class	Grouping criteria
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 361,405 individual policies and members of group schemes, which have been grouped together into 4,556 model points.

The grouping is validated by comparing the cost of guarantees from the business using grouped data with those obtained using the individual policy 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 non-contractual guarantee costs valued are:

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 include 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:

The asset model used was the Barrie & Hibbert market consistent asset model which assumes that:

The interest rate calibration process is as follows:

- Interest rates follow an annual LIBOR market model on gilts + 10 basis points.
- The initial yield curve is a direct input to the LIBOR Market Model. The model calibration is based on the market spot rates and swaption volatilities. The interest rate volatilities are calibrated to swaption implied volatilities. The fitting method is weighted least squares over the swaption volatility surface.
- The equity model has been calibrated to implied volatilities on at-the-money FTSE options. As equity returns are calculated in excess of the short-term interest rate, the stochastic interest-rate model introduces a term structure of implied volatility (even though the excess volatility is fixed).
- It is not currently possible to observe meaningful option prices for the property market from which implied levels of property volatility can be derived. A real world estimate of levels of volatilities has therefore been used in the market-consistent calibration. 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. As property returns are calculated in excess of the short-term interest rate, the stochastic interest rate model introduces a term structure of implied volatility (even though the excess volatility is fixed).

- The corporate bond process is calibrated using real world unconditional estimates of long-term transition probabilities, spread volatilities and corporate bond spreads at 31 December 2009. To fit the model, the fit is targeted to a 7 year A rated bond only.

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

<b>Implied volatility of at the money FTSE-100 put options (%)</b>					
<b>Option Term</b>	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>4 years</b>	<b>5 years</b>
31 December 2009	22.90%	24.20%	24.90%	25.50%	25.30%

Source: Barrie and Hibbert

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.

<b>Correlation factors between asset classes</b>				
	<b>Equity</b>	<b>Property</b>	<b>Government bonds</b>	<b>Nominal short-rate</b>
<b>Equities</b>	100%	20%	16%	-22%
<b>Property</b>		100%	10%	-10%

Source: Barrie and Hibbert

- (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 UK assets)	K=0.75					K=1					K=1.5				
		5	15	25	35		5	15	25	35		5	15	25	35	
n																
r	Annualised compound equivalent of the risk free rate assumed for the period (to two decimal places)	3.15%	4.80%	4.78%	4.60%		x	x	x	x		x	x	x	x	
1	Risk-free zero coupon bond	856,439	494,770	311,236	207,222		x	x	x	x		x	x	x	x	
2	FTSE All Share Index (p=1)	103,016	241,574	337,474	410,674		235,897	402,274	519,341	606,899		609,499	785,407	922,533	1,028,521	
3	FTSE All Share Index (p=0.8)	93,563	186,704	234,412	265,054		217,508	316,071	369,102	398,581		571,799	629,958	669,845	688,771	
4	Property (p=1)	33,777	111,107	181,899	240,999		136,770	246,517	340,286	413,095		522,684	617,833	727,482	812,452	
5	Property (p=0.8)	28,273	72,008	105,215	125,867		120,131	170,424	207,581	230,972		481,901	462,575	482,145	488,615	
6	15 year risk free zero coupon bonds (p=1)	24,538	15,235	12,877	25,878		99,648	77,988	87,948	135,190		501,530	498,814	505,461	540,135	
7	15 year risk free zero coupon bonds (p=0.8)	20,971	7,307	3,442	2778		86,239	35,205	18,568	22,238		456,641	308,315	224,717	204,323	
8	15 year corporate bonds (p=1)	28,816	26,265	30,697	46,628		111,041	103,171	117,839	155,987		499,724	491,823	498,396	533,713	
9	15 year corporate bonds (p=0.8)	24,476	12,753	9,621	10,075		97,027	53,803	41,027	42,077		456,241	313,066	237,562	219,679	
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	54,024	155,122	235,192	298,854		168,747	301,630	401,120	481,141		550,630	673,278	791,532	888,042	
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	47,107	109,189	147,227	173,282		151,507	221,088	263,218	288,000		511,568	520,274	546,112	559,746	
12	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)	48,525	132,652	200,194	262,244		162,052	272,724	359,944	433,969		545,867	645,005	742,900	831,429	
13	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)	41,613	89,073	119,226	144,346		144,885	195,923	226,731	252,087		505,965	489,570	499,346	509,957	
14	Portfolio of 40% equity,	24,326	68,831	118,621	167,546		119,399	191,133	260,034	322,960		516,268	566,750	637,141	709,437	





(iv) For the purposes of calculating a net of tax return, the equity dividend yield has been set to 4.00% and the property rental yield to 4.00%.

(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:

Product type	Outstanding duration of guarantees (years)
Endowments	3
SERP	15
UWP Bonds	6
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:

Ratio of simulated swaption values to pseudo swaption prices		
Option maturity	Swap length	
	10 years	15 years
10 years	103.5%	117.6%
15 years	91.7%	110.1%

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.

As the guarantees are most significant for the SERP and UWP business, the table above demonstrates that the scenarios can be used to reproduce market prices of swaptions at the average outstanding durations of 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) 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 as at 31 December 2009 stipulate that any asset share charge in each year would be equal to any realistic basis deficit assuming no management actions were to be applied. For the purpose of realistic balance sheet, we have assumed a maximum charge of 2% of asset shares. No other management actions were assumed.

Any charges to asset shares will be accumulated in a separate account, the "management action account", which will not be used to pay for guarantees unless the overcoat has been exhausted. The management action charge account could also be used to pay for the financing costs, but only if the cash estate is exhausted.

This treatment of charges means that the balance of the management action account would be rebated to asset shares if it later became apparent that the prior year's charges

had been too large. The management action account is considered as a contingent liability; effectively an amount payable to asset shares and hence to policyholder benefit.

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

	31 December 2009	31 December 2014	31 December 2019
Proportion of equities backing with-profit 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	Average lapse / surrender / paid up rate for the policy years	
	All Durations	
CWP savings endowment	surrender	2.81%
CWP target cash endowment	surrender	2.81%
UWP bond	surrender	12.30%
UWP bond	automatic withdrawal	100% of current
CWP pension regular premium	PUP	0.00%
CWP pension regular premium	surrender	1.93%
CWP pension single premium	surrender	1.93%
UWP ind pension regular premium	PUP	22.22%
UWP ind pension regular premium	surrender	6.67%
UWP ind pension single premium	surrender	6.67%

Recent investigations have indicated that a significant number of SERP policies are taking the guaranteed benefits at earlier ages than 65 and in particular a large number of policyholders are taking these benefits around age 60, when the guarantees first become available.

Some separate realistic and regulatory valuation sensitivity runs were performed which indicate that assuming earlier retirement is prudent. Hence, the stochastic model assumes for SERP business that all policyholders retire at age 70, unless they are already older, when they are assumed to retire at age 75. The early retirement rates assumed are:

Age	Realistic, best estimate
60	60%
65	80%
70	100%

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: 97% RMV00 with future mortality improvements in line with the CMI Mortality Projections model v0.0 with a floor of 3% per annum up to age 60 reducing to a floor of 0% per annum at age 110.

Female lives: 110% RFV00 with future mortality improvements in line with the CMI Mortality Projections model v0.0 with a floor of 3% per annum up to age 60 reducing to a floor of 0% per annum at age 110.

- (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 a number of financing arrangements:

Breakdown of financing costs in Form 19 (F19 L45)	£m
Securitised loan	175.0
Lower tier 2 subordinated debt	10.7
Contingent loan	63.7
<b>Financing costs</b>	<b>249.4</b>

### 1) Securitised loan:

Future profits from a particular block of accumulating with-profit 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 £162 million, which includes interest payments calculated at 7.40169% and 7.59730% 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 £175 million.

### 2) 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 2008 was £671.679 million. In November 2009 £250 million of this loan was repaid to NP Life Holdings Ltd (NPLH), reducing the amount currently drawn down as at 31 December 2009 to £421.679 million. In November 2009 £250m was also received into the shareholder fund from NPLH in the form of a capital contribution and this amount was transferred into the Transfer Capital Fund within the long-term fund. The treatment of the Loan Capital Fund and the Transfer Capital Fund remains unchanged as set out in the Scheme and support charges are payable on both funds. At 31 December 2009 the total balance on the Loan Capital Fund and Transfer Capital Fund was £671.679 million.

Currently no repayments of capital or of accumulated investment returns are being made.

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 £11 million; this amount excludes the support charges.

The value of the contingent loan of £63.7 million shown above is net of tax on investment income on the overcoat funds of £3.8m. The tax amount is reported in line 47 of Form 19.

### 3) Lower tier 2 subordinated debt

The lower tier 2 subordinated debt is the debt of £65 million that was issued on 20 June 2006. The debt is a liability of the shareholder fund but the proceeds of the issue were transferred to the long-term fund in the form of an earmarked portfolio. This debt is subject to a financing charge of 4.25% per annum plus the investment return on the assets.

The amount of £10.7 million shown above is the value of the financing costs net of the face value of £65 million. The face value is excluded in the financing cost as this subordinated debt is treated as part of the earmarked portfolio from the shareholders' fund, and therefore, should not be considered as a liability to the long-term business fund.

There is a further financing arrangement within the long-term fund, which does not form part of the future policy-related liabilities.

Earmarked portfolio:

The earmarked portfolio is a pool of assets provided by the shareholder, including the proceeds of the 2006 subordinated debt which have been placed in the long-term fund. This portfolio is not available for distribution to the with-profit policyholders as distributable estate.

## 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 outstanding premiums;
- 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 regulatory current liabilities comprise of the other current liabilities as reported within Form 14 lines 17 to 41.

The realistic current liabilities shown at line 51 of Form 19 are the same as the regulatory current liabilities except for a reduction by the accruals in respect of the financing arrangements, to the extent that these are included in the stochastic model.

The reconciliation of realistic to regulatory current liabilities is shown below:

	£m
Regulatory current liabilities	684.9
less subordinated debt accrual	0.9
less securitised loan accrual	3.1
Realistic current liabilities	680.9

## 10. Risk capital margin

- (a) The risk capital margin for National Provident Life Limited at 31 December 2009 was £91.9million.

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 0.77%. This represented a change of 17.5% in the level of the long-term gilt yield from a level of 4.40%. A rise 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-profit sub-fund's assets was 70 basis points.

- (a) The change in value for the with-profit sub-fund bond assets was a 11.67% fall in asset value.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

- (e) The change in value for the with-profit sub-fund other assets was a 26.9 % rise in asset value.

- (iv) The persistency risk scenario resulted in a 1.13% 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 £91.9 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 2009 the Earmarked Portfolio stood at £150.4 million.

## 11. Tax

- (i) For assets backing the with-profit benefits reserve, policyholder taxes are calculated on an "I-E" tax basis applicable to BLAGAB business and deducted from the with-profit 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-profit 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 UBS AG and payer swaptions executed with Goldman Sachs. The table below contains a summary of the trades.

Company	Notional amount, £000s	Strike level	Maturity date	Expiry date
UBS	53,120	4.93% - 4.98%	2010	2025
UBS	52,800	4.88% - 4.92%	2011	2026
UBS	53,000	4.83% - 4.87%	2012	2027
UBS	32,800	4.79% - 4.82%	2013	2028
UBS	96,000	4.74% - 6.00%	2014	2029
UBS	102,200	4.70% - 6.00%	2015	2030
UBS	108,000	6.00%	2016	2031
GS	81,900	6.00%	2010	2025
GS	96,240	6.00%	2011	2026
GS	121,540	6.00%	2012	2027
GS	86,320	6.00%	2013	2028

The fund also holds a number of interest rate receiver and payer swaps executed with UBS, Deutsche Bank, Morgan Stanley, Barclay's Capital and RBS. The table below contains a summary of the trades.

Security name	Nominal amount £s	Pay/Receive	Strike level %	Maturity date
UBS Swaps	53,433,600	Receive	4.672	15/12/2010
UBS Swaps	93,766,400	Receive	4.672	15/12/2010
UBS Swaps	55,212,300	Receive	4.655	21/12/2011
UBS Swaps	96,887,700	Receive	4.655	21/12/2011
UBS Swaps	43,305,900	Receive	4.638	19/12/2012
UBS Swaps	75,994,100	Receive	4.638	19/12/2012
UBS Swaps	40,147,800	Receive	4.621	18/12/2013
UBS Swaps	70,452,200	Receive	4.621	18/12/2013
UBS Swaps	-47,407,800	Pay	4.596	16/12/2015
UBS Swaps	-83,192,200	Pay	4.596	16/12/2015
UBS Swaps	42,507,300	Receive	4.54	20/12/2017
UBS Swaps	74,592,700	Receive	4.54	20/12/2017
UBS Swaps	-126,578,100	Pay	4.494	16/12/2020
UBS Swaps	-222,121,900	Pay	4.494	16/12/2020
UBS Swaps	-29,148,900	Pay	4.413	17/12/2025
UBS Swaps	-51,151,100	Pay	4.413	17/12/2025
UBS Swaps	-96,521,700	Pay	4.349	18/12/2030
UBS Swaps	-169,378,300	Pay	4.349	18/12/2030
UBS Swaps	46,318,800	Receive	4.177	20/12/2045
UBS Swaps	81,281,200	Receive	4.177	20/12/2045
UBS Swaps	304,920,000	Receive	5.007	19/06/2013
UBS Swaps	535,080,000	Receive	5.007	19/06/2013
UBS Swaps	114,345,000	Receive	4.94	15/06/2016
UBS Swaps	200,655,000	Receive	4.94	15/06/2016
UBS Swaps	-206,910,000	Pay	4.708	17/06/2026
IRS Swaps	-363,090,000	Pay	4.708	17/06/2026
UBS Swaps	-143,385,000	Pay	4.619	18/06/2031
UBS Swaps	-251,615,000	Pay	4.619	18/06/2031
MS Swaps	-69,587,100	Pay	4.407	18/06/2025
MS Swaps	-122,112,900	Pay	4.407	18/06/2025
UBS Swaps	-55,600,000	Pay	4.618	17/12/2014
UBS Swaps	158,631,000	Receive	4.782	19/12/2018
UBS Swaps	278,369,000	Receive	4.782	19/12/2018
UBS Swaps	-22,143,000	Pay	4.104	20/12/2056
UBS Swaps	-38,857,000	Pay	4.104	20/12/2056
UBS Swaps	8,169,315	Receive	4.915	15/12/2021
UBS Swaps	14,335,685	Receive	4.915	15/12/2021
UBS Swaps	-59,532,000	Pay	4.338	17/12/2036
UBS Swaps	-104,468,000	Pay	4.338	17/12/2036



Security name	Nominal amount £s	Pay/Receive	Strike level %	Maturity date
UBS Swaps	7,713,750	Receive	5.024	16/03/2022
UBS Swaps	13,536,250	Receive	5.024	16/03/2022
DB Swaps	18,150,000	Receive	5.39875	06/08/2027
DB Swaps	31,850,000	Receive	5.39875	06/08/2027
DB Swaps	19,965,000	Receive	5.25125	06/08/2032
DB Swaps	35,035,000	Receive	5.25125	06/08/2032
DB Swaps	58,080,000	Receive	5.13125	06/08/2037
DB Swaps	101,920,000	Receive	5.13125	06/08/2037
DB Swaps	33,759,000	Receive	6.255	21/06/2011
DB Swaps	59,241,000	Receive	6.255	21/06/2011
DB Swaps	19,239,000	Receive	6.21	21/06/2012
DB Swaps	33,761,000	Receive	6.21	21/06/2012
DB Swaps	-282,051,000	Pay	6.16	21/06/2013
DB Swaps	-494,949,000	Pay	6.16	21/06/2013
DB Swaps	47,916,000	Receive	6.1025	23/06/2014
DB Swaps	84,084,000	Receive	6.1025	23/06/2014
DB Swaps	56,265,000	Receive	6.0475	22/06/2015
DB Swaps	98,735,000	Receive	6.0475	22/06/2015
DB Swaps	-64,614,000	Pay	5.9925	21/06/2016
DB Swaps	-113,386,000	Pay	5.9925	21/06/2016
DB Swaps	-96,921,000	Pay	5.9375	21/06/2017
DB Swaps	-170,079,000	Pay	5.9375	21/06/2017
DB Swaps	75,504,000	Receive	5.693	21/06/2022
DB Swaps	132,496,000	Receive	5.693	21/06/2022
DB Swaps	25,047,000	Receive	5.493	21/06/2027
DB Swaps	43,953,000	Receive	5.493	21/06/2027
DB Swaps	24,684,000	Receive	5.3355	21/06/2032
DB Swaps	43,316,000	Receive	5.3355	21/06/2032
DB Swaps	19,602,000	Receive	5.208	22/06/2037
DB Swaps	34,398,000	Receive	5.208	22/06/2037
DB Swaps	15,246,000	Receive	4.883	21/06/2057
DB Swaps	26,754,000	Receive	4.883	21/06/2057
UBS Swaps	1,815,000	Receive	5.675	15/06/2022
UBS Swaps	3,185,000	Receive	5.675	15/06/2022
BCAP Swaps	5,506,710	Receive	5.2258	07/12/2027
BCAP Swaps	9,663,290	Receive	5.2258	07/12/2027
BCAP Swaps	3,281,520	Receive	5.0537	07/06/2032
BCAP Swaps	5,758,480	Receive	5.0537	07/06/2032
BCAP Swaps	2,668,050	Receive	4.8422	07/12/2038
BCAP Swaps	4,681,950	Receive	4.8422	07/12/2038
BCAP Swaps	4,998,510	Receive	4.7371	07/12/2042
BCAP Swaps	8,771,490	Receive	4.7371	07/12/2042

Security name	Nominal amount £s	Pay/Receive	Strike level %	Maturity date
BCAP Swaps	1,913,010	Receive	4.531	07/12/2055
BCAP Swaps	3,356,990	Receive	4.531	07/12/2055
IRS Swaps	19,965,000	Receive	5.831	22/07/2010
IRS Swaps	35,035,000	Receive	5.831	22/07/2010
IRS Swaps	29,040,000	Receive	5.816	22/07/2011
IRS Swaps	50,960,000	Receive	5.816	22/07/2011
IRS Swaps	23,595,000	Receive	5.717	22/07/2013
IRS Swaps	41,405,000	Receive	5.717	22/07/2013
IRS Swaps	7,260,000	Receive	5.54	22/07/2016
IRS Swaps	12,740,000	Receive	5.54	22/07/2016
IRS Swaps	-23,595,000	Pay	5.447	22/07/2018
IRS Swaps	-41,405,000	Pay	5.447	22/07/2018
IRS Swaps	-32,670,000	Pay	5.357	22/07/2020
IRS Swaps	-57,330,000	Pay	5.357	22/07/2020
IRS Swaps	25,410,000	Receive	4.841	22/07/2033
IRS Swaps	44,590,000	Receive	4.841	22/07/2033
IRS Swaps	29,040,000	Receive	4.685	22/07/2038
IRS Swaps	50,960,000	Receive	4.685	22/07/2038
IRS Swaps	14,520,000	Receive	4.462	22/07/2048
IRS Swaps	25,480,000	Receive	4.462	22/07/2048
IRS Swaps	9,075,000	Receive	4.352	22/07/2058
IRS Swaps	15,925,000	Receive	4.352	22/07/2058
IRS Swaps	19,965,000	Receive	5.617	30/07/2010
IRS Swaps	35,035,000	Receive	5.617	30/07/2010
IRS Swaps	7,260,000	Receive	5.61	30/07/2011
IRS Swaps	12,740,000	Receive	5.61	30/07/2011
IRS Swaps	47,190,000	Receive	5.583	30/07/2012
IRS Swaps	82,810,000	Receive	5.583	30/07/2012
IRS Swaps	-30,855,000	Pay	5.264	30/07/2018
IRS Swaps	-54,145,000	Pay	5.264	30/07/2018
IRS Swaps	-27,225,000	Pay	5.224	30/07/2020
IRS Swaps	-47,775,000	Pay	5.224	30/07/2020
IRS Swaps	21,780,000	Receive	4.748	30/07/2033
IRS Swaps	38,220,000	Receive	4.748	30/07/2033
IRS Swaps	34,485,000	Receive	4.6135	30/07/2038
IRS Swaps	60,515,000	Receive	4.6135	30/07/2038
IRS Swaps	19,965,000	Receive	4.414	30/07/2048
IRS Swaps	35,035,000	Receive	4.414	30/07/2048
IRS Swaps	10,890,000	Receive	4.323	30/07/2058
IRS Swaps	19,110,000	Receive	4.323	30/07/2058
DB Swaps	52,635,000	Receive	3.175	12/12/2011
DB Swaps	92,365,000	Receive	3.175	12/12/2011

Security name	Nominal amount £s	Pay/Receive	Strike level %	Maturity date
DB Swaps	-39,204,000	Pay	3.865	11/12/2028
DB Swaps	-68,796,000	Pay	3.865	11/12/2028
BA Swaps	-39,276,600	Pay	3.8323	11/12/2028
BA Swaps	-68,923,400	Pay	3.8323	11/12/2028
DB Swaps	50,820,000	Receive	3.115	12/12/2011
DB Swaps	89,180,000	Receive	3.115	12/12/2011
DB Swaps	-26,136,000	Pay	3.845	11/12/2028
DB Swaps	-45,864,000	Pay	3.845	11/12/2028
BCAP Swaps	-13,068,000	Pay	3.85	11/12/2028
BCAP Swaps	-22,932,000	Pay	3.85	11/12/2028
DB Swaps	99,316,800	Receive	3.8592	22/12/2023
DB Swaps	174,283,200	Receive	3.8592	22/12/2023
IRS Swaps	-70,022,700	Pay	3.2083	22/12/2012
IRS Swaps	-122,877,300	Pay	3.2083	22/12/2012
DB Swaps	98,772,300	Receive	3.7666	22/12/2028
DB Swaps	173,327,700	Receive	3.7666	22/12/2028
DB Swaps	9,820,000	Receive	4.0879	27/05/2034

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

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
Deutsche Bank Break Even	17,056,000	Receive	3.09% pa	20/06/2010
Deutsche Bank Break Even	15,498,000	Receive	3.09% pa	20/06/2011
Deutsche Bank Break Even	14,080,000	Receive	3.09% pa	20/06/2012
Deutsche Bank Break Even	12,793,000	Receive	3.09% pa	20/06/2013
Deutsche Bank Break Even	11,634,000	Receive	3.09% pa	20/06/2014
Deutsche Bank Break Even	10,603,000	Receive	3.09% pa	20/06/2015
Deutsche Bank Break Even	9,687,000	Receive	3.09% pa	20/06/2016
Deutsche Bank Break Even	8,846,000	Receive	3.09% pa	20/06/2017
Deutsche Bank Break Even	8,060,000	Receive	3.09% pa	20/06/2018
Deutsche Bank Break Even	7,330,000	Receive	3.09% pa	20/06/2019
Deutsche Bank Break Even	6,650,000	Receive	3.09% pa	20/06/2020
Deutsche Bank Break Even	6,022,000	Receive	3.09% pa	20/06/2021

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
Deutsche Bank Break Even	5,441,000	Receive	3.09% pa	20/06/2022
Deutsche Bank Break Even	4,900,000	Receive	3.09% pa	20/06/2023
Deutsche Bank Break Even	4,390,000	Receive	3.09% pa	20/06/2024
Deutsche Bank Break Even	3,908,000	Receive	3.09% pa	20/06/2025
Deutsche Bank Break Even	3,463,000	Receive	3.09% pa	20/06/2026
Deutsche Bank Break Even	3,056,000	Receive	3.09% pa	20/06/2027
Deutsche Bank Break Even	2,678,000	Receive	3.09% pa	20/06/2028
Deutsche Bank Break Even	2,326,000	Receive	3.09% pa	20/06/2029
Deutsche Bank Break Even	2,001,000	Receive	3.09% pa	20/06/2030
Deutsche Bank Break Even	1,706,000	Receive	3.09% pa	20/06/2031
Deutsche Bank Break Even	1,440,000	Receive	3.09% pa	20/06/2032
Deutsche Bank Break Even	1,199,000	Receive	3.09% pa	20/06/2033
Deutsche Bank Break Even	984,000	Receive	3.09% pa	20/06/2034
Deutsche Bank Break Even	800,000	Receive	3.09% pa	20/06/2035
Deutsche Bank Break Even	646,000	Receive	3.09% pa	20/06/2036
Deutsche Bank Break Even	522,000	Receive	3.09% pa	20/06/2037
Deutsche Bank Break Even	426,000	Receive	3.09% pa	20/06/2038
Deutsche Bank Break Even	353,000	Receive	3.09% pa	20/06/2039
Deutsche Bank Break Even	293,000	Receive	3.09% pa	20/06/2040
Deutsche Bank Break Even	245,000	Receive	3.09% pa	20/06/2041
Deutsche Bank Break Even	206,000	Receive	3.09% pa	20/06/2042
Deutsche Bank Break Even	173,000	Receive	3.09% pa	20/06/2043
Deutsche Bank Break Even	146,000	Receive	3.09% pa	20/06/2044
Deutsche Bank Break Even	123,000	Receive	3.09% pa	20/06/2045
Deutsche Bank Break Even	1,964,000	Receive	3.07% pa	20/06/2010
Deutsche Bank Break Even	1,615,000	Receive	3.07% pa	20/06/2011
Deutsche Bank Break Even	1,323,000	Receive	3.07% pa	20/06/2012
Deutsche Bank Break Even	1,077,000	Receive	3.07% pa	20/06/2013
Deutsche Bank Break Even	875,000	Receive	3.07% pa	20/06/2014
Deutsche Bank Break Even	710,000	Receive	3.07% pa	20/06/2015
Deutsche Bank Break Even	573,000	Receive	3.07% pa	20/06/2016
Deutsche Bank Break Even	459,000	Receive	3.07% pa	20/06/2017
Deutsche Bank Break Even	364,000	Receive	3.07% pa	20/06/2018
Deutsche Bank Break Even	287,000	Receive	3.07% pa	20/06/2019
Deutsche Bank Break Even	224,000	Receive	3.07% pa	20/06/2020
Deutsche Bank Break Even	173,000	Receive	3.07% pa	20/06/2021
Deutsche Bank Break Even	131,000	Receive	3.07% pa	20/06/2022
Deutsche Bank Break Even	99,000	Receive	3.07% pa	20/06/2023

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
Deutsche Bank Break Even	73,000	Receive	3.07% pa	20/06/2024
Deutsche Bank Break Even	52,000	Receive	3.07% pa	20/06/2025
Deutsche Bank Break Even	37,000	Receive	3.07% pa	20/06/2026
Deutsche Bank Break Even	26,000	Receive	3.07% pa	20/06/2027
Deutsche Bank Break Even	18,000	Receive	3.07% pa	20/06/2028
Deutsche Bank Break Even	12,000	Receive	3.07% pa	20/06/2029
Deutsche Bank Break Even	8,000	Receive	3.07% pa	20/06/2030
Deutsche Bank Break Even	5,000	Receive	3.07% pa	20/06/2031
Deutsche Bank Break Even	3,000	Receive	3.07% pa	20/06/2032
Deutsche Bank Break Even	2,000	Receive	3.07% pa	20/06/2033
Deutsche Bank Break Even	1,000	Receive	3.07% pa	20/06/2034

The fund also holds a number of spreadlocks introduced in April 2009 executed with RBS. These are summarised in the table below:

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
GiltFuture	19,602,000	Receive	4.25	19/03/2010
RBS Swap	18,513,000	Receive	3.826	19/03/2010
GiltFuture	34,398,000	Receive	4.25	19/03/2010
RBS Swap	32,487,000	Receive	3.826	19/03/2010
GiltFuture	21,417,000	Receive	4.25	24/03/2010
RBS Swap	21,780,000	Receive	4.071	24/03/2010
GiltFuture	37,583,000	Receive	4.25	24/03/2010
RBS Swap	38,220,000	Receive	4.071	24/03/2010
GiltFuture	20,328,000	Receive	4.25	25/03/2010
RBS Swap	18,150,000	Receive	4.047	25/03/2010
GiltFuture	35,672,000	Receive	4.25	25/03/2010
RBS Swap	31,850,000	Receive	4.047	25/03/2010
GiltFuture	22,143,000	Receive	4.25	29/03/2010
RBS Swap	21,417,000	Receive	4.048	29/03/2010
GiltFuture	38,857,000	Receive	4.25	29/03/2010
RBS Swap	37,583,000	Receive	4.048	29/03/2010
GiltFuture	22,506,000	Receive	4.25	06/04/2010

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
RBS Swap	22,687,500	Receive	4.067	06/04/2010
GiltFuture	39,494,000	Receive	4.25	06/04/2010
RBS Swap	39,812,500	Receive	4.067	06/04/2010
GiltFuture	22,506,000	Receive	4.25	06/04/2010
RBS Swap	22,687,500	Receive	4.013	06/04/2010
GiltFuture	39,494,000	Receive	4.25	06/04/2010
RBS Swap	39,812,500	Receive	4.013	06/04/2010
GiltFuture	44,649,000	Receive	4.25	07/04/2010
RBS Swap	42,834,000	Receive	4.105	07/04/2010
GiltFuture	78,351,000	Receive	4.25	07/04/2010
RBS Swap	75,166,000	Receive	4.105	07/04/2010
GiltFuture	21,054,000	Receive	4.25	15/04/2010
IRS Swap	18,803,400	Receive	4.0813	15/04/2010
GiltFuture	36,946,000	Receive	4.25	15/04/2010
IRS Swap	32,996,600	Receive	4.0813	15/04/2010
GiltFuture	21,235,500	Receive	4.25	16/04/2010
IRS Swap	18,767,100	Receive	4.0229	16/04/2010
GiltFuture	37,264,500	Receive	4.25	16/04/2010
IRS Swap	32,932,900	Receive	4.0229	16/04/2010
GiltFuture	-72,600,000	Pay	4.75	23/04/2010
IRS Swap	-72,600,000	Pay	4.332	23/04/2010
GiltFuture	200,000,000	Receive	4.75	23/04/2010
IRS Swap	200,000,000	Receive	4.332	23/04/2010
GiltFuture	-127,400,000	Pay	4.75	23/04/2010
IRS Swap	-127,400,000	Pay	4.332	23/04/2010
GiltFuture	24,538,800	Receive	4.25	23/04/2010
RBS Swap	23,014,200	Receive	4.142	23/04/2010
GiltFuture	43,061,200	Receive	4.25	23/04/2010
RBS Swap	40,385,800	Receive	4.142	23/04/2010
GiltFuture	25,155,900	Receive	4.25	26/04/2010
GS Swap	23,304,600	Receive	4.0313	26/04/2010
GiltFuture	44,144,100	Receive	4.25	26/04/2010
GS Swap	40,895,400	Receive	4.0313	26/04/2010
GiltFuture	21,054,000	Receive	4.25	07/05/2010
RBS Swap	19,057,500	Receive	4.14	07/05/2010
GiltFuture	36,946,000	Receive	4.25	07/05/2010
RBS Swap	33,442,500	Receive	4.14	07/05/2010
GiltFuture	19,602,000	Receive	425%	19/03/2010

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
RBS Swap	18,513,000	Receive	3.826	19/03/2010
GiltFuture	34,398,000	Receive	4.25	19/03/2010
RBS Swap	32,487,000	Receive	3.826	19/03/2010
GiltFuture	21,417,000	Receive	4.25	24/03/2010
RBS Swap	21,780,000	Receive	4.071	24/03/2010
GiltFuture	37,583,000	Receive	4.25	24/03/2010
RBS Swap	38,220,000	Receive	4.071	24/03/2010
GiltFuture	20,328,000	Receive	4.25	25/03/2010
RBS Swap	18,150,000	Receive	4.047	25/03/2010
GiltFuture	35,672,000	Receive	4.25	25/03/2010
RBS Swap	31,850,000	Receive	4.047	25/03/2010
GiltFuture	22,143,000	Receive	4.25	29/03/2010
RBS Swap	21,417,000	Receive	4.048	29/03/2010
GiltFuture	38,857,000	Receive	4.25	29/03/2010
RBS Swap	37,583,000	Receive	4.048	29/03/2010
GiltFuture	22,506,000	Receive	4.25	06/04/2010
RBS Swap	22,687,500	Receive	4.067	06/04/2010
GiltFuture	39,494,000	Receive	4.25	06/04/2010
RBS Swap	39,812,500	Receive	4.067	06/04/2010
GiltFuture	22,506,000	Receive	4.25	06/04/2010
RBS Swap	22,687,500	Receive	4.013	06/04/2010
GiltFuture	39,494,000	Receive	4.25	06/04/2010
RBS Swap	39,812,500	Receive	4.013	06/04/2010
GiltFuture	44,649,000	Receive	4.25	07/04/2010
RBS Swap	42,834,000	Receive	4.105	07/04/2010
GiltFuture	78,351,000	Receive	4.25	07/04/2010
RBS Swap	75,166,000	Receive	4.105	07/04/2010
GiltFuture	21,054,000	Receive	4.25	15/04/2010
IRS Swap	18,803,400	Receive	4.0813	15/04/2010
GiltFuture	36,946,000	Receive	4.25	15/04/2010
IRS Swap	32,996,600	Receive	4.0813	15/04/2010
GiltFuture	21,235,500	Receive	4.25	16/04/2010
IRS Swap	18,767,100	Receive	4.0229	16/04/2010
GiltFuture	37,264,500	Receive	4.25	16/04/2010
IRS Swap	32,932,900	Receive	4.0229	16/04/2010
GiltFuture	-72,600,000	Pay	4.75	23/04/2010
IRS Swap	-72,600,000	Pay	4.332	23/04/2010
GiltFuture	200,000,000	Receive	4.75	23/04/2010

Security name	Notional amount	Pay/Receive	Strike level	Maturity date
IRS Swap	200.000.000	Receive	4.332	23/04/2010
GiltFuture	-127.400.000	Pay	4.75	23/04/2010
IRS Swap	-127.400.000	Pay	4.332	23/04/2010
GiltFuture	24.538.800	Receive	4.25	23/04/2010
RBS Swap	23.014.200	Receive	4.142	23/04/2010
GiltFuture	43.061.200	Receive	4.25	23/04/2010
RBS Swap	40.385.800	Receive	4.142	23/04/2010
GiltFuture	25.155.900	Receive	4.25	26/04/2010
GS Swap	23.304.600	Receive	4.0313	26/04/2010
GiltFuture	44.144.100	Receive	4.25	26/04/2010
GS Swap	40.895.400	Receive	4.0313	26/04/2010
GiltFuture	21.054.000	Receive	4.25	07/05/2010
RBS Swap	19.057.500	Receive	4.14	07/05/2010
GiltFuture	36.946.000	Receive	4.25	07/05/2010
RBS Swap	33.442.500	Receive	4.14	07/05/2010



### 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 2008 to 31 December 2009.

	<b>£million</b>
<b>Working capital at 31 December 2008</b>	<b>60</b>
<b>Restatement changes:</b>	
Miscellaneous restatement changes at start of year	1
<b>Methodology changes:</b>	
Smoothing Charge Modified	14
<b>Basis change:</b>	
Updated pre-vesting mortality	4
Updated post-vesting mortality	(14)
Updated surrender assumption	(66)
Updated inflation assumption	2
Updated Bonus rates	0
Updated Asset Mix	(2)
<b>Roll forward</b>	
Expected RF position including investment and decrements	(3)
<b>Investment returns variance:</b>	
Equity variance	7
Property variance	(2)
Variance on fixed interest assets	54
Variance due to change in credit spreads	90
<b>Miscellaneous</b>	
Change in benefit of management actions	(41)
Actual policy movements differing from expected	(3)
Miscellaneous movements in the cash estate	37
Unexplained	(25)
<b>Working capital at 31 December 2009</b>	<b>112</b>

### 14. Optional disclosure

Not applicable.

## 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 2009

The with-profits actuary throughout the period was D Addison. In accordance with rule 9.36 of the Accounts and Statements Rules, the following information relating to Mr D Addison is in respect of the year 2009:

1. a) Mr Addison held no shares or share options in 2009.
  - b) Mr Addison had no transactions with the insurer throughout 2009
  - c) The aggregate of the remuneration and value of other benefits receivable by Watson Wyatt Limited (Towers Watson Limited with effect from 31 March 2010), (the employer of Mr Addison), from the insurer during the period specified was £4,715,458 exclusive of VAT.
  - d) Mr Addison was not a member of any Pearl Staff Pension Scheme (National Provident Life Limited being a subsidiary of Pearl Group Holdings (No. 2) Limited) in 2009 and was not entitled to any benefits under the rules of such scheme. Mr Addison did not therefore accrue pension benefits in such scheme throughout 2009.
2. The insurer has made a request to Mr Addison to furnish it the particulars specified in rule 9.36(1) of the Accounts and Statements Rules. The above particulars were obtained with the agreement of Mr Addison.

#### Note 1

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

#### Note 2

Regarding Section 1(c) the remuneration details supplied relate to the contractual sums paid to Watson Wyatt Limited (Towers Watson Limited with effect from 31 March 2010) for the provision of actuarial services. These services include the performance of the with-profits actuary function by Mr D Addison.

**Returns under the Accounts and Statements Rules**

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

**NATIONAL PROVIDENT LIFE LIMITED**

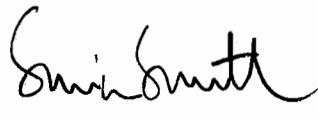
**Global Business**

**Financial year ended 31 December 2009**

We certify that: -

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

  
M J Merrick  
Chief Executive

  
J S B Smith  
Director

  
J P Evans  
Director

Date: 25 March 2010

**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 2009**

**Note to the Directors' Certificate**

1. Principles and Practices of Financial Management

Paragraph 2(c) which relates to the management of the with-profits fund in accordance with the Principles and Practices of Financial Management ("PPFM"), has been omitted from the Return due to certain minor instances where the management of the fund differed from the PPFM but these have not resulted in the unfair treatment of policyholders.

## **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 2009**

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

- Forms 2, 3, 13 to 19, 40 to 44, 48, 49, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the reports required by IPRU(INS) 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 54, 57, 59A and 59B (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate signed in accordance with IPRU(INS) rule 9.34(1).

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

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

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by the directions referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner set out in the Rules and to state fairly the information provided on the basis required by the Rules. The 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 IPRU(INS) 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 adequate accounting records or if we have not received all the information we require for our examination.

**Returns under the Accounts and Statements Rules**

**Independent auditors' report to the directors pursuant to rule 9.35 (continued)**

**NATIONAL PROVIDENT LIFE LIMITED**

**Global business**

**Financial year ended 31 December 2009**

**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 <sup>29</sup> March 2010. 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.

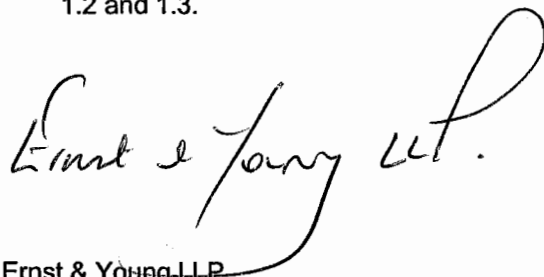
We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation reports are free from material misstatement, whether caused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

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

**Opinion**

In our opinion:

- (a) the Forms, the statement and the valuation 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, appropriately reflect the requirements of INSPRU 1.2 and 1.3.



Ernst & Young LLP

Registered Auditor

London

Date: <sup>29</sup> March 2010