

# **NATIONAL PROVIDENT LIFE LIMITED**

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

**31 December 2011**

**IPRU(INS) 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 2011**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2011	
	<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>	49316	134959
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	214991	289320
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	264307	424279

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	56736	54092
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	178277	358413

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	170207	162276
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	3056	3040
Individual minimum capital requirement	<b>34</b>	170207	162276
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	170207	162276
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	91189	228274
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	48637	187705

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>	11301	24997
Enhanced capital requirement	<b>40</b>	181508	187273

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	181508	187273
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	82798	237006

**Contingent liabilities**

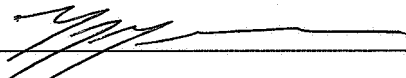
Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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**Covering Sheet to Form 2**


Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2011**

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

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

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

Date 20 MARCH 2012

**Components of capital resources**

Name of insurer

**NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended

**31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	3641947	GL	31	12	2011	£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		139509	139509	335632
Share premium account	13				
Positive valuation differences	14		49467	49467	5796
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		198976	198976	351428

**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>		198976	198976	351428
Investments in own shares	32				
Intangible assets	33		22683	22683	42016
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		22683	22683	42016
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		176293	176293	309412

## Components of capital resources

Name of insurer

NATIONAL PROVIDENT LIFE LIMITED

Global business

Financial year ended

31 December 2011

R3	Company registration number	GL/UK/CM	day month year			Units
			31	12	2011	
	3641947	GL				£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

## Tier two capital

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

Fixed term preference shares	51				
Other tier two instruments	52		108500	108500	115000
Lower tier two capital in related undertakings	53				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>		108500	108500	115000

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>		108500	108500	115000
Excess tier two capital	62				
Further excess lower tier two capital	63		20354	20354	
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>		88146	88146	115000

## Components of capital resources

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

Financial year ended **31 December 2011**

R3	Company registration number 3641947	GL/ UK/ CM GL	day month year			Units £000
			31	12	2011	
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

## Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		264439	264439	424412
Inadmissible assets other than intangibles and own shares	73		133	133	133
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>		264307	264307	424279

## Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		235013	235013	412505
Available capital resources for 50% MCR requirement	82		176293	176293	309412
Available capital resources for 75% MCR requirement	83		176293	176293	309412

## Financial engineering adjustments

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94		34853	34853	37775
Any other charges on future profits	95		44172	44172	57397
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		79024	79024	95172

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2011	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	41		6002
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43	107316	170002
Rights under derivative contracts	44	4201	1036
Fixed interest securities	Approved	45	54482
	Other	46	474
Variable interest securities	Approved	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	
	More than one month withdrawal	55	
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	



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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2011	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	79843	68540
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	484	557
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	582	680
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	247382	296553
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**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2011	£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	247382	296553
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	22664	171352
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	270046	467905
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	18221	34188

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2011	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11		104562	114292	

**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	1533	2920	
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43	504412	389245	
Rights under derivative contracts	44	721753	402676	
Fixed interest securities	Approved	45	1949815	1301612
	Other	46	511779	887199
Variable interest securities	Approved	47	92	1904
	Other	48	113985	301949
Participation in investment pools	49			
Loans secured by mortgages	50	60	55	
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52	309	406	
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	1502	1419
	Property linked	59	2045	2723

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2011	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	71		307
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75	5723	16692
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	2617	9227
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	278418	243459
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	30282	35175
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	1060	1355

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	4229947	3712615
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**Analysis of admissible assets**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3641947	GL	31	12	2011	£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>	4229947	3712615
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	22816	42149
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>	3404259	3524186
Other asset adjustments (may be negative)	<b>101</b>	(32504)	(172700)
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>	7624518	7106250
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

**Long term insurance business liabilities and margins**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
Global business  
Financial year ended **31 December 2011**  
Total business/Sub fund **Long Term Insurance Business**  
Units **£000**

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

Mathematical reserves, after distribution of surplus	<b>11</b>	3121717	2963600	
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>	49316	134959	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	3171033	3098559	
Claims outstanding	Gross	<b>15</b>	13134	6051
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	13134	6051
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	443	445
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	78	
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	10590	
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	81282	92044	
Creditors	Taxation	<b>37</b>	3181	
	Other	<b>38</b>	946177	511695
Accruals and deferred income	<b>39</b>	4030	3821	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	1058915	614056	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	4229947	3712615	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	2225	3180
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	2045	2723

Total liabilities (11+12+49)	<b>71</b>	4180632	3577656
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	3404259	3524186
Other adjustments to liabilities (may be negative)	<b>74</b>	39627	4408
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>	7624518	7106250

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

Global business

Financial year ended **31 December 2011**

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>2011</b>	<b>£000</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
					<b>1</b>	<b>2</b>

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>		
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>	6545	1297
Accruals and deferred income		<b>51</b>	5492	5936
Total (19 to 51)		<b>59</b>	12037	7233
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>	108500	115000
Total (59 to 63)		<b>69</b>	120537	122233

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>	108500	115000
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Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>		40
Capital and reserves	<b>84</b>	149509	345632
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>	270046	467905

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

Global business

Financial year ended **31 December 2011**

		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>2011</b>	<b>£000</b>
				<b>This financial year</b>			<b>Previous year</b>	
				<b>1</b>			<b>2</b>	
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>				(370000)	
Investment income	Income		<b>14</b>			15346	10859	
	Value re-adjustments on investments		<b>15</b>			2132	5350	
	Gains on the realisation of investments		<b>16</b>			6232	1642	
Investment charges	Investment management charges, including interest		<b>17</b>			10025	12364	
	Value re-adjustments on investments		<b>18</b>					
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			13685	(364513)	
Tax on profit or loss on ordinary activities			<b>31</b>			(13840)	(68463)	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			27525	(296050)	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			27525	(296050)	
Dividends (paid or foreseeable)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			27525	(296050)	



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

Global business

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

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
R17		3641947	GL	31	12	2011	£000	1
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						
	Inflation	13						
	Credit index / basket	14	4098			124124		
	Credit single name	15						
	Equity index	16						
	Equity stock	17						
	Land	18						
	Currencies	19	103			226	37656	
	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						
Total (11 to 46)		51	4201			124350	37656	
Adjustment for variation margin		52						
Total (51 + 52)		53	4201					

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 2011**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	2011	£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	710096		764062	5313677	5238002	
	Inflation	13	4457				137130	
	Credit index / basket	14						
	Credit single name	15						
	Equity index	16						
	Equity stock	17						
	Land	18						
	Currencies	19	293		246	7764	25348	
	Mortality	20						
	Other	21	6907			43000		
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						
Total (11 to 46)		51	721753		764308	5364441	5400480	
Adjustment for variation margin		52						
Total (51 + 52)		53	721753		764308			

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 2011**Units **£000**

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

Regulatory value of assets	Long-term admissible assets of the fund	<b>11</b>	4229947	3712615
	Implicit items allocated to the fund	<b>12</b>		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	<b>13</b>	194332	178969
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	<b>14</b>		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	<b>15</b>		
	Total (11+12-(13+14+15))	<b>19</b>	4035615	3533646
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	<b>21</b>	2927385	2784631
	Regulatory current liabilities of the fund	<b>22</b>	1058915	614056
	Total (21+22)	<b>29</b>	3986299	3398687
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		<b>31</b>	117476	111608
Resilience capital requirement in respect of the fund's with-profits insurance contracts		<b>32</b>		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		<b>39</b>	4103775	3510295
Regulatory excess capital (19-39)		<b>49</b>	(68160)	23351

**Realistic excess capital**

Realistic excess capital	<b>51</b>	(79461)	(1646)
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**Excess assets allocated to with-profits insurance business**

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	<b>61</b>	11301	24997
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	<b>62</b>	65000	65000
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	<b>63</b>	68185	68895
Present value of future shareholder transfers arising from distribution of surplus	<b>64</b>		
Present value of other future internal transfers not already taken into account	<b>65</b>		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	<b>66</b>	11301	24997

**Realistic balance sheet**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**With-profits fund **Long Term Insurance Business**Financial year ended **31 December 2011**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	4035615	3533646
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	73609	87477
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	4109224	3621123
Support arrangement assets	27		
Assets available to the fund (26+27)	29	4109224	3621123

**Realistic value of liabilities of fund**

With-profits benefit reserve	31	1854326	1973798	
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	2367	4917
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	148914	82378
	Future costs of contractual guarantees (other than financial options)	41	1129515	727019
	Future costs of non-contractual commitments	42	2288	2735
	Future costs of financial options	43	6513	5105
	Future costs of smoothing (possibly negative)	44		
	Financing costs	45	187155	272025
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	33214	36930
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1207405	956519	
Realistic current liabilities of the fund	51	1047494	609218	
Realistic value of liabilities of fund (31+49+51)	59	4109224	3539535	

**Realistic balance sheet**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**With-profits fund **Long Term Insurance Business**Financial year ended **31 December 2011**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>	4188686	3622769
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>	4188686	3622769
Risk capital margin for fund (62-59)	<b>65</b>	79461	83234
Realistic excess capital for fund (26-(59+65))	<b>66</b>	(79461)	(1646)
Realistic excess available capital for fund (29-(59+65))	<b>67</b>	(79461)	(1646)
Working capital for fund (29-59)	<b>68</b>		81588
Working capital ratio for fund (68/29)	<b>69</b>		2.25

**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>	82798	237006
Additional amount potentially available for inclusion in line 63	<b>82</b>		

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	(53214)	(60035)
Investment income receivable before deduction of tax	12	110941	123421
Increase (decrease) in the value of non-linked assets brought into account	13	181219	(233769)
Increase (decrease) in the value of linked assets	14	(678)	291
Other income	15	14189	14558
<b>Total income</b>	<b>19</b>	<b>252457</b>	<b>(155533)</b>

**Expenditure**

Claims incurred	21	125072	113729
Expenses payable	22	27851	29497
Interest payable before the deduction of tax	23	24737	19822
Taxation	24	2325	3008
Other expenditure	25		
Transfer to (from) non technical account	26		(370000)
<b>Total expenditure</b>	<b>29</b>	<b>179984</b>	<b>(203945)</b>

Business transfers - in	31	64883	69330
Business transfers - out	32	64883	1251040
Increase (decrease) in fund in financial year (19-29+31-32)	39	72473	(1133299)
Fund brought forward	49	3098559	4231858
Fund carried forward (39+49)	59	3171033	3098559

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

Regular premiums	11	551	21035		21585	24047
Single premiums	12	42	333		375	824

**Reinsurance - external**

Regular premiums	13	9	0		9	11
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15	7	10568		10575	12409
Single premiums	16	264	64326		64590	72485

**Net of reinsurance**

Regular premiums	17	535	10467		11001	11627
Single premiums	18	(222)	(63993)		(64215)	(71661)

**Total**

Gross	19	593	21368		21961	24871
Reinsurance	20	280	74894		75175	84906
Net	21	313	(53527)		(53214)	(60035)

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	10219	14443		24662	23361
Disability periodic payments	12	3	(0)		3	9
Surrender or partial surrender	13	25463	183651		209114	199474
Annuity payments	14	1678	132583		134261	129696
Lump sums on maturity	15	6073	28250		34323	31560
<b>Total</b>	<b>16</b>	<b>43437</b>	<b>358926</b>		<b>402364</b>	<b>384100</b>

**Reinsurance - external**

Death or disability lump sums	21	142			142	143
Disability periodic payments	22					3
Surrender or partial surrender	23	4			4	
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>	<b>146</b>			<b>146</b>	<b>146</b>

**Reinsurance - intra-group**

Death or disability lump sums	31	2535	5626		8161	6633
Disability periodic payments	32					
Surrender or partial surrender	33	7115	102839		109955	105684
Annuity payments	34	339	131315		131653	128965
Lump sums on maturity	35	253	27123		27377	28944
<b>Total</b>	<b>36</b>	<b>10242</b>	<b>266903</b>		<b>277146</b>	<b>270225</b>

**Net of reinsurance**

Death or disability lump sums	41	7543	8816		16359	16585
Disability periodic payments	42	3	(0)		3	6
Surrender or partial surrender	43	18343	80812		99155	93790
Annuity payments	44	1339	1269		2608	731
Lump sums on maturity	45	5820	1127		6947	2617
<b>Total</b>	<b>46</b>	<b>33049</b>	<b>92023</b>		<b>125072</b>	<b>113729</b>



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

Commission - acquisition	11				
Commission - other	12	108	300	408	530
Management - acquisition	13				
Management - maintenance	14	7252	20192	27443	28967
Management - other	15				
<b>Total</b>	<b>16</b>	<b>7359</b>	<b>20491</b>	<b>27851</b>	<b>29497</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	108	300	408	530
Management - acquisition	43				
Management - maintenance	44	7252	20192	27443	28967
Management - other	45				
<b>Total</b>	<b>46</b>	<b>7359</b>	<b>20491</b>	<b>27851</b>	<b>29497</b>

**Long-term insurance business : Linked funds balance sheet**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business

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

Financial year	Previous year
1	2

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

Directly held assets (excluding collective investment schemes)	11		
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	2045	2723
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**Total**

Value of directly held linked assets and units held (18+21)	31	2045	2723
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>2045</b>	<b>2723</b>

**Long-term insurance business : Summary of new business**Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business

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

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

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

Regular premium business	11				18
Single premium business	12	7		7	495
<b>Total</b>	<b>13</b>	<b>7</b>		<b>7</b>	<b>513</b>

**Amount of new regular  
premiums**

Direct insurance business	21				449
External reinsurance	22				
Intra-group reinsurance	23				
<b>Total</b>	<b>24</b>				<b>449</b>

**Amount of new single  
premiums**

Direct insurance business	25	42	333		375	720
External reinsurance	26					
Intra-group reinsurance	27					
<b>Total</b>	<b>28</b>	<b>42</b>	<b>333</b>		<b>375</b>	<b>720</b>

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

**NATIONAL PROVIDENT LIFE LIMITED**

Name of insurer

Total business

Financial year ended

31 December 2011

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)			7	42

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

**NATIONAL PROVIDENT LIFE LIMITED**

Name of insurer

Total business

Financial year ended

31 December 2011

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				157
540	Group money purchase pensions UWP - increments				100
550	Individual deposit administration with-profits - increments				1
730	Individual pensions property linked - increments				74

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

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

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

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

Land and buildings	11					
Approved fixed interest securities	12	189429	189429	13882	2.65	
Other fixed interest securities	13	1249	1249	85	6.64	
Variable interest securities	14	107	107	2	1.30	
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>190785</b>	<b>190785</b>	<b>13969</b>	<b>2.67</b>	

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

Land and buildings	21	104562	116895	5973	5.11	3.08
Approved fixed interest securities	22	1779681	1801571	111770	2.99	3.77
Other fixed interest securities	23	519913	585644	44641	5.11	14.58
Variable interest securities	24	114789				
UK listed equity shares	25	281	2156			(8.86)
Non-UK listed equity shares	26					
Unlisted equity shares	27	1252				
Other assets	28	1515137	1529349	3920	0.83	0.02
<b>Total</b>	<b>29</b>	<b>4035615</b>	<b>4035615</b>	<b>166304</b>	<b>2.54</b>	<b>3.89</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					1.11
Return allocated to non taxable 'asset shares'	32					(1.03)
Return allocated to taxable 'asset shares'	33					(1.03)

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

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

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	1378811	11.88	2.65	2.65

<b>Other approved fixed interest securities</b>	<b>21</b>	612189	12.59	3.66	3.60
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**Other fixed interest securities**

AAA/Aaa	31	154133	12.61	3.96	3.63
AA/Aa	32	86514	10.61	4.87	4.38
A/A	33	279168	9.87	5.38	4.71
BBB/Baa	34	66909	8.79	6.97	5.83
BB/Ba	35	170	6.57	13.65	12.62
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
<b>Total other fixed interest securities</b>	<b>39</b>	<b>586893</b>	<b>10.57</b>	<b>5.11</b>	<b>4.51</b>

<b>Approved variable interest securities</b>	<b>41</b>	107	4.30	1.30	1.30
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<b>Other variable interest securities</b>	<b>51</b>				
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	<b>2578000</b>	<b>11.75</b>	<b>3.45</b>	<b>3.30</b>
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**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

Form 51 - with-profits	11	27305	460770		488075	458955
Form 51 - non-profit	12	25293	1827841		1853134	1756865
Form 52	13	211855	2235890		2447744	2327543
Form 53 - linked	14	74732	1557126		1631857	1848111
Form 53 - non-linked	15	930	57985		58915	52442
Form 54 - linked	16	785	41242		42026	39981
Form 54 - non-linked	17	37	2576		2613	2341
<b>Total</b>	<b>18</b>	<b>340936</b>	<b>6183429</b>		<b>6524365</b>	<b>6486238</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32	1693	1716440		1718133	1632556
Form 52	33	14851	(4805)		10046	3415
Form 53 - linked	34	72686	1557126		1629812	1845388
Form 53 - non-linked	35	3	3127		3130	1925
Form 54 - linked	36	47	40478		40525	38563
Form 54 - non-linked	37	37	2576		2613	2339
<b>Total</b>	<b>38</b>	<b>89317</b>	<b>3314942</b>		<b>3404259</b>	<b>3524186</b>

**Net of reinsurance**

Form 51 - with-profits	41	27305	460770		488075	458955
Form 51 - non-profit	42	23600	111400		135000	124309
Form 52	43	197003	2240695		2437698	2324128
Form 53 - linked	44	2045			2045	2723
Form 53 - non-linked	45	927	54858		55785	50517
Form 54 - linked	46	738	764		1502	1418
Form 54 - non-linked	47					2
<b>Total</b>	<b>48</b>	<b>251619</b>	<b>2868487</b>		<b>3120106</b>	<b>2962052</b>



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

Long Term Insurance Business

Financial year ended

31 December 2011

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	902	14617	84				13056
120	Conventional endowment with-profits OB savings	1493	15134	342				19804
165	Conventional deferred annuity with-profits	11	5					72
205	Miscellaneous conventional with-profits	8	33	0				4
210	Additional reserves with-profits OB							370
390	Deferred annuity non-profit	13	8					96
395	Annuity non-profit (PLA)	2104	2193					16717
435	Miscellaneous non-profit	2958	47002	267				8480

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

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

Financial year ended **31 December 2011**

Units **£000**

UK Life / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
395	Annuity non-profit (PLA)		165					1693

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

**Long Term Insurance Business**

Financial year ended

**31 December 2011**

Units

**£000**

UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
155	Conventional pensions endowment with-profits	8050	182182	349				453606
165	Conventional deferred annuity with-profits	20	11					162
205	Miscellaneous conventional with-profits		57					1
210	Additional reserves with-profits OB							7000
390	Deferred annuity non-profit	2036	6072					87972
400	Annuity non-profit (CPA)	99305	139290					1795296
435	Miscellaneous non-profit	4817	151777	526				3506
440	Additional reserves non-profit OB							1068

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

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

Financial year ended **31 December 2011**

Units **£000**

UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit		285					7259
400	Annuity non-profit (CPA)		139287					1709181

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

## Name of insurer NATIONAL PROVIDENT LIFE LIMITED

Total business / subfund Long Term Insurance Business

Financial year ended 31 December 2011

Units £000

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	11007	218737		216980	151788	48085	199873
610	Additional reserves UWP						11982	11982

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life / 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>
500	Life WWP single premium		17838		17820	5813	9039	14851

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

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

**NATIONAL PROVIDENT LIFE LIMITED**  
**Long Term Insurance Business**  
**31 December 2011**  
**£000**

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP	109358	1849510	7668	1849510	1992977	2944	1995921
535	Group money purchase pensions UWP	7863	134522	1867	134522	139616	3778	143394
545	Individual deposit administration with-profits	394	3935		3935	3935	2349	6284
555	Group deposit administration with-profits	784	15233	91	15233	15233	6836	22068
570	Income drawdown UWP	36	5403		5403	4574	559	5133
605	Miscellaneous protection rider	1	1868	3			69	69
610	Additional reserves UWP						63019	63019

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP						(6209)	(6209)
535	Group money purchase pensions UWP						1406	1406
570	Income drawdown UWP						(3)	(3)



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

**NATIONAL PROVIDENT LIFE LIMITED**

Long Term Insurance Business

31 December 2011

£000

Name of insurer

Total business / subfund

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
700	Life property linked single premium	5657	68852		68200	68200	874	69074
715	Life property linked endowment regular premium - savings	156	4506	1	4486	4486	50	4536
790	Miscellaneous protection rider			5			1	1
795	Miscellaneous property linked	79	2046	5	2045	2045	4	2050

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Life / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium		68852		68200	68200	3	68203
715	Life property linked endowment regular premium - savings		4506	1	4486	4486		4486

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

**NATIONAL PROVIDENT LIFE LIMITED**

Long Term Insurance Business

31 December 2011

£000

Name of insurer  
Total business / subfund

Financial year ended

Units

UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked	117771	1354823	9033	1354484	1354484	42433	1396917
735	Group money purchase pensions property linked	15674	184997	4962	184997	184997	14010	199007
750	Income drawdown property linked	250	16433		16433	16433	44	16477
790	Miscellaneous protection rider	155	14227	207			690	690
795	Miscellaneous property linked		1211		1211	1211	808	2019

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

Total business / subfund

**Long Term Insurance Business**

Financial year ended

**31 December 2011**

Units

**£000**

UK Pension / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked		1354823	8064	1354484	1354484	(730)	1353754
735	Group money purchase pensions property linked		184997	4962	184997	184997	3852	188849
750	Income drawdown property linked		16433		16433	16433	6	16439
795	Miscellaneous property linked		1211		1211	1211		1211

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
Total business / subfund **Long Term Insurance Business**  
Financial year ended **31 December 2011**  
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(CPA)	37	117		785	785	37	822

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

UK Life / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity(CPA)		13		47	47	37	84



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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**

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

Financial year ended **31 December 2011**

Units **£000**

UK Pension / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity(CPA)		2778		40479	40479	2575	43054
910	Miscellaneous index linked				(1)	(1)	1	



**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 2011**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK Life Non Profit	24527	2.12	2.65	2.86
UK Life With Profit	225920	2.52	3.15	3.44
UK Pension Non Profit	166258	2.65	2.65	2.86
UK Pension With Profit	2701465	3.15	3.15	3.44
<b>Total</b>	<b>3118170</b>			

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

Name of insurer **NATIONAL PROVIDENT LIFE LIMITED**  
 Total business / subfund **Long Term Insurance Business**  
 Financial year ended **31 December 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	3171033	3098559
Bonus payments in anticipation of a surplus	12	617	654
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	3171650	3099213
Mathematical reserves	21	3120106	2962052
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	51544	137161

**Composition of surplus**

Balance brought forward	31	134959	16296
Transfer from non-technical account	32		370000
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(83415)	(249135)
Total	39	51544	137161

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41	617	654
Cash bonuses	42		
Reversionary bonuses	43	1611	1548
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	2228	2202
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48	2228	2202
Surplus carried forward	49	49316	134959
Total (48+49)	59	51544	137161

**Percentage of distributed surplus allocated to policyholders**

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

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

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

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	14128	0	n/a	CWP	N	14128
Endowment assurance	25	21900	0	n/a	CWP	N	21900
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	37739	948	0	UWP	N	37739
Regular premium pension	20	70564	0	0	UWP	N	70564
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	13734	0	0	UWP	N	13734
Single premium pension	20	27109	0	0	UWP	N	27109

## 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 2012

Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	12885	0	n/a	CWP	N	17785
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 2011**Units **£000**

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

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%	1	1		0
Classes I (other), II and IX	13	0.15%	3	3	0.99	0
Classes I (other), II and IX	14	0.3%	235487	232851		699
Classes III, VII and VIII	15	0.3%	16614	15680	0.94	47
<b>Total</b>	<b>16</b>		<b>252105</b>	<b>248535</b>		<b>746</b>

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

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					2
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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%	4832700	3061383	0.85	41078
Classes III, VII and VIII (investment risk)	33	1%	86391	56973	0.85	734
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%				
Classes III, VII and VIII (other)	35	25%				2160
Class IV (other)	36	1%	1316	1316	1.00	13
Class V	37	1%				
Class VI	38	1%				
<b>Total</b>	<b>39</b>					<b>43985</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	4832700	3061383	0.85	123234
Classes III, VII and VIII (investment risk)	43	3%	86391	56973	0.85	2203
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%				
Classes III, VII and VIII (other)	45	0%	1605713	2045		
Class IV (other)	46	3%	1316	1316	1.00	39
Class V	47	0%				
Class VI	48	3%				
<b>Total</b>	<b>49</b>		<b>6526120</b>	<b>3121717</b>		<b>125476</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>170207</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 2011

#### Appendix 9.1

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

The Financial Services Authority, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in June 2010. 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.

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

	2011 £000	2010 £000
Total other than long-term insurance business assets - Form 13 line 89	247,382	296,553
Total long-term insurance business assets - Form 13 line 89	4,229,947	3,712,615
Less: Liabilities - Form 14 line 71	(4,180,632)	(3,577,656)
Less: Liabilities - Form 15 line 69	(120,537)	(122,233)
Net admissible assets	176,160	309,279
Subordinated debt – Form 3 line 52	58,500	65,000
Intergroup loan – Form 3 line 52	50,000	50,000
Excess lower tier two capital – Form 3 line 63	(20,354)	-
Total capital resources after deductions – Form 3 line 79	264,306	424,279

##### \*0308\* Outstanding contingent loans and any other charges on future profits

At the end of the financial year, the total amount of contingent loan drawn down from the immediate parent undertaking is £51,679,000. As at the end of the financial year, the statutory valuation of the loan was £34,853,000 and the amount included in Form 14 line 35 (Debenture loans – unsecured) was £nil. The difference of £34,853,000 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 2011

#### Appendix 9.1 (continued)

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 £120,033,000 (£260,000,000 less £128,388,000 capital repayment less an £11,579,000 impairment on the Class A2 Limited Recourse Bonds). Of this amount £44,172,000 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 13 of the Report and Accounts.

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

	2011 £000	2010 £000
Securitised loan valuation difference	44,172	57,397
Contingent loan valuation difference	34,853	37,775
Liability valuation difference	(29,558)	(89,376)
Net valuation difference	<u>49,467</u>	<u>5,796</u>

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

	£000
Profit and loss account and other reserves at 1 January 2011 - Form 3 line 12	335,632
Profit retained for the financial year - Form 16 line 59	27,525
Original earmarked assets	(48,213)
New earmarked assets	(42,336)
Shareholder equalisation fund	(58,099)
Return of capital contribution	(75,000)
Profit and loss account and other reserves at 31 December 2011 - Form 3 line 12	<u>139,509</u>

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

The repayment of capital contribution consisted of £75m of cash.

#### \*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 2011

#### Appendix 9.1 (continued)

#### \*1301\* & \*1308\* Unlisted and listed investments

Included within Form 13 are the following amounts:

	Long-term		Other than long-term	
	2011 £000	2010 £000	2011 £000	2010 £000
Unlisted investments valued in accordance with the rules in GENPRU 1.3	176	2,592	-	6,002
Listed investments valued in accordance with the rules in GENPRU 1.3 and which are not readily realisable	28,148	118,179	-	-
Collective investment schemes, as specified in instruction 5 to Form 13	64,006	62,613	32,907	54,035
Total	<u>92,330</u>	<u>183,384</u>	<u>32,907</u>	<u>60,037</u>

The above amounts in respect of unlisted investments and listed investments that are not readily realisable fall within any of lines 41, 42, 46 or 48 (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).

#### \*1309\* Hybrid securities

The aggregate value of these investments falling within lines 46 or 48 of Form 13 Total long term business insurance assets is £142.8m.

#### \*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.



## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.1 (continued)

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

Included in Form 13 line 101 (Other asset adjustments) for 2011, are the following amounts:

	Long-term	Other than long-term
	£000	£000
New earmarked assets	(22,664)	22,664
Reclassification of other debtors	(9,840)	-
	<u>(32,504)</u>	<u>22,664</u>

Included in Form 13 line 101 (Other asset adjustments) for 2010, are the following amounts:

	Long-term	Other than long-term
	£000	£000
New earmarked assets	(65,000)	65,000
Reclassification of other debtors	(1,388)	40
Original earmarked assets	(48,213)	48,213
Shareholder equalisation fund	(58,099)	58,099
	<u>(172,700)</u>	<u>171,352</u>

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

##### \*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 (2010: £nil). In accordance with FRS 19, the discounted value of £nil (2010: £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 2011 as there is no Form 58 surplus arising during the year.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

##### Global Business

Financial year ended 31 December 2011

##### Appendix 9.1 (continued)

- (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:

	2011 £000	2010 £000
Positive valuation difference (see note '0310')	49,467	5,796
Reclassification of other creditors	(9,840)	(1,388)
Total	<u>39,627</u>	<u>4,408</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:

	2011 £000	2010 £000
Reclassification of other creditors	<u>-</u>	<u>40</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.

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

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

Credit risk on exchange traded derivatives is managed through initial and variation margin. The insurer did not have a liability to repay "excess" variation margin received at the end of the financial year.

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

Where cash is held as collateral, in line with IFRS accounting standards, it is reported in Form 13 Line 43 with an equal liability to repay the collateral in Form 14 Line 38 rather than reducing the value shown in form 13 Line 44. This balance of £162m has in consequence not been reflected as "variation margin" in Form 17 Line 52. Where collateral is received in the form of approved fixed interest securities, in line with IFRS accounting standards, such collateral is not reported as an asset in Form 13 or a liability in Form 14. This balance of £nil has not been reported in Form 13 line 45 and Form 17 Line 52.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

#### Global Business

Financial year ended 31 December 2011

#### Appendix 9.3

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

Other income consists of annual management income of £14.2 million (2010: £13.9 million).

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

Included in business transfers is £64.9 million (2010: £69.3 million) of vesting annuities that 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.

Included in “business transfers – out” during 2010 is £1,181.7 million relating to the Part VII transfer of the SERP business portfolio to Pearl Assurance plc.

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

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

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

##### **\*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).

During the year the insurer paid £21.6m (2010: £22.4m) and £4.1m (2010: £4.9m) to Pearl Group Management Services Limited and Ignis Asset Management Limited respectively in respect of services provided.

##### **\*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 £34 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 £101 million at the valuation date.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NATIONAL PROVIDENT LIFE LIMITED

##### Global Business

Financial year ended 31 December 2011

##### Appendix 9.3 (continued)

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

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.

###### **\*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: £27 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**

The credit rating agencies used to provide the split were UBS, Standard and Poor's and Moody's.

###### **\*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 if there is a unit-linked element. Otherwise, it has been included in column 3 for Form 51 if there is a profit sharing element or in column 3 of Form 52 if there is only capital account/unitised with-profit.

###### **\*5500\* Long-term insurance business: unit prices for internal linked funds**

Form 55, long-term insurance business: unit prices for internal linked funds, has not been included, as the insurer satisfies the de-minimis limit.

###### **\*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 £9,168. The insurance health risk capital component was estimated as 18% of this premium amount for consistency with INSPRU 1.1.85F.

## Returns under the Accounts and Statements Rules

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

#### National Provident Life Limited

#### Global business

#### Financial year ended 31 December 2011

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

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

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

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

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

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

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

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

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

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

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

##### **Global Business**

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

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

- a) NP Life Holdings Limited;
- b) Pearl Group Holdings (No. 2) Limited;
- c) Phoenix Life Holdings Limited;
- d) PGH (LCA) Limited;
- e) PGH (LCB) Limited;
- f) Phoenix Group Holdings;
- g) Xercise Limited;
- h) Alpha-Gamma Shares Limited\*;
- i) Alphabet Shares Limited\*;
- j) Delta Shares Limited\*;
- k) Zeta Shares Limited\*;
- l) Eta Shares Limited\*;
- m) Theta Shares Limited\*;
- n) Iota Shares Limited\*;
- o) Kappa Shares Limited\*;
- p) TDR Shares Limited\*;
- q) Lamda Shares Limited\*;
- r) Xercise 2 Limited\*;
- s) Jambright Limited;
- t) TDR Capital Nominees Limited; and
- u) TDR Capital LLP

\* approved as a controller on 6 April 2011

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

#### **1. NP Life Holdings Limited**

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

#### **2. Pearl Assurance Limited**

As at 31 December 2011, Pearl Assurance Limited 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 2011, Pearl Group Holdings (No. 2) Limited beneficially owned 100% of the issued share capital of Pearl Assurance 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.

## **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 2011**

(continued)

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

As at 31 December 2011, Phoenix Life Holdings Limited owned 100% of the issued share capital of Pearl Group Holdings (No. 2) Limited, a company of which 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 2011, PGH (LCA) Limited owned 50% of the issued share capital 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 2011, PGH (LCB) Limited owned 50% of the issued share capital 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**

As at 31 December 2011, Phoenix Group Holdings owned 100% of the issued share capital of PGH (LCA) Limited and PGH (LCB) Limited, which between them owned 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 PGH (LCB) Limited at any general meeting.

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

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

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

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

(continued)

#### **10. Alphabet Shares Limited**

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

#### **11. Delta Shares Limited**

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

#### **12. Zeta Shares Limited**

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

#### **13. Eta Shares Limited**

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

#### **14. Theta Shares Limited**

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

#### **15. Iota Shares Limited**

As at 31 December 2011, Iota Shares Limited, which is an associate of Xercise2 Limited within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 0.57% of the share capital of Phoenix Group Holdings, a company of which National Provident Life Limited is a subsidiary undertaking, and was able to exercise 0.57% 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 2011**

(continued)

#### **16. Kappa Shares Limited**

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

#### **17. TDR Shares Limited**

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

#### **18. Lamda Shares Limited**

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

#### **19. Xercise2 Limited**

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

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

#### **20. Jambright Limited**

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

(continued)

#### **21. TDR Capital Nominees Limited**

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

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

#### **22. TDR Capital LLP**

As at 31 December 2011, TDR Capital LLP and its subsidiary undertakings, which are associates within the meaning of the Financial Services and Markets Act 2000 in aggregate owned 16.7% of the share capital of Phoenix Group Holdings, a company of which National Provident Life Limited is a subsidiary undertaking, and were able to exercise 16.7% 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 2011.
- (2) The date to which the previous actuarial investigation under rule 9.4 related was 31 December 2010.
- (3) Since the previous valuation date, an interim valuation was carried out at 30 June 2011 for the purposes of rule 9.4.

#### Product range

2. There have been no significant changes to products during the financial year. The NPLL with-profits sub-fund is closed to new business except by increment.

#### 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 2010	Throughout 2011
Ordinary units	Jan 1988 to Dec 2008 Jan 2010 to Dec 2010	Throughout 2011 Throughout 2011
PPP, FSAVC, PRA, & FIP Unitised With-profit Series 2:		
Initial units	Jan 1994 to Dec 2010	Throughout 2011
Ordinary units	Jan 1997 to Dec 2001 Jan 2006 to Dec 2007	Throughout 2011 Throughout 2011
PPP, FSAVC, PRA & FIP Capital Account:		
Initial units	Jan 1994 to Dec 2010	Throughout 2011
New Approach PPP, FSAVC and EPP Regular Premium Unitised With-profit	Jan 1999 to Dec 2000	Throughout 2011
GMP, VGPPP, GAPP, GIA Unitised With-profit Series 1:		
Initial units	Jan 1988 to Dec 2010	Throughout 2011
Ordinary units	Jan 1988 to Dec 2008 Jan 2010 to Dec 2010	Throughout 2011 Throughout 2011
Penfund Series 1	Jul 1990 to Dec 2008 Jan 2010 to Dec 2010	Throughout 2011 Throughout 2011
Trustee With Profit Bond	Jan 1997 to Dec 2000	Throughout 2011

<b>Product</b>	<b>Premium Investment Date</b>	<b>Period applied</b>
With Profit Bond Series 1	June 1991 to Dec 2001	Throughout 2011
With Profit Bond Series 2	Jul 1993 to Dec 2001	Throughout 2011
With Profit Bond Series 3	Oct 1995 to Dec 2001	Throughout 2011
With Profit Bond Series 4	Jan 1997 to Dec 2001	Throughout 2011
With Profit Bond Series 5	Oct 1997 to Dec 2001	Throughout 2011
With Profit Bond Series 6	Jul 1998 to Dec 2001	Throughout 2011
With Profit Bond Series 7	Jan 1999 to Dec 2001	Throughout 2011
GMP, VGPPP, GAPP, GIA Capital Account Initial units	Jan 1988 to Dec 2010	Throughout 2011
EPP and PTP Capital Account Initial units	Jan 1985 to Dec 2001 Jan 2006 to Dec 2006	Throughout 2011 Throughout 2011
Portfolio Bond Series 1	Jul 1999 to June 2002 Apr 2005 to June 2005 Jul 2005 to Dec 2005 Jan 2006 to Mar 2008 Apr 2008 to Sep 2008 Jul 2010 to Sep 2010 Oct 2010 to June 2011	Throughout 2011 From 31 Dec 2010 to 31 Mar 2011 From 31 Dec 2010 to 30 Jun 2011 and from 30 Sep 2011 to 31 Dec 2011 Throughout 2011 From 31 Dec 2010 to 31 Mar 2011 and from 30 Sep 2011 to 31 Dec 2011 From 31 Dec 2010 to 31 Mar 2011 From 30 Sep 2011 to 31 Dec 2011.

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 2011 in line with either the Retail Prices Index, an increase of 3.16%, or National Average Earnings, an increase of 2.26%.
- (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.
- As at the end of 2011, all Equity funds had accumulated losses and tax rates for both losses and gains (realised and unrealised) were set to zero.
- In the event that tax rates are non-zero, the practice is that accruals for realised gains and losses in Equity funds are cleared at the end of each month. Accruals for unrealised gains and losses would be cleared at the end of each financial year under the "deemed disposal" regime.
- For Fixed Interest Funds a tax rate of 20% is currently applied to all realised and unrealised gains and tax relief of 20% applied to all realised and unrealised losses. Fixed interest tax accruals are cleared at the end of the month.
- (9) See (8) above.
- (10) The internal linked funds receive an initial charge discount and an annual management charge rebate when purchasing, selling or holding units in collective investment funds. This ensures that the policyholder is not subject to two sets of charges.

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

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

### **NON LINKED BUSINESS**

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

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

- (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, the basic reserve includes an allowance 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.

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:

<b>Product Group</b>	<b>2011</b>	<b>2010</b>	<b>Product Code</b>
<b>Net premium basis</b>			
Deposit administration	3.15%	4.10%	545, 555
Other pensions business	2.65%	3.70%	435
Other life business	2.12%	2.96%	100, 435
<b>Gross premium basis</b>			
Capital account	3.15%	4.10%	525, 535, 570
Life annuities	2.65%	3.70%	390, 395
Pension annuities	2.65%	3.70%	390, 400
Life with-profit endowments	2.52%	3.28%	120, 205
Life Unitised With-profit guaranteed (Series 1)	2.52%	3.28%	500
Life Unitised With-profit non-guaranteed	2.52%	3.28%	500
Pensions Unitised With-profit guaranteed (Series 1)	3.15%	4.10%	525, 535
Pensions Unitised With-profit non-guaranteed	3.15%	4.10%	525, 535, 570
Profit Sharing Account	3.15%	4.10%	155
Index linked annuities	1.00%	1.00%	905
<b>Unit-linked</b>			
Life sterling reserves	2.12%	2.96%	700, 715, 795
Pensions sterling reserves	2.65%	3.70%	725, 735, 750, 755

Notes:

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

- (3) Yields on other fixed interest or variable yield 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. An additional reserve has been held as an additional prudential allowance for default deductions. The additional reserve allows for a further increase to default deduction of 10% of the deductions as an allowance for adverse deviation.

For bank subordinated debt, the issuer's senior debt rating is used instead of an agency rating, 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	2011		2010		Product Code
	Males	Females	Males	Females	
<b>Pre-vesting</b>					
Endowment	100% AM92	100% AF92	100% AM92	100% AF92	120, 205
UWP business	110% AM92	110% AF92	100% AM92	100% AF92	
All other business	80% AM92	80% AF92	80% AM92	80% AF92	All others
<b>Post-vesting/In payment</b>					
Immediate and deferred pension annuities	97% RMV00	103.5% RFV00	92% RMV00	101.5% RFV00	390, 400, 905
Group GAF annuities	97% RMV00	103.5% RFV00	92% RMV00	101.5% RFV00	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 2011, for post-vesting mortality using the RMV00 and RFV00 tables, future mortality improvements in line with the CMI Mortality Projections model v1.0 with a 3.25% floor up to age 60 reducing to 0% at age 120 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 1.25% floors for females have been assumed at 31 December 2011.
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	23.8	14.7		
Group GAF annuities	23.8	14.7		
Life/IRS/Ind GAF annuities	24.0	15.0		
Other pension deferred annuities			26.9	25.3

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	26.2	16.3		
Group GAF annuities	26.2	16.3		
Life/IRS/Ind GAF annuities	25.5	16.0		
Other pension deferred annuities			29.0	27.7

- (5) There are no products representing a significant amount of business that use a morbidity basis.
- (6) The expense bases are as follows:

#### LINKED AND NON-LINKED BUSINESS

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

Product Group	Premium paying		Paid up & single premium		Product Code
	2011 £pa	2010 £pa	2011 £pa	2010 £pa	
CWP savings endowments	99.40	93.77	49.62	46.81	120
CWP pensions	60.64	57.21	24.36	22.98	165
Annuity			37.13	35.03	400
UWP bond			49.66	46.85	500
UWP regular premium pension	81.16	76.57	52.59	49.61	525
UWP single premium pension			52.59	49.61	525
UWP group regular premium pension	74.65	70.42	65.87	62.14	535
UWP group single premium pension			65.87	62.14	535
UL bond			49.66	46.85	700
UL savings endowment	133.21	125.67	106.52	100.49	715
UL regular premium pension	81.16	76.57	52.59	49.61	725

UL single premium pension			52.59	49.61	725
UL group regular premium pension	74.65	70.42	65.87	62.14	735
UL group single premium pension			65.87	62.14	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:

<b>Fund</b>	<b>2011 bps</b>	<b>2010 bps</b>
Unit Linked	13.22	13.22
Non-Linked		
Gilts	6.50	6.00
Corporate Bonds	8.80	6.00
Derivatives	10.35	6.00
Property	20.00	11.25
Equity	11.25	11.25
Cash	8.50	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:

<b>Product Group</b>	<b>Gross Unit Growth Rate</b>		<b>Expense Inflation</b>		<b>Policy Fee Inflation</b>		<b>Product Code</b>
	<b>(% p.a.)</b>		<b>Rate (% p.a)</b>		<b>Rate (% p.a.)</b>		
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	
Life business	3.20	4.60	4.20	4.60	2.30	2.70	700, 715, 795
Pensions business	3.40	4.70	4.20	4.60	2.30	2.70	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:

<b>Product Group</b>	<b>Reversionary bonus rate pa</b>	<b>Product Code</b>
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

<b>Product</b>		<b>Average lapse / surrender / paid up rate for the policy years</b>			
		<b>1-5</b>	<b>6-10</b>	<b>11-15</b>	<b>16-20</b>
CWP savings endowment	surrender	1.20%	1.20%	1.20%	1.20%
CWP target cash endowment	surrender	1.20%	1.20%	1.20%	1.20%
UL savings endowment	surrender	0.00%	0.00%	0.00%	0.00%
UWP bond	surrender	4.30%	4.30%	4.30%	4.30%
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	0.00%	0.00%	0.00%	0.00%
CWP pension regular premium	surrender	0.60%	0.60%	0.60%	0.60%
CWP pension single premium	surrender	0.60%	0.60%	0.60%	0.60%
UWP ind pension regular premium	PUP	15.00%	15.00%	15.00%	15.00%
UWP ind pension regular premium	surrender	3.30%	3.30%	3.30%	3.30%
UWP ind pension single premium	surrender	3.30%	3.30%	3.30%	3.30%
UL ind pension regular premium	PUP	15.00%	15.00%	15.00%	15.00%
UL ind pension regular premium	surrender	0.00%	0.00%	0.00%	0.00%
UL group pension regular premium	PUP	33.00%	33.00%	33.00%	33.00%
UL group pension regular premium	surrender	0.00%	0.00%	0.00%	0.00%
UL ind pension single premium	surrender	0.00%	0.00%	0.00%	0.00%

Notes:

1. There is an additional surrender rate of 100% on With Profit Bond Series 5 policies and some With Profit Bond Series 6 and 7 policies applying on the 10th policy anniversary (the date at which the no-MVR guarantee applies).

(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:

<b>Type of business</b>	<b>2011</b>	<b>2010</b>
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 total bond return swaps. 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 31 December 2006, allowance has been made as a result of changes in the valuation rules introduced by INSPRU. There is no change in the mathematical reserves caused by these valuation methodology adjustments as at 31 December 2011.

### 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>	27,332
<b>Spread of outstanding durations</b>	Gradual run-off mean term to vesting date of 4.1 years. Vesting assumed at age 60 or immediately if older.
<b>Guarantee reserve, £000</b>	Included in basic reserve shown above
<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**

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. 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
<b>Product name</b>	With Profit Bonds Series 5 (in force for less than ten years)
<b>Basic reserve, £000</b>	156
<b>Spread of outstanding durations</b>	All future anniversaries in 2012
<b>Guarantee reserve, £000</b>	Included in basic reserve shown above
<b>Guaranteed amount, £000</b>	161
<b>MVR free conditions</b>	10 <sup>th</sup> policy anniversary
<b>In force premium, £000</b>	All single premium
<b>Increments allowed</b>	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 and 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.

Table detailing guarantee reserves:

<b>Product Code</b>	155, 525, 725
<b>Product name</b>	Pension Transfer Plan
<b>Basic reserve, £'000</b>	299,646
<b>Spread of outstanding durations</b>	Gradual run-off mean term of 13.45 years
<b>Guarantee reserve, £'000</b>	103,519
<b>Increments allowed</b>	No
<b>Form of the annuity</b>	Varies from policy to policy
<b>Retirement ages</b>	Normal Retirement Age under the policy, usually between 60 and 70

#### 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	0.81	0.16	3.10	0.08	4.15
Unitised business	0.00	2.42	17.67	1.29	21.38
<b>Total</b>	<b>0.81</b>	<b>2.58</b>	<b>20.77</b>	<b>1.37</b>	<b>25.53</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 is 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 18.5 years (except the reciprocation costs which we assume run for 9 years), annual growth of 4.2% per annum, and discounted at 2.65% per annum. The term of 18.5 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.

<b>Homogeneous Product Group</b>	<b>Non-attributable expenses reserve £M</b>
Non-Unitised Business	1.7
Unitised Business	26.6

#### **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	3,118.1	3,118.1
Euro	0.0	0.0
<b>Total</b>	<b>3,118.1</b>	<b>3,118.1</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 £74.9 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) (a) The following financing arrangement was in-force at the valuation date

- |                                 |   |
|---------------------------------|---|
| (d) Issuer                      | Mutual Securitisation plc   |
| (e) Nature and extent           | £260 million of debt capital was raised in 1998, securitised against a specified fixed block of unit-linked and unitised with-profit business. Interest and principal payments are made from surpluses emerging from this block of business as defined in the securitisation agreement. |
| (f) Premiums paid in 2011, £000 | No premiums are payable. A repayment of interest and principal of 26,885 was made in 2011.  |
| (g) Deposit back                | Not applicable  |
| (h) Open or Closed              | Closed  |
| (i) Undischarged obligations    | The undischarged obligation was £131.6 million at the valuation date.   |
| (j) Reserves ceded £000s        | Not applicable  |
| (k) Retention for new business  | Not applicable  |
- (l) Mutual Securitisation plc is not authorised to carry on insurance business in the United Kingdom.
- (m) Mutual Securitisation plc is not a connected company of the insurer.
- (n) There are certain specified events where the bond trustee may demand immediate repayment of the loan.
- (o) Refund of reinsurance commission is not applicable to this arrangement.
- (p) (i) National Provident Life is required to make interest and principal payments from surplus emerging as defined under the agreement.  
(ii) A reserve is held for the future repayments in excess of emerging surplus under this arrangement as described in Section 8. The existence of the agreement has the impact of improving the regulatory peak solvency position to the extent that the additional capital exceeds the Securitised Loan Reserve.



(b) Not applicable

(c) The following treaties were in-force at the valuation date with reserves ceded exceeding the lesser of £10 million and 1% of total mathematical reserves.

(d) Reinsurer	Pearl Assurance plc	NPI Limited	NPI Limited	Pearl Assurance plc
(e) Nature and extent	Pensions Annuities written prior to 1/1/2000 are fully reassured except for the expense of administration	Unit Linked funds on policies written prior to 1/1/2000 are ceded as investment-only reinsurance.	All new index linked annuity policies and increments written from 1/1/2000 are fully reassured on original terms.  The expense liability on all unitised with-profits and capital account business sold post-2000 is reassured.	Pearl Portfolio Bond policies written 1 July 1999 to 31 December 1999 are fully reassured on original terms.
(f) Premiums paid in 2011 £000s	Nil	64,515 in aggregate to NPI Limited		Nil
(g) Deposit Back	Nil	Nil	Nil	Nil
(h) Open or closed	Closed	Open	Open	Closed
(i) Undischarged obligations	Expenses of administration	This is investment-only reinsurance	Nil – this is original terms reinsurance	Nil – this is original terms reinsurance
(j) Reserves ceded £000s	693,104	1,365,887	1,330,442	14,990
(k) Retention for new business	Not applicable	Not applicable	Not applicable	Not applicable

(l) Both Pearl Assurance plc and NPI Limited are authorised to carry on insurance business in the UK.

(m) Both these companies are connected companies of the insurer, all three of which are since 13 April 2005 members of the Pearl Group Limited, having previously been part of HHG plc.

(n) There are no material contingencies under any of these treaties;

(o) There is no provision to refund any reinsurance commission, except under the reinsurance covering new policies and increments. Any refund under that arrangement would be matched by a reclaim of commission from the seller of the insurance.

(p) Not applicable.

### Reversionary (or annual) bonus

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

#### Compound Bonus

Bonus series	31.12.2011	31.12.2011	31.12.2010	31.12.2011	Product code
	Basic mathematical reserve	Reversionary bonus	Reversionary bonus	Total guaranteed bonus	
	£000	%	%	%	
Life Unitised With-profit Series 1	84,746	3.00%	3.00%	3.00%	500
Life Unitised With-profit Series 2 to 7	98,729	0.00%	0.00%	-	500
Portfolio Bond 1	16,398	1.00%	1.00%	-	500
Pensions Unitised With-profit Series 1	1,957,458	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)	88,654	0.00% (1) 0.00% (2)	0.00% (1) 0.00% (2)	- -	525, 535, 570
Pension Capital Accounts (EPP & PTP)	45,508	0.00% (1) 2.00% (2)	0.00% (1) 1.75% (2)	- -	525, 535
Pension Capital Accounts (GMP VGPPP, Penfund and TTP)	12,933	0.00% (1) 2.00% (2)	0.00% (1) 1.75% (2)	- -	535
Deposit administration (VGF, CPP and Plan32)	28,353	2.00%	1.75%	-	545 555
Life Conventional With-profit	20,094	0.00%	0.00%	-	100, 120, 165, 205
Profit Sharing Account (EPP and PTP)	350,023	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 2011.
- (2) The date of the previous valuation was 31 December 2010.
- (3) Since the previous valuation date, an interim valuation was carried out at 30 June 2011 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 2011 is set out below, together with comparative figures as at 31 December 2010:

Year	Implied zero curve (gilts + 10bp)	
	Zero curve	
	31 December 2011	31 December 2010
1	0.32%	0.73%
2	0.42%	1.12%
3	0.64%	1.64%
4	0.89%	2.12%
5	1.14%	2.51%
10	2.20%	3.79%
15	2.85%	4.37%
20	3.21%	4.58%
25	3.39%	4.60%
30	3.46%	4.54%
35	3.46%	4.45%
40	3.43%	4.36%

- (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>With-profit benefits reserve, £m</b>	<b>Future policy related liabilities, £m</b>
Conventional with-profit life	8	18
Conventional with-profit pensions	177	278
Accumulating with-profit	1579	687
Capital Account/Deposit Administration	90	4
<b>Total</b>	<b>1,854</b>	<b>987</b>

- (2) The future policy related liabilities shown at line 49 in Form 19 also include allowance for financing costs of £187 million and £33 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) Not applicable .
- (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 2011.
- (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 2011:

	Maintenance expenses, £m	Investment management expenses, £m
Conventional with-profit life	0.16	0.01
Conventional with-profit pensions	0.61	0.14
Accumulating with-profit	6.37	1.28
Capital Account/Deposit Administration	0.53	0.0
<b>Total</b>	<b>7.7</b>	<b>1.4</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	0.180
Regulatory fees	0.209
Securitised loan/Bank of Ireland administration costs	0.397
Fees for independent members of the Supervisory Board	0.000
Salary for the AFH plus secretary	0.264
Charges including professional indemnity fee	0.069
Reciprocation costs with Premier Pension Trustees on business within NPLL	0.025
<b>Total</b>	<b>1.144</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 £3 million were deducted from the with-profit benefits reserves during the financial year. For the previous financial year, a similar charge of 2% was deducted from the with-profit benefits reserves and held in an earmarked account. Smoothing charges of £7 million were deducted from the with-profit benefits reserves during the previous 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 122% for 2011.
- (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 1.19%. The investment return allocated to the with-profit benefits reserve for Capital Account and Deposit Administration business in respect of the financial year was 10.71%. 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 280,859 individual policies and members of group schemes, which have been grouped together into 27,273 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. Majority of these guarantees are in the money and others are out of the money, depending on the date that the premium was paid.

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.

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 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 2011. To fit the model, the fit is targeted to the average duration of 11 years with the spread of 169basis points which reflects the average rating and duration on the bonds in the actual portfolio.

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 2011	23.70%	24.20%	25.00%	25.50%	25.80%

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%	35%	13%	-9%
<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)	1.16%	2.84%	3.38%	3.46%		x	x	x	x		x	x	x	x	
1	Risk-free zero coupon bond	£944,066	£656,581	£435,473	£304,465		x	X	x	x		X	X	x	X	
2	FTSE All Share Index (p=1)	£120,735	£259,988	£360,058	£433,608	£229,731	£407,981	£537,748	£622,986	£558,761	£760,010	£927,473	£1,029,693			
3	FTSE All Share Index (p=0.8)	£117,663	£228,006	£285,953	£321,877	£223,989	£358,575	£428,425	£463,697	£545,278	£669,767	£746,381	£770,645			
4	Property (p=1)	£34,746	£108,698	£183,657	£239,154	£138,670	£243,670	£338,670	£406,615	£519,602	£618,883	£721,226	£797,974			
5	Property (p=0.8)	£32,521	£83,790	£124,443	£147,999	£132,453	£195,583	£240,917	£264,855	£504,231	£520,910	£538,183	£545,778			
6	15 year risk free zero coupon bonds (p=1)	£21,624	£17,198	£11,279	£19,127	£87,574	£79,032	£87,817	£121,854	£499,817	£497,710	£503,424	£525,461			
7	15 year risk free zero coupon bonds (p=0.8)	£20,421	£11,379	£3,995	£2,552	£82,839	£49,885	£26,818	£28,803	£482,727	£379,495	£292,463	£254,532			
8	15 year corporate bonds (p=1)	£25,659	£30,996	£32,241	£44,330	£100,044	£110,756	£118,971	£151,003	£495,535	£492,196	£502,262	£529,611			
9	15 year corporate bonds (p=0.8)	£24,255	£20,750	£14,550	£13,795	£94,892	£77,714	£57,514	£56,599	£478,653	£380,272	£304,657	£272,879			
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	£75,010	£179,341	£264,511	£333,180	£174,270	£314,980	£425,994	£508,406	£525,404	£664,904	£800,659	£897,865			
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	£72,513	£151,818	£199,458	£232,583	£168,585	£267,997	£325,515	£360,682	£510,434	£573,062	£623,162	£648,684			
12	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)	£65,037	£152,851	£223,361	£288,482	£158,621	£280,205	£375,362	£453,107	£513,608	£622,214	£742,727	£832,177			
13	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)	£62,779	£127,406	£165,048	£195,885	£153,152	£236,321	£279,719	£314,055	£498,148	£530,804	£567,973	£588,112			
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	£36,302	£91,151	£141,863	£190,501	£120,407	£203,181	£277,217	£341,169	£502,965	£555,997	£638,995	£711,943			
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	£34,541	£71,525	£94,724	£113,949	£114,986	£162,322	£190,496	£212,929	£486,501	£458,261	£462,628	£470,855			
16	Receiver swaptions	16.10%	11.15%	7.67%	5.34%	19.27%	13.34%	9.20%	6.39%	21.93%	15.18%	10.48%	7.28%			

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

- (iv) For the purposes of calculating a net of tax return, the equity dividend yield has been set to 4.40% and the property rental yield to 4.40%.
- (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
UWP	10
Profit Sharing Account	7
Capital Account/Deposit Administration	5

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	103.28%	100.18%
15 years	101.73%	97.27%

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 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. There is no material drift in the corporate bond martingale 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 2011 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 an annual maximum charge of 2% of asset shares (subject to an overall cap of 25%). 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:

	<b>31 December 2011</b>	<b>31 December 2016</b>	<b>31 December 2021</b>
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
<u>All Durations</u>		
CWP savings endowment	surrender	1.60%
CWP target cash endowment	surrender	1.60%
UWP bond (series 2, 3, 4, 6, 7)	surrender	5.70%
UWP bond	automatic withdrawal	100% of current
UWP ind pension regular premium	PUP	15.00%
UWP ind pension regular premium	surrender	4.40%
UWP ind pension single premium	surrender	4.40%

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: 102% RMV00 with future mortality improvements in line with the CMI Mortality Projections model v1.0 with a floor of 3% per annum up to age 60 reducing to a floor of 0% per annum at age 110.

Female lives: 109% RFV00 with future mortality improvements in line with the CMI Mortality Projections model v1.0 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:

<b>Breakdown of financing costs in Form 19 (F19 L45)</b>	<b>£m</b>
Securitised loan	140.6
Lower tier 2 subordinated debt	12.4
Shareholder equalisation fund	0
Contingent loan	34.1
<b>Financing costs</b>	<b>187.1</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 £132 million and nominal amount outstanding including interest payments currently stands at £191m, where interest payments are 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 £141 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.

At 31 December 2009 the total 'nominal' balance on the Loan Capital Fund and Transfer Capital Fund was £671.679 million. The actual value of these funds (post any transfers and investment return) at 31 December 2009 was £685.472 million. As part of the transfer of NPLL's SERP business to Pearl Assurance on 4 January 2010, £524.256 million was transferred to Pearl Assurance. Thus, the actual value balance as at 31 December 2010 was £161.216 million (with an associated nominal balance remaining of £157.972 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 £0.02 million, this amount excludes the support charges.

The value of the contingent loan of £34.1 million shown above is net of tax on investment income on the overcoat funds of £0.705m. The tax amount is reported in line 47 of Form 19.

### 3) Shareholder Equalisation Fund

As part of NPLL's transfer of the SERP business, a "Shareholder Equalisation Fund" was established in the long term fund of NPLL. The initial value of the Shareholder Equalisation Fund was determined on a basis defined in the SERP Transfer Scheme and will be released to shareholders over time unless it is required to meet guarantee benefits. Over 2011, there has been a significant loss to the fund. As this liability is contingent on the solvency of the fund and ranks before the earmarked portfolio in terms of priority order of capital support, this liability is now assumed not to be payable.

### 4) 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 4.75% per annum plus the investment return on the assets.

The amount of £12.4 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.

### 5) 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:

- additional overhead expenses;
- 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 and overcoat.

## 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	1058.9
less subordinated debt accrual	8.9
less securitised loan accrual	2.6
Realistic current liabilities	1047.5

## 10. Risk capital margin

- (a) The risk capital margin for National Provident Life Limited at 31 December 2011 was £79.5 million.

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

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

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

- (ii) The nominal change in yields assumed for fixed interest securities for the purpose of the market risk scenario for UK assets was 0.43%. This represented a change of 17.5% in the level of the long-term gilt yield from a level of 2.46%. A fall in the level of yields was the more onerous change.

The only significant territory for the purposes of INSPRU 1.3.62R(1)(b), in respect of fixed interest securities is Germany, where 4.08% of the realistic asset value is currently invested.

- (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 87 basis points.
- (a) The change in value for the with-profit sub fund bond assets was a 4.54% fall in asset value.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.
- (e) There is no change in value for the with-profit sub fund other assets.
- (iv) The persistency risk scenario resulted in a 1.84% 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 do not cover the risk capital margin. The risk capital margin has been backed by approved fixed interest securities and other assets present in the shareholder fund.
- (ii) The assets of the Shareholder Fund are available to support the solvency of the long-term fund. The working capital for the financial year is zero following the assumption that some financing cost liabilities are not payable (as detailed in section 7). Shareholder assets provide support to the long-term fund via an Earmarked Portfolio subject to an undertaking given by National Provident Life Limited to the FSA. As at 31 December 2011 the Earmarked Portfolio stood at £175.3 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 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
DB Swaps	9820000	Receive	4.0879	27/05/2034
UBS Swaps	-164000000	Pay	4.338	17/12/2036
UBS Swaps	5000000	Receive	5.675	15/06/2022
UBS Swaps	-80300000	Pay	4.413	17/12/2025
UBS Swaps	110600000	Receive	4.621	18/12/2013
UBS Swaps	-265900000	Pay	4.349	18/12/2030
MS Swaps	-191700000	Pay	4.407	18/06/2025
UBS Swaps	117100000	Receive	4.54	20/12/2017
UBS Swaps	127600000	Receive	4.177	20/12/2045
UBS Swaps	437000000	Receive	4.782	19/12/2018
UBS Swaps	-61000000	Pay	4.104	20/12/2056
UBS Swaps	22505000	Receive	4.915	15/12/2021
UBS Swaps	315000000	Receive	4.94	15/06/2016
UBS Swaps	21250000	Receive	5.024	16/03/2022
UBS Swaps	-570000000	Pay	4.708	17/06/2026
UBS Swaps	-395000000	Pay	4.619	18/06/2031
DB Swaps	53000000	Receive	6.21	21/06/2012
DB Swaps	-777000000	Pay	6.16	21/06/2013
DB Swaps	-178000000	Pay	5.9925	21/06/2016
DB Swaps	-267000000	Pay	5.9375	21/06/2017
DB Swaps	68000000	Receive	5.3355	21/06/2032
DB Swaps	42000000	Receive	4.883	21/06/2057
DB Swaps	54000000	Receive	5.208	22/06/2037
DB Swaps	132000000	Receive	6.1025	23/06/2014
DB Swaps	55000000	Receive	5.25125	06/08/2032
DB Swaps	160000000	Receive	5.13125	06/08/2037
UBS Swaps	840000000	Receive	5.007	19/06/2013
BCAP Swaps	15170000	Receive	5.2258	07/12/2027
BCAP Swaps	7350000	Receive	4.8422	07/12/2038
BCAP Swaps	13770000	Receive	4.7371	07/12/2042
BCAP Swaps	9040000	Receive	5.0537	07/06/2032
BCAP Swaps	5270000	Receive	4.531	07/12/2055
IRS Swaps	80000000	Receive	4.685	22/07/2038
IRS Swaps	40000000	Receive	4.462	22/07/2048
IRS Swaps	25000000	Receive	4.352	22/07/2058
IRS Swaps	-85000000	Pay	5.264	30/07/2018
IRS Swaps	-75000000	Pay	5.224	30/07/2020
IRS Swaps	60000000	Receive	4.748	30/07/2033
IRS Swaps	95000000	Receive	4.6135	30/07/2038

IRS Swaps	55000000	Receive	4.414	30/07/2048
IRS Swaps	30000000	Receive	4.323	30/07/2058
DB Swaps	-108000000	Pay	3.865	11/12/2028
IRS Swaps	-108200000	Pay	3.8323	11/12/2028
DB Swaps	-72000000	Pay	3.845	11/12/2028
BCAP Swaps	-36000000	Pay	3.85	11/12/2028
DB Swaps	272100000	Receive	3.7666	22/12/2028
DB Swaps	273600000	Receive	3.8592	22/12/2023
IRS Swaps	-14400000	Pay	4.048	07/11/2039
IRS Swaps	-9000000	Pay	3.84068	07/12/2049
IRS Swaps	-11600000	Pay	3.94627	07/03/2036
IRS Swaps	-6400000	Pay	3.8895	07/12/2046
IRS Swaps	-90000000	Pay	5.357	22/07/2020
IRS Swaps	-65000000	Pay	5.447	22/07/2018
UBS Swaps	-36112000	Pay	4.618	17/12/2014
IRS Swaps	20000000	Receive	5.54	22/07/2016
IRS Swaps	65000000	Receive	5.717	22/07/2013
IRS Swaps	70000000	Receive	4.841	22/07/2033
UBS Swaps	36112000	Receive	4.618	17/12/2014

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

<b>Security name</b>	<b>Notional amount £s</b>	<b>Pay/Receive</b>	<b>Strike level %</b>	<b>Maturity date</b>
Deutsche Bank Break Even	123000	Receive	3.09% pa	20/06/2045
Deutsche Bank Break Even	146000	Receive	3.09% pa	20/06/2044
Deutsche Bank Break Even	173000	Receive	3.09% pa	20/06/2043
Deutsche Bank Break Even	206000	Receive	3.09% pa	20/06/2042
Deutsche Bank Break Even	245000	Receive	3.09% pa	20/06/2041
Deutsche Bank Break Even	293000	Receive	3.09% pa	20/06/2040
Deutsche Bank Break Even	353000	Receive	3.09% pa	20/06/2039
Deutsche Bank Break Even	426000	Receive	3.09% pa	20/06/2038
Deutsche Bank Break Even	522000	Receive	3.09% pa	20/06/2037
Deutsche Bank Break Even	646000	Receive	3.09% pa	20/06/2036
Deutsche Bank Break Even	800000	Receive	3.09% pa	20/06/2035
Deutsche Bank Break Even	984000	Receive	3.09% pa	20/06/2034
Deutsche Bank Break Even	1199000	Receive	3.09% pa	20/06/2033
Deutsche Bank Break Even	1440000	Receive	3.09% pa	20/06/2032
Deutsche Bank Break Even	1706000	Receive	3.09% pa	20/06/2031
Deutsche Bank Break Even	2001000	Receive	3.09% pa	20/06/2030
Deutsche Bank Break Even	2326000	Receive	3.09% pa	20/06/2029
Deutsche Bank Break Even	2678000	Receive	3.09% pa	20/06/2028
Deutsche Bank Break Even	3056000	Receive	3.09% pa	20/06/2027
Deutsche Bank Break Even	3463000	Receive	3.09% pa	20/06/2026

Deutsche Bank Break Even	3908000	Receive	3.09% pa	20/06/2025
Deutsche Bank Break Even	4390000	Receive	3.09% pa	20/06/2024
Deutsche Bank Break Even	4900000	Receive	3.09% pa	20/06/2023
Deutsche Bank Break Even	5441000	Receive	3.09% pa	20/06/2022
Deutsche Bank Break Even	6022000	Receive	3.09% pa	20/06/2021
Deutsche Bank Break Even	6650000	Receive	3.09% pa	20/06/2020
Deutsche Bank Break Even	7330000	Receive	3.09% pa	20/06/2019
Deutsche Bank Break Even	8060000	Receive	3.09% pa	20/06/2018
Deutsche Bank Break Even	8846000	Receive	3.09% pa	20/06/2017
Deutsche Bank Break Even	9687000	Receive	3.09% pa	20/06/2016
Deutsche Bank Break Even	10603000	Receive	3.09% pa	20/06/2015
Deutsche Bank Break Even	11634000	Receive	3.09% pa	20/06/2014
Deutsche Bank Break Even	12793000	Receive	3.09% pa	20/06/2013
Deutsche Bank Break Even	14080000	Receive	3.09% pa	20/06/2012

The fund also holds a number of total return bond swaps ("TRS") executed with Barclays, Morgan Stanley and RBS. These are summarised in the table below:

Security name	Notional amount £s	Pay/Receive	Strike level %	Maturity date
RBS TRS	11900000	Receive	4.25% pa	27/04/2012
Morgan Stanley TRS	6800000	Receive	4.25% pa	08/08/2012
Barclays TRS	14700000	Receive	4.25% pa	01/10/2012
Barclays TRS	9600000	Receive	4.25% pa	27/09/2012

### 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 2010 to 31 December 2011.

	£m
<b>Working capital at 31 December 2010</b>	<b>81.6</b>
<b>Methodology changes</b>	
Model and methodology changes	(10.4)
True-Up	(2.0)
<b>Basis change</b>	
Updated longevity assumption	1.3
Updated surrender assumption	(11.7)
Updated mortality assumption	(3.1)
<b>Roll Forward</b>	
Expected return and other movements	0.9

<b>Investment returns variance:</b>	
Equity variance	(1.4)
Property variance	0.6
Impact of change in fixed interest yields	(105.2)
Change in the calibration of the ESG	(13.0)
Other (Inflation and Tax)	(2.8)
<b>Miscellaneous</b>	
Actual policy movements differing from expected	(0.3)
Unexplained	(1.2)
<b>Impairment of SEF and sub debt</b>	<b>67.5</b>
<b>Working capital at 31 December 2011</b>	<b>0</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 2011**

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

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

#### Note 1

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

#### Note 2

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

## Returns under the Accounts and Statements Rules

### Certificate required by rule 9.34(1)

#### NATIONAL PROVIDENT LIFE LIMITED

#### Global Business

#### Financial year ended 31 December 2011

We certify that: -

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



M J Merrick  
Chief Executive



A Moss  
Director



M D Ross  
Director

Date: 20 March 2012

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

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

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

##### **Global business**

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

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

- Forms 2, 3, 13 to 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 valuation reports required by IPRU(INS) rule 9.31 ("the valuation reports").

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

- 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 required by IPRU(INS) rule 9.34(1).

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

#### **Respective responsibilities of the insurer and its 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 issued under section 148 of the Act, referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports 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:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statement and the valuation reports are not in agreement with the accounting records and returns; or



## Returns under the Accounts and Statements Rules

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

#### NATIONAL PROVIDENT LIFE LIMITED

#### Global business

Financial year ended 31 December 2011

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

- we have not received all the information we require for our audit.

#### Basis of opinion

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

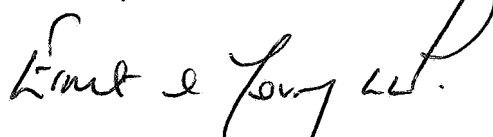
We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation reports are free from material misstatement, whether caused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

Statutory Auditor

London

Date 21 March 2012