

# **NPI LIMITED**

Registered in England - No. 3725037

Registered Office

The Pearl Centre  
Lynch Wood  
Peterborough  
PE2 6FY

**Annual FSA Insurance Returns for the year ended  
31 December 2006**

Appendices 9.1 , 9.3 , 9.4 , 9.6

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

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R2</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			<b>1</b>			<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	25000	24984
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	148539	83729
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	173539	108713

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	16983	15228
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	156556	93485

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	50949	45682
Resilience capital requirement	<b>32</b>	6234	5094
Base capital resources requirement	<b>33</b>	2139	2030
Individual minimum capital requirement	<b>34</b>	57183	50776
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	57183	50776
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	144947	83325
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	130652	70631

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	57183	50776

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	57183	50776
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	116356	57937

**Contingent liabilities**

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

Form 2

Name of insurer **NPI LIMITED**

Global business

Financial year ended **31 December 2006**

*JSM*

J S Moss

**Managing Director**

*JSB Smith*

J S B Smith

**Director**

*JRC*

J R Cusins

**Director**

Date *28* March 2007

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/UK/CM	day month year			Units
<b>R3</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		250000	250000	250000
Profit and loss account and other reserves	<b>12</b>		54099	54099	(81993)
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		304099	304099	168007

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>	-	304099	304099	168007
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>		12567	12567	
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		23315	23315	15613
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		35882	35882	15613
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		268217	268217	152394

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

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

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

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

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business <b>1</b>	Long-term insurance business <b>2</b>	Total as at the end of this financial year <b>3</b>	Total as at the end of the previous year <b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		268217	268217	152394
Inadmissible assets other than intangibles and own shares	<b>73</b>		27940	27940	43681
Assets in excess of market risk and counterparty limits	<b>74</b>		66738	66738	
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				
Deductions of ineligible surplus capital	<b>77</b>				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		173539	173539	108713

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

Available capital resources for guarantee fund requirement	<b>81</b>		173539	173539	108713
Available capital resources for 50% MCR requirement	<b>82</b>		173539	173539	108713
Available capital resources for 75% MCR requirement	<b>83</b>		173539	173539	108713

**Financial engineering adjustments**

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

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		14730
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares		<b>41</b>		
Other shares and other variable yield participations		<b>42</b>		
Holdings in collective investment schemes		<b>43</b>	49484	19872
Rights under derivative contracts		<b>44</b>		
Fixed interest securities	Approved	<b>45</b>		
	Other	<b>46</b>		
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools		<b>49</b>		
Loans secured by mortgages		<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings		<b>51</b>		
Loans secured by policies of insurance issued by the company		<b>52</b>		
Other loans		<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	36136	64976
	More than one month withdrawal	<b>55</b>	2782	
Other financial investments		<b>56</b>		
Deposits with ceding undertakings		<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	
	Intermediaries	<b>72</b>	
Salvage and subrogation recoveries		<b>73</b>	
Reinsurance	Accepted	<b>74</b>	
	Ceded	<b>75</b>	
Dependants	due in 12 months or less	<b>76</b>	
	due in more than 12 months	<b>77</b>	
Other	due in 12 months or less	<b>78</b>	<b>11</b>
	due in more than 12 months	<b>79</b>	

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	48105	55
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	464	
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	97	55

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	151798	84969
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**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	151798	84969
Assets in excess of market and counterparty limits	<b>92</b>	66738	
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>	12567	
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	231103	84969
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		11

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>		148795	155669	

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	134869	140603	
Rights under derivative contracts	<b>44</b>	87		
Fixed interest securities	Approved	<b>45</b>	393440	380596
	Other	<b>46</b>	215386	172797
Variable interest securities	Approved	<b>47</b>	227	1215
	Other	<b>48</b>	2622	2819
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>	376	984	
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>	63	77	
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>		1
	More than one month withdrawal	<b>55</b>	9677	
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>	26283	24990
	Property linked	<b>59</b>	3744732	2988776

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

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	122	
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		15392
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	28714	13690
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	325	683
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	21741	18624
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	665	557

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	4728124	3917473
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**Analysis of admissible assets**Name of insurer **NPI LIMITED**

Global business

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	3725037	GL	31	12	2006	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	4728124	3917473
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98	27940	33681
Reinsurers' share of technical provisions excluded from line 89	99	486219	473370
Other asset adjustments (may be negative)	100		10000
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	5242283	4434524
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	17494	6787

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

Global business

Financial year ended **31 December 2006**Total business/Sub fund **Total long term insurance business assets**Units **£000**

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

Mathematical reserves, after distribution of surplus	<b>11</b>	4470814	3653355	
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>	25000	24984	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	4495814	3678339	
Claims outstanding	Gross	<b>15</b>	9409	5421
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	9409	5421
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	300	
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	29	
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	167577	162255	
Creditors	Taxation	<b>37</b>	8843	1524
	Other	<b>38</b>	31136	53754
Accruals and deferred income	<b>39</b>	1601	567	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>	13415	15613	
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	232310	239134	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	4728124	3917473	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	12968	34310
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	3744732	2988776

Total liabilities (11+12+49)	<b>71</b>	4703124	3892489
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	486219	473370
Other adjustments to liabilities (may be negative)	<b>74</b>	(23315)	(15613)
Capital and reserves and fund for future appropriations	<b>75</b>	76255	84278
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	5242283	4434524

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

Global business

Financial year ended **31 December 2006**

R15	Company registration number 3725037	GL/ LIK/ CM	day month year			Units £000
			31	12	2006	
			As at end of this financial year		As at end of the previous year	
			1		2	

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		819
	Declared dividend	48		
	Other	49	3256	421
Accruals and deferred income		51	3	
Total (19 to 51)		59	3259	1240
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	3259	1240

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71	3256	421
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Reinsurers' share of DAC	81		
Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		
Capital and reserves	84	227844	83279
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	85	231103	84519

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

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				This financial year			Previous year	
				<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>			87877	78700	
Investment income	Income		<b>14</b>			4135	282	
	Value re-adjustments on investments		<b>15</b>					
	Gains on the realisation of investments		<b>16</b>			183		
Investment charges	Investment management charges, including interest		<b>17</b>			58	12	
	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>			(490)	(402)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			91647	78568	
Tax on profit or loss on ordinary activities			<b>31</b>			1131	(39)	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			90516	78607	
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>			90516	78607	
Dividends (paid or declared)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			90516	78607	

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

Global business

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

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>3725037</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>					As at the end of this financial year		As at the end of the previous year		
					Assets <b>1</b>	Liabilities <b>2</b>		Assets <b>3</b>	Liabilities <b>4</b>
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>		87		128			
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>		87		128			



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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	170107	193136
Investment income receivable before deduction of tax	12	132423	125274
Increase (decrease) in the value of non-linked assets brought into the account	13	(42459)	23749
Increase (decrease) in the value of linked assets	14	238271	419359
Other income	15	4927	6938
<b>Total income</b>	<b>19</b>	<b>503269</b>	<b>768456</b>

**Expenditure**

Claims incurred	21	492696	522874
Expenses payable	22	13087	15975
Interest payable before the deduction of tax	23	1188	434
Taxation	24	(10503)	(3765)
Other expenditure	25	16969	18963
Transfer to (from) non technical account	26	87877	78700
<b>Total expenditure</b>	<b>29</b>	<b>601314</b>	<b>633181</b>

Business transfers - in	31	915520	
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	817475	135275
Fund brought forward	49	3678339	3543064
Fund carried forward (39+49)	59	4495814	3678339

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	3827	39761		43588	59337
Single premiums	12	3146	134246		137392	136851

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15	10	1053		1063	2259
Single premiums	16		9810		9810	793

**Net of reinsurance**

Regular premiums	17	3817	38708		42525	57078
Single premiums	18	3146	124436		127582	136058

**Total**

Gross	19	6973	174007		180980	196188
Reinsurance	20	10	10863		10873	3052
Net	21	6963	163144		170107	193136

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	8610	9334		17944	16057
Disability periodic payments	12					
Surrender or partial surrender	13	116246	335498		451744	425608
Annuity payments	14	5901	44568		50469	37775
Lump sums on maturity	15	4810	104475		109285	178491
<b>Total</b>	<b>16</b>	<b>135567</b>	<b>493875</b>		<b>629442</b>	<b>657931</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

Death or disability lump sums	31	4372	282		4654	7211
Disability periodic payments	32					
Surrender or partial surrender	33	97945	30594		128539	125377
Annuity payments	34		654		654	
Lump sums on maturity	35		2899		2899	2469
<b>Total</b>	<b>36</b>	<b>102317</b>	<b>34429</b>		<b>136746</b>	<b>135057</b>

**Net of reinsurance**

Death or disability lump sums	41	4238	9052		13290	8846
Disability periodic payments	42					
Surrender or partial surrender	43	18301	304904		323205	300231
Annuity payments	44	5901	43914		49815	37775
Lump sums on maturity	45	4810	101576		106386	176022
<b>Total</b>	<b>46</b>	<b>33250</b>	<b>459446</b>		<b>492696</b>	<b>522874</b>

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11	1	1003		1004	2502
Commission - other	12	447	728		1175	1595
Management - acquisition	13	251	2578		2829	1935
Management - maintenance	14	4894	9091		13985	10409
Management - other	15	3875	(9266)		(5391)	928
<b>Total</b>	<b>16</b>	<b>9468</b>	<b>4134</b>		<b>13602</b>	<b>17369</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	515			515	1394
Management - other	35					
<b>Total</b>	<b>36</b>	<b>515</b>			<b>515</b>	<b>1394</b>

**Net of reinsurance**

Commission - acquisition	41	1	1003		1004	2502
Commission - other	42	447	728		1175	1595
Management - acquisition	43	251	2578		2829	1935
Management - maintenance	44	4379	9091		13470	9015
Management - other	45	3875	(9266)		(5391)	928
<b>Total</b>	<b>46</b>	<b>8953</b>	<b>4134</b>		<b>13087</b>	<b>15975</b>

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

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

Financial year	Previous year
1	2

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

Directly held assets (excluding collective investment schemes)	11	274808	255171
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	3496136	2764808
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>3770944</b>	<b>3019979</b>
Provision for tax on unrealised capital gains	15	3367	
Secured and unsecured loans	16		
Other liabilities	17	7666	10473
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>3759911</b>	<b>3009506</b>

**Directly held linked assets**

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

Value of directly held linked assets and units held (18+21)	31	3759911	3009506
Surplus units	32	15179	20730
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>3744732</b>	<b>2988776</b>

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

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

Financial year 1	Previous year 2
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**Income**

Value of total creation of units	11	247479	212337
Investment income attributable to the funds before deduction of tax	12	71026	96663
Increase (decrease) in the value of investments in the financial year	13	238271	419359
Other income	14	854576	6280
<b>Total income</b>	<b>19</b>	<b>1411352</b>	<b>734639</b>

**Expenditure**

Value of total cancellation of units	21	622841	585701
Charges for management	22	28807	27434
Charges in respect of tax on investment income	23	6510	7274
Taxation on realised capital gains	24	280	168
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	1895	
Other expenditure	26	614	730
<b>Total expenditure</b>	<b>29</b>	<b>660947</b>	<b>621307</b>

Increase (decrease) in funds in financial year (19-29)	39	750405	113332
Internal linked fund brought forward	49	3009506	2896174
Internal linked funds carried forward (39+49)	59	3759911	3009506

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

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

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

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

Regular premium business	11		42		42	620
Single premium business	12	168	481		649	6662
<b>Total</b>	<b>13</b>	168	523		691	7282

**Amount of new regular  
premiums**

Direct insurance business	21	76	138		214	261
External reinsurance	22					
Intra-group reinsurance	23		401		401	478
<b>Total</b>	<b>24</b>	76	539		615	739

**Amount of new single  
premiums**

Direct insurance business	25	2496	13330		15826	18747
External reinsurance	26					
Intra-group reinsurance	27	650	120916		121566	118302
<b>Total</b>	<b>28</b>	3146	134246		137392	137049

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

Name of insurer **NPI LIMITED**

Total business

Financial year ended

Units

UK Life / Direct Insurance Business

**31 December 2006**

**£000**

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
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
390	Deferred Annuity non-profit				16
395	Annuity non-profit (PLA)			168	2163
700	Life property linked single premium				316
710	Life property linked whole life regular premium		6		
715	Life property linked endowment regular premium - savings		70		1



Long-term insurance business : Analysis of new business

Name of insurer **NPI LIMITED**

Total business

Financial year ended

Units

UK Life / Reinsurance accepted intra-group

31 December 2006

£000

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)				633
700	Life property linked single premium				17

**Long-term insurance business : Analysis of new business**Name of insurer **NPI LIMITED**

Total business

Financial year ended

**31 December 2006**

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
400	Annuity non-profit (CPA)			421	6048
525	Individual pensions UWP			60	344
725	Individual pensions property linked		56		1429
730	Individual pensions property linked - increments		72		4784
735	Group money purchase pensions property linked	42	10		722
795	Miscellaneous property linked				3

Long-term insurance business : Analysis of new business

Name of insurer NPI LIMITED

Total business

Financial year ended 31 December 2006

Units £000

UK Pension / Reinsurance accepted intra-group

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
400	Annuity non-profit (CPA)				105746
525	Individual pensions UWP				639
730	Individual pensions property linked - increments		385		13446
735	Group money purchase pensions property linked		16		1085

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

Name of insurer **NPI LIMITED**  
 Category of assets **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

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

Land and buildings	11	148795	148795			
Approved fixed interest securities	12	401149	402769	20653	4.87	
Other fixed interest securities	13	220376	220376	12207	5.38	
Variable interest securities	14	3135	3135	51	2.14	
UK listed equity shares	15		8061	204	2.53	
Non-UK listed equity shares	16		4650	66	1.41	
Unlisted equity shares	17					
Other assets	18	183654	169323	6714	3.98	
<b>Total</b>	<b>19</b>	<b>957109</b>	<b>957109</b>	<b>39895</b>	<b>4.03</b>	

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

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

**Overall return on with-profits assets**

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

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

Name of insurer **NPI LIMITED**  
 Category of assets **Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	43511	7.28	4.86	4.86

<b>Other approved fixed interest securities</b>	<b>21</b>	359258	10.43	4.87	4.87
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**Other fixed interest securities**

AAA/Aaa	31	43732	9.71	5.20	5.13
AA/Aa	32	77828	10.84	5.33	5.22
A/A	33	89195	10.49	5.46	5.20
BBB/Baa	34	4637	9.91	5.46	4.72
BB/Ba	35	4984	0.11	6.17	5.42
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
<b>Total other fixed interest securities</b>	<b>39</b>	220376	10.21	5.38	5.19

<b>Approved variable interest securities</b>	<b>41</b>	2844	10.85	1.80	1.80
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<b>Other variable interest securities</b>	<b>51</b>	291	12.00	5.45	5.18
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	626280	10.14	5.04	4.97
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**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12	63374	622458	685832	586330
Form 52	13	272973	118852	391825	482796
Form 53 - linked	14	621026	3123706	3744732	2988776
Form 53 - non-linked	15	10789	96253	107042	42289
Form 54 - linked	16	2306	23977	26283	24990
Form 54 - non-linked	17	340	956	1296	1543
<b>Total</b>	<b>18</b>	<b>970808</b>	<b>3986202</b>	<b>4957010</b>	<b>4126724</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				1
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>				<b>1</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32		48698	48698	
Form 52	33	270263	110130	380393	473368
Form 53 - linked	34				
Form 53 - non-linked	35	2	56972	56974	
Form 54 - linked	36				
Form 54 - non-linked	37		131	131	
<b>Total</b>	<b>38</b>	<b>270265</b>	<b>215931</b>	<b>486196</b>	<b>473368</b>

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42	63374	573760	637134	586330
Form 52	43	2710	8722	11432	9428
Form 53 - linked	44	621026	3123706	3744732	2988776
Form 53 - non-linked	45	10787	39281	50068	42288
Form 54 - linked	46	2306	23977	26283	24990
Form 54 - non-linked	47	340	825	1165	1543
<b>Total</b>	<b>48</b>	<b>700543</b>	<b>3770271</b>	<b>4470814</b>	<b>3653355</b>

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

Name of insurer

NPI LIMITED

Total business / subfund

Total long term insurance business

Financial year ended

31 December 2006

Units

£000

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
395	Annuity non-profit (PLA)	6113	5038					61617
435	Miscellaneous non-profit	107	107	107				121
440	Additional reserves non-profit OB							1636

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
390	Deferred annuity non-profit		359					5036
400	Annuity non-profit (CPA)	10004	48082					612419
435	Miscellaneous non-profit	16	1320	6				23
440	Additional reserves non-profit OB							4980





















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

Name of insurer **NPI LIMITED**

Total business / subfund **Total long term insurance business**

Financial year ended **31 December 2006**

Units **£000**

UK Pension / Reinsurance ceded intra-group

Product code number	1	2	Product description	3	4	5	6	7	8	9
Product code number			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		Product description	3	4	5	6	7	8	9
725	Individual pensions property linked		Individual pensions property linked						56972	56972

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

1 Product code number	2 Product description	3 Number of policyholders / scheme members	4 Amount of benefit	5 Amount of annual office premiums	6 Nominal value of units	7 Discounted value of units	8 Other liabilities	9 Amount of mathematical reserves
905	Index linked annuity	82	241		2306	2306	340	2646

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
905	Index linked annuity	119	1609		23977	23977	956	24933

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business**

Financial year ended **31 December 2006**  
 Units **£000**

UK Pension / Reinsurance ceded intra-group

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
905	Index linked annuity	4	5				131	131

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

Name of insurer **NPI LIMITED**

Total business

Financial year ended **31 December 2006**Units **£000**

<b>Fund name</b> 1	<b>Type of fund</b> 2	<b>Net assets</b> 3	<b>Main series</b> 4	<b>Unit management charge</b> 5	<b>Price at previous valuation date</b> 6	<b>Price at current valuation date</b> 7	<b>Change in price during year</b> 8
NPI - Pension Global Care Managed	14 - individual pension - other managed fund	126968	Ordinary Series 1 & 2	1.01	1.9519	2.2419	14.85
NPI - Pension Managed	12 - individual pension - balanced managed fund	1743707	Ordinary Series 1 & 2	1.01	14.1709	15.4287	8.88
NPI - Pension UK Equity	15 - individual pension - UK equity	275746	Ordinary Series 1 & 2	1.01	18.8671	21.7402	15.23
PAULP - Retirement Managed	14 - individual pension - other managed fund	367715	Mixed Accumulation	1.00	3.7020	4.0780	10.16
PAUF - Balanced Managed	02 - life - balanced managed fund	188530	Mixed Accumulation	1.00	2.9000	3.1430	8.38

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

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

Type of assets and liabilities	Name of index link 1	Value of assets or liabilities 2	Gross derivative value 3
UK TREASURY 2.5% INDEX-LINKED 20/05/09	RPI	9174	
UK TREASURY 2.5% INDEX-LINKED 26/07/16	RPI	4597	
UK TREASURY 4.125% INDEX-LINKED 22/07/30	RPI	4904	
UK TREASURY 2% INDEX-LINKED 26/01/35	RPI	5172	
BARCLAYS BANK FRN PERPETUAL 19/04/27 GBP	RPI	2436	
<b>Total assets</b>		26283	
<b>Total liabilities</b>			
<b>Net total assets</b>		26283	

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

Name of insurer **NPI LIMITED**  
 Total business **Total long term insurance business**  
 Financial year ended **31 December 2006**  
 Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UKL NP Code 395/905	63278	4.75	4.75	4.96
UKP NP Code 390/400/905	573737	4.75	4.75	4.96
UKL NP Code 700/710/715/720	10754	3.10	3.80	5.12
UKL WP Code 500/575	2710	3.10	3.90	4.08
UKP WP Code 525/535/570	8687	3.90	3.90	4.08
UKP NP Code 800	29	3.90	3.90	4.08
UKP WP Code 725/735	12332	3.90	3.90	4.08
UKP NP Code 725	5320	3.80	3.80	5.12
UKP NP Code 725	21568	(0.10)	(0.10)	5.12
Misc	1384			4.08
<b>Total</b>	699799			

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

Name of insurer **NPI LIMITED**  
 Total business / subfund **Total long term insurance business**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	4495814	3678339
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	87877	78700
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	4583691	3757039
Mathematical reserves	21	4470814	3653355
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	112877	103684

**Composition of surplus**

Balance brought forward	31	24984	94932
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33	6462	
Surplus arising since the last valuation	34	81431	8752
Total	39	112877	103684

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	87877	78700
Total distributed surplus (46+47)	48	87877	78700
Surplus carried forward	49	25000	24984
Total (48+49)	59	112877	103684

**Percentage of distributed surplus allocated to policyholders**

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



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

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

1	2	3	4	5	6	7	8
Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	25	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	5	14108	1512	0	UWP	Y	14108
Regular premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	11227	327	0	UWP	Y	11227
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a

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

Name of insurer **NPI LIMITED**  
 Original insurer **NPI LIMITED**  
 Date of surrender value **01 March 2007**

Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	10421	0	(665)	UWP	Y	11197
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	11227	327	0	UWP	Y	12061
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a

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

Global business

Financial year ended **31 December 2006**Units **£000**

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

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%		0.50		
Classes I (other), II and IX	14	0.3%	45044	13386	68	121
Classes III, VII and VIII	15	0.3%	343874	343874	1032	29
<b>Total</b>	<b>16</b>		<b>388918</b>	<b>357260</b>	<b>1100</b>	<b>150</b>

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

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	1081536	648565	0.85	9193	9131
Classes III, VII and VIII (investment risk)	33	1%	231889	174917	0.85	1971	1784
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	362363	362363	1.00	3624	1147
Classes III, VII and VIII (other)	35	25%				1569	723
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					<b>16357</b>	<b>12785</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	1081536	648565	0.85	27579	27394
Classes III, VII and VIII (investment risk)	43	3%	231889	174917	0.85	5913	5353
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	362363	362363			
Classes III, VII and VIII (other)	45	0%	3284970	3284970			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		<b>4960758</b>	<b>4470815</b>		<b>33492</b>	<b>32747</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>50949</b>	<b>45682</b>
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## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1

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

	2006	2005
	£000	£000
Net admissible assets:		
Form 13 Line 89 (other than long term business)	151,798	84,969
Form 13 Line 89 (long term business)	4,728,124	3,917,473
Less Form 14 Line 71	(4,703,124)	(3,892,489)
Less Form 15 Line 69	(3,259)	(1,240)
Total capital resources after deductions	<u>173,539</u>	<u>108,713</u>

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

	2006	2005
	£000	£000
<b>Valuation differences included within Form 3 Line 35</b>		
<b>Positive valuation differences in respect of liabilities</b>		
Deferred taxation liability	6,000	-
Onerous contracts provisions in respect of unithed contracts	2,048	-
<b>Negative valuation differences in respect of liabilities</b>		
Provision for reasonably foreseeable adverse variations	(13,415)	(15,613)
Mathematical reserves in respect of unithed contracts	(17,948)	-
<b>Net valuation difference</b>	<u>(23,315)</u>	<u>(15,613)</u>

#### \*1305\* Counterparty limits

#### \*1319\*

- (a) The investment guidelines operated by the Company limit exposure to any one counterparty by establishing limits for each type. These limits are set by reference to the individual and aggregated limits set out in the Market and Counterparty limits in Chapter 2.1 of the Prudential Sourcebook for Insurers.
- (b) The maximum permitted exposure to a counterparty other than an approved counterparty during the year was 1% of the business amount, calculated in accordance with Chapter 2.1 of the Prudential Sourcebook for Insurers. The exception to this is for loans to other companies within the same group, where the application of these guidelines is just one of the factors considered in determining the most appropriate allocation of capital within the group.
- (c) There were no breaches of these limits during the year.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

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

##### **\*1312\***

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

The amounts and nature of the assets giving rise to this exposure are:-

	£000
Bonds held with the following institutions:	
European Investment Bank	172,834
KFW International Finance	120,240
UK Treasury	68,583
Loan to parent undertaking	81,468
Henderson UCITS scheme	165,827

#### **\*1307\* Unlisted and listed investments**

##### **\*1313\***

- (a) The aggregate value of rights over collateral in respect of approved stock lending transactions is £19.2 million.
- (b) On 22 February 2007, reinsurance arrangements between the insurer and Opal reinsurance Limited ("Opal") were approved in principle by the Board of Directors and it is anticipated that a reinsurance treaty will be signed during the first half of 2007. The arrangement involved the reinsurance of specified pension annuities in payment to Opal effective from 1 January 2007.

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

- (a) There are no investments in lines 41, 42, 46 or 48 which are unlisted or not readily realisable and all units or beneficial interest in collective investment schemes meet the specified criteria.
- (b) The aggregate value of reversionary interests is £148.8 million in respect of residential property reversions

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

### **Supplementary Notes**

#### **NPI Limited**

#### **Global Business**

**Financial year ended 31 December 2006**

#### **Appendix 9.1 (continued)**

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

On 1 October 2006 the insurer acquired 100% of the share capital of Pearl Assurance (Unit Funds) Limited, Pearl Assurance (Unit Linked Pensions) Limited and London Life Linked Assurances Limited by way of capital contribution of £141.9m from Pearl Group Limited.

In accordance with the insurance accounts rules, the insurer recognised a present value of acquired in force long term business asset of £12.6 million on acquisition. As this is an intangible asset, it has been disallowed on the category 1 Form 13.

Line 100, Form 13 for long term insurance business shows a £10 million deferred tax asset in December 2005.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

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

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

The key assumptions used to calculate the reversion amounts were:

Mortality: 80% IML/IFL 1992 with CMIR17 improvement factors (c2015) together with a surrender assumption to allow for sale before death without immediate repurchase.  
Future specific house price inflation 1.0% p.a.

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

Mortality: 72% IML/IFL 1992 with CMIR17 improvement factors (c2015) together with a surrender assumption to allow for sale before death without immediate repurchase set at three quarters the rate assumed in the reversion basis.  
Future specific house price inflation 0.5% p.a. below the growth in the Halifax house price index is assumed (of 1.25%).

A future LIBOR rate of 6.38% p.a. and a discount rate of 4.75% p.a. were assumed in calculating the provision.

The total provision was £13.4 million

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

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.1 (continued)

#### \*1402\* Liabilities

#### \*1502\*

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

The Personal Investment Authority (PIA) issued guidelines in 1995 on the analysis of cases by priority and the method of calculation of compensation. The provision for possible redress included in the mathematical reserves for Phase 1 is £20.9 million (2005: £19.7 million). The provision for possible redress included in the mathematical reserves for Phase 2 cases is £0.3 million (2005: £0.3 million).

Included in the mathematical reserves are also provisions for additional associated costs of £0.4 million (2005: £0.9 million).

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

- (d) The insurer has no guarantees, indemnities or other contractual commitments effected other than in the ordinary course of its insurance business in respect of related companies.
- (e) In the opinion of the directors, there are no other fundamental uncertainties affecting the financial position of the insurer.

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

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

	<b>2006</b>	<b>2005</b>
	£000	£000
<b>Positive valuation differences in respect of liabilities</b>		
Deferred taxation liability	6,000	-
Onerous contracts provisions in respect of unitised contracts	2,048	-
<b>Negative valuation differences in respect of liabilities</b>		
Provision for reasonably foreseeable adverse variations	(13,415)	(15,613)
Mathematical reserves in respect of unitised contracts	(17,948)	-
<b>Net valuation difference</b>	<u>(23,315)</u>	<u>(15,613)</u>



**Returns under the Accounts and Statements Rules**

**Supplementary Notes**

**NPI Limited**

**Global Business**

**Financial year ended 31 December 2006**

**Appendix 9.1 (continued)**

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

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

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

Other charges include consultancy services and professional indemnity insurance.

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

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

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.3

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

Other income includes an amount of £3.9 million representing annual management charges and rebate income. The balance of line 15 is represented by administration fees and expense charges.

Other expenditure in line 25 of £16.9 million represents the annual management charge payable to National Provident Life Limited.

##### **\*4004\* Transfer of contracts from another insurer**

On 1 October 2006 the Company acquired 100% of the share capital of Pearl Assurance (Unit Funds) Limited, Pearl Assurance (Unit Linked Pensions) Limited and London Life Linked Assurances Limited from Pearl Group Limited

Also on 1 October 2006 the Company transferred in the long term business of Pearl Assurance (Unit Funds) Limited, Pearl Assurance (Unit Linked Pensions) Limited and London Life Linked Assurances Limited in accordance with Part VII of the Financial Services and Markets Act 2000 which was approved by the High Court on 14 September 2006. The value of the contracts transferred were Pearl Assurance (Unit Funds) Limited (£321.4 million), Pearl Assurance (Unit Linked Pensions) Limited (£429.4 million) and London Life Linked Assurances Limited (£164.7 million).

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

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

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

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

On 31 March 2006 the Company made an interest bearing loan of £30m to Pearl Group Limited ("PGL") maturing on 14 April 2014 and attracting interest at a rate of 6 month LIBOR plus a margin of 1.25%.

On 23 November 2006, the Company made a further interest bearing loan of £50.1m to PGL under the facility dated 27 April 2005 maturing on 14 April 2014 and attracting interest at a rate of 6 month LIBOR plus a margin of 1.25%.

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

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

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

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### NPI Limited

#### Global Business

Financial year ended 31 December 2006

#### Appendix 9.3 (continued)

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

Options	2006 £000	2005 £000
The aggregate value of assets	496	663
The aggregate value of liabilities	(170)	(248)

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

Other income consists of £853.2million of property linked business of Pearl Assurance (Unit Funds) Limited, Pearl Assurance (Unit Linked Pensions) Limited and London Life Linked Assurances Limited that was transferred to NPI Limited under Part VII of the Financial Services and Markets Act 2000, following High Court approval on 14 September 2006. In addition to the above, other income also includes management fee rebates and currency gains.

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

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

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

##### \*4901\* Credit Agency

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

##### \*5104\* Hybrid Contracts

##### \*5204\*

##### \*5304\*

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

## Returns under the Accounts and Statements Rules

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

#### NPI Limited

#### Global Business

#### Financial year ended 31 December 2006

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

The insurer uses derivatives in its portfolio management to hedge against market movements in the values of assets in the portfolio (reduction of investment risks), and as a means of effecting a change in exposure to different asset classes without disturbing underlying physical holdings (efficient portfolio management).

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

The insurer controls market risks through the setting of exposure limits which are subject to detailed monitoring and review. Market and liquidity risks are reduced by requiring all futures and options positions to be backed by cash or securities.

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

- (b) Subject to the principles described above, the investment policy permits the writing of contracts, under which the insurer had an obligation to acquire or dispose of assets, which were not reasonably likely to be exercised, at the time when the contract was entered into. In these circumstances the portfolio manager must be satisfied that the strike price is reasonable in terms of the current portfolio and market conditions at outset, in case the contract is subsequently exercised.

The investment policy for the use and control of derivatives imposes overriding provisions that the investment rationale for their use is clearly understood, that each contract is admissible in terms of the Prudential Sourcebook for Insurers and that derivatives may not be used to gear a portfolio. The policy specifically excludes the use of exotic options, including barrier options, without the prior approval of the senior management of the Investment Manager. The purchase of free-standing out of the money call options is not permitted.

- (c) There were no options bought or sold during 2006 which were over 5% of the strike price at inception.
- (d) The extent to which Form 13 would be changed if assets which the insurer had agreed to acquire or dispose of under derivative contracts outstanding at the end of the financial year (being, in the case of options, only those options which it would have been prudent to assume would be exercised) had been so acquired and disposed of, is nil.
- (e) If options outstanding at the end of the financial year had been exercised so as to change exposures by the maximum amount (allowing for options that either must be exercised together, or the exercise of one precludes the possibility of the other being exercised), the numbers in (d) above would not be materially different.

## Returns under the Accounts and Statements Rules

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

#### NPI Limited

#### Global Business

#### Financial year ended 31 December 2006

#### (Continued)

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

The maximum extent to which the information supplied in (e) above would have been different if (e) had applied to derivative contracts at other points during the year is nil.

- (g) The maximum loss which would have been incurred by the insurer on the failure by any one other person to fulfil its obligations under derivative contracts outstanding at the end of the financial year under existing market conditions was nil.

The maximum loss which would have been incurred by the insurer on the failure by any one other person to fulfil its obligations under derivative contracts outstanding at the end of the financial year, in the event of other foreseeable market conditions, was £0.1m.

The maximum loss under foreseeable market conditions at any other time during the year was £0.1m.

- (h) The insurer has not made use of any derivative contract at any time during the financial year which required a significant provision to be made under INSPRU 3.2.17R or did not fall within the definition of a permitted derivative contract.
- (i) The total value of fixed considerations received during the financial year in return for granting rights under derivative contracts was £0.3m.

The contracts under which such rights were granted were the sale of covered Index Call options.

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

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

#### **NPI Limited**

##### **Global Business**

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

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

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

##### **1. Pearl Group Limited**

As at 31 December 2006, Pearl Group Limited owned 100% of the issued share capital of NPI Limited and was able to exercise 100% of the voting power at any general meeting.

##### **2. Sun Capital Investments Limited**

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

##### **3. Hera Investments One Limited**

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

##### **4. Xercise Limited**

As at 31 December 2006, Sun Capital Investments Limited, which is an associate of Xercise Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **5. Jambright Limited**

As at 31 December 2006, Hera Investments One Limited which is an associate of Jambright Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

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

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

#### **NPI Limited**

##### **Global Business**

**Financial year ended 31 December 2006**

**(continued)**

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

As at 31 December 2006, Hugh Osmond, Alan McIntosh and Matthew Allen, together with Edward Spencer-Churchill and Marc Jonas, who were associates of Hugh Osmond and Alan McIntosh within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being partners, jointly owned 70.4% of the ordinary shares of Xercise Limited and were able to exercise 70.4% of the voting power at any general meeting. Sun Capital Investments Limited is a subsidiary undertaking of Xercise Limited and owns 50% of the ordinary shares of Pearl Group Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

#### **7. TDR Capital Nominees Limited**

As at 31 December 2006, TDR Capital Nominees Limited acted as nominee for the TDR funds, which own 89.4% of the ordinary shares of Jambright Limited and were able to exercise 89.4% of the voting power at any general meeting. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

#### **8. TDR Capital LLP**

As at 31 December 2006, TDR Capital Nominees Limited, which is an associate of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, acted as nominee for the TDR funds, which own 89.4% of the ordinary shares of Jambright Limited and were able to exercise 89.4% of the voting power at any general meeting. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group Limited, a company of which NPI Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

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

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

#### **NPI Limited**

#### **Global Business**

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

The with-profits actuary throughout the period was Paul Turnbull. In accordance with rule 9.36 of the Accounts and Statements Rules, the following information relating to Mr Turnbull is in respect of the year 2006:

1. a) Mr Turnbull holds no shares or share options in 2006.
  - b) Mr Turnbull had no transactions with the insurer throughout the year but his spouse held a number of minor policies issued by the insurer.
  - c) The aggregate of the remuneration and value of other benefits receivable by Watson Wyatt Limited, (the employer of Mr Turnbull), from the insurer during the period specified was £3,352,000.
  - d) Mr Turnbull was throughout the period a member of the Pearl Staff Pension Scheme (NPI Limited being a subsidiary of Pearl Group Limited) and was entitled to the standard benefits under the rules of the scheme in respect of a prior period of employment by a subsidiary of Pearl Group Limited. Mr Turnbull did not accrue further pension benefits in the scheme throughout the period.
2. The insurer has made a request to Mr Turnbull to furnish it the particulars specified in rule 9.36(1) of the Accounts and Statements Rules. The above particulars were obtained with the agreement of Mr Turnbull.

#### Note 1

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

#### Note 2

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



## NPI Limited

### Appendix 9.4

#### Abstract of Valuation Report

##### Introduction

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

##### Product range

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

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

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

There were no significant changes to NPIL products during the financial year.

##### Discretionary charges and benefits

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

Product	Policy Year of Entry	Period applied
Portfolio Bond Series 1	Jan 2000 to Jun 2002	Throughout 2006
Portfolio Bond Series 2	Feb 2000 to Jun 2002	Throughout 2006
Investment Bond	Oct 2000 to Jun 2002	Throughout 2006
Socially Responsible Investment Bond	Oct 2000 to Jun 2002	Jan 2006 to Jun 2006
	Oct 2000 to Mar 2002	Jul 2006 to Dec2006
Pensions business (excluding Capital Account)	Jan 2000 to Jun 2002	Jan 2006 to Jun 2006
	Jan 2000 to Sep 2001	Jul 2006 to Dec 2006
Socially Responsible With-profit Pensions business	Jan 2001 to Mar 2002	Jan 2006 to Jun 2006
	Jan 2001 to Sep 2001	Jul 2006 to Dec 2006

- (2) There are no such policies.
- (3) There are no such policies.
- (4) Policy fees on NPIL linked policies were increased by 2.7% on 1 January 2006 in line with the increase in the Retail Prices Index.

Policy fees on PAULP Prosperity Personal Pension Version 1 policies were increased by 4.3% on 1 January 2006 in line with the change in the National Average Earnings Index.

- (5) During the financial year benefit charges on linked business remained unchanged.
- (6) During the financial year, unit management charges for accumulating with-profits and linked business remained unchanged, apart from minor reductions in some Stakeholder funds to ensure compliance with the 1% charging maximum.
- (7) (a) Units are of two main types. They are called initial and ordinary in NPIL and the corresponding types are capital and accumulation in PAUF and PAULP. LLLA has only accumulation units. The following method applies to all units.
  - (i) The creation unit price is determined by valuing the assets at the offered dealing price including all costs that would be incurred in buying assets and net of charges and deductions, if any, for tax. This total is divided by the number of units. The cancellation unit price is calculated by valuing the assets at the price at which they could be sold and deducting the dealing costs, management charges and taxes if applicable. This total is divided by the number of units.
  - (ii) The offer price is determined as the creation or cancellation price divided by 95%, plus any rounding adjustment. Units are deallocated 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 deallocated 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) During 2006 for NPIL business the assets (except those for the Pension Protected Equity 100 and Pension Bonusbuilder 90 funds) were valued on an offer basis, while for PAUF, PAULP, and LLLA business they were valued on a bid basis. NPI Limited retains the right to price all funds on a bid basis..
- (c) Where the funds invest in unit trusts or open-ended investment companies the units are valued at the price at which NPI Limited would have been able to buy the investments. To ensure that unit holders are not subject to two sets of initial charges arrangements are in place to ensure that the unit trust investments are undertaken free of any manager's initial charges.

- (8) Tax on realised and unrealised gains and losses is accrued daily in the internal linked Life funds. Gains in Life equity funds are index-adjusted. There are no tax accruals in Pension funds.

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

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

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

Net Priced Equity (PAUF & NPIL)	19.9%	17.3%	19.9%	17.3%
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Gross and Net Priced Equity accruals for realised gains and losses are cleared at the end of each month.

Accruals for unrealised gains and losses are cleared at the end of each financial year under the "deemed disposal" regime. The tax rate used for this purpose at the end of 2006 was 17.3%.

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

Net Priced Fixed Interest (PAUF, NPIL, LLLA)	20%	20%	20%	20%
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Fixed Interest tax accruals are cleared at the end of each month.

- (9) See (8) above.

- (10) The internal linked funds receive an initial charge discount and an annual management charge rebate when purchasing, selling or holding units in collective investment funds. This ensures that the policyholder is not subject to two sets of charges.

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

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

##### Non-Linked Business

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

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

- (i) Policies subject to an extra premium are valued as if effected at the standard premium and a further provision of one year's extra office premium is held.
- (ii) Where the net premium on the valuation basis is greater than the actual office premium, the premium valued is the office premium.

- (iii) For classes of business where the difference between the office premium and the net premium is considered insufficient to cover future expenses an additional reserve has been established.

A provision for the immediate payment of claims is made.

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

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

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

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

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

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

### **Index Linked Business**

Mathematical reserves have been determined using a gross premium method.

### **Property Linked Business**

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

The non-unit reserve is calculated using a discounted 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 valuation rates of interest are:

<b>Product Group</b>	<b>2006</b>	<b>2005</b>	<b>Product Code</b>
NPIL Life non profit	3.80%	3.20%	435, 440, 790, 800
NPIL Life sterling reserves	3.10%	3.20%	700, 715
NPIL Pension non profit	3.90%	4.00%	390, 400, 435, 440, 790, 800
NPIL Pension sterling reserves	3.90%	4.00%	725, 735, 750, 755, 790, 795, 800
NPIL Life unitised with profit	3.10%	3.20%	500, 610
NPIL Pension unitised with profit	3.90%	4.00%	525, 535, 570, 605
NPIL level annuities	4.75%	4.00%	395, 400
NPIL index linked annuities	4.75%	1.10% <sup>(1)</sup>	905
PAUF sterling reserves	3.10%	2.90%	700, 710, 715, 720
PAULP sterling reserves	3.80%	3.70%	725
PAULP level annuities	4.83%	4.12%	400
PAULP index linked annuities	4.71%	4.39%	905
LLLA sterling reserves	3.10%	3.70%	700, 710

Note:

1. For NPIL index linked annuities a real interest rate was used at 31 December 2005 to allow for RPI/LPI increases.

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

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

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

Product Group	2006		2005		Product Code
	Males	Females	Males	Females	
NPIL Pre-vesting					
All business	100% AM92	100% AF92	100% AM92	100% AF92	All
NPIL Post-vesting/In payment					
Pension annuities	105% RMV92 <sup>(2)</sup>	105% RFV92 <sup>(2)</sup>	102% RMV92	85% RFV92	390, 400, 905
Pensions deferred annuities	105% RMV92 <sup>(2)</sup>	105% RFV92 <sup>(2)</sup>	102% RMV92	85% RFV92	390
Group GAF annuities	105% RMV92 <sup>(2)</sup>	105% RFV92 <sup>(2)</sup>	102% RMV92	85% RFV92	395
Life/IRS/Individual GAF annuities	72% IML92 <sup>(3)</sup>	72% IFL92 <sup>(3)</sup>	72% IML92	72% IFL92	395,905
Life deferred annuities	72% IML92 <sup>(3)</sup>	72% IFL92 <sup>(3)</sup>	72% IML92	72% IFL92	390
PAUF Single Premium	65% AM80	65% AF80	65% AM80	65% AF80	700
PAUF Regular Premium	85% AM80	85% AF80	85% AM80	85% AF80	710, 715, 720
PAULP linked products	65% AM80	65% AF80	65% AM80	65% AF80	725
PAULP immediate annuities	110% RMV92 projected <sup>(4)</sup>	100% RFV92 projected <sup>(4)</sup>	95% RMV92 U2005 projected	82.5% RMV92 U2005 projected	400, 905
LLLA all business	100% A67/70	100% A67/70 rated down 4 years	100% A67/70	100% A67/70 rated down 4 years	700, 710

Notes:

1. Ultimate mortality has been used in all cases.
2. Annual improvement: maximum of [average of Medium and Long cohort improvements, 1%]
3. CMI17 improvements
4. Annual improvement: maximum of [75% of (average of Medium and Long cohort improvements), CMI17 improvements, 1%]

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

Product Group	Annuities in payment		Deferred annuities: life expectation at age 65	
	Age 65	Age 75	Age 45	Age 55
NPIL				
Pensioners annuities	23.4	14.8		
Group GAF annuities	23.4	14.8		
Life/IRS/Ind GAF annuities	22.5	14.1		
Life deferred annuities			23.8	23.2
Pensions deferred annuities			25.5	24.5
PAULP				
Immediate annuities	21.6	13.6		

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

Product Group	Annuities in payment		Deferred annuities: life expectation at age 65	
	Age 65	Age 75	Age 45	Age 55
NPIL				
Pensioners annuities	26.0	16.7		
Group GAF annuities	26.0	16.7		
Life/IRS/Ind GAF annuities	25.4	16.2		
Life deferred annuities			26.3	25.9
Pensions deferred annuities			27.8	27.0
PAULP				
Immediate annuities	25.4	16.3		

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

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

Product Group	£ Per Policy (p.a.)		% of Assets under Management (p.a.)		Product Code
	2006	2005	2006	2005	
<b>NPIL</b>					
UWP Life Bonds	42.35	40.60	n/a	n/a	500
UWP Pension Sing Prem	21.55 – 51.79	20.33 – 48.86	0.31	0.16	525
UWP Pension Reg Prem	36.21 – 81.55	34.16 – 82.61	0.31	0.16	535
UL Life Bonds	15.73	40.60	0.41	0.30	700
UL Pension Sing Prem	20.37	20.33 – 48.86	0.32	0.20	725
UL Pension Reg Prem	20.37	34.16 – 82.61	0.32	0.20	725
UL Grp Pension Sing Prem	20.37	90.68	0.32	0.20	735
UL Grp Pension Reg Prem	20.37	167.05	0.32	0.20	735
Immediate Annuities	22.18	28.65	0.06	0.17	400, 905
<b>PAUF</b>					
UL Life Reg Prem	18.03	45.40	0.75	0.47	710, 715, 720
UL Life Sing Prem	18.03	40.86	0.75	0.47	700
<b>PAULP</b>					
UL Pension Reg Prem	22.44	33.90	0.43	0.39	725
UL Pension Sing Prem	22.44	30.51	0.43	0.39	725
Immediate Annuities	45.26	44.20	0.10	0.09	400, 905
<b>LLLA</b>					
Unit Linked	35.01	61.40	0.50	0.50	700, 710

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

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



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

Product Group	Gross Unit Growth Rate (% p.a.)		Expense Inflation Rate (% p.a.)		Policy Fee Inflation Rate (% p.a.)		Product Code
	2006	2005	2006	2005	2006	2005	
	NPIL						
UWP	n/a	n/a	4.4	4.5	3.2	4.5	500, 525, 535, 570
Unit Linked	5.8	5.0	4.4	4.5	3.2	4.5	700, 715, 725, 735, 750, 755, 795
Immediate Annuities	n/a	n/a	4.4	4.5	n/a	n/a	400, 905
PAUF							
Unit Linked	5.6	5.0	3.7	3.8	n/a	n/a	700, 710, 715, 720
PAULP							
Unit Linked	5.6	5.0	3.7	3.8	4.2	4.0	725
Immediate Annuities	n/a	n/a	3.9	3.5	n/a	n/a	400, 905
LLLA							
Unit Linked	5.6	5.0	3.7	4.0	n/a	n/a	700, 710

The unit growth rates for Life business are reduced to allow for tax at 20%.

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

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

Product Group	Decrement Type	Average lapse/ surrender/ paid-up rate for the policy years (% p.a)			
		1-5	6-10	11-15	16-20
<b>NPIL</b>					
Life					
• All business	Surrender	0	0	0	0
• All business	Automatic withdrawals	0	0	0	0
Pension					
• UWP indiv regular premium	Paid-Up	15.0	15.0	15.0	15.0
• UWP indiv regular premium	Surrender	0	0	0	0
• UWP indiv single premium	Surrender	0	0	0	0
• UL indiv regular premium	Paid-Up	15.0	15.0	15.0	15.0
• UL indiv regular premium	Surrender	5.6	5.6	5.6	5.6
• UL group regular premium	Paid-Up	33.0	33.0	33.0	33.0
• UL group regular premium	Surrender	9.0	9.0	9.0	9.0
• UL indiv single premium	Surrender	5.6	5.6	5.6	5.6
PAUF (all Life)					
UL savings endowment	Surrender	4.25	4.25	4.25	4.25
UL target cash endowment	Surrender	4.25	4.25	4.25	4.25
UL bond	Surrender	6.0	6.0	6.0	6.0
UL bond	Automatic withdrawals	2.2	2.2	2.2	2.2
PAULP (all Pension)					
UL indiv regular premium	Paid-Up	10.5	10.5	10.5	10.5
UL indiv regular premium	Surrender	2.5	2.5	2.5	2.5
UL indiv single premium	Surrender	2.5	2.5	2.5	2.5
LLLA (all Life)					
UL bond	Surrender	5.0	5.0	5.0	5.0
UL bond	Automatic withdrawals	0	0	0	0

(10) Other material basis assumptions:

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

Type of business	2006	2005
NPIL UK Life – dividend income	0%	0%
PAUF, LLLA – dividend income	20%	20%
UK Life – income from assets backing life annuities	0%	0%
UK Life – other income	20%	20%
UK Pensions – all income	0%	0%

(11) Derivative contracts are held within some of the NPIL unit-linked funds. Their market value is reflected within the unit liabilities.

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

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

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

Allowance for lapses:	£14.5 million
Allowance for non-attributable expenses:	£0.6 million

### Options and guarantees

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

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

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

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

Assumption	2006	2005
Take up Rate	100%	100%
Rate of interest	BoE Gilts spot curve	BoE gilts spot curve, capped at 4.1%
Mortality in payment	110% RMV92 projected <sup>(1)</sup> 100% RFV92 projected <sup>(1)</sup>	95% RMV92 projected <sup>(2)</sup> 82.5% RFV92 projected <sup>(2)</sup>
Expected annuity guarantee periods	0 years 40% 5 years 15% 10 years 45%	0 years 40% 5 years 20% 10 years 40%
Tax free lump sum	10% decreasing at 0.25% p.a. to 5% after 20 years	10% decreasing at 0.25% p.a. to 5% after 20 years
Retirement Rates	See below	See below

Notes:

- (1) Projected mortality rates use the maximum of [(75% of the average of the Medium and Long cohort improvements), CMIR17 improvements, or 1%].  
(2) Projected mortality rates used CMIR17 improvement factors.

## Retirement Rates

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

Age Attained	2006	2005
60	15%	20%
61	2%	3%
62	2%	3%
63	2%	3%
64	2%	3%
65	40%	50%
66	10%	10%
67	2%	2%
68	2%	2%
69	2%	2%
70	5%	10%
71	5%	5%
72	2%	2%
73	2%	2%
74	2%	2%
75	100%	100%

Note:

(1) Or current age, if older

Details of the products concerned are summarised below:

Product Names	Retirement Bonds, Retirement Plans
Product Code	725
Basic Reserve	£79.4 million
Spread of outstanding durations	Gradual run-off, mean term of 12 years
Guarantee Reserve	£35.4 million
GAR (% of fund for 65 year old male)	10%
Increments Allowed?	No
Form of Annuity	Single life, monthly in advance, level annuity, 0, 5 or 10 year guarantee period
Retirement Ages	60-75

(2) The only unit linked investment performance guarantee is that the value of units invested in any of the NPIL or LLLA Deposit funds is guaranteed not to fall. No additional provision is required as the assets backing these funds will not fall in value.

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

(3) There are no guaranteed insurability options.

(4) (a) Additional provision has been made of £1.9 million for guaranteed minimum pension (GMP) guarantees in respect of transfers from contracted out schemes.

(b) A reserve has been made for guaranteeing benefits in respect of certain PAULP Personal Pension policyholders where failure to adhere to the best advice rules may have occurred.

The following method is used to determine the reserve:

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

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

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

<b>Assumption</b>	<b>2006</b>	<b>2005</b>
Rate of interest	-0.10% p.a.	0.15% p.a.
Rate of salary inflation (including an allowance for salary progression)	2% p.a.	2% p.a.
Effective rate of revaluation for transfer in deferment	1% p.a.	1% p.a.
Net rate of interest for pensions in payment	-0.95% p.a.	-0.95% p.a.
Mortality in deferment	65% AM/AF80 ultimate	65% AM/AF80 ultimate
Mortality in payment	110% RMV92 <sup>(1)</sup> 100% RFV92 <sup>(1)</sup>	95% RMVC2025 82.5% RFVC2025
Percentage assumed married	100%	100%
Leaving service assumption	Nil	Nil

Note:

- (1) Projected mortality rates use the maximum of [(75% of the average of the Medium and Long cohort improvements), CMIR17 improvements, or 1%].

50% of the cost of this reserve is reinsured to Pearl Assurance Limited. The liability (net of reinsurance) is £21.6 million, including an allowance for future expenses and policies where the compensation process is yet to be completed. The basic reserve to which this additional amount applies is £226 million.

## Expense reserves

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

Homogeneous Risk Group	Implicit Allowances £M	Explicit Allowances (Investment) £M	Explicit Allowances (Other) £M	Non-attributable Expenses £M	Total £M
NPIL					
Non-unitised business	0.100	0.400	2.069	0.236	2.805
Unitised business	0.000	9.693	2.527	0.645	12.865
PAUF					
Direct business	0.236	1.400	1.626	0.197	3.459
Reinsured In business	0.007	0.046	0.051	0.006	0.110
PAULP					
Direct business	0.327	1.595	1.640	0.273	3.835
LLLA					
Direct business	0.116	0.727	0.209	0.097	1.149
Reinsured In business	0.014	0.089	0.015	0.012	0.130
<b>Total</b>	<b>0.800</b>	<b>13.950</b>	<b>8.137</b>	<b>1.466</b>	<b>24.353</b>

- (2) Non-linked, non-profit business has been valued using the net premium method of valuation. The implicit allowance for expenses has been taken as the difference between the office premium and the net premium calculated on the valuation basis. Where the net premium on the valuation basis is greater than the actual office premium, the premium valued is the office premium. For classes of business where the difference between the office premium and the net premium is considered insufficient to cover future expenses an additional reserve has been established. Investment expense allowances are implicitly calculated by a margin in the valuation interest rate.
- (3) There is no significant difference between the allowance for maintenance expenses shown above and those shown in Form 43.
- (4) NPI Limited has ceased to write new business, except for annuities arising from maturing policies and annuity business and incremental linked business reassured from National Provident Life Limited, Pearl Assurance Limited, London Life Limited. No new business expense overrun reserve is held owing to the management services agreement in place with Pearl Group Services Limited.
- (5) The company is largely closed to new business and the future volume of business will be significantly less than that assumed when the expense charges were agreed with Pearl Group Services Limited. There is a risk the unit costs will be higher than that expected and this cost could be passed on to NPI Limited. An additional reserve of £5 million was set up to cover these risks. For business administered on ALIS, a 40% increase to expenses has been assumed.
- (6) The reserve for non-attributable expenses was determined by expressing a prudent estimate of future non-attributable expenses as a percentage of funds under management for each homogeneous risk group and verifying, for each homogenous risk group, that:
- if negative reserves were permitted, and
  - the non-unit reserve with allowance for non-attributable expenses for each homogeneous risk group was negative;
- and therefore the non-attributable expenses need not be explicitly allowed for in setting the reserves for that homogeneous risk group.

Accordingly, the reserve for non-attributable expenses for each homogenous risk group in the table in 6(1) above is nil.

## **Mismatching reserves**

7. (1) All liabilities and assets are denominated in sterling.
- (3) No currency mismatch reserve is held.
- (4) The more onerous scenario under INSPRU 3.1.16R for assets invested in the United Kingdom and other assets that fall under this rule for the purposes of calculating the resilience capital requirement is described below:
- (i) a fall in the market value of equities of at least 10% or, if greater, the lower of:
- (a) a percentage fall in the market value of equities which would produce an earnings yield on the FTSE Actuaries All Share Index equal to 4/3rds of the long-term gilt yield; and
  - (b) a fall in the market value of equities of 25% less the equity market adjustment ratio;
- This resulted in a fall of 10%.
- (ii) a fall in real estate values of 20% less the real estate market adjustment ratio for an appropriate real estate index;
- This resulted in a fall of 20%.
- (iii) a fall in yields on all fixed interest securities by a percentage point amount equal to 20% of the long-term gilt yield.
- This resulted in a fall of 92 basis points.
- (5) All assets invested outside the UK were fixed-interest securities denominated in sterling so the United Kingdom fall in fixed interest yields was used as the nearest equivalent.
- (6) (a) The amount of the resilience capital requirement is £6.2 million.
- (b) Under the more onerous scenario the long term insurance liabilities rose by £69.5 million.
- (c) Under this scenario, the value of assets allocated to match these liabilities increased in value by £63.3 million from the amount of those assets shown in Form 13.
- (7) No further reserve is held as a result of the test on assets in INSPRU 1.1.34R(2).

## **Other significant special reserves**

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

This provision is in respect of "shared reversion" assets refinanced to a subsidiary of Abbey National Group plc ("Abbey National") where NPI Limited has undertaken to indemnify Abbey National against losses arising from mortality or surrender experience which differs from the basis used to determine the terms of the refinancing, and is also liable for the first 7% of any losses arising as a result of sales proceeds underperforming the regional Halifax house price indices. The best estimate mortality basis has changed since the refinancing commenced, and so an accounting provision is first calculated using surrender and mortality assumptions which are intended to be slightly more prudent than the best estimate assumptions. The amount of this accounting provision is £36.8 million.

The provision is then recalculated using the regulatory valuation assumptions together with a more prudent (higher) projection rate and higher assumed underperformance compared to the Halifax regional price index. The difference between the recalculated provision and the accounting provision described above is shown in Form 14 of the FSA returns as a provision for reasonably foreseeable adverse deviation. The amount of this additional provision is £13.4 million.

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

A provision of £5.4 million was held at 31 December 2006 for possible compensation to current and past PAUF and PAULP policyholders for various historical unit pricing errors.

### Reinsurance

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

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

Reinsurer	Nature and Extent of the Cover	Premium	Amount Deposited Back	Closed to New Business?	Amount of any Un-discharged Obligation	Math-ematical Reserves Ceded	Retention by the Insurer
		£M	£M			£M	
Pearl Assurance Limited	Portfolio Bond 1 fully reassured on original terms except for MVRs on switches from unitised with-profit to unit-linked	Nil	Nil	Yes	Nil	5.2	Nil
Pearl Assurance Limited	Portfolio Bond 2 and Investment Bond fully reassured on original terms	Nil	Nil	Yes	Nil	265.1	Nil
Pearl Assurance Limited	Pensions unitised with-profit and capital account are fully reassured except for retention of the expenses of administration	4.0	Nil	Yes	Expenses of administration	110.1	Nil
Pearl Assurance Limited	PAULP Personal Pensions Guarantees	Nil	Nil	No	Nil	21.6	Nil
Pearl Assurance Limited	PAULP Immediate Annuities in payment and Guaranteed Annuity Rates	3.7	Nil	No	Nil	84.2	Nil

(l) Pearl Assurance Limited is authorised to carry on insurance business in the United Kingdom.

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

(n) No treaty is subject to any material contingencies such as credit or legal risk.

(o) No reinsurance commission is payable on any of the treaties above.

(p) No treaty is a “financing arrangement”.



## Reversionary (or annual) bonus

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

Bonus Series	31 Dec 2006 Basic mathematical reserve £000	31 Dec 2006 Reversionary bonus %	31 Dec 2005 Reversionary bonus %	31 Dec 2006 Total guaranteed bonus %	Product Code
WP09L, WP10L (Portfolio Bond 1b & 2)	15,198	1.00%	1.00%	-	500
WP11L EWP1L Series 1 (Investment Bond)	255,065	1.00%	1.00%	-	500
WP05P, CA05P, EWP1P Series 2 (PPP (Series 2), Flexible PPP FSAVC, FIP, FIP (nil bid-offer spread version), PRA and PTP)	48,950	1.50% (1) 3.25% (2)	1.50% (1) 3.25% (2)	-	525, 570
WP07P, CA07P, EWP1P Series 4 (FIP and Flexible PPP (AMC only versions))	457	1.76% (1) 3.51% (2)	1.76% (1) 3.51% (2)	-	525, 570
WP06P, CA06P, EWP1P Series 3 (New Approach PPP, FSAVC and EPP)	921	2.37% (1) 4.14% (2)	2.37% (1) 4.14% (2)	-	525
Funds 19, 20 and 35 (with underlying AMC of 1%) (GMP, VGPP, GAVC and TTP)	64,831	1.50% (1) 3.25% (2)	1.50% (1) 3.25% (2)	-	535

### Notes:

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

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

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

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

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

**Returns under the Accounts and Statements Rules**

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

**NPI Limited**

**Global Business**

**Financial year ended 31 December 2006**

We certify that: -

1. (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and  
(b) the directors are satisfied that:
  - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS) and either PRU or GENPRU and INSPRU as applicable; and
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
  
2. (a) in the directors' opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;  
(b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14, constitute proper provision at the end of the financial year in question for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;  
(c) the with-profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COB 6.10; and  
(d) the directors have, in preparing the return, taken and paid due regard to:
  - (i) advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
  - (ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.



J S Moss  
Managing Director



J S B Smith  
Director



J R Cusins  
Director

Date. 28 March 2007

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

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

#### **NPI Limited**

#### **Global business**

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

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

- Forms 2, 3, 13 to 16, 40 to 45, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by rule 9.29 ("the statement"); and
- the report required by rule 9.31(a) ("the valuation report");

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

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

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

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

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and valuation report) under the provisions of the Rules. Under rule 9.11 the Forms, the statement, and the valuation report are required to be prepared in the manner set out in the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with rule 9.31(a) are required to reflect appropriately the requirements of INSPRU 1.2.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation report meet these requirements and to report our opinion to you. We also report to you if, in our opinion, the insurer has not kept proper accounting records or if we have not received all the information we require for our examination.

## Basis of opinion

We conducted our work in accordance with Practice Note 20 "The audit of insurers in the United Kingdom (revised)" issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statements and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 28 March 2007. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statements and the valuation report.

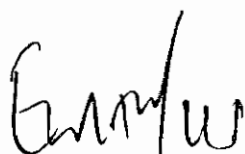
We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statements and the valuation report are free from material misstatement, whether caused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

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

## Opinion

In our opinion:

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



Ernst & Young LLP  
Registered Auditor  
London

Date: 28 March 2007