

## Important information relating to your policy

### **Principles and Practices of Financial Management – With Profits Policyholders only**

Changes to the way the Financial Services Authority regulates with-profits business were introduced in 2004, with further changes to come in 2005, which are very important to with-profits policyholders. The first stage of these changes was the publication, on 1 April 2004, of our Principles and Practices of Financial Management (PPFM). This is a lengthy and rather technical document which spells out in detail how we manage with-profits business. The Principles are intended to be durable statements which are changed infrequently, while the Practices give more detail of how we manage with-profits business at present. You can obtain a copy of this document by visiting our website [www.npi.co.uk/ppfm](http://www.npi.co.uk/ppfm).

A "Customer-Friendly" version of the PPFM is also due during the first half of this year. This will contain the main messages from the PPFM without the technical detail of the full document. This too will be posted on our website when it becomes available.

The board of directors will produce a report each year on how the company has managed its with-profit business with respect to the PPFM and, under current proposals, the first of these reports is due by 30 June 2005. This will also be available on our website.

In the meantime, further information is available on our website, [www.npi.co.uk](http://www.npi.co.uk).

### **Changes to With Profits Investments in 2003**

When we sent last year's statement we re-emphasised to you the changes we had made to our with-profit funds, as notified to you earlier in 2003. These are important changes and we would like to remind you of the main points again:

- Because of the falls in equity markets since the start of 2000, National Provident Life's with-profits fund sold all its remaining equity holdings in early 2003, and the NPI Ltd with-profits fund substantially reduced its equity holdings around the same time;
- The moves out of equities and into fixed interest investments were prompted by the need to maintain the companies' statutory minimum capital requirements and to ensure contractual benefits were as secure as possible;
- Fixed interest investments vary less in value than equities, but do still vary – so while we expect the return on the funds to average between 4% and 6% per annum, the return in any year could be outside this range. These variations can flow on to surrender values and final bonuses, but have no impact on guaranteed benefits;
- We have had to reduce annual bonus rates – for National Provident Life, in particular, many of the annual bonus rates are now zero, and are likely to remain at zero for the foreseeable future.

These changes mean the return on the fund in future is likely to be lower than it might otherwise have been. Our main investment objectives in future will be protecting policyholders' guaranteed benefits and providing more stability than before and, subject to this, maximising the return where we can.

### **Unit-Linked Investments**

None of the changes we have made to the with-profit funds affect the unit-linked funds in any way – each unit-linked fund continues to follow its own investment strategy and the performance of its assets is directly reflected in the unit price.