

Report to with-profits policyholders by the Board of NPI Limited for the period 1 January 2009 to 31 December 2009

Purpose

The Principles and Practices of Financial Management (“PPFM”) for NPI Limited (“the firm”) is a detailed document which sets out how NPI Limited manages its with-profits business. For NPI Limited, two PPFMs are relevant:

NPI Limited’s own PPFM, which has a fairly limited scope because all its with-profits business is reassured to Pearl Assurance plc (“Pearl”); and

Pearl’s PPFM, which sets out how Pearl manages its with-profits business, including the business NPI Limited has reassured to it.

References in this report to the PPFM should, therefore, be read as referring to the principles and practices that are relevant to the with-profits business of the firm whether they are contained in the NPI Limited PPFM or the Pearl PPFM.

During 2006, you should have received “A Guide to How We Manage Our With-Profits Fund” which explains the main features of the PPFM.

Together, NPI Limited and Pearl have discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of this report is to describe how the firm has complied with its PPFM in the period covered by the report. In particular, it deals with how the firm has exercised its discretion in areas such as setting annual bonuses, policy payouts and surrender values, and how it has addressed any competing or conflicting rights, interests or expectations of its policyholders and shareholders.

Policyholders may also wish to read the report from the Pearl Board to its with-profits policyholders.

Background

NPI Limited reassures all its with-profits business to Pearl. Under the terms of those agreements with Pearl, it is Pearl who determines annual bonus rates, Market Value Reductions (“MVRs”) and terminal bonuses, in line with the reinsurance agreements, and investment policy for the with-profits funds. Consequently, much of the relevant information about NPI Limited’s with-profits business is set out in the Pearl PPFM, rather than the NPI Limited PPFM.

Independent review

NPI Limited's With-Profits Committee reviews how the with-profits business is managed. A majority of the members of the With-Profits Committee are independent of the shareholder. The With-Profits Committee has seen and approved this report.

Summary

Payouts for with-profits policies depend on the discretion exercised by NPI Limited and Pearl. The interests of with-profits policyholders are protected by the PPFMs of these companies.

Each year the Board will produce a report to you, the with-profits policyholders, summarising compliance with the PPFM and how any discretion has been used over the previous year.

The PPFM covers the following areas:

- Methods used to determine payouts
- Setting annual bonus rates
- The approach to setting final bonus rates
- Smoothing of payouts
- Investment strategy
- Business risks
- Charges and expenses
- The estate
- New business
- Equity between policyholders and shareholders

Each of these is expanded on in the sections below. In addition there is commentary on any changes to the PPFM and communications with policyholders during the year.

Methods used to determine payouts

Asset shares remain the basis for payouts on with-profits policies, subject to a minimum payout of any guaranteed benefits, as set out within the PPFM.

In the Board's opinion, the methodology used to calculate asset shares has been in line with the PPFM. Further in the Board's opinion, the discretion applied to methods used to determine payouts on all policies during 2009 has been in line with the PPFM.

The intention is to pay you an amount close to your asset share, subject to any guaranteed benefits when the policy pays out. This was achieved during the year by the way the final bonuses were set, by adjusting surrender value calculations and the way the MVRs were set for unitised with-profits and capital account business. The Board is satisfied that the approach taken in determining final bonuses and MVRs during the year was in line with the PPFM.

Setting annual bonus rates

Bonuses are the additions which the firm makes to the value of your policy.

The Board is satisfied that the approach taken in determining annual bonuses during the year was in line with the PPFM.

The approach to setting final bonuses

Final bonus rates, and MVRs were changed several times during 2009; at the start of the year and in March, June and September. The changes reflected movements in asset share subject to smoothing. The Board is satisfied the changes resulted in changes to payouts that are consistent with the PPFM and consistent with treating customers fairly.

Smoothing of payouts

There were no changes to the way the ups and downs of investment markets were reflected in policy values during the year.

Investment strategy

There were no changes to investment strategy during 2009.

Business risks

There were no significant changes to the risks the fund was exposed to during the year.

Charges and expenses

The way charges and expenses were set was unchanged during the year. The Board is satisfied that the allocation of expenses and the charges deducted were in line with the PPFM.

The estate

NPI Limited's policyholders are not entitled to any share of the estate of either NPI Limited or Pearl. There was no change to the way the estate of either company was managed during the

year. The Board is satisfied that the approach to the management of the estate is in line with the PPFM.

New business

The type of new business written was unchanged during the year and the Board is satisfied that this is in line with the PPFM.

Equity between policyholders and shareholders

There were no changes to the apportionment of profit between with-profits policyholders and the shareholder during 2009 and the Board is satisfied that these were in line with the PPFM.

Changes to the PPFM

There have been no changes to either the firm's PPFM or the Pearl PPFM during the year.

Communications to policyholders

During 2009 policyholders, should have received their annual policy statements and the accompanying letter.

The NPI website (www.npi.co.uk) and the Pearl website (www.pearl.co.uk) contain a number of additional documents relevant to policyholders, including the NPIL Limited PPFM, the Pearl Assurance PPFM and the Guide to How We Manage the With-Profits Fund referred to in the opening section of this report.

Conclusion

The Board believes that NPI Limited has acted in accordance with its Principles and Practices set out in the PPFM, and that Pearl Assurance plc has likewise complied with the parts of its PPFM relevant to NPI Limited's with-profits policyholders. We are satisfied that the way both companies have exercised their discretion during the year with respect to NPI Limited with-profits policyholders was fair and reasonable.

NPI Limited

8 June 2010

Report to with-profits policyholders by the With-Profits Actuary of NPI Limited for the period 1 January 2009 to 31 December 2009

Purpose

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- The firm’s own PPFM, which has a fairly limited scope because all its with-profits business is reassured to Pearl Assurance plc; and
- Pearl Assurance plc’s (“Pearl”) PPFM, which sets out how Pearl manages its with-profits business, including the business the firm has reassured to it.

Together, the firm and Pearl have discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the firm’s with-profits policyholders is to give my opinion, as required by the rules of the Financial Services Authority, as to whether the firm and Pearl have taken the interests of the firm’s with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2009.

Conclusion

In my opinion both companies have taken the interests of the firm’s with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2009.

My opinion is based on investigations I have undertaken and on the information which the firm has provided to me during the year, including the reports of the Pearl With-Profits Actuary to the Pearl Board and to the with-profits policyholders, on the management of its with-profits business.

The Board for Actuarial Standards has issued a standard (TAS R) which applies to reports produced by actuaries. My report is intended to comply with TAS R except that, in terms of completeness, I have not considered it necessary or desirable to repeat or elaborate on material that is covered by the firm’s own report to which my report is annexed.

**David Addison BSc FFA
With Profits Actuary of NPIL**

8 June 2010