

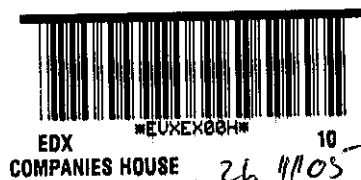
1419

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

BALANCE SHEET
30 June 2005

ASSETS

| | Notes | 30 June 2005 £m | Restated 31 December 2004 £m |
|---|-------|-----------------------|---------------------------------------|
| Investments | | | |
| Land and buildings | 2(a) | 128 | 133 |
| Investments in group undertakings and participating interests | 2(b) | 1,240 | 1,260 |
| Other financial investments | 2(c) | 13,563 | 13,435 |
| | | <hr/> 14,931 | <hr/> 14,828 |
| Reinsurers' share of technical provisions | | | |
| Long term business provision | 9 | 10 | 24 |
| Claims outstanding | 10(b) | 205 | 199 |
| | | <hr/> 215 | <hr/> 223 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 3(a) | 8 | 8 |
| Other debtors | 3(b) | 281 | 159 |
| | | <hr/> 289 | <hr/> 167 |
| Other assets | | | |
| Cash at bank and in hand | | 103 | 117 |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | 178 | 189 |
| Deferred acquisition costs | 4 | 2 | 4 |
| | | <hr/> 180 | <hr/> 193 |
| Total assets | | <hr/> 15,718 | <hr/> 15,528 |



PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

BALANCE SHEET
30 June 2005

LIABILITIES

| | Notes | 30 June 2005 £m | Restated 31 December 2004 £m |
|---|-------|-----------------------|---------------------------------------|
| Capital and reserves | | | |
| Called up share capital | 5 | 342 | 342 |
| Share premium account | 6 | 41 | 41 |
| General reserve | 6 | 7 | 7 |
| Profit and loss account | 6 | 864 | 831 |
| | | <hr/> | <hr/> |
| Shareholders' funds attributable to equity interests | 7 | 1,254 | 1,221 |
| | | <hr/> | <hr/> |
| Fund for future appropriations | 8 | 590 | 506 |
| | | <hr/> | <hr/> |
| Technical provisions: | | | |
| Long term business provision - gross amount | 9 | 12,888 | 12,861 |
| Claims outstanding - gross amount | 10(a) | 303 | 284 |
| Equalisation provision | 11 | 1 | 2 |
| | | <hr/> | <hr/> |
| | | 13,192 | 13,147 |
| | | <hr/> | <hr/> |
| Provisions for other risks and charges | | | |
| Provision for taxation | 12 | 10 | 22 |
| Other provisions | 13 | 24 | 37 |
| | | <hr/> | <hr/> |
| | | 34 | 59 |
| | | <hr/> | <hr/> |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 2 | 3 |
| Loans – amounts owed to group undertakings | | 390 | 420 |
| Other creditors including taxation and social security | 14 | 251 | 167 |
| | | <hr/> | <hr/> |
| | | 643 | 590 |
| | | <hr/> | <hr/> |
| Accruals and deferred income | | 5 | 5 |
| | | <hr/> | <hr/> |
| Total liabilities | | 15,718 | 15,528 |
| | | <hr/> | <hr/> |

The balance sheet was approved by the Board of Directors on 17 November 2005 and signed on its behalf by:


Director

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET

1. ACCOUNTING POLICIES

a) Basis of preparation

The balance sheet has been prepared in accordance with the special provisions for insurance companies of section 255 of, and Schedule 9A to, the Companies Act 1985, except as noted for investment properties (see accounting policy on investments below).

The balance sheet has been prepared in accordance with applicable accounting standards and under historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in 2003.

b) Change in accounting policy

The provisions of FRS 27 "Life Assurance" have been adopted in these financial statements. Prior to the adoption of FRS 27, the Company adopted the modified statutory solvency basis approach in the determination of insurance liabilities, including the deferral of new business acquisition costs incurred where the benefit of such costs will be obtained in subsequent accounting periods. Following adoption of FRS 27, insurance liabilities in respect of with profit business are stated at the amount of the realistic value of liabilities adjusted to exclude the shareholder's share of future bonuses and the associated tax liability. The deferral of acquisition costs is no longer permitted in respect of with profit business, but, in accordance with FRS 27, an amount has been recognised for the present value of future profits on non-participating business written in the with profit fund.

The Accounting Standards Board acknowledged the difficulty of applying the requirements of FRS 27 retrospectively and it is the Company's view that it would be impractical to do so. Therefore only the balance sheet at 31 December 2004 has been restated for the impact of FRS 27.

This adoption of FRS 27 resulted at 31 December 2004 in the derecognition of £14m deferred acquisition costs, an increase in net insurance liabilities of £85m, a decrease in deferred tax provisions of £3m, and a decrease in the fund for future appropriation of £96m.

c) General business

i) Basis of accounting

All classes of business are discontinued and provision has been made for obligations that have been incurred that are not expected to be covered by the future profits of the operation, including the expected future investment return on the related assets and their disposal.

ii) Claims

Full provision is made for the estimated cost of claims, including claims incurred but not reported, after taking into account handling costs, anticipated inflation and settlement trends. Any difference between the estimated provisions and subsequent settlement are dealt with in the technical accounts of later years.

iii) Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of the Integrated Prudential sourcebook to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

d) Long term business

i) Long term business provision

The long term business provision has been calculated in accordance with the methods and assumptions approved by the Company's Board of Directors as part of their investigation of the long term business.

Participating business

The provision is calculated initially to comply with the reporting requirements of the Financial Services Authority's realistic capital regime as set out in section 7.4 of the Integrated Prudential Sourcebook. The results are then adjusted to exclude the shareholder's share of future bonuses and the associated tax liability. The principal assumptions are given in note 9.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

1. ACCOUNTING POLICIES (continued)

Non participating business

The provision is calculated to comply with the reporting requirements under the Integrated Prudential Sourcebook using a gross premium valuation method or a method at least as prudent as the gross premium method. The principal assumptions are given in note 9.

ii) Deferred acquisition costs

Acquisition costs, comprising all direct and indirect costs arising from the conclusion of non participating insurance contracts, are deferred as an explicit deferred acquisition cost asset, gross of tax, and amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

iii) Profit recognition and the fund for future appropriations

The Company has adopted the modified statutory solvency basis approach in the determination of profit on non participating business.

Surpluses arising from the Company's participating long term business, as a result of the actuarial valuations of the related assets and liabilities, are subject to appropriation, by the directors, to participating policyholders by way of bonuses and to shareholders. The shareholders share of the appropriated surplus, determines the profit reported in respect of participating business.

Any unappropriated surplus arising in the with-profit fund is carried forward in the fund for future appropriations. All surplus in other funds is attributable to shareholders and included in profit.

The fund for future appropriations represents all funds, the allocation of which to participating policyholders and shareholders has not been determined at the balance sheet date. Transfers between the fund for future appropriations and the long term business technical account represent the changes in these unallocated amounts between balance sheet dates.

iv) Pacific Fund

During the mid-1990s, the Company undertook an exercise to identify the extent to which unattributed surplus assets held within its with-profit fund could be attributed to shareholder contributions or historical shareholder entitlements, which had not been withdrawn from the fund. As a result of this exercise, £960m of assets were identified as being shareholder assets. £42 million of this capital was paid to the 90:10 fund in order to acquire the rights to expected profit from the newly formed 0:100 fund. The remaining £918 million of assets were formally attributed to shareholders with the agreement of the UK regulator. A component of the agreement with the regulator was the formal segmentation of the Company's long term fund into separate with profits (90:10) and non-profit (0:100) components. The attributed assets, known as the Pacific fund, are an earmarked segment of the Pearl 0:100 long term fund. Under the agreement with the FSA, the attributed assets were required to remain within the Company's long term fund for a period of five years and could then be withdrawn subject to the Company's governing body confirming that the withdrawal does not conflict with the principles of treating customers fairly. The net assets represented by the Pacific fund are considered non-distributable, as disclosed within note 6.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

1. ACCOUNTING POLICIES (continued)

e) Investments

Investments are stated at current value at the balance sheet date calculated as follows:

- Freehold and leasehold properties have been valued at open market value. Other than for leasehold properties where the lease has less than twenty years unexpired term, no provision is made for depreciation of investment properties. The directors consider that as these properties are held for investment, to depreciate them would not give a true and fair view. Depreciation is only one of many factors considered in the independent valuation of such properties. It is the Company's practice to maintain properties occupied by the Company in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.
- Listed investments and authorised collective investment schemes are stated at the middle market value.
- Short-term deposits are included at cost.
- Other investments are shown at directors' estimates of market value.
- Interests in associated undertakings and joint ventures attributable to the long term business and which affect or establish policyholders' rights or otherwise held as part of the Company's investment portfolio, are accounted for as investments in group undertakings and participating interests.

f) Fixed assets and depreciation

All items of capital expenditure are capitalised and depreciated on a straight line basis over their useful economic life.

g) Guarantee fund levies

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme before completion of the accounts. Provision is also made if it is more likely than not that a levy will be raised based on premium income which has already been recognised in the accounts.

h) Foreign currencies

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

i) Taxation

The Company recognises deferred tax assets and liabilities on a discounted basis to reflect the time value of money. A discount rate has been selected that reflects the yield on government bonds which have a maturity date similar to the likely average period for assets upon which deferred tax liabilities and assets arise. Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

2. INVESTMENTS

- a) Land and buildings at current market value

| | Freehold £m | Long Leasehold £m | Total £m |
|------------------------------------|----------------|-------------------------|-------------|
| At 1 January 2005 | 67 | 66 | 133 |
| Additions | - | 1 | 1 |
| Disposals | (6) | (2) | (8) |
| Surplus / (deficit) on revaluation | 3 | (1) | 2 |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2005 | 64 | 64 | 128 |
| | <hr/> | <hr/> | <hr/> |
| Land and buildings at cost: | | | |
| At 30 June 2005 | 112 | 47 | 159 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2004 | 118 | 48 | 166 |
| | <hr/> | <hr/> | <hr/> |

All properties held by the Company were valued as at 30 June 2005, by qualified professional valuers working for DTZ Debenham Thorpe, Chartered Surveyors, acting in the capacity of external valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

Investment properties were valued on the basis of open market value. The properties in owner occupation for the purposes of the Company's business were valued on the basis of existing use value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

Other than for leasehold properties where the lease has less than twenty years unexpired term, no provision is made for depreciation of investment properties.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

2. INVESTMENTS (continued)

b) Investments in group undertakings and participating interests

| | Group Undertakings | | Participating Interests | | Total |
|------------------------------------|--------------------|-------|-------------------------|-------|-------|
| | Shares | Loans | Shares | Loans | |
| | £m | £m | £m | £m | £m |
| Market Value | | | | | |
| At 1 January 2005 | 693 | 438 | 138 | (9) | 1,260 |
| Additions | - | 29 | 1 | - | 30 |
| Transfers out | - | - | (20) | 9 | (11) |
| Reclassification | (140) | 140 | - | - | - |
| (Deficit) / surplus on revaluation | (46) | - | 7 | - | (39) |
| At 30 June 2005 | 507 | 607 | 126 | - | 1,240 |
| Cost | | | | | |
| At 30 June 2005 | 1,098 | 607 | 100 | - | 1,805 |
| At 31 December 2004 | 1,519 | 952 | 118 | (9) | 2,580 |

Investments in group undertakings include an investment in NP Life Holdings Limited, a subsidiary undertaking. Details on the valuation of this investment are given at note 17.

The principal subsidiaries and associated undertakings of the Company are disclosed within note 18.

c) Other financial investments

| | 30 June 2005 Market Value £m | 30 June 2005 Cost £m | 31 Dec 2004 Market Value £m | 31 Dec 2004 Cost £m |
|--|--|-------------------------------|---|------------------------------|
| Shares and other variable yield securities and units in unit trusts | 3,394 | 2,870 | 3,291 | 2,889 |
| Debt securities and other fixed income securities | 9,672 | 9,136 | 9,285 | 8,975 |
| Other loans | 53 | 53 | 12 | 12 |
| Deposits with credit institutions | 444 | 444 | 847 | 847 |
| | 13,563 | 12,503 | 13,435 | 12,723 |
| Listed investments included above | 12,518 | 11,396 | 12,054 | 11,277 |

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

3. DEBTORS

| | 30 June 2005 £m | 31 December 2004 £m |
|---|-----------------------|---------------------------|
| a) Debtors arising out of direct insurance operations: Amounts owed by policyholders | 8 | 8 |
| b) Other debtors: | | |
| Outstanding sale of investments | 176 | 30 |
| Amounts owed by group undertakings | 48 | 43 |
| Other debtors | 57 | 86 |
| | 281 | 159 |

4. DEFERRED ACQUISITION COSTS

| | Long term business £m |
|--|-----------------------------|
| At 1 January 2005 as previously reported | 18 |
| Restatement | (14) |
| At 1 January 2005 as restated | 4 |
| Decrease in period | (2) |
| At 30 June 2005 | 2 |

The restatement is in respect of the implementation of FRS 27.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

5. SHARE CAPITAL

| | 30 June 2005 £m | 31 December 2004 £m |
|--|-----------------------|---------------------------|
| Authorised capital | | |
| Equity shares: | | |
| 51,000,000 'A' ordinary shares of 5p each | 3 | 3 |
| 757,001,000 'B' ordinary shares of £1 each | 757 | 757 |
| | <hr/> 760 | <hr/> 760 |
| | <hr/> | <hr/> |
| | 2005 £m | 2004 £m |
| Allotted, called up and fully paid | | |
| Equity shares: | | |
| 42,169,489 'A' ordinary shares of 5p each | 2 | 2 |
| 340,001,000 'B' ordinary shares of £1 each | 340 | 340 |
| | <hr/> 342 | <hr/> 342 |
| | <hr/> | <hr/> |

The holders of the "B" shares are entitled to:

- a dividend equivalent to 99.999% of the profits of the Company which it may determine to distribute in respect of any financial year with the balance going to the holders of the "A" ordinary shares.
- on a return of capital, repayment in full of the capital paid up on the "B" ordinary shares and a further sum equal to 99.999% of the assets available for distribution to members with the balance of assets then going to the holders of the "A" ordinary shares.

At a General Meeting, every holder of the "B" ordinary shares shall have one vote and one poll vote for every share of which he is the holder. The holders of the "A" ordinary shares shall have no voting rights.

6. RESERVES

| | Share Premium £m | General Reserve £m | Profit and Loss account £m |
|--------------------------------|------------------------|--------------------------|----------------------------------|
| At 1 January 2005 | 41 | 7 | 831 |
| Retained profit for the period | - | - | 33 |
| | <hr/> 41 | <hr/> 7 | <hr/> 864 |
| At 30 June 2005 | <hr/> | <hr/> | <hr/> |

The directors do not consider that £622m (31 December 2004: £728m) of the balance on the profit and loss account is distributable. This balance is held within the long term fund, of which £575m (31 December 2004: £569m) represents the Pacific fund (see note 1c (iv)). The distribution of the balance is dependent upon the approval of transfers from the fund by the Company's Board of Directors. The general reserve is non distributable.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

7. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 30 June 2005 £m | 31 December 2004 £m |
|--|-----------------------|---------------------------|
| At 1 January | 1,221 | 1,206 |
| Profit for the period / financial year | 33 | 15 |
| | <hr/> | <hr/> |
| Shareholders' funds at 30 June/31 December | 1,254 | 1,221 |
| | <hr/> | <hr/> |

8. FUND FOR FUTURE APPROPRIATIONS

| | £m |
|--|-------|
| At 1 January 2004 | 612 |
| Transfer to the technical account - long term business | (10) |
| | <hr/> |
| At 31 December 2004 as previously reported | 602 |
| Restatement | (96) |
| | <hr/> |
| At 31 December 2004 as restated | 506 |
| Transfer from the technical account - long term business | 84 |
| | <hr/> |
| At 30 June 2005 | 590 |
| | <hr/> |

The restatement is in respect of the implementation of FRS 27.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

9. LONG TERM BUSINESS PROVISION

Material judgement is required in calculating the long term business provision. In particular there is discretion over the assumptions used. For participating business, the long term business provision is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholder's share of the future bonuses and the associated tax liability. Non participating liabilities are valued using a gross premium method allowing for a prudent level of discontinuances.

The principle assumptions used are as set out below.

i) Participating business

For participating business, a market consistent valuation is used to calculate the long term business provision. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out in the tables below.

Interest rates

The risk free interest rates assumed are:

| Year | 30 June 2005 | 31 December 2004 |
|------|-----------------|---------------------|
| 1 | 4.31% | 4.47% |
| 5 | 4.20% | 4.66% |
| 10 | 4.32% | 4.71% |
| 15 | 4.39% | 4.72% |
| 20 | 4.38% | 4.61% |
| 25 | 4.33% | 4.53% |
| 30 | 4.35% | 4.50% |
| 35 | 4.40% | 4.48% |
| 40 | 4.43% | 4.47% |

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency.

| | 30 June 2005 | 31 December 2004 |
|------------------------|-----------------|---------------------|
| Inflation | | |
| Retail price inflation | 2.8% | 3.0% |
| Expense inflation | 5.0% | 5.0% |
| Earnings inflation | 4.3% | 4.5% |

Asset mix for assets backing asset shares at the valuation date:

| | | |
|-----------------|-------|-------|
| Cash | 4.5% | 5.5% |
| Gilts | 13.9% | 17.1% |
| Corporate bonds | 36.6% | 45.0% |
| Equities | 33.8% | 21.6% |
| Property | 11.2% | 10.8% |

Mortality

| | | |
|--|--------------------------|--------------------------|
| Conventional Life Business | 75% AM/F80 (2) Select | 75% AM/F80 (2) Select |
| Conventional Pensions Business | 75% AM/F80 Ultimate | 75% AM/F80 Ultimate |
| Conventional Industrial Branch Business | 60% ELT 14 Male | 60% ELT 14 Male |
| Non Unitised Accumulating Pensions Business | 75% AM/F80 Ultimate | 75% AM/F80 Ultimate |
| Direct Unitised Accumulating Life Business | 75% AM/F80 (2) Select | 75% AM/F80 (2) Select |
| Direct Unitised Accumulating Pensions Business | 75% AM/F80 Ultimate | 75% AM/F80 Ultimate |

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

9. LONG TERM BUSINESS PROVISION (continued)

| | 30 June 2005 | 31 December 2004 |
|--|---|---|
| Direct Unitised Accumulating Other Business | 75% AM/F80 Ultimate | 75% AM/F80 Ultimate |
| Reassurance Accepted Unitised Life Business | 95% AM/F92 Ultimate | 95% AM/F92 Ultimate |
| <i>Guaranteed Annuity Option/Pensions Misselling (post retirement)</i> | Males : 102.5% RMV92 projected Females : 95% RFV92 projected CMIR17 improvement | Males : 102.5% RMV92 projected Females : 95% RFV92 projected CMIR17 improvement |
| Per Policy expenses – Regular premiums | | |
| Conventional Life and Pensions Business | £52.12 | £52.12 |
| Conventional Industrial Branch Business | £30.69 | £30.69 |
| Non Unitised Accumulating Pensions Business | £52.12 | £52.12 |
| Direct Unitised Accumulating Life Business | £52.12 | £52.12 |
| Reassurance Accepted Unitised Life Business – Portfolio Bond version 1a and 1b | £30.06 Gross | £30.06 Gross |
| Reassurance Accepted Unitised Life Business – Portfolio Bond version 2 and Investment Bond | £36.86 Gross | £36.86 Gross |

A percentage of these amounts is used for single premium and paid up policies.

Persistency - Lapses / Surrenders / Paid Up Rates

A review of persistency is carried out annually. The review is based on a trend analysis of persistency, the results of which are then applied to existing assumptions. Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events.

Options and Guarantees

The provisions held in respect of guaranteed annuity options are determined on a market consistent basis. The total amount provided in respect of the future costs of financial options as at 30 June 2005 was £303m (31 December 2004 - restated £279m).

In common with other life companies in the United Kingdom which have written pension transfer and opt out business, the Company has set up provisions for the review and possible redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases and using a certainty equivalent approach, which give a result very similar to a market consistent valuation, are included in the long term business provision. The total amount provided in respect of the review and possible redress relating to pension policies, including associated costs, was £379m as at 30 June 2005 (31 December 2004 - restated: £420m).

The directors are of the opinion that the provisions are consistent with the principles of treating customers fairly.

Other specific matters

The Financial Services Authority carried out a review of low-cost mortgage endowments in 1999. As a result all such mortgage endowment policyholders were provided with information on the performance of their policy. The Company took action to ameliorate the financial impact on those policyholders who were most impacted by the reduction in expected future investment returns. Provision has been made in these accounts for the expected costs of the action taken and to meet the potential costs arising from any complaints associated with low-cost mortgage endowments. The total amount provided for as at 30 June 2005 was £98m (31 December 2004 - restated £95m).

The restatement of 31 December 2004 comparatives is in respect of the implementation of FRS 27.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

9. LONG TERM BUSINESS PROVISION (continued)

ii) Non participating business

| | 30 June 2005 | 31 December 2004 |
|---|--|--|
| Interest rate | | |
| Pension business: | | |
| Direct Annuities in payment, not index linked | 4.25% | 4.59% |
| Reinsured in Annuities in payment, not indexed linked | 4.45% | 4.84% |
| Mortality rate | | |
| Pension business: | | |
| Direct Annuities in payment, not index linked | 95/87.5% RMV92/RFV92 with CMI17 improvement | 95/87.5% RMV92/RFV92 Ult with CMI17 improvement |
| Reinsured in Annuities in payment, not indexed linked | 80/65% RMV92/RFV92 with CMI17 improvement | 80/65% RMV92/RFV92 with CMI17 improvement |

Options and Guarantees

There are no significant options and guarantees in the non participating fund.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

10. CLAIMS OUTSTANDING

| | | 30 June 2005 £m | 31 December 2004 £m | |
|----|---------------------------------|-----------------------|---------------------------|-----------|
| a) | Gross claims outstanding | | | |
| | General business (see note 10b) | 234 | 229 | |
| | Life business | 69 | 55 | |
| | | <hr/> | <hr/> | |
| | | 303 | 284 | |
| | | <hr/> | <hr/> | |
| b) | General business | | | |
| | 2005 | Gross £m | Reinsurance £m | Net £m |
| | One year business: | | | |
| | - notified outstandings | 46 | 36 | 10 |
| | - incurred but not reported | 185 | 169 | 16 |
| | | <hr/> | <hr/> | <hr/> |
| | | 231 | 205 | 26 |
| | - claims handling expenses | 3 | - | 3 |
| | | <hr/> | <hr/> | <hr/> |
| | | 234 | 205 | 29 |
| | | <hr/> | <hr/> | <hr/> |
| | 2004 | Gross £m | Reinsurance £m | Net £m |
| | One year business: | | | |
| | - notified outstandings | 49 | 39 | 10 |
| | - incurred but not reported | 178 | 160 | 18 |
| | | <hr/> | <hr/> | <hr/> |
| | | 227 | 199 | 28 |
| | - claims handling expenses | 2 | - | 2 |
| | | <hr/> | <hr/> | <hr/> |
| | | 229 | 199 | 30 |
| | | <hr/> | <hr/> | <hr/> |

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

10. CLAIMS OUTSTANDING (continued)

The technical provisions for the future claims payments have primarily been assessed using chain ladder methods. Where there is a notable exposure to long term asbestos, pollution and health hazard liabilities, external independent actuaries provide best estimate benchmarks. An appropriate prudential margin is applied to all lines of business as it is recognised that the estimation of certain future claims payments is an inherently uncertain exercise and future experience could be more adverse.

In calculating the technical provisions in respect of certain long term marine and third party liability business, the future investment income on the assets held to cover the related provisions has been taken into account by discounting future cash flows. The average period before the liability will be settled has been estimated at 6.7 years (31 December 2004: 6.7 years) and the provision has been discounted at an interest rate of 3.5% (31 December 2004: 3.5%).

The overall effect is to reduce the net technical provisions for those classes of business referred to above at 30 June 2005 by £3m from £19m to £16m (31 December 2004: by £4m from £17m to £13m) and to reduce the gross technical provisions for those classes of business referred to above at 30 June 2005 by £3m from £22m to £19m (31 December 2004: by £5m from £21m to £16m).

11. EQUALISATION PROVISIONS

Equalisation provisions are established in accordance with the requirements of the Integrated Prudential sourcebook. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £1m (31 December 2004: £2m).

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

12. PROVISION FOR TAXATION

The components of the net deferred tax liability are as follows:

| | Liability provided | |
|---|-----------------------|---------------------------------------|
| | 30 June 2005 £m | Restated 31 December 2004 £m |
| Unrealised gains in investments | 24 | 39 |
| Deferred acquisition costs | (19) | (24) |
| Capital allowances | 8 | 8 |
| Total | 13 | 23 |
| Total on a discounted basis | 10 | 22 |
| Reconciliation of movements in deferred tax: | | |
| | | £m |
| At 1 January 2004 | | 2 |
| Charge for the year: | | |
| Technical account – long term business | | 23 |
| At 31 December 2004 as previously reported | | 25 |
| Restatement | | (3) |
| At 31 December 2004 as restated | | 22 |
| Charge for the period: | | |
| Technical account – long term business | | (12) |
| At 30 June 2005 | | 10 |
| The restatement is in respect of the implementation of FRS27. | | |
| | 30 June 2005 £m | 31 December 2004 £m |
| Unprovided deferred tax asset carried forward at the balance sheet date | 5 | 5 |

This unprovided deferred tax asset arises from the Company's three year funded general insurance business and will be available to offset against the Company's taxable profits in future periods when claims are paid. Due to the uncertainty of the quantum, source and timing of any future taxable profits and claims payments no provision has been made for the asset. The unprovided asset has not been discounted.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

13. PROVISIONS

| | Leasehold Properties £m | Other £m | Total £m |
|-----------------------|-------------------------------|-------------|-------------|
| At 1 January 2005 | 24 | 13 | 37 |
| Amounts utilised | (1) | - | (1) |
| Decrease in provision | - | (12) | (12) |
| At 30 June 2005 | 23 | 1 | 24 |

The leasehold properties provision has been made for amounts in respect of the excess of lease rentals and other payments on properties that are currently vacant or expected to become vacant over the amounts to be recovered from subletting these properties on a discounted basis at 4.1% (31 December 2004: 4.1%). The provision is expected to be utilised over the next 15 years.

14. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

| | 30 June 2005 £m | 31 December 2004 £m |
|-----------------------------------|-----------------------|---------------------------|
| Amount owed to group undertakings | 26 | 81 |
| Corporation tax payable | 24 | 13 |
| Other creditors | 201 | 73 |
| | 251 | 167 |

15. ASSETS OF THE LONG TERM BUSINESS FUND

The total amount of assets relating to the long term business fund as at 30 June 2005 was £14,277m. As at 31 December 2004 the total amount of assets relating to the long term business fund, as previously reported, was £14,260m. After implementation of FRS 27 the figure as at 31 December 2004 is restated as £14,246m.

16. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

| | 30 June 2005 £m | 31 December 2004 £m |
|---|-----------------------|---------------------------|
| a) Other capital commitments for settlement after 30 June/31 December | 3 | 3 |
| b) Securities commitments | 238 | 239 |

Securities commitments comprise commitments to subscribe to private equity funds.

Provision for liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them. The extent of such liabilities is influenced by the actions and requirements of the FSA, the Ombudsman rulings, by industry compensation and by court judgements.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

17. CONTINGENT LOAN

The Company's subsidiary undertaking, NP Life Holdings Limited, has provided capital to National Provident Life Limited in the form of contingent loans. The assets backing the loans are used to provide additional regulatory capital for the long term fund of National Provident Life Limited. The Company's valuation of its investment in NP Life Holdings Limited includes the best estimate of the directors of the amount of the contingent loans that will be recoverable from the long term fund of National Provident Life Limited, following settlement of policyholder claims by those funds (£260m as at 30 June 2005 and 31 December 2004). The directors' valuation has been measured by reference to an external valuation of the market consistent embedded value of the contingent loans.

The Company's investment in NP Life Holdings Limited is valued at £468m (31 December 2004: £450m).

18. SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The principal subsidiaries and associated undertakings of the Company are as follows:

| | Country of Incorporation and principal place of operation | Class of shares held (wholly owned unless otherwise indicated) |
|--|---|--|
| a) Insurance companies: | | |
| Pearl Assurance (Unit Funds) Limited | UK | Ordinary shares of £1 |
| Pearl Assurance (Unit Linked Pensions) Limited | UK | Ordinary shares of £1 |
| National Provident Life Limited | UK | Ordinary shares of £1 |
| b) Non-insurance companies: | | |
| Pearlinvest Limited | UK | Ordinary shares of £1 |
| NPI Holdings Limited | UK | Ordinary shares of £1 |
| Pearl GI Limited (general insurance agent) | UK | Ordinary shares of £1 |
| NP Life Holdings Limited | UK | "A" and "B" Ordinary shares of £1 |
| c) Associate undertakings: | | |
| The Printworks Leisure Scheme Trust | UK | 38% |
| The Moor House Limited Partnership | UK | 33% |
| The Covent Garden Limited Partnership | UK | 23% |
| The Henderson French Property Fund BV | UK | 41% |

The information disclosed above is only in respect of those undertakings which principally affect the figures shown in the Company's accounts. There are a number of other subsidiary and associated undertakings whose business does not materially affect the Company's profit / loss or the amount of its assets and particulars of these have been omitted in view of their excessive length.

PEARL ASSURANCE LIMITED
(formerly Pearl Assurance Public Limited Company)

NOTES ON THE BALANCE SHEET (continued)

19. RELATED PARTY DISCLOSURE

One life policy is held by one key management member of the Company, the sum assured under this policy is £60,000 and six life policies are held by another key management member of the Company, the combined sum assured is £103,151.

The Company has taken advantage of the exemption given by FRS 8 to subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

20. PARENT UNDERTAKINGS

The Company's immediate and ultimate parent undertaking is Pearl Group Limited. Prior to 13 April 2005 the Company's immediate parent undertaking was Pearl Assurance Group Holdings Limited and the Company's ultimate parent undertaking was Henderson Group PLC. On 13 April 2005 Henderson Group PLC sold the Life Services business, of which the Company is a part, to Pearl Group Limited. A copy of the accounts of the former ultimate parent undertaking can be obtained from 4 Broadgate, London, EC2M 2DA.