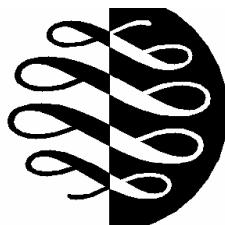


Commercial Union Life Assurance Company Limited

Registered office: 2 Rougier Street, York, YO90 1UU

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



Returns under the Accounts and Statements Rules

Index to Appendices 9.1, 9.3, 9.4 and 9.6 of IPRU (INS)

Name of insurer **Commercial Union Life Assurance Company Limited**

Global Business

Financial year ended **31st December 2006**

Contents

<i>Forms</i>		<i>Page</i>
IPRU (INS) Appendix 9.1		
2	Statement of solvency – long-term insurance business	1
3	Components of capital resources	3
13	Analysis of admissible assets	6
14	Long-term insurance business liabilities and margins	12
15	Liabilities (other than long term insurance business)	15
16	Profit and loss account (non-technical account)	16
17	Analysis of derivative contracts	17
18	With-profits insurance capital component for the fund	18
19	Realistic balance sheet	19
IPRU (INS) Appendix 9.3		
40	Revenue account	21
41	Analysis of premiums	25
42	Analysis of claims	28
43	Analysis of expenses	31
46	Summary of new business	34
47	Analysis of new business	35
48	Non-linked assets	40
49	Fixed and variable interest assets	41
50	Summary of mathematical reserves	42
51	Valuation summary of non-linked contracts (other than accumulating with-profits contracts)	45
52	Valuation summary of accumulating with-profits contracts	51
53	Valuation summary of property linked contracts	55
54	Valuation summary of index linked contracts	59
56	Index linked business	60
57	Analysis of valuation interest rates	61
58	Distribution of surplus	63
59A	With-profits payouts on maturity (normal retirement)	66
59B	With-profits payouts on surrender	67
60	Long-term insurance capital requirement	68
Supplementary notes		69

Returns under the Accounts and Statements Rules

Index to Appendices 9.1, 9.3, 9.4 and 9.6 of IPRU (INS)

Name of insurer **Commercial Union Life Assurance Company Limited**

Global Business

Financial year ended **31st December 2006**

IPRU (INS) Appendix 9.4 and 9.4A

Valuation report 75

Abstract of valuation report for realistic valuation 93

IPRU (INS) 9.29, 9.30 and 9.36

Statement on derivatives required by IPRU (INS) 9.29 120

Statement on controllers required by IPRU (INS) 9.30 121

Statement of information on with-profits Actuary required by IPRU (INS) 9.36 122

Certificate by the directors and report of the auditors – IPRU (INS) Appendix 9.6

Certificate by the directors required by IPRU (INS) 9.34(1) 123

Independent auditor's report to the directors pursuant to IPRU (INS) 9.35 124

Statement of solvency - long-term insurance businessName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

Group solvency calculation

R2	Company registration number 79678	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2006	
			As at end of this financial year			As at end of the previous year
			1			2

Capital resources

Capital resources arising within the long-term insurance fund	11	3661179	3312005
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	37681	26663
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	3698860	3338668

Guarantee Fund

Guarantee Fund requirement	21	195352	203827
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	3503508	3134841

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	493751	517432
Resilience capital requirement	32		20165
Base capital resources requirement	33	2139	2030
Individual minimum capital requirement	34	493751	537597
Capital requirements of regulated related undertakings	35	30768	31350
Minimum capital requirement (34 + 35)	36	524519	568947
Excess (deficiency) of available capital resources to cover 50% of MCR	37	3436601	3054195
Excess (deficiency) of available capital resources to cover 75% of MCR	38	3305471	2911958

Enhanced capital requirement

With-profits insurance capital component	39	1101836	1485603
Enhanced capital requirement	40	1626355	2054550

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	1626355	2054550
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	2072505	1284118

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
--	----	--	--

Returns under the Accounts and Statements Rules

Covering page to Form 2

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

..... **M S HODGES**
Chief Executive

..... **N A NICANDROU**
Director

..... **J R LISTER**
Director

30 March 2007

Components of capital resourcesName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ending **31st December 2006**

	R3	Company registration number 79678	GL/UK/CM GL	Period ended			Units £000
				day	month	year	
				31	12	2006	
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3			Total as at the end of the previous year 4
Core tier one capital							
Permanent share capital	11		3175	3175			3175
Profit and loss account and other reserves	12		45691	45691			34673
Share premium account	13						
Positive valuation differences	14		1552675	1552675			1488548
Fund for future appropriations	15		2263934	2263934			1844334
Core tier one capital in related undertakings	16						
Core tier one capital (sum of 11 to 16)	19		3865475	3865475			3370730
Tier one waivers							
Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21						
Implicit items	22						
Tier one waivers in related undertakings	23						
Total tier one waivers as restricted (21+22+23)	24						
Other tier one capital							
Perpetual non-cumulative preference shares as restricted	25						
Perpetual non-cumulative preference shares in related undertakings	26						
Innovative tier one capital as restricted	27						
Innovative tier one capital in related undertakings	28						
Total tier one capital before deductions (19+24+25+26+27+28)	31		3865475	3865475			3370730
Investments in own shares	32						
Intangible assets	33						
Amounts deducted from technical provisions for discounting	34						
Other negative valuation differences	35						
Deductions in related undertakings	36						
Deductions from tier one (32 to 36)	37						
Total tier one capital after deductions (31-37)	39		3865475	3865475			3370730

Components of capital resourcesName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ending **31st December 2006**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	79678	GL	31	12	2006	£000
	General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3			Total as at the end of the previous year 4	

Tier two capital

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

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

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

Components of capital resourcesName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ending **31st December 2006**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	79678	GL	31	12	2006	£000
	General insurance Business 1	Long-Term insurance Business 2	Total as at the end of this financial year 3		Total as at the end of the previous year 4		

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
Total capital resources before deductions (39+69+71)	72		3865475	3865475		3370730
Inadmissible assets other than intangibles and own shares	73		39159	39159		15118
Assets in excess of market risk and counterparty limits	74		127456	127456		16944
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
Total capital resources after deductions (72-73-74-75-76-77)	79		3698860	3698860		3338668

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		3698860	3698860		3338668
Available capital resources for 50% MCR requirement	82		3698860	3698860		3338668
Available capital resources for 75% MCR requirement	83		3698860	3698860		3338668

Financial engineering adjustments

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93		30662	30662		39087
Outstanding contingent loans	94					
Any other charges on future profits	95					
Sum of financial engineering adjustments (91+92-93+94+95)	96		(30662)	(30662)		(39087)

Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2006	£000	1
Investments						As at the end of this financial year 1		As at the end of the previous year 2
Land and buildings				11				
Investments in group undertakings and participating interests								
UK insurance dependants	shares			21				
	debts and loans			22				
Other insurance dependants	shares			23				
	debts and loans			24				
Non-insurance dependants	shares			25				
	debts and loans			26				
Other group undertakings	shares			27				
	debts and loans			28				
Participating interests	shares			29				
	debts and loans			30				
Other financial investments								
Equity shares				41				
Other shares and other variable yield participations				42				
Holdings in collective investment schemes				43				
Rights under derivative contracts				44				
Fixed interest securities	Approved			45				
	Other			46				
Variable interest securities	Approved securities			47				
	Other			48				
Participation in investment pools				49				
Loans secured by mortgages				50				
Loans to public or local authorities and nationalised industries or undertakings				51				
Loans secured by policies of insurance issued by the company				52				
Other loans				53				
Bank and approved credit & financial institution deposits	One month or less withdrawal			54		432		10919
	More than one month withdrawal			55				
Other financial investments				56				

Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2006	£000	1
							As at the end of this financial year 1	As at the end of the previous year 2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities		Index linked		58				
		Property linked		59				
Reinsurers' share of technical provisions								
Provision for unearned premiums				60				
Claims outstanding				61				
Provision for unexpired risks				62				
Other				63				
Debtors and salvage								
Direct insurance business		Policyholders		71				
		Intermediaries		72				
Salvage and subrogation recoveries				73				
Reinsurance		Accepted		74				
		Ceded		75				
Dependants		Due in 12 months or less		76				
		Due in more than 12 months		77				
Other		Due in 12 months or less		78		5866		5961
		Due in more than 12 months		79				
Other assets								
Tangible assets				80				
Deposits not subject to time restriction on withdrawal with approved institutions				81		33256		11937
Cash in hand				82				
Other assets (particulars to be specified by way of supplementary note)				83				
Accrued interest and rent				84				
Deferred acquisition costs (general business only)				85				
Other prepayments and accrued income				86				
Deductions from the aggregate value of assets				87				
Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)				89		39554		28817

Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2006	£000	1
						As at the end of this financial year	As at the 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 of its external financial reporting

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	39554	28817
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	11185	11185
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100	20	(2061)
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	50759	37941
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	5156	5156

Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2006	£000	10
Investments						As at the end of this financial year 1		As at the end of the previous year 2
Land and buildings				11		1571249		1494963
Investments in group undertakings and participating interests								
UK insurance dependants	shares			21		21000		15996
	debts and loans			22				
Other insurance dependants	shares			23				
	debts and loans			24				
Non-insurance dependants	shares			25				
	debts and loans			26				
Other group undertakings	shares			27				
	debts and loans			28		89871		14579
Participating interests	shares			29				
	debts and loans			30				
Other financial investments								
Equity shares				41		7541449		7572643
Other shares and other variable yield participations				42				
Holdings in collective investment schemes				43		1099691		941890
Rights under derivative contracts				44		109269		79742
Fixed interest securities	Approved			45		2449805		3334033
	Other			46		2342021		2107698
Variable interest securities	Approved securities			47		124421		40797
	Other			48		81326		83306
Participation in investment pools				49				
Loans secured by mortgages				50		50371		52415
Loans to public or local authorities and nationalised industries or undertakings				51				
Loans secured by policies of insurance issued by the company				52		1423		2730
Other loans				53		63274		22603
Bank and approved credit & financial institution deposits	One month or less withdrawal			54		228720		123488
	More than one month withdrawal			55				
Other financial investments				56				

Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2006	£000	10
						As at the end of this financial year 1		As at the end of the previous year 2
Deposits with ceding undertakings				57				
Assets held to match linked liabilities		Index linked		58		659		659
		Property linked		59		17320		17375
Reinsurers' share of technical provisions								
Provision for unearned premiums				60				
Claims outstanding				61				
Provision for unexpired risks				62				
Other				63				
Debtors and salvage								
Direct insurance business		Policyholders		71		24645		28155
		Intermediaries		72				
Salvage and subrogation recoveries				73				
Reinsurance		Accepted		74		33305		11722
		Ceded		75				
Dependants		Due in 12 months or less		76				330
		Due in more than 12 months		77				
Other		Due in 12 months or less		78		108966		284850
		Due in more than 12 months		79				
Other assets								
Tangible assets				80				
Deposits not subject to time restriction on withdrawal with approved institutions				81		70223		
Cash in hand				82				
Other assets (particulars to be specified by way of supplementary note)				83				
Accrued interest and rent				84		87781		83915
Deferred acquisition costs (general business only)				85				
Other prepayments and accrued income				86				
Deductions from the aggregate value of assets				87				
Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)				89		16116789		16313889

Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2006	£000	10
						As at the end of this financial year 1	As at the end of the previous year 2	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	16116789	16313889
Assets in excess of market and counterparty limits	92	127456	16944
Capital resources requirement deduction of regulated related undertakings	93	30768	31350
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	35721	36400
Reinsurers' share of technical provisions excluded from line 89	99	1506861	1428482
Other asset adjustments (may be negative)	100	2652	(4293)
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	17820247	17822772
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		14579

Long term insurance business liabilities and marginsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**Fund **Summary**Units **£000**

		As at the end of this financial year 1	As at the end of the previous year 2
Mathematical reserves, after distribution of surplus	11	11802968	12278793
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13		
Long term insurance business fund carried forward (11 to 13)	14	11802968	12278793
Claims outstanding	Gross amount	15	48896
	Reinsurers' share	16	
	Net (15-16)	17	48896
Provisions	Taxation	21	355290
	Other	22	
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	95168
	Reinsurance accepted	32	562
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36	6713	1068
Creditors	Taxation	37	13753
	Other	38	154365
Accruals and deferred income	39	8664	15822
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	683411	754440
Excess of the value of net admissible assets	51	3630410	3280656
Total liabilities and margins	59	16116789	16313889
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	14408	100111
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	17320	17375
Total liabilities (11+12+49)	71	12486379	13033233
Increase to liabilities - DAC related	72		24100
Reinsurers' share of technical provisions	73	1506861	1428482
Other adjustments to liabilities (may be negative)	74	1563073	1492623
Capital and reserves and fund for future appropriations	75	2263934	1844334
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	17820247	17822772

Long term insurance business liabilities and marginsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**Fund **With Profit**Units **£000**

		As at the end of this financial year 1	As at the end of the previous year 2	
Mathematical reserves, after distribution of surplus		11	11425168	11925617
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13		
Long term insurance business fund carried forward (11 to 13)		14	11425168	11925617
Claims outstanding	Gross amount	15	48896	43524
	Reinsurers' share	16		
	Net (15-16)	17	48896	43524
Provisions	Taxation	21	355290	270670
	Other	22		
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	95168	52739
	Reinsurance accepted	32	562	
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36	6713	1068
Creditors	Taxation	37	13753	61182
	Other	38	154365	309435
Accruals and deferred income		39	8664	15822
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	683411	754440
Excess of the value of net admissible assets		51	3630410	3280656
Total liabilities and margins		59	15738989	15960713
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		61	14408	100111
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		62	17320	17375
Total liabilities (11+12+49)		71	12108579	12680057
Increase to liabilities - DAC related		72		
Reinsurers' share of technical provisions		73		
Other adjustments to liabilities (may be negative)		74		
Capital and reserves and fund for future appropriations		75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)		76		

Long term insurance business liabilities and marginsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**Fund **Stakeholder**Units **£000**

		As at the end of this financial year 1	As at the end of the previous year 2
Mathematical reserves, after distribution of surplus		11	377800
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12	
Balance of surplus/(valuation deficit)		13	
Long term insurance business fund carried forward (11 to 13)		14	377800
Claims outstanding	Gross amount	15	
	Reinsurers' share	16	
	Net (15-16)	17	
Provisions	Taxation	21	
	Other	22	
Deposits received from reinsurers		23	
Creditors	Direct insurance business	31	
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions		36	
Creditors	Taxation	37	
	Other	38	
Accruals and deferred income		39	
Provision for "reasonably foreseeable adverse variations"		41	
Total other insurance and non-insurance liabilities (17 to 41)		49	
Excess of the value of net admissible assets		51	
Total liabilities and margins		59	377800
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		61	
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		62	
Total liabilities (11+12+49)		71	377800
Increase to liabilities - DAC related		72	
Reinsurers' share of technical provisions		73	
Other adjustments to liabilities (may be negative)		74	
Capital and reserves and fund for future appropriations		75	
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)		76	

Liabilities (other than long term insurance business)Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R15	79678	GL	31	12	2006	£000
				As at the end of this financial year		As at the end of the previous year	
				1	2		

Technical provisions (gross amount)

Provision for unearned premiums	11		
Claims outstanding	12		
Provision for unexpired risks	13		
Equalisation provisions	Credit business	14	
	Other than credit business	15	
Other gross 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	71	93
	Declared dividend	48		
	Other	49	1802	2061
Accruals and deferred income		51		
Total (19 to 51)		59	1873	2154
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	1873	2154

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
---	-----------	--	--

Reinsurers' share of DAC	81		
Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	20	(2061)
Capital and reserves	84	48866	37848
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	50759	37941

Profit and loss account (non-technical account)Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

		Company registration number	GL/UK/CM	Period ended			Units	
		R16	79678	GL	31	12	2006	£000
		This financial year			Previous year			
		1			2			
Transfer (to)/from the general insurance business technical account	From Form 20	11						
	Equalisation provisions	12						
Transfer from the long term insurance business revenue account		13		33256			22423	
Investment income	Income	14		235			312	
	Value re-adjustments on investments	15						
	Gains on the realisation of investments	16						
Investment charges	Investment management charges, including interest	17						
	Value re-adjustments on investments	18						
	Loss on the realisation of investments	19						
Allocated investment return transferred to the general insurance business technical account		20						
Other income and charges (particulars to be specified by way of supplementary note)		21						
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29		33491			22735	
Tax on profit or loss on ordinary activities		31		91			93	
Profit or loss on ordinary activities after tax (29-31)		39		33400			22642	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		41						
Tax on extraordinary profit or loss		42						
Other taxes not shown under the preceding items		43						
Profit or loss for the financial year (39+41-(42+43))		49		33400			22642	
Dividends (paid or declared)		51		22400			25863	
Profit or loss retained for the financial year (49-51)		59		11000			(3221)	

Analysis of derivative contractsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

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

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	79678	GL	31	12	2006	£000	10
		As at the end of this financial year			As at the end of the previous year				
		Assets 1	Liabilities 2	Assets 3	Liabilities 4				
Derivative contracts									
Futures contracts	Fixed-interest securities	11	9062	883				3845	
	Equity shares	12	2974	1586					
	Land	13							
	Currencies	14	35888	12507	5141			18787	
	Other	15							
Options	Fixed-interest securities	21	56322				64963		
	Equity shares	22	4714				7668		
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32					889	7085	
	Land	33	309	2326					
	Currencies	34						191	
	Other	35							
Adjustments for variation margin		41					1081	3785	
Total (11 to 41)		49	109269	17302			79742	33693	

With-profits insurance capital component for the fund

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31st December 2006**
With-profits fund **Commercial Union Life Fund 1**
Units **£000**

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

Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	16116789	16313889
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	1899785	1935344
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	93778	98704
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		3178
	Total (11+12-(13+14+15))	19	14123226	14276663
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	9903183	10343449
	Regulatory current liabilities of the fund	22	683411	754440
	Total (21+22)	29	10586594	11097889
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts	31	399972	418729	
Resilience capital requirement in respect of the fund's with-profits insurance contracts	32		16987	
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)	39	10986566	11533605	
Regulatory excess capital (19-39)	49	3136660	2743058	

Realistic excess capital

Realistic excess capital	51	1960752	1257455
--------------------------	----	---------	---------

Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1175908	1485603
Face amount of capital instruments attributed to the fund and included in the capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in the capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	74072	
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero; else greater of 61-64-65 and zero)	66	1101836	1485603

Realistic balance sheet

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31st December 2006**
 With-profits fund **Commercial Union Life Fund 1**
 Units **£000**

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

Realistic value of assets available to the fund

Regulatory value of assets	11	14123226	14276663
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13		15996
Excess admissible assets	21	127456	16944
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	480835	393938
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in the fund (realistic)	24		15996
Prepayments made from the fund	25		
Realistic value of assets of the fund (11+21+22+23+24+25-(12+13))	26	14731517	14687545
Support arrangement assets	27		
Assets available to the fund (26+27)	29	14731517	14687545

Realistic value of liabilities of fund

With-profits benefits reserve	31	10770293	10957680	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32		
	Past miscellaneous deficit attributed to with-profits benefits reserve	33		
	Planned enhancements to with-profits benefits reserve	34	6800	
	Planned deductions for the cost of guarantees, options and smoothing from with-profits benefits reserve	35		
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41	316991	502804
	Future costs of non-contractual commitments	42	169642	219371
	Future costs of financial options	43	202158	220292
	Future costs of smoothing (possibly negative)	44	(28125)	(39518)
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	165173	156058
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	832639	1059007	
Realistic current liabilities of the fund	51	649010	727665	
Realistic value of liabilities of the fund (31+49+51)	59	12251942	12744352	

Realistic balance sheetName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**With-profits fund **Commercial Union Life Fund 1**Units **£000**

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

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62	12770765	13430090
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	12770765	13430090
Risk capital margin for fund (62-59)	65	518823	685738
Realistic excess capital for fund (26-(59+65))	66	1960752	1257455
Realistic excess available capital for fund (29-(59+65))	67	1960752	1257455
Working capital for for fund (29-59)	68	2479575	1943193
Working capital ratio for fund (68/29)	69	16.83	13.23

Other assets potentially available if required to cover the fund's risk capital margin

Additional amount potentially available for inclusion in line 62	81		
Additional amount potentially available for inclusion in line 63	82		

Long-term insurance business : Revenue accountName of insurer **Commercial Union Life Assurance Company Limited**Name and number of fund/Summary **Summary**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11	616920	523161
Investment income receivable before deduction of tax	12	618661	655462
Increase (decrease) in the value of non-linked assets brought into account	13	427621	402042
Increase (decrease) in the value of linked assets	14	(55)	(808)
Other income	15	1898	1670
Total income	19	1665045	1581527
Expenditure			
Claims incurred	21	1921350	1524898
Expenses payable	22	159256	105493
Interest payable before deduction of tax	23	5273	14466
Taxation	24	21735	44884
Other expenditure	25		
Transfer to (from) non technical account	26	33256	22423
Total expenditure	29	2140870	1712164
Business transfers-in	31		
Business transfers-out	32		63254
Increase (decrease) in fund in financial year (19-29+31-32)	39	(475825)	(193891)
Fund brought forward	49	12278793	12472684
Fund carried forward (39+49)	59	11802968	12278793

Long-term insurance business : Revenue accountName of insurer **Commercial Union Life Assurance Company Limited**Name and number of fund/Summary **With Profit**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11	571575	473770
Investment income receivable before deduction of tax	12	592143	632186
Increase (decrease) in the value of non-linked assets brought into account	13	434863	411653
Increase (decrease) in the value of linked assets	14	(55)	(808)
Other income	15	1898	1670
Total income	19	1600424	1518471
Expenditure			
Claims incurred	21	1885068	1506271
Expenses payable	22	155541	104524
Interest payable before deduction of tax	23	5273	14466
Taxation	24	21735	44884
Other expenditure	25		
Transfer to (from) non technical account	26	33256	22423
Total expenditure	29	2100873	1692568
Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(500449)	(174097)
Fund brought forward	49	11925617	12099714
Fund carried forward (39+49)	59	11425168	11925617

Long-term insurance business : Revenue accountName of insurer **Commercial Union Life Assurance Company Limited**Name and number of fund/Summary **Stakeholder**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11	45345	49391
Investment income receivable before deduction of tax	12	26518	23276
Increase (decrease) in the value of non-linked assets brought into account	13	(7242)	(9611)
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	64621	63056
Expenditure			
Claims incurred	21	36282	18627
Expenses payable	22	3715	969
Interest payable before deduction of tax	23		
Taxation	24		
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	39997	19596
Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	24624	43460
Fund brought forward	49	353176	309716
Fund carried forward (39+49)	59	377800	353176

Long-term insurance business : Revenue accountName of insurer **Commercial Union Life Assurance Company Limited**Name and number of fund/Summary **Permanent Health**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11		
Investment income receivable before deduction of tax	12		
Increase (decrease) in the value of non-linked assets brought into account	13		
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19		
Expenditure			
Claims incurred	21		
Expenses payable	22		
Interest payable before deduction of tax	23		
Taxation	24		
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29		
Business transfers-in	31		
Business transfers-out	32		63254
Increase (decrease) in fund in financial year (19-29+31-32)	39		(63254)
Fund brought forward	49		63254
Fund carried forward (39+49)	59		

Long term insurance business : Analysis of premiumsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st December 2006**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Regular premiums	11	95781	163908		259689	331194
Single premiums	12	367683	72179		439862	288189
Reinsurance - external						
Regular premiums	13		4466		4466	59
Single premiums	14					
Reinsurance - intra-group						
Regular premiums	15	91	45739		45830	58436
Single premiums	16		32335		32335	37727
Net of reinsurance						
Regular premiums	17	95690	113703		209393	272699
Single premiums	18	367683	39844		407527	250462
Total						
Gross	19	463464	236087		699551	619383
Reinsurance	20	91	82540		82631	96222
Net	21	463373	153547		616920	523161

Long term insurance business : Analysis of premiumsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **With Profit**Financial year ended **31st December 2006**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Regular premiums	11	95781	125716		221497	292791
Single premiums	12	367683	65026		432709	277201
Reinsurance - external						
Regular premiums	13		4466		4466	59
Single premiums	14					
Reinsurance - intra-group						
Regular premiums	15	91	45739		45830	58436
Single premiums	16		32335		32335	37727
Net of reinsurance						
Regular premiums	17	95690	75511		171201	234296
Single premiums	18	367683	32691		400374	239474
Total						
Gross	19	463464	190742		654206	569992
Reinsurance	20	91	82540		82631	96222
Net	21	463373	108202		571575	473770

Long term insurance business : Analysis of premiumsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2006**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Regular premiums	11		38192		38192	38403
Single premiums	12		7153		7153	10988
Reinsurance - external						
Regular premiums	13					
Single premiums	14					
Reinsurance - intra-group						
Regular premiums	15					
Single premiums	16					
Net of reinsurance						
Regular premiums	17		38192		38192	38403
Single premiums	18		7153		7153	10988
Total						
Gross	19		45345		45345	49391
Reinsurance	20					
Net	21		45345		45345	49391

Long term insurance business : Analysis of claimsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st 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	129692	10747		140439	166782
Disability periodic payments	12	38	110		148	383
Surrender or partial surrender	13	1172160	401187		1573347	1156446
Annuity payments	14	5760	69044		74804	74765
Lump sums on maturity	15	104942	169794		274736	223368
Total	16	1412592	650882		2063474	1621744
Reinsurance - external						
Death or disability lump sums	21	675	51		726	7
Disability periodic payments	22		43		43	16
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26	675	94		769	23
Reinsurance - intra-group						
Death or disability lump sums	31	512	2621		3133	3309
Disability periodic payments	32					43
Surrender or partial surrender	33	4456	91797		96253	65900
Annuity payments	34					2
Lump sums on maturity	35		41969		41969	27569
Total	36	4968	136387		141355	96823
Net of reinsurance						
Death or disability lump sums	41	128505	8075		136580	163466
Disability periodic payments	42	38	67		105	324
Surrender or partial surrender	43	1167704	309390		1477094	1090546
Annuity payments	44	5760	69044		74804	74763
Lump sums on maturity	45	104942	127825		232767	195799
Total	46	1406949	514401		1921350	1524898

Long term insurance business : Analysis of claimsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **With Profit**Financial year ended **31st 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	129692	9866		139558	166204
Disability periodic payments	12	38	110		148	383
Surrender or partial surrender	13	1172160	379228		1551388	1143533
Annuity payments	14	5760	69044		74804	74765
Lump sums on maturity	15	104942	156352		261294	218232
Total	16	1412592	614600		2027192	1603117
Reinsurance - external						
Death or disability lump sums	21	675	51		726	7
Disability periodic payments	22		43		43	16
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26	675	94		769	23
Reinsurance - intra-group						
Death or disability lump sums	31	512	2621		3133	3309
Disability periodic payments	32					43
Surrender or partial surrender	33	4456	91797		96253	65900
Annuity payments	34					2
Lump sums on maturity	35		41969		41969	27569
Total	36	4968	136387		141355	96823
Net of reinsurance						
Death or disability lump sums	41	128505	7194		135699	162888
Disability periodic payments	42	38	67		105	324
Surrender or partial surrender	43	1167704	287431		1455135	1077633
Annuity payments	44	5760	69044		74804	74763
Lump sums on maturity	45	104942	114383		219325	190663
Total	46	1406949	478119		1885068	1506271

Long term insurance business : Analysis of claimsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st 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		881		881	578
Disability periodic payments	12					
Surrender or partial surrender	13		21959		21959	12913
Annuity payments	14					
Lump sums on maturity	15		13442		13442	5136
Total	16		36282		36282	18627
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					
Total	26					
Reinsurance - intra-group						
Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
Total	36					
Net of reinsurance						
Death or disability lump sums	41		881		881	578
Disability periodic payments	42					
Surrender or partial surrender	43		21959		21959	12913
Annuity payments	44					
Lump sums on maturity	45		13442		13442	5136
Total	46		36282		36282	18627

Long term insurance business : Analysis of expensesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st December 2006**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Commission - acquisition	11	20091	1312		21403	13454
Commission - other	12	3929	3560		7489	6628
Management - acquisition	13	8516	682		9198	7523
Management - maintenance	14	10721	40497		51218	46286
Management - other	15	57351	12597		69948	31602
Total	16	100608	58648		159256	105493
Reinsurance - external						
Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26					
Reinsurance - intra-group						
Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					
Net of reinsurance						
Commission - acquisition	41	20091	1312		21403	13454
Commission - other	42	3929	3560		7489	6628
Management - acquisition	43	8516	682		9198	7523
Management - maintenance	44	10721	40497		51218	46286
Management - other	45	57351	12597		69948	31602
Total	46	100608	58648		159256	105493

Long term insurance business : Analysis of expensesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **With Profit**Financial year ended **31st December 2006**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Commission - acquisition	11	20091	1312		21403	13454
Commission - other	12	3929	3560		7489	6628
Management - acquisition	13	8516	682		9198	7523
Management - maintenance	14	10721	36782		47503	45317
Management - other	15	57351	12597		69948	31602
Total	16	100608	54933		155541	104524
Reinsurance - external						
Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26					
Reinsurance - intra-group						
Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					
Net of reinsurance						
Commission - acquisition	41	20091	1312		21403	13454
Commission - other	42	3929	3560		7489	6628
Management - acquisition	43	8516	682		9198	7523
Management - maintenance	44	10721	36782		47503	45317
Management - other	45	57351	12597		69948	31602
Total	46	100608	54933		155541	104524

Long term insurance business : Analysis of expensesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2006**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Commission - acquisition	11					
Commission - other	12					
Management - acquisition	13					
Management - maintenance	14		3715		3715	969
Management - other	15					
Total	16		3715		3715	969
Reinsurance - external						
Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26					
Reinsurance - intra-group						
Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					
Net of reinsurance						
Commission - acquisition	41					
Commission - other	42					
Management - acquisition	43					
Management - maintenance	44		3715		3715	969
Management - other	45					
Total	46		3715		3715	969

Long term insurance business : Summary of new businessName of insurer **Commercial Union Life Assurance Company Limited**

Total business

Financial year ended **31st 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		1269		1269	1724
Single premium business	12	316	1079		1395	1966
Total	13	316	2348		2664	3690
Amount of new regular premiums						
Direct insurance business	21		7699		7699	9156
External reinsurance	22					
Intra-group reinsurance	23	134	11219		11353	12355
Total	24	134	18918		19052	21511
Amount of new single premiums						
Direct insurance business	25	785	64790		65575	57889
External reinsurance	26					
Intra-group reinsurance	27	394278	33670		427948	230300
Total	28	395063	98460		493523	288189

Long term insurance business : Analysis of new businessName of insurer **Commercial Union Life Assurance Company Limited**

Total business

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

UK Life / Direct insurance business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
395	Annuity non-profit (PLA)			29	360
400	Annuity non-profit (CPA)			280	386
500	Life UWP single premium			3	21
700	Life property linked single premium			4	18

Long term insurance business : Analysis of new businessName of insurer **Commercial Union Life Assurance Company Limited**

Total business

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

UK Life / 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
500	Life UWP single premium				309466
515	Life UWP endowment regular premium - target cash		4		
525	Individual pensions UWP		23		109
530	Individual pensions UWP - increments		107		180
571	Trustee investment plan UWP				58
575	Miscellaneous UWP				84465

Long term insurance business : Analysis of new businessName of insurer **Commercial Union Life Assurance Company Limited**

Total business

Financial year ended **31st 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
155	Conventional pensions endowment with-profits				1006
400	Annuity non-profit (CPA)			1056	32354
410	Group Life				170
525	Individual pensions UWP	12	33	2	252
530	Individual pensions UWP - increments		493		919
535	Group money purchase pensions UWP	83	319		9
540	Group money purchase pensions UWP - increments		784		407
565	DWP National Insurance rebates UWP				8320
575	Miscellaneous UWP	27	514	13	785
725	Individual pensions property linked	311	79		713
730	Individual pensions property linked - increments		928		4008
735	Group money purchase pensions property linked	836	2433	8	270

Long term insurance business : Analysis of new businessName of insurer **Commercial Union Life Assurance Company Limited**

Total business

Financial year ended **31st 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
740	Group money purchase pensions property linked - increments		2116		1746
745	DWP National Insurance rebates property linked				13831

Long term insurance business : Analysis of new businessName of insurer **Commercial Union Life Assurance Company Limited**

Total business

Financial year ended **31st 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
525	Individual pensions UWP		1456		5172
530	Individual pensions UWP - increments		1562		9263
535	Group money purchase pensions UWP		3705		2403
540	Group money purchase pensions UWP - increments		4496		10881
565	DWP National Insurance rebates UWP				5758
571	Trustee investment plan UWP				193

Long term insurance business : Non-linked assetsName of insurer **Commercial Union Life Assurance Company Limited**Category of assets **Total long term insurance business assets**Financial year ended **31st 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 requirement						
Land and buildings	11					
Approved fixed interest securities	12	938585	938585	44553	4.51	
Other fixed interest securities	13	1035566	1035566	58819	5.67	
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18					
Total	19	1974151	1974151	103372	5.12	
Assets backing with-profits liabilities and with-profits capital requirement						
Land and buildings	21	1571249	2503072	113113	4.30	19
Approved fixed interest securities	22	1535514	1065468	72888	4.32	.04
Other fixed interest securities	23	1355943	1561884	77017	4.90	.71
Variable interest securities	24	206897	244086	5952	2.60	1.08
UK listed equity shares	25	5327872	5613217	155121	4.18	16.99
Non-UK listed equity shares	26	1281280	1649309	30913	3.35	8.6
Unlisted equity shares	27	953297	207474	20	0.01	
Other assets	28	1892607	1280149	57782	4.48	1.83
Total	29	14124659	14124659	512806	4.13	11.39
Overall return on with-profits assets						
Post investment costs but pre-tax	31					10.69
Return allocated to non taxable 'asset shares'	32					11.99
Return allocated to taxable 'asset shares'	33					10.29

Long term insurance business : Fixed and variable interest assetsName of insurer **Commercial Union Life Assurance Company Limited**Category of assets **Total long term insurance business assets**Financial year ended **31st December 2006**Units **£000**

		Value of assets	Mean term	Yield before adjustment	Yield after adjustment
		1	2	3	4
UK government approved fixed interest securities	11	1824987	11.65	4.24	4.24
Other approved fixed interest securities	21	179066	8.76	5.21	5.21
Other fixed interest securities					
AAA/Aaa	31	332949	6.88	5.18	5.09
AA/Aa	32	757310	5.93	5.43	5.15
A/A	33	797580	5.02	5.45	5.13
BBB/Baa	34	549152	5.93	5.41	4.74
BB/Ba	35	59218	1.11	2.02	0.34
B/B	36	79263	0.63	1.83	
CCC/Caa	37	8699	2.31	14.94	9.99
Other (including unrated)	38	13278	3.75	2.96	2.27
Total other fixed interest securities	39	2597449	5.48	5.23	4.78
Approved variable interest securities	41	126708	16.38	1.47	1.47
Other variable interest securities	51	117378	5.89	3.82	3.82
Total (11+21+39+41+51)	61	4845588	8.22	4.72	4.48

Long term insurance business : Summary of mathematical reservesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st 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	1568709	586034		2154743	1867918
Form 51 - non-profit	12	297795	1509409	30662	1837866	1884157
Form 52	13	5297224	2214315		7511539	8255732
Form 53 - linked	14	88886	1422500		1511386	1431670
Form 53 - non-linked	15	316	72197		72513	58301
Form 54 - linked	16		659		659	659
Form 54 - non-linked	17		80		80	65
Total	18	7252930	5805194	30662	13088786	13498502
Reinsurance - external						
Form 51 - with-profits	21	261			261	396
Form 51 - non-profit	22	11270	20		11290	12345
Form 52	23		460		460	461
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	11531	480		12011	13202
Reinsurance - intra-group						
Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34	87452	1405179		1492631	1412581
Form 53 - non-linked	35		17363		17363	13348
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	87452	1422542		1509994	1425929
Net of reinsurance						
Form 51 - with-profits	41	1568448	586034		2154482	1867522
Form 51 - non-profit	42	286525	1509389	30662	1826576	1871812
Form 52	43	5297224	2213855		7511079	8255271
Form 53 - linked	44	1434	17321		18755	19089
Form 53 - non-linked	45	316	54834		55150	44953
Form 54 - linked	46		659		659	659
Form 54 - non-linked	47		80		80	65
Total	48	7153947	4382172	30662	11566781	12059371

Long term insurance business : Summary of mathematical reservesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **With Profit**Financial year ended **31st 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	1568709	586034		2154743	1867918
Form 51 - non-profit	12	297795	1509409	30662	1837866	1884157
Form 52	13	5297224	1851074		7148298	7913839
Form 53 - linked	14	88886	1422500		1511386	1431670
Form 53 - non-linked	15	316	72197		72513	58301
Form 54 - linked	16		659		659	659
Form 54 - non-linked	17		80		80	65
Total	18	7252930	5441953	30662	12725545	13156609
Reinsurance - external						
Form 51 - with-profits	21	261			261	396
Form 51 - non-profit	22	11270	20		11290	12345
Form 52	23		460		460	461
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	11531	480		12011	13202
Reinsurance - intra-group						
Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34	87452	1405179		1492631	1412581
Form 53 - non-linked	35		17363		17363	13348
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	87452	1422542		1509994	1425929
Net of reinsurance						
Form 51 - with-profits	41	1568448	586034		2154482	1867522
Form 51 - non-profit	42	286525	1509389	30662	1826576	1871812
Form 52	43	5297224	1850614		7147838	7913378
Form 53 - linked	44	1434	17321		18755	19089
Form 53 - non-linked	45	316	54834		55150	44953
Form 54 - linked	46		659		659	659
Form 54 - non-linked	47		80		80	65
Total	48	7153947	4018931	30662	11203540	11717478

Long term insurance business : Summary of mathematical reservesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st 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					
Form 52	13		363241		363241	341893
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16					
Form 54 - non-linked	17					
Total	18		363241		363241	341893
Reinsurance - external						
Form 51 - with-profits	21					
Form 51 - non-profit	22					
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28					
Reinsurance - intra-group						
Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34					
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38					
Net of reinsurance						
Form 51 - with-profits	41					
Form 51 - non-profit	42					
Form 52	43		363241		363241	341893
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46					
Form 54 - non-linked	47					
Total	48		363241		363241	341893

Long term insurance business : index linked businessName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Total business

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

Type of assets and liabilities	Name of index link	Value of assets or liabilities	Gross derivative value
	1	2	3
Treasury 2.5%, 2009, Index Linked Gilt	RPI	593	
Treasury 2.5%, 2013, Index Linked Gilt	RPI	66	
Sub total assets		659	
Sub total liabilities			
Sub total net assets		659	
Total assets		659	n/a
Total liabilities			n/a
Net total assets		659	n/a

Long-term insurance business - analysis of valuation interest ratesName of insurer **Commercial Union Life Assurance Company Limited**Total business / subfund **With Profit**Financial year ended **31st December 2006**Units **£000**

Product group	Net mathematical reserves	Net valuation interest rate	Gross valuation interest rate	Risk adjusted yield on matching assets
1	2	3	4	5
UK L&GA WP Form 51 Assurances	1484927	2.90	3.27	4.81
UK L&GA NP Form 51 Assurances	119867	2.90	3.63	4.57
UK L&GA NP Form 51 In Payment Annuities	108991		4.20	4.88
UK L&GA NP Form 51 Deferred Annuities	44559		3.60	4.57
UK Pens WP Form 51	586237		3.70	4.81
UK Pens NP Form 51	510061		3.60	4.57
UK Pens NP Form 51 In Payment Annuities	999328		4.20	4.88
UK L&GA WP Form 52	5172697	3.55	4.01	4.81
UK Pens WP Form 52	1894761		4.00	4.81
OS L&GA WP Form 52	279558		4.00	4.81
UK Pens NP Form 53	54914		4.20	4.57
Misc	169268	n/a	n/a	
Total:	11425168	n/a	n/a	n/a

Long-term insurance business - analysis of valuation interest ratesName of insurer **Commercial Union Life Assurance Company Limited**Total business / subfund **Stakeholder**Financial year ended **31st December 2006**Units **£000**

Product group	Net mathematical reserves	Net valuation interest rate	Gross valuation interest rate	Risk adjusted yield on matching assets
1	2	3	4	5
UK Pens WP Form 52 Stakeholder	377800		4.00	4.81
Total:	377800	n/a	n/a	n/a

Long term insurance business : distribution of surplusName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11	11802968	12278793
Bonus payments in anticipation of a surplus	12	85543	(2535)
Transfer to non-technical account	13	33256	22423
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	11921767	12298681
Mathematical reserves	21	11566781	12059371
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	354986	239310
Composition of Surplus			
Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds/parts of funds	33		
Surplus arising since the last valuation	34	354986	239310
Total	39	354986	239310
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41	85543	(2535)
Cash bonuses	42		
Reversionary bonuses	43	236187	219422
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	321730	216887
Net transfer out of fund/part of fund	47	33256	22423
Total distributed surplus (46+47)	48	354986	239310
Surplus carried forward	49		
Total (48+49)	59	354986	239310
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 : distribution of surplusName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **With Profit**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11	11425168	11925617
Bonus payments in anticipation of a surplus	12	80720	(3371)
Transfer to non-technical account	13	33256	22423
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	11539144	11944669
Mathematical reserves	21	11203540	11717478
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	335604	227191
Composition of Surplus			
Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds/parts of funds	33		
Surplus arising since the last valuation	34	335604	227191
Total	39	335604	227191
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41	80720	(3371)
Cash bonuses	42		
Reversionary bonuses	43	221628	208139
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	302348	204768
Net transfer out of fund/part of fund	47	33256	22423
Total distributed surplus (46+47)	48	335604	227191
Surplus carried forward	49		
Total (48+49)	59	335604	227191
Percentage of distributed surplus allocated to policyholders			
Current year	61	90.09	90.13
Current year - 1	62	90.13	90.16
Current year - 2	63	90.16	90.17
Current year - 3	64	90.17	90.14

Long term insurance business : distribution of surplusName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2006**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11	377800	353176
Bonus payments in anticipation of a surplus	12	4823	836
Transfer to non-technical account	13		
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	382623	354012
Mathematical reserves	21	363241	341893
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	19382	12119
Composition of Surplus			
Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds/parts of funds	33		
Surplus arising since the last valuation	34	19382	12119
Total	39	19382	12119
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41	4823	836
Cash bonuses	42		
Reversionary bonuses	43	14559	11283
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	19382	12119
Net transfer out of fund/part of fund	47		
Total distributed surplus (46+47)	48	19382	12119
Surplus carried forward	49		
Total (48+49)	59	19382	12119
Percentage of distributed surplus allocated to policyholders			
Current year	61	100.00	100.00
Current year - 1	62	100.00	100.00
Current year - 2	63	100.00	100.00
Current year - 3	64	100.00	100.00

Long-term insurance business: With-profits payouts on maturity (normal retirement)Name of insurer **Commercial Union Life Assurance Company Limited**Original insurer **Commercial Union Life Assurance Company Limited**Date of maturity value/open market option **1st March 2007**

Category of with-profits policy	Original term (years)	Maturity value/ open market option	Terminal bonus	MVA	CWP/UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	7007	967	N/A	CWP	N	7007
Endowment assurance	15	11877	457	N/A	CWP	N	11877
Endowment assurance	20	21723	1230	N/A	CWP	N	21723
Endowment assurance	25	45493	6940	N/A	CWP	N	45493
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	31166	2646	0	UWP	N	31166
Regular premium pension	15	59369	7211	0	UWP	N	59369
Regular premium pension	20	118505	24253	N/A	CWP	N	118505
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	18096	1281	0	UWP	N	18096
Single premium pension	15	32886	7393	0	UWP	N	32886
Single premium pension	20	70320	17842	N/A	CWP	N	70320

Long-term insurance business: With-profits payouts on surrenderName of insurer **Commercial Union Life Assurance Company Limited**Original insurer **Commercial Union Life Assurance Company Limited**Date of surrender value **1st 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	5171	N/A	N/A	CWP	N	17079
Endowment assurance	15	11637	N/A	N/A	CWP	N	19258
Endowment assurance	20	22139	N/A	N/A	CWP	N	26566
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	10	16788	1931	0	UWP	Y	16956
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	17295	1281	0	UWP	Y	17295

Long term insurance capital requirementName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st 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%	213054	213054			
Classes I (other), II and IX	12	0.1%	306598	306598		250	258
Classes I (other), II and IX	13	0.15%			0.81		
Classes I (other), II and IX	14	0.3%	4847890	3889236		11839	16188
Classes III, VII and VIII	15	0.3%	136006	136006	1.00	408	860
Total	16		5503548	4544894		12497	17306
Insurance health risk and life protection reinsurance capital component							
Class IV, supplementary classes 1 and 2 and life protection reinsurance	21						
Insurance expense risk capital component							
Life protection and permanent health reinsurance	31	0.0%					
Classes I (other), II and IX	32	1%	4644209	4632659	1.00	46327	43444
Classes III, VII and VIII (investment risk)	33	1%	7143240	7090001	0.99	70900	78691
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	1444431	72153	0.85	12278	11536
Classes III, VII and VIII (other)	35	25%					1
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%	1723	1723	1.00	17	12
Total	39					129522	133684
Insurance market risk capital component							
Life protection and permanent health reinsurance	41	0.0%	6116	6116			
Classes I (other), II and IX	42	3%	4644209	4632659	1.00	138980	130332
Classes III, VII and VIII (investment risk)	43	3%	7143240	7090001	0.99	212700	236074
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	1444431	72153			
Classes III, VII and VIII (other)	45	0%	85254	316			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%	1723	1723	1.00	52	36
Total	49		13324973	11802968		351732	366442
Long term insurance capital requirement	51					493751	517432

Supplementary notesName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006****Code****0301 Reconciliation of net admissible assets to total capital resources after deductions**

	£'000
i) Net admissible assets	
Form 13 Line 89 (Long term business)	16,116,789
Form 13 Line 89 (Other than long term business)	39,554
Form 14 Lines 11, 12 and 49	(12,486,379)
Form 15 Line 69	(1,873)
	<hr/> 3,668,091
ii) Components of capital resources that are treated as a liability	-
iii) Components of capital resources not included in ii) that arise as a result of a waiver and are not represented by admissible assets included in Form 13	-
iv) Any other items	
Capital resources requirement of regulated related undertaking	30,768
v) Roundings	1
Total i) to v) above	<hr/> 3,698,860
Form 3, line 79	3,698,860

0307 Financial Reinsurance - accepted

The impact of the financial reinsurance shown at line 93 is to increase mathematical reserves by £31m. The amount of contingent asset for payments from cedants is £31m. The commutation value of the reinsurance arrangement at the end of the financial year is £31m.

0310 Calculation of valuation differences as required by instruction 9 to Form 3

	£'000
a) Positive valuation differences in respect of assets where valuation in GENPRU and INSPRU exceeds the valuation that the firm uses for external financial reporting purposes.	-
b) Positive valuation differences in respect of liabilities where valuation in GENPRU and INSPRU is lower than the valuation that the firm uses for external financial reporting purposes This represents mathematical reserves and the removal of DIR	1,563,860
c) Negative valuation differences in respect of assets where valuation in GENPRU and INSPRU is lower than the valuation that the firm uses for external financial reporting purposes. This represents prior year transfers from the PHI fund.	(11,185)
d) Negative valuation differences in respect of liabilities where valuation in GENPRU and INSPRU exceeds the valuation that the firm uses for external financial reporting purposes.	-
Net positive/(negative) valuation difference included in line 14/(35)	<hr/> 1,552,675

1301 Aggregate value of unlisted investments, etc. – other than long term insurance business**1308 Aggregate value of unlisted investments, etc. – long term insurance business**

The Commercial Union Life Fund held £1156.6m in unlisted securities and £299.6m of units in unregulated collective investment schemes. There were no holdings in listed securities, which are not readily realisable, or reversionary interests or remainders in property.

1302 Aggregate value of hybrid securities – other than long term insurance business**1309 Aggregate value of hybrid securities – long term insurance business**

The Company held hybrid securities of £389.3m in the Commercial Union Life Fund.

Supplementary notes

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31st December 2006**

Code

1304 Statement of amounts set off – other than long term insurance business

1310 Statement of amounts set off – long term insurance business

Amounts have been set off to the extent permitted by generally accepted accounting principles.

1305 Counterparty limits during the year – other than long term insurance business

1311 Counterparty limits during the year – long term insurance business

The investment guidelines operated by the Company specify exposure to counterparties by asset type as follows:

Deposits

The maximum permitted exposure to counterparties is set out in the lending limit list approved by the Group Credit Committee.

Each Fund cannot hold more than 2% of funds under management (but subject to a minimum of £20m and a maximum of £100m) with individual 'Tier 1' counterparties, 1.5% of funds under management (but subject to a minimum of £15m and a maximum of £75m) with individual 'Tier 2' counterparties and 0.5% of funds under management (but subject to a minimum of £10m and a maximum of £50m) with individual 'Tier 3' counterparties. Tier 1 represents AAA rated institutions, Tier 2 represents institutions rated AA- or better whilst Tier 3 represents institutions rated A- or better.

Equities

The maximum of a company's equity held by all funds is limited to 19.99%. Unquoted holdings are limited to 2.4% of the fund.

Fixed

Exposure to non-government bonds is limited to holdings which are deemed to be of a suitable quality determined by senior investment management. Private placements are limited to 2% of the non-government bond portfolio.

Derivatives

Exposure to derivatives is considered in the management of the funds within the overall risk limits. Where appropriate, constraints are in place over the nature of derivative instruments and the duration.

1306 Counterparty exposure at the year end – other than long term insurance business

1312 Counterparty exposure at the year end – long term insurance business

Exposure to any one counterparty at the end of the financial year did not exceed 5% of the sum of the insurer's base capital resources requirement and its long-term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

1314 Tangible lease assets – other than long term insurance business

1316 Tangible lease assets – long term insurance business

There are no tangible leased assets included in line 80.

1318 Other asset adjustments

	£'000
Other than long term business	
Adjust tax balance	20
	<hr/>
Long term business	
Inter-company gross up	(787)
Premium debt restriction	3,439
TOTAL	<hr/> <hr/> 2,652

Supplementary notesName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006****Code****1401 Provision for reasonably foreseeable adverse variations****1501 Provision for reasonably foreseeable adverse variations**

No provision for reasonably foreseeable adverse variations is required as no assets are held which would give rise to a future liability, which would not be covered by appropriate assets.

1402 Contingent liabilities, etc.**1502 Contingent liabilities, etc.**

There are no charges over any assets of the Company.

Included in deferred tax liabilities at line 21 of Form 14 is an amount of £355m comprising a full provision for potential capital gains tax on unrealised gains and run off of tax acquisition expenses.

There are no contingent liabilities not included on the Form.

There are no guarantees, indemnities, or other contractual commitments effected other than in the ordinary course of insurance business and in respect of related companies.

1404 Implicit provision required by INSPRU 3.2.17R

Included in line 38 is £17m relating to provision required by INSPRU 3.2.17R.

1405 Other adjustments to liabilities

	£'000
Inter-company gross up	(787)
Technical provisions adjustment	1,539,928
Disallow DIR	<u>23,931</u>
Total	1,563,072

1507 Other adjustments

	£'000
Adjust tax balance	20

1601 Basis of conversion of foreign currency

Assets and liabilities in currencies other than sterling have been translated into sterling at rates of exchange ruling at 31 December 2006. Revenue items in currencies other than sterling have been translated into sterling at an average rate of exchange for the year.

1700 Form omitted

This Form has been omitted for the Total Other than Long Term Insurance Business Assets as all entries (including comparatives) would be blank.

1701 Variation margin

The aggregate amount of excess variation margin which has been received by the Company is £nil. The variation margin is allocated to form 13 as follows:

	£'000
Form 13 line 44	nil

No amounts included on Form 13 reflect the liability to repay any excess.

Supplementary notes

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31st December 2006**

Code

4002 Other income

This consists of financial reinsurance fee income from Hibernian Life & Pensions Ltd.

4006 Apportionment of items between different long term insurance business funds

Investment Income

Invested assets are individually designated to a particular fund. Consequently all investment income is allocated by reference to the designation of the asset.

Increase or decrease in the value of assets brought into account

The value of assets brought into account is determined by reference to the liabilities of the relevant fund. The assets available are individually designated to the relevant fund.

Expenses

All expenses are examined to identify those directly attributable to a particular fund. Those not directly attributable are apportioned pro rata to the work carried out for the fund.

Taxation

The taxation of each fund is computed in accordance with the taxation regulations applicable to that class of business.

4008 Provision of management services

Under a management agreement, Norwich Union Life Services Limited supplies and makes a charge for the provision of management services to the Company.

4009 Related party transactions

Related party transactions exceeding 5% of the sum of the insurer's base capital resources requirement and its long-term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded were as follows:

Connected Party	CGNU Life Assurance Limited
Nature of relationship	Fellow group undertaking
Nature of transactions during the period	Reinsurance accepted
Value of transactions during the period	Premiums £366m
	Claims £1,206m
	Commission £16m
	Expenses £21m
Amounts unpaid at the end of the period	£17m owed by CGNU Life Assurance Company Limited
Amounts written off in the period	£nil

4400 Form omitted

This Form has been omitted.

4500 Form omitted

This Form has been omitted.

4802 Expected income where payment of interest is in default

There is a reduction of income where payment of interest is in default. The amount of interest involved is £13,147.

Supplementary notes

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31st December 2006**

Code**4803 Redemption of securities**

Where securities may be redeemed over a period at the option of the guarantor or the issuer, it has been assumed within the yield calculation that they will be redeemed at the date implied by the market valuation.

4804 Yields for other assets

The yield shown in column 4 for the following assets is significantly different from the weighted average of the yields for each asset of that type determined in accordance with INSPRU 3.1.34R(2) before any allowance for tax required by INSPRU 3.1.29R.

	Yield
Loans secured by insurance policies (Form 13 Line 52)	8.5%
Direct insurance debtors (Form 13 Line 71)	Nil
Other debtors (Form 13 Line 78)	Nil

4806 Returns on assets backing with-profits liabilities

All of the assets on Long Term Business Form 13 except those held to cover linked liabilities on Form 13, lines 58 and 59 have been used to calculate the investment returns shown in lines 21-29 column 5.

4901 Rating Agency

The credit rating analysis on Form 49 has been prepared using the second highest published rating of those provided by Standard and Poor's, Fitch and Moody's.

Morley investment managers have provided ratings for securities for which there is no published rating.

5301 The number of group schemes for which there is no record of benefits at member level is as follows, divided by product code.

Code	Number of schemes
755	1

5103 Since 1% of gross mathematical reserves = £133m, then any miscellaneous product codes that exceed £10m are mentioned below.**Product 205 Miscellaneous with-profit****UK Pension Gross**

Miscellaneous Assurance	3.3m
Staff Pension Scheme Reserve (Pension part)	<u>8.0m</u>
Total	11.3m

Product 435 Miscellaneous non-profit**UK Life Gross**

Miscellaneous Assurance	£3.3m
Future Claims and Expenses	£7.3m
Unprocessed Movements	<u>£25.6m</u>
Total	£36.2m

Overseas Gross

Hibernian Financial Reassurance	£30.7m
---------------------------------	--------

Returns under the Accounts and Statements Rules

Supplementary notes

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

Code

5203 Product 575 Miscellaneous UWP

UK Life Gross

Norwich Union International Limited With Profit Bond and Core Funds Bond £232.8m.

UK Pension Gross

Group Defined Benefit (Red Plan) £288.9m

5104 Mathematical reserves for product codes 395 and 400 are approximated in UK Life. Values are calculated using the proportion of benefit amount attributable to each of the two codes multiplied by the total reserve for annuities in payment.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2006**

1. Introduction

- (1) The **valuation date** is 31 December 2006.
- (2) The previous valuation was completed with an effective date of 31 December 2005.
- (3) An interim valuation was carried out with an effective date of 30 June 2006 for the purposes of rule 9.3A.

2. Product Range

There have not been any significant changes to products during the financial year.

The Company reinsures With-Profits business from the CGNU Life Assurance Company Limited (CGNU) and Norwich Union Life (RBS) Limited (NUL(RBS)). Any product changes for these companies are shown in section 2 of the CGNU and NUL(RBS) Appendix 9.4 documents.

This fund is open to new with-profits business.

3. Discretionary charges and benefits

- (1) The table below shows the period during which a market value reduction (MVR) applied during 2006. The table is separated by class of business and by year of unit purchase. Entries marked 'N/A' imply that an MVR was not applied to units for that product/year of purchase combination during 2006. Units purchased in a year that is not shown were not subject to an MVR during 2006.

Class of business:	UWP Life (direct written business)	UWP Individual Pensions (direct written business)	UWP Sterling Group Plan Pensions business
1997	(N/A)	(N/A)	(N/A)
1998	01/01/2006-31/12/2006	01/01/2006-31/12/2006	01/01/2006-31/12/2006
1999	01/01/2006-31/12/2006	01/01/2006-31/12/2006	01/01/2006-31/12/2006
2000	01/01/2006-31/12/2006	01/01/2006-31/12/2006	01/01/2006-31/12/2006
2001	(N/A)	(N/A)	(N/A)

The Company reinsures Unitised with-profit business from CGNU and NUL (RBS). The details about the MVR rates applied by these companies over 2006 are shown in section 3(1) of their Appendix 9.4 documents.

- (2) There have been no changes to premiums on reviewable protection policies.
- (3) The fund does not have any non-profit deposit administration benefits.
- (4) **Service charge increases:**

Sterling Pensions

The increase in policy charge was 2.8%.

Sterling Group Plan

The increase applied was 4.2 %.

Prime Series

Policy charges were increased by 2.8%.

Prime Personal Pension – no changes to Plan fees.

Life Products

There are no changes to Plan fees for Life Products.

- (5) There have been no changes to benefit charges on linked policies.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

- (6) There have been no changes to notional charges on accumulating with-profit policies. There were no changes to unit management charges.
- (7) One pool of assets is operated for each internal linked fund. Asset units are created and cancelled at either the asset offer price or the asset bid price depending upon the prevailing basis of the fund and using the most recently available price. The pricing basis is set depending upon the short and medium term expectation of whether the associated internal linked fund will be in a net inflow or outflow position. This includes sales and purchases by Managed funds.

Where an instruction, payment or all our requirements are received for a transaction before 8:00am on a business day, then units are allocated at the unit price based upon market movements up to 11:00pm on the previous business day. Where the instruction, payment or all our requirements are received after 8:00am then units are allocated at the next available unit price. The Company reserves the right to defer any transaction to a subsequent valuation point.

- (8) When a capital gain is realised on the sale of an asset in a unit-linked fund (and this gain cannot be offset by past capital losses) then the capital gains tax due would be retained in the fund until the next periodic settlement of tax due.

This applies in respect of tax on notional realisations under the Taxes Acts as well as tax on realised capital gains. The tax rates used in calculating these deductions are as specified in section 3(9) below.

- (9) The internal linked funds are taxed on investment gains as if they were stand-alone funds within the Long Term Business Fund and are therefore charged tax at the rate that would apply to the Long Term Business Fund. Allowance is made for indexation where applicable. Credit is given for the expected timing of policyholder tax payment in calculating unit prices. The intention is to adopt a smoothed neutrality, looking at rates on a yearly basis and adjusting the rates charged to repay any accumulated excesses or reimburse any accumulated deficit over an appropriate period.

For funds with an excess of realised/unrealised gains over losses the percentage used for gains and losses varied by fund in the range 17.5% to 20% during the year to 31 December 2006.

Credit is also applied to unit prices for accumulated realised losses and unrealised losses. For funds with an excess of realised/unrealised losses over gains the percentage used for gains and losses varied by fund in the range 13% to 19.5% during the year to 31 December 2006.

- (10) The Company derives no financial benefit in respect of collective investment fund units held by the internal linked funds. The Company's policy on receiving discount, commission or other allowance when purchasing, selling or holding units in collective investment funds is to pass the full benefit onto the fund.

4. Valuation basis (other than for special reserves)

Unless otherwise stated, commentary refers to business written directly in the CU Life Fund.

Methodology and basis used to reserve for the business written by CGNU and NUL (RBS) and reassured into CU Life is covered in the Appendix 9.4 document for CGNU.

(1) Valuation methodology

£10m is less than 1% of gross mathematical reserves = £133m. Therefore £10m has been used as the materiality limit for this section.

All conventional regular premium business is valued on a gross premium basis with the following exceptions:

- For direct written regular premium Mortgage Protection assurances, the reserve is taken to be 4.6 times the annualised premium.
- For group life contracts the reserve is taken to be 100% of the office yearly premium.
- For reinsurances on a risk premium basis the reserve is taken to be the office yearly premium.
- For contingent assurances the reserve is taken to be the single premium paid or three times the annual premium.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

- For assurances against issue risks, the reserve is taken to be the one times the annual premium and the total is less than £10m.

For policies on substandard lives, the difference between the premium payable and the normal premium has been treated as an extra premium for whole life assurances and endowment assurances issued on or after 1 January 1964 and a reserve is held equal to one year's extra premium.

- The reserve in respect of extra premiums charged for occupation or residence has been taken as one year's extra premium. This is less than £10m.
- Annuities in payment are valued according to age next birthday at the valuation date less half a year. The valuation factors allow for certain guaranteed term conditions. The valuation factors for certain contracts where the annuitant was a substandard life at commencement allow for the shortened life expectancy.
- Deferred Annuities: the reserve is taken as the value of benefits secured by the annual or the single premiums payable prior to the policy anniversary following the valuation date. The benefit at the vesting date that is valued is the higher of the value of the annuity and the corresponding cash option, if one exists.
- For certain annuity contracts which return premiums with interest on death, pre-retirement mortality is ignored. Otherwise the value of any benefit payable on death during the deferred period is added to the value of the annuities.
- The reserve for deferred annuities which have passed the vesting date, and for which the Company accumulates the cash option at a rate of interest different from the valuation rate, is calculated by accumulating the benefit applicable at the vesting date at that rate of interest.
- An additional reserve is held in respect of premiums under "controlled funding" schemes which have not yet been applied to purchase benefits. This reserve is calculated by carrying out a notional allocation of the premiums using average ages and valuing the resulting benefits.

Unitised with-profit business:

Unitised with-profit business is valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units (after allowing for contractual surrender charges where applicable). This result is then compared with a prospective valuation and the higher result taken.

The prospective valuation projects future benefits assuming future premiums cease and future bonuses are zero, except for policies with a guaranteed minimum bonus rate, where this guaranteed bonus is allowed for.

Provision is made for future expenses on the basis of the charges made to the Company under the Management Services Agreement with Norwich Union Life Services. Future expense inflation is taken into account.

In the case of the Group Defined Benefit contract, additional reserves are held for the guaranteed annuity options associated with internal transfers from the Group Deferred Annuity contract.

Internal linked contracts

For linked contracts the reserve is the sum of the unit liability and a sterling reserve. The unit liability is the value of the units allocated to contracts using the fund price. A gross premium cash flow method was applied to individual policy clusters to investigate the requirement for sterling reserves for linked contracts. A minimum sterling reserve, equal to the level of claims expenses less any surrender penalty, is held for each cluster.

Other linked contracts

For the Abbey National Plan the reserve is the deemed total accumulated investment at the valuation date, together with an additional reserve for expenses.

For index linked immediate and reversionary annuities the reserve is calculated by discounting the annuities payable, allowing for interest, mortality, expenses, and growth in the Retail Prices Index.

Valuation report – IPRU (INS) Appendix 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

Additional reserves are held to cover future anticipated expenses in excess of the allowances included in the reserves held for individual contracts.

(2) Valuation interest rates:

A table of all valuation interest rates used is given below.

Product Group	31 December 2006	31 December 2005
Life Assurances		
All Conventional with-profit business	2.9%	3.1%
All Conventional non-profit business	2.9%	2.9%
All Unitised with profit business	3.55%	3.55%
Pensions and General Annuities		
Immediate Annuities (currently in payment)	4.2%	4.2%
With-Profit Deferred Annuity		
In payment	3.7%	3.9%
In deferment	3.7%	3.9%
Non-Profit Deferred Annuity		
In payment	3.6%	3.6%
In deferment	3.6%	3.6%
Pure Endowment WP	3.7%	3.9%
In-payment rate for valuing Guaranteed Annuity Options	3.7%	3.9%
Other Non-Profit Conventional business	3.6%	3.6%
All Unitised with-profit business	4.0%	4.15%

(3) Adjustment to yield for credit risk**Equity/Property assets:**

In both cases the assets have been ordered by yield and divided into different categories. The yield in each category is capped. This means that very low-yielding assets retain this low rate but high-yielding assets are capped. This reduces the average yield on equity/property assets.

In the case of equity, the cap is the Long Term Gilt Yield + 2%. The cap reduces the average yield on equities by approximately 0.11%. In the case of property, the cap is also the Long Term Gilt Yield + 2%. The cap reduces the average yield on property by approximately 0.01%.

This is because the yields on the Company's property are currently low (average 4.1%) compared to gilt yields, with 95% of the business having a yield below 6%. This implies that much of the credit risk has already been taken into account in the calculation of the base running yields.

Fixed interest securities

The allowance for credit risk will vary depending on the credit rating of the bond. The table below shows the allowances used.

Corporate Bond Deductions								
Rating	AAA	AA	A	BBB	BB	B	C	Alternative Investments
Deduction	0.09%	0.28%	0.32%	0.67%	1.68%	3.10%	4.95%	0.69%

For the purposes of the valuation a single deduction was calculated and applied to all bonds. This was an average of the allowances for securities with different credit ratings, weighted by the bonds' market values at 30 November 2006 plus an additional margin.

The deduction used was 0.47%. It applies to all fixed interest securities except Approved fixed interest (gilts and other bonds issued by approved UK and international public sector bodies).

For Mortgages, a deduction of 0.50% was used, while for Deposits, the equivalent deduction was 0.10%.

Valuation report – IPRU (INS) Appendix 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(4) Mortality assumptions**

The table below shows the mortality basis for business written by the fund.

Product	Mortality basis 31/12/2006	Mortality basis 31/12/2005
CULAC Life Assurances		
Whole life and Endowments DTA on Low Cost Endowment	AM92/AF92	AM92/AF92
Unitised With Profits	120% AM92/AF92	120% AM92/AF92
Pure Endowments	50% AM92/50% AF92	50% AM92/50% AF92
Term assurance	75% TM92/75% TF92 (NS) 160% TM92/220% TF92 (S)	75% TM92/75% TF92 (NS) 150% TM92/220% TF92 (S)
Mortgage Protection	85% TM92/90% TF92 (NS) 165% TM92/210% TF92 (S)	85% TM92/90% TF92 (NS) 165% TM92/210% TF92 (S)
CULAC: General Annuities		
Immediate Annuities – Individual	74% IML00/77% IFL00	69% IML00/72% IFL00
Immediate Annuities – Group; GAOs in payment	90.5% PCMA00/85% PCFA00 (assume all business pre 1/1/03)	86% PCMA00/80% PCFA00 (assume all business pre 1/1/03)
Individual deferred annuity In deferment Post vesting	50% AM92/50% AF92 74% IML00/77% IFL00	50% AM92/50% AF92 69% IML00/72% IFL00
Group deferred annuity In deferment Post vesting	50% AM92/50% AF92 90.5% PCMA00/85% PCFA00	50% AM92/50% AF92 86% PCMA00/80% PCFA00
CULAC: Pensions Business		
Immediate Annuities;	90.5% PCMA00/85% PCFA00	86% PCMA00/80% PCFA00
GAOs in payment	90.5% PCMA00/85% PCFA00	86% PCMA00/80% PCFA00
Pure Endowment	50% AM92/50% AF92	50% AM92/50% AF92
Whole Life & Endowment Insurance Group Term Assurance	AM92/AF92	AM92/AF92
Unitised With Profits	50% AM92/AF92	90% AM92 / AF92
Term assurance	75% TM92/75% TF92 (NS) 160% TM92/220% TF92 (S)	75% TM92 /75% TF92 (NS) 150% TM92 / 220% TF92 (S)
Deferred Annuity In deferment Post vesting	50% AM92/50% AF92 90.5% PCMA00/85% PCFA00	50% AM92/ 50% AF92 86% PCMA00 / 80% PCFA00
Widows Death in Service In deferment Post vesting	AM92/AF92 90.5% PCMA00/85% PCFA00	AM92/AF92 86% PCMA00/80% PCFA00
Current Cost Term Insurance	1 periodic premium	1 periodic premium

Notes on tables:

- M tables apply to male lives, F tables to female lives.
- Annuitant mortality: allowance has been made for future improvements to mortality. The base tables (% of PCXA00) are assumed to apply as at 31 December 2005; from that date improvements are expected. The allowance for improvements is as follows:

	31 December 2006	31 December 2005
Males	100% of Medium Cohort, minimum 2.0%, applicable from 2005	100% of Medium Cohort, minimum 2.0%, applicable from 2005
Females	75% of Medium Cohort, minimum 1.5%, applicable from 2005	75% of Medium Cohort, minimum 1.5%, applicable from 2005

- There are no products where the assurance mortality basis is expressed as 'modified table'.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2006**

Expectation of Life

The table below shows the required examples for expectation of life using the base mortality tables, percentage adjustments and improvement factors quoted above.

Table Description	Expectation of Life for annuitant aged 65 in 2006	Expectation of Life for annuitant aged 75 in 2006	Expectation of Life from age 65 for annuitant aged 45 in 2006	Expectation of Life from age 65 for annuitant aged 55 in 2006
90.5% of PCMA00 plus 100% CMI_Medium_Cohort, min 2%, applied from 2005	23.076	13.952	27.552	25.252
85% of PCFA00 plus 75% CMI_Medium_Cohort, min 1.5%, applied from 2005	25.228	15.886	28.289	26.731
74% IML00 plus 100% CMI_Medium_Cohort, min 2%, applied from 2005	25.201	15.540	29.534	27.313
77% IFL00 plus 75% CMI_Medium_Cohort, min 1.5%, applied from 2005	26.937	16.910	29.839	28.359

Allowance for future changes in mortality where not implicit in the basis:

There are no explicit reserves for alterations to mortality. All future changes are made to the tables used to calculate base mathematical reserves.

Allowance/reserve for:

- (a) any possible detrimental impact of significant changes in the incidence of disease on the mortality experience of the insurer;
- (b) developments in medical science on the mortality experience of the insurer:

Margins in the published mortality basis are sufficient to cover current estimates of the cost of future additional claims from AIDS, other than those arising out of the exercise of options, at a level corresponding to one third of the AIDS Working Party's Projection 6A with allowance for the continuance of mortality rates at peak rates.

The remaining margins in the published mortality and morbidity bases are considered sufficient to provide for adverse deviations in experience arising from other causes. No additional reserves are therefore held.

(5) Morbidity assumptions

Morbidity experience is assumed to be according to the IC94 table of decrement rates published by the Society of Actuaries in Ireland Working Party 1994. Lives are rated up by a period of 8 years and then this value is increased by 0.887%. A further deterioration rate of 1.5% per annum of policy duration is then applied. The following rates are an example of the morbidity rates used per mille for a policy at inception.

Age	Male	Female
25	1.501	2.203
35	4.966	5.048
45	12.022	9.972
55	26.150	20.137

These rates were also used in the previous financial year.

(6) Expense assumptions:

Expense assumptions are taken as 130% (110% for 2005) of the amounts detailed in the Management Services Agreement (MSA) plus an aggregate provision of £12.7m. These loadings are used to set a long-term assumption for additional costs arising within the business (e.g. project costs, regulatory fees, audit fees) and to give a margin for adverse deviation.

Expense levels are assumed the same for premium-paying and paid-up policies.

On deferred annuities an additional 5.4% is included in expenses as an allowance for the cost of paying annuities.

Valuation report – IPRU (INS) Appendix 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

The table below shows the per-policy expenses assumptions in 2005 and 2006 (excluding allowance for project costs). These figures form the base position for the valuation expense assumptions.

CULAC		
Renewal Admin (£ per policy) (includes European business)	2006	2005
Product Classes		
CWP savings endowment (product code 120)	35.31	28.95
CWP target cash endowment (125)	35.31	28.95
CWP Pensions (155 / 165)	53.66	43.99
Term Assurance (325 / 330)	35.31	28.95
Income Protection (360 / 365)	35.31	28.95
Annuity (400)	30.69	25.17
UWP bond (500)	36.4	29.84
UWP regular premium pension (525 / 545)	53.65	43.99
UWP single premium pension (525 / 545)	53.65	43.99
UWP group regular premium pension (535)	53.65	43.99
UWP group single premium pension (535)	53.65	43.99
UL bond (700)	36.4	29.84
UL regular premium pension (725)	53.65	39.99
UL single premium pension (725)	53.65	39.99
UL group regular premium pension (735)	45.4*	39.99
UL group single premium pension (735)	45.4*	39.99

*The non-unit reserves on the majority of this class of business are reinsured to Norwich Union Life & Pensions Limited (NUL&P) and have used a per-policy assumption of 110% of the MSA charge.

For reinsurance accepted from CGNU see the CGNU FSA Return.

For Joint Venture With-Profit Bond expenses see NUL (RBS) FSA Return.

Assumed future expense inflation:

4.01% per annum (NAE – 1%, as set by the MSA agreement)

Zillmer adjustments:

No Zillmer adjustments were made to net premium reserves.

Investment expenses:

The yield on the asset classes backing the liabilities was reduced for investment expenses. This reduced the upper bound on the interest rates used in the valuation. The adjustments made were:

Asset Class	Reduction in asset yield
Equity	0.133%
Property	0.220%
Gilts	0.045%
Other Fixed Interest	0.083%
Cash	0.066%

The adjustments reflect the charging structure agreed with our fund managers, Morley Fund Management Limited.

Tax relief

Tax relief on expenses on products in the BLAGAB fund has been assumed using a rate of 20.00%.

Valuation report – IPRU (INS) Appendix 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(7) Unit Linked policies: basis for non-unit reserves.**

	31 December 2006		31 December 2005	
	Life	Pensions	Life	Pensions
Assumed Fund Growth (before annual management charge)	4.70%	5.60%	4.30%	5.20%
Discount rate	3.40%	4.20%	3.20%	3.90%
Policy fee inflation	2.00%	2.00%	2.00%	2.00%

4.01% per annum (NAE – 1%, as set out by the MSA agreement).

(8) Bonus Assumptions:**Conventional with-profit business:**

The Company is a realistic basis life firm. Accordingly, no allowance has been made for future annual or final bonus on Conventional with-profit business. This is consistent with INSPRU 1.2.31G. There are no guarantees relating to future annual or final bonus on this business.

Unitised with-profit business:

Certain classes of business have guaranteed annual bonus rates. These have been used in the projection of liabilities. No allowance has been made for discretionary annual bonus or final bonus.

Guaranteed regular bonus by product:

Product	Guaranteed Annual Bonus Rate	Valuation assumption	Applies to...
Unitised with-profit Pensions:			
Pensions	4.00%	4.00%	Units purchased prior to 1/1/1993

(9) Persistency assumptions:

For Conventional and unit-linked business, we have assumed 100% persistency.

An extra reserve is being held in respect of UWP business retained/received by the Company to give a margin for adverse deviation in respect of lapses. This reserve is based on a +/-2.5% change in lapses on Life business and +/-1.5% change in lapses on Pensions business. The reserve is £6.5m.

For policies with a no-MVR option available, we have assumed an exit rate of 100% at the next no-MVR date. This is a prudent approach that reflects our new policy of limiting future MVR on policies that stay in force after their first no-MVR date.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer

Commercial Union Life Assurance Company Limited

Global business

Financial year ended

31 December 2006**Lapse rate assumptions:**

Product		Average lapse/surrender/paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse	0%	0%	0%	0%
Decreasing term	Lapse	0%	0%	0%	0%
Accelerated critical illness	Lapse	0%	0%	0%	0%
Income protection	Lapse	0%	0%	0%	0%
CWP savings endowment	Surrender	0%	0%	0%	0%
CWP target cash endowment	Surrender	0%	0%	0%	0%
UWP savings endowment	Surrender	0%	0%	0%	0%
UWP target cash endowment	Surrender	0%	0%	0%	0%
UWP bond*	Surrender	2.85%	13.00%	9.50%	9.50%
UWP bond	Automatic withdrawals	X% of current	X% of current	X% of current	X% of current
UL bond	Surrender	0%	0%	0%	0%
UL bond	Automatic withdrawals	X% of current	X% of current	X% of current	X% of current
CWP pension regular premium	PUP	0%	0%	0%	0%
CWP pension regular premium	Surrender	0%	0%	0%	0%
CWP pension single premium	Surrender	0%	0%	0%	0%
UWP indiv pension regular premium	PUP	Peak 1 valuation assumes no future premiums on UWP business			
UWP indiv pension regular premium	Surrender	1.50%	1.50%	1.50%	1.50%
UWP indiv pension single premium	Surrender	1.50%	1.50%	1.50%	1.50%
UL indiv pension regular premium	PUP	0%	0%	0%	0%
UL indiv pension regular premium	Surrender	0%	0%	0%	0%
UL group pension regular premium	PUP	0%	0%	0%	0%
UL group pension regular premium	Surrender	0%	0%	0%	0%
UL indiv pension single premium	Surrender	0%	0%	0%	0%

* Additional surrenders of 9% are allowed for in year 6 due to the end of the period in which surrender penalties applied.

(10) Other basis items:**Option Take-Up Rates**Guaranteed Annuity Rate Options:

We have assumed that current option take-up is 90%. This includes a margin over current experience of just over 10%.

This rate is assumed to increase by 1% per annum to 95%.

The same proportion was used in respect of deferred annuities with a guaranteed cash option.

Guaranteed Minimum Pensions on Section 32 policies:

We have assumed 100% 'option take-up' of the minimum pension. In practice, policyholders would not receive an option (if the maximum pension bought by their policy is below the Guaranteed Minimum then they will be paid the GMP).

Taxation

Valuation interest rates on Life business include an allowance for taxation. This allowance has been arrived at using the following assumption:

- A tax rate of 20% has been assumed in respect of income on Fixed Interest and Property assets (for Life business). No allowance has been made for taxation on equity income.

A reserve has been made for deferred taxation, including Capital Gains Tax, which has been adjusted for the proportion of BLAGAB business in the fund. No discounting has been applied to the tax rate used; this

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2006**

is line with the new IFRS regulations. This reserve forms part of the Company's Accounting Liabilities as shown on Form 14.

No allowance has been made for taxation in respect of Pensions business.

- (11) No allowance is necessary for derivative contracts in the determination of the amount of the long-term liabilities.
- (12) The effect on mathematical reserves of specified changes in the valuation methodology arising from changes in INSPRU valuation rules are shown in the table below:

Allowance for lapses on valuation of protection business	-£1m
Allowance for negative reserves on valuation of protection business	-£1m
Allowance for lapses on valuation of unit-linked business	£0m
Allowance for attributable expenses on valuation of unit-linked business	£0m

5. Options and Guarantees

(1) Guaranteed Annuity Rate Options:

(a) Method:

For policies with a cash benefit that can be used to buy an annuity on guaranteed terms, the methodology is as follows:

- Calculate the amount of the cash benefit that we have assumed will be converted into an annuity (using the option take-up rates given in section 4(10)).
- Determine the amount of annuity that this cash would buy if it were to be converted on guaranteed terms.
- Calculate the present value of the resulting annuity using the annuitant mortality basis given in section 4(4) and in-payment interest rate basis given in 4(2).
- If the total is greater than the total policy benefit at retirement then add on the difference. Discount the result to valuation date at the discount rate given in section 4(2).
- Add on the reserve for the expenses of administering the annuity.

The Regulatory-peak reserve for Guaranteed Annuity Options is compared with the reserve calculated using the following basis:

- Regulatory-peak annuitant mortality assumptions are used (as given in 4(4))
- Regulatory-peak option take-up rates are used (as given in 4(10))
- Realistic-peak (realistic valuation) annuity interest rates and discounting are used
- Realistic-peak assumptions for persistency are used

A stochastic uplift factor is used to increase this reserve. It is derived from the option value implicit in the market prices of swaptions with appropriate term to exercise and guaranteed coupon.

Realistic-peak assumptions are discussed in more detail in Appendix 9.4A.

If this second reserve is larger than the base Regulatory-peak figure, an allowance for stochastic variation is added to the Regulatory-peak reserve. The allowance at 31 December 2006 is zero.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer

Commercial Union Life Assurance Company Limited

Global business

Financial year ended

31 December 2006

(b)

Guaranteed Annuity Rate 1: Annuity interest rate 7.5%		
(i) Product Name	With-Profits Pensionmaker and Retirementmaker	Non-Profit Pensionmaker and Retirementmaker
(ii) Basic Reserve (£m)	87.9	5.4
(iii) Spread of O/S durations:		
Less than 1 year	1.2%	1.0%
2-5 years	15.1%	10.6%
6-10 years	28.1%	18.4%
11-20 years	41.0%	41.1%
over 20 years	14.6%	28.9%
(iv) Guarantee Reserve (£m)	68.2	3.6
(v) Guaranteed Annuity Rate	11.2%	11.2%
(vi) Increments allowed?	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.
(vii) Form of the annuity	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period
(viii) Retirement Ages	60 until 75	60 until 75

Guaranteed Annuity Rate 2: Annuity interest rate 5.25%				
(i) Product Name	With-Profits Pensionmaker and Retirementmaker	Non-Profit Pensionmaker and Retirementmaker	With-Profits Sterling Transfer Bonds	Non-Profit Sterling Transfer Bonds
(ii) Basic Reserve (£m)	173.8	5.6	28.1	1.9
(iii) Spread of O/S durations:				
Less than 1 year	2.8%	1.9%	4.4%	0.0%
2-5 years	21.4%	21.1%	39.6%	13.3%
6-10 years	22.9%	20.1%	28.6%	26.5%
11-20 years	45.6%	49.4%	26.7%	58.9%
over 20 years	7.3%	7.5%	0.7%	1.3%
(iv) Guarantee Reserve (£m)	108.5	3.9	14.0	1.1
(v) Guaranteed Annuity Rate	10.0%	10.0%	10.0%	10.0%
(vi) Increments allowed?	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.
(vii) Form of the annuity	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period
(viii) Retirement Ages	60 until 75	60 until 75	60 until 75	60 until 75

(2) Guaranteed surrender and unit-linked maturity values:**Unitised with-profit:**

The Company's direct-written Unitised with-profit Life policies are able to select regular withdrawal payments without an MVR being applied. As there has been effectively no credit taken for MVR in the valuation no explicit adjustment is required.

No other directly-written business has a guaranteed surrender value. Guaranteed surrender values exist on the UWP Life business reinsured from CGNU, NUL (RBS) and NUIL. The valuation methodology, basis and table of reserves are shown in section 5.2 of the Appendix 9.4 report for CGNU Life Assurance Company and NUL (RBS).

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

Unit-Linked:

No reserve is necessary for the investment performance guarantees either in the internal linked Life Cash Fund, Pension Secure Growth Fund, and Pension Safety Net since the nature of assets held is such as to provide the investment guarantee.

(3) Guaranteed Insurability Options

(a) For convertible term assurances the option premium is accumulated at 3.25% per annum compound for the average duration of in force policies to cover the conversion options.

For other individual assurances where guaranteed insurability options exist, the reserve taken is an appropriate accumulation of the option premium.

(b) The total sum assured for conversion and renewal options is less than £1bn and is therefore not included here in accordance with rule 9.31.

(4) Other guarantees and options

(a) Guaranteed annuity under Unitised with-profit Red Plan contracts

A recent initiative transferred Group Defined Benefit business from the Conventional Deferred Annuity Red Plan contract to Unitised With-Profits Pensions policies. As part of the transfer, the Company agreed to guarantee to provide an amount of annuity at retirement for each member. The members were allowed to convert this annuity to cash on guaranteed terms and these guaranteed terms were used to determine the amount of money used to buy units in the Unitised With-Profits fund. Excess returns on the UWP policies, together with future contributions, would be used to purchase additional annuity for the scheme members.

The benefit payable by the Company on the retirement of a member is:

(Market value of annuity amount) +
 $\max[\text{UWP fund value} - \min\{\text{Market value of annuity}, \text{Gteed value of annuity}\}, 0]$.

Under the deterministic model used in the Regulatory-peak valuation,

- i) Market value of annuity > Guaranteed value of annuity in all cases
- ii) UWP fund value > Guaranteed value of annuity.

This means that the benefit payable becomes:

(Market value of annuity amount) – (Guaranteed value of annuity) + UWP benefit.

Please note that the liability is not a Guaranteed Annuity Option on the UWP benefit (as defined by section 5(1)). Instead, it is a deferred annuity added to a call option on the UWP fund value. A Guaranteed Annuity Option could be expressed using a similar formula but the annuity being valued would vary in line with the UWP benefit (whereas the annuity in this case is fixed).

We have reserved for this by discounting the difference in annuity value and adding it to the current face value of units. This is expected to be a sizeable overstatement of the amount required. It is certainly expected to cover whatever small margin may be needed to allow for stochastic variation in annuity interest rates.

Members do not have to take their annuity amount in this form – they can choose to convert it to cash on the guaranteed terms mentioned. We have assumed that members will choose to convert 5% of their benefit. This is the equivalent of 95% option take-up in a Guaranteed Annuity Option calculation.

Basis:

The market value of the annuity has been valued using the same annuity interest rates/discount rates/mortality as for Guaranteed Annuity Option calculations (figures given in section 4(2) and 4(4)).

Base reserve = Face Value of units = £188.8m

Reserve for the guarantee = £105.1m.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

(b) Guaranteed Minimum Pension:

For some Unitised business (both with-profit and unit-linked), there is a guarantee that the pension bought with the benefits will not be less than the Guaranteed Minimum Pension arising from being contracted-out of the second state pension.

A reserve has been calculated on an individual level for a subset of affected policies. For each policy, the value of the Guaranteed Minimum Pension at retirement (calculated using the end-2006 valuation basis) was compared with the projected value of the policy's benefits. The difference, if positive, was noted as a percentage of the policy's benefits. These percentages were weighted and applied to the total benefit in force to estimate the reserve required on the business as a whole. An additional 10% margin was added to cover the risk arising from data quality.

The amount of business invested in products that may incorporate a Guaranteed Minimum Pension guarantee is £42.1m. The reserve for the guarantee is £3.5m.

6. Expense reserves

- (1) The aggregate amount arising during 2007 from expenses allowances is £50,941,000.

In the case of premium paying contracts an explicit allowance for expenses is made in the gross premium valuation of conventional regular premium business. The allowance represents the assumed expenses during 2007.

An allowance for investment expenses is included in the figure above.

- (2) Gross Premium Valuation has been used for all business. All allowances for expenses are explicit.
- (3) The expenses in line 14 of Form 43 include some unit expenses that we do not hold reserves for e.g. unit-deductions on business where non-unit reserves are reinsured to NUL&P. When these expenses are excluded from the allowance for maintenance expenses in 6(1) above exceeds the figure for expenses in line 14 of Form 43 by £6,349,000. This is due to margins in the basis.
- (4) No reserve is deemed necessary to cover the costs of transacting new business in the year following the valuation date.
- (5) No explicit reserve for maintenance expense overrun has been made because existing provisions for expenses exceed their current levels.

INSPRU 1.2.50R(2) requires us to make prudent provision for expenses allowing for:

- (a) tax
- (b) expenses in the last twelve months and expected future expenses
- (c) impact of expense inflation
- (d) cost of closure to new business 12 months after valuation date.

We have taken the following action to comply with INSPRU 1.2.50R(2):

- (a) All expenses provisions allow for taxation.
- (b) Our expense provision exceeds expenses incurred over the last twelve months and expected future expenses levels.
- (c) Expense inflation has been allowed for in the valuation at the rates dictated by the Management Services Agreement. The parameter used for RPI inflation (3.01%) was a best-estimate. By using a best-estimate assumption we are incorporating a margin for prudence into the valuation of expenses (since the gap between the valuation discount rate and expense inflation is far smaller than best-estimate).
- (d) An assessment was made of the cost of closure of the Company to new business at the end of 2007 using the following method and basis of calculation:
- All sales, marketing and new business administration operations were assumed to cease immediately.
 - Allowance was made for redundancy costs.

Valuation report – IPRU (INS) Appendix 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

- An allowance was made for redundancies in departments servicing the new business areas.
- Allowance was made for costs arising from the delay in re-letting properties occupied by the new business areas.
- Allowance was made for other costs incurred on closure to new business such as write-offs on fixed assets.
- The aggregate costs were discounted to the valuation date.

Allowance was made for the proportion of closure expenses that would be borne by NUL&P, CGNU and Norwich Union Annuity Limited.

No allowance was made for terminating the existing Management Services Agreement charging structure for existing business, as this would be expected to remain in force after closure to new business.

The cost of closure was covered by existing margins in the basis for expenses and no further reserve is required.

7. Mismatching Reserves

- (1) The mathematical reserves (other than reserves in respect of property linked benefits) and matching assets, analysed by currency, are as follows.

Life and Annuity Fund			
Mathematical Reserves (£000)			
Assets	Sterling	Euros	US Dollars
Sterling	11,597,827	-	-
Euro	-	114,620	-
Dollar	-	-	71,767

- (2) No such grouping of liabilities has been needed.
- (3) The fund does not hold a reserve for currency mismatching.

The fund is exposed to the risk that assets held in different currencies to the liabilities are subjected to adverse currency movements. The table in 7(1) above shows that effectively all our liabilities – both UK and overseas - are covered by assets held in the same currency.

- (4) The firm is a realistic-basis firm and a resilience reserve is no longer required.
- (5) The firm is a realistic-basis firm and a resilience reserve is no longer required.
- (6) The firm is a realistic-basis firm and a resilience reserve is no longer required.
- (7) INSPRU 1.1.34R(1): “The assets *[held by a firm to cover its technical provisions]*...must...be of a sufficient amount, and of an appropriate currency and term, to ensure that the cash inflows from those assets will meet the expected cash outflows from the firm’s insurance liabilities as they become due.”

No further reserve has arisen following consideration of this regulation.

Currency mismatching is considered in sections 7(1)-7(3).

The assets backing the liabilities do not precisely match them by term. The fund has significant holdings in Equity and Property assets that have no set maturity date. These assets are held to provide strong performance for policyholders.

Instead, the fund aims to ensure that cash outflows can be met through:

- Incoming premiums
- Income from its assets (dividends, rental income, coupon payments)
- Receipts on redemption from matched fixed interest stocks
- Sales of assets.

There is a risk that the fund may have to sell assets at an unfavourable time, e.g. when prices are temporarily depressed. If the fund has to sell unmarketable assets it may also depress the price through

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

the sale itself. The risk will be very short term; if our liquidity was genuinely an issue then we could sell illiquid assets for cash over the period of a year without distorting the price we would receive (and have used in our asset valuation).

The risk only impacts business where it cannot be passed on to policyholders. For example, the risk is negligible on assets backing Unit Linked business because any reduction in price arising on sale would be passed onto the remaining policyholders through the unit price. On with-profit business, high levels of surrender may lead to higher MVR rates being applied.

To mitigate this risk the fund holds liquid assets (cash, certificates of deposit). It also ensures that a significant proportion of its other assets are invested in highly marketable stocks, in particular government bonds (but also shares issued by large companies).

An estimate of the Company's claims amounts for 2007 is £1,100m. Expected income, in 2007, from assets currently held in the fund is £600m and £230m is held in deposit-style assets. Premium income for 2006 was around £620m and there is no reason to expect it to fall significantly. Therefore we expect to be able to pay the company's claims from incoming premiums/cash without having to sell any of our other liquid assets. Accordingly there is no need to hold an additional reserve.

8. Other Special Reserves

(1) Mortgage Endowment Promise

The Company has announced its intention that payments on with profit mortgage endowment policies may, if necessary, be topped up at maturity (subject to certain conditions) where there is a shortfall between the claim value and the mortgage originally targeted. Top-up payments can be met from future investment earnings on the free reserves within the with-profit fund. If investment earnings on the free reserves are not sufficient to meet the top-up payments then the payments may be reduced or eliminated.

Maximum top-up amounts have been communicated to policyholders. We have also advised policyholders that even after the Promise payment has been made they may have a shortfall.

For the purposes of the regulatory valuation these top up payments are treated as discretionary benefits and generally no reserve needs to be held. There are two issues that have led to a provision being established:

- (a) The company has advised policyholders that we will give them at least three years notice before altering payments under the promise. We have assumed a half-year time lag between the Board making this decision and being able to communicate it to policyholders. This gives a minimum liability of the present value of the payments required for the next three and a half years.
- (b) The company intends that payments will be made while they can be provided for from earnings on the free reserves within the with-profit fund.

The reserve will be calculated by considering the full liability for payments advised to policyholders in Promise mailings or the current shortfall if lower.

As payment of this amount is contingent on earnings on the free reserves, we test whether this full amount can be paid from these earnings with reference to the stochastic model used for the Realistic peak valuation. If earnings are materially lower than the full reserve we will only reserve for the amount of the promise paid from these earnings. The reduction in reserves at 31 December 2006 for the affordability condition is zero.

The amount of provision is £319.2m.

(2) Mortgage Mis-selling Review

A reserve has been made to provide for future compensation and claims handling costs that are expected to arise from complaints about mortgage mis-selling.

The amount of the provision is £56m.

The reserve has been calculated by:

- Using an adjusted chain-ladder approach to construct reserves for claims that have been reported but not yet settled

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

- Using historic information and expected future experience to project the number of complaints into the future. An average cost per complaint figure has been derived and applied to the projected number of complaints to get a reserve for future compensation costs. Future expenses have been calculated assuming a fixed amount per complaint.

The key basis items are:

Average cost per claim: £3,464

Percentage of complaints leading to a claim: 70%

Claims processing expense: £250 per complaint

Policyholders will be unable to complain beyond 31 December 2008 due to time-barring.

(3) Pensions Review Reserve

This is the reserve for the expected remaining compensation payments arising from the review of pensions mis-selling. The reserve includes expected future compensation costs arising under Phases 1 and 2 of the review, together with the expected future expenses of administering the review and the expected amount of future levies to be paid by each company to the FSCS, the PCU and PASS.

The methodology used to calculate expected future compensation costs follows the Guidance issued by GAD at the start of the review of pensions mis-selling and what is laid down in the Guarantee Agreements between the companies and the investors. A prudent approach has been taken.

Future levies and expenses are derived by analysing past experience and adjusting to allow for expected future experience. Again, a prudent approach has been taken.

The reserve held was £12.9m.

(4) Staff Pension Scheme Reserve

The Company has agreed to meet a share of the costs of funding the Aviva plc Staff Pensions Scheme deficit. A reserve has been established as the discounted value of the future payments into the scheme as per the current funding plan. Because the funds has agreed to meet a share of the total payments into the scheme, payments over the full funding term are allowed for rather than just 5 years (albeit that the difference here is not material because of the shape of the funding plan).

The total reserve held was £22m.

9. Reinsurance

- (1) No premiums were payable during the report period for business ceded on a facultative basis to reinsurers who are not permitted to carry on business in the United Kingdom.
- (2) The section below responds for those treaties that satisfy 9.2(a), (b) or (c).
 - (a)
 - (d) NUL&P
 - (e) The value of units for unit-linked pensions contracts (issued on a group basis on or after 1 October 1998) is ceded 100% to NUL&P. All death benefits and waiver of premium benefits are also ceded under the treaty. Also the value of units allocated to internal linked funds under Sterling Personal Pension Plan, Sterling Free-Standing AVC, Sterling Executive Pension Plan, Sterling Group (unitised) Plan, and Trustee Investment Plan are reinsured.
 - (f) The premium payable by the Company during 2006 was £78,074,000.
 - (g) There are no deposit-back arrangements.
 - (h) The treaty is closed to new business.
 - (i) There are no significant undischarged obligations to the reinsurers as at 31 December 2006.
 - (j) The mathematical reserves ceded under the treaty total £1,422,543,000.
 - (k) N/A; see (h).
 - (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.

Valuation report – IPRU (INS) Appendix 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

- (m) The Company is connected with the reinsurer.
- (n) The treaty is not subject to any material contingencies.
- (o) No provision was made for refund of reinsurance commission in the event of lapse or surrender of the contracts.
- (p) The treaty is not a financing arrangement.
- (b)
- (d) NUL&P
- (e) The value of units allocated to internal linked funds under Classic Investment Bond and Premier Bond are reinsured
- (f) The premium payable by the Company during 2006 was £0.
- (g) There are no deposit-back arrangements.
- (h) The treaty is closed to new business.
- (i) There are no significant undischarged obligations to the reinsurers as at 31 December 2006.
- (j) The mathematical reserves ceded under the treaty total £87,452,000.
- (k) N/A, see (h).
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The Company is connected with the reinsurer.
- (n) The treaty is not subject to any material contingencies.
- (o) No provision was made for refund of reinsurance commission in the event of lapse or surrender of the contracts.
- (p) The treaty is not a financing arrangement.

10. Reversionary (annual, regular) bonus

The figures below are for business written directly by CULAC. Business reinsured in from CGNU, NUL (RBS) and NUIL is shown in section 10(1) of the Appendix 9.4 reports for CGNU and NUL (RBS).

(1)

Product	Amount of mathematical reserve (£m)	Regular bonus (2005)	Regular bonus (2006)	Guaranteed bonus (2006)
Conventional Life				
New Series	1,126.2	0% SA/1.5% RB	0% SA/1.5% RB	0.00%
Conventional Pensions				
Red Plan Deferred Annuity	70.2	0.5% of Annuity Purchased	0.5% of Annuity Purchased	0.00%
All other Conventional Pensions business	493.1	0% SA/0% RB	0% SA/0% RB	0.00%
Unitised Life - direct written				
All units purchased	834.5	2.87%	3.25%	0.00%
Unitised Pensions - direct written				
Sterling Group Plan (Deposit Admin)	96.5	3.25%	3.50%	0.00%
Units purchased pre 1/1/1993	162.7	4.00%	4.00%	4.00%
Units purchased after 31/12/1992	652.4	3.25%	3.50%	0.00%
Sterling Group Plan (UWP) (non gteed RB)	41.5	3.25%	3.50%	0.00%
Red Plan	293.9	3.25%	3.00%	0.00%

Some business was subject to a mid-year regular bonus review during 2005 (leading to changes in unit price of (e.g.) 2.87%).

The reserves quoted are those required to meet the guaranteed policy benefits. Additional reserves required, such as the reserve for mortgage mis-selling, have not been allocated to a specific bonus class.

Returns under the Accounts and Statements Rules

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

- (2) The figures for bonus awarded on Unitised with-profit business show the percentage increase in unit price during the year.
- (3) For super-compound business both rates are shown (the rate applying to the base benefit is shown as a percentage of SA, the rate applying to regular bonus awarded to date is shown as a percentage of RB).
- (4) The figures above are not weighted averages.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

1. Introduction

- (1) The **valuation date** is 31 December 2006.
- (2) The date of the previous valuation was 31 December 2005.
- (3) An interim valuation was completed under the Integrated Prudential Sourcebook (PRU) as at 30 June 2006.

2. Assets

(1) Economic assumptions for valuation of non-profit business

Non-profit profits are valued using an earned rate equal to the risk free rate (weighted by guarantee term). Profits are discounted at risk free rate plus 0.5% to provide an adjustment to reflect risk and uncertainty, and to give a margin to allow for the cost of any non-financial guarantees.

The gross investment returns do not assume any investment risk premium from non risk free investments.

Tax on investment returns and tax relief on expenses is assumed to be 20% consistent with fixed-interest assets backing the non-profit liability.

The expense inflation assumption is the best-estimate assumption.

	31 December 2006	31 December 2005
Gross Earned Rate	4.75%	4.20%
Net Earned Rate	3.80%	3.36%
Discount Rate	5.25%	4.70%
Expense Inflation	3.90%	3.70%

The LTICR and any RCR in respect of non-profit business within the fund are valued at face value.

- (2) Not applicable
- (3) Not applicable
- (4) Not applicable
- (5) Not applicable

3. With-Profits Benefits Reserve Liabilities

- (1) There are four main methods used to calculate the with-profits benefits reserve.
 - Asset share (individual) (retrospective)
 - Asset share (group) (retrospective)
 - Bonus Reserve Valuation (prospective)
 - Regulatory Reserve (prospective)

The majority of the with-profits benefits reserves are asset shares calculated on an individual policy (or increment) basis. They represent an accumulation of premiums plus investment return less charges and other sources of profit or loss in line with the fund's PPFM.

Where asset shares are not currently calculated, or where they are unreliable as a starting point for deriving future bonuses, then either bonus reserve valuations (BRV) or regulatory reserves are used. BRVs are the discounted value of future expected benefits and expenses using risk-free earned and discount rates along with best-estimate assumptions for other basis items such as lapses and mortality. BRVs are used for the following classes of business:

- Conventional paid up policies (PUP).
- Conventional Whole Life policies over 25 years in duration where the asset share is not a reliable guide to future bonuses.

Regulatory reserves are used for remaining small classes of business where asset share or BRV calculations are not currently carried out.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****At 31 December 2006**

Product Class	With-profit benefits reserve £m	Future Policy Related Liabilities £m	Total £m
Conventional Life		194	1,986
Asset Share (ind)	1,678		
Regulatory Reserve	3		
BRV	111		
Conventional Pensions		235	612
Asset Share (ind)	172		
Regulatory Reserve	56		
BRV	149		
Direct written UWP Life		14	1,068
Asset Share (ind)	1,054		
Direct written UWP Pensions		74	1,410
Asset Share (ind)	1,174		
Asset Share (group)	162		
Regulatory Reserve			
Reinsured-in UWP Life		151	5,119
Asset Share (ind)	4,966		
Regulatory Reserve	2		
Reinsured-in UWP Pensions		26	783
Asset Share (ind)	754		
Regulatory Reserve	3		
Reinsured-in UWP Stakeholder		4	472
Asset Share (ind)	455		
Regulatory Reserve	13		
Miscellaneous Other	18	135	153
Total	10,770	833	11603

The majority of the Commercial Union Life Assurance Company Limited (CULAC) with-profit benefit reserves are asset shares calculated on a per-policy basis. All direct-written CULAC business asset shares are charged actual expenses. Investment returns from 1 October 1998 have been allocated to asset shares using the combined returns from CGNU Life Assurance Company Limited (CGNU Life) and CULAC.

The Company does not write any new business directly other than increments on existing contracts. New business has been reassured in on an original terms basis from CGNU Life from 1998 onwards. Currently 45% of UWP new business written by CGNU Life is reassured into CULAC.

Conventional Life consists mainly of conventional endowments and £124m of whole life contracts. Conventional life also includes £86m of conventional endowments reassured in from CGNU Life. Conventional life endowment policies have guaranteed amounts at maturity equal to the basic sum assured plus any regular bonus accrued to date. Conventional whole life contracts provide a guaranteed payout on death of basic sum assured plus regular bonus accrued to date.

The BRV figure of £111m for conventional life relates mainly to the BRV used for the whole life policies, which are predominantly BRV. £2m of this figure relates to the BRV used for endowment PUP policies.

Conventional pensions provide a guaranteed basic sum assured at maturity plus accrued regular bonuses, plus any final bonus due. Conventional pensions consist of individual and group pensions that provide either for cash or for annuity at retirement. Cash schemes usually have a guaranteed minimum annuity payable at retirement. Annuity schemes usually have a guaranteed minimum cash value at retirement. Conventional pensions are not now actively sold. £52m worth of the conventional Red Plan liability is valued on a discounted benefit basis (BRV).

UWP Life consists of unitised single premium bonds. There are no contractual no-MVR dates on CULAC Bonds.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2006**

UWP Pensions consists of individual and group unitised pension contracts. No-MVR guarantees apply at the selected retirement date and at age 75. UWP pension units purchased up to 31 December 1992 have a minimum guaranteed regular bonus of 4% p.a. (with an asset share at 31 December of £263m).

Reinsured-in UWP business is the business that has been reinsured in from CGNU Life since 1 October 1998 in various proportions. The proportions are:

From:	CGNU Life	CULAC
1 October 1998	50%	50%
1 January 1999	25%	75%
2 October 2000	40%	60%
1 January 2002	55%	45%

There is also the guarantee that MVRs will not apply on any automatic partial withdrawals selected from outset (subject to certain limits).

Reinsured-in UWP Life mainly consists of unitised bonds with £46m of unitised endowments. UWP units increase in value at the declared regular bonus rates and cannot reduce at the contractual maturity dates or at contract-specific no-MVR dates. Any final bonus due is added at policy exit. The value on exit can be subject to an MVR if exit is not at one of the contractual no-MVR dates.

On reinsured-in Portfolio Bonds purchased since 30 January 2006, a guarantee on premiums exists amounting to the premiums invested plus RPI growth to the encashment date, if encashment is at least five years after purchase.

Here follows a table of the various no-MVR spot rate guarantees that apply to the CGNU Life written UWP bonds.

UWP Life Bonds	Date Sold	No-MVR Anniversary
CGU Portfolio Bond	1/10/98-2/10/2000	No MVR on 10 th 15 th 20 th etc
NU Portfolio Bond, Flexibond, Bond 2000	2/10/2000-24/6/01	No MVR on 10 th 15 th 20 th etc
NU Portfolio Bond, Flexibond, Bond 2000	25/6/01-16/1/02	No MVR on 10 th
NU Portfolio Bond, Flexibond, Bond 2000	16/1/02- 2/7/03	Money back on 10 th
NU Portfolio	3/7/03 – 8/2/04	Money back on 10 th
NU Portfolio	9/2/04 onwards	Money back on 5 th
Candid Bond (with RPI Guarantee)	30/1/2006 onwards	RPI any point on or after 5th
JV RPI Bond	30/1/2006 onwards	RPI any point on or after 5th
NUIL RPI Bond	30/1/2006 onwards	RPI any point on or after 5th

Reinsured-in UWP Pensions consists mainly of individual and Group personal pensions and pension single premium bond. As for reinsured-in UWP Life, UWP units increase in value at the declared regular bonus rates and cannot reduce on death, at the selected retirement date and at age 75. Any final bonus due is added at policy exit. The value on exit can be subject to an MVR if not at the selected retirement date.

Reinsured in UWP Stakeholder policies have charges capped at 1% p.a. The 1% charge is taken through unit cancellation. A no-MVR guarantee applies at the selected retirement age and at age 75.

'Miscellaneous other' consists of reserves held to cover other liabilities to the fund that cannot be assigned to certain product types such as Pension transfer review reserves and reserves for future development and audit fees.

(2) Not applicable

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****4. With-profits benefits reserve – Retrospective method****(1) Table of methods**

Method	With-profit benefits reserve (%)
Asset Share (individual)	95
Asset Share (grouped)	2
BRV	2
Regulatory Reserve	1
Miscellaneous Other	0
Total	100

The table above shows the proportion of with profit benefit reserves calculated using each method.

The asset shares calculated on a grouped basis relate to two UWP pension contracts (Sterling Group plan – UWP and Deposit Admin variants). The asset shares are grouped as follows:

- Product
- Bid Value of Units by year of unit purchase

Factors have then been applied to each of these groupings based on asset share to BVU ratios for sample model points. Sample model points are representative of the policies within each group allowing for average premium size and age etc. The total number of individual policies at 31 December 2006 is 20,966. The number of sample model points used to derive the factors is 18 (one for each entry year).

(2) Changes in valuation method

- (a) The only significant change to valuation methodology during 2006 relates to the change in method from Regulatory Reserves to Asset Shares for NUIL Bonds and UWP Red Plan.
- (b) Not applicable.

(3) Allocation of expenses

- (a) See (b).
- (b) NULS income and expenses are calculated on a monthly basis and a profit or loss determined on an annual basis.
- (c) The text below sets out the treatment of charges made to asset shares with respect to expenses and commission. Broadly, some policies are charged sales and administration expenses incurred by the fund, some follow this approach but have the overall charge capped, and a third group has defined charges.

Other expenses, or the difference between the expense and the charge to asset share, fall to the estate.

	2006			
	Charged to WPBR £m	Not-Charged to WPBR £m	Non-Profit expenses £m	Total £m
Estimated initial expenses and commission	-11	65	-1	53
Renewal expenses and commission	81	32	3	116
Shareholder Transfers	20	13	0	33

The above tables approximately splits out the expenses incurred over 2006.

Non-profit expenses are expenses relating to non-profit business within the fund. For Unitised asset shares calculated on a charge basis, the expenses charged to asset shares are the relevant charges on policies. This will include additional allocation percentages as applicable, so that, for example, any excess allocation percentage above 100% of premium will give rise to negative expenses charged to the asset share in the table above.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

Expenses charged to the with-profit funds

Per-policy expenses are charged to the with-profits funds based on expenses that are laid out in the Management Services Agreement (MSA). These cover fixed initial expenses and ongoing maintenance expenses. MSA charges inflate each calendar year at NAEI – 1% for CULAC. The current MSA agreement terminates in 2008.

Investment management expenses are charged to the funds in line with the Investment Management Agreement with the fund managers and are reviewed on at least an annual basis.

Commission and sales related expenses are also charged to the with-profits funds. Initial and renewal commission scales and uplifts depend on product type and the agreement with the particular sales channel.

The with-profit funds also incur other non policy-related expenses such as for development expenses, audit fees and mis-selling expenses. These are charged to the with-profit fund as laid out in each fund's PPFM.

Total expenses to each fund are reported and reviewed on a monthly basis.

Shareholder transfers are charged to the with-profits funds. Most conventional business is written on a 90/10 basis with transfers equal to 1/9th of the cost of bonus. Most UWP business written in CULAC and reinsured across from CGNU Life is written on a 90/10 basis, some more recent single premium bond new business reinsured from CGNU Life has been written on a 91/9 and 92/8 basis.

Expenses charged to the with-profits benefit reserves

The total expenses charged to with-profits benefit reserves over 2006 are approximately £70m plus £20m of shareholder transfers. The majority of this relates to renewal expenses, most new business is UWP business sold on a charges basis with the majority of the charges being the annual management charge which is charged to asset shares over the life time of the policy.

Deductions are made to the asset shares in respect of expenses and commission and shareholder transfers. The difference between expenses, commission and shareholder transfers incurred and charges made are a credit to or deduction from the estate.

Sales and policy administration expenses are charged to asset shares in three main ways:

- Actual expenses incurred
- Actual expenses incurred, subject to an overall cap
- Policy charges applied

Actual expenses apply to the following product groups:

- CGNU Life written conventional business
- CULAC UWP business
- CGNU Life UWP written implicit charge business sold prior to 1 October 2001 (implicit charge refers to bonuses being net of expenses)

In addition, all CGNU Life and CULAC written UWP Personal Pensions issued prior to 1 December 2000 have the deductions made in respect of expenses capped at 1% p.a. as part of the 'stakeholder promise'.

Asset shares are currently charged 100% of the MSA agreement. They are also charged the management investment fee and any custody fees. Any initial or renewal commission is deducted from the asset share. Shareholder transfers for CGNU Life and CULAC written business are also charged to the asset share.

Policy charges are applied to the following product groups:

- CGNU Life written UWP implicit charge business sold 1 October 2001 onwards (implicit charge refers to bonuses being net of expenses)
- CGNU Life written UWP explicit charge business (2000 onwards individual pensions, stakeholder pensions and explicitly charged bonds). (explicit charge bonuses are gross of expenses)

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

The asset share is deducted the actual charges on the policy, e.g. a 1% annual management charge applies for stakeholder pensions, and also e.g. the initial charge at the end of the first five policy years for CGNU Life written bonds. Also note that any surrender penalty would apply to the asset share on exit.

Expenses not charged to the with-profits benefits reserve

For UWP explicit charge business written in CGNU Life the difference between the actual expenses charged to the fund and the charges taken from the asset shares are accrued to the estate.

Any expenses on UWP Pensions business in excess of the stakeholder promise 1% cap is charged to the estate.

Additional tax on shareholder transfers for CGNU Life and CULAC written business is charged to the estate.

All development, regulatory and audit fees are not currently charged to asset shares, although this is reviewable in line with statements in the PPFMs.

(4) Guarantee Charges

No explicit deduction is made from the with-profits benefit reserves in respect of guarantees.

(5) Non-Insurance Risk Charges

No explicit deduction is made from the with-profits benefit reserves in respect of non-insurance risks.

(6) Claims ratios

Fund	Product Type	2004	2005	2006
CULAC	Conventional Life	99%	96%	95%
	Conventional Pensions	108%	104%	99%
	UWP Life	101%	94%	92%
CGNU Life	Conventional Life	99%	95%	98%
	UWP Life	108%	102%	100%
	UWP Pensions	105%	100%	96%
	UWP Stakeholder	98%	95%	94%

The figures above for 2005 and 2006 are estimates based on actual maturity and surrender payouts. The figures for 2004 are estimates based on actual maturity and surrender payouts for the period April to December.

There are no figures currently available for direct written UWP Pensions.

The figures for CGNU Life relate to all CGNU Life written business, and not just the business reinsured into CULAC.

All entries for Form 19 lines 32 and 33 in respect of reserves for past miscellaneous surplus and any past miscellaneous deficit are zero.

(7) Gross investment return allocated to WPBR

Gross returns allocated to asset shares over 2006

CGNU Life written business 11.99%

CULAC written business 11.99%

Asset shares for business written by CGNU Life and CULAC are credited investment returns based on the combined assets backing the asset shares of both funds. The rates quoted above apply to all policies.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2006**

5. With-profits benefits reserve – Prospective method**(1) Prospective assumptions**

Bonus reserve valuation (BRV) is used for 2% of the with-profit benefits reserve. This covers two classes of business, conventional whole life policies and conventional Red Plan policies (a pensions deferred annuity contract). The prospective assumptions are as follows:

(a) Economic Assumptions

Future earned rate:	Whole Life	5.80%
	Red Plan	5.80%
Discount rate:	Whole Life	5.80%
	Red Plan	5.80%
Expense Inflation:		3.90%

The rates used are best estimates of the future net of tax earned rates, consistent with the rates used in the derivation of future bonuses.

(b) Investment returns and risk adjustments

The assumed investment returns (before risk adjustment) by asset class were as follows:

UK Equities	7.6%
Overseas Equities	7.6%
Properties	6.6%
Gilts	4.8%
Other Fixed Interest	5.5%
Cash	4.1%

A risk adjustment of 0.15% was deducted from the assumed return on other fixed interest.

(c) Expense inflation

Per-policy expenses inflate each calendar year at NAEI – 1%.

(d) Future Assumed Regular Bonus Rates

Product Class	2006
Conventional Whole Life	0% SA/1.5% bonus
Conventional Red Plan	0.5% of Annuity Purchased

(e) Future Expense Assumptions

Product Class	Renewal Expenses 2006
Conventional Whole Life	£29.98
Conventional Red Plan	£41.27

(f) Future Assumed Lapse Rates

Product Class	Policy Duration									
	%	1	2	3	4	5	6	7	8	9
Conventional Whole Life	6.5	4.5	4.5	4.5	4	4	2.5	2	2	2
Conventional Red Plan	8	10	12	12	10	9	8	7	6	5

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

(g) Future mortality assumptions

Conventional whole life: 65% AM80 Sel/70% AF80 Sel

Red Plan : in-deferment: 80% AM80 Ult/AF80 Ult

in-payment: Based on % of standard table PMA80/PFA80 reflecting own experience.

(2) **Regulatory Reserves**

Regulatory reserves cover 1% of the with-profit benefits reserve. The classes of business covered by this are conventional Red Plan and some UWP business administered on ex-Norwich Union systems.

The methodology for the calculation of these reserves is described in Appendix 9.4.

6. Costs of guarantees, options and smoothing

(1) Not applicable

(2)

(a) The calculation of the cost of guarantees, options and smoothing and the cost of the mortgage promise has been performed using a stochastic model with a few exceptions.

The cost of guaranteed annuity options and section 32 guaranteed minimum pensions have been valued using a market value replication technique – this is described in section 6(4)(b).

The cost of the Pensions 1% promise is valued using a deterministic projection at policy level of future charges and expenses using the risk free rate.

A description of the stochastic model is given below.

(b) **Grouping Basis**

All valuation methods use grouped policy data. Data has been divided as follows:

For conventional business:

- Product class (e.g. life endowment, conventional pensions)
- Entry Year
- Maturity Year

For unitised with-profit business:

- Product class (e.g. life bonds, individual pensions)
- Year of unit purchase
- Guarantee date (date at which a person is expected to take their guarantee, e.g. NRD for pensions, no-MVR date for bonds)

Guarantee costs are not calculated by projecting individual or grouped model points. Instead, the aggregate asset shares and guaranteed amounts are projected for each of the cohorts above.

Validations

The total guaranteed amounts are reconciled back to the Regulatory valuation results. The aggregate asset shares are reconciled to the totals in Form 19.

(c) Not applicable.

(3) The principal changes to the valuation method for valuing the costs of guarantees, options or smoothing since the previous valuation have included

- The fund is now assumed to have a minimum Equity Backing Ratio of 40% in all scenarios.
- The take-up rate for guaranteed annuity options is now assumed to increase by 1% every year from its initial level until an ultimate level of 95% is reached.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

- There is now a guarantee applying to Portfolio Bonds sold after 30/01/2006 which guarantees the return of original premium increased in line with RPI at any point after the 5th policy anniversary and the value of this guarantee has been calculated.
- To the extent that the asset mix in the fund is different from the benchmark asset mix for the fund, it is assumed that the asset mix is reset to the benchmark immediately following the valuation date.

(4) Description of guarantees, options or smoothing being valued

(a) Stochastic Model - Description of guarantees, options or smoothing

- (i) Here follows the cost and description of the guarantees, options and smoothing methods by product grouping.

Product Class	Planned Enhancements to WPBR	Planned Deductions to WPBR for other costs	Contractual Guarantee costs	Non-Contractual Commitments	Smoothing costs
Conventional Life	0	0	6	170	-14
Conventional Pensions	0	0	12	0	3
Direct Written - UWP Life	7	0	4	0	-4
Direct Written - UWP Overseas	0	0	0	0	0
Direct Written - UWP Pensions	0	0	65	0	-4
Direct Written - UWP Stakeholder	0	0	0	0	0
Reinsured - UWP Life	0	0	188	0	-6
Reinsured - UWP Pensions	0	0	21	0	-2
Reinsured - UWP Stakeholder	0	0	5	0	-2

The CULAC fund accepts reinsurance from the CGNU Life with-profit fund.

Planned Enhancements to WPBRUWP Life

This represents the cost of Loyalty Units awarded to Bond 2000 products at certain policy anniversaries.

Planned Deductions to WPBR for other costs

None

Contractual Guarantee Costs

In order to reconcile to Form 19, £16m of contractual Guarantee Costs need to be added. This relates to Section 32 Guaranteed Minimum Pension costs, which are valued using a non-stochastic method (see 6(4) (b))

Conventional Life

This represents the cost of the basic sum assured plus any accrued bonuses to date exceeding 100% asset share under the stochastic projection.

Stochastic Reserve = £6m

Best-estimate = £0m

Option value = 96%

Conventional life guarantees are almost completely out of the money.

Conventional Pensions

This represents the cost of the basic sum assured plus any accrued bonuses to date exceeding 100% asset share under the stochastic projection. The costs of providing for any guaranteed annuity options is covered in section 6.4(b) under the cost of financial options.

Stochastic Reserve = £12m

Best-estimate = £6m

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

Option value = 47%

Conventional pension guarantees are reasonably in the money.

UWP life

This represents the cost of payouts in excess of 100% of Asset Share due to no-MVR, money back and RPI guarantees under the stochastic projection. It also allows for the effect of any guaranteed bonus rates.

The no-MVR guarantee is out of the money in respect of all units purchased directly in the CU fund. The margin is less than 10% in respect of units purchased during 1998, and in excess of 10% for all other years of unit purchase.

For business reinsured in from CGNU, the no-MVR guarantee is only currently in the money, by a margin of less than 10% in respect of units purchased during 1999 and 2000. The total BVU of business sold in CGNU during those years (not just that reinsured to CULAC) is £2,394m.

The no-MVR guarantee is out of the money in respect of all other years of unit purchase. The margin is less than 10% in respect of units purchased during 1998, 2001 and 2006, and in excess of 10% in respect of all other years of unit purchase.

The money back guarantee is significantly out of the money at all durations.

The RPI guarantee is slightly out of the money at present. This all relates to business sold during 2006

UWP pensions

This represents the cost of payouts in excess of 100% of Asset Share due to the no-MVR guarantees under the stochastic projection. It also allows for the effect of any guaranteed bonus rates. This also includes the cost of the stakeholder promise where we have promised to deduct no more than the equivalent of 1% p.a. annual management charge to cover expenses, on all unitised pensions policies, with effect from 1 April 2001.

The no-MVR guarantee is out of the money in respect of all units purchased directly in the CU fund. The margin is less than 10% in respect of units purchased from 1998 to 2001 and in 2005 and 2006, and in excess of 10% for all other years of unit purchase.

For business reinsured in from CGNU, the no-MVR guarantee is only currently in the money, by a margin of less than 10% in respect of units purchased during 1999 and 2000. The total BVU of business sold in CGNU during those years (not just that reinsured to CULAC) is £306m.

The no-MVR guarantee is out of the money in respect of all other years of unit purchase. The margin is less than 10% in respect of units purchased during 1998 and 2006, and in excess of 10% in respect of all other years of unit purchase.

UWP Stakeholder pensions

This represents the cost of payouts in excess of 100% of Asset Share due to the no-MVR guarantees under the stochastic projection.

The no-MVR guarantee is out of the money in respect of all years of unit purchase. The margin is less than 10% in respect of units purchased during 2006, and in excess of 10% in respect of all other years of unit purchase.

Non-Contractual Commitments

Conventional Life

This represents the cost of the mortgage endowment promise from conventional endowments (plus a small cost from unitised endowments). The amount provided for under the promise is the difference between the mortgage amount and policy payout if returns on the fund after tax are 6% or more, or the amount as communicated to policyholders in other circumstances.

Maximum top-up amounts have been communicated to policyholders. We have also advised policyholders that even after the Promise payment has been made they may have a shortfall.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

Payment of the mortgage promise is conditional on the investment earnings achieved on the estate. These must be sufficient to pay the shortfall amounts falling due each year.

For the purposes of the valuation, we have assumed that the full promise amount would be paid at all times, with no reduction in those scenarios where the cost of the promise exceeds the investment earnings on the estate.

The payment of promise amounts also gives rise to additional transfers to shareholders.

Smoothing Costs

This represents the cost of smoothing final bonus from the assumption that payouts based on 100% asset share will not move by more than 15% from year to year on similar termed products. This is consistent with statements in the PPFM.

This is offset by the ‘smoothing retention’, relative to 100% of asset share. This is designed to give broadly neutral smoothing costs allowing for the costs incurred to the valuation date, consistent with statements in the PPFMs for both CULAC and CGNU.

(ii) **Description of the asset model**

The distribution was calculated using the following assumptions:

Risk-free rate:

- Risk-free rate curve as shown below –

Outstanding term	Risk free annualised spot rate (%) – 2006
1	5.41%
2	5.32%
3	5.26%
4	5.20%
5	5.14%
6	5.07%
7	5.00%
8	4.94%
9	4.89%
10	4.84%
12	4.75%
15	4.64%
20	4.44%
25	4.26%
30	4.11%

- The discount rate was set equal to the risk-free rate as above EXCEPT for the calculation of future profits on non-profit business. For this calculation the discount rate is increase by 0.5%. This is an adjustment to reflect risk and uncertainty on the non-profit business, and to give a margin to allow for the cost of any non-financial guarantees.
- All assets were expected to grow at the risk-free rate (ie risk neutral pricing was used).

Derivation of risk-free rate curve:

The risk free rate was based on governments bonds, increased for the element of the swap – gilt spread that could be ascribed to the “repo ability” of the gilts.

The swap – gilt spread varies between 33bp at 25 years, to 41bp for three year term, the average and the spread for the 10-15year period is around 37bp.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

Our decomposition of this spread is

Description	Bp - 2006
LIBOR – LIBMID (to get mid market)	6
LIBMID – repo at 3 months (credit spread)	8
Implied Repo ability	23
Total spread	37

This implies a risk free rate of gilt + 23 bp could be justified based on 31 December 2006 market conditions

However, we have used a gilt + 10bp approach to provide a margin for risk and uncertainty and for consistency with the approach used at 31 December 2005.

Use of the curve:

A risk-free rate curve was used for most option-pricing purposes. However, some systems are unable to implement the curve structure and so an appropriate fixed rate was used for these deterministic projections.

The fixed rate chosen reflected the term of the liabilities being valued, plus a margin to allow for the approximations inherent in this approach.

CGNU/CU written:

Main liabilities modelled with flat risk-free rate:

- Future profits on non-profit business
- Guaranteed annuity options
- Tax on shareholder transfers

Risk free rate used: 4.75%

Annuity interest rate used: 4.00% (equal to the 8 into 15-year forward rate based on the full curve).

Form of probability distribution:

The lognormal model was assumed for the prices of all assets.

Derivation of Equity/Property volatility:

UK Equity

Market implied volatility (that is the Black-Scholes solution to observed option pricing given risk free rates that maintain “put call parity” – essentially swap rates) has been derived from information provided by an investment bank.

We have used the volatility in respect of at-the-money options, since the time value of the guarantees that will be affected by these volatility rates is at its greatest when the guarantees are at the money.

Term	Volatility
1	14.25%
2	15.15%
3	15.79%
4	16.10%
5	16.38%

The table below set out the resultant extrapolated volatility.

Term	Volatility
7	16.63%
10	16.76%
15	16.80%

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

The model used can only utilise a level volatility across all terms. We have used a volatility assumption of 17.00% (20.00% at 31/12/2005) because the rate is consistent with the output for a term of approximately 10 years, which is consistent with the term of the majority of the guarantees, and gives a margin for shorter term guarantees.

Overseas Equity

The difference between UK and overseas volatility for significant territories was applied to the UK assumption calculated above.

Property volatility

There are no meaningful option prices so a best estimate approach is used. The best estimate is 15.0%.

Derivation of bond volatility:

Gilts

The table below shows swaption implied volatility for an option term of 20 years, swap maturity as shown (source values derived from data supplied by an investment bank)

Swap maturity	Implied volatility (%)
1	11.6
5	12.0
10	12.4
15	12.7
20	12.7
25	12.7

For the purposes of our model, we have used an implied volatility of 12.5% at all durations.

Our model requires a price volatility assumption. The price volatility is calculated using the yield volatility combined with the discounted mean term of the assets, to give price volatilities as follows.

DMT	Price volatility
1	0.57%
2	1.14%
3	2.72%
5	2.88%
7	4.06%
10	5.85%

The discounted mean term of the fixed interest assets at 31st December 2006 is 9.0 years

We would reduce the outstanding term of the fixed interest investments as the in-force business ran off. From the above it can be seen that this would result in reducing price volatility over time. However, the model cannot utilise time dependant volatility, so we adjust the fixed volatility level to reflect the decline.

We have then calculated the average volatility for all guarantee terms, to give a volatility assumption of 4.50%. The volatility used includes a small margin to allow for inevitable approximations involved in the above approach.

Corporate Bond and Overseas Bond volatility

Separate asset classes are set up for corporate and overseas bonds. These have different correlations with the returns on UK gilts.

There are spreads between swaps, corporate bonds, gilts and overseas bonds. These spreads move over time so one class of asset may be more or less volatile than the others.

We have therefore set the price volatility assumption for Corporate and Overseas bonds to be 2% in excess of that of UK gilts.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

In summary the price volatility assumptions are

	CULAC
Gilts	4.50%
Other Fixed Interest	6.50%

Correlation between different asset classes:

- Correlation between asset classes was taken from internal historic data. The table below shows the figures used at 31 December 2006.

	UK Equities	Property	European Equities	US Equities	Japanese Equities	Pacific Basin Equities	Emerging Market Equities	UK government bonds	Corporate Bonds	Global Bonds	Cash
UK Equities	1.00	0.25	0.79	0.83	0.55	0.58	0.65	0.31	0.29	0.52	0.10
Property	0.25	1.00	0.22	0.05	0.55	0.11	0.15	0.07	0.03	-0.20	-0.33
European Equities	0.79	0.22	1.00	0.91	0.48	0.55	0.58	0.37	0.28	0.69	-0.10
US Equities	0.83	0.05	0.91	1.00	0.43	0.47	0.56	0.37	0.30	0.74	0.00
Japanese Equities	0.55	0.55	0.48	0.43	1.00	0.62	0.65	0.01	0.00	0.20	-0.17
Pacific Basin Equities	0.58	0.11	0.55	0.47	0.62	1.00	0.87	0.25	0.37	0.53	0.00
Emerging Market Equities	0.65	0.15	0.58	0.56	0.65	0.87	1.00	0.08	0.16	0.47	0.18
UK government bonds	0.31	0.07	0.37	0.37	0.01	0.25	0.08	1.00	0.97	0.50	0.11
Corporate Bonds	0.29	0.03	0.28	0.30	0.00	0.37	0.16	0.97	1.00	0.51	0.12
Global Bonds	0.52	-0.20	0.69	0.74	0.20	0.53	0.47	0.50	0.51	1.00	0.13
Cash	0.10	-0.33	-0.10	0.00	-0.17	0.00	0.18	0.11	0.12	0.13	1.00

Inflation:

Future inflation is assumed to be that implied by the difference between nominal and real government bond yields as at 31 December 2006.

Asset mix/EBR management:

The initial asset mix was equal to the benchmark mix for the asset share investments in With-Profits funds as at 31 December 2006. The resulting asset mix is shown below, together with the volatility parameters for each class:

CGNU/CULAC

Class	% of asset share	Volatility parameter
UK Equities	40%	17.0%
Property	18%	15.0%
European Equities	4%	17.2%
US Equities	2%	19.4%
Japanese Equities	1%	19.2%
Pacific Basin Equities	3%	20.0%
Emerging Market Equities	2%	23.6%
UK government bonds	8%	4.5%
Corporate bonds	14%	6.5%
Global bonds	4%	6.5%
Cash	5%	0.0%
	100%	

Management of the EBR within the stochastic return projector is discussed in 6(5)(a).

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(iii) Option prices from asset model**

ROW	Asset type	n	K= 0.75				K= 1				K= 1.5			
			5	15	25	35	5	15	25	35	5	15	25	35
		r	5.14%	4.64%	4.26%	3.99%	5.14%	4.64%	4.26%	3.99%	5.14%	4.64%	4.26%	3.99%
		p:					x	x	x	x	x	x	x	x
1	Risk-free zero coupon bond		778,478	506,654	352,216	254,585								
2	FTSE AllShare	1	43,280	120,900	178,107	226,132	151,344	256,771	327,564	387,693	531,867	626,995	702,784	768,165
3	FTSE AllShare	0.8	33,971	82,205	110,221	129,129	125,200	183,573	211,773	234,058	468,634	476,710	484,907	488,953
4	Property	1	33,650	95,529	146,550	190,862	133,832	225,472	289,866	344,568	524,268	596,915	661,044	718,776
5	Property	0.8	25,759	60,962	84,453	101,865	108,295	154,504	177,877	198,195	458,972	445,167	444,215	442,329
6	15 yr risk free ZCB	1	5,958	34,202	63,331	86,426	80,635	138,528	181,612	215,362	504,142	526,462	561,034	587,873
7	15 yr risk free ZCB	0.8	3,407	15,950	24,743	29,235	56,947	76,722	84,501	91,406	433,913	362,349	333,774	305,410
8	15 yr corporate	1	13,161	53,943	91,005	121,263	99,277	168,900	219,107	260,088	509,461	548,948	594,670	629,966
9	15 yr corporate	0.8	8,685	29,229	42,850	51,041	74,729	103,293	116,422	127,231	440,684	389,843	371,905	352,878
10	65% FTSE AllShare, 35% Property	1	24,900	78,841	124,803	163,194	120,022	201,740	259,905	311,071	514,041	574,277	629,078	682,114
11	65% FTSE AllShare, 35% Property	0.8	18,317	48,059	68,401	81,364	94,768	133,609	153,572	170,006	448,003	420,630	411,792	406,791
12	65% FTSE AllShare, 35% ZCB	1	20,172	72,877	120,085	159,247	113,350	196,745	258,194	310,027	512,008	573,796	634,002	687,365
13	65% FTSE AllShare, 35% ZCB	0.8	14,224	42,787	63,846	76,442	88,250	127,912	148,899	166,171	445,513	418,333	413,461	407,773
14	40% Eq, 15% prop, 22.5% ZCB, 22.5% corp	1	9,427	45,626	81,759	112,560	90,272	156,111	205,652	250,070	503,360	538,811	580,453	623,814
15	40% Eq, 15% prop, 22.5% ZCB, 22.5% corp	0.8	5,777	22,944	36,504	44,979	66,106	92,506	105,772	118,333	434,301	378,785	357,591	342,932
			L = 15				L = 20				L = 25			
16	Receiver swaptions		6.92%	8.97%	8.78%	8.70%	9.21%	11.54%	11.21%	11.11%	11.56%	13.90%	13.41%	13.29%

Notes on the table above:

Row 1 should be completed showing the value of cash payments of £1,000,000 due n years after the valuation date.

Rows 2 to 15 inclusive should be completed for the appropriate asset classes showing the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date with strike price of $K \times £1,000,000 \times (1+r^*p)^{\wedge}n$.

All references to 15-year bonds mean rolling bonds traded to maintain the 15 year duration at all future dates. The corporate bonds should be assumed to be rolling AA rated zero coupon bonds.

Row 16 should be completed showing the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years. The values should be expressed as a percentage of nominal.

The property put options should be assumed to relate to a well diversified portfolio of UK commercial property.

A zero trend growth in property prices should be assumed where this is relevant.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

In each case the options should be valued with reinvestment of any dividend income into the FTSE All Share index and reinvestment of any rental or other property income into UK property.

Tax should be ignored in all calculations.

All options should be assumed to be European-style.

Commentary on the results:

This is a combined table for 6.4(a)(iii) and 6.4(b)(iii).

Our maturity value and no-MVR guarantees that are priced through this process have a discounted mean term of around 8 years. Results produced for guarantees longer than 20 years are of less relevance.

For GAOs our model is calibrated to the discounted mean term of the GAO liability and the strike price of the GAOs (around 9%). The results produced by the model at 5% strike are not relevant to our valuation of GAO.

For the gilt portfolio pricing we are asked to base these results on a 15-year rebalancing portfolio. Our philosophy is to hold fixed-interest assets with duration matching to the discounted mean term of the liability (i.e. the portfolio shortens over time). Similar to the comments above, results produced incorporating a 15-year rebalancing rule have little practical relevance to the cost of our guarantees.

(iv) Initial Equity and Property Rental Yields

The model assumes risk-neutral approach with drift of the total expected return equal to the risk free rate. A best estimate split of return between income and capital gains is assumed when calculating the assumed tax rate (see section 11).

(v) UK risk free rates are applied throughout.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(vi) Duration of significant guarantees**

The following tables show the durations of significant guarantees and promises for the with-profits funds. Duration is calculated as weighted average of projected maturity years with weights equal to the cost of guarantees.

CULAC – Duration of guarantees

	Duration (yrs)	%																		
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024+	
Conventional Life																				
Base guarantee	9.4	-	8	8	6	12	4	4	2	5	10	4	3	2	7	8	6	3	9	100
Mortgage promise	9.9	0	0	1	1	3	7	9	8	9	12	12	12	9	4	4	4	3	1	100
Conventional Pensions																				
Base guarantee	10.9	2	1	2	3	4	6	6	7	7	9	8	7	5	6	4	4	5	13	100
GAR option	7.8	5	12	8	9	6	7	5	6	4	5	5	5	4	4	3	3	2	8	100
Unitised Life: Base guarantee																				
Direct	17.8	-	-	-	-	-	-	-	-	2	3	4	5	6	6	6	7	7	56	100
Reinsured	5.0	2	2	15	40	14	2	3	5	9	4	0	0	0	0	0	0	0	2	100
Unitised Pensions excl Stk																				
Base gtee - Direct	16.3	-	0	1	1	2	2	3	3	3	3	4	4	4	4	5	5	5	49	100
Base gtee - Reinsured	8.4	11	11	12	9	5	4	4	4	3	3	3	2	3	2	2	2	2	18	100
GAR option	9.0	3	7	5	7	8	9	8	7	5	5	5	5	4	4	4	5	3	9	100
Stakeholder: base guarantee																				
Reinsured	17.4	-	-	-	0	1	1	2	2	3	3	4	4	4	5	5	5	6	55	100

The reinsured figures above relate to the UWP business reassured in from CGNU Life.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(vii) Nature of validations of asset model**

The model projects total return credited to asset share, not income and gains on assets. Therefore no explicit comparison of the NPV of the projection of income / gains has been made. Instead, the table below shows the discounted value of £1 invested on the valuation date and projected forward t years (t=5, 10, 15, 20). For a risk-neutral model, the result would be 1. The table shows how the results depend on the number of simulations used.

t (years from valuation date)	5	10	15	20
100 Sims result	0.989	0.996	0.966	1.005
1000 Sims result	1.010	1.017	1.011	1.020
5000 Sims result	1.009	1.010	1.006	1.006
10000 Sims result	1.003	1.005	1.001	0.998
Distribution result	1.002	1.005	1.002	1.001

The final line shows the results based on using the actual distribution required by our matrix approach to the calculation of the costs of guarantees. This table implies that the number of simulations (as used by the model) is sufficient for convergence

Further validation involves comparing the results of the model with Black-Scholes prices.

The output of the matrix approach has been compared to that of the Black-Scholes pricing formula (given appropriate portfolio volatility levels). The output of the matrix approach will only do this when management action is not incorporated. A selection of the results is shown below:

ROW	r (Continuous)	p	K= 0.75				K= 1				K= 1.5			
			5	15	25	35	5	15	25	35	5	15	25	35
			5.01%	4.53%	4.17%	3.91%	5.01%	4.53%	4.17%	3.91%	5.01%	4.53%	4.17%	3.91%
2	FTSE AllShare: matrix approach	1	43,280	120,900	178,107	226,132	151,344	256,771	327,564	387,693	531,867	626,995	702,784	768,165
2	FTSE AllShare: Black-Scholes valuation	1	42,232	121,031	178,267	224,288	150,742	257,998	329,163	384,942	533,714	628,718	703,972	766,020
	Difference / MV(0)		0.1%	0.0%	0.0%	0.2%	0.1%	-0.1%	-0.2%	0.3%	-0.2%	-0.2%	-0.1%	0.2%
4	Property: matrix approach	1	33,650	95,529	146,550	190,862	133,832	225,472	289,866	344,568	524,268	596,915	661,044	718,776
4	Property: Black-Scholes valuation	1	31,238	98,141	148,381	189,401	133,185	228,546	292,339	342,745	522,417	599,620	664,328	718,888
	Difference / MV(0)		0.2%	-0.3%	-0.2%	0.1%	0.1%	-0.3%	-0.2%	0.2%	0.2%	-0.3%	-0.3%	0.0%
10	65% FTSE AllShare, 35% Property: matrix approach	1	24,900	78,841	124,803	163,194	120,022	201,740	259,905	311,071	514,041	574,277	629,078	682,114
10	65% FTSE AllShare, 35% Property: B-S valuation	1	22,952	79,715	123,872	160,447	118,729	204,131	261,602	307,279	514,611	576,870	632,380	680,256
	Difference / MV(0)		0.2%	-0.1%	0.1%	0.3%	0.1%	-0.2%	-0.2%	0.4%	-0.1%	-0.3%	-0.3%	0.2%

The table above shows that the model is capable of producing Black-Scholes prices. The table also implies that the number of simulations used and the width of the banding within the matrix approach do not distort the results.

	Put Option Price
Market Price	9.32
NU Asset Model Price	9.40

The table above shows the actual market price and the price generated using our asset model (for a 5-year at the money put option). As demonstrated above, the model produces a higher price for this specimen contract because:

- We make a credit risk adjustment relative to the risk free rate that maintains put/call parity
- We calibrate volatility to around 10 years rather than 5.

(viii) 10,000 projections of asset share returns have been made to construct the probability distribution used to value the guarantees.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

(b) Market costs of hedging - Description of guarantees, options or smoothing

The approach used to value Guaranteed Annuity Options on conventional pensions increases the deterministic (intrinsic cost) of the option to allow for the limited option value. The increase is based on the implied option value of swaptions with similar characteristics to the liabilities.

This implied option value is small, as most of the Guaranteed Annuity Options are in the money at interest rates up to about 9%.

An uplift factor of 5% has been used at all durations, which includes an allowance for the variability of investment return prior to retirement.

In addition, a small reserve for GMP guarantees on Section 32 Transfer policies arises. This reserve has been calculated as the statutory provision, with an adjustment to allow for future bonuses together with a 15% uplift. These costs have been included in the figures quoted in 6(4)(a)(i).

Costs of Financial Options

This represents the cost of the guaranteed annuity option (GAO) attaching to conventional deferred cash pensions. Contracts provide for a basic cash amount plus accrued regular bonus and a final bonus. The policyholder then has the option to take this cash amount or to convert this into income at guaranteed rates written into the policy conditions.

The cost of the GMP guarantee on S32 policies is also shown below.

Cost of annuity rate guarantees	£m
Base GAO cost	191
Uplift (5%)	10
Expense reserve	2
Total	202
Base cost of GMP gtee on S32	14
Uplift (15%)	2
Total	16

The duration of all guarantees is shown in the table given in 6.4.a.vi (where significant).

(c) Deterministic projections - Description of guarantees, options or smoothing

No guarantees, options or smoothing costs have been valued using this method.

(5) Management Actions

- (a) There are various allowances and limitations for management actions in the stochastic model. Details of the key decisions are set out below.

Projected Equity Backing Ratio

Management is assumed to intervene and carry out switches (in addition to any impact from market movements) of investments supporting asset shares when investment returns are particularly strong or weak.

The logic for this is that the main aim of investment policy is to provide the highest long-term returns given acceptable levels of solvency risk.

A substantial amount of our fixed interest portfolio is intended to be held to maturity. Therefore investment performance above or below expectation is largely a function of simulated performance for equity and property.

If equity/property performance is poor, then solvency would deteriorate, hence management action would be to reduce the equity/property content of the fund. However, it is assumed that the EBR will not fall below 40% in any scenario.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

The converse is also true; however, increasing the EBR is constrained to the extent of the investment philosophy where a large proportion of our existing holding of bonds will be held to provide a duration match of the liabilities.

The results produced by the application of this model are shown in 6(5)(b)(i).

Maximum Cuts in payout

The model assumes bonus is reviewed annually (in practice reviewed at least semi-annually). Final bonus is set to deliver target payout ratio subject to change of no more than 15% in payout compared to equivalent policy maturing 1 year earlier.

Target level of payout

Prospective individual payout targets at maturity are set so that the long-term payout target as a percentage of asset share would be such that the smoothing cost was neutral allowing for costs incurred to the valuation date.

Regular Bonus Assumptions

Annual bonus is pre-determined at outset. The assumption is that the current level of annual bonus will be maintained indefinitely, as there is currently a reasonable margin for final bonus in these rates

Guarantee Charges on asset shares

The model uses no charge on CGNU Life and CULAC written business.

Allocation of non-profit profits to asset share

At the date of the valuation, the company had allocated all future profits expected from Non Profits business to asset shares. Hence, no future allocation has been included in respect of Non Profits business written in the With Profits fund.

Shareholder Transfers and tax

The model assumes that transfers to shareholders continue at the current proportions of the cost of bonus.

It is assumed that only the tax on Shareholder transfers will be charged to the estate for CGNU Life and CULAC written business. The shareholder transfers themselves will be charged to asset share. For shareholder transfer payments arising from Mortgage Endowment Promise, both shareholder transfer and tax will be charged to the estate.

Mortality costs

Mortality profits and losses are passed on to the asset shares in line with the PPFM. For implicit-charge business, the deduction made is sum at risk times actual proportion of deaths. The sum at risk is death benefit less asset share. The actual proportion is a proportion that varies by year of a standard mortality table. Explicit charge UWP business and implicit charge UWP business sold from 1 October 2001 deducts the actual policy charges made from the asset share.

Surrender costs

The current practice of the fund is to target surrender payouts at 100% of Asset Share. Consequently, no future surrender profit or loss is anticipated to emerge.

(b) **Best estimate of future proportions of assets backing the WPBR.**

- The projection allows for future EBR management action as discussed earlier in this document. The results reflect an average of the simulated positions.
- Regular bonus rates quoted are those that have been assumed in the production of the central set of results for Form 19.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(i) Projection at risk free rate**

UWP Bonus Rates

Product	31 December 2006	31 December 2011	31 December 2016
UWP Life (Direct Written):	3.25%	3.25%	3.25%
UWP Pensions (Direct Written):	3.50%	3.50%	3.50%
Reinsured business (from CGNU Life):			
UWP Life (Implicitly charged): Units purchased on policies written pre 1/10/1998	3.25%	3.25%	3.25%
UWP Life (Implicitly charged): Units purchased on policies written post 30/09/1998	3.25%	3.25%	3.25%
UWP Life (Explicitly charged):	4.25%	4.25%	4.25%
UWP Pensions (Implicitly charged): Units purchased on policies written pre 1/10/1998	3.50%	3.50%	3.50%
UWP Pensions (Implicitly charged): Units purchased on policies written post 30/09/1998	3.00%	3.00%	3.00%
UWP Pensions (Explicitly charged):	4.50%	4.50%	4.50%
UWP Pensions (Stakeholder):	4.00%	4.00%	4.00%

Further notes on bonus rates:

Direct written business:

- Units purchased on Pensions policies before 1 January 1993 have a guaranteed regular bonus rate of 4% pa.

Reinsured business from CGNU Life:

- No reinsured business has a guaranteed minimum regular bonus rate.
- Policyholders in the Income-based Life products receive additional regular bonus (amount depends on entry-year).

Assets Backing With-Profit Benefits Reserve

To the extent that the asset mix in the fund is different from the benchmark asset mix for the fund, it is assumed that the asset mix is reset to the benchmark immediately following the valuation date.

Consequently, the projections below are based on the benchmark asset share mix as at 31 December 2006:

Asset class	31 Dec 2006	31 Dec 2011	31 Dec 2016
UK equities	39.9%	37.5%	35.4%
Overseas equities	11.8%	11.0%	10.4%
Land and buildings	18.0%	17.1%	16.7%
Approved fixed interest securities	7.9%	8.9%	9.8%
Other fixed interest securities	17.2%	19.6%	21.3%
All other assets	5.2%	5.9%	6.4%
Total assets	100.0%	100.0%	100.0%
EBR	69.7%	65.6%	62.5%

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(ii) Projection at risk free rate plus 17.5%**

The same bonus rates are anticipated as in the previous projection

Assets Backing With-Profit Benefits Reserve

Asset class	31 Dec 2006	31 Dec 2011	31 Dec 2016
UK equities	39.9%	38.3%	36.8%
Overseas equities	11.8%	11.3%	10.8%
Land and buildings	18.0%	17.5%	17.3%
Approved fixed interest securities	7.9%	8.6%	9.1%
Other fixed interest securities	17.2%	18.7%	20.0%
All other assets	5.2%	5.6%	6.0%
Total assets	100.0%	100.0%	100.0%
EBR	69.7%	67.1%	64.9%

(iii) Projection at risk free rate minus 17.5%

The same bonus rates are anticipated as in the previous projection

Assets Backing With-Profit Benefits Reserve

Asset class	31 Dec 2006	31 Dec 2011	31 Dec 2016
UK equities	39.9%	36.6%	34.0%
Overseas equities	11.8%	10.8%	10.0%
Land and buildings	18.0%	16.7%	15.9%
Approved fixed interest securities	7.9%	9.3%	10.4%
Other fixed interest securities	17.2%	20.5%	22.8%
All other assets	5.2%	6.1%	6.9%
Total assets	100.0%	100.0%	100.0%
EBR	69.7%	64.0%	59.9%

(6) Persistency and Mortality Assumptions

The lapse rates assumed in the projection of the asset shares and guaranteed benefits are based on own experience adjusted for anticipated trends.

CULAC		<u>Average surrender / paid-up rate for the policy years</u>			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	19%	16%	11%	7%
CWP target cash endowment	surrender	19%	16%	11%	7%
UWP savings endowment	surrender	n/a	n/a	n/a	n/a
UWP target cash endowment	surrender	n/a	n/a	n/a	n/a
UWP bond	surrender	3%	15%	11%	10%
UWP bond	automatic withdrawals	2%	2%	2%	2%
CWP pension regular premium	PUP	0%	0%	0%	0%
CWP pension regular premium	surrender	0%	0%	0%	0%
CWP pension single premium	surrender	0%	0%	0%	0%
UWP indiv pension regular premium	PUP	n/a	n/a	n/a	n/a
UWP indiv pension regular premium	surrender	2%	2%	2%	2%
UWP indiv pension single premium	surrender	2%	2%	2%	2%

For UWP business we make no allowance for future premiums, so the PUP rate is not applicable.

There is no UWP endowment business in CULAC.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2006**

At no-MVR date:

Assume 75% exits at the first no-MVR date. Assume all remaining policyholders leave on the second no-MVR date.

Assume all exits between the first and second no-MVR dates are covered by the no-MVR roll-forward guarantee.

Automatic partial withdrawals on bonds have no MVRs applied (subject to certain limits). The assumed Automatic Partial Withdrawal rates are 2.0% pa. A higher rate of 4% is assumed for the Life Income funds.

Mortality Assumptions

Mortality assumptions for the Realistic Balance sheet are generally best-estimate assumptions.

Annuitant Mortality

For all immediate annuities and deferred annuities in payment we use assumptions based on the proposed CMI tables based on data from 1999 to 2002. The tables have been substantially altered to reflect our experience with a considerable reduction to table mortality.

The initial rates used are the same as assumed in the regulatory valuation. However, for the realistic valuation, minimum improvement factors of 1.5% pa for males and 1.0% pa for females have been assumed.

Guaranteed Annuity Option take-up rate

An initial take-up rate of 85% has been assumed in respect of Guaranteed Annuity options attaching to pensions. The take-up rates increase by 1% every year from 2008 onwards, until an ultimate level of 95% is reached. This is a change in assumption from 31 December 2005 where a level assumption of 85% was used.

A fixed take up rate is assumed irrespective of how in the money the option is.

A maturity age of 65 has been used to determine the value of the Guaranteed Annuity Option

(7) Policyholder Actions

Policyholder actions are primarily covered by the static persistency and GAO take-up rates in the previous section. There is no dynamic linking of these decisions relative to the value of the options under each particular scenario.

7. Financing Costs

There are no financing costs.

8. Other long-term insurance liabilities

Product Class	Any other liabilities related to treating customers fairly	Any other long-term insurance liabilities
Conventional Life	0	32
Conventional Pensions	0	2
UWP Life	0	7
UWP Pensions	0	13
Reinsured - UWP Life	0	23
Reinsured - UWP Pensions	0	7
Reinsured - UWP Overseas	0	3
Miscellaneous	0	78
Total	0	165

Any other liabilities related to treating customers fairly

No liability is held in respect of any other liabilities related to treating customers fairly.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4A

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2006**

Any other long-term insurance liabilities

The product split gives a breakdown of the £87m held in respect of the future tax due on shareholder transfers which are charged to the estate.

The following liabilities are held under the miscellaneous category.

£13m is held in respect of future pension transfer review costs.

£22m is held in respect of the funding for the Aviva staff pension scheme deficit.

£48m is included for the cost of investigation and redress of mortgage endowment mis-selling complaints.

£5m is held to cover compensation costs other than those identified above.

£23m is held to cover the cost of future expenses not charged to asset shares.

A credit of £57m is held in respect of the difference between the present value of charges to be deducted from UWP asset shares on a charges basis compared to the future renewal expenses and cost of future shareholders transfers charged to the fund. This credit implicitly includes an allowance for recovery of initial expenses already incurred on this business.

An additional liability of £25m is held as a contingency.

9. Realistic current liabilities

The realistic current liabilities include the following:

- Provisions for deferred taxation
- Provisions for inter company transfers from internal reinsurance
- Outstanding Claims
- Other creditors
- Accruals and deferred income

The realistic current liabilities at 31 December 2006 are £649m.

The realistic current liabilities include a reduction of £34m in respect of discounting of the Unrealised Capital Gains Tax provisions, which is not allowed for in the regulatory current liabilities. The figures are otherwise the same.

10. Risk Capital Margin

Fund	RCM (£m)
CULAC	518

(1)

(a) Changes in asset values under stress scenarios for equities and real estate (property)

Asset Class	Fall in market values
UK Equities	20.0%
OS Equities	21.9%
Property	12.5%

The overseas equity fall is set such that it has the same probability as UK equities falling 20%.

The fall in market values of equity and property is more onerous than the rise in market values. This is because of the knock-on increase in guarantee costs and the estates being partially invested in equities and property.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

(b)

Asset Class	Rise in FI yields	Fall in FI yields
Nominal change in yields	+81bps	-81bps
long-term yield – level post-stress	5.43%	3.81%
long-term yield - % movement post-stress	+17.5%	-17.5%

For CULAC, the fall in fixed-interest yield scenario is more onerous.

(c)

Fund	Average Increase in credit spread	Change in FI asset value
CULAC	0.30%	-1.98%

The average increase in credit spread is weighted by current market value of fixed interest.

The change in FI asset values is from the increase in credit spreads from the credit-risk test.

In addition, an allowance of £0.5m for reinsurance default risk was introduced in the stress scenario.

(d) For the persistency test a 32.5% decrease in lapse rates is tested as this increases the fund's exposure to maturity guarantees.

% increase in realistic liabilities = 1.42%

(e) Not applicable

(2) Management Actions under the stress tests

(a) The following changes in management actions are assumed to be made under the stress tests.

Cuts in payouts

It is assumed that management would make additional cuts in payout where the payouts implied from the movements in asset shares under the stress tests exceeded the 15% maximum cut assumed in the central basis. Any cuts in excess of the 15% are assumed to be made in the annual bonus declaration one year following the valuation date.

In addition, the level of the 'smoothing retention' would be reviewed, to ensure that the smoothing cost was broadly neutral allowing for costs incurred to the valuation date.

Regular Bonuses

Following the asset value falls under the stress test, two 0.5% reductions in UWP annual bonus are assumed to be implemented, to better maintain final bonus margins. These reductions would take place one year and two years after the valuation date.

All future conventional regular bonus rates, other than the with-profit immediate annuities, are assumed reduce by 1% pa, starting one year after the valuation date, until they reach zero.

Guaranteed Annuity Options

The initial take-up rate for guaranteed annuity options is assumed to increase from 85% to 90% as a result of the fall in fixed interest yields. The take-up rate then increases by 1% every year from 2008 onwards, until an ultimate level of 95% is reached.

(b) Table showing the effects of the actions in 10(1)(b)(i):

	Effect of action (£m)
Cuts in payouts	17
Regular bonuses	164
GAO take-up	-10
Total	172

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006**

(c) The same investment management rules governing any change in asset mix of the fund have been used for the projection of assets in the stress tests as in the central scenario.

(d) There is no Charge for Guarantees in the Stress Test so this section is not applicable.

(3)

(a) The assets hypothecated to back the risk capital margin are set out in the following table

Assets backing RCM	£m	%
UK equities	0	0%
Overseas equities	0	0%
Land and buildings	66	13%
Approved fixed interest securities	73	14%
Other fixed interest securities	300	58%
All other assets	79	15%
Total	518	100%

All assets backing the RCM are within the WP funds.

(b) Not applicable

11. Tax**(1) Tax treatment in the with-profits benefit reserves**

Asset shares are credited with net of tax investment returns allowing for actual tax rates.

	2006
	%
Income tax	20
Franked income tax	-
Withholding tax	15

(2) Tax treatment in future policy related liabilities

Current tax rates are assumed to continue in the future for all projections.

Corporation Tax 30%

Income Tax 20%

Franked Income Tax 0%

Withholding Tax 15%

Turnover Rates (for CGT calculation)

UK Equity 20%

Overseas Equity 40%

Property 12.5%

CGT indexation 1.93% (2/3rds of the RPI assumption)

Average BLAGAB tax rate applying to asset shares:

CGNU Life written 12.23%

CULAC written 12.22%

Average tax rate applying to non-profit liabilities = 20% assuming all backed by fixed-interest.

Abstract of valuation report for realistic valuation – IPRU (INS) Appendix 9.4AName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2006****(3) Tax treatment in the realistic current liabilities**

In the realistic regime allowance for deferred tax liabilities can be made. In the regulatory regime no allowance can be made.

12. Derivatives

Security	Value at 31 December 2006
	£m
Equity futures	26
Bond futures	-595
Contract for differences	31

The exposure to futures is part of the company's portfolio management strategy, and all the futures expire no later than March 2007.

The contract for differences provides the fund with some exposure to the shares of Aviva plc.

13. Analysis of working capital

	£m
Working capital at 31/12/2005	1,943
Investment return on opening working capital	167
Profits on assets backing liabilities	400
Economic assumption changes	49
Non-economic assumption changes	-40
Policyholder action assumption changes	74
Other experience variances	28
Impact of new business	-49
Changes in reinsurance and regulation	0
Modelling changes and opening adjustments	-94
Working capital at 31/12/2006	2,479

Notes:

1. The profits on assets backing liabilities includes the reduction in guarantee costs arising from returns in excess of the projected rates as at 31 December 2005, as well as the impact of the change in Risk Free Rate during 2006.
2. Non-economic assumption changes include annuitant mortality and bonus rates, as well as the introduction of the EBR floor and changes in miscellaneous reserves, where they could not be analysed separately.
3. Policyholder action assumption changes relate to persistency and GAO take-up assumptions
4. Experience variances include impact of premiums, claims and expenses
5. The impact of new business mainly relates to the potential cost of guarantees on the RPI-linked bond
6. Note that the change in other liabilities from line 47 is included in the analysis above
7. The change in working capital arising purely from the change in line 51 cannot be quantified.

14. Optional Disclosure

The split and determination of what is classified as contractual and non-contractual obligations are covered in section 6.

Returns under the Accounts and Statements Rules

Statement on derivatives required by IPRU (INS) 9.29

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

The following summarises investment policy for the use of derivatives: -

- Derivatives will only be used in accordance with FSA Guidelines for the purpose of efficient portfolio management or reduction in investment risk.
- Derivatives must not be used for speculative purposes.
- Derivatives must be fully covered by the assets of the fund and must not be used to 'gear up' a fund.
- Counterparty risk – for exchange traded contracts, the exchange must be classed as "regulated" by an investment committee. Over the counter contracts, transactions must only be transacted with approved counterparties. Counterparty limits are consistent, and monitored in line with the fund's aggregate exposure guidelines.
- Controls and Monitoring – delegated authorities exist for each member of staff using derivatives. Derivatives transactions are priced, settled and profit and losses reconciled in an area independent of the fund managers involved.

There are no specific guidelines for the use of contracts that were not reasonably likely to be exercised at the start of the contract. The speculative use of derivative contracts is prohibited.

The company was party to Stock Underwriting over the financial year, which falls into the description above. This is the only example of such contracts that were transacted during the financial year. However, none of the amounts recorded in Form 13 would have been materially changed if the insurer became obligated to purchase these assets.

The amounts recorded in Form 13 would not have significantly changed if contracts held had been exercised at the end of the financial year or at any point during the financial year.

The maximum loss in the event of failure by any one counterparty to fulfil its obligations at the end of the financial year would have been £19.4m. This would not have been materially greater at any one time during the year or under other foreseeable market conditions.

No derivative contracts were held at any time during the financial year that required a significant provision under INSPRU 3.2.17R, and where appropriate, all contracts held fell within the definition of a permitted derivative contract.

During the financial year, the company's use of derivatives included the granting of rights under derivative contracts for a fixed consideration. This was in the activity of Stock Underwriting. The fee income over the financial year was £0.1m.

Returns under the Accounts and Statements Rules

Statement on controllers required by IPRU (INS) 9.30

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

100% of the issued share capital of the Company is held by Norwich Union Life Holdings Limited.

100% of the issued share capital of Norwich Union Life Holdings Limited is held by Aviva Group Holdings Limited.

100% of the issued share capital of Aviva Group Holdings Limited is held by the ultimate parent undertaking, Aviva plc.

During 2006, Norwich Union Holdings Limited changed its name to Aviva Group Holdings Limited. There have been no other changes to the above position during the year.

All shares are voting shares.

Returns under the Accounts and Statements Rules

Statement of information on the with-profits actuary required by IPRU (INS) 9.36

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2006**

In accordance with rule 9.36 of the Interim Prudential Sourcebook for Insurers A R Walton was requested to furnish and has provided the following information:

- (a) (1) An interest in 345 ordinary shares at 31 December 2006 in Aviva plc (2005: nil).
- (2) 8,536 ordinary shares were held in the Aviva Long Term Incentive Plan at 31 December 2006 (2005: nil) and 1,707 ordinary shares were held in the Aviva Annual Bonus Plan (which has replaced the Aviva Deferred Bonus Plan) at 31 December 2006 (2005: nil).
- (b) The actuary held general insurance policies with subsidiaries of Aviva plc for which total premiums of £1,007 were paid in the year to 31 December 2006 (period from 22 July 2005 to 31 December 2005: £745.00).
- (c) The aggregate amount of remuneration, bonuses and the value of other benefits (excluding pension rights) under the actuary's contract of employment with Aviva Employment Services Limited for the year to 31 December 2006 was £272,465. Under the contract he was:

With-profits actuary of:-

Commercial Union Life Assurance Company Limited
CGNU Life Assurance Limited
Norwich Union Life (RBS) Limited
Norwich Union Life & Pensions Limited

- (d) Pensions and life assurance benefits as provided to all employees under the terms and conditions of the Aviva Companies' UK Pensions Schemes. Sickness and accident benefits as provided to all employees under the terms and conditions of these schemes.

Certificate by the directors required by IPRU (INS) 9.34(1) and IPRU (INS) Appendix 9.6

Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st 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), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.

- 2 (a) in 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 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.

..... **M S HODGES**
Chief Executive

..... **N A NICANDROU**
Director

..... **J R LISTER**
Director

Returns under the Accounts and Statements Rules

Independent auditor's report to the directors pursuant to rule 9.35 of the Accounts and Statements Rules

Name of insurer **Commercial Union Life Assurance Company Limited**

Global Business

Financial year ended **31st December 2006**

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 to 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 ("the Act").

- Forms 2, 3, 13 to 19, 40 to 43, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by rule 9.29 ("the statement"); and
- the reports required by rule 9.31 ("the valuation reports").

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

- a) Forms 46, 47, 50 to 54, 57, 59A and 59B (including the supplementary notes);
- b) the statements required by rules 9.30 and 9.36; and
- c) 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 the valuation reports) under the provisions of the Rules. Under rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports meet these requirements, and to report our opinion to you. We also report to you if, in our opinion, 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 statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 29 March 2007. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statement and the valuation reports.

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

In accordance with rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be audited 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.

Returns under the Accounts and Statements Rules

Independent auditor's report to the directors pursuant to rule 9.35 of the Accounts and Statements Rules

Name of insurer **Commercial Union Life Assurance Company Limited**

Global Business

Financial year ended **31st December 2006**

Opinion

In our opinion:

- (a) the Forms, the statement and the valuation reports fairly state the information provided on the basis required by the Rules and have been properly prepared in accordance with the provisions of those rules ; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with rule 9.31 appropriately reflect the requirements of INSPRU 1.2 and 1.3.

Ernst & Young LLP
Registered Auditor
London
30 March 2007