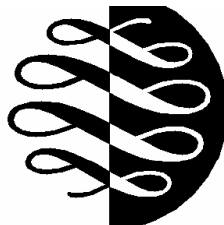


Commercial Union Life Assurance Company Limited

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

**Annual FSA Insurance Returns for the year ended
31st December 2005**



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Global Business

Financial year ended **31st December 2005****Contents**

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

Global Business

Financial year ended **31st December 2005**

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

Global business

Financial year ended **31st December 2005**

Solo solvency calculation

R2	Company registration number 79678	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2005	
		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	3312005	2153732
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	26663	29801
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	3338668	2183533

Guarantee Fund

Guarantee Fund requirement	21	203827	208508
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	3134841	1975025

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	517432	529751
Resilience capital requirement	32	20165	
Base capital resources requirement	33	2030	2087
Individual minimum capital requirement	34	537597	529751
Capital requirements of regulated related undertakings	35	31350	31924
Minimum capital requirement (34 + 35)	36	568947	561675
Excess (deficiency) of available capital resources to cover 50% of MCR	37	3054195	1902696
Excess (deficiency) of available capital resources to cover 75% of MCR	38	2911958	1762277

Enhanced capital requirement

With-profits insurance capital component	39	1485603	398258
Enhanced capital requirement	40	2054550	959933

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	2054550	959933
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	1284118	1223600

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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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 2005**

..... **P J R SNOWBALL**
Chief Executive

..... **K W ABERCROMBY**
Director

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

30 March 2006

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

Global business

Financial year ended **31st December 2005**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	79678	GL	31	12	2005	£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		

Core tier one capital

Permanent share capital	11		3175	3175	3175
Profit and loss account and other reserves	12		34673	34673	37912
Share premium account	13				
Positive valuation differences	14		1488548	1488548	
Fund for future appropriations	15		1844334	1844334	2198167
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		3370730	3370730	2239254

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		3370730	3370730	2239254
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				24598
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				24598
Total tier one capital after deductions (31-37)	39		3370730	3370730	2214656

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

Global business

Financial year ended **31st December 2005**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	79678	GL	31	12	2005	£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 ended **31st December 2005**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	79678	GL	31	12	2005	£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		3370730	3370730	2214656
Inadmissible assets other than intangibles and own shares	73		15118	15118	21143
Assets in excess of market risk and counterparty limits	74		16944	16944	9980
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		3338668	3338668	2183533

Available capital resources for PRU tests

Available capital resources for guarantee fund requirement	81		3338668	3338668	2183533
Available capital resources for 50% MCR requirement	82		3338668	3338668	2183533
Available capital resources for 75% MCR requirement	83		3338668	3338668	2183533

Financial engineering adjustments

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93		39087	39087	48328
Outstanding contingent loans	94				
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	96		(39087)	(39087)	(48328)

Calculation of general insurance capital requirement - premiums amount and brought forward amountName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2005**

Long-term insurance business

	Company registration number	GL/UK/CM	Period ended			Units
			day	month	year	
R11	79678	GL	31	12	2005	£000
		This financial year		Previous year		
		1		2		
Gross premiums written	11					13469
Premium taxes and levies (included in line 11)	12					
Premiums receivable net of taxes and levies (11-12)	13					13469
Premiums for classes 11, 12 or 13 (included in line 13)	14					
Premiums for "actuarial health insurance" (included in line 13)	15					
Sub-total A (13 + 1/2 14 - 2/3 15)	16					13469
Gross premiums earned	21					13469
Premium taxes and levies (included in line 21)	22					
Premiums earned net of taxes and levies (21-22)	23					13469
Premiums for classes 11, 12 or 13 (included in line 23)	24					
Premiums for "actuarial health insurance" (included in line 23)	25					
Sub-total H (23 + 1/2 24 - 2/3 25)	26					13469
Sub-total I (higher of sub-total A and sub-total H)	30					13469
Adjusted Sub-total I if financial year is not a 12 month period to produce an annual figure	31					
Division of gross adjusted premiums amount: sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32				2424
	Excess (if any) over 50M EURO x 0.02	33				
Sub-total J (32-33)	34					2424
Claims paid in period of 3 financial years	41					23945
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42				
	For insurance business accounted for on an accident year basis	43				31393
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44				
	For insurance business accounted for on an accident year basis	45				43315
Sub-total C (41+42+43-44-45)	46					12023
Amounts recoverable from reinsurers in respect of claims included in Sub-total C	47					4136
Sub-total D (46-47)	48					7887
Reinsurance ratio (Sub-total D / sub-total C or, if more, 50% or, if less, 100%)	49					65.60
Premiums amount Sub-total J x reinsurance ratio	50					1590
Provisions for claims outstanding (before discounting and net of reinsurance)	51					26254
Brought forward amount (12.43.2 x 51.1 / 51.2 or, if less, 12.43.2)	52					1697
Greater of lines 50 and 52	53					1697

Calculation of general insurance capital requirement - claims amount and resultName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2005**

Long-term insurance business

	Company registration number	GL/UK/CM	Period ended			Units
			day	month	year	
R12	79678	GL	31	12	2005	£000
			This financial year 1		Previous year 2	
Reference period (No. of months) See PRU7.2.63R		11				36
Claims paid in reference period		21				23945
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis	22				
	For insurance business accounted for on an accident year basis	23				31393
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis	24				
	For insurance business accounted for on an accident year basis	25				43315
Claims incurred in reference period (21+22+23-24-25)		26				12023
Claims incurred for classes 11, 12 or 13 (included in 26)		27				
Claims incurred for "actuarial health insurance" (included in 26)		28				
Sub-total E (26 + 1/2 27 - 2/3 28)		29				12023
Sub-total F - Conversion of Sub-total E to annual figure (Multiply by 12 and divide by number of months in reference period)		31				4008
Division of sub-total F (gross adjusted claims amount)	X 0.26	32				1042
	Excess (if any) over 35M EURO x 0.03	33				
Sub-total G (32 - 33)		39				1042
Claims amount Sub-total G x reinsurance ratio (11.49)		41				684
Higher of premiums amount and brought forward amount (11.53)		42				1697
General insurance capital requirement (higher of lines 41 and 42)		43				1697

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

Global business

Financial year ended **31st December 2005**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	2005	£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		10919		432
	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 2005**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	2005	£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		5961		6252
		Due in more than 12 months		79				
Other assets								
Tangible assets				80				
Deposits not subject to time restriction on withdrawal with approved institutions				81		11937		25277
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		28817		31961

Analysis of admissible assets

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

Global business

Financial year ended **31st December 2005**

Category of assets **Total other than long term insurance business assets**

R13	Company registration number	GL/UK/CM	Period ended			Units	Category of assets
			day	month	year		
	79678	GL	31	12	2005	£000	1

As at the end of this financial year 1	As at the end of the previous year 2
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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	28817	31961
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	
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	(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	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
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Analysis of admissible assetsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2005**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	2005	£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		1494963		1321066
Investments in group undertakings and participating interests								
UK insurance dependants	shares			21		15996		11412
	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		14579		24106
Participating interests	shares			29				
	debts and loans			30				
Other financial investments								
Equity shares				41		7572643		7013677
Other shares and other variable yield participations				42				
Holdings in collective investment schemes				43		941890		408124
Rights under derivative contracts				44		79742		39405
Fixed interest securities	Approved			45		3334033		3861622
	Other			46		2107698		1849831
Variable interest securities	Approved securities			47		40797		39145
	Other			48		83306		28728
Participation in investment pools				49				
Loans secured by mortgages				50		52415		
Loans to public or local authorities and nationalised industries or undertakings				51				
Loans secured by policies of insurance issued by the company				52		2730		3310
Other loans				53		22603		
Bank and approved credit & financial institution deposits	One month or less withdrawal			54		123488		5000
	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 2005**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	2005	£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		637
		Property linked		59		17375		18161
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		28155		8711
		Intermediaries		72				
Salvage and subrogation recoveries				73				
Reinsurance		Accepted		74		11722		9293
		Ceded		75				
Dependants		Due in 12 months or less		76		330		115
		Due in more than 12 months		77				
Other		Due in 12 months or less		78		284850		227990
		Due in more than 12 months		79				
Other assets								
Tangible assets				80				
Deposits not subject to time restriction on withdrawal with approved institutions				81				114725
Cash in hand				82				
Other assets (particulars to be specified by way of supplementary note)				83				
Accrued interest and rent				84		83915		90536
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		16313889		15075594

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

Global business

Financial year ended **31st December 2005**Category of assets **Total long term insurance business assets**

R13	Company registration number 79678	GL/UK/CM GL	Period ended			Units £000	Category of assets 10
			day	month	year		
			31	12	2005		

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	16313889	15075594
Assets in excess of market and counterparty limits	92	16944	9980
Capital resources requirement deduction of regulated related undertakings	93	31350	31924
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	36400	
Reinsurers' share of technical provisions excluded from line 89	99	1428482	
Other asset adjustments (may be negative)	100	(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	17822772	

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	14579	24106
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Analysis of admissible assets

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

Global business

Financial year ended **31st December 2005**

Category of assets **Commercial Union Life Fund**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2005	£000	11
Investments							As at the end of this financial year 1	As at the end of the previous year 2
Land and buildings				11		1494963		1321066
Investments in group undertakings and participating interests								
UK insurance dependants	shares			21		15996		11412
	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		14579		24106
Participating interests	shares			29				
	debts and loans			30				
Other financial investments								
Equity shares				41		7572643		7013677
Other shares and other variable yield participations				42				
Holdings in collective investment schemes				43		941890		408124
Rights under derivative contracts				44		79742		39405
Fixed interest securities	Approved			45		3334033		3764474
	Other			46		2107698		1849831
Variable interest securities	Approved securities			47		40797		39145
	Other			48		83306		28728
Participation in investment pools				49				
Loans secured by mortgages				50		52415		
Loans to public or local authorities and nationalised industries or undertakings				51				
Loans secured by policies of insurance issued by the company				52		2730		3310
Other loans				53		22603		
Bank and approved credit & financial institution deposits	One month or less withdrawal			54		123488		5000
	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 2005**Category of assets **Commercial Union Life Fund**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2005	£000	11
						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		637
		Property linked		59		17375		18161
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		28155		6142
		Intermediaries		72				
Salvage and subrogation recoveries				73				
Reinsurance		Accepted		74		11722		9293
		Ceded		75				
Dependants		Due in 12 months or less		76		330		115
		Due in more than 12 months		77				
Other		Due in 12 months or less		78		284850		227405
		Due in more than 12 months		79				
Other assets								
Tangible assets				80				
Deposits not subject to time restriction on withdrawal with approved institutions				81				114725
Cash in hand				82				
Other assets (particulars to be specified by way of supplementary note)				83				
Accrued interest and rent				84		83915		89388
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		16313889		14974144

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

Global business

Financial year ended **31st December 2005**Category of assets **Commercial Union Life Fund**

R13	Company registration number 79678	GL/UK/CM GL	Period ended			Units £000	Category of assets 11
			day	month	year		
			31	12	2005		

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	16313889	14974144
Assets in excess of market and counterparty limits	92	16944	9980
Capital resources requirement deduction of regulated related undertakings	93	31350	31924
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	36400	
Reinsurers' share of technical provisions excluded from line 89	99	1428482	
Other asset adjustments (may be negative)	100	(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	17822772	

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	14579	24106
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Analysis of admissible assets

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

Global business

Financial year ended **31st December 2005**

Category of assets **Permanent Health Fund**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2005	£000	12
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				97148
	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				
	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 2005**Category of assets **Permanent Health Fund**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	79678	GL	31	12	2005	£000	12
							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				2569
		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				585
		Due in more than 12 months		79				
Other assets								
Tangible assets				80				
Deposits not subject to time restriction on withdrawal with approved institutions				81				
Cash in hand				82				
Other assets (particulars to be specified by way of supplementary note)				83				
Accrued interest and rent				84				1148
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				101450

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

Global business

Financial year ended **31st December 2005**Category of assets **Permanent Health Fund**

R13	Company registration number	GL/UK/CM	Period ended			Units	Category of assets
			day	month	year		
	79678	GL	31	12	2005	£000	12

						As at the end of this financial year 1	As at the end of the previous year 2
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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		101450
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100		
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		

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		
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Long term insurance business liabilities and marginsName of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31st December 2005**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	11925617	12409430
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	11925617	12409430
Claims outstanding	Gross amount	15	43524	44309
	Reinsurers' share	16		
	Net (15-16)	17	43524	44309
Provisions	Taxation	21	270670	75506
	Other	22		686
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	52739	116645
	Reinsurance accepted	32		
	Reinsurance ceded	33		3792
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36	1068	1297
Creditors	Taxation	37	61182	107327
	Other	38	309435	85753
Accruals and deferred income		39	15822	16257
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	754440	451572
Excess of the value of net admissible assets		51	3280656	2113142
Total liabilities and margins		59	15960713	14974144

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	100111	13621
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	17375	18161

Total liabilities (11+12+49)	71	12680057	12861002
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 2005**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	353176	
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	353176	
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	353176	

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	353176	
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 2005**Fund **Permanent Health**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	63234
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12	
Balance of surplus/(valuation deficit)		13	20
Long term insurance business fund carried forward (11 to 13)		14	63254
Claims outstanding	Gross amount	15	1
	Reinsurers' share	16	
	Net (15-16)	17	1
Provisions	Taxation	21	209
	Other	22	
Deposits received from reinsurers		23	
Creditors	Direct insurance business	31	56
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions		36	
Creditors	Taxation	37	3017
	Other	38	26266
Accruals and deferred income		39	
Provision for "reasonably foreseeable adverse variations"		41	
Total other insurance and non-insurance liabilities (17 to 41)		49	29549
Excess of the value of net admissible assets		51	8647
Total liabilities and margins		59	101450
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		61	11263
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		62	
Total liabilities (11+12+49)		71	92783
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 2005****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	12278793	12472664
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13		20
Long term insurance business fund carried forward (11 to 13)		14	12278793	12472684
Claims outstanding	Gross amount	15	43524	44310
	Reinsurers' share	16		
	Net (15-16)	17	43524	44310
Provisions	Taxation	21	270670	75715
	Other	22		686
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	52739	116701
	Reinsurance accepted	32		
	Reinsurance ceded	33		3792
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36	1068	1297
Creditors	Taxation	37	61182	110344
	Other	38	309435	112019
Accruals and deferred income		39	15822	16257
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	754440	481121
Excess of the value of net admissible assets		51	3280656	2121789
Total liabilities and margins		59	16313889	15075594
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		61	100111	24884
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		62	17375	18161
Total liabilities (11+12+49)		71	13033233	12953785
Increase to liabilities - DAC related		72	24100	
Reinsurers' share of technical provisions		73	1428482	
Other adjustments to liabilities (may be negative)		74	1492623	
Capital and reserves and fund for future appropriations		75	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	17822772	

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

Global business

Financial year ended **31st December 2005**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R15	79678	GL	31	12	2005	£000
						As at the end of this financial year 1	As at the end of the previous year 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	93	100
	Recommended dividend	48		
	Other	49	2061	2060
Accruals and deferred income		51		
Total (19 to 51)		59	2154	2160
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	2154	2160

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		71		
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Reinsurers' share of DAC		81		
Amounts deducted from technical provisions for discounting		82		
Other adjustments (may be negative)		83	(2061)	
Capital and reserves		84	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	37941	

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

Global business

Financial year ended **31st December 2005**

R16	Company registration number 79678	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2005	

			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	22423	25551
Investment income	Income	14	312	332
	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	22735	25883
Tax on profit or loss on ordinary activities		31	93	100
Profit or loss on ordinary activities after tax (29-31)		39	22642	25783
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	22642	25783
Dividends (paid and proposed)		51	25863	86200
Profit or loss retained for the financial year (49-51)		59	(3221)	(60417)

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

Global business

Financial year ended **31st December 2005**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	2005	£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	Fixed-interest securities	11		3845				2185	
	Equity shares	12							
	Land	13							
	Currencies	14	5141	18787	37352			14159	
	Other	15							
Futures contracts	Fixed-interest securities	21	64963						
	Equity shares	22	7668						
	Land	23							
	Currencies	24							
	Other	25							
Options	Fixed-interest securities	31							
	Equity shares	32	889	7085				10812	
	Land	33							
	Currencies	34		191					
	Other	35							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32	889	7085				10812	
	Land	33							
	Currencies	34		191					
	Other	35							
Adjustments for variation margin		41	1081	3785			2053		31
Total (11 to 41)		49	79742	33693			39405		27187

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

Global business

Financial year ended **31st December 2005**Category of assets **Commercial Union Life Fund**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	79678	GL	31	12	2005	£000	11
		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	Fixed-interest securities	11		3845				2185	
	Equity shares	12							
	Land	13							
	Currencies	14	5141	18787	37352			14159	
	Other	15							
Futures contracts	Fixed-interest securities	21	64963						
	Equity shares	22	7668						
	Land	23							
	Currencies	24							
	Other	25							
Options	Fixed-interest securities	31							
	Equity shares	32	889	7085				10812	
	Land	33							
	Currencies	34		191					
	Other	35							
Contracts for differences	Fixed-interest securities	41							
	Equity shares	42							
	Land	43							
	Currencies	44							
	Other	45							
Adjustments for variation margin		41	1081	3785			2053		31
Total (11 to 41)		49	79742	33693			39405		27187

With-profits insurance capital component for the fund

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31st December 2005**
 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
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Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	16313889	14974144
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of non-profit insurance contracts written in the fund	13	1935344	1780973
	Long-term admissible assets of the fund covering the long-term insurance capital requirement allocated in respect of non-profit insurance contracts written in fund	14	98704	92815
	Long-term admissible assets of the fund covering the resilience capital requirement allocated in respect of non-profit insurance contracts written in fund	15	3178	
	Total (11+12-(13+14+15))	19	14276663	13100356
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	10343449	10628457
	Regulatory current liabilities of the fund	22	754440	451572
	Total (21+22)	29	11097889	11080029
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	418729	432036
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32	16987	
Sum of regulatory value of liabilities, long-term insurance capital requirement and resilience capital requirement (29+31+32)		39	11533605	11512065
Regulatory excess capital (19-39)		49	2743058	1588291

Realistic excess capital

Realistic excess capital	51	1257455	1190033
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1485603	398258
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		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63 and zero; else greater of 61 and zero)	64	1485603	398258

Realistic balance sheet

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31st December 2005**
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
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Realistic value of assets available to the fund

Regulatory value of assets	11	14276663	13100355
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13	15996	11412
Excess admissible assets	21	16944	9980
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	393938	372648
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	11412
Prepayments made from the fund	25		
Realistic value of assets of the fund (11+21+22+23+24+25-(12+13))	26	14687545	13482983
Support arrangement assets	27		
Assets available to the fund (26+27)	29	14687545	13482983

Realistic value of liabilities of fund

With-profits benefits reserve	31	10957680	10386083	
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		
	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		33621
	Future costs of contractual guarantees (other than financial options)	41	502804	517192
	Future costs of non-contractual commitments	42	219371	192692
	Future costs of financial options	43	220292	178448
	Future costs of smoothing (possibly negative)	44	(39518)	26235
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	156058	147479
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1059007	1028425
Realistic current liabilities of the fund	51	727665	451572	
Realistic value of liabilities of the fund (31+49+51)	59	12744352	11866080	

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

Global business

Financial year ended **31st December 2005**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
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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	13430090	12292950
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	13430090	12292950
Risk capital margin for fund (62-59)	65	685738	426870
Realistic excess capital for fund (26-(59+65))	66	1257455	1190033
Realistic excess available capital for fund (29-(59+65))	67	1257455	1190033
Working capital for for fund (29-59)	68	1943193	1616903
Working capital ratio for fund (68/29)	69	13.23	11.99

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 **With Profit**Financial year ended **31st December 2005**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11	473770	675590
Investment income receivable before deduction of tax	12	632186	614406
Increase (decrease) in the value of non-linked assets brought into account	13	411653	375177
Increase (decrease) in the value of linked assets	14	(808)	32608
Other income	15	1670	
Total income	19	1518471	1697781
Expenditure			
Claims incurred	21	1506271	1251724
Expenses payable	22	104524	102572
Interest payable before deduction of tax	23	14466	3341
Taxation	24	44884	71264
Other expenditure	25		
Transfer to (from) non technical account	26	22423	25551
Total expenditure	29	1692568	1454452
Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(174097)	243329
Fund brought forward	49	12099714	12166101
Fund carried forward (39+49)	59	11925617	12409430

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 2005**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11	49391	
Investment income receivable before deduction of tax	12	23276	
Increase (decrease) in the value of non-linked assets brought into account	13	(9611)	
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	63056	
Expenditure			
Claims incurred	21	18627	
Expenses payable	22	969	
Interest payable before deduction of tax	23		
Taxation	24		
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	19596	
Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	43460	
Fund brought forward	49	309716	
Fund carried forward (39+49)	59	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 2005**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11		1035
Investment income receivable before deduction of tax	12		5672
Increase (decrease) in the value of non-linked assets brought into account	13		731
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19		7438
Expenditure			
Claims incurred	21		12571
Expenses payable	22		805
Interest payable before deduction of tax	23		122
Taxation	24		815
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29		14313
Business transfers-in	31		
Business transfers-out	32	63254	
Increase (decrease) in fund in financial year (19-29+31-32)	39	(63254)	(6875)
Fund brought forward	49	63254	70129
Fund carried forward (39+49)	59		63254

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 2005**Units **£000**

		Financial year	Previous year
		1	2
Income			
Earned premiums	11	523161	676625
Investment income receivable before deduction of tax	12	655462	620078
Increase (decrease) in the value of non-linked assets brought into account	13	402042	375908
Increase (decrease) in the value of linked assets	14	(808)	32608
Other income	15	1670	
Total income	19	1581527	1705219
Expenditure			
Claims incurred	21	1524898	1264295
Expenses payable	22	105493	103377
Interest payable before deduction of tax	23	14466	3463
Taxation	24	44884	72079
Other expenditure	25		
Transfer to (from) non technical account	26	22423	25551
Total expenditure	29	1712164	1468765
Business transfers-in	31		
Business transfers-out	32	63254	
Increase (decrease) in fund in financial year (19-29+31-32)	39	(193891)	236454
Fund brought forward	49	12472684	12236230
Fund carried forward (39+49)	59	12278793	12472684

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 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Regular premiums	11	148411	144380		292791	311275
Single premiums	12	196615	80586		277201	470092
Reinsurance - external						
Regular premiums	13		59		59	
Single premiums	14					
Reinsurance - intra-group						
Regular premiums	15	6786	51650		58436	
Single premiums	16		37727		37727	
Net of reinsurance						
Regular premiums	17	141625	92671		234296	254873
Single premiums	18	196615	42859		239474	420717
Total						
Gross	19	345026	224966		569992	781367
Reinsurance	20	6786	89436		96222	105777
Net	21	338240	135530		473770	675590

Long term insurance business : Analysis of premiumsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2005**Units **£000**

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

Long term insurance business : Analysis of premiumsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Permanent Health**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Regular premiums	11					4776
Single premiums	12					
Reinsurance - external						
Regular premiums	13					
Single premiums	14					
Reinsurance - intra-group						
Regular premiums	15					
Single premiums	16					
Net of reinsurance						
Regular premiums	17					1035
Single premiums	18					
Total						
Gross	19					4776
Reinsurance	20					3741
Net	21					1035

Long term insurance business : Analysis of premiumsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Regular premiums	11	148411	182783		331194	316051
Single premiums	12	196615	91574		288189	470092
Reinsurance - external						
Regular premiums	13		59		59	
Single premiums	14					
Reinsurance - intra-group						
Regular premiums	15	6786	51650		58436	
Single premiums	16		37727		37727	
Net of reinsurance						
Regular premiums	17	141625	131074		272699	255908
Single premiums	18	196615	53847		250462	420717
Total						
Gross	19	345026	274357		619383	786143
Reinsurance	20	6786	89436		96222	109518
Net	21	338240	184921		523161	676625

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 2005**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	157981	8223		166204	147106
Disability periodic payments	12	56	327		383	1517
Surrender or partial surrender	13	860695	282838		1143533	857010
Annuity payments	14	5945	68820		74765	102582
Lump sums on maturity	15	100490	117742		218232	225562
Total	16	1125167	477950		1603117	1333777
Reinsurance - external						
Death or disability lump sums	21		7		7	
Disability periodic payments	22		16		16	
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26		23		23	
Reinsurance - intra-group						
Death or disability lump sums	31	593	2716		3309	
Disability periodic payments	32		43		43	
Surrender or partial surrender	33	5156	60744		65900	
Annuity payments	34	2			2	
Lump sums on maturity	35		27569		27569	
Total	36	5751	91072		96823	
Net of reinsurance						
Death or disability lump sums	41	157388	5500		162888	145070
Disability periodic payments	42	56	268		324	1517
Surrender or partial surrender	43	855539	222094		1077633	795562
Annuity payments	44	5943	68820		74763	102545
Lump sums on maturity	45	100490	90173		190663	207030
Total	46	1119416	386855		1506271	1251724

Long term insurance business : Analysis of claimsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2005**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		578		578	
Disability periodic payments	12					
Surrender or partial surrender	13		12913		12913	
Annuity payments	14					
Lump sums on maturity	15		5136		5136	
Total	16		18627		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		578		578	
Disability periodic payments	42					
Surrender or partial surrender	43		12913		12913	
Annuity payments	44					
Lump sums on maturity	45		5136		5136	
Total	46		18627		18627	

Long term insurance business : Analysis of claimsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Permanent Health**Financial year ended **31st December 2005**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					
Disability periodic payments	12					12602
Surrender or partial surrender	13					
Annuity payments	14					
Lump sums on maturity	15					
Total	16					12602
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					
Disability periodic payments	42					12571
Surrender or partial surrender	43					
Annuity payments	44					
Lump sums on maturity	45					
Total	46					12571

Long term insurance business : Analysis of claimsName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st December 2005**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	157981	8801		166782	147106
Disability periodic payments	12	56	327		383	14119
Surrender or partial surrender	13	860695	295751		1156446	857010
Annuity payments	14	5945	68820		74765	102582
Lump sums on maturity	15	100490	122878		223368	225562
Total	16	1125167	496577		1621744	1346379
Reinsurance - external						
Death or disability lump sums	21		7		7	
Disability periodic payments	22		16		16	
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26		23		23	
Reinsurance - intra-group						
Death or disability lump sums	31	593	2716		3309	
Disability periodic payments	32		43		43	
Surrender or partial surrender	33	5156	60744		65900	
Annuity payments	34	2			2	
Lump sums on maturity	35		27569		27569	
Total	36	5751	91072		96823	
Net of reinsurance						
Death or disability lump sums	41	157388	6078		163466	145070
Disability periodic payments	42	56	268		324	14088
Surrender or partial surrender	43	855539	235007		1090546	795562
Annuity payments	44	5943	68820		74763	102545
Lump sums on maturity	45	100490	95309		195799	207030
Total	46	1119416	405482		1524898	1264295

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 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Commission - acquisition	11	11427	2027		13454	25990
Commission - other	12	4324	2304		6628	8787
Management - acquisition	13	5590	1933		7523	13389
Management - maintenance	14	12143	33174		45317	37992
Management - other	15	25937	5665		31602	16414
Total	16	59421	45103		104524	102572
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	11427	2027		13454	25990
Commission - other	42	4324	2304		6628	8787
Management - acquisition	43	5590	1933		7523	13389
Management - maintenance	44	12143	33174		45317	37992
Management - other	45	25937	5665		31602	16414
Total	46	59421	45103		104524	102572

Long term insurance business : Analysis of expensesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2005**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		969		969	
Management - other	15					
Total	16		969		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		969		969	
Management - other	45					
Total	46		969		969	

Long term insurance business : Analysis of expensesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Permanent Health**Financial year ended **31st December 2005**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					136
Management - acquisition	13					8
Management - maintenance	14					1676
Management - other	15					5
Total	16					1825
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					(884)
Management - acquisition	43					8
Management - maintenance	44					1676
Management - other	45					5
Total	46					805

Long term insurance business : Analysis of expensesName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Summary**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
Gross						
Commission - acquisition	11	11427	2027		13454	25990
Commission - other	12	4324	2304		6628	8923
Management - acquisition	13	5590	1933		7523	13397
Management - maintenance	14	12143	34143		46286	39668
Management - other	15	25937	5665		31602	16419
Total	16	59421	46072		105493	104397
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	11427	2027		13454	25990
Commission - other	42	4324	2304		6628	7903
Management - acquisition	43	5590	1933		7523	13397
Management - maintenance	44	12143	34143		46286	39668
Management - other	45	25937	5665		31602	16419
Total	46	59421	46072		105493	103377

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

Total business

Financial year ended **31st December 2005**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		1724		1724	
Single premium business	12	290	1676		1966	
Total	13	290	3400		3690	
Amount of new regular premiums						
Direct insurance business	21		9156		9156	
External reinsurance	22					
Intra-group reinsurance	23	745	11610		12355	
Total	24	745	20766		21511	
Amount of new single premiums						
Direct insurance business	25	948	56941		57889	
External reinsurance	26					
Intra-group reinsurance	27	195667	34633		230300	
Total	28	196615	91574		288189	

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

Total business

Financial year ended **31st December 2005**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)			40	319
400	Annuity non-profit (CPA)			234	431
500	Life UWP single premium			14	173
700	Life property linked single premium			2	25

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

Total business

Financial year ended **31st December 2005**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
325	Level term assurance		111		
330	Decreasing term assurance		64		
415	Collective Life		415		1746
500	Life UWP single premium				114202
525	Individual pensions UWP		63		770
530	Individual pensions UWP - increments		92		
575	Miscellaneous UWP				78949

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

Total business

Financial year ended **31st December 2005**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)			1070	22883
410	Group Life				266
525	Individual pensions UWP	57	94	36	197
530	Individual pensions UWP - increments		489		651
535	Group money purchase pensions UWP	63	277	15	214
540	Group money purchase pensions UWP - increments		1079		918
565	DWP National Insurance rebates UWP				8314
575	Miscellaneous UWP	40	490	33	3991
725	Individual pensions property linked	465	203	153	520
730	Individual pensions property linked - increments		971		3242
735	Group money purchase pensions property linked	1099	2983	369	507

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

Total business

Financial year ended **31st December 2005**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		2570		1717
745	DWP National Insurance rebates property linked				12515

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

Total business

Financial year ended **31st December 2005**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		1999		8986
530	Individual pensions UWP - increments		1168		9805
535	Group money purchase pensions UWP		4614		2664
540	Group money purchase pensions UWP - increments		3829		7721
565	DWP National Insurance rebates UWP				4801
571	Trustee investment plan UWP				656

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 2005**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	1001256	1001256	40535	4.05	
Other fixed interest securities	13	1017936	1017936	51329	5.04	
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18					
Total	19	2019192	2019192	91864	4.55	
Assets backing with-profits liabilities and with-profits capital requirement						
Land and buildings	21	1494963	2222129	64168	4.61	20.62
Approved fixed interest securities	22	2371411	1693400	120500	3.81	9.67
Other fixed interest securities	23	1129468	1291180	71575	4.73	10.77
Variable interest securities	24	124699	174387	4629	3.04	7.68
UK listed equity shares	25	5481702	5592327	160843	4.05	22.02
Non-UK listed equity shares	26	1364508	1935538	38981	3.99	30.83
Unlisted equity shares	27	742429	153940	40	0.72	
Other assets	28	1567483	1213762	11746	3.99	
Total	29	14276663	14276663	472482	4.11	18.23
Overall return on with-profits assets						
Post investment costs but pre-tax	31					18.1
Return allocated to non taxable 'asset shares'	32					17.89
Return allocated to taxable 'asset shares'	33					14.93

Long term insurance business : Non-linked assetsName of insurer **Commercial Union Life Assurance Company Limited**Category of assets **Commercial Union Life Fund**Financial year ended **31st December 2005**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	1001256	1001256	40535	4.05	
Other fixed interest securities	13	1017936	1017936	51329	5.04	
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18					
Total	19	2019192	2019192	91864	4.55	
Assets backing with-profits liabilities and with-profits capital requirement						
Land and buildings	21	1494963	2222129	64168	4.61	20.62
Approved fixed interest securities	22	2371411	1693400	120500	3.81	9.67
Other fixed interest securities	23	1129468	1291180	71575	4.73	10.77
Variable interest securities	24	124699	174387	4629	3.04	7.68
UK listed equity shares	25	5481702	5592327	160843	4.05	22.02
Non-UK listed equity shares	26	1364508	1935538	38981	3.99	30.83
Unlisted equity shares	27	742429	153940	40	0.72	
Other assets	28	1567483	1213762	11746	3.99	
Total	29	14276663	14276663	472482	4.11	18.23
Overall return on with-profits assets						
Post investment costs but pre-tax	31					18.1
Return allocated to non taxable 'asset shares'	32					17.89
Return allocated to taxable 'asset shares'	33					14.93

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 2005**Units **£000**

		Value of assets	Mean term	Yield before adjustment	Yield after adjustment
		1	2	3	4
UK government approved fixed interest securities	11	2519387	10.48	3.97	3.00
Other approved fixed interest securities	21	175269	10.89	2.91	2.91
Other fixed interest securities					
AAA/Aaa	31	305704	8.12	4.69	4.60
AA/Aa	32	579973	8.36	4.93	4.65
A/A	33	727911	6.74	4.73	4.41
BBB/Baa	34	560945	7.02	4.99	4.32
BB/Ba	35	49684	5.51	6.37	4.69
B/B	36	56848	6.15	4.17	1.07
CCC/Caa	37	4118	10.15	4.17	
Other (including unrated)	38	23933	7.97	5.64	4.95
Total other fixed interest securities	39	2309116	7.38	4.87	4.40
Approved variable interest securities	41	41192	9.35	1.64	1.64
Other variable interest securities	51	133195	28.06	3.47	2.78
Total (11+21+39+41+51)	61	5178159	9.55	4.30	3.60

Long term insurance business : Fixed and variable interest assetsName of insurer **Commercial Union Life Assurance Company Limited**Category of assets **Commercial Union Life Fund**Financial year ended **31st December 2005**Units **£000**

		Value of assets	Mean term	Yield before adjustment	Yield after adjustment
		1	2	3	4
UK government approved fixed interest securities	11	2519387	10.48	3.97	3.00
Other approved fixed interest securities	21	175269	10.89	2.91	2.91
Other fixed interest securities					
AAA/Aaa	31	305704	8.12	4.69	4.60
AA/Aa	32	579973	8.36	4.93	4.65
A/A	33	727911	6.74	4.73	4.41
BBB/Baa	34	560945	7.02	4.99	4.32
BB/Ba	35	49684	5.51	6.37	4.69
B/B	36	56848	6.15	4.17	1.07
CCC/Caa	37	4118	10.15	4.17	
Other (including unrated)	38	23933	7.97	5.64	4.95
Total other fixed interest securities	39	2309116	7.38	4.87	4.40
Approved variable interest securities	41	41192	9.35	1.64	1.64
Other variable interest securities	51	133195	28.06	3.47	2.78
Total (11+21+39+41+51)	61	5178159	9.55	4.30	3.60

Long term insurance business : Summary of mathematical reserves

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

Total business/subfund **With Profit**

Financial year ended **31st December 2005**

Units **£000**

		UK Life	UK Pension	Overseas	Total Financial Year	Total Previous Year
		1	2	3	4	5
Gross						
Form 51 - with-profits	11	1261579	606339		1867918	1793310
Form 51 - non-profit	12	317020	1528050	39087	1884157	1729716
Form 52	13	5873487	2040352		7913839	8300059
Form 53 - linked	14	86512	1345158		1431670	1229595
Form 53 - non-linked	15	194	58107		58301	69209
Form 54 - linked	16		659		659	637
Form 54 - non-linked	17		65		65	49
Total	18	7538792	5578730	39087	13156609	13122575
Reinsurance - external						
Form 51 - with-profits	21	396			396	
Form 51 - non-profit	22	12324	21		12345	
Form 52	23		461		461	
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	12720	482		13202	
Reinsurance - intra-group						
Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34	85281	1327300		1412581	
Form 53 - non-linked	35		13348		13348	
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	85281	1340648		1425929	
Net of reinsurance						
Form 51 - with-profits	41	1261183	606339		1867522	1792659
Form 51 - non-profit	42	304696	1528029	39087	1871812	1716136
Form 52	43	5873487	2039891		7913378	8299588
Form 53 - linked	44	1231	17858		19089	19226
Form 53 - non-linked	45	194	44759		44953	44924
Form 54 - linked	46		659		659	637
Form 54 - non-linked	47		65		65	49
Total	48	7440791	4237600	39087	11717478	11873219

Long term insurance business : Summary of mathematical reserves

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

Total business/subfund **Stakeholder**

Financial year ended **31st December 2005**

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		341893		341893	300327
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16					
Form 54 - non-linked	17					
Total	18		341893		341893	300327
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		341893		341893	300327
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46					
Form 54 - non-linked	47					
Total	48		341893		341893	300327

Long term insurance business : Summary of mathematical reserves

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

Total business/subfund **Permanent Health**

Financial year ended **31st December 2005**

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					103098
Form 52	13					
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16					
Form 54 - non-linked	17					
Total	18					103098
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					63234
Form 52	43					
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46					
Form 54 - non-linked	47					
Total	48					63234

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 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial Year	Total Previous Year
		1	2	3	4	5
Gross						
Form 51 - with-profits	11	1261579	606339		1867918	1793310
Form 51 - non-profit	12	317020	1528050	39087	1884157	1832814
Form 52	13	5873487	2382245		8255732	8600386
Form 53 - linked	14	86512	1345158		1431670	1229595
Form 53 - non-linked	15	194	58107		58301	69209
Form 54 - linked	16		659		659	637
Form 54 - non-linked	17		65		65	49
Total	18	7538792	5920623	39087	13498502	13526000
Reinsurance - external						
Form 51 - with-profits	21	396			396	
Form 51 - non-profit	22	12324	21		12345	
Form 52	23		461		461	
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	12720	482		13202	
Reinsurance - intra-group						
Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34	85281	1327300		1412581	
Form 53 - non-linked	35		13348		13348	
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	85281	1340648		1425929	
Net of reinsurance						
Form 51 - with-profits	41	1261183	606339		1867522	1792659
Form 51 - non-profit	42	304696	1528029	39087	1871812	1779370
Form 52	43	5873487	2381784		8255271	8599915
Form 53 - linked	44	1231	17858		19089	19226
Form 53 - non-linked	45	194	44759		44953	44924
Form 54 - linked	46		659		659	637
Form 54 - non-linked	47		65		65	49
Total	48	7440791	4579493	39087	12059371	12236780

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

Global business

Total business

Financial year ended **31st December 2005**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 **Commercial Union Life Fund**Financial year ended **31st December 2005**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	1178989	3.10	3.43	4.31
UK L&GA NP Form 51 assurances	119870	2.90	3.63	4.16
UK L&GA NP Form 51 in payment annuities	102396		4.20	4.35
UK L&GA NP Form 51 deferred annuities	42144		3.60	4.16
UK Pens WP Form 51	606508		3.90	4.31
UK Pens NP Form 51	523203		3.60	4.16
UK Pens NP Form 51 in payment annuities	1004825		4.20	4.35
UK L&GA WP Form 52	5769232	3.55	3.93	4.31
UK Pens WP Form 52	2083944		4.15	4.31
OS L&GA WP Form 52	243945		4.15	4.31
UK Pens NP Form 53	44823		3.90	4.16
Misc	205738	n/a	n/a	
Total:	11925617	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 2005**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	353176		4.15	4.31
Total:	353176	n/a	n/a	n/a

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 2005**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11	11925617	12099714
Bonus payments in anticipation of a surplus	12	(3371)	7730
Transfer to non-technical account	13	22423	25551
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	11944669	12132995
Mathematical reserves	21	11717478	11873219
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29	227191	259776
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	227191	259776
Total	39	227191	259776
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41	(3371)	7730
Cash bonuses	42		
Reversionary bonuses	43	208139	226495
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	204768	234225
Net transfer out of fund/part of fund	47	22423	25551
Total distributed surplus (46+47)	48	227191	259776
Surplus carried forward	49		
Total (48+49)	59	227191	259776
Percentage of distributed surplus allocated to policyholders			
Current year	61	90.13	90.16
Current year - 1	62	90.16	90.17
Current year - 2	63	90.17	90.14
Current year - 3	64	90.14	90.04

Long term insurance business : distribution of surplusName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Stakeholder**Financial year ended **31st December 2005**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11	353176	309716
Bonus payments in anticipation of a surplus	12	836	(211)
Transfer to non-technical account	13		
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	354012	309505
Mathematical reserves	21	341893	300327
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29	12119	9178
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	12119	9178
Total	39	12119	9178
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41	836	(211)
Cash bonuses	42		
Reversionary bonuses	43	11283	9389
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	12119	9178
Net transfer out of fund/part of fund	47		
Total distributed surplus (46+47)	48	12119	9178
Surplus carried forward	49		
Total (48+49)	59	12119	9178
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 : distribution of surplusName of insurer **Commercial Union Life Assurance Company Limited**Total business/subfund **Permanent Health**Financial year ended **31st December 2005**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11		63254
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15		63254
Mathematical reserves	21		63234
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29		20
Composition of Surplus			
Balance brought forward	31		20
Transfer from non-technical account	32		
Transfer from other funds/parts of funds	33		
Surplus arising since the last valuation	34		
Total	39		20
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund/part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49		20
Total (48+49)	59		20
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 **Summary**Financial year ended **31st December 2005**Units **£000**

		Financial year	Previous year
		1	2
Valuation result			
Fund carried forward	11	12278793	12472684
Bonus payments in anticipation of a surplus	12	(2535)	7519
Transfer to non-technical account	13	22423	25551
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	12298681	12505754
Mathematical reserves	21	12059371	12236780
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29	239310	268974
Composition of Surplus			
Balance brought forward	31		20
Transfer from non-technical account	32		
Transfer from other funds/parts of funds	33		
Surplus arising since the last valuation	34	239310	268954
Total	39	239310	268974
Distribution of Surplus			
Bonus paid in anticipation of a surplus	41	(2535)	7519
Cash bonuses	42		
Reversionary bonuses	43	219422	235884
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	216887	243403
Net transfer out of fund/part of fund	47	22423	25551
Total distributed surplus (46+47)	48	239310	268954
Surplus carried forward	49		20
Total (48+49)	59	239310	268974
Percentage of distributed surplus allocated to policyholders			
Current year	61	90.63	90.50
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

Long-term insurance business: With-profits payouts on maturity (normal retirement)Name of insurer **Commercial Union Life Assurance Company Limited**Original insurer **Commercial Union Life Assurance Company Limited**Date of maturity value/open market option **1st March 2006**

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	6987	749	N/A	CWP	N	6987
Endowment assurance	15	12072	0	N/A	CWP	N	12072
Endowment assurance	20	21849	0	N/A	CWP	N	21849
Endowment assurance	25	50489	8763	N/A	CWP	N	50489
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	31063	1673	0	UWP	N	31063
Regular premium pension	15	57122	5080	0	UWP	N	57122
Regular premium pension	20	114412	11338	N/A	CWP	N	114412
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	19029	1502	0	UWP	N	19029
Single premium pension	15	32764	4761	0	UWP	N	32764
Single premium pension	20	77729	20152	N/A	CWP	N	77729

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 2006**

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	5828	N/A	N/A	CWP	N	17060
Endowment assurance	15	9526	N/A	N/A	CWP	N	19654
Endowment assurance	20	19712	N/A	N/A	CWP	N	27089
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	16575	1228	0	UWP	Y	16741
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	18194	1502	0	UWP	Y	18194

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

Global business

Financial year ended **31st December 2005**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							
Classes I, II and IX	11	0.1%	307552	307552	0.84	258	278
Classes I, II and IX	12	0.15%					
Classes I, II and IX	13	0.3%	6443527	5346167		16188	18750
Classes III, VII and VIII	14	0.3%	286567	286567	1.00	860	1530
Total	15		7037646	5940286		17306	20558
Insurance health risk capital component							
Class IV and supplementary classes 1 and 2	21						1697
Insurance expense risk capital component							
Classes I, II and IX	31	1%	4357147	4344404	1.00	43444	40127
Classes III, VII and VIII (investment risk)	32	1%	7915736	7869141	0.99	78691	83173
Classes III, VII and VIII (expenses fixed 5 yrs +)	33	1%	1357129	62617	0.85	11536	9990
Classes III, VII and VIII (other)	34	25%				1	1
Class IV	35	1%					1072
Class V	36	1%					
Class VI	37	1%	1207	1207	1.00	12	5
Total	38					133684	134368
Insurance market risk capital component							
Classes I, II and IX	41	3%	4357147	4344404	1.00	130332	120380
Classes III, VII and VIII (investment risk)	42	3%	7915736	7869141	0.99	236074	249518
Classes III, VII and VIII (expenses fixed 5 yrs +)	43	0%	1357129	62617			
Classes III, VII and VIII (other)	44	0%	86705	1424			
Class IV	45	3%					3215
Class V	46	0%					
Class VI	47	3%	1207	1207	1.00	36	15
Total	48		13717924	12278793		366442	373128
Long term insurance capital requirement	51					517432	529751

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

Global business

Financial year ended **31st December 2005****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)	16,313,889
Form 13 Line 89 (Other than long term business)	28,817
Form 14 Lines 11, 12 and 49	(13,033,233)
Form 15 Line 69	(2,154)
	<u>3,307,319</u>
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	31,350
Total i) to iv) above	<u>3,338,668</u>
Form 3, line 79	3,338,668

0307 Financial Reinsurance - accepted

The impact of the financial reinsurance shown at line 93 is to increase mathematical reserves by £39m. The amount of contingent asset for payments from cedants is £39m. The commutation value of the reinsurance arrangement at the end of the financial year is £39m.

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 PRU exceeds the valuation that the firm uses for external financial reporting purposes.	-
b) Positive valuation differences in respect of liabilities where valuation in PRU is lower than the valuation that the firm uses for external financial reporting purposes This represents mathematical reserves.	1,499,733
c) Negative valuation differences in respect of assets where valuation in PRU 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 PRU exceeds the valuation that the firm uses for external financial reporting purposes.	-
Net positive/(negative) valuation difference included in line 14/(35)	<u>1,488,548</u>

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 £849.3m in unlisted securities and £108.5m 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 £411.8m in the Commercial Union Life Fund.

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

Global business

Financial year ended **31st December 2005****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 Risk 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 10%. Unquoted holdings are limited to 2% of the fund.

Fixed

Exposure to non-government bonds is limited to holdings, which are deemed to be of a suitable investment grade determined by senior investment management. The maximum holding across all funds of a single issue is limited to 25% of the issue. Private placements are limited to 3% of the non-government bond portfolio.

Derivatives

Exposure to OTC derivatives is only undertaken with the approval of senior management.

Equity and bond futures – asset allocation	20% of fund
FX forwards – asset allocation	20% of fund
UK equity put options	0.1% of portfolio
Overseas equity put options (exc Japanese equities)	3% of relevant portfolio

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	
Gross up of intercompany balance	<u>(2,061)</u>
Long term business	
Derivatives gross up	(7,111)
Premium debt restriction	<u>2,818</u>
TOTAL	<u><u>4,293</u></u>

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

Global business

Financial year ended **31st December 2005****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 £271m 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 PRU 4.3.17R(3)

Included in line 38 is £34m relating to provision required by PRU 4.3.17R(3).

1405 Other adjustments to liabilities

	£'000
Technical provisions adjustment	1,499,734
Derivatives gross up	(7,111)
Total	<u>1,492,623</u>

1507 Other adjustments

	£'000
Gross up of intercompany balance	(2,061)

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 2005. 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 Permanent Health Fund and the Other than Long Term Insurance Business Assets Fund as there are no derivatives in these funds.

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	1,080

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 2005**

Code

4001 Differences between brought forward and carried forward amount

The previous year fund carried forward figure for both the With Profit and Stakeholder sub-funds is not equal to the current year fund brought forward figure. The difference of £309,716,000 is due to separate reporting of the Stakeholder sub-fund in the current year, which was previously reported within the With Profit fund.

4002 Other income

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

4004 Business transfers out

On 1st January 2005, the company transferred its PHI sub-fund to a fellow group undertaking, Norwich Union Life and Pensions Ltd. The transfer was undertaken in order to improve and simplify the fund structure within the Norwich Union Life Holdings group of companies.

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 £219m
	Claims £833m
	Commission £8m
	Expenses £20m
Amounts unpaid at the end of the period	£56m owed to CGNU Life Assurance Company Limited
Amounts written off in the period	£nil

Supplementary notes

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

Global business

Financial year ended **31st December 2005**

Code

4101 Previous year entries

4201 Previous year entries

4301 Previous year entries

5001 Previous year entries

Entries in the previous year column have only been completed if the entry can be obtained directly from the previous year's return. As a result, there are no entries for 'Reinsurance – external' and 'Reinsurance – intra-group'. 'Gross' and 'Net of reinsurance' entries represent the equivalent entries in the previous year's return.

4400 Form omitted

This form has been omitted.

4500 Form omitted

This form has been omitted.

4800 Form omitted

This form has been omitted for the Permanent Health fund because on 1st January 2005, the company transferred this fund to a fellow group undertaking, Norwich Union Life and Pensions Ltd.

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 £2,446,824.

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 earliest callable date.

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 PRU 4.2.34R(2) before any allowance for tax required by PRU 4.2.29R.

Loans secured by insurance policies (Form 13 Line 52)	Yield
Direct insurance debtors (Form 13 Line 71)	8.5%
Other debtors (Form 13 Line 78)	Nil
	1.0%

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.

4900 Form omitted

This form has been omitted for the Permanent Health fund because on 1st January 2005, the company transferred this fund to a fellow group undertaking, Norwich Union Life and Pensions Ltd.

Supplementary notes

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

Global business

Financial year ended **31st December 2005**

Code

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 = £137m, then any miscellaneous product codes that exceed £10m are mentioned below.

Product 435 Miscellaneous non-profit

UK Life Gross

Miscellaneous Assurance	£3.5m
Future Claims and Expenses	£7.2m
Unprocessed Movements	£23.6m
Total.....	£34.3m

Overseas Gross

Hibernian Financial Reassurance	£39.1m
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5203 Product 575 Miscellaneous UWP

UK Life Gross

Norwich Union International Limited With Profit Bond and Core Funds Bond £175.8m.

UK Pension Gross

Group Defined Benefit (Red Plan) £297.7m

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 9.4Name of insurer **Commercial Union Life Assurance Company Limited**

Global business

Financial year ended **31 December 2005****1 Introduction**

- (1) The **valuation date** is 31 December 2005.
- (2) The previous valuation was completed with an effective date of 31 December 2004.
- (3) An interim valuation was carried out with an effective date of 30 June 2005 for the purposes of Rule 9.3A.

2 Product Range

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

3 Discretionary charges and benefits

- (1) The table below shows the period during which a market value reduction (MVR) applied during 2005. 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 2005. Units purchased in a year that is not shown were not subject to an MVR during 2005.

Product	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	01/01/05 - 31/12/05	01/01/05 - 31/12/05	01/01/05 - 31/12/05
1999	01/01/05 - 31/12/05	01/01/05 - 31/12/05	01/01/05 - 31/12/05
2000	01/01/05 - 31/12/05	01/01/05 - 31/12/05	01/01/05 - 31/12/05
2001	01/01/05 - 31/12/05	01/01/05 - 05/10/05	01/01/05 - 31/12/05
2002	01/01/05 - 24/07/05	01/01/05 - 24/07/05	01/01/05 - 14/03/05
2003	(N/A)	(N/A)	(N/A)

The Company reinsured Unitised With-Profits business from the CGNU Life Assurance Company Limited (CGNU) and from Norwich Union Life (RBS) Limited (NUL(RBS)). The details about the MVR rates applied by these companies over 20045 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 3.2%.

Sterling Group Plan

The increase applied was 3.7%.

Prime Series

Policy charges were increased by 3.2%

The policy fees for Prime Retirement Plans administered on the CULIS system have remained unchanged.

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 2005**

- (6) There have been no changes to notional charges on accumulating with-profits 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 was 20% during the year to 31 December 2005.

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 7% to 17% during the year to 31 December 2005.

- (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/NUL(RBS) and reassured into CU is covered in the Appendix 9.4 document for CGNU.

- (1) Valuation methodology

£10m is less than 1% of gross mathematical reserves = £137m. 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:

Conventional Business

- 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 2005**

- 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-Profits 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.

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

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

Global business

Financial year ended **31 December 2005**(2) Valuation interest rates:

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

Product Group	Interest rate 31 December 2005	Interest rate 31 December 2004
Life Assurances		
All Conventional With-Profit business	3.1%	3.4%
All Conventional Non-Profit business	2.9%	3.2%
All Unitised With Profit business	3.55%	3.7%
Pensions and General Annuities		
Immediate Annuities (currently in payment)	4.2%	4.9%
With-Profit Deferred Annuity		
In payment	3.9%	4.3%
In deferment	3.9%	4.3%
Non-Profit Deferred Annuity		
In payment	3.6%	4.0%
In deferment	3.6%	4.0%
Pure Endowment WP	3.9%	4.3%
In-payment rate for valuing Guaranteed Annuity Options	3.9%	4.3%
Other Non-Profit Conventional business	3.6%	4.0%
All Unitised With-Profit business	4.15%	4.3%

(3) Adjustment to yield for credit riskEquity/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 0.29%. 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 0.27%.

The cap on property has been reduced from LTGY+3%. This is because the yields on CU Property are currently low (average 4.6%) compared to gilt yields, with 79% of the business having a yield below 6% and 98% having a yield below 7% (LTGY + 3%). This implies that much of the credit risk has already been taken into account in the calculation of the base running yields. An additional allowance was still deemed necessary so the cap was reduced.

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 2005.

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 9.4

Name of insurer

Commercial Union Life Assurance Company Limited

Global business

Financial year ended

31 December 2005(4) Mortality assumptions

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

Product	Mortality basis 31 December 2005	Mortality basis 31 December 2004
CULAC Life Assurances		
Whole life and Endowments DTA on Low Cost Endowment	AM92 / AF92	AM92 / AF92
Unitised With Profits	120% AM92 / AF92	AM92 / AF92
Pure Endowments	50% AM92 / 50% AF92	50% AM92 / 50% AF92
Term assurance	75% TM92 / 75% TF92 (NS) 150% TM92 / 220% TF92 (S)	75% TM92 / 75% TF92 (NS) 150% TM92 / 180% TF92 (S)
Mortgage Protection	85% TM92 / 90% TF92 (NS) 165% TM92 / 210% TF92 (S)	80% TM92 / 85% TF92 (NS) 165% TM92 / 190% TF92 (S)
CULAC: General Annuities		
Immediate Annuities – Individual	69% IML00 / 72% IFL00	70% IMA80/102% IFA80 (modified)
Immediate Annuities – Group; GAOs in payment	86% PCMA00 / 80% PCFA00 (assume all business pre 1/1/03)	81% PMA80/98% PFA80 (modified)
Individual deferred annuity In deferment Post vesting	50% AM92/ 50% AF92 69% IML00 / 72% IFL00	AM92/ AF92 – 5 years 70% IMA80/102% IFA80 (modified)
Group deferred annuity In deferment Post vesting	50% AM92/ 50% AF92 86% PCMA00 / 80% PCFA00	50% AM92/ 50% AF92 81% PMA80/98% PFA80 (modified)
CULAC: Pensions Business		
Immediate Annuities;	86% PCMA00 / 80% PCFA00	81% PMA80/98% PFA80 (modified)
GAOs in payment	86% PCMA00 / 80% PCFA00	81% PMA80/98% PFA80 (modified)
Pure Endowment	50% AM92 / 50% AF92	50% AM92 / 50% AF92
Whole Life & Endowment Insurance Group Term Assurance	AM92 / AF92	AM92 / AF92
Unitised With Profits	90% AM92 / AF92	AM92 / AF92
Term assurance	75% TM92 / 75% TF92 (NS) 150% TM92 / 220% TF92 (S)	75% TM92 / 75% TF92 (NS) 150% TM92 / 180% TF92 (S)
Deferred Annuity In deferment Post vesting	50% AM92/ 50% AF92 86% PCMA00 / 80% PCFA00	AM92/AF92 – 5 yrs 81% PMA80/98% PFA80 (modified)
Widows Death in Service In deferment Post vesting	AM92/AF92 86% PCMA00 / 80% PCFA00	AM92/AF92 81% PMA80/98% PFA80 (modified)
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 31/12/2004; from that date improvements are expected. The allowance for improvements is as follows:

	31 December 2005	31 December 2004
Males	100% of Medium Cohort, minimum 2.0%, applicable from 2005	100% of Medium Cohort, minimum 1.5%, applicable from 2003
Females	75% of Medium Cohort, minimum 1.5%, applicable from 2005	75% of Medium Cohort, minimum 1.0%, applicable from 2003

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

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 2005

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 2005	Expectation of Life for annuitant aged 75 in 2005	Expectation of Life from age 65 for annuitant aged 45 in 2005	Expectation of Life from age 65 for annuitant aged 55 in 2005
86% of PCMA00 plus 100% CML_Medium_Cohort, min 2%, applied from 2005	23.394	14.198	27.912	25.594
80% of PCFA00 plus 75% CML_Medium_Cohort, min 1.5%, applied from 2005	25.671	16.254	28.770	27.194
69% IML00 plus 100% CML_Medium_Cohort, min 2%, applied from 2005	25.705	15.945	30.096	27.849
72% IFL00 plus 75% CML_Medium_Cohort, min 1.5%, applied from 2005	27.417	17.324	30.363	28.861

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:

- 1) any possible detrimental impact of significant changes in the incidence of disease on the mortality experience of the insurer;
- 2) 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 110% of the amounts detailed in the Management Services Agreement (MSA) plus an aggregate provision of £10m. 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 2005**

The table below shows the MSA expenses as at 31 December 2004 and 31 December 2005 (excluding allowance for project costs). The figures shown will be charged to policies in 2005/2006 respectively and form the base position for the valuation expense assumptions.

CULAC		
Renewal Admin (£ per policy) (includes European business)	31 December 2005	31 December 2004
Life	26.32	25.50
Personal Pension	39.99	38.75
Unit Linked	31.46	30.48
Bond	27.13	26.29
Annuity	22.88	22.17
Group (£ per annum)	31 December 2005	31 December 2004
Defined Benefit - per scheme	6,762.19	6,552.51
Defined Benefit - per member	207.57	201.14
Money Purchase - per scheme	1,612.40	1,562.40
Money Purchase - per member	54.36	52.68
Managed Fund - per scheme	7,413.33	7,183.46
Managed Fund - per member	210.04	203.53
Old Code - per member	37.07	35.92
Group Life/Group PHI - per scheme	470.75	456.15

For reinsurance accepted from CGNU see the CGNU FSA Return.

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

Assumed future expense inflation:

3.8% per annum (NAE – 1%, as set by the MSA agreement)

Unit Linked policies: basis for non-unit reserves

	31 December 2005		31 December 2004	
	Life	Pensions	Life	Pensions
Assumed Fund Growth (before annual management charge)	4.30%	5.20%	4.00%	5.30%
Discount rate	3.20%	3.90%	3.50%	4.30%
Policy fee inflation	2.00%	2.00%	2.00%	2.00%

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	0.143%
Property	0.198%
Gilts	0.033%
Other Fixed Interest	0.077%
Cash	0.062%

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

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

Global business

Financial year ended **31 December 2005**(7) Bonus Assumptions:

Conventional With Profits business:

The Company is a realistic basis life firm. Accordingly, no allowance has been made for future annual or final bonus on Conventional With Profits business. This is consistent with 7.3.9R. There are no guarantees relating to future annual or final bonus on this business.

Unitised With Profits 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 Profits Pensions:			
Pensions	4.00%	4.00%	Units purchased prior to 1/1/1993

(8) Other basis items:Persistency

For Conventional Business, we have assumed 100% persistency until maturity.

For Unitised business, we have allowed for surrender rates consistent with the table below. This will serve to increase the reserve in certain circumstances, for example on small policies where the principal driver of the reserve is the expense loading.

An extra reserve is being held in respect of Unitised business retained/received by CULAC 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 £4m.

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.

The persistency rates used are as follows. These represent the assumptions for exits where an MVR would be applied. They apply to amounts remaining after policyholders with guaranteed benefits have taken their money (either in regular withdrawals or through a full surrender guarantee).

Lapse rate assumptions for UWP business:

The lapse rate for pensions is set at 1.5% per annum.

The lapse rates for the UWP bond are:

Policy duration (years)	Lapse rate %
6	16
7	8.5
8	8.5
9	8.5
10	7.5

Option Take-Up Rates

- **Guaranteed Annuity Rate Options:**
We have assumed that current option takeup 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 takeup' 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).

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2005**

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 business in the Company in the BLAGAB fund. No discounting has been applied to the tax rate used; this is in line with the new IFRS regulations. This reserve forms part of the Company's Accounting Liabilities as shown on Form 14.

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

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

- (9) No allowance is necessary for derivative contracts in the determination of the amount of the long-term liabilities.

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 takeup rates given in section 4.8).
- 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 takeup rates are used (as given in 4.8)
- 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 31/12/2005 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 2005

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)	88.1	4.9
(iii) Spread of O/S durations:		
Less than 1 year	1.1%	0.6%
2-5 years	13.6%	9.1%
6-10 years	27.4%	19.5%
11-20 years	42.0%	40.9%
over 20 years	15.8%	30.0%
(iv) Guarantee Reserve (£m)	68.0	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)	189.8	5.4	30.6	2.1
(iii) Spread of O/S durations:				
Less than 1 year	2.3%	1.7%	5.2%	0.0%
2-5 years	21.2%	21.6%	35.9%	22.7%
6-10 years	22.0%	18.9%	29.4%	20.3%
11-20 years	45.6%	49.5%	28.3%	51.0%
over 20 years	8.8%	8.4%	1.3%	6.0%
(iv) Guarantee Reserve (£m)	115.7	4.0	14.7	1.2
(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 Profits:*

The Company's direct-written Unitised With-Profits 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 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 2005**

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

i) *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) +

$$\max[\text{UWP fund value} - \min\{\text{Market value of annuity, Guaranteed value of annuity}\}, 0].$$

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:

$$(\text{Market value of annuity amount}) - (\text{Guaranteed value of annuity}) + \text{UWP benefit.}$$

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 takeup 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 = £192.0m

Reserve for the guarantee = £111.3m.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
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ii) *Guaranteed Minimum Pension:*

For some Unitised business (both With-Profits 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.

At the end of 2004, a reserve was calculated on an individual level for a subset of affected policies. These policies were the ones for which the data relating to the amounts of the GMP was the most robust. For each policy, the value of the Guaranteed Minimum Pension at retirement (calculated using the end-2004 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.

The amount of business invested in products that may incorporate a Guaranteed Minimum Pension guarantee is £45.3m. The reserve for the guarantee is £4m.

Bonus added over 2005 and exits over the year (from maturities / transfers / deaths) would reduce the reserve. In view of its small size we have not updated the figure at end-2005.

6 Expense reserves

- (1) The aggregate amount arising during 2006 from expense allowances is £50,990,000.

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 2006.

An allowance for investment expenses is included in the figure in 6.1.

- (2) Gross Premium Valuation has been used for all business. All allowances for expenses are explicit.
- (3) The allowance for maintenance expenses in 6.1 above exceeds the figure for expenses in line 14 of Form 43 by £4,704,000 after allowance for reinsurance. This is due to the 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.

PRU 7.3.50R 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 PRU 7.3.50R:

- 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 (2.8%) 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 2006 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.
 - An allowance was made for redundancies in departments servicing the new business areas.

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

Global business

Financial year ended **31 December 2005**

- 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 Norwich Union Life & Pensions Ltd, CGNU Life Assurance Company Ltd and Norwich Union Annuity Ltd.

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.

Assets	Life and Annuity Fund		
	Mathematical Reserves (£000)		
	Sterling	Euros	US Dollars
Sterling	12,102,661	-	-
Euro	-	88,793	-
Dollar	-	-	68,249

- (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) We have assumed in our response that the regulations referenced are 4.2.16R and 4.2.10R.
- 1) The resilience fall in UK Equity securities required under 4.2.16R(1) are as follows:
Option a) [gilt yield] = -22.1%
Option b) [90 day movement] = 25%
The lesser of these two results is option a) = -22.1%
The fall must be at least 10%, so 10% was used.
 - 2) The resilience fall in UK Property holdings required under 4.2.16R(2) is 20%.
 - 3) The resilience change for UK Fixed Interest yields required under 4.2.16R(3) is the more onerous of a flat rise / fall in the yield curve of 0.824%. A **rise** in the yield curve of 0.824% is more onerous for the fund.

- (5) Our response assumes that the instructions reference 4.2.23R and 4.2.10R.

The fund is invested in two significant territories apart from the UK: Eurozone countries (assumed to be one territory) and the USA.

For overseas territories the most onerous scenario is:

- 1) Fall in equity values of 10.5%. This figure has been derived using the UK fall of 10% combined with relative recent historical volatility of relevant equity indices.
- 2) Fall in property values of 20%.

Valuation report – IPRU (INS) Appendix 9.4

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

Global business

Financial year ended **31 December 2005**

- 3) A rise in the yield curve of 0.824% at all durations (20% of long-term gilt yield used because UK fixed interest yields have been higher in absolute terms than overseas recently, particularly European yields).

(6) Resilience Capital Requirement

The table below outlines our responses for the fund given the most onerous scenario in 7.4 and 7.5.

Appendix 9.4 item	£m
7.6(a): Resilience Capital Requirement	160.4
7.6(b): Change in long-term insurance liabilities	-984.3
7.6(c): Movement in assets selected to match liabilities	-1,144.7

The changes in assets and liabilities have been adjusted to reflect the movement in our tax provisions arising after the resilience shocks.

- (7) 7.2.34R(2): "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 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-Profits 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 2006 is £1,300m. The fund currently holds £1,250m in deposit-style assets. Premium income for 2005 was around £500m 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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2005**

claim value and the mortgage originally targeted. Top-up payments can be met from future investment earnings on the free reserves within the With-Profits 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:

- 1) 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.
- 2) The company intends that payments will be made while they can be provided for from earnings on the free reserves within the With-Profits fund. We therefore reserve on the basis that a minimum provision for the amount payable under the promise should be the historic earnings on the free reserves from 31 December 1999.

The following information has been used to calculate the reserve:

Cost of temporary promise for next 3 ½ years [A]	Historic earnings on estate [B]	Reserve =max([A],[B])
£9.69m	-£15.4m	£9.69m

The interest rate used in discounting the benefits is noted in section 4.2. No lapses or policy alterations were assumed (as either action would lead to the policyholder forfeiting the promise).

(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 £69.5m.

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
- 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: £3,305

Percentage of complaints leading to a claim: 66%

Claims processing expense: £300 per complaint

95% of policyholders will be unable to complain beyond 31/12/2007 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 £14.3m.

Valuation report – IPRU (INS) Appendix 9.4

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

Global business

Financial year ended **31 December 2005**

(4) Other

Other reserves that have been established but are less than £10m:

- Staff Pension Scheme reserve

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) This item covers a group of similar treaties.

- d) Norwich Union Life & Pensions Limited
- 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 Norwich Union Life & Pensions Limited. 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 2005 was £87,085,000.
- 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 2005.
- j) The mathematical reserves ceded under the treaties total £1,340,647,000.
- 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.

(b)

- d) Norwich Union Life & Pensions Limited
- 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 2005 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 2005.
- j) The mathematical reserves ceded under the treaties total £85,281,000.
- 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.

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

Global business

Financial year ended **31 December 2005****10 Reversionary (annual, regular) bonus**

The figures below are for business written directly by CULAC. Business reinsured in from CGNU/NUL(RBS)/NUIL is shown in section 10.1 of the Appendix 9.4 report from those companies.

(1)

Product	Amount of mathematical reserve (£m)	Regular bonus (2004)	Regular bonus (2005)	Guaranteed bonus (2005)
Conventional Life				
New series	1,139.0	0% SA/0.5% RB	0% SA/1.5% RB	0.00%
Conventional Pensions				
Red Plan Deferred Annuity	68.5	0.5% of Annuity Purchased	0.5% of Annuity Purchased	0.00%
All other Conventional Pensions business	519.9	0% SA/0% RB	0% SA/0% RB	0.00%
Unitised Life – direct written (UK)				
All units purchased	958.1	2.50%	2.87%	0.00%
Unitised Pensions – direct written				
Sterling Group Plan (deposit Admin)	100.9	4.00%	3.25%	0.00%
Units purchased pre 1/1/1993	172.3	4.00%	4.00%	4.00%
Units purchased after 31/12/1992	982.4	4.00%	3.25%	0.00%
Sterling Group Plan (UWP) (not gteed RB)	43.6	4.00%	3.35%	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.

- (2) The figures for bonus awarded on Unitised With-Profits 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) We have not used averaging 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 2005**

1.

- (1) The valuation date is 31 December 2005.
- (2) The date of the previous valuation was 31 December 2004.
- (3) An interim valuation was completed under the Prudential Sourcebook (PSB) as at 30 June 2005.

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 2005	31 December 2004
Gross Earned Rate	4.20%	4.66%
Net Earned Rate	3.36%	3.73%
Discount Rate	4.70%	5.16%
Expense Inflation	3.70%	3.77%

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.

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Global business

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Product Class	With-profit benefits reserve £m	Future Policy Related Liabilities £m	Total £m
Conventional Life		285	2,041
Asset Share (ind)	1,617		
Regulatory Reserve	21		
BRV	118		
Conventional Pensions		261	638
Asset Share (ind)	180		
Regulatory Reserve	61		
BRV	136		
Direct written UWP Life		11	1,146
Asset Share (ind)	1,134		
Direct written UWP Pensions		109	1,384
Asset Share (ind)	914		
Asset Share (group)	168		
Regulatory Reserve	192		
Reinsured-in UWP Life		181	5,291
Asset Share (ind)	4,928		
Regulatory Reserve	182		
Reinsured-in UWP Pensions		59	946
Asset Share (ind)	885		
Regulatory Reserve	2		
Reinsured-in UWP Stakeholder		12	430
Asset Share (ind)	413		
Regulatory Reserve	6		
Miscellaneous Other	0	141	141
Total	10,958	1,059	12,017

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 £116m of whole life contracts. Conventional life also includes £74m 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 £118m for conventional life relates mainly to the BRV used for the whole life policies, which are predominantly BRV. £3m 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. £57m 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.

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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 £41m 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.

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

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.

4. With-profits benefits reserve – Retrospective method

(1) Table of methods

Method	With-profit benefits reserve (%)
Asset Share (individual)	92
Asset Share (grouped)	2
BRV	2
Regulatory Reserve	4
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:

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- 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 2005 is 22,402. The number of sample model points used to derive the factors is 18 (one for each entry year).

(2) Changes in valuation method

- There have been no significant changes to the valuation methodology during 2005.
- Not applicable.

(3) Allocation of expenses

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.

					2005
	Charged to WPBR £m	Not-Charged to WPBR £m	Non-Profit expenses £m	Misc Expenses £m	Total £m
Estimated initial expenses and commission	-2	24	0	0	22
Renewal expenses and commission	97	-39	11	14	83
Shareholder Transfers	19	3	0	0	22

The above tables approximately splits out the expenses incurred over 2005.

Non-profit expenses are expenses relating to non-profit business within the fund. The amount of renewal expenses and commission not charged to the WPBR is negative because for recent UWP business asset shares are deducted policy charges which are largely fund-based charges rather than up-front, hence the initial expenses are recouped from the asset shares over the lifetime of the policy. Miscellaneous expenses relate to various expenses such as audit and development costs.

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 2005 are approximately £95m plus £19m of shareholder transfers. The majority of this relates to renewal expenses, most new business is UWP business

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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)

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.

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Financial year ended **31 December 2005****(6) Claims ratios**

Fund	Product Type	2002	2003
CULAC	Conventional	123%	118%
	UWP	109%	118%
CGNU Life – reinsured in	Conventional	128%	110%
	UWP	110%	110%

The figures for 2002 and 2003 are estimates.

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

The figures above for 2005 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 2005

CGNU Life written business 17.89%

CULAC written business 17.89%

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.

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:

Economic Assumptions

Future earned rate:	Whole Life	5.30%
	Red Plan	5.30%
Discount rate:	Whole Life	5.30%
	Red Plan	5.30%
Expense Inflation:		3.70%

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

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Future Assumed Regular Bonus Rates

Product Class	2005
Conventional Whole Life	0% SA/1.5% bonus
Conventional Red Plan	0.5% of Annuity Purchased

Future Expense Assumptions

Product Class	Renewal Expenses 2005 £m
Conventional Whole Life	£28.95
Conventional Red Plan	£39.99

Future Assumed Lapse Rates

Product Class	Policy Duration										
	%	1	2	3	4	5	6	7	8	9	10+
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	

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.

Regulatory Reserves cover 4% of the with-profit benefits reserve. The classes of business covered by this are UWP 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

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- 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

- Allowance for the roll-forward of the no-MVR guarantee, where this is not taken at the first available opportunity. This is the result of a change in practice by the firm during 2005.
- Removal of any allowance for hypothecation of returns on Fixed Interest assets depending on the duration of the policies. This is a result of a change in practice by the firm during 2005.

(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	44	219	-17
Conventional Pensions	0	0	21	0	2
Direct Written - UWP Life	0	0	12	0	-7
Direct Written - UWP Overseas	0	0	0	0	0
Direct Written - UWP Pensions	0	0	105	0	-6
Direct Written - UWP Stakeholder	0	0	0	0	0
Reinsured - UWP Life	0	0	240	0	-10
Reinsured - UWP Pensions	0	0	57	0	-5
Reinsured - UWP Stakeholder	0	0	7	0	3

The CULAC fund accepts reinsurance from the CGNU Life With Profits fund.

Planned Enhancements to WPBR

None

Planned Deductions to WPBR for other costs

None

Contractual Guarantee CostsConventional 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 = £44m

Best-estimate = £1m

Option value = 98%

Conventional life guarantees are almost completely out of the money.

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Financial year ended **31 December 2005**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 = £21m

Best-estimate = £13m

Option value = 40%

Conventional pension guarantees are reasonably in the money.

Direct Written UWP Life

This represents the cost of the payouts exceeding 100% asset share due to no-MVR guarantee under the stochastic projection for business written directly in the CU fund.

UWP Life

Year of Unit Purchase	BVU (£m)	Asset Share / BVU (%)
1992	153	143%
1993	53	124%
1994	63	129%
1995	139	126%
1996	216	113%
1997	155	111%
1998	177	100%
1999	0	96%
2000	0	0%
2001	0	0%
2002	0	0%
2003	0	0%
2004	0	0%
2005	0	0%
	958	118%

This table shows the ratio of asset share over bid value of units for the majority of the CULAC written UWP Life business as at 31 December 2005. This gives an indication of the extent of in or out of the money which varies by year of entry.

Direct Written UWP Pensions

This represents the cost of the payouts exceeding 100% asset share due to no-MVR guarantee under the stochastic projection for business written directly into the CU fund. Note that this includes the cost of any guaranteed bonus rates. This also includes the cost of the stakeholder promise whereby we have promised to deduct no more than the equivalent of 1% p.a. annual management charge to cover expenses on all unitised personal pensions from 1 April 2001.

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Financial year ended **31 December 2005****UWP Pensions**

Year of Unit Purchase	BVU (£m)	Asset Share / BVU (%)
1990	78	114%
1991	57	130%
1992	76	130%
1993	71	117%
1994	57	116%
1995	51	119%
1996	61	112%
1997	71	104%
1998	73	96%
1999	63	87%
2000	63	85%
2001	58	97%
2002	59	112%
2003	59	115%
2004	57	108%
2005	51	100%
	1,005	109%

This table shows the ratio of asset share over bid value of units for the majority of the CULAC written UWP Pensions business as at 31 December 2005. This gives an indication of the level of current guarantee costs

Reinsured in - UWP Life

This represents the cost of the payouts exceeding 100% asset share due to no-MVR guarantee under the stochastic projection for the business reassured in from CGNU Life. The table below compares asset share to BVU for all policies written in the CGNU fund with years of unit purchase of 1998 or later (not just those that have been reinsured to CU).

UWP Life

Year of Unit Purchase	BVU (£m)	Asset Share / BVU (%)
1998	385	98%
1999	816	91%
2000	1,976	87%
2001	2,615	98%
2002	1,741	112%
2003	548	119%
2004	474	114%
2005	189	108%
	8,744	100%

Reinsured in - UWP Pensions

This represents the cost of the payouts exceeding 100% asset share due to no-MVR guarantee under the stochastic projection for the business reassured in from CGNU Life. The table below compares asset share to BVU for all policies written in the CGNU fund with years of unit purchase of 1998 or later (not just those that have been reinsured to CU).

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Financial year ended **31 December 2005****UWP Pensions**

Year of Unit Purchase	BVU (£m)	Asset Share / BVU (%)
1998	157	96%
1999	167	89%
2000	200	89%
2001	516	104%
2002	235	122%
2003	117	127%
2004	95	117%
2005	73	105%
	1,560	105%

Reinsured in - UWP Stakeholder

This represents the cost of the payouts exceeding 100% asset share due to no-MVR guarantee under the stochastic projection for the business reassured in from CGNU Life. The table below compares asset share to BVU for all policies written in the CGNU fund (not just those that have been reinsured to CU).

Stakeholder

Year of Unit Purchase	BVU (£m)	Asset Share / BVU (%)
2001	123	113%
2002	180	126%
2003	132	129%
2004	142	120%
2005	73	107%
	649	121%

Non-Contractual CommitmentsConventional 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 are 6% or more, or the amount as communicated to policyholders in other circumstances.

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.

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(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 (%)
1	4.39
2	4.30
3	4.29
4	4.29
5	4.29
6	4.28
7	4.27
8	4.25
9	4.24
10	4.23
12	4.22
15	4.20
20	4.14
25	4.08
30	4.03

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 25bp at 25 years, to 42bp for three year term, the average and the spread for the 10-15year period is around 33bp.

Our decomposition of this spread is

Description	Bp - 2005
LIBOR – LIBMID (to get mid market)	6
LIBMID – repo at 3 months (credit spread)	8
Implied Repo ability	19
Total spread	33

This implies a risk free rate of gilt + 19 bp could be justified based on 31 December 2005 market conditions

However, we have used a gilt + 10bp approach to provide a margin for prudence, and for consistency with the approach used at 31 December 2004.

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.

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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: 4.20%

Annuity interest rate used: 4.00% (equal to the 9 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 various investment banks and other sources.

Term	Source 1	Source 2	Source 3
1	12.93%	13.20%	12.87%
2	14.42%	14.58%	14.11%
3	15.75%	15.84%	15.19%
4	16.81%	16.85%	
5	17.80%	17.74%	16.88%
7		19.12%	
10		20.54%	19.83%

Consistency of market pricing drops away as term increases.

The table below set out the resultant extrapolated volatility from source 1.

Term	Source 1
7	19.32%
10	20.89%
15	22.35%

The model used can only utilise a level volatility across all terms. We have used a volatility assumption of 20.00% (18.25% at 31/12/2004) 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 prudence 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%.

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Financial year ended **31 December 2005**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 investment banks)

Swap maturity	Implied volatility (%)
1	13.2
5	13.1
10	12.5
15	12.5
20	12.4
25	12.2

For the purposes of our model, we have used an implied volatility of 13.0% 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	0.53%
2	1.06%
3	1.59%
5	2.66%
7	3.75%
10	5.40%

The discounted mean term of the fixed interest assets at the date of the most recent RBS is 10.3 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 4.75%. 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.

In summary the price volatility assumptions are

	CULAC
Gilts	4.75%
Other Fixed Interest	6.75%

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 2005**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 2005.

	UK Equity	Property	European Equity	US Equity	Japanese Equity	Pacific Equity	Emerging Mkt Equity	UK Gilts: Traded	Corp Bonds: Traded	Ov/S Bonds: Traded	Cash	Bonds: Not Traded
UK Equity	1.00	0.25	0.79	0.83	0.55	0.58	0.65	0.53	0.48	0.52	0.10	0.00
Property	0.25	1.00	0.22	0.05	0.55	0.11	0.15	0.07	0.03	-0.20	-0.33	0.00
Europe	0.79	0.22	1.00	0.91	0.48	0.55	0.58	0.37	0.28	0.69	-0.10	0.00
US	0.83	0.05	0.91	1.00	0.43	0.47	0.56	0.37	0.30	0.74	0.00	0.00
Japan	0.55	0.55	0.48	0.43	1.00	0.62	0.65	0.01	0.00	0.20	-0.17	0.00
Pacific Basin	0.58	0.11	0.55	0.47	0.62	1.00	0.87	0.25	0.37	0.53	0.00	0.00
Emerging Markets	0.65	0.15	0.58	0.56	0.65	0.87	1.00	0.08	0.16	0.47	0.18	0.00
UK govt bonds	0.53	0.07	0.37	0.37	0.01	0.25	0.08	1.00	0.97	0.50	0.11	0.00
Corporate Bonds	0.48	0.03	0.28	0.30	0.00	0.37	0.16	0.97	1.00	0.51	0.12	0.00
Global Bonds	0.52	-0.20	0.69	0.74	0.20	0.53	0.47	0.50	0.51	1.00	0.13	0.00
Cash	0.10	-0.33	-0.10	0.00	-0.17	0.00	0.18	0.11	0.12	0.13	1.00	0.00
Non-Traded Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00

Asset mix / EBR management:

The initial asset mix was equal to that assigned to the asset shares of the With-Profits funds as at 31 December 2005. 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	41%	20.0%
Property	19%	15.0%
European Equities	0%	20.0%
US Equities	5%	22.2%
Japanese Equities	1%	24.0%
Pacific Basin Equities	4%	19.5%
Emerging Market Equities	2%	19.5%
UK government bonds	7%	4.8%
Corporate bonds	12%	6.8%
Global bonds	5%	6.8%
Cash	5%	0.0%
	100%	

Management of the EBR within the stochastic return projector is discussed in 6.5(a).

Returns under the Accounts and Statement Rules

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 2005**

(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	4.29%	4.20%	4.08%	3.98%	4.29%	4.20%	4.08%	3.98%	4.29%	4.20%	4.08%	3.98%
		p:												
1	Risk-free zero coupon bond		810,672	539,618	367,912	254,997	x	x	x	x	x	x	x	x
2	FTSE AllShare	1	57,998	156,882	222,212	276,679	174,416	301,984	382,541	448,213	548,507	674,869	762,332	837,764
3	FTSE AllShare	0.8	48,429	116,102	149,350	169,778	151,386	230,774	264,579	285,490	496,486	537,561	551,343	554,427
4	Property	1	34,257	95,930	146,439	190,823	134,445	226,069	291,065	344,475	524,956	599,145	661,551	718,681
5	Property	0.8	27,587	63,272	86,835	101,947	112,572	159,928	182,997	198,290	469,729	459,296	452,877	442,564
6	15 yr risk free ZCB	1	3,866	28,153	53,419	75,360	74,183	128,710	168,549	198,955	502,320	521,512	546,961	570,682
7	15 yr risk free ZCB	0.8	2,283	12,089	20,303	23,108	53,798	71,165	77,492	80,042	442,499	368,347	326,776	287,019
8	15 yr corporate	1	10,342	46,756	80,189	107,812	92,486	158,151	205,682	242,669	506,649	541,543	580,508	614,694
9	15 yr corporate	0.8	7,185	24,557	37,580	42,765	71,462	97,670	108,814	113,493	448,197	393,704	364,829	334,796
10	65% FTSE AllShare, 35% Property	1	33,762	99,596	151,283	195,405	135,726	229,335	294,507	350,192	522,460	600,973	664,128	725,372
11	65% FTSE AllShare, 35% Property	0.8	27,059	66,728	91,531	105,928	113,650	163,451	187,449	202,902	467,975	461,488	455,679	449,172
12	65% FTSE AllShare, 35% ZCB	1	32,538	100,075	155,472	202,374	135,196	233,719	303,974	362,292	524,773	609,332	680,868	745,157
13	65% FTSE AllShare, 35% ZCB	0.8	25,923	66,254	93,404	108,893	112,940	165,945	193,293	210,223	470,026	468,570	469,033	463,844
14	40% Eq, 15% prop, 22.5% ZCB, 22.5% corp	1	15,730	61,651	103,345	138,306	104,042	180,433	236,772	282,401	508,506	559,908	609,202	655,907
15	40% Eq, 15% prop, 22.5% ZCB, 22.5% corp	0.8	11,484	35,446	53,622	62,117	82,740	117,636	135,188	144,855	451,380	415,436	396,919	377,523
			L = 15				L = 20				L = 25			
16	Receiver swaptions		9.47%	10.19%	9.62%	8.91%	12.30%	13.03%	12.30%	11.58%	15.00%	15.70%	14.97%	14.16%

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 $K \times £1,000,000 \times (1+r \times p)^n$.

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 2005**

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.

Returns under the Accounts and Statement Rules

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 2005**

(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)	%																			
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023-2032	2033+	
Conventional Life																					
Base guarantee	8.9	0	5	10	8	6	10	6	5	4	7	9	3	1	1	5	14	5	3	-	100
Mortgage promise	11.5	0	0	0	0	1	3	6	7	7	8	11	12	12	10	5	6	5	6	0	100
Conventional Pensions																					
Base guarantee	10.6	4	1	3	3	4	5	7	7	8	7	8	7	6	4	6	3	3	14	0	100
GAR option	8.8	4	7	9	7	7	6	6	6	6	4	5	5	5	4	4	3	3	10	1	100
Unitised Life: Base guarantee																					
Direct	12.8	-	2	3	4	5	5	5	5	5	5	5	5	5	5	4	4	4	29	-	100
Reinsured	5.7	3	3	3	16	33	18	2	2	4	6	4	1	1	1	0	0	0	2	-	100
Unitised Pensions excl Stk: Base gtee																					
Direct	14.4	1	2	2	2	2	4	4	4	4	4	4	5	5	5	5	4	4	39	-	100
Reinsured	7.6	7	3	5	19	23	3	3	3	3	3	2	3	2	2	2	2	2	12	-	100
Stakeholder: base guarantee																					
Reinsured	12.6	-	1	3	4	5	5	6	6	5	5	5	5	5	4	4	4	4	28	-	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 2005**(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	0.994	0.995	0.972	1.016
1000 Sims result	1.010	1.017	1.011	1.021
5000 Sims result	1.009	1.010	1.006	1.006
10000 Sims result	1.004	1.005	1.001	0.999
Distribution result	1.002	1.005	1.002	1.000

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
2	FTSE AllShare: matrix approach	1	57,998	156,882	222,212	276,679	174,416	301,984	382,541	448,213	548,507	674,869	762,332	837,764
2	FTSE AllShare: Black-Scholes valuation	1	60,020	155,740	222,612	275,262	176,937	301,465	382,925	445,887	553,514	674,030	763,744	835,675
	Difference / MV(0)		-0.2%	0.1%	0.0%	0.1%	-0.3%	0.1%	0.0%	0.2%	-0.5%	0.1%	-0.1%	0.2%
4	Property: matrix approach	1	34,257	95,930	146,439	190,823	134,445	226,069	291,065	344,475	524,956	599,145	661,551	718,681
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)		0.3%	-0.2%	-0.2%	0.1%	0.1%	-0.2%	-0.1%	0.2%	0.3%	0.0%	-0.3%	0.0%
10	65% FTSE AllShare, 35% Property: matrix approach	1	33,762	99,596	151,283	195,405	135,726	229,335	294,507	350,192	522,460	600,973	664,128	725,372
10	65% FTSE AllShare, 35% Property: B-S valuation	1	32,193	100,189	151,079	192,569	134,771	231,216	295,690	346,598	523,360	602,191	667,880	723,145
	Difference / MV(0)		0.2%	-0.1%	0.0%	0.3%	0.1%	-0.2%	-0.1%	0.4%	-0.1%	-0.1%	-0.4%	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	Parameter – risk free rate	Parameter – volatility
Market Price	10.67	4.62%	17.8%
(1) adjust RFR	11.35	4.29%	17.8%
(2) adjust Volatility	12.94	4.29%	20.0%
NU Asset Model Price	12.94	4.29%	20.0%

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 (18.3%) 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 2005**

(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 a margin for prudence.

In addition, a small reserve for GMP guarantees on Section 32 Transfer policies arises. This reserve has been calculated as the statutory provision 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	126.4
Cost of transferred Red Plan	81.6
Uplift (5%)	10.4
Expense reserve	2.0
Total	220.3
Base cost of GMP gtee on S32	14.0
Uplift (15%)	2.1
Total	16.1

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.

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.

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 2005**

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 to deliver sufficient final bonus margin, subject to gradual reduction to this level by limiting annual change by (generally) no more than 1%.

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.

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 2005****(i) Projection at risk free rate**

UWP Bonus Rates

Product	31 December 2005	31 December 2010	31 December 2015
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	2.00%	2.00%	2.00%
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):	3.50%	3.50%	3.50%

Further notes on bonus rates:

Direct written business:

Units purchased on Pensions policies before 1/1/1993 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

Asset class	31 Dec 2005	31 Dec 2005	31 Dec 2010	31 Dec 2015
UK equities	4,494	41.0%	36.6%	31.2%
Overseas equities	1,282	11.7%	10.4%	8.9%
Land and buildings	2,039	18.6%	16.9%	14.5%
Approved fixed interest securities	804	7.3%	9.2%	11.6%
Other fixed interest securities	1,760	16.1%	20.2%	25.4%
All other assets	579	5.3%	6.6%	8.4%
Total assets	10,958	100.0%	100.0%	100.0%
EBR		71.3%	63.9%	54.6%

(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 2005	31 Dec 2005	31 Dec 2010	31 Dec 2015
UK equities	4,494	41.0%	37.3%	32.8%
Overseas equities	1,282	11.7%	10.6%	9.4%
Land and buildings	2,039	18.6%	17.3%	15.4%
Approved fixed interest securities	804	7.3%	8.9%	10.8%
Other fixed interest securities	1,760	16.1%	19.5%	23.8%
All other assets	579	5.3%	6.4%	7.8%
Total assets	10,958	100.0%	100.0%	100.0%
EBR		71.3%	65.2%	57.6%

(iii) Projection at risk free rate minus 17.5%

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 2005**

The same bonus rates are anticipated as in the previous projection

Assets Backing With-Profit Benefits Reserve

Asset class	31 Dec 2005	31 Dec 2005	31 Dec 2010	31 Dec 2015
UK equities	4,494	41.0%	35.8%	29.6%
Overseas equities	1,282	11.7%	10.2%	8.4%
Land and buildings	2,039	18.6%	16.6%	13.6%
Approved fixed interest securities	804	7.3%	9.6%	12.4%
Other fixed interest securities	1,760	16.1%	20.9%	27.1%
All other assets	579	5.3%	6.9%	8.9%
Total assets	10,958	100.0%	100.0%	100.0%
EBR		71.3%	62.6%	51.6%

(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.

CGNU Life – Lapse Rates	Policy Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12+
Product Class													
Conventional Life Endowment – 25 yr term	5	12	12	12	12	12	12	10	8	6	4	3	2
UWP Life Portfolio Bond no MVR gtee	1	1.5	2	3	4	16	7	7	7	7	75	7	7
UWP Life Mortgage Endowment	8	10	12	12	12	12	12	12	12	12	12	12	12
UWP Pensions (inc stkhldr) - Lapses	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
UWP Stakeholder - PUP	10	10	10	10	10	10	10	10	10	10	10	10	10
UWP Pensions (excl stkhldr) - PUP	13	13	13	13	13	13	13	13	13	13	13	13	13
UWP Pension Bonds	2	2	2	4	6	30	20	10	10	10	10	10	10

CULAC – Lapse Rates	Policy Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12+
Product Class													
Conventional Whole Life	6.5	4.5	4.5	4.5	4	4	2.5	2	2	2	2	2	2
Conventional Life Endowment	6	4.5	6.5	8	8	8	8	8	8	6	4	3.5	3.5
Conventional Pensions	8	10	12	12	10	9	8	7	6	5	5	5	5
UWP Life Bond	1	2	3	3.5	4.5	16	8.5	8.5	8.5	7.5	7.5	7.5	7.5
UWP Pensions – Lapse Rates	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
UWP Pensions – PUPs	13	13	13	13	13	13	13	13	13	13	13	13	13

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.

Unitised With-Profit Mortality

Unitised pensions and life bonds - 80% AM80 Sel 2 / AF80 Sel 2

Unitised mortgage endowments based on percentages of AM80 Sel 2 / AF80 Sel 2

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 2005**

Conventional Assurance Mortality

CGNU Life endowments based on standard tables AM92 Sel2 and AF92 Sel 2 adjusted to allow for actual and expected experience. Policies with critical illness options have morbidity rates based on reinsurer's rates.

CULAC endowments - 65% AM80 Ult/70% AF80 Ult

CGNU Life Whole life based on percentages of TM92 Sel 5 and TF92 Sel 5.

For CGNU and CULAC, additional AIDS mortality is based on 25% of Projection R6B of the Institute of Actuaries working party with allowance for the continuance of the additional mortality rates at peak levels

Conventional Pensions

In deferment – CGNU Life 50%AM80/AF80 Ult

CULAC 80% AM80/AF80 Ult

In payment – see annuitant mortality.

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

A take-up rate of 85% has been assumed in respect of Guaranteed Annuity options attaching to pensions.

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	38
Conventional Pensions	0	2
UWP Life	0	6
UWP Pensions	0	10
Reinsured - UWP Life	0	15
Reinsured - UWP Pensions	0	6
Reinsured - UWP Overseas	0	2
Miscellaneous	0	78
Total	0	156

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 2005**

Any other liabilities related to treating customers fairly

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

Any other long-term insurance liabilities

The product split gives a breakdown of the £79m 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.

£14m is held in respect of future pension transfer review costs.

£9m is held in respect of the funding for the Aviva staff pension scheme deficit.

£63m is included for the cost of investigation and redress of mortgage endowment mis-selling complaints.

A reserve of £30m is held to cover future development expenses and audit/regulatory fees.

A credit of £63m 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 2005 are £728m.

The realistic current liabilities include a reduction of £29m 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

(1)

Fund	RCM (£m)
CULAC	685.7

(a)

(i) 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	20.1%
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 2005**

(ii)

Asset Class	Rise in FI yields	Fall in FI yields
Nominal change in yields	+72bps	-72bps
Long-term yield – level post-stress	4.84%	3.40%
Long-term yield - % movement post-stress	+17.5%	-17.5%

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

(iii)

Fund	Average Increase in credit spread	Change in FI asset value
CULAC	0.24%	-2.19%

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.

(iv) 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 = 1.54%

(v) Not applicable

(b) Management Actions under the stress tests

(i) 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 over the two six-monthly bonus declarations following the valuation date with the same percentage cut in each.

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 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.

(ii) Table showing the effects of the actions in 10.1 (b)(i):

	Effect of action (£m)
Cuts in payouts	9.4
Regular bonuses	287.3
GAO take-up	-22.2
Total	274.4

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 2005**

(iii) 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.

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

(c)

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

Assets backing RCM	£m	%
UK equities	496.4	72.4%
Overseas equities	0.0	0.0%
Land and buildings	189.4	27.6%
Approved fixed interest securities	0.0	0.0%
Other fixed interest securities	0.0	0.0%
All other assets	0.0	0.0%
Total	685.7	100.0%

(ii) All assets backing the RCM are within the WP funds.

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.

	2005
	%
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 1.80% (2/3rds of the RPI assumption)

Average BLAGAB tax rate applying to asset shares:

CGNU Life written 11.98%

CULAC written 11.96%

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 2005****(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 2005 £m
Equity futures	165
Bond futures	-804
Contract for differences	27

The exposure to futures is part of the company's portfolio management strategy, and all the futures expire no later than March 2006.

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

13. Analysis of working capital

CULAC	Note	£m
Working capital at 31 December 2004		1,617
Change in methodology or approach	1	-125
Changes in market assumptions	2	-249
Changes in management assumptions	3	-103
Changes in policyholder assumptions	4	-46
Changes in miscellaneous reserves	5	-74
Investment return	6	846
Tax	7	-15
Other experience	8	92
Working capital at 31 December 2005		1,943

1. This includes £54m from removal of provision for use of estate to support new business and -£104m from evolving approach to calculation of asset share
2. This is principally driven by the fall in the risk free rate
3. This is principally driven by the increased future bonus assumption
4. The largest element here represents the change in the mortality basis assumption
5. This represents changes to miscellaneous reserves including the provision for cost of investigation and redress of mortgage mis-selling
6. This reflects investment returns during 2005 on assets not backing asset shares, plus a reduction in guarantee costs arising from the return on asset shares.
7. This represents the effect of taxation during 2005
8. This covers various items of experience during 2005. The largest of these relates to not incurring guarantee costs during 2005 that were provided for in the 2004 realistic reserves.

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 2005**

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.

The following information relates to the Commercial Union Life Fund. No derivative transactions were carried out in respect of the Permanent Health Fund of the company.

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 £43.3m. 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 PRU 4.3.17R, 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 £0.2m.

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 2005**

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 Norwich Union Holdings Limited.

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

100% of the issued share capital of Norwich Union plc is held by General Accident plc.

100% of the issued ordinary share capital of General Accident plc is held by the ultimate parent undertaking, Aviva plc.

There have been no changes to the above position during the year.

All shares are voting shares.

Statement of information on appointed 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 2005**

In accordance with rule 9.36 of the Interim Prudential Sourcebook for Insurers, J R Lister, who resigned as the with-profits actuary of the Company on 22 July 2005, and A R Walton, who was appointed as the with-profits actuary of the Company on 22 July 2005, were requested to furnish and have provided the following information:

(1) J R Lister

- (a)**
- (1) An interest in 6,191 ordinary shares at 31 December 2005 in Aviva plc (2004: 10,310).
 - (2) 48,980 ordinary shares were held in the Aviva Long Term Incentive Plan at 31 December 2005 (2004: 39,324) and 34,472 ordinary shares were held in the Aviva Deferred Bonus Plan at 31 December 2005 (2004: 23,962).
 - (3) Options were held at 31 December 2005 to subscribe for 21,936 ordinary shares in Aviva plc under the Executive Share Option Scheme. No options were granted during the year. No options were exercised or lapsed during the year.
- (b)** The actuary holds two low cost endowment policies with CGNU Life Assurance Limited, with aggregate sums assured of £56,000 and monthly premiums of £259. The actuary also holds a number of investment products managed by Norwich Union Investment Funds Limited. In addition, the actuary held general insurance policies with subsidiaries of Aviva plc for which total premiums of £2,000 were paid in the year.
- (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 was £227,623. Under the contract he was:

With-profits actuary and a director of:-
Commercial Union Life Assurance Company Limited
CGNU Life Assurance Limited
Norwich Union Life (RBS) Limited
Norwich Union Life & Pensions Limited

And a director of:-
Norwich Union Annuity Limited
Norwich Union Life Services Limited
The General Practice Finance Corporation Limited
Norwich Union Commercial Finance Limited
Norwich Union Commercial Mortgages Limited
Norwich Union Mortgage Finance Limited
Norwich Union Mortgages (Life) Limited
Norwich Union Mortgage Holdings Limited
Norwich Union Linked Life Assurance Limited
Fidelity Life Assurance 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.

(2) A R Walton

- (a)**
- (1) The actuary held no interests in ordinary shares in Aviva plc at 31 December 2005.
 - (2) The actuary held no interests in ordinary shares in the Aviva Long Term Incentive Plan at 31 December 2005 and no interests in ordinary shares in the Aviva Deferred Bonus Plan at 31 December 2005.
 - (3) The actuary held no options to subscribe for ordinary shares in Aviva plc under the Executive Share Option Scheme at 31 December 2005:
- (b)** The actuary held general insurance policies with subsidiaries of Aviva plc for which total premiums of £745.00 were paid in the period to 31 December 2005.

Statement of information on appointed 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 2005**

- (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 period 22 July 2005 to 31 December 2005 was £124,608. 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 and IPRU (INS) Appendix 9.6

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

Global business

Financial year ended **31st December 2005**

We certify that:

- 1 (a) the return has been properly prepared in accordance with the requirements in IPRU(INS) and PRU; and
- (b) the directors are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS) and PRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.

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

..... **P J R SNOWBALL**
Chief Executive

..... **K W ABERCROMBY**
Director

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

Returns under the Accounts and Statements Rules

Independent auditors' 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 2005**

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 and the Integrated Prudential Sourcebook ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000 (the "Act").

- Forms 2, 3, 11 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.

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 company 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 PRU 7.3 and 7.4.

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" and Bulletin 2004/5 "Supplementary guidance for auditors of insurers in the United Kingdom" 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 30 March 2006. 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 auditors' 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 2005**

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 as modified 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 PRU 7.3 and 7.4.

Ernst & Young LLP
Registered Auditor
London
30 March 2006