

Commercial Union Life Assurance Company Limited

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

**Annual FSA Insurance Returns for the year ended
31 December 2007**



Returns under the Accounts and Statements Rules

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

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

Global Business

Financial year ended **31st December 2007**

Contents

<i>Forms</i>		<i>Page</i>
IPRU (INS) Appendix 9.1		
2	Statement of solvency – long-term insurance business	1
3	Components of capital resources	3
13	Analysis of admissible assets	6
14	Long-term insurance business liabilities and margins	12
15	Liabilities (other than long term insurance business)	15
16	Profit and loss account (non-technical account)	16
17	Analysis of derivative contracts	17
18	With-profits insurance capital component for the fund	18
19	Realistic balance sheet	19
IPRU (INS) Appendix 9.3		
40	Revenue account	21
41	Analysis of premiums	24
42	Analysis of claims	27
43	Analysis of expenses	30
46	Summary of new business	33
47	Analysis of new business	34
48	Non-linked assets	38
49	Fixed and variable interest assets	39
50	Summary of mathematical reserves	40
51	Valuation summary of non-linked contracts (other than accumulating with-profits contracts)	43
52	Valuation summary of accumulating with-profits contracts	48
53	Valuation summary of property linked contracts	52
54	Valuation summary of index linked contracts	56
56	Index linked business	57
57	Analysis of valuation interest rates	58
58	Distribution of surplus	60
59A	With-profits payouts on maturity (normal retirement)	63
59B	With-profits payouts on surrender	64
60	Long-term insurance capital requirement	65
Supplementary notes		66

Returns under the Accounts and Statements Rules

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

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

Global Business

Financial year ended **31st December 2007**

IPRU (INS) Appendix 9.4 and 9.4A

Valuation report 72

Abstract of valuation report for realistic valuation 90

IPRU (INS) 9.29, 9.30 and 9.36

Statement on derivatives required by IPRU (INS) 9.29 117

Statement on controllers required by IPRU (INS) 9.30 118

Statement of information on with-profits Actuary required by IPRU (INS) 9.36 119

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

Certificate by the directors required by IPRU (INS) 9.34(1) 120

Independent auditor's report to the directors pursuant to IPRU (INS) 9.35 121

Statement of solvency - long-term insurance business
Form 2

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

Global business

 Financial year ended **31st December 2007**

Adjusted solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	units	
	R2	79678	GL	31	12	2007	£000
				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	2721215	3661179
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	42364	37681
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	2763579	3698860

Guarantee fund

Guarantee Fund requirement	21	209123	195352
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	2554456	3503508

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	530379	493751
Resilience capital requirement	32		
Base capital resources requirement	33	2231	2139
Individual minimum capital requirement	34	530379	493751
Capital requirements of regulated related undertakings	35	32330	30768
Minimum capital requirement (34+35)	36	562709	524519
Excess (deficiency) of available capital resources to cover 50% of MCR	37	2482225	3436601
Excess (deficiency) of available capital resources to cover 75% of MCR	38	2341547	3305471

Enhanced capital requirement

With-profits insurance capital component	39	966259	1101836
Enhanced capital requirement	40	1528968	1626355

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	1528968	1626355
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	1234611	2072505

Contingent liabilities

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

Returns under the Accounts and Statements Rules

Covering page to Form 2

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

Global business

Financial year ended **31st December 2007**

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

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

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

25 March 2008

Components of capital resources
**Form 3
(Sheet 1)**

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

Global business

 Financial year ended **31st December 2007**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	79678	GL	31	12	2007	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year			
	1	2	3	4			

Core tier one capital

Permanent share capital	11		3175	3175	3175
Profit and loss account and other reserves	12		54169	54169	45691
Share premium account	13				
Positive valuation differences	14		1518971	1518971	1552675
Fund for future appropriations	15		1228056	1228056	2263934
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		2804371	2804371	3865475

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		2804371	2804371	3865475
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				
Total tier one capital after deductions (31-37)	39		2804371	2804371	3865475

Components of capital resources
**Form 3
(Sheet 2)**

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

Global business

 Financial year ended **31st December 2007**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	79678	GL	31	12	2007	£000
	General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year			
	1	2	3	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 resources
**Form 3
(Sheet 3)**

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

Global business

 Financial year ended **31st December 2007**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	79678	GL	31	12	2007	£000
	1	2	3	Total as at the end of this financial year		Total as at the end of the previous year	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
Total capital resources before deductions (39+69+71)	72		2804371	2804371	3865475	
Inadmissible assets other than intangibles and own shares	73		40792	40792	39159	
Assets in excess of market risk and counterparty limits	74				127456	
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		2763579	2763579	3698860	

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		2763579	2763579	3698860	
Available capital resources for 50% MCR requirement	82		2763579	2763579	3698860	
Available capital resources for 75% MCR requirement	83		2763579	2763579	3698860	

Financial engineering adjustments

Implicit items	91					
Financial reinsurance – ceded	92					
Financial reinsurance – accepted	93		25069	25069	30662	
Outstanding contingent loans	94					
Any other charges on future profits	95					
Sum of financial engineering adjustments (91+92-93+94+95)	96		(25069)	(25069)	(30662)	

Analysis of admissible assets
**Form 13
(Sheet 1)**

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

Global business

 Financial year ended **31st December 2007**

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

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	R13	79678	GL	31	12	2007	£000	1
						As at end of this financial year	As at end of the previous year	
						1	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	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	432
	More than one month withdrawal	55	
Other financial investments	56		

Analysis of admissible assets
**Form 13
(Sheet 2)**

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

Global business

 Financial year ended **31st December 2007**

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

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	R13	79678	GL	31	12	2007	£000	1
						As at end of this financial year	As at end of the previous year	
						1	2	
Deposits with ceding undertakings			57					
Assets held to match linked liabilities	Index linked		58					
	Property linked		59					

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	
	Intermediaries	72	
Salvage and subrogation recoveries		73	
Reinsurance	Accepted	74	
	Ceded	75	
Dependants	Due in 12 months or less	76	
	Due in more than 12 months	77	
Other	Due in 12 months or less	78	5866
	Due in more than 12 months	79	

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	42063	33256
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 admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	42495	39554
---	-----------	-------	-------

Analysis of admissible assets
**Form 13
(Sheet 3)**

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

Global business

 Financial year ended **31st December 2007**

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

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	R13	79678	GL	31	12	2007	£000	1
						As at end of this financial year	As at end of the previous year	
						1	2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	42495	39554
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	3794	
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related insurance undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	11185	11185
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		20
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 101)	102	57474	50759
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		5156

Analysis of admissible assets
**Form 13
(Sheet 1)**

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

Global business

 Financial year ended **31st December 2007**

 Category of assets **Total long-term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	R13	79678	GL	31	12	2007	£000	10
						As at end of this financial year		As at end of the previous year
						1		2
Land and buildings				11		1303572		1571249

Investments in group undertakings and participating interests

UK insurance dependants	shares	21	21027	21000
	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	130824	89871
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares	41	5655822	7541449	
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43	2522268	1099691	
Rights under derivative contracts	44	100326	109269	
Fixed interest securities	Approved	45	2525655	2449805
	Other	46	2508949	2342021
Variable interest securities	Approved	47	183970	124421
	Other	48	93341	81326
Participation in investment pools	49			
Loans secured by mortgages	50	130363	50371	
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52	1408	1423	
Other loans	53	643605	494274	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	77014	228720
	More than one month withdrawal	55	190641	
Other financial investments	56			

Analysis of admissible assets
**Form 13
(Sheet 2)**

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

Global business

 Financial year ended **31st December 2007**

 Category of assets **Total long-term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	R13	79678	GL	31	12	2007	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	
Deposits with ceding undertakings			57					
Assets held to match linked liabilities	Index linked		58		673		659	
	Property linked		59		17395		17320	

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		346		24645
	Intermediaries	72				
Salvage and subrogation recoveries	73					
Reinsurance	Accepted	74		206913		33305
	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		149342		108966
	Due in more than 12 months	79		11500		

Other assets

Tangible assets	80					
Deposits not subject to time restriction on withdrawal with approved institutions	81			60975		70223
Cash in hand	82					
Other assets (particulars to be specified by way of supplementary note)	83					
Accrued interest and rent	84			105994		87781
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 admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89			16641923		16547789
---	-----------	--	--	----------	--	----------

Analysis of admissible assets
**Form 13
(Sheet 3)**

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

Global business

 Financial year ended **31st December 2007**

 Category of assets **Total long-term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	R13	79678	GL	31	12	2007	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	16641923	16547789
Admissible assets in excess of market and counterparty limits	92		127456
Inadmissible assets directly held	93	1664	
Capital resources requirement deduction of regulated related undertakings	94	32330	30768
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related insurance undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99	35334	35721
Reinsurers' share of technical provisions excluded from line 89	100	1499048	1506861
Other asset adjustments (may be negative)	101		2652
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 101)	102	18210299	18251247
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Long-term insurance business liabilities and margins
Form 14

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

Global business

 Financial year ended **31st December 2007**

 Fund **Total Long-Term Insurance Business**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11	12758764	11802968
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	12758764	11802968
Claims outstanding	Gross amount	15	19783
	Reinsurers' share	16	
	Net (15-16)	17	19783
Provisions	Taxation	21	243219
	Other risks and charges	22	
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	18950
	Reinsurance accepted	32	1565
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36	1314	6713
Creditors	Taxation	37	87005
	Other	38	810871
Accruals and deferred income	39	11568	8664
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	1194275	1114411
Excess of the value of net admissible assets	51	2688884	3630410
Total liabilities and margins	59	16641923	16547789
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	4671	14408
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	17395	17320
Total liabilities (11+12+49)	71	13953039	12917379
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73	1499048	1506861
Other adjustments to liabilities (may be negative)	74	1530156	1563073
Capital and reserves and fund for future appropriations	75	1228056	2263934
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	18210299	18251247

Long-term insurance business liabilities and margins
Form 14

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

Global business

 Financial year ended **31st December 2007**

 Fund **Stakeholder**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus		11	370591
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	370591
Claims outstanding	Gross amount	15	
	Reinsurers' share	16	
	Net (15-16)	17	
Provisions	Taxation	21	
	Other risks and charges	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	370591
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	370591
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 margins
Form 14

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

Global business

 Financial year ended **31st December 2007**

 Fund **With Profit**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year
		1	2
Mathematical reserves, after distribution of surplus	11	12388173	11425168
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	12388173	11425168
Claims outstanding	Gross amount	15	19783
	Reinsurers' share	16	
	Net (15-16)	17	19783
Provisions	Taxation	21	243219
	Other risks and charges	22	
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	18950
	Reinsurance accepted	32	1565
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36	1314	6713
Creditors	Taxation	37	87005
	Other	38	810872
Accruals and deferred income	39	11568	8664
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	1194276	1114411
Excess of the value of net admissible assets	51	2688883	3630410
Total liabilities and margins	59	16271332	16169989
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	4671	14408
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	17395	17320
Total liabilities (11+12+49)	71	13582449	12539579
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		
Capital and reserves and fund for future appropriations	75		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76		

Liabilities (other than long-term)
Form 15

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

Global business

 Financial year ended **31st December 2007**

	Company registration number	GL/UK/CM	day	month	year	units	
	R15	79678	GL	31	12	2007	£000
					As at the end of this financial year	As at the end of the previous year	
					1	2	

Technical provisions (gross amount)

Provision for unearned premiums		11		
Claims outstanding		12		
Provision for unexpired risks		13		
Equalisation provisions	Credit business	14		
	Other than credit business	15		
Other 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	130	71
	Foreseeable dividend	48		
	Other	49		1802
Accruals and deferred income		51		
Total (19 to 51)		59	130	1873
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	130	1873

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

Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		20
Capital and reserves	84	57344	48866
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	57474	50759

Profit and loss account (non-technical account)
Form 16

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

Global business

 Financial year ended **31st December 2007**

		Company registration number	GL/ UK/ CM	day	month	year	units	
		R16	79678	GL	31	12	2007	£000
				This financial year		Previous year		
				1		2		
Transfer (to) / from the general insurance business technical account	From Form 20	11						
	Equalisation provisions	12						
Transfer from the long term insurance business revenue account		13			41472		33256	
Investment income	Income	14			432		235	
	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			41904		33491	
Tax on profit or loss on ordinary activities		31			126		91	
Profit or loss on ordinary activities after tax (29-31)		39			41778		33400	
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			41778		33400	
Dividends (paid or foreseeable)		51			33300		22400	
Profit or loss retained for the financial year (49-51)		59			8478		11000	

Analysis of derivative contracts
Form 17

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

Global business

 Financial year ended **31st December 2007**

 Category of assets **Total long-term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
		R17	79678	GL	31	12	2007	£000	10
Derivative contracts		As at the end of this financial year			As at the end of the previous year				
		Assets		Liabilities		Assets		Liabilities	
		1	2	3	4				
Futures contracts	Fixed-interest securities	11	2793	8124	9062	883			
	Equity shares	12			2974	1586			
	Land	13							
	Currencies	14	15390	42148	35888	12507			
	Other	15							
Options	Fixed-interest securities	21	51747		56322				
	Equity shares	22	1257	1163	4714				
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32	2515	4728					
	Land	33	39806		309	2326			
	Currencies	34	12658	11762					
	Other	35							
Adjustments for variation margin		41	(25840)						
Total (11 to 41)		49	100326	67925	109269	17302			

With-profits insurance capital component for the fund
Form 18

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

Global business

 Financial year ended **31st December 2007**

 With-profits fund **Commercial Union Life Fund**

 Units **£000**

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

Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	16641923	16547789
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	1916949	1899785
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	93700	93778
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	14631274	14554226
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21	10841815	9903183
	Regulatory current liabilities of the fund	22	1194275	1114411
	Total (21+22)	29	12036090	11017594
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	436680	399972
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	12472770	11417566
Regulatory excess capital (19-39)		49	2158504	3136660

Realistic excess capital

Realistic excess capital	51	929208	1960752
--------------------------	----	--------	---------

Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1229296	1175908
Face amount of capital instruments attributed to the fund and included in the capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in the capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	263038	74072
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero; else greater of 61-64-65 and zero)	66	966258	1101836

Realistic balance sheet
**Form 19
(Sheet 1)**

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

Global business

 Financial year ended **31st December 2007**

 With-profits fund **Commercial Union Life Fund**

 Units **£000**

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

Realistic value of assets available to the fund

Regulatory value of assets	11	14631274	14554226
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13		
Excess admissible assets	21		127456
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	479549	480835
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		
Prepayments made from the fund	25		
Realistic value of assets of the fund (11+21+22+23+24+25-(12+13))	26	15110823	15162517
Support arrangement assets	27		
Assets available to the fund (26+27)	29	15110823	15162517

Realistic value of liabilities of fund

With-profits benefits reserve	31	10642886	10770293	
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	1062000	6800
	Planned deductions for the cost of guarantees, options and smoothing from with-profits benefits reserve	35	15042	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41	431094	316990
	Future costs of non-contractual commitments	42	140330	169642
	Future costs of financial options	43	184932	202158
	Future costs of smoothing (possibly negative)	44	(13177)	(28125)
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	286442	165173
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	2076579	832638	
Realistic current liabilities of the fund	51	1180941	1080010	
Realistic value of liabilities of the fund (31+49+51)	59	13900406	12682941	

Realistic balance sheet**Form 19
(Sheet 2)**Name of insurer **Commercial Union Life Assurance Company Ltd**

Global business

Financial year ended **31st December 2007**With-profits fund **Commercial Union Life Fund**Units **£000**

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

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62	14181615	13201765
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	14181615	13201765
Risk capital margin for fund (62-59)	65	281209	518824
Realistic excess capital for fund (26-(59+65))	66	929208	1960752
Realistic excess available capital for fund (29-(59+65))	67	929208	1960752
Working capital for for fund (29-59)	68	1210417	2479576
Working capital ratio for fund (68/29)	69	8.01	16.35

**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 account

Form 40

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

Name and number of fund/Summary **Total Long-Term Insurance Business**

Financial year ended **31st December 2007**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	779472	616920
Investment income receivable before deduction of tax	12	643808	618661
Increase (decrease) in the value of non-linked assets brought into account	13	1270585	427621
Increase (decrease) in the value of linked assets	14	256	(55)
Other income	15	553	1898
Total income	19	2694674	1665045

Expenditure

Claims incurred	21	1429430	1921350
Expenses payable	22	97640	159256
Interest payable before deduction of tax	23	32115	5273
Taxation	24	138221	21735
Other expenditure	25		
Transfer to (from) non technical account	26	41472	33256
Total expenditure	29	1738878	2140870

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	955796	(475825)
Fund brought forward	49	11802968	12278793
Fund carried forward (39+49)	59	12758764	11802968

Long-term insurance business: Revenue account

Form 40

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

Name and number of fund/Summary **Stakeholder**

Financial year ended **31st December 2007**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	9423	45345
Investment income receivable before deduction of tax	12	11367	26518
Increase (decrease) in the value of non-linked assets brought into account	13	18678	(7242)
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	39468	64621

Expenditure

Claims incurred	21	46677	36282
Expenses payable	22		3715
Interest payable before deduction of tax	23		
Taxation	24		
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	46677	39997

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(7209)	24624
Fund brought forward	49	377800	353176
Fund carried forward (39+49)	59	370591	377800

Long-term insurance business: Revenue account

Form 40

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

Name and number of fund/Summary **With Profit**

Financial year ended **31st December 2007**

Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	770049	571575
Investment income receivable before deduction of tax	12	632441	592143
Increase (decrease) in the value of non-linked assets brought into account	13	1251907	434863
Increase (decrease) in the value of linked assets	14	256	(55)
Other income	15	553	1898
Total income	19	2655206	1600424

Expenditure

Claims incurred	21	1382753	1885068
Expenses payable	22	97640	155541
Interest payable before deduction of tax	23	32115	5273
Taxation	24	138221	21735
Other expenditure	25		
Transfer to (from) non technical account	26	41472	33256
Total expenditure	29	1692201	2100873

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	963005	(500449)
Fund brought forward	49	11425168	11925617
Fund carried forward (39+49)	59	12388173	11425168

Long-term insurance business: Analysis of premiums

Form 41

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

Total business / subfund **Total Long-Term Insurance Business**

Financial year ended **31st December 2007**

Units **£000**

	UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
	1	2	3	4	5

Gross

Regular premiums	11	105854	141397		247251	259689
Single premiums	12	522942	79608		602550	439862

Reinsurance - external

Regular premiums	13		704		704	4466
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15	138	38417		38555	45830
Single premiums	16	1239	29831		31070	32335

Net of reinsurance

Regular premiums	17	105716	102276		207992	209393
Single premiums	18	521703	49777		571480	407527

Total

Gross	19	628796	221005		849801	699551
Reinsurance	20	1377	68952		70329	82631
Net	21	627419	152053		779472	616920

Long-term insurance business: Analysis of premiums

Form 41

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

Total business / subfund **Stakeholder**

Financial year ended **31st December 2007**

Units **£000**

	UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
	1	2	3	4	5

Gross

Regular premiums	11		28675		28675	38192
Single premiums	12		(19252)		(19252)	7153

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17		28675		28675	38192
Single premiums	18		(19252)		(19252)	7153

Total

Gross	19		9423		9423	45345
Reinsurance	20					
Net	21		9423		9423	45345

Long-term insurance business: Analysis of premiums

Form 41

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

	UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
	1	2	3	4	5

Gross

Regular premiums	11	105854	112722		218576	221497
Single premiums	12	522942	98860		621802	432709

Reinsurance - external

Regular premiums	13		704		704	4466
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15	138	38417		38555	45830
Single premiums	16	1239	29831		31070	32335

Net of reinsurance

Regular premiums	17	105716	73601		179317	171201
Single premiums	18	521703	69029		590732	400374

Total

Gross	19	628796	211582		840378	654206
Reinsurance	20	1377	68952		70329	82631
Net	21	627419	142630		770049	571575

Long-term insurance business: Analysis of claims

Form 42

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

Total business / subfund **Total Long-Term Insurance Business**

Financial year ended **31st December 2007**

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	134034	9995	144029	140439
Disability periodic payments	12	16	103	119	148
Surrender or partial surrender	13	734975	333786	1068761	1573347
Annuity payments	14	5997	71118	77115	74804
Lump sums on maturity	15	110760	178926	289686	274736
Total	16	985782	593928	1579710	2063474

Reinsurance - external

Death or disability lump sums	21	182	654	836	726
Disability periodic payments	22		33	33	43
Surrender or partial surrender	23				
Annuity payments	24				
Lump sums on maturity	25				
Total	26	182	687	869	769

Reinsurance - intra-group

Death or disability lump sums	31	781	2260	3041	3133
Disability periodic payments	32				
Surrender or partial surrender	33	6794	99018	105812	96253
Annuity payments	34				
Lump sums on maturity	35		40558	40558	41969
Total	36	7575	141836	149411	141355

Net of reinsurance

Death or disability lump sums	41	133071	7081	140152	136580
Disability periodic payments	42	16	70	86	105
Surrender or partial surrender	43	728181	234768	962949	1477094
Annuity payments	44	5997	71118	77115	74804
Lump sums on maturity	45	110760	138368	249128	232767
Total	46	978025	451405	1429430	1921350

Long-term insurance business: Analysis of claims

Form 42

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

Total business / subfund **Stakeholder**

Financial year ended **31st December 2007**

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	743		743	881
Disability periodic payments	12				
Surrender or partial surrender	13	31769		31769	21959
Annuity payments	14				
Lump sums on maturity	15	14165		14165	13442
Total	16	46677		46677	36282

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	743		743	881
Disability periodic payments	42				
Surrender or partial surrender	43	31769		31769	21959
Annuity payments	44				
Lump sums on maturity	45	14165		14165	13442
Total	46	46677		46677	36282

Long-term insurance business: Analysis of claims

Form 42

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

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	134034	9252	143286	139558
Disability periodic payments	12	16	103	119	148
Surrender or partial surrender	13	734975	302017	1036992	1551388
Annuity payments	14	5997	71118	77115	74804
Lump sums on maturity	15	110760	164761	275521	261294
Total	16	985782	547251	1533033	2027192

Reinsurance - external

Death or disability lump sums	21	182	654	836	726
Disability periodic payments	22		33	33	43
Surrender or partial surrender	23				
Annuity payments	24				
Lump sums on maturity	25				
Total	26	182	687	869	769

Reinsurance - intra-group

Death or disability lump sums	31	781	2260	3041	3133
Disability periodic payments	32				
Surrender or partial surrender	33	6794	99018	105812	96253
Annuity payments	34				
Lump sums on maturity	35		40558	40558	41969
Total	36	7575	141836	149411	141355

Net of reinsurance

Death or disability lump sums	41	133071	6338	139409	135699
Disability periodic payments	42	16	70	86	105
Surrender or partial surrender	43	728181	202999	931180	1455135
Annuity payments	44	5997	71118	77115	74804
Lump sums on maturity	45	110760	124203	234963	219325
Total	46	978025	404728	1382753	1885068

Long-term insurance business: Analysis of expenses

Form 43

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

Total business / subfund **Total Long-Term Insurance Business**

Financial year ended **31st December 2007**

Units **£000**

	UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
	1	2	3	4	5

Gross

Commission - acquisition	11	28301	2874		31175	21403
Commission - other	12	3301	2248		5549	7489
Management - acquisition	13	5051	10217		15268	9198
Management - maintenance	14	19481	14352		33833	51218
Management - other	15	11077	1713		12790	69948
Total	16	67211	31404		98615	159256

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	18	3		21	
Management - maintenance	34	198	756		954	
Management - other	35					
Total	36	216	759		975	

Net of reinsurance

Commission - acquisition	41	28301	2874		31175	21403
Commission - other	42	3301	2248		5549	7489
Management - acquisition	43	5033	10214		15247	9198
Management - maintenance	44	19283	13596		32879	51218
Management - other	45	11077	1713		12790	69948
Total	46	66995	30645		97640	159256

Long-term insurance business: Analysis of expenses

Form 43

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Total business / subfund **Stakeholder**
 Financial year ended **31st December 2007**
 Units **£000**

	UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
	1	2	3	4	5

Gross

Commission - acquisition	11				
Commission - other	12				
Management - acquisition	13				
Management - maintenance	14				3715
Management - other	15				
Total	16				3715

Reinsurance - external

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
Total	26				

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
Total	36				

Net of reinsurance

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43				
Management - maintenance	44				3715
Management - other	45				
Total	46				3715

Long-term insurance business: Analysis of expenses

Form 43

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

	UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
	1	2	3	4	5

Gross

Commission - acquisition	11	28301	2874		31175	21403
Commission - other	12	3301	2248		5549	7489
Management - acquisition	13	5051	10217		15268	9198
Management - maintenance	14	19481	14352		33833	47503
Management - other	15	11077	1713		12790	69948
Total	16	67211	31404		98615	155541

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	18	3		21	
Management - maintenance	34	198	756		954	
Management - other	35					
Total	36	216	759		975	

Net of reinsurance

Commission - acquisition	41	28301	2874		31175	21403
Commission - other	42	3301	2248		5549	7489
Management - acquisition	43	5033	10214		15247	9198
Management - maintenance	44	19283	13596		32879	47503
Management - other	45	11077	1713		12790	69948
Total	46	66995	30645		97640	155541

Long-term insurance business: Summary of new business

Form 46

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

Total business

Financial year ended **31st December 2007**

Units **£000**

	UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
--	------------------------	---------------------------	----------------------	-------------------------------------	------------------------------------

Number of new policyholders / scheme members for direct insurance business

Regular premium business	11		967		967	1269
Single premium business	12	255	1130		1385	1395
Total	13	255	2097		2352	2664

Amount of new regular premiums

Direct insurance business	21		5792		5792	7699
External reinsurance	22					
Intra-group reinsurance	23	120	6841		6961	11353
Total	24	120	12633		12753	19052

Amount of new single premiums

Direct insurance business	25	948	67922		68870	65575
External reinsurance	26					
Intra-group reinsurance	27	529632	28942		558574	427948
Total	28	530580	96864		627444	493523

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 1)**

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

Total business

Financial year ended **31st December 2007**

Units **£000**

UK Life / Direct insurance business

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
395	Annuity non-profit (PLA)			16	237
400	Annuity non-profit (CPA)			198	102
500	Life UWP single premium			32	545
700	Life property linked single premium			9	64

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 1)**

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

Total business

Financial year ended **31st December 2007**

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
415	Collective Life		8		6
500	Life UWP single premium				428331
515	Life UWP endowment regular premium – target cash		1		
525	Individual pensions UWP		24		158
530	Individual pensions UWP - increments		87		58
571	Trustee investment plan UWP				5
575	Miscellaneous UWP				101074

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 1)**

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

Total business

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Direct insurance business

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
400	Annuity non-profit (CPA)			1103	31301
410	Group Life				176
525	Individual pensions UWP	7	31		237
530	Individual pensions UWP - increments		189		1247
535	Group money purchase pensions UWP	2	290		126
540	Group money purchase pensions UWP - increments		493		519
565	DWP National Insurance rebates UWP				9468
575	Miscellaneous UWP	23	430	15	4462
725	Individual pensions property linked	178	8		494
730	Individual pensions property linked - increments		611		3292
735	Group money purchase pensions property linked	757	1902	12	248
740	Group money purchase pensions property linked - increments		1838		2238
745	DWP National Insurance rebates property linked				14114

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 1)**

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

Total business

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Reinsurance accepted intra-group

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
525	Individual pensions UWP		184		2115
530	Individual pensions UWP - increments		1130		6518
535	Group money purchase pensions UWP		2784		1964
540	Group money purchase pensions UWP - increments		2743		12371
565	DWP National Insurance rebates UWP				4690
571	Trustee investment plan UWP				1284

Long-term insurance business: Assets not held to match linked liabilities

Form 48

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Financial year ended **31st December 2007**
 Category of assets **Total long-term insurance business assets**
 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 requirements

Land and buildings	11					
Approved fixed interest securities	12	1494684	1494684	74281	4.33	
Other fixed interest securities	13	498228	498228	26994	5.81	
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18					
Total	19	1992912	1992912	101275	4.70	

Assets backing with-profits liabilities and with-profits capital requirements

Land and buildings	21	1303572	2250145	74123	3.29	(4.69)
Approved fixed interest securities	22	1056639	991493	49274	4.33	3.00
Other fixed interest securities	23	2068925	2352449	127458	5.81	2.70
Variable interest securities	24	279250	329889	8954	2.59	8.68
UK listed equity shares	25	4055011	4327979	147333	3.40	5.25
Non-UK listed equity shares	26	1578018	2329304	47619	2.04	18.38
Unlisted equity shares	27	43820	292197	21	0.01	0.00
Other assets	28	4245708	1757487	52839	3.01	5.80
Total	29	14630943	14630943	507621	3.48	5.29

Overall return on with-profits assets

Post investment costs but pre-tax	31					5.04
Return allocated to non taxable 'asset shares'	32					5.09
Return allocated to taxable 'asset shares'	33					4.72

Long-term insurance business: Fixed and variable interest assets

Form 49

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Financial year ended **31st December 2007**
 Category of assets **Total long-term insurance business assets**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK government approved fixed interest securities	11	1908128	10.36	4.34	4.34
Other approved fixed interest securities	21	578050	8.58	4.30	4.30
Other fixed interest securities					
AAA/Aaa	31	350488	7.13	5.03	4.94
AA/Aa	32	1002718	5.96	5.61	5.33
A/A	33	932751	6.34	5.83	5.51
BBB/Baa	34	510053	6.53	6.27	5.60
BB/Ba	35	30856	5.34	10.03	8.35
B/B	36	14368	4.81	9.45	6.35
CCC/Caa	37	3804	3.50	21.71	16.76
Other (including unrated)	38	5639	4.46	3.64	2.97
Total other fixed interest securities	39	2850677	6.31	5.81	5.44
Approved variable interest securities	41	228326	15.89	1.22	1.22
Other variable interest securities	51	101563	3.39	5.66	5.31
Total (11+21+39+41+51)	61	5666744	8.24	4.97	4.78

Long-term insurance business: Summary of mathematical reserves

Form 50

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

Total business / subfund **Total Long-Term Insurance Business**

Financial year ended **31st December 2007**

Units **£000**

	UK Life 1	UK Pension 2	Overseas 3	Total Financial Year 4	Total Previous Year 5
--	------------------------	---------------------------	----------------------	-------------------------------------	------------------------------------

Gross

Form 51 - with-profits	11	1720776	531888		2252664	2154743
Form 51 - non-profit	12	317145	1513123	25069	1855337	1837866
Form 52	13	5998119	2337206		8335325	7511539
Form 53 - linked	14	83481	1417357		1500838	1511386
Form 53 - non-linked	15	132	112719		112851	72513
Form 54 - linked	16		673		673	659
Form 54 - non-linked	17		85		85	80
Total	18	8119653	5913051	25069	14057773	13088786

Reinsurance - external

Form 51 - with-profits	21	289			289	261
Form 51 - non-profit	22	11021	19		11040	11290
Form 52	23		458		458	460
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	11310	477		11787	12011

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34	83150	1400293		1483443	1492631
Form 53 - non-linked	35		58022		58022	17363
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	83150	1458315		1541465	1509994

Net of reinsurance

Form 51 - with-profits	41	1720487	531888		2252375	2154482
Form 51 - non-profit	42	306124	1513104	25069	1844297	1826576
Form 52	43	5998119	2336748		8334867	7511079
Form 53 - linked	44	331	17064		17395	18755
Form 53 - non-linked	45	132	54697		54829	55150
Form 54 - linked	46		673		673	659
Form 54 - non-linked	47		85		85	80
Total	48	8025193	4454259	25069	12504521	11566781

Long-term insurance business: Summary of mathematical reserves

Form 50

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Total business / subfund **Stakeholder**
 Financial year ended **31st December 2007**
 Units **£000**

	UK Life 1	UK Pension 2	Overseas 3	Total Financial Year 4	Total Previous Year 5
--	---------------------	------------------------	----------------------	----------------------------------	---------------------------------

Gross

Form 51 - with-profits	11				
Form 51 - non-profit	12				
Form 52	13		355688	355688	363241
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16				
Form 54 - non-linked	17				
Total	18		355688	355688	363241

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		355688	355688	363241
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				
Form 54 - non-linked	47				
Total	48		355688	355688	363241

Long-term insurance business: Summary of mathematical reserves

Form 50

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Total business / subfund **With Profit**
 Financial year ended **31st December 2007**
 Units **£000**

	UK Life 1	UK Pension 2	Overseas 3	Total Financial Year 4	Total Previous Year 5
--	------------------------	---------------------------	----------------------	-------------------------------------	------------------------------------

Gross

Form 51 - with-profits	11	1720776	531888		2252664	2154743
Form 51 - non-profit	12	317145	1513123	25069	1855337	1837866
Form 52	13	5998119	1981518		7979637	7148298
Form 53 - linked	14	83481	1417357		1500838	1511386
Form 53 - non-linked	15	132	112719		112851	72513
Form 54 - linked	16		673		673	659
Form 54 - non-linked	17		85		85	80
Total	18	8119653	5557363	25069	13702085	12725545

Reinsurance - external

Form 51 - with-profits	21	289			289	261
Form 51 - non-profit	22	11021	19		11040	11290
Form 52	23		458		458	460
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	11310	477		11787	12011

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34	83150	1400293		1483443	1492631
Form 53 - non-linked	35		58022		58022	17363
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	83150	1458315		1541465	1509994

Net of reinsurance

Form 51 - with-profits	41	1720487	531888		2252375	2154482
Form 51 - non-profit	42	306124	1513104	25069	1844297	1826576
Form 52	43	5998119	1981060		7979179	7147838
Form 53 - linked	44	331	17064		17395	18755
Form 53 - non-linked	45	132	54697		54829	55150
Form 54 - linked	46		673		673	659
Form 54 - non-linked	47		85		85	80
Total	48	8025193	4098571	25069	12148833	11203540

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)

**Form 51
(Sheet 1)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
100	Conventional whole life with-profits OB	4962	96540	738	n/a	n/a	n/a	65964
120	Conventional endowment with-profits OB savings	15319	231639	6806	n/a	n/a	n/a	171595
125	Conventional endowment with-profits OB target cash	118252	1752725	73524	n/a	n/a	n/a	915070
205	Miscellaneous conventional with-profits	136	6656	51	n/a	n/a	n/a	193935
210	Additional reserves with-profits OB				n/a	n/a	n/a	374212
300	Regular premium non-profit WL/EA OB	28440	82361	835	n/a	n/a	n/a	64980
305	Single premium non-profit WL/EA OB	583	1418		n/a	n/a	n/a	1673
325	Level term assurance	18306	922284	2726	n/a	n/a	n/a	10231
330	Decreasing term assurance	14036	2121600	7820	n/a	n/a	n/a	49926
340	Accelerated critical illness (guaranteed premiums)		83109	886	n/a	n/a	n/a	16981
360	Income protection non-profit (guaranteed premiums)	669	6381	62	n/a	n/a	n/a	7
390	Deferred annuity non-profit	2769	713	344	n/a	n/a	n/a	9383
395	Annuity non-profit (PLA)	1598	1435		n/a	n/a	n/a	11784
400	Annuity non-profit (CPA)	3814	8597		n/a	n/a	n/a	114431
415	Collective Life		5166		n/a	n/a	n/a	117
435	Miscellaneous non-profit	1521	213242	509	n/a	n/a	n/a	37632

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)

**Form 51
(Sheet 2)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Life / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
100	Conventional whole life with-profits OB		431	1	n/a	n/a	n/a	289
300	Regular premium non-profit WL/EA OB		2803	190	n/a	n/a	n/a	772
325	Level term assurance		49878	102	n/a	n/a	n/a	1437
330	Decreasing term assurance		271	5	n/a	n/a	n/a	21
340	Accelerated critical illness (guaranteed premiums)		238886	580	n/a	n/a	n/a	6929
390	Deferred annuity non-profit		3		n/a	n/a	n/a	56
395	Annuity non-profit (PLA)		164		n/a	n/a	n/a	607
435	Miscellaneous non-profit		847844	2270	n/a	n/a	n/a	1199

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)

**Form 51
(Sheet 3)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
155	Conventional pensions endowment with-profits	12447	428204	1664	n/a	n/a	n/a	436668
175	Group conventional deferred annuity with-profits	463	2876	6668	n/a	n/a	n/a	43005
205	Miscellaneous conventional with-profits	330	10126	5	n/a	n/a	n/a	51115
210	Additional reserves with-profits OB				n/a	n/a	n/a	1100
300	Regular premium non-profit WL/EA OB	4766	13927	5	n/a	n/a	n/a	20604
325	Level term assurance	4223	178597	524	n/a	n/a	n/a	3157
330	Decreasing term assurance	1517	24032	65	n/a	n/a	n/a	298
390	Deferred annuity non-profit	19550	38278	6322	n/a	n/a	n/a	445140
400	Annuity non-profit (CPA)	53470	87337		n/a	n/a	n/a	1037757
410	Group Life	73	171375	864	n/a	n/a	n/a	778
435	Miscellaneous non-profit	2683	144705	773	n/a	n/a	n/a	5389

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)

**Form 51
(Sheet 4)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
325	Level term assurance		895	3	n/a	n/a	n/a	19

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit contracts)

**Form 51
(Sheet 5)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

Overseas / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
435	Miscellaneous non-profit				n/a	n/a	n/a	25069

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 1)**

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

Total business / subfund **Stakeholder**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
525	Individual pensions UWP		290742	20116	290742	291854		291854
535	Group money purchase pensions UWP		63715	9109	63715	63834		63834

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 2)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
500	Life UWP single premium	32307	4994697		4982980	4955409		4955409
515	Life UWP endowment regular premium – target cash		42801	5858	42801	43354		43354
525	Individual pensions UWP		30522	1670	30522	30550		30550
571	Trustee investment plan UWP				93	93		93
575	Miscellaneous UWP		357033		353498	336749	631964	968713

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 3)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
525	Individual pensions UWP	36645	1116939	26499	1103375	1111505		1111505
535	Group money purchase pensions UWP	8536	324260	22256	335516	343779		343779
575	Miscellaneous UWP	11	3529	26	284026	284026	201949	485975
571	Trustee investment plan UWP				27929	27929		27929
610	Additional reserves UWP						12330	12330

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 4)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
525	Individual pensions UWP			573			458	458

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 1)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
700	Life property linked single premium	6742	83310		83150	83150	132	83282
715	Life property linked endowment regular premium - savings	26	331	1	331	331		331

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 2)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Life / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
700	Life property linked single premium		83150		83150	83150		83150

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 3)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked	101789	1176684	31215	1155330	1155330	46261	1201591
735	Group money purchase pensions property linked	34155	252176	9262	252176	252176	66458	318634
755	Trustee investment plan				9851	9851		9851

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 4)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Reinsurance ceded intra-group

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked		1155330	31215	1155330	1155330		1155330
735	Group money purchase pensions property linked		235112	9021	235112	235112	58022	293134
755	Trustee investment plan				9851	9851		9851

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 1)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity	377	77		673	673		673
910	Miscellaneous index linked						85	85

Long-term insurance business: index linked business

Form 56

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

Global business

Total business

Financial year ended **31st December 2007**

Units **£000**

Type of assets and liabilities	Name of index link 1	Value of assets or liabilities 2	Gross derivative value 3
Treasury 2.5%, 2013, Index Linked Gilt	RPI	67	
Treasury 2.5%, 2009, Index Linked Gilt	RPI	606	
Sub total assets		673	
Sub total liabilities			
Sub total net assets		673	
Total assets		673	n/a
Total liabilities			n/a
Net total assets		673	n/a

Long-term insurance business - analysis of valuation interest rate**Form 57
(Sheet 1)**Name of insurer **Commercial Union Life Assurance Company Ltd**Total business / subfund **Stakeholder**Financial year ended **31st December 2007**Units **£000**

Product Group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK Pens WP Form 52 Stakeholder	370591		4.00	4.19
TOTAL	370591	n/a	n/a	n/a

Long-term insurance business - analysis of valuation interest rate

**Form 57
(Sheet 1)**

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

Total business / subfund **With Profit**

Financial year ended **31st December 2007**

Units **£000**

Product Group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK L&GA WP Form 51 Assurances	1633566	2.90	3.32	4.19
UK L&GA NP Form 51 Assurances	130757	2.90	3.63	4.81
UK L&GA NP Form 51 In Payment Annuities	115674		4.20	4.81
UK L&GA NP Form 51 Deferred Annuities	46257		3.60	4.81
UK Pens WP Form 51	532090		3.70	4.19
UK Pens NP Form 51	501797		3.60	4.81
UK Pens NP Form 51 In Payment Annuities	1011305		4.20	4.81
UK L&GA WP Form 52	5750038	3.55	4.06	4.19
UK Pens WP Form 52	2023106		4.00	4.19
OS L&GA WP Form 52	423999		4.00	4.19
UK Pens NP Form 53	54783		4.20	4.81
Misc	164801			
TOTAL	12388173	n/a	n/a	n/a

Long-term insurance business: distribution of surplus

Form 58

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Total business / subfund **Total Long-Term Insurance Business**
 Financial year ended **31st December 2007**
 Units **£000**

	Financial year 1	Previous year 2
--	----------------------------	---------------------------

Valuation result

Fund carried forward	11	12758764	11802968
Bonus payments in anticipation of a surplus	12	151077	85543
Transfer to non-technical account	13	41472	33256
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	12951313	11921767
Mathematical reserves	21	12504521	11566781
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	446792	354986

Composition of surplus

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	446792	354986
Total	39	446792	354986

Distribution of surplus

Bonus paid in anticipation of a surplus	41	151077	85543
Cash bonuses	42		
Reversionary bonuses	43	254243	236187
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	405320	321730
Net transfer out of fund / part of fund	47	41472	33256
Total distributed surplus (46+47)	48	446792	354986
Surplus carried forward	49		
Total (48+49)	59	446792	354986

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 surplus

Form 58

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Total business / subfund **Stakeholder**
 Financial year ended **31st December 2007**
 Units **£000**

	Financial year 1	Previous year 2
--	----------------------------	---------------------------

Valuation result

Fund carried forward	11	370591	377800
Bonus payments in anticipation of a surplus	12	14053	4823
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	384644	382623
Mathematical reserves	21	355688	363241
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	28956	19382

Composition of surplus

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	28956	19382
Total	39	28956	19382

Distribution of surplus

Bonus paid in anticipation of a surplus	41	14053	4823
Cash bonuses	42		
Reversionary bonuses	43	14903	14559
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	28956	19382
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48	28956	19382
Surplus carried forward	49		
Total (48+49)	59	28956	19382

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 surplus

Form 58

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Total business / subfund **With Profit**
 Financial year ended **31st December 2007**
 Units **£000**

	Financial year 1	Previous year 2
--	----------------------------	---------------------------

Valuation result

Fund carried forward	11	12388173	11425168
Bonus payments in anticipation of a surplus	12	137024	80720
Transfer to non-technical account	13	41472	33256
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	12566669	11539144
Mathematical reserves	21	12148833	11203540
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	417836	335604

Composition of surplus

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	417836	335604
Total	39	417836	335604

Distribution of surplus

Bonus paid in anticipation of a surplus	41	137024	80720
Cash bonuses	42		
Reversionary bonuses	43	239340	221628
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	376364	302348
Net transfer out of fund / part of fund	47	41472	33256
Total distributed surplus (46+47)	48	417836	335604
Surplus carried forward	49		
Total (48+49)	59	417836	335604

Percentage of distributed surplus allocated to policyholders

Current year	61	90.07	90.09
Current year - 1	62	90.09	90.13
Current year - 2	63	90.13	90.16
Current year - 3	64	90.16	90.17

Long-term insurance business: With-profits payouts on maturity (normal retirement)

Form 59A

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

Original insurer **Commercial Union Life Assurance Company Limited**

Date of maturity value/open market option **01 Mar 2008**

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	7343	1487		CWP	N	7343
Endowment assurance	15	12673	1851		CWP	N	12673
Endowment assurance	20	22251	2902		CWP	N	22251
Endowment assurance	25	42827	7197		CWP	N	42827
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	34616	5358		UWP	N	34616
Regular premium pension	15	62076	11052		UWP	N	62076
Regular premium pension	20	117204	30834		CWP	N	117204
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	18100	1666		UWP	N	18100
Single premium pension	15	31761	8544		UWP	N	31761
Single premium pension	20	67418	19228		CWP	N	67418

Long-term insurance business: With-profits payouts on surrender

Form 59B

Name of insurer **Commercial Union Life Assurance Company Ltd**
 Original insurer **Commercial Union Life Assurance Company Limited**
 Date of surrender value **01 Mar 2008**

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	5975			CWP	N	17892
Endowment assurance	15	12370			CWP	N	20533
Endowment assurance	20	22725			CWP	N	27381
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	16082	1710		UWP	Y	16234
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	16954	1666		UWP	Y	16954

Long-term insurance capital requirement

Form 60

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

Global business

Financial year ended **31st December 2007**

Units **£000**

	LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
	1	2	3	4	5	6

Insurance death risk capital component

Life protection reinsurance	11	0.0%	191664	191664			
Classes I (other), II and IX	12	0.1%	294673	294673	0.80	237	
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%	4264526	3373033		10292	11839
Classes III, VII and VIII	15	0.3%	35336	35336	1.00	106	408
Total	16		4786199	3894706		10635	12497

Insurance health risk and life protection reinsurance capital component

Class IV, supplementary classes 1 and 2 and life protection reinsurance	21					
---	----	--	--	--	--	--

Insurance expense risk capital component

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	4926953	4915626	1.00	49156	46327
Classes III, VII and VIII (investment risk)	33	1%	7817306	7761407	0.99	77614	70900
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	1477466	71761	0.85	12558	12278
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%	2610	2610	1.00	26	17
Total	39					139355	129522

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%	7228	7228			
Classes I (other), II and IX	42	3%	4926953	4915626	1.00	147469	138980
Classes III, VII and VIII (investment risk)	43	3%	7817306	7761407	0.99	232842	212700
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	1477466	71761			
Classes III, VII and VIII (other)	45	0%	80452	132			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%	2610	2610	1.00	78	52
Total	49		14312015	12758764		380389	351732

Long term insurance capital requirement	51					530379	493751
--	-----------	--	--	--	--	---------------	---------------

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

Global business

Financial year ended **31st December 2007****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)	16,641,923
Form 13 Line 89 (Other than long term business)	42,495
Form 14 Lines 11, 12 and 49	(13,953,039)
Form 15 Line 69	(130)
	<hr/> 2,731,249
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	32,330
v) Roundings	
Total i) to v) above	<hr/> 2,763,579
Form 3, line 79	2,763,579

0307 Financial Reinsurance - accepted

The impact of the financial reinsurance shown at line 93 is to increase mathematical reserves by £25m. The amount of contingent asset for payments from cedants is £25m. The commutation value of the reinsurance arrangement at the end of the financial year is £25m.

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

	£'000
a) Positive valuation differences in respect of assets where valuation in GENPRU and INSPRU exceeds the valuation that the firm uses for external financial reporting purposes.	-
b) Positive valuation differences in respect of liabilities where valuation in GENPRU and INSPRU is lower than the valuation that the firm uses for external financial reporting purposes This represents mathematical reserves and the removal of DIR	1,530,156
c) Negative valuation differences in respect of assets where valuation in GENPRU and INSPRU is lower than the valuation that the firm uses for external financial reporting purposes. This represents prior year transfers from the PHI fund.	(11,185)
d) Negative valuation differences in respect of liabilities where valuation in GENPRU and INSPRU exceeds the valuation that the firm uses for external financial reporting purposes.	-
Net positive valuation difference included in line 14	<hr/> 1,518,971

0313 Reconciliation of profit and loss account and other reserves

	£'000
Profit and loss account and other reserves at the end of the previous financial year (Form 3 Line 12 Column 4)	<hr/> 45,691
Profit/(loss) retained for the financial year (Form 16 Line 59)	<hr/> 8,478
Profit and loss account and other reserves at the end of the previous financial year (Form 3 Line 12 Column 3)	<hr/> 54,169

Supplementary notes

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

Global business

Financial year ended **31st December 2007**

Code

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 Long-term insurance business Fund held £98.8m in unlisted securities and £1111m 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 £466.3m in the Long-term insurance business Fund.

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

1319 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 Investment Management Agreement with Morley Fund Management Limited and approved by the Norwich Union Life Investment 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 2.4% of the fund.

Fixed

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

Derivatives

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

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

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

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

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

Global business

Financial year ended **31st December 2007****Code****1311 Restatement of comparatives – long term insurance business****1411 Restatement of comparatives – long term insurance business****1811 Restatement of comparatives – long term insurance business****1911 Restatement of comparatives – long term insurance business**

The Company enters into stock lending transactions and receives collateral to reduce the Company's exposure to counterparty credit risk. This collateral may take the form of cash or non-cash collateral. Upon review of these transactions it was identified that under International Financial Reporting Standards certain cash collateral transactions should have been recognised on the balance sheet with a corresponding obligation to return this collateral. The cash collateral received was subsequently lent out with this loan being fully collateralised by non-cash collateral.

As a result, to allow an appropriate comparison to be made the following adjustment has been recognised in the 2006 comparative figures of this return:

- Form 13 Line 53 Other loans has increased by £431 million.
- Form 14 Line 38 Creditors – other has increased by £431 million.
- Form 18 Line 11 Long-term admissible assets of the fund has increased by £431m
- Form 18 Line 22 Regulatory current liabilities of the fund has increased by £431m
- Form 19 Line 51 Realistic current liabilities of the fund has increased by £431m

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 £243m comprising a full provision for potential corporation tax on capital gains and run off of tax acquisition expenses.

There are no contingent liabilities not included on the Form.

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

1404 Implicit provision required by INSPRU 3.2.17R

Included in line 38 is £56m relating to an implicit provision required by INSPRU 3.2.17R.

1405 Other adjustments to liabilities**£'000**

Technical provisions adjustment	1,506,033
Disallow Deferred income reserve	24,123
Total	<u><u>1,530,156</u></u>

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 2007. Revenue items in currencies other than sterling have been translated into sterling at an average rate of exchange for the year.

Supplementary notes

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

Global business

Financial year ended **31st December 2007**

Code

1700 Form omitted

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

1701 Variation margin

The aggregate amount of excess variation margin which has been received by the Company is £26m. The variation margin is allocated to form 13 as follows:

	£'000
Form 13 line 44	25,840

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

4002 Other income

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

4006 Apportionment of items between different long term insurance business funds

Investment Income

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

Increase or decrease in the value of assets brought into account

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

Expenses

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

Taxation

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

4008 Provision of management services

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

4400 Form omitted

This Form has been omitted as all entries (including comparatives) would be blank.

4500 Form omitted

This Form has been omitted as all entries (including comparatives) would be blank.

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 for perpetuities and at the latest callable date for other securities

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

Global business

Financial year ended **31st December 2007****Code****4804 Yields for other assets**

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

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

4806 Returns on assets backing with-profits liabilities

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

4901 Rating Agency

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

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

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

Code	Number of schemes
755	1

5103 Since 1% of gross mathematical reserves = £143m, then any miscellaneous product codes that exceed £10m are mentioned below.

Product 205 Miscellaneous with-profit**UK Life Gross**

Special Distribution	187.4m
Miscellaneous Assurance	<u>6.5m</u>
Total	193.9m

UK Pension Gross

Miscellaneous Assurance	3.0m
Staff Pension Scheme Reserve (Pension part)	6.8m
Special Distribution	<u>41.3m</u>
Total	51.1m

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

Miscellaneous Assurance	£3.2m
Future Claims and Expenses	£7.4m
Unprocessed Movements	<u>£27.0m</u>
Total	£37.6m

Supplementary notes

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

Global business

Financial year ended **31st December 2007**

Code

Overseas Gross

Hibernian Financial Reassurance £25.1m

5203 Product 575 Miscellaneous UWP

UK Life Gross

Norwich Union International Limited With Profit Bond and Core Funds Bond £336.7m

Special Distribution £632.0m

Total £968.7m

UK Pension Gross

Group Defined Benefit (Red Plan) £284.0m

Special Distribution £201.4m

Waiver of premium £0.6m

Total £486.0m

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2007**

1. Introduction

- (1) The **valuation date** is 31 December 2007.
- (2) The previous valuation was completed with an effective date of 31 December 2006.
- (3) An interim valuation was carried out with an effective date of 30 June 2007 for the purposes of rule 9.3A.

2. Product Range

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

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

This fund is open to new with-profits business.

3. Discretionary charges and benefits

- (1) The table below shows the period during which a market value reduction (MVR) applied during 2007. 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 2007. Units purchased in a year that is not shown were not subject to an MVR during 2007.

Class of business:	UWP Life (direct written business)	UWP Individual Pensions (direct written business)	UWP Sterling Group Plan Pensions business
1997	(N/A)	(N/A)	(N/A)
1998	(N/A)	(N/A)	(N/A)
1999	01/01/2007-30/06/2007	01/01/2007-30/06/2007	01/01/2007-30/06/2007
2000	01/01/2007-30/06/2007	01/01/2007-30/06/2007	01/01/2007-30/06/2007
2001	(N/A)	(N/A)	(N/A)

The Company reinsures Unitised with-profit business from CGNU and NUL (RBS). The details about the MVR rates applied by these companies over 2007 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 3.4%.

Sterling Group Plan

The increase applied was 5.2 %.

Prime Series

Policy charges were increased by 3.4%.

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 2007**

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

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

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

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

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

For funds with an excess of realised/unrealised gains over losses the percentage used for gains and losses varied by fund in the range 15% to 20% during the year to 31 December 2007.

Credit is also applied to unit prices for accumulated realised losses and unrealised losses. For funds with an excess of realised/unrealised losses over gains the percentage used for gains and losses varied by fund in the range 13% to 20% during the year to 31 December 2007.

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

4. Valuation basis (other than for special reserves)

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

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

(1) Valuation methodology

£10m is less than 1% of gross mathematical reserves = £143m. Therefore £10m has been used as the materiality limit for this section.

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

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2007**

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

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

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

Unitised with-profit business:

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

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

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

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

Internal linked contracts

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

Other linked contracts

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

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

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

Global business

Financial year ended **31 December 2007**

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

(2) Valuation interest rates:

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

Product Group	31 December 2007	31 December 2006
Life Assurances		
All Conventional with-profit business	2.9%	2.9%
All Conventional non-profit business	2.9%	2.9%
All Unitised with profit business	3.55%	3.55%
Pensions and General Annuities		
Immediate Annuities (currently in payment)	4.2%	4.2%
With-Profit Deferred Annuity		
In payment	3.7%	3.7%
In deferment	3.7%	3.7%
Non-Profit Deferred Annuity		
In payment	3.6%	3.6%
In deferment	3.6%	3.6%
Pure Endowment WP	3.7%	3.7%
In-payment rate for valuing Guaranteed Annuity Options	3.7%	3.7%
Other Non-Profit Conventional business	3.6%	3.6%
All Unitised with-profit business	4.0%	4.0%

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

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

In the case of equity, the cap is the Long Term Gilt Yield + 2%. The cap reduces the average yield on equities by approximately 0.12%. 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 0.02%.

This is because the yields on the Company's property are currently low (average 4.5%) compared to gilt yields, with 77% of the business having a yield below 6%. This implies that much of the credit risk has already been taken into account in the calculation of the base running yields.

Fixed interest securities

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

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

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 September 2007 plus an additional margin.

The deduction used was 0.39%. It applies to all fixed interest securities except Approved fixed interest (gilts and other bonds issued by approved UK and international public sector bodies).

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

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

Global business

Financial year ended **31 December 2007****(4) Mortality assumptions**

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

Product	Mortality basis 31/12/2007	Mortality basis 31/12/2006
CULAC Life Assurances		
Whole life and Endowments DTA on Low Cost Endowment	132% AM92 / 132% AF92 Sel 2	AM92/AF92
Unitised With Profits	120% AM92/AF92	120% AM92/AF92
Pure Endowments	50% AM92/50% AF92	50% AM92/50% AF92
Term assurance	75% TM92/75% TF92 (NS) 160% TM92/220% TF92 (S)	75% TM92/75% TF92 (NS) 160% TM92/220% TF92 (S)
Mortgage Protection	85% TM92/90% TF92 (NS) 165% TM92/210% TF92 (S)	85% TM92/90% TF92 (NS) 165% TM92/210% TF92 (S)
CULAC: General Annuities		
Immediate Annuities – Individual	74% IML00/77% IFL00	74% IML00/77% IFL00
Immediate Annuities – Group; GAOs in payment	90.5% PCMA00/85% PCFA00 (assume all business pre 1/1/03)	90.5% PCMA00/85% PCFA00 (assume all business pre 1/1/03)
Individual deferred annuity In deferment Post vesting	50% AM92/50% AF92 74% IML00/77% IFL00	50% AM92/50% AF92 74% IML00/77% IFL00
Group deferred annuity In deferment Post vesting	50% AM92/50% AF92 90.5% PCMA00/85% PCFA00	50% AM92/50% AF92 90.5% PCMA00/85% PCFA00
CULAC: Pensions Business		
Immediate Annuities;	90.5% PCMA00/85% PCFA00	90.5% PCMA00/85% PCFA00
GAOs in payment	90.5% PCMA00/85% PCFA00	90.5% PCMA00/85% PCFA00
Pure Endowment	50% AM92/50% AF92	50% AM92/50% AF92
Whole Life & Endowment Insurance Group Term Assurance	132% AM92 / 132% AF92 Sel 2	AM92/AF92
Unitised With Profits	50% AM92/AF92	50% AM92/AF92
Term assurance	75% TM92/75% TF92 (NS) 160% TM92/220% TF92 (S)	75% TM92/75% TF92 (NS) 160% TM92/220% TF92 (S)
Deferred Annuity In deferment Post vesting	50% AM92/50% AF92 90.5% PCMA00/85% PCFA00	50% AM92/50% AF92 90.5% PCMA00/85% PCFA00
Widows Death in Service In deferment Post vesting	AM92/AF92 90.5% PCMA00/85% PCFA00	AM92/AF92 90.5% PCMA00/85% PCFA00
Current Cost Term Insurance	1 periodic premium	1 periodic premium

Notes on tables:

- M tables apply to male lives, F tables to female lives.
- Annuitant mortality: allowance has been made for future improvements to mortality. The base tables (% of PCXA00) are assumed to apply as at 31 December 2004; from that date improvements are expected. The allowance for improvements is as follows:

	31 December 2007	31 December 2006
Males	100% of Medium Cohort, minimum 2.0%, applicable from 2005	100% of Medium Cohort, minimum 2.0%, applicable from 2005
Females	75% of Medium Cohort, minimum 1.5%, applicable from 2005	75% of Medium Cohort, minimum 1.5%, applicable from 2005

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

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

Global business

Financial year ended **31 December 2007****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 2007	Expectation of Life for annuitant aged 75 in 2007	Expectation of Life from age 65 for annuitant aged 45 in 2007	Expectation of Life from age 65 for annuitant aged 55 in 2007
90.5% of PCMA00 plus 100% CMI_Medium_Cohort, min 2%, applied from 2005	23.29	14.13	27.73	25.48
85% of PCFA00 plus 75% CMI_Medium_Cohort, min 1.5%, applied from 2005	25.38	16.02	28.41	26.89
74% IML00 plus 100% CMI_Medium_Cohort, min 2%, applied from 2005	25.41	15.71	29.69	27.53
77% IFL00 plus 75% CMI_Medium_Cohort, min 1.5%, applied from 2005	27.08	17.04	29.95	28.51

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

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

Allowance/reserve for:

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

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

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

(5) Morbidity assumptions

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

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

These rates were also used in the previous financial year.

(6) Expense assumptions:

Expense assumptions are taken as 130% (130% for 2006) of the amounts detailed in the Management Services Agreement (MSA) plus an aggregate provision of £2.2m. 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 2007**

The table below shows the per-policy expenses assumptions in 2006 and 2007 (excluding allowance for project costs). These figures form the base position for the valuation expense assumptions.

CULAC		
Renewal Admin (£ per policy) (includes European business)	2007	2006
Product Classes		
CWP savings endowment (product code 120)	36.33	35.31
CWP target cash endowment (125)	36.33	35.31
CWP Pensions (155 / 165)	55.21	53.66
Term Assurance (325 / 330)	36.33	35.31
Income Protection (360 / 365)	36.33	35.31
Annuity (400)	31.59	30.69
UWP bond (500)	37.45	36.4
UWP regular premium pension (525 / 545)	55.21	53.65
UWP single premium pension (525 / 545)	55.21	53.65
UWP group regular premium pension (535)	55.21	53.65
UWP group single premium pension (535)	55.21	53.65
UL bond (700)	37.45	36.4
UL regular premium pension (725)	55.21	53.65
UL single premium pension (725)	55.21	53.65
UL group regular premium pension (735)	46.72*	45.4*
UL group single premium pension (735)	46.72*	45.4*

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

For reinsurance accepted from CGNU see the CGNU FSA Return.

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

Assumed future expense inflation:

4.00% per annum (NAE – 1%, as set by the MSA agreement)

Zillmer adjustments:

No Zillmer adjustments were made to net premium reserves.

Investment expenses:

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

Asset Class	Reduction in asset yield
Equity	0.250%
Property	0.182%
Gilts	0.040%
Other Fixed Interest	0.077%
Cash	0.059%

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

Tax relief

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

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

Global business

Financial year ended **31 December 2007****(7) Unit Linked policies: basis for non-unit reserves.**

	31 December 2007		31 December 2006	
	Life	Pensions	Life	Pensions
Assumed Fund Growth (before annual management charge)	4.60%	5.60%	4.70%	5.60%
Discount rate	3.40%	4.20%	3.40%	4.20%
Policy fee inflation	2.00%	2.00%	2.00%	2.00%

4.00% per annum (NAE – 1%, as set out by the MSA agreement).

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

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

Unitised with-profit business:

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

Guaranteed regular bonus by product:

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

(9) Persistency assumptions:

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

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer

Commercial Union Life Assurance Company Limited

Global business

Financial year ended

31 December 2007**Lapse rate assumptions:**

Product		Average lapse/surrender/paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Level term	Lapse	0%	0%	0%	0%
Decreasing term	Lapse	0%	0%	0%	0%
Accelerated critical illness	Lapse	0%	0%	0%	0%
Income protection	Lapse	0%	0%	0%	0%
CWP savings endowment	Surrender	0%	0%	0%	0%
CWP target cash endowment	Surrender	0%	0%	0%	0%
UWP savings endowment	Surrender	0%	0%	0%	0%
UWP target cash endowment	Surrender	0%	0%	0%	0%
UWP bond	Surrender	0%	0%	0%	0%
UWP bond	Automatic withdrawals	100% of current	100% of current	100% of current	100% of current
UL bond	Surrender	0%	0%	0%	0%
UL bond	Automatic withdrawals	100% of current	100% of current	100% of current	100% of current
CWP pension regular premium	PUP	0%	0%	0%	0%
CWP pension regular premium	Surrender	0%	0%	0%	0%
CWP pension single premium	Surrender	0%	0%	0%	0%
UWP indiv pension regular premium	PUP	Peak 1 valuation assumes no future premiums on UWP business			
UWP indiv pension regular premium	Surrender	0%	0%	0%	0%
UWP indiv pension single premium	Surrender	0%	0%	0%	0%
UL indiv pension regular premium	PUP	0%	0%	0%	0%
UL indiv pension regular premium	Surrender	0%	0%	0%	0%
UL group pension regular premium	PUP	0%	0%	0%	0%
UL group pension regular premium	Surrender	0%	0%	0%	0%
UL indiv pension single premium	Surrender	0%	0%	0%	0%

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

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

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

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

Guaranteed Minimum Pensions on Section 32 policies:

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

Taxation

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

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

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

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

Global business

Financial year ended **31 December 2007**

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

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

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

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

5. Options and Guarantees**(1) Guaranteed Annuity Rate Options:****(a) Method:**

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

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

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

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

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

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

If this second reserve is larger than the base Regulatory-peak figure, an allowance for stochastic variation is added to the Regulatory-peak reserve. The allowance at 31 December 2007 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 2007

(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)	84.3	5.1
(iii) Spread of O/S durations:		
Less than 1 year	1.9%	1.1%
2-5 years	16.2%	10.8%
6-10 years	29.8%	21.1%
11-20 years	39.2%	41.3%
over 20 years	12.9%	25.7%
(iv) Guarantee Reserve (£m)	65.4	3.5
(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)	157.0	5.3	24.5	1.9
(iii) Spread of O/S durations:				
Less than 1 year	3.7%	1.2%	5.9%	3.7%
2-5 years	20.7%	21.0%	39.4%	9.4%
6-10 years	23.4%	20.4%	31.2%	35.2%
11-20 years	45.2%	50.8%	22.8%	50.9%
over 20 years	7.0%	6.6%	0.7%	0.8%
(iv) Guarantee Reserve (£m)	89.7	3.7	12.3	1.1
(v) Guaranteed Annuity Rate	10.0%	10.0%	10.0%	10.0%
(vi) Increments allowed?	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.	Increments are allowed for these policies, however the increments are not subject to the guarantee.
(vii) Form of the annuity	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period	Paid monthly in advance, single life, 5-year gtee period
(viii) Retirement Ages	60 until 75	60 until 75	60 until 75	60 until 75

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

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

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2007**

Unit-Linked:

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

(3) Guaranteed Insurability Options

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

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

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

(4) Other guarantees and options

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

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

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

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

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

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

This means that the benefit payable becomes:

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

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

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

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

Basis:

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

Base reserve = Face Value of units = £187.4m

Reserve for the guarantee = £103.1m.

Valuation report – IPRU (INS) Appendix 9.4

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

Global business

Financial year ended **31 December 2007**

(b) Guaranteed Minimum Pension:

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

A reserve has been calculated on an individual level for a subset of affected policies. For each policy, the value of the Guaranteed Minimum Pension at retirement (calculated using the end-2007 valuation basis) was compared with the projected value of the policy's benefits. The difference, if positive, was noted as a percentage of the policy's benefits. These percentages were weighted and applied to the total benefit in force to estimate the reserve required on the business as a whole. An additional 10% margin was added to cover the risk arising from data quality.

The amount of business invested in products that may incorporate a Guaranteed Minimum Pension guarantee is £36.8m. The reserve for the guarantee is £3.5m.

6. Expense reserves

- (1) The aggregate amount arising during 2008 from expenses allowances is £54,835,000.

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 2008.

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

- (2) Gross Premium Valuation has been used for all business. All allowances for expenses are explicit.
- (3) The expenses in line 14 of Form 43 include some unit expenses that we do not hold reserves for e.g. unit-deductions on business where non-unit reserves are reinsured to NUL&P. When these expenses are excluded, the allowance for maintenance expenses in 6(1) above exceeds the figure for expenses in line 14 of Form 43 by £21,545,000. This is due to margins in the basis.
- (4) No reserve is deemed necessary to cover the costs of transacting new business in the year following the valuation date.
- (5) No explicit reserve for maintenance expense overrun has been made because existing provisions for expenses exceed their current levels.

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

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

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

- (a) All expenses provisions allow for taxation.
- (b) Our expense provision exceeds expenses incurred over the last twelve months and expected future expenses levels.
- (c) Expense inflation has been allowed for in the valuation at the rates dictated by the Management Services Agreement. The parameter used for RPI inflation (3.0%) 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 2008 using the following method and basis of calculation:
 - All sales, marketing and new business administration operations were assumed to cease immediately.
 - Allowance was made for redundancy costs.

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
 Global business
 Financial year ended **31 December 2007**

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

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

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

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

7. Mismatching Reserves

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

Life and Annuity Fund			
Assets	Mathematical Reserves and matching assets (£000)		
	Sterling	Euros	US Dollars
Sterling	12,488,417	-	-
Euro	-	172,443	-
Dollar	-	-	80,509

- (2) No such grouping of liabilities has been needed.
- (3) The fund does not hold a reserve for currency mismatching.
- The fund is exposed to the risk that assets held in different currencies to the liabilities are subjected to adverse currency movements. The table in 7(1) above shows that effectively all our liabilities – both UK and overseas - are covered by assets held in the same currency.
- (4) The firm is a realistic-basis firm and a resilience reserve is no longer required.
- (5) The firm is a realistic-basis firm and a resilience reserve is no longer required.
- (6) The firm is a realistic-basis firm and a resilience reserve is no longer required.
- (7) INSPRU 1.1.34R(1): “The assets *[held by a firm to cover its technical provisions]*...must...be of a sufficient amount, and of an appropriate currency and term, to ensure that the cash inflows from those assets will meet the expected cash outflows from the firm’s insurance liabilities as they become due.”

No further reserve has arisen following consideration of this rule.

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

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

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

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

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2007**

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

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

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

An estimate of the Company's claims amounts for 2008 is £1,300m. Expected income, in 2008, from assets currently held in the fund is £600m and £320m is held in deposit-style assets. Premium income for 2007 was around £780m and there is no reason to expect it to fall significantly. Therefore we expect to be able to pay the company's claims from incoming premiums/cash without having to sell any of our other liquid assets. Accordingly there is no need to hold an additional reserve.

8. Other Special Reserves

(1) Mortgage Endowment Promise

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

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

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

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

The reserve will be calculated by considering the full liability for payments advised to policyholders in Promise mailings.

As payment of this amount is contingent on earnings on the free reserves, we test whether this full amount can be paid from these earnings with reference to the stochastic model used for the Realistic peak valuation. If earnings are materially lower than the full reserve we will only reserve for the amount of the promise paid from these earnings. The reduction in reserves at 31 December 2007 for the affordability condition is zero.

The amount of provision is £305.95m.

(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 £35.84m.

The reserve has been calculated by:

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer **Commercial Union Life Assurance Company Limited**
Global business
Financial year ended **31 December 2007**

- 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: £3,664

Percentage of complaints leading to a claim: 72%

Claims processing expense: £330 per complaint.

(3) Pensions Review Reserve

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

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

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

The reserve held was £12.33m.

(4) Staff Pension Scheme Reserve

The Company has agreed to meet a share of the costs of funding the Aviva plc Staff Pensions Scheme deficit. A reserve has been established as the discounted value of the future payments into the scheme as per the current funding plan. Because the fund has agreed to meet a share of the total payments into the scheme, payments over the full funding term are allowed for rather than just 5 years.

The total reserve held was £19m.

(5) Special Distribution

The Company has announced its intention to make an enhancement to policyholder benefits from the free reserves of the fund (known as the Special Distribution). The Special Distribution is to be in the form of a special bonus awarded to eligible policies in three tranches over 2008, 2009 and 2010.

A reserve has been set up equal to the estimated value at 31 December 2007 of the three future instalments of special bonus (around 10% of asset shares in total).

The amount of the reserve is £1,062.1m.

(6) Product Governance Provision

A reserve has been made to provide for estimated future rectification costs arising from known product governance issues,

The amount of the provision is £19m.

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).

Valuation report – IPRU (INS) Appendix 9.4

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

Global business

Financial year ended **31 December 2007**

(a)

(d) NUL&P

(e) The value of units for unit-linked pensions contracts (issued on a group basis on or after 1 October 1998) is ceded 100% to NUL&P. All death benefits and waiver of premium benefits are also ceded under the treaty. Also the value of units allocated to internal linked funds under Sterling Personal Pension Plan, Sterling Free-Standing AVC, Sterling Executive Pension Plan, Sterling Group (unitised) Plan, and Trustee Investment Plan are reinsured.

(f) The premium payable by the Company during 2007 was £68,248,000.

(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 2007.

(j) The mathematical reserves ceded under the treaty total £1,458,314,000.

(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) NUL&P

(e) The value of units allocated to internal linked funds under Classic Investment Bond and Premier Bond are reinsured

(f) The premium payable by the Company during 2007 was £1,239,000.

(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 2007.

(j) The mathematical reserves ceded under the treaty total £83,150,000.

(k) N/A, see (h).

(l) The reinsurer is authorised to carry on insurance business in the United Kingdom.

(m) The Company is connected with the reinsurer.

(n) The treaty is not subject to any material contingencies.

(o) No provision was made for refund of reinsurance commission in the event of lapse or surrender of the contracts.

(p) The treaty is not a financing arrangement.

10. Reversionary (annual, regular) bonus

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

Valuation report – IPRU (INS) Appendix 9.4

Name of insurer

Commercial Union Life Assurance Company Limited

Global business

Financial year ended

31 December 2007

(1)

Product	Amount of mathematical reserve (£m)	Regular bonus (2006)	Regular bonus (2007)	Guaranteed bonus (2007)
Conventional Life				
New Series	1,110.1	0% SA/1.5% RB	0% SA/1.5% RB	0.00%
Conventional Pensions				
Red Plan Deferred Annuity	28.7	0.5% of Annuity Purchased	0.5% of Annuity Purchased	0.00%
All other Conventional Pensions business	445.4	0% SA/0% RB	0% SA/0% RB	0.00%
Unitised Life - direct written				
All units purchased	771.4	3.25%	3.25%	0.00%
Unitised Pensions - direct written				
Sterling Group Plan (Deposit Admin)	93.6	3.50%	3.50%	0.00%
Units purchased pre 1/1/1993	155.6	4.00%	4.00%	4.00%
Units purchased after 31/12/1992	630.6	3.50%	3.50%	0.00%
Sterling Group Plan (UWP) (non gteed RB)	38.9	3.50%	3.50%	0.00%
Red Plan	290.5	3.00%	3.50%	0.00%

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

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

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

Global business

Financial year ended **31 December 2007**

1. Introduction

- (1) The **valuation date** is 31 December 2007.
- (2) The date of the previous valuation was 31 December 2006.
- (3) An interim valuation was carried out with an effective date of 30 June 2007 for the purposes of rule 9.3A.

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 2007	31 December 2006
Gross Earned Rate	4.71%	4.75%
Net Earned Rate	3.77%	3.80%
Discount Rate	5.21%	5.25%
Expense Inflation	4.00%	3.90%

The LTICR in respect of non-profit business within the fund is 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 (where the asset share is not a reliable guide to future bonuses).

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

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

Global business

Financial year ended **31 December 2007****At 31 December 2007**

Product Class	With-profit benefits reserve £m	Future Policy Related Liabilities £m	Total £m
Conventional Life		375	2,127
Asset Share (ind)	1,633		
Regulatory Reserve	4		
BRV	115		
Conventional Pensions		209	607
Asset Share (ind)	194		
Regulatory Reserve	17		
BRV	187		
Direct written UWP Life		290	1,280
Asset Share (ind)	990		
Direct written UWP Pensions		194	1,495
Asset Share (ind)	1,146		
Asset Share (group)	155		
Reinsured-in UWP Life		850	5,872
Asset Share (ind)	5,020		
Regulatory Reserve	2		
Reinsured-in UWP Pensions		100	809
Asset Share (ind)	686		
Regulatory Reserve	23		
Reinsured-in UWP Stakeholder		96	552
Asset Share (ind)	438		
Regulatory Reserve	18		
Miscellaneous Other	16	-36	-20
Total	10,643	2,077	12, 720

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 £110m of whole life contracts. Conventional life also includes £95m 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 £115m for conventional life relates mainly to whole life policies, which are entirely BRV. £5m of this figure relates to the BRV used for endowment Paid Up 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. £23m worth of the conventional Red Plan liability uses a discounted benefit basis (BRV).

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 2007**

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

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.

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 £49m of unitised endowments. UWP units increase in value at the declared regular bonus rates and cannot reduce at the contractual maturity dates or at contract-specific no-MVR dates. Any final bonus due is added at policy exit. The value on exit can be subject to an MVR if exit is not at one of the contractual no-MVR dates.

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

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

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

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

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

'Miscellaneous other' consists of reserves held to cover other liabilities to the fund that cannot be assigned to certain product types such as Pension transfer review reserves and reserves for future development and audit fees. This category also includes charges that will accrue to the estate from charge-based contracts. These charges exceed the sum of other liabilities included in this category by £36m

(2) Not applicable

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

Global business

Financial year ended **31 December 2007****4. With-profits benefits reserve – Retrospective method****(1) Table of methods**

Method	With-profit benefits reserve (%)
Asset Share (individual)	95
Asset Share (group)	1
BRV	3
Regulatory Reserve	1
Miscellaneous Other	0
Total	100

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

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

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

Factors have then been applied to each of these groupings based on asset share to BVU ratios for sample model points. Sample model points are representative of the policies within each group allowing for average premium size and age etc.

(2) Changes in valuation method

(a) The following significant changes were made in respect of the With-Profit Benefit reserve, in 2007:

Whole of Life policies now use a bonus reserve valuation rather than a historic asset share calculation.

Shareholder transfer deducted from asset shares are now modelled using the historic rather than the current valuation basis, for CULAC CWP pensions.

Asset shares for paid-up conventional pensions now use 100% of the bonus reserve valuation.

Optimiser pensions have changed from a regulatory reserve to asset share approach.

(3) Allocation of expenses

(a) See (b).

(b) NULS income and expenses are calculated on a monthly basis and a profit or loss determined on an annual basis.

(c) The text below sets out the treatment of charges made to asset shares with respect to expenses and commission. Broadly, some policies are charged sales and administration expenses incurred by the fund, some follow this approach but have the overall charge capped, and a third group has defined charges.

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

	2007			
	Charged to WPBR	Not-Charged to WPBR	Non-Profit expenses	Total
	£m	£m	£m	£m
Estimated initial expenses and commission	5	45	1	51
Renewal expenses and commission	62	-4	2	60
Shareholder Transfers	23	19	0	42

The above tables approximately splits out the expenses incurred over 2007.

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 2007**

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

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 2007 are approximately £67m plus £23m of shareholder transfers. The majority of this relates to renewal expenses, most new business is UWP business sold on a charges basis with the majority of the charges being the annual management charge which is charged to asset shares over the life time of the policy.

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

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

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

Actual expenses apply to the following product groups:

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

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

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

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 2007**

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)

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

Inflation protection bonds introduced in 2007 have a guarantee charge of 0.7% p.a. for a 10 year period. The total charge made in 2007 was £1.0m.

(5) Non-Insurance Risk Charges

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

(6) Claims ratios

Business	Product Type	2005	2006	2007
Direct	Conventional Life	96%	95%	93%
	Conventional Pensions	104%	99%	92%
	UWP Life	94%	92%	93%
Reinsured in	Conventional Life	95%	98%	92%
	UWP Life	102%	100%	98%
	UWP Pensions	100%	96%	95%
	UWP Stakeholder	95%	94%	97%

The figures above for 2005, 2006 and 2007 are estimates based on actual maturity and surrender payouts.

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.

The figures for Conventional business for 2007 are not directly comparable with 2006 because of enhancements in our analysis.

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 2007

CGNU Life written business 5.09%

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 2007**

CULAC written business 5.09%

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 3% (£302m) of the with-profit benefits reserve. Two product categories constitute the majority of this business: conventional whole life policies (£110m) and paid-up conventional pension contracts (£162m). The prospective assumptions are as follows:

(a) Economic Assumptions

Future earned rate: Whole Life	5.84%
Future earned rate: Pensions	6.69%
Discount rate (benefits): Whole Life	5.84%
Discount rate (premium, expenses): Whole Life	4.71%
Discount rate: Pensions	6.69%
Expense Inflation:	4.00%

The rates used are central estimates of the future earned rates (net rates for life products), consistent with the rates used in the derivation of future bonuses.

(b) Investment returns and risk adjustments

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

UK Equities	7.6%
Overseas Equities	7.6%
Properties	6.6%
Gilts	4.6%
Other Fixed Interest	5.9%
Cash	4.1%

A risk adjustment of 0.2% was deducted from the assumed return on other fixed interest.

(c) Expense inflation

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

(d) Future Assumed Regular Bonus Rates

Product Class	2007
Conventional Whole Life	0% SA/1.5% bonus
Conventional Pension	0% SA/0% bonus

(e) Future Expense Assumptions

Product Class	Renewal Expenses 2007 £m
Conventional Whole Life	£30.74
Conventional Pension	£46.72

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 2007**

(f) 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 Pension	8	10	12	12	10	9	8	7	6	5

(g) Future mortality assumptions

Conventional whole life: 120%AM92 Sel2/120%AF92 Sel2

Conventional pensions: 120%AM92 Sel2/120%AF92 Sel2

(2) **Regulatory Reserves**

Regulatory reserves cover 1% of the with-profit benefits reserve.

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 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)
- Life Endowment contracts are grouped by original term, outstanding term and also by eligibility to endowment promise.
- Conventional Pensions are grouped by original term, premium term, outstanding term and paid up status.

For unitised with-profit business:

- Product class (e.g. life bonds, individual pensions, and group deferred annuities)
- Life Bonds are split by bonus series, age band, entry year and quarter, joint life status, and lapse class. Individual Pensions are grouped by age band, original term, outstanding term, bonus series and by paid up status. Five year age bands are used from age 45 to 95, and females are allowed for by making a 4 year age deduction.
- Group Deferred Annuities are grouped by age at entry, sex, GAO rate and escalation rate.

For CGNU and CULAC combined, we have grouped approximately 1.4 million individual model points into 3000 grouped model points.

Validations

The total grouped policy benefit data is reconciled back to the individual policy benefit data. The aggregate asset shares are reconciled to the totals in Form 19. We also undertake a comparison of the grouped model points run on a deterministic basis within the stochastic model to the ungrouped

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 2007**

data run through the embedded value model. These comparisons show that both the grouping process and the assumptions adopted within the stochastic model do not distort the underlying attributes of the base (individual) data.

- (c) The stochastic model directly models over 85% of with profit business (as measured by asset share). Residual business, together with any associated guarantees, is modelled by scaling similar directly modelled business..
- (3) The principal changes to the valuation method for valuing the costs of guarantees, options or smoothing since the previous valuation have included switching to a new stochastic model, resulting in the following changes:
- Management decisions relating to regular bonuses are dynamically allowed for within the model.
 - Enhanced dynamic management decision rules for equity backing ratios
 - Use of proprietary economic scenario generator (ESG) to create investment scenarios
 - Dynamic surrenders for UWP bonds at no MVR dates (if policy is in the money)
 - The mortgage endowment promise calculation has been refined.
 - The costs of Guaranteed Annuity Options are now valued using the new stochastic model.

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

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

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

Product Class	Planned Enhancements to WPBR	Planned Deductions to WPBR for guarantee costs	Contractual Guarantee costs	Non-Contractual Commitments	Cost of Financial Options	Smoothing costs
Conventional life	167	0	22	140	0	-12
Conventional Pensions	40	0	14	0	124	5
Direct Written - UWP life	184	3	30	0	61	-4
Direct Written - UWP Pensions	130	0	52	0	0	-3
Direct Written - UWP Stakeholder	0	0	0	0	0	0
Reinsured - CWP Life	9	0	0	0	0	0
Reinsured - UWP Life	416	12	267	0	0	-5
Reinsured - UWP Pensions	71	0	18	0	0	-2
Reinsured - UWP Stakeholder	46	0	11	0	0	-2
Misc	0	0	0	0	0	9

Planned Enhancements to WPBR

The Company has announced its intention to make an enhancement to policyholder benefits from the free reserves of the fund (known as the Special Distribution). The Special Distribution is to be in the form of a special bonus awarded to eligible policies in three tranches over 2008, 2009 and 2010. The estimated cost of the future distribution is included in planned enhancements, and is approximately 10% of WPBR.

Planned Deductions to WPBR for Guarantee costs

This amount represents expected charges for guarantees on new RPI-linked UWP life contracts sold during 2007.

Contractual Guarantee Costs

In addition to the figures in the table there is £16m of contractual Guarantee Costs relating to Section 32 Guaranteed Minimum Pension costs, which are valued using a non-stochastic method (see 6(4) (b))

Conventional Life

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

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 2007**

Stochastic Reserve	=	£22m
Central-estimate	=	£1m
Option value	=	96%

Conventional life guarantees are almost completely out of the money.

Conventional Pensions

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

Stochastic Reserve	=	£14m
Central-estimate	=	£9.1m
Option value	=	35%

Conventional pension guarantees are reasonably in the money.

UWP life

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

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

For business reinsured in from CGNU, the no-MVR guarantee is only currently in the money, by a margin of less than 10% in respect of units purchased during 1999, 2000 and 2007. The total BVU of business sold in CGNU during those years (not just that reinsured to CULAC) is £2,386m.

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

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

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

UWP pensions

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

The no-MVR guarantee is only currently in the money, by a margin of less than 10% in respect of units purchased directly in the CU fund during 2000 and 2007. The total BVU of business sold in those years is £53m. The no-MVR guarantee is out of the money in respect of all other years of purchase. The margin is less than 10% in respect of units purchased from 1997 to 1999 and in 2005 and 2006, and in excess of 10% for all other years of unit purchase.

For business reinsured in from CGNU, the no-MVR guarantee is only currently in the money, by a margin of less than 10% in respect of units purchased during 1999, 2000 and 2007. The total BVU of business sold in CGNU during those years (not just that reinsured to CULAC) is £389m.

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

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 2007**

UWP Stakeholder pensions

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

The no-MVR guarantee is only currently in the money, by a margin of less than 10% in respect of units purchased in 2007. The total BVU of business sold in 2007 is £71m. The no-MVR guarantee is out of the money in respect of all other years of unit purchase. The margin is less than 10% in respect of units purchased during 2006, and in excess of 10% in respect of all other years of unit purchase.

Non-Contractual Commitments

Conventional Life

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

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

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 payments would be made with no reduction where the cost of payment exceeds investment earnings on the estate.

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

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.

	CWP GAO	UWP Life GAO
Stochastic Reserve	123.9	61.2
Best-Estimate Value	118.5	61.2
Option Value	4%	0%

Guaranteed annuity options are very deeply in the money.

Smoothing Costs

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

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

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

The distribution was calculated using the following assumptions:

Risk-free rate:

- Risk-free rate curve as shown below –

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 2007**

Outstanding term	Risk free annualised spot rate (%) – 2007
1	4.55%
2	4.50%
3	4.54%
4	4.59%
5	4.63%
6	4.65%
7	4.67%
8	4.68%
9	4.69%
10	4.69%
12	4.68%
15	4.65%
20	4.57%
25	4.47%
30	4.38%

- The discount rate was set equal to the risk-free rate as above.
- All assets were expected to grow at the risk-free rate (i.e. risk neutral pricing was used).

Derivation of risk-free rate curve:

Typically market instruments can be used to demonstrate that gilt yields are lower than would be expected for a risk free instrument, and that this is down to extra return that can be earned from gilts from repo activity (or for other reasons).

Therefore the risk free rate is based on government bonds + 10bp, consistent with the approach used at 31 December 2006.

. Use of the curve:

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

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

The main liabilities modelled using a flat risk-free rate are the future profits on non-profit business.

Risk free rate used: 4.71%

Annuity interest rate used: 4.41% (equal to the 8 into 15-year forward rate based on the full curve).

Interest Rate Model

A monthly Libor Market Model (LMM) is used.

The LMM has good analytical approximations to swaption prices and bond prices. The LMM provides a better fit across the swaption volatility surface than other models and also offers superior martingale performance.

The LMM is a two factor log-normal model. It offers a rich universe of future yield curve shapes and it guarantees non negative interest rates.

Equity Model

Equity volatility is calibrated to equity implied volatility. The approach to calibration is to capture the volatility of the longest available option term

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 2007**

Exchange traded options generally only trade up to two year terms. However, this is not a very good proxy for the long term guarantees embedded in insurance contracts. Longer terms are available OTC from investment banks - the longest term available is usually 10 years. This data is collected from a panel of investment banks.

The equity model is for the excess return process. That is, the element of return in excess of cash.

A Time Varying Deterministic Volatility (TVDV) model is used. The TVDV model allows the volatility to vary by time according to a monotonic deterministic function. This allows the term structure of implied volatilities to be captured. However, implied volatilities are still invariant by strike. The following sample UK equity volatilities have been produced from the ESG model.

Term	1	2	5	7	10	15	20	25	30
UK Equity volatility	20.8%	21.8%	23.7%	24.5%	25.2%	25.8%	26.1%	26.3%	26.4%

Property Model

Property is modelled as an equity type asset using the constant volatility model.

The model is calibrated using our best estimate assumptions as there are no meaningful option prices. The best estimate is 15%

Correlations

Correlations are controlled in two ways. For equity markets, correlations are defined by the exposures to common elements of the factor model. For other assets, correlations can be defined between the stochastic shocks to the returns. Shock correlations are not equivalent to return correlations. However, shock correlations can be used to target a particular return correlation.

Correlations between asset returns are targeted to best estimate assumptions. These targets have been derived by considering historical behaviour.

The target correlations used within the ESG are displayed below:

Equity Return Vs	Target
Property Returns	20%
Bond Returns	30%
Index-linked bond returns	30%
Overseas Equity Returns	50%
Short rate changes	-20%

Correlations between asset classes are not constant within the model and will differ from the above, but the above targets represent the level of correlation which the parameters of the model are chosen to reproduce in the long term.

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 2007****(iii) Option prices from asset model**

		0.75				1				1.5			
<i>n</i>	<i>K</i>	5	15	25	35	5	15	25	35	5	15	25	35
<i>r</i>	Annualised compound equivalent of the risk free rate assumed for the period (<i>r</i>)	4.63%	4.66%	4.47%	4.30%	4.63%	4.66%	4.47%	4.30%	4.63%	4.66%	4.47%	4.30%
1	Risk-Free Zero Coupon Bond	797,559	505,306	334,734	229,175	x	x	x	x	x	x	x	x
2	FTSE All Share Index (<i>p</i> =1)	83,527	218,940	306,307	374,856	209,037	378,153	483,443	562,702	580,872	759,743	880,087	972,246
3	FTSE All Share Index (<i>p</i> =0.8)	71,339	166,560	213,962	244,369	183,484	294,892	344,461	373,746	526,365	609,070	644,677	659,626
4	Property (<i>p</i> =1)	33,075	104,368	163,435	220,409	136,276	236,072	310,850	381,113	521,527	606,008	683,938	762,072
5	Property (<i>p</i> =0.8)	25,423	68,127	95,831	119,802	112,966	164,364	193,540	219,509	462,840	454,941	457,601	468,468
6	15yr Risk-Free ZCBs (<i>p</i> =1)	3,152	6,409	6,772	10,863	56,317	59,229	68,636	109,516	500,141	500,900	504,797	525,573
7	15yr Risk-Free ZCBs (<i>p</i> =0.8)	1,885	2,515	1,650	1,147	38,189	21,087	11,536	10,631	434,957	312,981	227,045	195,380
8	15yr Corporate Bonds (<i>p</i> =1)	8,432	19,180	27,207	38,022	72,061	91,953	106,555	136,521	496,199	497,194	503,019	527,192
9	15yr Corporate Bonds (<i>p</i> =0.8)	5,809	8,776	9,052	9,755	53,095	45,064	38,557	37,664	431,204	314,378	241,942	214,657
10	Portfolio 1 (<i>p</i> =1)	42,099	132,702	199,904	258,693	150,730	273,898	355,933	427,532	535,210	647,929	735,247	816,248
11	Portfolio 1 (<i>p</i> =0.8)	33,399	91,294	125,580	149,996	126,617	197,857	232,427	257,733	477,510	496,672	506,195	517,485
12	Portfolio 2 (<i>p</i> =1)	35,698	116,601	176,545	230,820	141,898	253,917	327,493	393,401	528,826	627,361	704,654	776,600
13	Portfolio 2 (<i>p</i> =0.8)	27,724	77,761	106,126	128,506	117,881	179,560	207,586	229,903	470,445	475,590	476,584	481,789
14	Portfolio 3 (<i>p</i> =1)	14,563	58,030	98,131	137,968	100,899	174,979	227,821	280,878	507,397	553,590	599,386	655,260
15	Portfolio 3 (<i>p</i> =0.8)	10,143	31,771	46,658	61,271	78,428	108,140	123,191	137,223	445,691	395,649	369,719	364,072
16	Sterling Receiver Swaptions	6.76%	7.44%	6.44%	5.01%	8.61%	9.28%	7.95%	6.15%	10.30%	10.85%	9.21%	7.10%
		Swap Duration = 15 years				Swap Duration = 20 years				Swap Duration = 25 years			

Notes on the table above:

Row 1 shows the value of cash payments of £1,000,000 due *n* years after the valuation date.

Rows 2 to 15 inclusive were 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 $K * £1,000,000 * (1+r*p)^n$.

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 shows 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 are expressed as a percentage of nominal.

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

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 2007**

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

In each case the options are 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 is ignored in all calculations.

All options are 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 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

For UK, the initial equity yield is 3.69% and the initial property rental yield is 4.3%.

(v) UK risk free rates are applied throughout.

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

Global business

Financial year ended **31 December 2007****(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)	%																	
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 +	
Conventional Life																			
Base guarantee	10.8	1	1	1	3	3	5	5	10	11	9	6	8	10	11	8	4	4	100
Mortgage promise	9.5	0	0	1	3	7	8	7	10	13	13	11	8	5	5	5	2	1	100
Conventional Pensions																			
Base guarantee	11.7	1	1	1	1	3	6	7	6	7	10	9	6	8	6	4	5	17	100
GAR option	8.6	32	5	5	5	5	6	5	4	5	4	4	3	3	3	1	2	6	100
Unitised Life: Direct																			
Partial Surrenders	8.2	2	6	8	9	9	10	10	8	7	6	5	4	4	3	2	2	6	100
Surrenders	5.8	-	-	-	31	53	4	1	2	1	1	1	1	1	0	1	1	3	100
Unitised Life: Reinsured In																			
RPI	14.7	-	-	-	2	6	6	5	5	5	5	5	5	5	5	4	4	40	100
Partial Surrenders	6.7	17	17	13	7	5	5	4	4	3	3	3	2	2	2	2	2	11	100
Surrenders	4.6	0	11	32	26	17	1	2	3	2	1	0	1	1	0	0	0	2	100
Unitised Pensions																			
Base gtee - Direct	17.0	2	0	0	1	1	7	1	2	3	2	6	2	4	7	4	4	54	100
Base gtee - Reinsured	16.5	0	0	1	2	2	3	4	4	3	4	4	4	5	4	4	6	49	100
GAR option	9.7	7	6	5	5	9	6	4	9	2	5	6	4	6	7	3	6	13	100
Stakeholder: base guarantee																			
Reinsured	15.7	0	1	2	2	2	3	6	2	5	7	1	6	7	2	4	6	44	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 2007****(vii) Nature of validations of asset model**

The table below shows the discounted value of £1 invested on the valuation date and projected forward t years (t=5, 10, 15, 20) invested in equities and property. For a risk-neutral model, the expected result would be 100%.

t (years from valuation date)		5	10	15	20
Equities	5000 simulation result	100%	101%	101.10%	101.70%
	standard error	0.40%	0.90%	1.40%	2.10%
Property	5000 simulation result	100%	100.10%	99.90%	100.10%
	standard error	0.20%	0.30%	0.50%	0.60%

The above results show that there is good convergence of the asset simulations. To ensure convergence of the liabilities, separate calculations were carried out on different numbers of simulations and the results were satisfactory.

The validation includes comparing volatilities produced by the model to market implied volatilities at 31 December 2007. As shown in the following table, the model produces results that compare well to available market data.

Fit of asset model equity volatilities to market implied UK equity volatilities

Term (yrs)	0.25	0.5	0.75	1	2	3	4	5	7	10
Market (%)	20.5	20.7	20.9	21	21.7	22.5	23.1	23.6	24.5	25.5
Model (%)	20	20.3	20.5	20.8	21.8	22.6	23.2	23.7	24.5	25.2
Difference (%)	0.5	0.4	0.4	0.2	-0.1	-0.1	-0.1	-0.1	0	0.3

(viii) 5,000 projections of asset share returns have been made to construct the probability distribution used to value the guarantees.

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

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

(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 (EBR)

It is assumed that management will intervene and carry out switches (over and above any market movements) of assets backing asset shares. The aim of this approach is to maximise policyholder returns, whilst managing solvency within acceptable risk levels.

If equity/property performance was poor, solvency would reduce, leading to management action to reduce the exposure to these assets. The model contains limits on the maximum change that can be made per month and has upper and lower EBR bounds.

The EBR dynamic rule within the stochastic model takes into account the projected value of the future guarantees and asset shares. It then adopts a dynamic hedging approach to determine the EBR for the assets backing the asset share.

If projected asset shares are close to the projected value of the guarantees, then we are less able to rely on equity/property assets, which leads to a lower EBR. However, if the projected assets shares are significantly in excess of the projected guarantees, then there is more scope to invest in equity/property and EBR can increase accordingly.

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 2007**

Regular Bonus Assumptions

The RB rate is set to ensure that a sufficient level of final bonus can be built up whilst also ensuring the RB rate has reasonable long term sustainability.

The stochastic model utilises a dynamic RB algorithm that depends on the projected asset share to projected guaranteed benefit relationship, along with the desired final bonus buffer and investment return assumption. This calculation also allows for a maximum per annum movement in the RB rate.

The RB algorithm has been compared with actual bonus declarations with satisfactory results.

The results produced by the application of this model are shown in 6.5(b)(i).

Maximum Cuts in payout

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

Target level of payout

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

Guarantee Charges on asset shares

The model uses a 0.7% guarantee charge for UWP life business written with the inflation-protection guarantee.

Allocation of non-profit profits to asset share

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

Shareholder Transfers and tax

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

It is assumed that only the tax on Shareholder transfers will be charged to the estate for CGNU Life and CULAC written business. The shareholder transfers themselves will be charged to asset share. For shareholder transfer payments arising from Mortgage Endowment Promise and from the special distribution referred to in 6.4.(a)(i), both shareholder transfer and tax will be charged to the estate.

Mortality costs

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

Surrender costs

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

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

- The projection allows for future EBR and bonus rate management action as discussed earlier in this document. The results reflect an average of the simulated positions.

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 2007**(i) **Projection at risk free rate**

UWP Bonus Rates

Product	31-Dec-07	31-Dec-12	31-Dec-17
UWP Life (Direct Written)	3.25%	3.69%	3.72%
UWP Pensions (Direct Written)	3.50%	3.74%	4.41%
Reinsured business (from CGNU Life)			
UWP Life (implicitly charged) : Units purchased on policies written pre 01/10/98	3.25%	3.93%	3.60%
UWP Life (implicitly charged) : Units purchased on policies written post 30/09/98	3.25%	2.99%	2.78%
UWP Life (Explicitly Charged)	4.25%	4.01%	4.10%
UWP Pensions (implicitly charged) : Units purchased on policies written pre 01/10/98	3.50%	3.78%	3.74%
UWP Pensions (implicitly charged) : Units purchased on policies written post 30/09/98	3.00%	3.58%	3.63%
UWP Pensions (Explicitly charged)	4.50%	3.80%	3.78%
UWP Pensions (Stakeholder)	4.00%	4.00%	4.03%

Further notes on bonus rates:

Direct written business:

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

Reinsured business from CGNU Life:

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

Assets Backing With-Profit Benefits Reserve

The projections below are based on the actual asset share mix as at 31 December 2007:

Asset Class	31/12/2007	31/12/2012	31/12/2017
Equities	52.8%	54.0%	54.7%
Property	18.0%	18.4%	18.6%
Fixed Interest	28.0%	26.5%	25.6%
Cash	1.2%	1.1%	1.1%
Total Assets	100.0%	100.0%	100.0%
EBR	70.8%	72.4%	73.3%

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 2007**(ii) **Projection at risk free rate plus 17.5%**

UWP Bonus Rates

Product	31-Dec-07	31-Dec-12	31-Dec-17
UWP Life (Direct Written)	3.25%	4.17%	4.27%
UWP Pensions (Direct Written)	3.50%	4.29%	5.03%
Reinsured business (from CGNU Life)			
UWP Life (implicitly charged) : Units purchased on policies written pre 01/10/98	3.25%	4.47%	4.18%
UWP Life (implicitly charged) : Units purchased on policies written post 30/09/98	3.25%	3.51%	3.35%
UWP Life (Explicitly Charged)	4.25%	4.55%	4.68%
UWP Pensions (implicitly charged) : Units purchased on policies written pre 01/10/98	3.50%	4.32%	4.38%
UWP Pensions (implicitly charged) : Units purchased on policies written post 30/09/98	3.00%	4.13%	4.28%
UWP Pensions (Explicitly charged)	4.50%	4.33%	4.40%
UWP Pensions (Stakeholder)	4.00%	4.53%	4.65%

Assets Backing With-Profit Benefits Reserve

Asset Class	31/12/2007	31/12/2012	31/12/2017
Equity	52.8%	54.7%	55.1%
Property	18.0%	18.6%	18.8%
Fixed Interest	28.0%	25.6%	25.0%
Cash	1.2%	1.1%	1.1%
Total Assets	100.0%	100.0%	100.0%
EBR	70.8%	73.3%	73.9%

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 2007****(iii) Projection at risk free rate minus 17.5%**

UWP Bonus rates

Product	31-Dec-07	31-Dec-12	31-Dec-17
UWP Life (Direct Written)	3.25%	3.23%	3.18%
UWP Pensions (Direct Written)	3.50%	3.20%	3.81%
Reinsured business (from CGNU Life)			
UWP Life (implicitly charged) : Units purchased on policies written pre 01/10/98	3.25%	3.40%	3.04%
UWP Life (implicitly charged) : Units purchased on policies written post 30/09/98	3.25%	2.47%	2.24%
UWP Life (Explicitly Charged)	4.25%	3.48%	3.54%
UWP Pensions (implicitly charged) : Units purchased on policies written pre 01/10/98	3.50%	3.24%	3.14%
UWP Pensions (implicitly charged) : Units purchased on policies written post 30/09/98	3.00%	3.04%	3.02%
UWP Pensions (Explicitly charged)	4.50%	3.26%	3.17%
UWP Pensions (Stakeholder)	4.00%	3.47%	3.42%

Assets Backing With-Profit Benefits Reserve

Asset Class	31/12/2007	31/12/2012	31/12/2017
Equity	52.8%	53.9%	54.6%
Property	18.0%	18.5%	18.7%
Fixed Interest	28.0%	26.5%	25.6%
Cash	1.2%	1.1%	1.1%
Total Assets	100.0%	100.0%	100.0%
EBR	70.8%	72.4%	73.3%

(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. The following table shows the static assumptions, the model incorporates a dynamic overlay to these rates.

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 2007**

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

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

There is no UWP endowment business in CULAC.

At no-MVR date:

At the no-MVR date the model assumes that life UWP bond holders will exercise their option if their policy is in the money.

Mortality Assumptions

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

Annuitant Mortality

For all immediate annuities and deferred annuities in payment we use the following annuitant mortality basis;

	31 December 2007
Males	90.5% PCMA with 100% medium cohort improvement factors, minimum 1.5% pa, applicable from 2005
Females	90.5% PCMA with 100% medium cohort improvement factors, minimum 1.0% pa, applicable from 2005

Guaranteed Annuity Option take-up rate

An initial take-up rate of 85% has been assumed in respect of Guaranteed Annuity options attaching to pensions. The take-up rates increase by 1% every year from 2009 onwards, until an ultimate level of 95% is reached.

(7) Policyholder Actions

Policyholder actions are covered by the static persistency and GAO take-up rates in the previous section, together with a dynamic overlay for certain classes of business. There is dynamic linking of policyholder behaviour in respect of no-MVR and 'money-back' guarantees for certain classes of business.

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 2007**

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	46
Conventional Pensions	0	11
UWP Life	0	22
UWP Pensions	0	15
Reinsured – Conventional Life	0	1
Reinsured - UWP Life (incl. Overseas)	0	185
Reinsured - UWP Pensions	0	13
Reinsured – UWP Stakeholder	0	41
Miscellaneous	0	-46
Total	0	286

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 £332m held in respect of the future tax due on shareholder transfers which are charged to the estate and future shareholder transfers in respect of the special distribution.

The following liabilities are held under the miscellaneous category.

£12m is held in respect of future pension transfer review costs.

£17m is held in respect of the funding for the Aviva staff pension scheme deficit.

£29m is included for the cost of investigation and redress of mortgage endowment mis-selling complaints.

£19m is held to cover compensation costs other than those identified above.

£12m is held to cover the cost of future expenses not charged to asset shares.

£2m is included for Mortgage Endowment Promise data provisions.

A credit of £161m 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. 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 2007 are £1181m.

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 2007**

The realistic current liabilities include a reduction of £13m 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 (RCM)

(1)

(a)

Fund	RCM (£m)
CULAC	281

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

Asset Class	Fall in market values
UK Equities	19.6%
OS Equities	22.5%
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.

(ii)

Asset Class	Rise in FI yields	Fall in FI yields
Nominal change in yields	+80bps	-80bps
long-term yield – level post-stress	5.35%	3.75%
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	0.4%	-2.6%

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

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

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

(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 = 1.47%

(v) Not applicable

(b) Management Actions under the stress tests

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

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 2007**Cuts in payouts

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

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

Guaranteed Annuity Options

The initial take-up rate for guaranteed annuity options is assumed to increase from 85% to 90% as a result of the fall in fixed interest yields. The take-up rate then increases by 1% every year from 2009 onwards, until an ultimate level of 95% is reached.

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

	Effect of action (£m)
Cuts in payouts	3
GAO take-up	-7
Total	-4

- (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) Under the stress tests the guarantee charges are assumed to be unchanged.

(c)

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

Assets backing RCM	£m	%
UK equities	165	58.7%
Overseas equities	84	29.7%
Land and buildings	45	16.1%
Approved fixed interest securities	98	34.8%
Other fixed interest securities	37	13.2%
All other assets	-148	-52.5%
Total	281	100.0%

All assets backing the RCM are within the WP funds.

- (ii) Not applicable

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

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

	2007 %
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 28%

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 2007**

Income Tax 20%

Franked Income Tax 0%

Withholding Tax 15%

Turnover Rates (for CGT calculation)

We have used an average turnover rate of 41%, basing on experience over the years 2004 to 2006.

CGT indexation 2.00% (2/3rds of the RPI assumption)

Average BLAGAB tax rate applying to asset shares:

CGNU Life written 12.42%

CULAC written 12.42%

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

(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 (£m) at 31.12.07
Futures on Bonds - short term trading derivatives	-150
Futures on Equities - short term trading derivatives	134
Mortgage Dollar Rolls - with US banks	52
Property swaps	37
Fixed interest and cashflow swaps	1

The exposure to futures is part of the company's portfolio management strategy, and all the futures expire no later than 31 March 2009.

13. Analysis of working capital

	£m
Working capital at 31/12/2006	2,480
Investment return on opening working capital	30
Profits on assets backing liabilities	8
Economic assumption changes	-155
Non-economic assumption changes	-32
Policyholder action assumption changes	1
Other experience variances	-39
Impact of new business	-28
Changes in reinsurance and regulation	0
Modelling changes and opening adjustments	46
Move to DFA model	85
Special distribution	-1,187
Working capital at 31/12/2007	1,210

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 2007**

Notes:

1. The profits on assets backing liabilities includes the release of time value in guarantees, partially offset by increase in guarantee costs arising from returns being less than the risk free rate assumed as at 31 December 2006 and unwinding of discounting of guarantee costs.
2. The economic assumption impact is mainly driven by a significant increase in equity volatility.
3. Non-economic assumption changes include assurance mortality and bonus rates, as well as changes in assumptions underlying miscellaneous reserves, where they could not be analysed separately.
4. Policyholder action assumption changes relate to a small change in persistency assumptions
5. Experience variances include impact of premiums, claims and expenses
6. The impact of new business mainly relates to the potential cost of guarantees on the RPI-linked bond
7. Modelling changes mainly relate to a change in methodology for calculating the with-profit benefit reserve for whole life policies to a bonus reserve valuation. Opening adjustments include corrections to non-profit future profits, allowing for eligibility on mortgage endowment promise and including new products in calculating future expected charges to asset shares.
8. The special distribution has been described under planned enhancement to with-profits benefit reserves in 6.4.(a).(i). The figure above includes an allowance for tax associated with the special distribution.
9. Moving to the new stochastic model has had a net impact of increasing the estate by £85m. The main areas where the new model has improved features have been outlined in section 6.(3) above.
10. Note that the change in other liabilities from Form 19 line 47 is included in the analysis above
11. The change in working capital arising purely from the change in Form 19 line 51 cannot be quantified.

14. Optional Disclosure

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

Returns under the Accounts and Statements Rules

Statement on derivatives required by IPRU (INS) 9.29

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

Global business

Financial year ended **31st December 2007**

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 period, which falls into the description above. This is the only example of such contracts that were transacted during the financial period. 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 £33.0m. 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 period, 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 period was £0.1m.

Returns under the Accounts and Statements Rules

Statement on controllers required by IPRU (INS) 9.30

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

Global business

Financial year ended **31st December 2007**

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

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

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

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

All shares are voting shares.

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

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

Global business

Financial year ended **31st December 2007**

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

- (a) (1) An interest in 738 ordinary shares at 31 December 2007 in Aviva plc (2006: 345).
- (2) 8,536 ordinary shares were held in the Aviva Long Term Incentive Plan at 31 December 2007 (2006: 8,536) and 6,788 ordinary shares were held in the Aviva Annual Bonus Plan at 31 December 2007 (2006: 1,707).
- (b) The actuary held general insurance policies with subsidiaries of Aviva plc for which total premiums of £1,082 were paid in the year to 31 December 2007 (2006: £1,007).
- (c) The aggregate amount of remuneration, bonuses and the value of other benefits (excluding pension rights) under the actuary's contract of employment with Aviva Employment Services Limited for the year to 31 December 2007 was £248,720 (2006: 272,465). Under the contract he was:

With-profits actuary of:-

Commercial Union Life Assurance Company Limited

CGNU Life Assurance Limited

Norwich Union Life (RBS) Limited

Norwich Union Life & Pensions Limited

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

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

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

Global business

Financial year ended **31st December 2007**

We certify that:

- 1 (a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and
 - (b) the directors are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
 - (c) the directors note that the FSA issued a decision notice on 10th December 2007 in respect of breaches of Principle 3 of the FSA's Principles for Businesses which occurred between 1 March 2005 and 30 November 2006 and have paid due regard to this
-
- 2 (a) in the directors' opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
 - (b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14, constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
 - (c) the with-profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COBS 20.3; and
 - (d) the directors have, in preparing the return, taken and paid due regard to:
 - (i) advice from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
 - (ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

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

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

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

25 March 2008

Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

Name of insurer **Commercial Union Life Assurance Company Limited**
Global Business
Financial year ended **31st December 2007**

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000 ("the Act").

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

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

- a) Forms 46, 47, 50 to 54, 57, 59A and 59B (including the supplementary notes);
- b) the statements required by rules 9.30 and 9.36; and
- c) the certificate signed in accordance with rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with rule 9.35. Our examination has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer for our examination, for this report, or for the opinions we have formed.

Respective responsibilities of the insurer and its auditors

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. Under rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports meet these requirements, and to report our opinion to you. We also report to you if, in our opinion, the insurer has not kept proper accounting records or if we have not received all the information we require for our examination.

Basis of opinion

We conducted our work in accordance with Practice Note 20 "The audit of insurers in the United Kingdom (revised)" issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 27 March 2008. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statement and the valuation reports.

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

In accordance with rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be audited under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

Returns under the Accounts and Statements Rules

Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

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

Global Business

Financial year ended **31st December 2007**

Opinion

In our opinion:

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

Ernst & Young LLP
Registered Auditor
London
27 March 2008