

# PEARL ASSURANCE (UNIT FUNDS) LIMITED

Registered in England - 1027138

Registered Office

The Pearl Centre  
Lynchwood  
Peterborough  
PE2 6FY

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



(Appendices 9.1 , 9.3 , 9.4 , 9.6)

# PEARL ASSURANCE (UNIT FUNDS) LIMITED

Year ended 31st December 2005

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**Statement of solvency - long-term insurance business**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

Solo solvency calculation

R2	Company registration number 1027138	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2005	

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

**Capital resources**

Capital resources arising within the long-term insurance fund	11		5418
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	35770	18678
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	35770	24096

**Guarantee Fund**

Guarantee Fund requirement	21	2030	2087
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	33740	22009

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	31	2873	3003
Resilience capital requirement	32		
Base capital resources requirement	33	2030	2087
Individual minimum capital requirement	34	2873	3003
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34 + 35)	36	2873	3003
Excess (deficiency) of available capital resources to cover 50% of MCR	37	34334	22595
Excess (deficiency) of available capital resources to cover 75% of MCR	38	33616	21844

**Enhanced capital requirement**

With-profits insurance capital component	39		
Enhanced capital requirement	40	2873	3003

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	41	2873	3003
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	32897	21093

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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**Covering sheet to Form 2**

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

..... **I W Laughlin** **Managing Director**

..... **J S Moss** **Director**

..... **G S Felston** **Director**

**31st March 2006**

**Components of capital resources**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

R3	Company registration number 1027138	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2005	
	General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3			Total as at the end of the previous year 4

**Core tier one capital**

Permanent share capital	11		41371	41371	41371
Profit and loss account and other reserves	12		16060	16060	11918
Share premium account	13		6950	6950	6950
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		64381	64381	60239

**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				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	31		64381	64381	60239
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				
<b>Total tier one capital after deductions (31-37)</b>	39		64381	64381	60239

## Components of capital resources

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	1027138	GL	31	12	2005	£000
	General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4			

## Tier two capital

Implicit items, (tier two waivers and amounts excluded from line 22)	41					
Perpetual non-cumulative preference shares excluded from line 25	42					
Innovative tier one capital excluded from line 27	43					
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	44					
Perpetual cumulative preference shares	45					
Perpetual subordinated debt and securities	46					
Upper tier two capital in related undertakings	47					
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>					
Fixed term preference shares	51					
Other tier two instruments	52					
Lower tier two capital in related undertakings	53					
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>					
<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>					
Excess tier two capital	62					
Further excess lower tier two capital	63					
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>					

**Components of capital resources**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	<b>R3</b>	<b>1027138</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
	General insurance Business <b>1</b>	Long-Term insurance Business <b>2</b>	Total as at the end of this financial year <b>3</b>			Total as at the end of the previous year <b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		64381	64381	60239	
Inadmissible assets other than intangibles and own shares	<b>73</b>					
Assets in excess of market risk and counterparty limits	<b>74</b>		28611	28611	36143	
Deductions for related ancillary services undertakings	<b>75</b>					
Deductions for regulated non-insurance related undertakings	<b>76</b>					
Deductions of ineligible surplus capital	<b>77</b>					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		35770	35770	24096	

**Available capital resources for PRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		35770	35770	24096	
Available capital resources for 50% MCR requirement	<b>82</b>		35770	35770	24096	
Available capital resources for 75% MCR requirement	<b>83</b>		35770	35770	24096	

**Financial engineering adjustments**

Implicit Items	<b>91</b>					
Financial reinsurance - ceded	<b>92</b>					
Financial reinsurance - accepted	<b>93</b>					
Outstanding contingent loans	<b>94</b>					
Any other charges on future profits	<b>95</b>					
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>					

## Analysis of admissible assets

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	<b>R13</b>	<b>1027138</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
<b>Investments</b>						As at the end of this financial year 1	As at the end of the previous year 2	
Land and buildings				11				
<b>Investments in group undertakings and participating interests</b>								
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		20389		12857
Participating interests	shares			29				
	debts and loans			30				
<b>Other financial investments</b>								
Equity shares				41				
Other shares and other variable yield participations				42				
Holdings in collective investment schemes				43		2218		1672
Rights under derivative contracts				44				
Fixed interest securities	Approved			45				2083
	Other			46				
Variable interest securities	Approved securities			47				
	Other			48				
Participation in investment pools				49				
Loans secured by mortgages				50				
Loans to public or local authorities and nationalised industries or undertakings				51				
Loans secured by policies of insurance issued by the company				52				
Other loans				53				
Bank and approved credit & financial institution deposits	One month or less withdrawal			54		11574		849
	More than one month withdrawal			55		1559		
Other financial investments				56				



## Analysis of admissible assets

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**  
 Global business  
 Financial year ended **31st December 2005**  
 Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets		
			day	month	year				
	R13	1027138	GL	31	12	2005	£000	1	
							As at the end of this financial year 1	As at the end of the previous year 2	
Deposits with ceding undertakings				57					
Assets held to match linked liabilities			Index linked	58					
			Property linked	59					
<b>Reinsurers' share of technical provisions</b>									
Provision for unearned premiums				60					
Claims outstanding				61					
Provision for unexpired risks				62					
Other				63					
<b>Debtors and salvage</b>									
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				17	
			Due in more than 12 months	79					
<b>Other assets</b>									
Tangible assets				80					
Deposits not subject to time restriction on withdrawal with approved institutions				81		246		1520	
Cash in hand				82					
Other assets (particulars to be specified by way of supplementary note)				83					
Accrued interest and rent				84		29		23	
Deferred acquisition costs				85					
Other prepayments and accrued income				86		8			
Deductions from the aggregate value of assets				87					
Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)				89		36023		19021	

**Analysis of admissible assets**

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**  
 Global business  
 Financial year ended **31st December 2005**  
 Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		day	month	year			
R13	1027138	GL	31	12	2005	£000	1
				As at the end of this financial year 1		As at the end of the previous year 2	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	36023	19021
Assets in excess of market and counterparty limits	92	28611	36143
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	64634	

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	20389	12857
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## Analysis of admissible assets

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	<b>R13</b>	<b>1027138</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
<b>Investments</b>						As at the end of this financial year 1		As at the end of the previous year 2
Land and buildings				11				
<b>Investments in group undertakings and participating interests</b>								
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				
<b>Other financial investments</b>								
Equity shares				41				
Other shares and other variable yield participations				42				
Holdings in collective investment schemes				43		28804		9009
Rights under derivative contracts				44				
Fixed interest securities	Approved			45				15170
	Other			46				
Variable interest securities	Approved securities			47				
	Other			48				
Participation in investment pools				49				
Loans secured by mortgages				50				
Loans to public or local authorities and nationalised industries or undertakings				51				
Loans secured by policies of insurance issued by the company				52				
Other loans				53				
Bank and approved credit & financial institution deposits	One month or less withdrawal			54		13459		10448
	More than one month withdrawal			55		10098		
Other financial investments				56				

## Analysis of admissible assets

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	<b>R13</b>	<b>1027138</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
							As at the end of this financial year 1	As at the end of the previous year 2
Deposits with coding undertakings				<b>57</b>				
Assets held to match linked liabilities		Index linked		<b>58</b>				
		Property linked		<b>59</b>		<b>316769</b>		<b>343550</b>
<b>Reinsurers' share of technical provisions</b>								
Provision for unearned premiums				<b>60</b>				
Claims outstanding				<b>61</b>				
Provision for unexpired risks				<b>62</b>				
Other				<b>63</b>				
<b>Debtors and salvage</b>								
Direct insurance business		Policyholders		<b>71</b>				
		Intermediaries		<b>72</b>				
Salvage and subrogation recoveries				<b>73</b>				
Reinsurance		Accepted		<b>74</b>				
		Ceded		<b>75</b>				
Dependants		Due in 12 months or less		<b>76</b>				
		Due in more than 12 months		<b>77</b>				
Other		Due in 12 months or less		<b>78</b>		<b>267</b>		<b>11055</b>
		Due in more than 12 months		<b>79</b>				
<b>Other assets</b>								
Tangible assets				<b>80</b>				
Deposits not subject to time restriction on withdrawal with approved institutions				<b>81</b>		<b>2765</b>		<b>4680</b>
Cash in hand				<b>82</b>				
Other assets (particulars to be specified by way of supplementary note)				<b>83</b>				
Accrued interest and rent				<b>84</b>		<b>265</b>		<b>70</b>
Deferred acquisition costs				<b>85</b>				
Other prepayments and accrued income				<b>86</b>		<b>54</b>		
Deductions from the aggregate value of assets				<b>87</b>				
Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)				<b>89</b>		<b>372481</b>		<b>393982</b>

**Analysis of admissible assets**

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**  
 Global business  
 Financial year ended **31st December 2005**  
 Category of assets **Total long term insurance business assets**

R13	Company registration number 1027138	GL/UK/CM GL	Period ended			Units £000	Category of assets 10
			day	month	year		
			31	12	2005		

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

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	372481	393982
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99	3	
Other asset adjustments (may be negative)	100		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	372484	

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	244	164
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**Long term insurance business liabilities and margins**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**Fund **Total long term insurance business**

		As at the end of this financial year 1	As at the end of the previous year 2
Mathematical reserves, after distribution of surplus	11	334707	366345
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13		5418
Long term insurance business fund carried forward (11 to 13)	14	334707	371763
Claims outstanding	Gross amount	15	1694
	Reinsurers' share	16	
	Net (15-16)	17	1694
Provisions	Taxation	21	11529
	Other	22	8249
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	33
	Reinsurance accepted	32	25
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	5200
	Other	38	1476
Accruals and deferred income	39	18870	11461
Provision for "reasonably foreseeable adverse variations"	41	448	91
Total other insurance and non-insurance liabilities (17 to 41)	49	37774	22219
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	372481	393982
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	18712	11461
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	316769	343550
Total liabilities (11+12+49)	71	372481	388564
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	3	
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	372484	

**Liabilities (other than long term insurance business)**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

R15	Company registration number 1027138	GLUK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2005	
			As at the end of this financial year		1	As at the end of the previous year
					2	

**Technical provisions (gross amount)**

Provision for unearned premiums	11		
Claims outstanding	12		
Provision for unexpired risks	13		
Equalisation provisions	Credit business	14	
	Other than credit business	15	
Other gross technical provisions	16		
Total gross technical provisions (11 to 16)	19		

**Provisions and creditors**

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		
	Recommended dividend	48		
	Other	49	251	341
Accruals and deferred income		51	2	2
Total (19 to 51)		59	253	343
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	253	343

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71	251	177
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Reinsurers' share of DAC	81		
Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		
Capital and reserves	84	64381	
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	85	64634	

**Profit and loss account (non-technical account)**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

Financial year ended **31st December 2005**

R16	Company registration number 1027138	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2005	

			This financial year	Previous year
			1	2
Transfer (to)/from the general insurance business technical account	From Form 20	11		
	Equalisation provisions	12		
Transfer from the long term insurance business revenue account		13	9478	
Investment income	Income	14	259	
	Value re-adjustments on investments	15		
	Gains on the realisation of investments	16	127	
Investment charges	Investment management charges, including interest	17	7	57
	Value re-adjustments on investments	18	132	
	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	(135)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29	9590	(57)
Tax on profit or loss on ordinary activities		31	30	(17)
Profit or loss on ordinary activities after tax (29-31)		39	9560	(40)
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	9560	(40)
Dividends (paid and proposed)		51		
Profit or loss retained for the financial year (49-51)		59	9560	(40)



**Long-term insurance business : Revenue account**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Name and number of fund/Summary **Total long term insurance business**Financial year ended **31st December 2005**Units **£000**

		Financial year	Previous year
		1	2
<b>Income</b>			
Earned premiums	11	16693	24789
Investment income receivable before deduction of tax	12	13803	12385
Increase (decrease) in the value of non-linked assets brought into account	13	(32)	(338)
Increase (decrease) in the value of linked assets	14	45810	35736
Other income	15		6
<b>Total income</b>	<b>19</b>	<b>76274</b>	<b>72578</b>
<b>Expenditure</b>			
Claims incurred	21	91125	117779
Expenses payable	22	3154	4385
Interest payable before deduction of tax	23	662	16
Taxation	24	8911	2068
Other expenditure	25		
Transfer to (from) non technical account	26	9478	
<b>Total expenditure</b>	<b>29</b>	<b>113330</b>	<b>124248</b>
Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(37056)	(51670)
Fund brought forward	49	371763	423433
Fund carried forward (39+49)	59	334707	371763

**Long term insurance business : Analysis of premiums**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Total business/subfund **Total long term insurance business**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
<b>Gross</b>						
Regular premiums	11	16727			16727	24773
Single premiums	12	5			5	58
<b>Reinsurance - external</b>						
Regular premiums	13					
Single premiums	14					
<b>Reinsurance - intra-group</b>						
Regular premiums	15	39			39	42
Single premiums	16					
<b>Net of reinsurance</b>						
Regular premiums	17	16688			16688	24731
Single premiums	18	5			5	58
<b>Total</b>						
Gross	19	16732			16732	24831
Reinsurance	20	39			39	42
Net	21	16693			16693	24789

## Long term insurance business : Analysis of claims

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Total business/subfund **Total long term insurance business**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
<b>Gross</b>						
Death or disability lump sums	11	5736			5736	8445
Disability periodic payments	12					
Surrender or partial surrender	13	41311			41311	48905
Annuity payments	14					
Lump sums on maturity	15	44078			44078	60429
<b>Total</b>	16	91125			91125	117779
<b>Reinsurance - external</b>						
Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	26					
<b>Reinsurance - intra-group</b>						
Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	36					
<b>Net of reinsurance</b>						
Death or disability lump sums	41	5736			5736	8445
Disability periodic payments	42					
Surrender or partial surrender	43	41311			41311	48905
Annuity payments	44					
Lump sums on maturity	45	44078			44078	60429
<b>Total</b>	46	91125			91125	117779

## Long term insurance business : Analysis of expenses

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Total business/subfund **Total long term insurance business**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
<b>Gross</b>						
Commission - acquisition	11					
Commission - other	12					
Management - acquisition	13					
Management - maintenance	14	3154			3154	4385
Management - other	15					
<b>Total</b>	<b>16</b>	<b>3154</b>			<b>3154</b>	<b>4385</b>
<b>Reinsurance - external</b>						
Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					
<b>Reinsurance - intra-group</b>						
Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					
<b>Net of reinsurance</b>						
Commission - acquisition	41					
Commission - other	42					
Management - acquisition	43					
Management - maintenance	44	3154			3154	4385
Management - other	45					
<b>Total</b>	<b>46</b>	<b>3154</b>			<b>3154</b>	<b>4385</b>

## Long term insurance business : Linked funds balance sheet

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Total business

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

		Financial year	Previous year
		1	2
<b>Internal linked funds (excluding cross investment)</b>			
Directly held assets (excluding collective investment schemes)	11	4711	
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	321695	
<b>Total assets (excluding cross investment) (11+12+13)</b>	14	326406	
Provision for tax on unrealised capital gains	15	5293	
Secured and unsecured loans	16		
Other liabilities	17	2053	
<b>Total net assets (14-15-16-17)</b>	18	319060	
<b>Directly held linked assets</b>			
Value of directly held linked assets	21		
<b>Total</b>			
Value of directly held linked assets and units held (18+21)	31	319060	
Surplus units	32	2291	
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	34	316769	

**Long term insurance business : Revenue account for internal linked funds**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Total business

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

		Financial year	Previous year
		1	2
<b>Income</b>			
Value of total creation of units	11	12188	19925
Investment income attributable to the funds before deduction of tax	12	11101	9718
Increase (decrease) in the value of investments in the financial year	13	45810	35736
Other income	14		3
<b>Total income</b>	19	69099	65382
<b>Expenditure</b>			
Value of total cancellation units	21	90606	106509
Charges for management	22		
Charges in respect of tax on investment income	23	646	6992
Taxation on realised capital gains	24	385	
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	5293	1184
Other expenditure	26	(130)	15
<b>Total expenditure</b>	29	96800	114700
Increase (decrease) in funds in financial year (19-29)	39	(27701)	(49318)
Internal linked fund brought forward	49	346761	396079
Internal linked funds carried forward (39 + 49)	59	319060	346761

**Long term insurance business : Summary of new business**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Total business

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

		UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
		1	2	3	4	5
<b>Number of new policyholders/scheme members for direct insurance business</b>						
Regular premium business	11					
Single premium business	12					
<b>Total</b>	<b>13</b>					
<b>Amount of new regular premiums</b>						
Direct insurance business	21	75			75	
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>	<b>75</b>			<b>75</b>	
<b>Amount of new single premiums</b>						
Direct insurance business	25	5			5	
External reinsurance	26					
Intra-group reinsurance	27					
<b>Total</b>	<b>28</b>	<b>5</b>			<b>5</b>	

Long term insurance business : Analysis of new business

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Total business

Financial year ended **31st December 2005**

Units **£000**

UK Life / Direct insurance business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
710	Life property linked whole life regular premium		31		
715	Life property linked endowment regular premium - savings		43		5
770	Term assurance rider		1		



**Long term insurance business : Non-linked assets**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Category of assets **Total long term insurance business assets**Financial year ended **31st December 2005**Units **£000**

		Unadjusted assets	Economic Exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
		1	2	3	4	5
<b>Assets backing non-profit liabilities and non-profit capital requirement</b>						
Land and buildings	11					
Approved fixed interest securities	12		534	22	4.12	
Other fixed interest securities	13		209	7	3.22	
Variable interest securities	14		13		3.44	
UK listed equity shares	15		5026	135	2.69	
Non-UK listed equity shares	16		2418	36	1.47	
Unlisted equity shares	17					
Other assets	18	55712	47512	2034	4.28	
<b>Total</b>	19	55712	55712	2234	4.01	
<b>Assets backing with-profits liabilities and with-profits capital requirement</b>						
Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	29					
<b>Overall return on with-profits assets</b>						
Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

## Long term insurance business : Summary of mathematical reserves

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Total business/subfund **Total long term insurance business**Financial year ended **31st December 2005**Units **£000**

		UK Life	UK Pension	Overseas	Total Financial Year	Total Previous Year
		1	2	3	4	5
<b>Gross</b>						
Form 51 - with-profits	11					
Form 51 - non-profit	12					253
Form 52	13					
Form 53 - linked	14	316769			316769	343550
Form 53 - non-linked	15	17941			17941	22795
Form 54 - linked	16					
Form 54 - non-linked	17					
<b>Total</b>	18	334710			334710	366598
<b>Reinsurance - external</b>						
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					
<b>Total</b>	28					
<b>Reinsurance - intra-group</b>						
Form 51 - with-profits	31					
Form 51 - non-profit	32					253
Form 52	33					
Form 53 - linked	34					
Form 53 - non-linked	35	3			3	
Form 54 - linked	36					
Form 54 - non-linked	37					
<b>Total</b>	38	3			3	253
<b>Net of reinsurance</b>						
Form 51 - with-profits	41					
Form 51 - non-profit	42					
Form 52	43					
Form 53 - linked	44	316769			316769	343550
Form 53 - non-linked	45	17938			17938	22795
Form 54 - linked	46					
Form 54 - non-linked	47					
<b>Total</b>	48	334707			334707	366345

Long term insurance business : Valuation summary of property linked contracts

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Total business / subfund **Total long term insurance business**

Financial year ended **31st December 2005**

Units **£000**

**UK Life / Gross**

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	14831	126305		125801	125801	5606	131407
710	Life property linked whole life regular premium	3526	110241	1177	12264	11104	451	11555
715	Life property linked endowment regular premium - savings	33581	458528	12275	175646	175646	11828	187474
720	Life property linked endowment regular premium - target cash		13230	414	4218	4218	53	4271
770	Term assurance rider		2396	36			3	3

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Long term insurance business : Valuation summary of property linked contracts

Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Total business / subfund **Total long term insurance business**

Financial year ended **31st December 2005**

Units **£000**

**UK Life / Reinsurance ceded intra-group**

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
770	Term assurance rider		2398	36			3	3

Long term insurance business : Unit prices for internal linked funds

(Sheet 1)

PEARL ASSURANCE (UNIT FUNDS) LIMITED

Name of insurer

Total Business

Financial year ended 31st December 2005

Units £000

Fund name	Type of fund	Net assets	Main series	Unit mgmt charge	Price at previous valuation date	Price at current valuation date	Change in price during year
1	2	3	4	5	6	7	8
Balanced Managed	02 - life - balanced managed fund	188961	Net	1	2.52	2.9	15.08
Life Uk Equity	05 - life - UK equity	49120	Net Series 3	1	4.41	5.12	16.10

**Long term insurance business : distribution of surplus**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**Total business/subfund **Total long term insurance business**Financial year ended **31st December 2005**Units **£000**

		Financial year	Previous year
		1	2
<b>Valuation result</b>			
Fund carried forward	11	334707	371763
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	9478	
Transfer to other funds/parts of funds	14		
Subtotal (11 to 14)	15	344185	371763
Mathematical reserves	21	334707	366345
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29	9478	5418
<b>Composition of Surplus</b>			
Balance brought forward	31	5418	2560
Transfer from non-technical account	32		
Transfer from other funds/parts of funds	33		
Surplus arising since the last valuation	34	4060	2858
Total	39	9478	5418
<b>Distribution of Surplus</b>			
Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund/part of fund	47	9478	
Total distributed surplus (46+47)	48	9478	
Surplus carried forward	49		5418
Total (48+49)	59	9478	5418
<b>Percentage of distributed surplus allocated to policyholders</b>			
Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long term insurance capital requirement**Name of insurer **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

Global business

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

		LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Rinsurance factor	LTICR Financial year	LTICR Previous year
		1	2	3	4	5	6
<b>Insurance death risk capital component</b>							
Classes I, II and IX	11	0.1%					
Classes I, II and IX	12	0.15%			0.50		
Classes I, II and IX	13	0.3%	2393			4	4
Classes III, VII and VIII	14	0.3%	391535	391535	1.00	1175	1396
<b>Total</b>	<b>15</b>		<b>393928</b>	<b>391535</b>		<b>1179</b>	<b>1400</b>
<b>Insurance health risk capital component</b>							
Class IV and supplementary classes 1 and 2	21						
<b>Insurance expense risk capital component</b>							
Classes I, II and IX	31	1%	3		0.85		3
Classes III, VII and VIII (investment risk)	32	1%	17938	17938	1.00	179	
Classes III, VII and VIII (expenses fixed 5 yrs +)	33	1%	50011	50011	1.00	500	625
Classes III, VII and VIII (other)	34	25%				477	969
Class IV	35	1%					
Class V	36	1%					
Class VI	37	1%					
<b>Total</b>	<b>38</b>					<b>1156</b>	<b>1597</b>
<b>Insurance market risk capital component</b>							
Classes I, II and IX	41	3%	3		0.85		6
Classes III, VII and VIII (investment risk)	42	3%	17938	17938	1.00	538	
Classes III, VII and VIII (expenses fixed 5 yrs +)	43	0%	50011	50011			
Classes III, VII and VIII (other)	44	0%	266758	266758			
Class IV	45	3%					
Class V	46	0%					
Class VI	47	3%					
<b>Total</b>	<b>48</b>		<b>334710</b>	<b>334707</b>		<b>538</b>	<b>6</b>
<b>Long term insurance capital requirement</b>	<b>51</b>					<b>2873</b>	<b>3003</b>

Returns under the Accounts and Statements Rules

Supplementary Notes

PEARL ASSURANCE (UNIT FUNDS) LIMITED

Global Business

Financial year ended 31st December 2005

Appendix 9.1

**\*0301\* Reconciliation of net admissible assets to total capital resources after deductions**

	2005 £'000	2004 £'000
Net admissible assets:		
Form 13 line 89 (other than long term business)	36,023	19,021
Form 13 line 89 (long term)	372,481	393,982
Less Form 14 lines 11, 12 and 49	(372,481)	(388,564)
Less Form 15 line 59	(253)	(343)
Total capital resources after deductions	35,770	24,096

**\*1305\* Counterparty limits**

**\*1311\***

- (a) The principal investments of the insurer are holdings in authorised collective investment schemes and deposits. The investment guidelines operated by the insurer limit exposure to any one approved counterparty in respect of deposits to 20% of the business amount.
- (b) The investment guidelines permit exposure to counterparties that are not approved counterparties subject to a non-approved counterparty being rated P-1 by Moody's, an independent rating agency. The guidelines operated by the insurer limit exposure to any one non-approved counterparty to 5% of the business amount. The loan to Pearl Assurance plc referred to in 1306 & 1312 has been approved by the directors.
- (c) There were no breaches of these limits during the financial year.

**\*1306\* Counterparty exposure at the end of the financial year**

**\*1312\***

There were eleven cases where exposure of the insurer to any one counterparty at the end of the financial year exceeded 5% of the sum of the base capital resources requirement and the long-term insurance liabilities, excluding property linked benefits and net of reinsurance ceded. The insurer provided a £49 million (2004: £49 million) loan to its parent undertaking, Pearl Assurance plc. Nine of the remaining cases, where the total amount of the exposure was £30 million were deposits held with approved credit institutions. In the one remaining case the exposure was £22 million, the assets held which gave rise to the exposure were holdings in authorised collective investment schemes.



## Returns under the Accounts and Statements Rules

### Supplementary Notes

PEARL ASSURANCE (UNIT FUNDS) LIMITED

#### Global Business

Financial year ended 31st December 2005

#### Appendix 9.1 (continued)

##### **\*1401\* Provision for reasonably foreseeable adverse variations**

##### **\*1501\***

It is the insurer's policy not to enter into derivative contracts. Therefore a provision for reasonably foreseeable adverse variations is not required.

##### **\*1402\* Liabilities**

##### **\*1502\***

- (a) There are no charges over assets.
- (b) The total potential liability to taxation on capital gains which might arise if the insurer were to dispose of its long term assets is £11,529,000 (2004: £8,249,000). A provision of £11,529,000 (2004: £8,249,000) has been included within Form 14 line 21 for taxation on capital gains.
- (c) There are no contingent liabilities held at the end of the financial year.
- (d) The insurer has no guarantees, indemnities or other contractual commitments effected other than in the ordinary course of its insurance business in respect of related companies.
- (e) In the opinion of the directors, there are no other fundamental uncertainties affecting the financial position of the insurer.

##### **\*1603\* Other income and charges**

Charges have been incurred during 2005 in respect of consultancy services.

##### **\*1700\* Analysis of derivative contracts**

In respect of Form 17 Long term insurance business assets and Other than long term insurance business assets, all amounts required to be shown (including comparatives) would be zero and these Forms have not been included within the Return.

## Returns under the Accounts and Statements Rules

### Supplementary Notes

#### PEARL ASSURANCE (UNIT FUNDS) LIMITED

##### Global Business

Financial year ended 31<sup>st</sup> December 2005

##### Appendix 9.3

###### **\*4002\* Other income and other expenditure**

Other income in 2004 represents compensation received from Pearl Unit Trusts Limited in order to alleviate double charging of management fees within the Pearl Group.

###### **\*4008\* Provision of management services**

Since 1 September Pearl Group Services Limited has provided the management and administration services to the insurer. Prior to that the services were provided by PGS 2 Limited (formerly HHG Services Limited). Henderson Global Investors Limited have provided investment management services to the insurer for the whole of the financial year.

###### **\*4009\* Material connected-party transactions**

Throughout the financial year the insurer has provided a £49 million interest free loan, repayable on demand, to its parent undertaking Pearl Assurance plc.

###### **\*4401\* Basis of valuation of assets**

Investments are stated at current value at the end of the financial year, calculated as follow:

- listed investments are stated at the middle market value
- short term deposits are included at cost
- other investments are shown at directors' estimates of market value
- properties are valued on the basis of open market value, in accordance with the RICS Appraisal & Valuation Manual.

###### **\*4502\* Other income and other expenditure**

Other income in 2004 on Form 45 line 14 represents compensation received from Pearl Unit Trusts Limited in order to alleviate double charging of management fees within the Pearl Group.

Other expenditure on Form 45 line 26 represents a write back of VAT of £(137,000) for the property unit linked fund and bank interest payable of £7,000.

**Returns under the Accounts and Statements Rules**

**Supplementary Notes**

**PEARL ASSURANCE (UNIT FUNDS) LIMITED**

**Global Business**

**Financial year ended 31st December 2005**

**Appendix 9.3 (continued)**

**\*4503\* Charges for Management**

Form 45 is an aggregate revenue account for level 1 funds which are the basic asset funds. Charges for management are deducted at level 2 series and are included in line 21 as part of the "Value of total cancellation of units". The level 2 series is the policyholder liability level.

**\*4900\* Analysis of admissible fixed interest and variable interest securities**

As there are no fixed interest securities or variable interest and variable yield securities in Form 48 requiring analysis, Form 49 has not been included within the return.

**Returns under the Accounts and Statements Rules**

**Statement of additional information on derivative contracts required by rule 9.29**

**PEARL ASSURANCE (UNIT FUNDS) LIMITED**

**Global Business**

**Financial year ended 31st December 2005**

It is the insurer's policy not to enter into derivative contracts and it has not done so during the financial year. There is consequently nothing to disclose under paragraph (1) (b) to (i) of rule 9.29 of the Accounts and Statements Rules.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

##### **Global Business**

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

The persons who, to the knowledge of the Company, were controllers at any time during the financial year were Pearl Assurance plc, which remained a controller at 31st December 2005, together with Henderson Finances (formerly Pearl Group), Henderson Group PLC (formerly HHG PLC), AMP Financial Services Holdings Limited, AMP Holdings Limited, AMP Group Holdings Limited and AMP Limited which ceased to be controllers on 13th April 2005, Pearl Assurance Group Holdings Limited which ceased to be a controller on 12th May 2005 and Pearl Group Limited (formerly Life Company Investor Group Limited), Sun Capital Investments Limited, Hera Investments One Limited, Xercise Limited, Jambright Limited, Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill, Marc Jones, TDR Capital LLP and TDR Capital Nominees Limited which became controllers on 13th April 2005.

The persons who, to the knowledge of the insurer, were controllers at the end of the financial year were:

##### **1. Pearl Assurance plc**

As at 31st December 2005, Pearl Assurance plc owned 100% of the issued share capital of Pearl Assurance (Unit Funds) Limited and was able to exercise 100% of the voting power at any general meeting.

##### **2. Pearl Group Limited**

As at 31st December 2005, Pearl Group Limited owned 100% of the 'A' and 'B' ordinary shares of Pearl Assurance plc, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 100% of the voting power at any general meeting.

##### **3. Sun Capital Investments Limited**

As at 31st December 2005, Sun Capital Investments Limited owned 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **4. Hera Investments One Limited**

As at 31st December 2005, Hera Investments One Limited owned 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **5. Xercise Limited**

As at 31st December 2005, Sun Capital Investments Limited, which is an associate of Xercise Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

## **Returns under the Accounts and Statements Rules**

### **Statement of additional information on controllers required by rule 9.30**

#### **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

##### **Global Business**

**Financial year ended 31st December 2005**

(continued)

##### **6. Jambright Limited**

As at 31st December 2005, Hera Investments One Limited which is an associate of Jambright Limited within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking, owned 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **7. Hugh Osmond, Alan McIntosh, Matthew Allen, Edward Spencer-Churchill, Marc Jonas**

As at 31<sup>st</sup> December 2005, Hugh Osmond, Alan McIntosh and Matthew Allen, together with Edward Spencer-Churchill and Marc Jonas, who were associates of Hugh Osmond and Alan McIntosh within the meaning of section 422 of the Financial Services and Markets Act 2000 by virtue of being partners, jointly owned 67.7% of the ordinary shares of Xercise Limited and were able to exercise 67.7% of the voting power at any general meeting. Sun Capital Investments Limited is a subsidiary undertaking of Xercise Limited and owns 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **8. TDR Capital Nominees Limited**

As at 31<sup>st</sup> December 2005, TDR Capital Nominees Limited acted as nominee for the TDR funds, which own 89.8% of the ordinary shares of Jambright Limited and were able to exercise 89.8% of the voting power at any general meeting and own 79.7% of the preference shares of both Jambright Limited and Xercise Limited, which carry no voting rights. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

##### **9. TDR Capital LLP**

As at 31<sup>st</sup> December, TDR Capital Nominees Limited, which is an associate of TDR Capital LLP within the meaning of the Financial Services and Markets Act 2000 by virtue of being a subsidiary undertaking and, acted as nominee for the TDR funds, which own 89.8% of the ordinary shares of Jambright Limited and were able to exercise 89.8% of the voting power at any general meeting and own 79.7% of the preference shares of both Jambright Limited and Xercise Limited, which carry no voting rights. Hera Investments One Limited is a subsidiary undertaking of Jambright Limited and owns 50% of the ordinary shares of Pearl Group Limited, a company of which Pearl Assurance (Unit Funds) Limited is a subsidiary undertaking, and was able to exercise 50% of the voting power at any general meeting.

**Pearl Assurance (Unit Funds) Limited**

**Appendix 9.4**

**Abstract of Valuation Report**

**Introduction**

1. (1) The date to which the investigation relates is 31<sup>st</sup> December 2005.
- (2) The date to which the previous investigation under IPRU(INS) rule 9.4 related was 31<sup>st</sup> December 2004.
- (3) Since the previous valuation date, there have been no interim valuations (for the purposes of IPRU(INS) rule 9.4).

**Product range**

2. There have been no significant changes to products during the financial year.

**Discretionary charges and benefits**

3. (1) There are no such policies.
- (2) There are no such policies.
- (3) There are no such policies.
- (4) During the financial year service charges on linked business remained unchanged.
- (5) During the financial year benefit charges on linked business remained unchanged.
- (6) During the financial year unit management charges on linked business remained unchanged.
- (7) (a) Units are of four types – gross accumulation, gross distribution, net capital, and net accumulation. The following method is applied to all four types of units.

The creation or cancellation of units in the internal linked funds is done at unrounded bid prices. This ensures that unit prices are unaffected by the creation or cancellation of units and that the interests of unit-holders not taking part in a unit transaction are unaffected by that transaction

Base prices are derived from the internal fund valuations, which are adjusted for fund specific charges. Increasing the base price by the bid-offer spread and rounding to the higher tenth of a penny gives the "offer price". The "bid price" is the base price rounded to the lower tenth of a penny.

The asset values of the internal linked funds are calculated on a "bid" basis as the expected cash flows are negative for all asset categories. The valuation includes the income since the last valuation and allowances for tax on income and realised and unrealised capital gains

The assets of the internal linked funds are valued at noon on each working day. If markets move significantly between noon and 4 pm, allowance for this market movement is made.

- (b) The same pricing basis applies to all policies.
- (c) A mid-market price applies to the collective investment schemes. The time on each working day at which the assets in the internal linked funds are valued is the same as that at which the units in the underlying collective investment schemes are valued.
- (8) Tax on realised and unrealised gains and losses is accrued daily in the internal linked funds. Gains in equity funds are index-adjusted.

The table below summarises the tax rates used and the times at which the accruals are cleared.

Fund Type	Realised Gains	Unrealised Gains	Realised Losses	Unrealised Losses
Gross Priced (Collective Investment Scheme Holdings)	19.7%	Nil	19.5%	Nil

Policies sold before 25 October 1985 invest in Gross Priced Units. Their unit prices do not contain provisions for tax on unrealised gains or losses. When a policy terminates, a deduction for any index-adjusted realised gains attributable to the policy is made from the gross policy proceeds. The rate applying to such deductions during 2005 was 19.7%.

Net Priced Fixed Interest	20%	20%	20%	20%
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Fixed Interest tax accruals are cleared at the end of each month.

Net Priced Equity (Collective Investment Scheme Holdings)	19.7%	17.8%	19.5%	17.7%
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Gross Priced and Net Priced Equity (Collective Investment Scheme Holdings) accruals for realised gains and losses are cleared at the end of each month. Accruals for unrealised gains and losses are cleared at the end of each financial year under the "deemed disposal" regime. The tax rate used for this purpose at the end of 2005 was 17.6%.

- (9) See (8) above.
- (10) The allowances made to the insurer on the holding of such units are not significant. The extent to which the policyholder benefits from them is such that the charges made to the policyholder are no greater than if the underlying investments were directly held.



#### Valuation basis (other than for special reserves)

4. (1) Mathematical reserves have been determined by valuing the units allocated to policies and adding a non-unit reserve for mortality and expenses.

The non-unit reserve is obtained on a discounted cashflow method. The amount of the non-unit reserve is the net present value of any yearly deficiencies of income over outgo less yearly surpluses of income over outgo, making no allowance for surrender/lapse but allowing for policies being made paid up. The net present value is calculated over the number of years from the valuation date that gives the maximum value.

- (2) The following table sets out the rates of interest used.

Product Group	2005	2004	Product Code
All business	2.90%	3.40%	700, 710, 715, 720

- (3) No risk adjustments were required.

- (4) The following table sets out the mortality bases used.

Product Group	2005		2004		Product Code
	Male	Female	Male	Female	
Single Premium	65% AM80 Ult	65% AF80 Ult	65% AM80 Ult	65% AF80 Ult	700
Regular Premium	85% AM80 Ult	85% AF80 Ult	85% AM80 Ult	85% AF80 Ult	710, 715, 720

Where appropriate, additional reserves for the extra mortality that may arise from AIDS have been established. These additional reserves are calculated assuming that the additional mortality will be 17% of Projection R in the fourth report of the Institute of Actuaries AIDS Working Party and apply to male lives only. The additional reserves calculated have all been included within the reserves for the relevant individual product lines.

- (5) There are no products that use a morbidity basis.
- (6) Per policy expenses and investment management fees, both before allowance for tax relief, and gross unit growth rates before management charges were

Product Group	Per Policy Expense (£)		Investment Management (% Fund)		Gross Unit Growth Rate (% p.a.)	
	2005	2004	2005	2004	2005	2004
Single Premium	40.86	38.00	0.47%	0.41%	5.0%	5.5%
Regular Premium	45.40	42.20	0.47%	0.41%	5.0%	5.5%

The above allow for payments expected to be made to Pearl Group Services Limited under the Management Services Agreement, project expenses, and directly incurred expenses. In addition:

- a reserve of £2.0 million is held against future project costs.
- a reserve of £0.7 million is held for the additional payments due to Pearl Group Services Limited over 2006 and 2007 following the renegotiation of the management services agreement with that company

Inflation of per policy expenses was 3.75% p.a. (2004: 5.00% p.a.).

(7) There is no with profit business.

(8) Other material basis assumptions:

#### **Tax Rates**

Tax on investment income, unit growth, and relief for tax applied to expenses is 20%.

#### **Persistency Rates**

No allowance is made for surrender or lapse.

#### **Paid Up Rates**

Product Code	2005	2004
710	3%	3%
715	3%, 4.5%, 6%	3%, 4.5%, 6%

The paid up rates for Product Code 715 are different for different sub-products.

#### **Partial Withdrawal Rates**

Product Code	2005	2004
700	2.2%	2.2%

(9) No derivative contracts are held.

#### **Options and Guarantees**

5. (1) There are no guaranteed annuity rate options.
- (2) There are no guaranteed surrender or maturity values.
- (3) There are no guaranteed insurability options.
- (4) Certain policies provide a fixed additional amount on maturity. This amount decreases by £36 each calendar year until 2011, after which it becomes nil. The basic reserve for the policies with this benefit is £146.4 million. The reserve for this benefit (£1.0 million) is included within the non-unit reserve, on the assumption that every eligible policy surviving to maturity receives the benefit.

## Expense Reserves

6. (1) The aggregate amounts of expense loadings, grossed up for taxation where appropriate, expected to arise during the 12 months from the valuation date are summarised below:

• Explicit per policy expense loading	£2.2 million
• Explicit allowance for investment management expenses	£1.5 million
• Explicit allowance for policy charge income	£2.5 million

(2) All provisions for future expenses have been made using explicit methods.

(3) The amount of maintenance expenses is not significantly different from the maintenance expenses shown at line 14 of Form 43.

(4) The insurer has been closed to new business for some years. The amount of top-up and incremental business to existing policies is not significant. Any additional expense resulting from such increments is not material and is more than covered by the existing expense provision. Therefore no expense overrun reserve is calculated.

(5) No maintenance expense overrun reserve is held.

The per policy expense assumptions used allow for the payments expected to be made to Pearl Group Services Ltd under the Management Services Agreement (MSA), plus project expenses and directly incurred expenses. A prudent margin is added to these total per policy expenses to allow for adverse deviation. These per policy expense assumptions are then projected into the future assuming a prudent level of inflation.

The MSA with Pearl Group Services Ltd is structured on a fixed cost per policy per annum. Pearl Group Services is engaged with a third party to implement the outsource of processing and administration work which gives certainty over the majority of the cost base into the future, especially in relation to economies of scale and fixed costs.

As Pearl Assurance (Unit Funds) Limited is closed to new business, other than for increments, no reserve is held for discontinuance costs, or the valuation strain or expense overrun from the writing of new business.

## Mismatching reserves

7. (1) All the liabilities and assets are denominated in sterling.

(2) Not applicable.

(3) No currency mismatch reserve is held.

(4) The more onerous scenario under PRU rule 4.2.16R for assets invested in the United Kingdom and other assets that fall under this rule for the purposes of calculating the resilience capital requirement is described below.

(i) A fall in the market value of equities of at least 10% or, if greater, the lower of:

(a) a percentage fall in the market value of equities which would produce an earnings yield on the FTSE Actuaries All Share Index equal to 4/3rds of the long-term gilt yield; and

- (b) a fall in the market value of equities of 25% less the equity market adjustment ratio;

This resulted in a fall of 10% in asset values.

- (ii) A fall in real estate values of 20% less the real estate market adjustment ratio for an appropriate real estate index;

There is no real estate.

- (iii) A fall in yields on all fixed interest securities by a percentage point amount equal to 20% of the long-term gilt yield.

This resulted in a rise of 7.5% in asset values.

- (5) No assets were deemed held in a significant territory.

- (6) (a) The amount of the resilience capital requirement is nil.

- (b) Under the more onerous scenario the long term insurance liabilities rose by £0.4 million.

- (c) Under this scenario, the value of the assets allocated to match these liabilities did not change.

- (7) No additional reserve is held.

#### **Other special reserves**

- 8. A reserve of £4 million for capital gains tax deductions on Gross Priced policies is held in respect of the terminal deductions on those policies (see 3 (8) above). The policy conditions permit deductions from the internal linked funds if the terminal deduction reserve is exhausted by payments of capital gains tax.

A reserve of £4 million is held to cover possible compensation to past and present policyholders resulting from historical unit pricing errors. The amount of the reserve was derived from investigation of the errors and consequent estimates of the differences between correct and incorrect policy values.

#### **Reinsurance**

- 9. (1) No reinsurance has been ceded on a facultative basis.
- (2) Not applicable.
- (3) Not applicable.

#### **Reversionary (or annual) bonus**

- 10. There is no with profit business.

**Returns under the Accounts and Statements Rules**

**Certificate required by rule 9.34**

**Pearl Assurance (Unit Funds) Limited**

**Global Business**

**Financial year ended 31st December 2005**

We certify that: -

1. (a) the return has been properly prepared in accordance with the requirements in IPRU(INS) and PRU; and  
(b) the directors are satisfied that:
  - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS) and PRU; and
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) in the directors' opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;  
(b) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14, constitute proper provision at the end of the financial year in question for the long-term insurance business liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;  
(c) the directors have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

I W Laughlin  
Managing Director

J S Moss  
Director

G S Felston  
Director

Date: 31st March 2006

## **Returns under the Accounts and Statements Rules**

### **Independent auditors' report to the directors pursuant to rule 9.35**

#### **PEARL ASSURANCE (UNIT FUNDS) LIMITED**

##### **Global business**

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

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

- Forms 2, 3, 13 to 16, 40 to 45, 48, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by rule 9.29 ("the statement"); and
- the valuation report required by rule 9.31(a) ("the valuation report").

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

- Forms 46, 47, 50, 53 and 55 (including the supplementary notes);
- the statement required by rule 9.30; and
- the certificate signed in accordance with rule 9.34;

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

#### **Respective responsibilities of the insurer and its auditors**

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. Under rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner set out in 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 report and prepared in accordance with rule 9.31(a) are required to reflect appropriately the requirements of PRU 7.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation report 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.

## Returns under the Accounts and Statements Rules

Independent auditors' report to the directors pursuant to rule 9.35

**PEARL ASSURANCE (UNIT FUNDS) LIMITED**

**Global business**

**Financial year ended 31st December 2005**

**(continued)**

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 "The audit of insurers in the United Kingdom" and Bulletin 2004/5 "Supplementary guidance for auditors of insurers in the United Kingdom" issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation report. 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 31st March 2006. It also included an assessment of the significant estimates and judgements made by the company in the preparation of the Forms, the statement and the valuation report.

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 report 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 examined 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.

### **Opinion**

In our opinion:

- (a) the Forms, the statement and the valuation report 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 report appropriately reflect the requirements of PRU 7.3.

Ernst & Young LLP  
Registered Auditor

Date: 31st March 2006

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