



## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
Global business  
Financial year ended                      31 December 2005

#### 0310 – Net Valuation Differences

The net valuation differences shown in Form 3, line 14 are as follows:

	2005
	£000
<b>Positive valuation differences relating to liabilities</b>	
Mathematical reserves	1,873,905
Deferred fees and renewal commission	97,574
Deferred tax on PVIF / pension scheme surplus	26,331
<b>Negative valuation differences relating to liabilities</b>	
100% reinsured unit liability	(152,281)
<b>Negative valuation differences relating to assets</b>	
Valuation of subsidiaries	(9,102)
<b>Net valuation differences</b>	<u>1,836,427</u>

The adjustments in respect of mathematical reserves and deferred tax represents the difference between the values determined in accordance with PRU and those included in the Companies Act accounts prepared in accordance with Financial Reporting Standard 27 and International Financial Reporting Standards ('IFRS').

The adjustments in respect of deferred fees, renewal commission and reinsurance represent the differences between PRU and IFRS as IPRU (INS) Appendix 9.3 para.8 prohibits the use of deposit accounting in the return whilst Appendix 9.1 para.4a to Form 13 requires the reinstatement of reinsurance investment in the return.

The valuation difference relating to the valuation of subsidiaries of £9,102,000 negative arises from differences between the value determined under PRU rules and the value included in the Companies Act accounts prepared in accordance with IFRS.

#### 0312 – Section 148 direction

The Financial Services Authority, on the application of the firm, made a direction in October 2005, under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to allow the firm to take into account the implicit item at line 22, column 2, of this return.

#### 1308 - Unlisted investments and unregulated collective investment schemes

Unlisted investments included on Form 13 at 31 December 2005 were as follows:-

	£000
Line 41	1,440
Line 46	14,257
Line 48	100,724

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Reversionary interests or remainders in property other than land or buildings included on Form 13 at 31 December 2005 were as follows:

	£000
Line 49	154,548

### 1309 - Hybrid securities

The aggregate value of hybrid securities included at line 46 amounted to £586,458,000.

### 1310 – Amounts set off

Amounts have been set off in Form 13 to the extent permitted by generally accepted accounting principles.

### 1311 - Maximum counterparty limit

During 2005, the maximum exposure to a counterparty permitted by the company's investment guidelines, excluding subsidiary undertakings and Royal London unit trusts, was such that no investment should be made which would result in the portfolio holding:

- a) in respect of each of the Royal London Other Long Term Funds and the Scottish Life Fund (the "Sub-funds") separately:
  - i) more than 10% of the total Sub-fund with any one counterparty.
  - ii) more than 10% of the share capital in issue of any one issuer, other than in the case of collective investment schemes.
  - iii) more than 1% of the value of the Sub-fund in unquoted securities, limited partnerships and development capital funds.
- b) in respect of the fund as a whole:
  - i) any investment that would cause the aggregate value of the assets of the company to be reduced in accordance with the Integrated Prudential Sourcebook, rule 3.2.22R.
  - ii) more than 10% of the share capital in issue of any one issuer.

These limits were observed throughout the period with the exception of the following authorised holdings:

<b>Company</b>	<b>% holding</b> <b>(Equity Shares unless specified)</b>
Royal London UK Equity Investment Trust plc (annuity shares)	100.00
RL Private Equity fund LP	44.22
Royal London Sterling Extra Yield Bond fund	43.10
Royal London UK Equity Investment Trust plc	14.29
M-cubed Holdings Ltd	12.47
London Scottish Bank plc	12.24
Knightsbridge Holdings II	11.48







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- iii) Transfer – £1,005,000 - this represents a transfer from the United Friendly OB Subfund to the Royal London IB & OB Subfund.
- iv) Transfer – £625,000 - this represents a transfer from the Refuge Assurance IB Subfund to the Royal London IB & OB Subfund.
- v) Transfer – £821,000 - this represents a transfer from the United Friendly IB Subfund to the Royal London IB & OB Subfund.
- vi) Management charges and other fees – £44,844,000 this relates to annual management charges and other fees payable by the Scottish Life fund to the Royal London IB & OB Subfund and the Refuge Assurance OB Subfund as specified in the Scottish Life Schedule 2c Scheme.

#### **4004 – Transfers of contracts from or to other funds**

This relates to policy switches of £99,674,000, which represents switches of policies between Sub-funds of the long-term fund.

#### **4005 - Foreign currency translation**

The basis of conversion adopted for income and expenditure transactions during the year was to translate such items at the exchange rate ruling when the transaction took place. Those assets and liabilities, which are denominated in foreign currencies, are translated into sterling at the rates ruling at the balance sheet date.

#### **4006 - Apportionment of long term funds**

Premium income, claims and surrenders are allocated directly. Investment return comprising income, realised and unrealised capital gains is allocated on a mean fund basis. Firstly investment return is allocated to non-participating business, and is calculated by applying the rate of return on the whole portfolio of fixed interest securities of the common assets of Royal London Other Long Term Funds to the mean fund calculated by reference to their mathematical reserves. The balance of investment return (“the with-profits investment return”) is allocated to participating business and free reserves. Note that the investment return apportionment on a mean fund basis does not apply to the Scottish Life Fund.

Management expenses generally take the form of fees payable to a management services company. These fees are directly related to individual policies, either as per policy or per premium loadings, and therefore the management expenses are directly allocated in line with the policy allocation. Investment expenses are firstly allocated to non-participating business, and are calculated by applying a fixed percentage to a mean fund calculated by reference to their mathematical reserves. The balance of investment expenses is allocated across Subfunds on a mean fund basis. Acquisition expense overruns relating to new business sold by the retail division and expense overruns for the SL (IFA) division business are allocated in the same proportion as the allocation of the SL purchase price to the Royal London IB & OB Subfund and the Refuge Assurance OB Subfund.

The basis of apportionment of the long term funds has been performed in accordance with the detailed requirements of the Schedule 2C Scheme and principals of financial management for Scottish Life and United Assurance Group. Further information on these requirements is presented in the Valuation Report in accordance with Appendix 9.4 IPRU (INS).

#### **4008 - Provision of management services**

Royal London Management Services Limited and Royal London New Protection Business Services Limited, both subsidiary undertakings of the company, provided management services to the company throughout the year.

#### **4401 - Valuation of linked assets**

The securities held in the internal linked funds have been valued at bid price.

Land has been valued on an open market basis by qualified valuers.

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
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#### 4402 - Derivative Contracts

The aggregate value of rights under derivative contracts included in assets amount to:-

	Gross of variation margin	Net of variation margin
	2005	2005
	£000	£000
SLI Protected Funds	440	440
Security 98 Pension Fund	372	372
Security 100 Pension Fund	107	107

#### 4404 – Surplus Units

To provide the liquidity needed to deal with daily fluctuation in net cash flows the company operates a box system whereby the number of units in creation exceeds the matching unit liability by a specified margin.

#### 4502 - Particulars of Other Income and Other Expenditure

Form 45, line 26, includes other expenditure as follows:

	2005
	£000
Bank charges, interest and transaction costs	89
Finance lease interest	128
	<hr/>
	217
	<hr/>

#### 4701 – New group schemes

The company does not maintain scheme member records for certain group pension schemes. The number of such schemes split by product code is:

Product code	Number of schemes
735	2

#### 4703 – Approximations used to estimate the number of policyholders

A new plan or member contributes to column 3 where only regular premiums have been paid or where both regular and single premiums have been paid. A new plan or member contributes to column 5 where only single premiums have been paid. The count in respect of DWP National Insurance rebates relate to plans where this is the only contribution type present.

For group schemes with attaching risk benefits, the member count is allocated to the product code containing the retirement benefit, where this benefit is present. For risk benefit only members, the member count is allocated to Group Life where only this benefit is present or where Group Life is present along with other risk benefits. The member count is allocated to Group Income Protection where this is the only risk benefit present.

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company The Royal London Mutual Insurance Society Limited  
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#### 4801 – Asset share asset mix

##### Royal London Other Long Term Funds

The Royal London Other Long Term Funds are managed as a single pool of assets and all asset shares in the fund earn the same rate of investment return.

##### Scottish Life Fund

The asset mix for the with-profits business scheduled in Forms 51 and 52 is 5% more or less for at least one of the asset categories in the asset mix derived from lines 21 to 29 in column 2. A variation of asset mix by duration of policy is assumed for all with-profits business apart from Crest Growth.

Land and buildings	6.0%
Approved fixed interest securities	41.2%
Other fixed interest securities	23.7%
Variable interest securities	1.2%
UK listed equity shares	19.7%
Non-UK listed equity shares	7.0%
Unlisted equity shares	0.0%
Other assets	1.2%

The asset mix for the deposit administration business scheduled in Form 52 is 5% more or less for at least one of the asset categories in the asset mix derived from lines 21 to 29 in column 2.

Land and buildings	2.8%
Approved fixed interest securities	51.9%
Other fixed interest securities	29.8%
Variable interest securities	1.5%
UK listed equity shares	8.8%
Non-UK listed equity shares	3.1%
Unlisted equity shares	0.0%
Other assets	2.1%

#### 4802 – Expected income in default

Expected income from admissible assets excludes interest in default of £181,000 and £181,000 in the Royal London Other Long Term Funds and Scottish Life Fund respectively.

#### 4803 – Split redemption bonds

Where bonds can be redeemed over a range of dates at the option of the issuer or guarantor and the price is above par, the yield and discounted mean term have been calculated assuming an earlier redemption date consistent with the market value and the requirements of PRU 4.2.34R(2) and PRU 4.2.39R.

#### 4804 – Yields in lines 18 & 28

##### Royal London Other Long Term Funds

The yields shown in column 4 of lines 18 and 28 include cash yielding an average of 3.72%.

##### Scottish Life Fund

Not applicable.

#### 4806 – Investment returns shown in column 5

##### Royal London Other Long Term Funds

The Royal London Other Long Term Funds are managed as a single pool of assets and all asset shares in the fund earn the same rate of investment return. The investment income and gains attributed to with profit business is equal to the total return earned in the year less income and gains attributed to fixed interest assets hypothecated to non profit business less the return earned on swaption assets. The investment returns shown in line 21-28 of column 5 represent the returns on each category of assets provided by our fund managers. The weighted average return shown in line 29 has been calculated using the assets backing asset shares and not the weights shown in column 2.

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company	The Royal London Mutual Insurance Society Limited
Global business	
Financial year ended	31 December 2005

#### **Scottish Life Fund**

The asset mix of the portfolio used to back with-profits asset shares is described in note 4801. This portfolio is larger than the value of assets backing deposit administration business and it has been used to calculate the investment returns shown in lines 21-29 of column 5.

#### **4901 – Credit rating agency**

The credit ratings used to classify the other fixed interest securities have been derived from the lower of the ratings of Standard & Poor's Corporation and Moody's Investors Service. If these are not available then Fitch Ratings has been used.

#### **5102 – Approximations in estimating numbers of policyholders**

Where practical we have eliminated double counting of scheme members between risk and retirement benefits. It has not proved practical to eliminate double counting between certain final salary retirement and risk benefits. For certain money purchase pensions we have set the policyholder count in respect of the scheduled risk benefits to be nil.

#### **5104 – Approximations used to apportion between product codes**

Certain whole life assurance contracts contain additional benefits and do not naturally fall into a single product code. These contracts have been allocated to product codes 100 and 105 as appropriate in line with the predominant benefit and the product description amended.

#### **5105 – Inter-subfund payments**

Under the Scottish Life Schedule 2C Scheme, certain inter-subfund payments are due from the Scottish Life Fund to the Royal London Other Long Term Funds where the value of such amounts would normally be inadmissible. FSA has issued the Society individual guidance which requires the long term insurance liabilities in the Scottish Life Fund to be increased by £2,346 in Form 51 Life and by £107,319,185 in Form 51 Pension. The long term insurance liabilities in the Royal London Other Long Term Funds have been reduced by £2,346 in the Royal London IB & OB Subfund Form 51 Life and by £107,319,185 in the Royal London IB & OB Subfund Form 51 Pension respectively.

#### **5106 – Number of contracts**

To avoid double counting, the number of policyholders/scheme members in respect of contracts offering a choice of investment funds, in addition to property linked, has been scheduled entirely in Form 53. The corresponding numbers in Form 51 and Form 52 have been set to nil.

#### **5201 – Group schemes**

The company does not maintain scheme member records for certain group schemes. The number of such schemes split by product code is:

Product code	Number of schemes
555	2 (UK Life)
555	7 (UK Pension)

#### **5202 – Approximations in estimating numbers of policyholders**

Where practical we have eliminated double counting of scheme members between risk and retirement benefits. For certain money purchase pensions we have set the policyholder count in respect of the scheduled risk benefits to be nil.

#### **5203 – Miscellaneous product code**

Single premium Insurance ISA contracts have been allocated to miscellaneous product code 575 in the Royal London IB & OB Subfund.



Returns under the Accounts and Statements Rules

Supplementary Notes (continued)

Name of company	The Royal London Mutual Insurance Society Limited
Global business	
Financial year ended	31 December 2005

**5302 – Approximations in estimating numbers of policyholders**

Where practical we have eliminated double counting of scheme members between risk and retirement benefits. It has not proved practical to eliminate double counting between certain final salary retirement and risk benefits.

**5304 – Approximations used to apportion between product codes**

Certain whole life assurance contracts contain additional benefits and do not naturally fall into a single product code. These contracts have been allocated to product code 710 and the product description amended.

**5305 – Liability internally reassured between the Scottish Life Fund and the Royal London IB & OB Subfund**

Certain former Scottish Life pension contracts issued prior to 1 July 2001 may contain conventional with-profits and/or property linked benefits. The property linked liability of £1,031,359,359 is wholly reassured into the Royal London IB & OB Subfund from the Scottish Life Fund. Liability and death benefits relating to accumulating with-profits units are shown on the respective forms.

**5306 – Number of contracts**

To avoid double counting, the number of policyholders/scheme members in respect of contracts offering a choice of investment funds, in addition to property linked, has been scheduled entirely in Form 53. The corresponding numbers in Form 51 and Form 52 have been set to nil.

**6001 – Permanent Health Insurance and Supplementary Accident and Sickness Insurance**

The gross annual office premium in force in respect of Permanent Health Insurance and Supplementary Accident and Sickness Insurance amounts to £6,939,000. This does not exceed 1% of the total gross annual office premiums in force at the valuation date for all long term business. Consequently, Forms 11 and 12 have not been completed. The amount shown in line 21 of Form 60, calculated as the total of the net (of reinsurance) premium income during the year for Permanent Health Insurance and the annual premium in force for Supplementary Accident and Sickness Insurance, exceeds the amount that would be obtained if Forms 11 and 12 were completed.