

# VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

## Structure of the long term business

The Royal London Mutual Insurance Society Limited (“RL”) acquired United Assurance Group plc (“UAG”) on 18 April 2000. The long term businesses of the five insurance subsidiaries of UAG, Refuge Assurance plc (“RA”); United Friendly Insurance plc (“UFI”); Refuge Investments Limited (“RIL”); United Friendly Life Assurance Limited (“UFLA”) and Canterbury Life Assurance Company Limited (“CL”) were transferred to RL on 1 January 2001 by way of a scheme of transfer under Section 49 and Schedule 2C of the Insurance Companies Act 1982 (“the UAG Scheme”).

RL acquired The Scottish Life Assurance Company (“SL”) by way of a demutualisation of SL. The long term business of SL was transferred to RL on 1 July 2001 by way of a scheme of transfer under Section 49 and Schedule 2C of the Insurance Companies Act 1982 (“the SL Scheme”).

These two transfers have resulted in the creation of a number of separate categories of business allocated to separate with-profits funds within RL (as defined in IPRU(INS)) as follows:

### **Royal London IB & OB Subfund**

From 31 December 2006 this consists of the industrial assurance business of RL and all of the Society’s ordinary branch business with the exception of ordinary branch business allocated to the Scottish Life Fund and the United Friendly OB Subfund. The subfund remains open to new ordinary business.

### **Refuge Assurance OB Subfund**

Prior to 31 December 2006 the Society maintained the Refuge Assurance OB Subfund. All of the business in this subfund was merged into the Royal London IB & OB Subfund on 31 December 2006. A description of the business in each subfund prior to the merger can be found on page 189 of the 2005 Annual FSA Insurance Returns.

### **Refuge Assurance IB Subfund**

This consists of the industrial assurance business relating to RA. New business is no longer accepted.

### **Scottish Life Fund**

This is the Scottish Life Fund established under the SL Scheme, mentioned above. This consists of the SL conventional with-profits business, the investment element of the unitised with-profits business, deposit administration business and a small amount of non-profit business. It also has responsibility for the liabilities in respect of guaranteed annuity options under policies sold by SL, including policies where the basic liability is allocated to the Royal London IB & OB Subfund. It is closed to new business, other than new entrants under group schemes and increments up to the level of premium payable at the date of transfer.

### **United Friendly IB Subfund**

This consists of the industrial assurance business relating to UFI. New business is no longer accepted.

### **United Friendly OB Subfund**

This consists of the with-profits ordinary business of UFI. New business is no longer accepted except for DWP rebates.

## Category of assets

### **Royal London Other Long Term Funds**

This represents the common assets held for Royal London IB & OB Subfund, Refuge Assurance IB Subfund, United Friendly IB Subfund and United Friendly OB Subfund.

### **Scottish Life Fund**

This represents the segregated asset pool for the Scottish Life Fund.

## Contract identification

Within this document, reference is made to the following categories of policies:

**RL Business** – contracts originally sold by RL and all new business sold by divisions of the Society from 1 July 2001.

**RL (intermediary)** – Scottish Life branded contracts sold after 1 July 2001, a subset of RL Business.

**Bright Grey** – Bright Grey branded contracts, a subset of RL Business.

**Former RA Business** – contracts transferred in from RA.

**Former UFI Business** - contracts transferred in from UFI.

**Former RIL Business** - contracts transferred in from RIL.

**Former UFLA Business** - contracts transferred in from UFLA.

**Former CL Business** - contracts transferred in from CL.

**Former SL Business** - contracts transferred in from SL.

# VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

## 1. (1)

### **Introduction**

#### 1. (1)

This investigation relates to 31 December 2006.

#### 1. (2)

The previous investigation related to 31 December 2005.

#### 1. (3)

There were no interim investigations during 2006 within the scope of Rule 9.4, except those required for the realistic balance sheet submission as at 30 June 2006.

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### 2.

#### **Product Range**

### 2.

#### **Royal London IB & OB Subfund**

This subfund is open to new with-profits and non-profit business.

The Society introduced the Riley Bond and the Bright Grey Pension Term Assurance Plan during the year. In addition the Society ceased accepting certain new pension annuity in payment business during the year and made other changes to the product range. These changes are described in more detail in the following sections.

#### *Riley Bond*

The contracts are single premium unit linked whole life assurances. The aims of the policy are to invest in the stockmarket whilst protecting the value of the policyholder's investment at a level, referred to as the protected amount, and at a date chosen by the policyholder, referred to as the insured date. Investment gains can be locked in as they are earned, if the policyholder chooses. The policy aims to build up a fund for use on the policy's insured date and access is allowed to the fund at any time.

These policies are written on a single life, joint life, first or second death basis.

The death benefit is 101% of the value of the units allocated to the policy, such value being based on unit prices set at the valuation next after the day on which the Society deems that it has received all relevant information, less the value of the tax account. A higher value may be payable if a minimum death benefit has been selected under the policy. Further premiums may be paid at any time subject to such limits, terms and conditions as the Society may from time to time impose.

Each policy invests in one or more stockmarket funds as described below. If a protected amount has been selected the policy will invest in one or more insurance funds as described below. Each policy has an insured date which is selected to be between five and ten years from commencement. At the insured date the policyholder is invited to give instructions about a new protected amount, insured date and profit review level. In the absence of instructions before the insured date, the value of units is switched, without charge, into a deposit fund.

The policy may be surrendered at any time, the surrender value being the value of units, using prices at the valuation on or after receipt of a request to surrender, less charges. Part surrenders or regular withdrawals are permitted under the policy.

The premium is allocated to units after deduction of a charge. The policyholder can choose to have this charge taken as a one-off payment at commencement or spread over five years. There are two stockmarket funds. Both invest in UK equities and are benchmarked against the FTSE 350 Total Return Index. One is actively managed and the other is a tracker fund. If a protected amount is selected for one or both stockmarket funds then part of the premium will be allocated to the insurance funds. The protection objective for each of the stockmarket funds is that the combined value of the units in the relevant stockmarket fund and the relevant insurance fund allocated to a policy on the insured date, calculated using the unit prices on or next after the insured date, will be no less than the relevant protected amount. The assets held in the insurance funds are bought from one or more investment banks and the value of those assets depends on the ability of the relevant bank to meet its obligations to the Society. Should the bank not be able to meet its obligations to the Society the protection objective would be at risk and the Society will not meet any shortfall in achievement of the protection objective if the relevant bank does not meet its obligation to the Society.

There is a fund charge which is reflected in the pricing of the stockmarket and insurance funds and is deducted on a daily basis. If the policyholder selects a minimum death benefit there will be an additional charge applied at commencement. If the policyholder is over age 65 at commencement and does not select a minimum death benefit an additional charge will be payable. Loyalty bonus units will be added annually from the sixth anniversary of the policy. Loyalty bonus units will be added on the fifth and tenth anniversaries of the policy if there have been no withdrawals or cash-ins taken within the previous five years. Other charges will be applied on specific events.

There are no restrictions on increases in total charges as the Society has discretion to alter elements of the charging structure. There are no guaranteed investment returns.

#### *Bright Grey Pension Term Assurance Plan.*

A version of the Bright Grey Menu Protection Plan, written under the Bright Grey Personal Pension Scheme and providing lump sum benefits on death or terminal illness only, was introduced on 22 May 2006. This Plan was closed to new applications on 6 December 2006.

#### *Crest Growth Plan*

The contract was closed to new money purchase schemes.

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### 2.

#### *Individual Personal Pension Plan*

The contract was renamed Pension Portfolio.

An exclusive of fund life cover option was introduced.

A contract feature allowing a partial transfer of benefits to a Registered Pension Scheme was introduced.

#### *Talisman Buyout Bond – 98 Series 1*

The contract was closed to new plans.

#### *Talisman Executive Pension Plan – 98 Series 1 and 2*

The contract was closed to new schemes. In addition existing Series 1 contracts were closed to new entrants.

The option to allocate an incoming transfer value at more than 100% was removed.

#### *Talisman Executive Pension Plan – Series 1 and 2*

The contract was closed to new entrants to an existing Talisman Executive Pension scheme.

#### *Talisman Freestanding AVC Pension Plan – 98 Series 1 and 2*

The contract was closed to new plans.

#### *Talisman Group Pension Plan – Series 1 to 6*

The contract was closed to new plans. The contract remains open to new entrants to existing plans.

The option to allocate an incoming transfer value at more than 100% was removed.

#### *Talisman Income Drawdown Personal Pension Plan – 98 Series 1*

The option to allocate an incoming transfer value at more than 100% was removed.

#### *Talisman Income Drawdown Personal Pension Plan – Series 2*

The contract was closed to increments and inter-contract transfers.

#### *Talisman Personal Pension Plan – 98 Series 1 and 2*

The option to allocate an incoming transfer value at more than 100% was removed.

#### *Talisman Personal Pension Plan – Series 1 and 2*

The contract was closed to new entrants to an existing Group Personal Pension arrangement.

#### *Annuities*

With effect from September 2006 the Society ceased accepting new pension annuity in payment business resulting from death and vesting claims from pension contracts sold by RL prior to 2001, or transferred to RL via the UAG scheme. The Society continues to accept pension annuity in payment business originating from other sources.

#### *Pensions Simplification*

Various changes were made across the contract range with effect from 6th April 2006 in connection with Pensions Simplification. These have not been detailed.

#### **Other Subfunds**

There were no changes to the product range in the Refuge Assurance IB Subfund, Scottish Life Fund, United Friendly IB Subfund and United Friendly OB Subfund during the year. These subfunds are closed to new business except by increment.

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### 3. (1)

#### Discretionary charges and benefits

#### 3. (1)

##### Royal London IB & OB Subfund

*RL Insurance ISA, RL Unitised With-Profits Savings Plans, RL With-Profits Bond (series 3), RL Unitised Whole Life Assurance*

Market value reductions have not been applied during the year on these contracts. The scales are reviewed quarterly.

*RL Unitised Personal Pension Series 2*

Market value reductions have applied during the year on this contract in accordance with policy conditions. The scales are reviewed quarterly. Reductions were applied from January to mid May and from mid August to early December and affected the value of units originally purchased in 2001.

*European With-Profits Bond*

Market value reductions have not been applied during the year on this contract.

*RA Unitised Whole Life Assurance*

Market value reductions have applied to unitised with-profits benefits during the year on this contract in accordance with policy conditions. The scales are reviewed quarterly. Reductions were applied throughout the year and affected the value of units originally purchased in 1998 – 2000.

*RA Unitised Personal Pension Series 1*

Market value reductions have applied during the year on this contract in accordance with policy conditions. The scales are reviewed quarterly. Reductions were applied throughout the year and affected the value of units originally purchased in 1999 – 2001.

*Profitbuilder, Budget Plan (TP1) and Budget Plan (TP2)*

Market value reductions have applied during the year on those contracts which have unitised with-profits benefits, in accordance with policy conditions. The scales are generally reviewed on a monthly basis. Reductions were made in June and July and affected the value of units originally purchased in 2006.

*Talisman, Retirement Solutions, Pension Portfolio and Individual ranges*

Market value reductions have applied during the year on those contracts which have unitised with-profits benefits, in accordance with policy conditions. The scales are generally reviewed on a monthly basis. Reductions were applied from June to September and affected the value of units originally purchased in 2006.

*Crest Growth*

Market value reductions have applied during the year on those contracts which have unitised with-profits benefits, in accordance with policy conditions. The scales are generally reviewed on a monthly basis. Reductions were applied in January and February and affected the value of units originally purchased in 2001.

##### Scottish Life Fund

*Talisman Series 1 and 2*

Market value reductions have applied during the year on those contracts which have with-profits benefits, in accordance with policy conditions. The scales are generally reviewed on a monthly basis. Reductions were applied in January and affected the value of benefits originally purchased in 1997 - 2000. Reductions were applied in February and affected the value of benefits originally purchased in 1989 and 1997 - 2000. Reductions were applied in March and affected the value of benefits originally purchased in 1996 - 2001. Reductions were applied in April and affected the value of benefits originally purchased in 1986, 1989, 1993, 1996 - 2001 and 2006. Reductions were applied in May and affected the value of benefits originally purchased in 1985 - 1990, 1992 - 2001 and 2006. Reductions were applied in June and July and affected the value of benefits originally purchased in 1985 - 2001 and 2006. Reductions were applied in August and affected the value of benefits originally purchased in 1985 - 2001. Reductions were applied from September to December and affected the value of benefits originally purchased in 1985 - 1990 and 1992 - 2001.

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### 3. (1)

#### *Talisman and Retirement Solutions ranges*

Market value reductions have applied during the year on those contracts which have unitised with-profits benefits, in accordance with policy conditions. The scales are generally reviewed on a monthly basis. Reductions were applied in January and affected the value of units originally purchased in 1997 - 2000. Reductions were applied in February, March and October to December and affected the value of units originally purchased in 1996 - 2001. Reductions were applied from April to September and affected the value of units originally purchased in 1996 - 2001 and 2006.

#### *Crest Growth*

Market value reductions have applied during the year on those contracts which have unitised with-profits benefits, in accordance with policy conditions. Reductions were applied in January and affected the value of units originally purchased in 1999 - 2001. Reductions were applied in February and affected the value of units originally purchased in 2000 - 2001. Reductions were applied in March and affected the value of units originally purchased in 1999 - 2000. Reductions were applied in April and affected the value of units originally purchased in 1998 - 2000. Reductions were applied from May to December and affected the value of units originally purchased in 1997 - 2000.

#### *Crest Secure and Protected Growth Plan*

Market value reductions have applied during the year on these contracts in accordance with policy conditions. Reductions were applied in January and February and affected the value of benefits originally purchased in 1990 and 1999 - 2001. Reductions were applied in March and May and affected the value of benefits originally purchased in 1999 - 2001. Reductions were applied in April and affected the value of benefits originally purchased in 1998 - 2001. Reductions were applied in June and affected the value of benefits originally purchased in 1999 and 2000. Reductions were applied from July to December and affected the value of benefits originally purchased in 1998 - 2000.

#### *Profitbuilder, Budget Plan (TP1) and Budget Plan (TP2)*

Market value reductions have applied during the year on those contracts which have unitised with-profits benefits, in accordance with policy conditions. Reductions were applied in January and affected the value of units originally purchased in 1999 - 2000. Reductions were applied in February and affected the value of units originally purchased in 1998 - 2000. Reductions were applied in March and affected the value of units originally purchased in 1998 - 2001. Reductions were applied in April and May and affected the value of units originally purchased in 1998 - 2001 and 2006. Reductions were applied in June, August and September and affected the value of units originally purchased in 1997 - 2001 and 2006. Reductions were applied in July and affected the value of units originally purchased in 1997 - 2001 and 2005 - 2006. Reductions were applied in October to December and affected the value of units originally purchased in 1997 - 2001.

### 3. (2)

Certain contracts sold under the Bright Grey brand contain reviewable premiums. There were no policies under which premiums could have been changed in 2006.

There were no changes during the year to the premiums charged on contracts administered by Swiss Life on the Society's behalf.

### 3. (3)

The rates of interest added to deposit administration policies are included in paragraph 10. (1) below.

### 3. (4)

The following changes were made to service charges on unit-linked policies during the year:

#### *Talisman Group Pension Plan – Series 1 to 6, Talisman CPS – Series 1 to 6:*

For policies where a member charge is levied, the charge increased by 2.4% with effect from the renewal date on or after 1 July 2006. For policies with a renewal date prior to 1 July 2006, the rate of increase was 3.2%.

#### *Talisman Executive Pension Plan – 98 Series 1 and 2, Talisman Personal Pension Plan – 98 Series 1 and 2, Talisman Buyout Bond – 98 Series 1, Talisman Freestanding AVC Plan – 98 Series 1 and 2, Talisman Income Drawdown Personal Pension Plan – 98 Series 1:*

For policies where a policy charge is levied, the charge increased by 2.4% with effect from the policy anniversary date on or after 1 July 2006. For policies with an anniversary date prior to 1 July 2006, the rate of increase was 3.2%.

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### 3. (4)

#### *Profitbuilder*

For policies issued after 11 July 1999 the monthly administration charge increased by 2.6% with effect from the policy anniversary on or after 12 July 2006. For policies with an anniversary date prior to 12 July 2006, the rate of increase was 3.2%.

#### *Former UFI and Former UFLA policies*

Policy fees on both former UFI and former UFLA unit-linked contracts increased by 4.8% on 1 January 2006.

### 3. (5)

There were no changes to benefit charges on any unit-linked contracts during the year.

### 3. (6)

There were no changes to notional charges on accumulating with-profits business during the year.

The changes to unit-linked fund management charges which were reported in the 2005 Annual FSA Insurance Returns as taking effect on 10 May 2005 were reported in error. These changes were not implemented.

### 3. (7)

#### **(a) (i)-(iv)**

#### **RL business stakeholder pension plan**

Whenever units are created the fund is increased by an amount equal to the number of units created multiplied by the price of the existing units in the fund. Whenever units are cancelled the fund is decreased by an amount equal to the number of units cancelled multiplied by the price of the existing units in the fund. The fund operates with a single price for the purchase and sale of units and is currently fully invested in unit trusts. Creation and cancellation are effected at the same time as units are priced.

The price is the value of the investments of the fund, calculated as if the assets were being purchased, plus an allowance for expenses of purchasing the assets and accrued income, tax credits and rebates, divided by the number of units in the fund, adjusted to the nearest multiple of 0.01 pence.

Units are allocated to and cancelled from policies at this price.

Unit prices are calculated daily, with the holdings of the investments of the unit-linked funds being those applicable at 4.30 pm on the working day before the pricing. Unit trust holdings are valued at the creation prices (offer price before addition of preliminary charge). The price for unit trusts is that applicable at 12 noon on the day of the pricing, this being the price applicable to transactions effected on the morning of that day.

To provide the liquidity needed to deal with daily fluctuation in net cash flows the Society operates a box system whereby the number of units in creation exceeds the matching unit liability by a specified margin. Investment profits and losses on the box accrue to the Society.

All units are accumulation units.

#### **Riley Bond**

Whenever units are created the fund is increased by an amount equal to the number of additional units created multiplied by a price based upon the value of the investments of the fund, calculated as if the assets were being purchased plus, where appropriate, an allowance for expenses of purchasing the assets, and divided by the number of units in the fund. Creation is effected at the same time as units are priced.

Whenever existing units in a fund are cancelled, the fund is decreased by an amount equal to the number of units cancelled multiplied by a price based upon the value of the investments of the fund, calculated as if the assets were being sold less, where appropriate, an allowance for expenses of selling the assets, and divided by the number of units in the fund. Cancellation is effected at the same time as units are priced.

The maximum and minimum values of each fund are determined from the corresponding values of the assets with appropriate allowances for any liabilities then chargeable against the fund, uninvested cash, accrued income and accrued or prospective charges. The maximum value of any asset is not more than the market price at which it might be bought plus the relative commissions and other expenses and charges and the minimum value of such asset is not less than the price at which it might be sold less the relative commissions and other expenses and charges.

The maximum price is calculated as the maximum value of the fund divided by the number of units then in issue, the result being rounded.

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### 3. (7)

The minimum price is calculated as the minimum value of the fund divided by the number of units then in issue, the result being rounded.

The actual price will be set at a level between the maximum and minimum prices depending upon the prevailing cash flows. Units are allocated to and cancelled from policies at this price.

All units are accumulation units.

The prices of the Riley stockmarket funds at the valuation date were equal to the maximum price.

The prices of the Riley insurance funds at the valuation date were determined from the mid prices of the underlying assets.

#### **All other funds**

Whenever units are created the fund is increased by an amount equal to the number of additional units created multiplied by a price based upon the value of the investments of the fund, calculated as if the assets were being purchased, allowing for any existing or anticipated tax liability or credit, plus, where appropriate, an allowance for expenses of purchasing the assets, and divided by the number of units in the fund. Creation is effected at the same time as units are priced.

Whenever existing units in a fund are cancelled, the fund is decreased by an amount equal to the number of units cancelled multiplied by a price based upon the value of the investments of the fund, calculated as if the assets were being sold, allowing for any existing or anticipated tax liability or credit, less, where appropriate, an allowance for expenses of selling the assets, and divided by the number of units in the fund. Cancellation is effected at the same time as units are priced.

The maximum and minimum values of each fund are determined from the corresponding values of the assets with appropriate allowances for any liabilities then chargeable against the fund, uninvested cash, accrued income and accrued or prospective charges. The maximum value of any asset is not more than the market price at which it might be bought plus the relative commissions and other expenses and charges and the minimum value of such asset is not less than the price at which it might be sold less the relative commissions and other expenses and charges.

The maximum offer price of a unit is calculated as the maximum value of the portion of the fund attributable to that type of unit divided by the number of units then in issue plus, for certain funds, an initial charge. The actual offer price may be below this level.

The minimum bid price of a unit is calculated as the minimum value of the portion of the fund attributed to that type of unit divided by the number of units then in issue, the result being rounded. The actual bid price may be above this level.

For Retirement Solutions, Individual Pension Plans, and Pension Portfolio, units are allocated to and cancelled from a policy at a single price, which is the bid price of the fund. For all other products, the price at which units are allocated to a policy is the offer price and the price at which units are cancelled is the bid price.

All units are accumulation units

At the valuation date, the ruling bid price was equal to the minimum bid price for the following funds:

RL business	Unitplan, Unit-linked personal pension plan, Unit-linked FSAVC pension plan, Libertas/ RL safe combination™.
Former RA, former RIL and former CL business	all life funds
RL (intermediary) and former SL business	Managed Fund, Defensive Managed Fund, Global Managed Fund, UK Equity Fund, American Fund, Pacific Fund, European Fund, Worldwide Fund
Former UFI and former UFLA business	all funds

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**3. (7)**

At the valuation date the ruling offer price was equal to the maximum offer price for the following funds:

Former RA, former RIL and former CL business	all pension funds
RL (intermediary) and former SL business	all funds other than those listed above.

The values of Stock Exchange securities are based on quoted prices. The values of investments in real or heritable property are based on valuations prepared and certified by independent valuers adjusted to take into account the variations in prices between valuations. The values of other assets are determined by the Society.

The holdings of the investments of the unit-linked funds are those applicable at 12 noon on the day of the pricing. For direct investments, the price is also that applicable at 12 noon on the day of the pricing. For unit trusts provided by The Royal London Unit Trust Managers Limited (“RLUTM”), the price is that applicable to transactions effected on the morning of the day of the unit-linked pricing and for external unit trusts/funds the price is that applicable to transactions effected on the morning of the day before the unit-linked pricing.

At each valuation each internal fund is charged with a management charge calculated as a percentage of the current maximum value of the fund multiplied by the number of days since the previous valuation.

Unit prices are calculated as follows:

RL business Unitplan	Weekly, usually Tuesday
RL business unit-linked personal pension plan	Weekly, usually Thursday
RL business unit-linked FSAVC pension plan	Weekly, usually Thursday
Former CL business	Monthly, first working day of each month
Former RA and former RIL business	Weekly, usually Wednesday
All other business	Daily

To provide the liquidity needed to deal with daily fluctuation in net cash flows the Society operates a box system on funds priced daily whereby the number of units in creation exceeds the matching unit liability by a specified margin. A box system is also adopted for the weekly RL business funds. Investment profits and losses on the box accrue to the Society.

**(b)**

There are no circumstances in which different pricing bases apply to different policies within the same fund at any one time.

**(c)**

For unit trusts provided by RLUTM, the price is that applicable to transactions effected on the morning of the day of the unit-linked pricing and for external unit trusts/funds the price is that applicable to transactions effected on the morning of the day before the unit-linked pricing.

**3. (8)**

Unit pricing in respect of internal linked life funds provided for deferred tax throughout the reporting period in respect of realised and unrealised chargeable gains at the rates described in sub-paragraph 3(9). These allowances within the unit prices are settled for cash annually, with the exception of unrealised gains/losses in the Former RA Special Situations Fund and the property funds where cash settlement is only made for realised gains.

Where benefits under Former CL Endowment Investment and Endowment Investment Escalator Plans become payable, the linked Scottish Widows Global Growth OEIC (Class A) shares are deemed sold and the proceeds adjusted for an amount equal to the tax due, at the current rate on the indexed gain as if the policyholder had directly purchased the shares. The rate used during the report period was 20%.

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### 3. (9)

#### 3. (9)

Tax provisions for internal linked UK life funds are established for deferred tax in respect of unrealised chargeable gains at the following rates:

##### Riley Bond

- No provision is made for deferred tax in respect of unrealised chargeable gains in the internal linked funds. Instead each Riley Bond has an associated tax account reflecting the accrued tax liability on the investments backing the fund the value of which is deducted from any claim payment. The internal linked funds into which Riley Bonds invest include a provision for withholding tax on overseas investment income at the appropriate rate.

##### Former RA Special Situations Fund

- Equity and equity unit trust holdings: 20% of the indexed gain/unindexed loss throughout the report period.

##### All other life funds

- Equity and equity unit trust holdings: 18.25% of the indexed gain/unindexed loss throughout the report period.
- Fixed interest and fixed interest unit trust holdings: 20% of the unindexed gain/loss throughout the report period.
- Property holdings: 17.75% of the indexed gain/unindexed loss throughout the report period.
- Index linked holdings: 20% of the unindexed gain/loss throughout the report period.
- Index linked unit trust holdings: 20% of the unindexed gain/loss throughout the report period.

Tax provisions for internal linked life funds are established for realised chargeable gains at the following rates:

##### Riley Bond

- No provision is made for tax in respect of realised chargeable gains in the internal linked funds. Instead each Riley Bond has an associated tax account reflecting the accrued tax liability on the investments backing the fund the value of which is deducted from any claim payment.

##### All other life funds

- Equity and equity unit trust holdings: 20% of the indexed gain/unindexed loss throughout the report period.
- Fixed interest and fixed interest unit trust holdings: 20% of the unindexed gain/loss throughout the report period.
- Property holdings: 20% of the indexed gain/unindexed loss throughout the report period.
- Index linked holdings: 20% of the unindexed gain/loss throughout the report period.
- Index linked unit trust holdings: 20% of the unindexed gain/loss throughout the report period.

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### 3. (10)

#### 3. (10)

##### **RL Stakeholder Pension Plan**

Unit trusts managed by the Society's wholly-owned subsidiary company RLUTM are held by the Royal London Stakeholder Pension Managed Fund. Purchase and sale of unit trust units is at creation price unless the fund sells in excess of a value of £15,000 of unit trusts when the cancellation price may be applied. The creation price is used in the calculation of the daily price of the internal linked fund passing the full benefit on to the policyholder.

The whole of the regular management charge made on each unit trust together with audit, trustee, FSA and custody fees incurred by each unit trust are refunded to the fund to ensure that no additional charges are incurred by the policyholders.

##### **Other than RL Stakeholder Pension Plan**

Unit trusts managed by the Society's wholly-owned subsidiary company RLUTM are held by some of the investment funds. On the purchase of such units the preliminary charge is waived. The price net of such preliminary charge is used in the calculation of the unit prices of the relevant funds so passing the benefit to the policyholder.

Some internal funds hold, as investments, units in authorised unit trusts and OEICs operated by external fund managers. Units may be purchased from these fund managers at a discount from the full purchase price, the benefit of which is passed on to the policyholder. This discount varies according to the external fund manager in question as follows:

External fund manager	Discount
Artemis	5.25%
Barclays Global Investors	No initial charges apply
Close TEAMS	No initial charges apply
Fidelity Investments	3.0% UK Growth and International Funds
INVESCO Perpetual	5.0%
INVESCO	No initial charges apply
Investec	4.5%
JP Morgan	5.5%
Schroder Hermes	No initial charges apply
Schroder Investments	2.91% Managed Fund 4.51% UK Equity Fund 5.25% UK Alpha, UK Mid 250 and Tokyo Funds
SG Asset Management	5.25%
UBS Global Asset Management	No initial charges apply

In respect of the purchase of shares of the Scottish Widows Global Growth OEIC to which are linked the benefits of the Former CL Endowment Investment and Endowment Investment Escalator Plans the Society receives a discount of 3.2% on the initial charge of such shares. This discount is not passed on to policyholders, but is used to defray the Society's costs.

The management service charge is rebated as follows:

##### **RL Business**

The whole of the regular management charge made on the unit trusts is rebated to the relevant internal linked funds.

##### **Former RA, Former RIL and Former CL Business**

The whole of the regular management charge made on unit trusts managed by RLUTM is rebated to the relevant internal linked funds to ensure that policyholders pay only the same management charges as if the underlying assets had been held directly by the internal linked fund.

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### 3. (10)

#### **RL (intermediary) and Former SL Business**

The whole of the regular management charge made on unit trusts managed by RLUTM is rebated to the relevant internal linked funds to ensure that policyholders pay only the same management charges as if the underlying assets had been held directly by the internal linked fund.

Annual fund management charges for external unit trusts and OEICs are accrued and collected by the fund managers on holdings in respect of the internal linked funds. Rebates of part of the management charges are payable on some of these funds, the benefit of these rebates being passed on to the policyholder. The rebates are as follows:

Fund	Annual percentage rate
Scottish Life/Global Managed Equity Core Plus (Fidelity International)	0.50%
Scottish Life/Fidelity UK Growth	0.50%
Scottish Life/Fidelity Special Situations Blended	0.50%
Scottish Life/Global Managed Equity Specialist (Invesco Perpetual International Equity)	0.80%
Scottish Life/UK Equity Specialist (Invesco Perpetual UK Growth)	0.80%
Scottish Life/UK Equity Core Plus (Schroder UK Equity)	0.50%
Scottish Life/SocGen Global Managed	1.20%
Scottish Life/SocGen Stockmarket Managed	1.20%
Scottish Life/SocGen Global Managed 'A'	1.20%
Scottish Life/SocGen Stockmarket Managed 'A'	1.20%
Scottish Life/UK Equity Core Plus (JPMorgan Premier Equity Growth)	0.60%
Scottish Life/UK Equity Specialist (Artemis UK Special Situations)	0.70%
Scottish Life/UK Equity Specialist (Schroder UK Alpha Plus)	0.65%
Scottish Life/UK Income Specialist (Invesco Perpetual Income)	0.75%
Scottish Life/UK Income Core Plus (Artemis Income)	0.70%
Scottish Life/UK Mid Cap Specialist (Schroder UK Mid 250)	0.65%
Scottish Life/UK Small Cap Specialist (Investec UK Smaller Companies)	0.65%
Scottish Life/Global Managed Equity Specialist (Investec Global Free Enterprise)	0.65%
Scottish Life/Europe Core Plus (Fidelity European Blended)	0.45%
Scottish Life/Europe Specialist (Artemis European Growth)	0.70%
Scottish Life/US Core Plus (Investec American)	0.65%
Scottish Life/US Specialist (JPMorgan US)	0.60%
Scottish Life/Japan Core Plus (Schroder Tokyo)	0.65%
Scottish Life/Japan Specialist (JPMorgan Japan)	0.60%
Scottish Life/Asia Pacific Core Plus (Invesco Perpetual Asian)	0.75%

#### **Former UFI Business**

##### **Series 1 units**

The whole of the regular management charge made on unit trusts managed by RLUTM is rebated to the relevant internal linked funds to ensure that policyholders pay only the same management charges as if the underlying assets had been held directly by the internal linked fund.

#### **Former UFLA Business**

##### **Series 2 units**

Part of the regular management charge made on unit trusts managed by RLUTM is rebated to the relevant internal linked funds. The rebates are shown in the following table:

	Unit Trust Charge % pa	Rebate % pa	Effective Net Charge % pa
Cash Trust	0.50%	0.50%	0.00%
UK Government Bond Trust	0.75%	0.50%	0.25%
Index Linked Gilt Trust	0.40%	0.15%	0.25%
UK Equity Trust	1.25%	1.00%	0.25%
Equity Income Trust	1.25%	1.00%	0.25%
European Growth Trust	1.25%	1.00%	0.25%
All other trusts	1.00%	0.75%	0.25%

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 4. (1)

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

#### 4. (1)

The mathematical reserves have been calculated as follows:

- (i) for non-linked business, other than accumulating with-profits business, mathematical reserves have been calculated as the total of the present value of benefits (including existing annual bonus) plus the value of future expenses less the present value of future office premiums. There are a few exceptions which are detailed below.

Mathematical reserves on most with-profits contracts incorporate an allowance for a persistency decrement. Surrender values have been assumed to be equal to policy reserves for this purpose.

Mathematical reserves were subject to a minimum of the surrender value of guaranteed benefits.

Allowance is made when calculating expense reserves in the Royal London IB & OB Subfund for some contracts which are valued in the Scottish Life fund. Allowance is made when calculating reserves in the Scottish Life fund for any future monies payable from the Scottish Life Fund to the Royal London IB & OB Subfund.

- (ii) for accumulating with-profits business, in accordance with INSPRU 1.2.70R to INSPRU 1.2.72G, mathematical reserves have been calculated as the greater of a bonus reserve valuation and the lower of the surrender value under the policy having regard to the representations of the Society and that amount disregarding all discretionary adjustments. For the Unitised With-Profits Savings Plan, Protected Growth Plan and the accumulating with-profits elements of Crest Growth Final Salary business the reserve has been taken as the value of the units or deposit administration account deemed allocated to policies in force at the valuation date, such amount being greater than the reserve required under INSPRU 1.2.70R to INSPRU 1.2.72G.

For Unitised Personal Pension Plan (Series 1 and 2), Budgetplan (TP1 and TP2), Profitbuilder, Crest Growth, Talisman Executive Pension Plan - 98 Series 1 and 2, Talisman Personal Pension Plan - 98 Series 1 and 2, Talisman Buyout Bond – 98 Series 1, Talisman Group Pension Plan - Series 1 to 6, Talisman CPS – Series 1 to 6, Talisman Freestanding AVC Pension Plan – 98 Series 1 and 2, Retirement Solutions - Group Personal Pensions, Retirement Solutions – Company Pension Scheme, Individual Executive Pension Plan, Pension Portfolio and Individual Section 32 Buy Out Plan, a sterling reserve has been assessed in a similar manner as described below for linked business.

- (iii) for linked business mathematical reserves have been calculated as a combination of a unit reserve and a sterling reserve, where the sterling reserve is determined on a cash flow approach by calculating the projected outgo and the projected amount available to meet the outgo. Each year's projected net cash flow was discounted to the valuation date. A series of summations was then carried out to determine the sterling reserve ensuring that, if the valuation assumptions were fulfilled, no valuation strains would emerge in future years. For premium paying policies, the sterling reserve for an individual policy was determined as the greater of:

- sterling reserve assuming policies continue as premium paying, and
- sterling reserve assuming all policies become paid up at the valuation date.

Policy fees payable by customers were assumed to inflate where there is an established practice of increasing such fees. The valuation assumed no changes from current levels of risk benefit charges for these policies. No sterling reserves were set up for pension policies in the Scottish Life fund as the liability is in respect of guaranteed annuity options on unit linked liabilities which are included in the Royal London IB & OB Subfund.

Explicit reserves for expenses have been calculated in respect of policies under which no future premiums are payable.

Negative reserves were eliminated on a policy by policy basis.

In accordance with INSPRU 1.2.9R, no allowance has been made for final bonuses within the valuation of with-profits policies. In addition, as a realistic basis life firm, no allowance has been made for future annual bonuses except for Former UFI business in the United Friendly OB Subfund. UFI guaranteed a minimum annual bonus on its with-profits policies issued before 1987 at the rate of 1.50% for whole life assurances and 1.00% for endowment assurances. This minimum bonus has been valued as a liability throughout the remaining duration of the policies.

No additional reserves are held for investment performance guarantees.

Additional reserving information by origin of business:

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 4. (1)

#### **RL Business**

- (i) The value of office premiums has been reduced to reflect a concession whereby the Society gives credit for LAPR not received from the Inland Revenue in respect of a small number of cases issued on or before 13 March 1984.
- (ii) Most whole life assurances under which premiums are payable throughout life have been valued as though premium payments cease at the policy anniversary preceding age 85 for ordinary branch business and at an advanced age for industrial branch business, in view of a concession currently in operation.
- (iii) Policies on under-average lives, issued at an extra premium or with a contingent debt upon the sum assured, have been valued at the true ages as if the policies in all cases had been issued for the full sum assured at ordinary rates. An additional reserve of the current year's extra premiums has been included.
- (iv) For waiver of premium business (both direct business and reinsurance ceded), the reserve has been taken as the annual office premium.
- (v) In the valuation of group deferred annuities, the reserve has been taken as the sum of:
  - (a) the present value of pensions purchased up to and including 5 April 2006, with allowance for future expenses of 2.25% of the pension, and
  - (b) the premiums paid between 6 April 2006 and 31 December 2006 (which are not allocated to purchase pensions until 5 April 2007).
- (vi) The reserve for group life policies, for most of which the premiums are due monthly on the 6<sup>th</sup> of each month, has been taken as the total of premiums paid between 6 July 2006 and 6 December 2006, both dates inclusive.
- (vii) For permanent health insurance policies, additional reserves have been included in respect of claims currently being paid.
- (viii) An additional provision has been made for Bright Grey policies which provide instant cover. The reserve has been calculated by applying one month's risk cost, net of reinsurance, to the sum assured on application forms received in the month prior to the valuation date.
- (ix) Deferred maturity pure endowments issued as industrial business have been valued as the full original maturity value together with all bonuses credited to the valuation date.
- (x) Individual Executive Pension Plan and Pension Portfolio Lump Sum Benefits - the reserve is the proportion of the year's premium required to meet the unexpired risk.

#### **Former CL Business**

- (i) For assurances subject to an extra premium a reserve of one year's extra premium has been established.
- (ii) The mathematical reserves include explicit provisions in respect of the cost of undertakings given by the company to certain policyholders whose applications were under consideration at the time of the removal of Life Assurance Premium Relief.

#### **Former RA Business**

- (i) For under-average lives, in respect of which the sums assured are reduced in the event of the lives dying within stated periods, the full sums assured are assumed to be at risk. A full year's extra premium has been reserved in respect of policies under which such a premium has been charged.

#### **Former SL Business**

##### *Individual Contracts*

- (i) In cases where free cover had been granted at the outset of the contract a reserve equal to 6 months' chargeable premiums in respect of the sum at risk was held.
- (ii) Policies on under-average lives, issued at an extra premium or with a contingent debt upon the sum assured, have been valued at the true ages as if the policies in all cases had been issued for the full sum assured at ordinary rates. An additional reserve of the current year's extra premiums has been included. Policies issued on rated up terms were valued at corresponding increased ages.
- (iii) The reserves in the following classes were calculated as follows:
  - (1) Sovereign Plan - the reserve for the temporary assurance benefit is calculated as the proportion of the year's premium required to meet the unexpired risk.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 4. (1)

- (2) Talisman Executive Pension Plan - Series 1 and 2 Lump Sum and Widow's Death in Service Benefits, Talisman Executive Pension Plan - 98 Series 1 and 2 Lump Sum Benefits, Talisman Freestanding AVC Pension Plan - 98 Series 1 and 2 Lump Sum Benefits and Talisman Personal Pension Plan - 98 Series 1 and 2 Lump Sum Benefits - the reserve is the proportion of the year's premium required to meet the unexpired risk.
- (3) Capital Investment Bond & Flexible Life Plan – an additional mortality reserve equal to  $1/6$  of  $q_x$  times (sum assured less the value of units) is held.
- (4) Waiver of Premium Benefit – the reserve is the proportion of the year's premium required to meet the unexpired risk plus an additional reserve in respect of claims currently being paid.
- (5) Profitbuilder Plan – for contracts including Living Cover (Critical Illness) Benefit, the reserve for that benefit is calculated as one full year's current premium.
- (6) Mortgage Interest Benefit – the reserve is the proportion of the year's premium required to meet the unexpired risk.
- (7) Capitalplan – the reserve is that for an equivalent with-profits endowment assurance for an original term of 10 years with basic sum assured equal to the guaranteed maturity benefit, increased by 1.5% of that maturity value for each year elapsed to cover the guaranteed surrender value.

#### *Group Contracts*

- (i) For Group Deferred Annuities (including the Section 591 Buy Out Bond), Group Deferred Cash and Group Endowments the liability was obtained by taking the present value of the benefits purchased by the actual premiums paid to the date of valuation. Adjustments were made in respect of premiums paid to the date of valuation which had not been used to purchase benefits as at the valuation date and in respect of exits which had not been fully processed. Similar adjustments were made under Crest Growth Plan, Protected Growth Plan (Deposit Administration) and Crest Secure Plan. The method of valuation used in dealing with these adjustments was such as to reproduce approximately the correct reserve according to the basis described elsewhere in these Returns.
- (ii) The reserves for the following classes were calculated as follows:
  - (1) Group Life Assurances and Death in Service Widow's Benefit - The proportion of the year's premium required to meet the unexpired risk, including allowances for possible late notification of claims and any rate guarantees.
  - (2) Group Permanent Health Policies - The proportion of the year's premium required to meet the unexpired risk, including allowances for possible late notification of claims and any rate guarantees plus an additional reserve in respect of claims currently being paid.

#### **Former UFI and UFLA Business**

- (i) For under-average lives, in respect of which the sums assured are reduced in the event of the lives dying within stated periods, the full sums assured are assumed to be at risk. A full year's extra premium has been reserved in respect of policies under which such a premium has been charged.
- (ii) Whole life policies with recurring endowments issued before 6 April 1979 in the United Friendly IB Subfund are valued on the assumption that the policyholder will take whatever endowment sum is due on the quinquennial policy anniversary next following the valuation date.
- (iii) For waiver of premium business the reserve has been calculated as the annual office premium plus an additional reserve in respect of claims currently being paid.

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (2)**

**4. (2)**

The following table shows the valuation interest rates used to calculate the liabilities at this valuation together with the interest rates assumed in the previous investigation:

	Scottish Life Fund		All other subfunds	
	2006	2005	2006	2005
UK Life assurance:				
Conventional and accumulating with-profits business:	3.60%	3.30%	4.00%	3.50%
Conventional non-profit business:	3.60%	3.30%	4.00%	3.50%
Sterling reserve discount rate:	3.10%	2.90%	3.10%	2.90%
Purchased life annuities				
- gross	n/a	n/a	5.00%	4.375%
- net	n/a	n/a	4.00%	3.50%
Insurance ISA	n/a	n/a	4.625%	4.00%
PHI & sickness benefits	5.00%	4.375%	4.625%	4.00%
Pensions:				
Conventional and accumulating with-profits business:	4.625%	4.125%	4.625%	4.00%
Conventional non-profit business:	4.625%	4.125%	4.625%	4.00%
Sterling reserve discount rate	3.875%	3.625%	3.875%	3.625%
Compulsory purchase pension annuities in payment – RPI linked	n/a	n/a	1.375%	1.25%
Compulsory purchase pension annuities in payment	n/a	n/a	5.00%	4.375%
Overseas business:				
Conventional and accumulating with-profits business:	n/a	n/a	4.625%	4.00%
Conventional non-profit business:	n/a	n/a	4.625%	4.00%
Sterling reserve discount rate:	n/a	n/a	3.875%	3.625%

Paragraph 4. (1)(ii) stated that the reserves for certain accumulating with-profits contracts consisted of a with-profits benefit reserve and a sterling reserve. These calculations used the appropriate valuation interest rates from the table.

The in payment rate for Scottish Life Fund deferred annuities was 3.875% (2005: 3.625%).

The valuation of certain deferred annuity contracts and deferred cash contracts with an annuity rate guarantee used a stochastic approach described in paragraph 5. (1). The interest rates used have not been provided.



**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (4)**

**4. (4)**

The following table shows the valuation mortality assumptions used to calculate the liabilities at this valuation together with the equivalent assumptions from the previous investigation:

	2006	2005
Industrial branch business	82% ELT15(M) unrated	80% ELT15(M) unrated
Ordinary branch business:		
Life and pension annuities currently in payment:		
- RL (intermediary) and former SL individual business	100% modified PCMA00 & 90% modified PCFA00 See note [1].	100% PMA92 mc (U = 2005) & 100% PFA92 mc (U = 2005)
- Other business	100% modified PCMA00 & 90% modified PCFA00 See note [1].	105% PMA92 mc (U = 2005) & 105% PFA92 mc (U = 2005)
Life and pension deferred annuities in possession:		
- RL (intermediary) and former SL individual business	100% modified PCMA00 & 90% modified PCFA00 See note [1].	95% PMA92 mc (U = 2005) & 95% PFA92 mc (U = 2005)
- Other business	100% modified PCMA00 & 90% modified PCFA00 See note [1].	100% PMA92 mc (U = 2005) & 100% PFA92 mc (U = 2005)
Pensions in deferment:		
- RL (intermediary) and former SL group business	71% AM92 ult unrated & 71% AF92 ult unrated	60% AM92 ult unrated & 60% AF92 ult unrated
- RL (intermediary) and former SL individual business	71% AM92 ult unrated & 78% AF92 ult unrated	70% AM92 ult unrated & 70% AF92 ult unrated
- former RA business and former UF business (non-linked pure endowments)	Nil	Nil
- former RA business (non-linked other)	85% AM92 ult unrated & 87% AF92 ult unrated	70% AM92 ult unrated & 75% AF92 ult unrated
- RL business (non-linked) and former UF business (non-linked other)	95% AM92 ult unrated & 98% AF92 ult unrated	90% AM92 ult unrated & 95% AF92 ult unrated
- RL business, former RIL business and former UFLA business (linked)	100% AM92 ult unrated & 100% AF92 ult unrated	100% AM92 ult unrated & 100% AF92 ult unrated
- former CL business (linked)	100% AM92 ult unrated	100% AM92 ult unrated
- former UF business (linked)	100% AM92 ult unrated & 100% AF92 ult unrated	54.5% AM80 ult unrated
Assured Lives:		
- RL (intermediary) and former SL business	74% AM92 ult unrated & 84% AF92 ult unrated	80% AM92 ult unrated & 100% AF92 ult unrated
- Bright Grey Protection Plan Life cover (UK and overseas)	120% modified TM92(5) & 120% modified TF92(5) See note [2].	120% modified TM92(5) & 120% modified TF92(5) See note [2].
- European Bond, Libertas and Safe Combination™ (UK and overseas)	120% AM80 ult - 1 yr & 120% AF80 ult - 1 yr	120% AM80 ult - 1 yr & 120% AF80 ult - 1 yr
- RL business, former RA business and former UF business (non-linked)	95% AM92 ult unrated & 113% AF92 ult unrated	105% AM92 ult unrated & 105% AF92 ult unrated
- former CL business (non-linked)	95% AM92 ult unrated	105% AM92 ult unrated
- RL business, former RA business, former RIL business and former UFLA business (linked)	100% AM92 ult unrated & 100% AF92 ult unrated	100% AM92 ult unrated & 100% AF92 ult unrated
- former CL business (linked)	100% AM92 ult unrated	100% AM92 ult unrated
- former UF business (linked)	100% AM92 ult unrated & 100% AF92 ult unrated	54.5% AM80 ult unrated

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (4)**

*Note [1]: Annuities currently in payment and deferred pension annuities in possession.*

The modification applies medium cohort improvements from 2001, subject to a minimum improvement rate of 1.25% p.a. for male lives and 0.5% p.a. for female lives.

For annuities currently in payment, the required expectation of life information is contained in the following table:

	Sex	Age	2006	2005
RL (intermediary) and former SL individual business	Male	65	22.10	21.73
Other business	Male	65	22.10	21.36
RL (intermediary) and former SL individual business	Female	65	24.68	24.64
Other business	Female	65	24.68	24.24
RL (intermediary) and former SL individual business	Male	75	13.49	13.14
Other business	Male	75	13.49	12.83
RL (intermediary) and former SL individual business	Female	75	15.76	15.78
Other business	Female	75	15.76	15.43

For deferred annuity pension contracts, the required expectation of life information is contained in the following table:

	Sex	Age	2006	2005
RL (intermediary) and former SL individual business	Male	45	24.56	23.31
Other business	Male	45	24.56	22.93
RL (intermediary) and former SL individual business	Female	45	25.92	26.15
Other business	Female	45	25.92	25.75
RL (intermediary) and former SL individual business	Male	55	23.34	22.79
Other business	Male	55	23.34	22.41
RL (intermediary) and former SL individual business	Female	55	25.36	25.68
Other business	Female	55	25.36	25.27

*Note [2]: Bright Grey Protection Plan Life Cover*

For calculating the valuation reserves for this cover a loading of 20% above ultimate risk rates based on TM92(5) and TF92(5) has been used. The base table rates have been adjusted in line with the CMI's 1995-98 experience investigation and then further adjusted in line with the CMI's 1995-98 investigation into the differentials between smokers and non-smokers. The resultant rates were smoothed. The 20% loading incorporates a discount to reflect the expected better than average experience of the office and a loading to cover the cost of terminal illness benefit and benefit increase options. A further allowance is made for terminal illness benefit in the final year of the contract.

Sample ultimate risk rates before the 20% loading is applied are as follows:

Age	Male non smoker	Male smoker	Female non smoker	Female smoker
25	0.00032	0.00047	0.00019	0.00029
35	0.00036	0.00057	0.00032	0.00051
45	0.00080	0.00160	0.00072	0.00137
55	0.00227	0.00474	0.00168	0.00355

There is sufficient margin within the mortality rates assumed in the valuation to allow for significant changes in the incidence of disease or developments in medical science. No additional provision has been made.

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (5)**

**4. (5)**

The following table shows the valuation morbidity assumptions used to calculate the liabilities at this valuation together with the equivalent assumptions from the previous investigation:

	2006	2005
Bright Grey Protection Plan Life or Critical Illness cover (UK and overseas) – reviewable business	126% modified CIBT93 See note [1]	126% modified reinsurers' risk rates See note [2]
Bright Grey Protection Plan Life or Critical Illness cover (UK and overseas) – guaranteed business	180% modified CIBT93 See note [1]	180% modified reinsurers' risk rates See note [2]
Bright Grey Protection Plan Critical Illness cover (UK and overseas) – reviewable business	126% modified CIBT93 See note [3]	126% modified reinsurers' risk rates See note [4]
Bright Grey Protection Plan Income Cover for Sickness (UK and overseas)	Modified CMIR 12 See note [5]	Modified CMIR 12 See note [6]
Former UFLA Protection Plan – critical illness benefit	Modified reinsurer's risk rates See note [7]	Modified reinsurer's risk rates See note [7]
Former UFLA Protection Plan – income replacement benefit	Modified reinsurer's risk rates See note [8]	Modified reinsurer's risk rates See note [8]
RL (intermediary) and former SL Profitbuilder – critical illness benefit	Modified reinsurer's risk rates See note [9]	Modified reinsurer's risk rates See note [9]

*Note [1]: Bright Grey Protection Plan Life or Critical Illness Cover 2006*

For calculating the valuation reserves for this cover a loading of 26% (reviewable business) or 80% (guaranteed business) above modified CIBT93 risk rates has been used. The risk rates are ultimate and apply to the 'own occupation' definition of total permanent disability. Where a 'working tasks' definition of total permanent disability is used or where total permanent disability benefit is not included the risk rates are reduced.

Sample ultimate risk rates before the 26% or 80% loading is applied are as follows:

Age	Male non smoker	Male smoker	Female non smoker	Female smoker
25	0.000865	0.000945	0.000518	0.000509
35	0.001210	0.001711	0.001248	0.001588
45	0.002852	0.005524	0.002766	0.004803
55	0.007787	0.014696	0.005940	0.010140

An allowance has been made for future deterioration of experience at rates of 0.5% pa for males and 1.0% pa for females.

*Note [2]: Bright Grey Protection Plan Life or Critical Illness Cover 2005*

A description of the 2005 assumption can be found on page 206 of the 2005 Annual FSA Insurance Returns.

*Note [3]: Bright Grey Protection Plan Critical Illness Cover 2006*

For calculating the valuation reserves for this cover a loading of 26% above modified CIBT93 risk rates has been used. The risk rates are ultimate and apply to the 'own occupation' definition of total permanent disability. Where a 'working tasks' definition of total permanent disability is used or where total permanent disability benefit is not included the risk rates are reduced.

Sample ultimate risk rates before the 26% loading is applied are as follows:

Age	Male non smoker	Male smoker	Female non smoker	Female smoker
25	0.000517	0.000547	0.000373	0.000345
35	0.000884	0.001492	0.001222	0.001623
45	0.002349	0.004639	0.003306	0.005178
55	0.008466	0.013867	0.008654	0.011089

An allowance has been made for future deterioration of experience at rates of 0.5% pa for males and 1.0% pa for females.

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (5)**

*Note [4]: Bright Grey Protection Plan Critical Illness Cover 2005*

A description of the 2005 assumption can be found on page 206 of the 2005 Annual FSA Insurance Returns.

*Note [5]: Bright Grey Protection Plan Income Cover for Sickness 2006*

CMIR 12 inception and recovery rates are used, adjusted to take into account the 1995-1998 and 1999-2002 CMI experience analysis and expected office experience and to include a further valuation loading. Sample multiplicative adjustments to the CMIR 12 inception rates for a Class 1 occupation with an own occupation definition of incapacity are as follows:

Age	Males				Females			
	4 weeks	13 weeks	26 weeks	52 weeks	4 weeks	13 weeks	26 weeks	52 weeks
25	0.350423	0.469491	2.124766	3.001945	0.364443	0.488274	2.867037	4.050652
35	0.440403	0.701855	1.902388	3.001945	0.680007	1.083704	4.037335	6.370866
45	0.507774	0.855671	1.786984	3.586200	0.747421	1.259510	3.615333	7.255412
55	0.566304	0.973760	1.725063	4.231145	0.626396	1.077088	2.622630	6.432650

With further multiplicative adjustments of:

	adjustment
Non smokers	0.90
Smokers	1.20
Class 2 occupation	1.50
Class 3 occupation	2.00
Class 4 occupation	3.25
Working tasks	0.60

Sample adjustments to the CMIR 12 termination rates are as follows. Lower termination rates are expected on contracts written before September 2006, which have slightly higher maximum income replacement ratio:

Contracts written before September 2006

Duration Sick (months)	Males				Females			
	4 weeks	13 weeks	26 weeks	52 weeks	4 weeks	13 weeks	26 weeks	52 weeks
1	0.371097	0.000000	0.000000	0.000000	0.276165	0.000000	0.000000	0.000000
6	0.483289	0.379727	0.293425	0.000000	0.431508	0.336576	0.267535	0.000000
12	0.517810	0.500549	0.396987	0.215754	0.474659	0.466029	0.362467	0.198494
24	0.526440	0.526440	0.414248	0.293425	0.483289	0.483289	0.379727	0.267535

Contracts written after August 2006

Duration Sick (months)	Males				Females			
	4 weeks	13 weeks	26 weeks	52 weeks	4 weeks	13 weeks	26 weeks	52 weeks
1	0.397320	0.000000	0.000000	0.000000	0.295680	0.000000	0.000000	0.000000
6	0.517440	0.406560	0.314160	0.000000	0.462000	0.360360	0.286440	0.000000
12	0.554400	0.535920	0.425040	0.231000	0.508200	0.498960	0.388080	0.212520
24	0.563640	0.563640	0.443520	0.314160	0.517440	0.517440	0.406560	0.286440

*Note [6]: Bright Grey Protection Plan Income Cover for Sickness 2005*

A description of the 2005 assumption can be found on page 207 of the 2005 Annual FSA Insurance Returns.

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (5)**

*Note [7]: Former UFLA Protection Plan – critical illness benefit 2005 and 2006*

For calculating the valuation reserves for this benefit, risk rates supplied by a leading reinsurer have been used. The risk rates are ultimate and the benefit ceases at age 65.

Sample ultimate risk rates are as follows:

Age	Male non smoker	Male smoker	Female non smoker	Female smoker
25	0.000271	0.000469	0.000287	0.000497
35	0.000623	0.001079	0.000763	0.001321
45	0.002353	0.004075	0.001911	0.003309
55	0.006593	0.011417	0.004772	0.008264

No allowance has been made for deterioration of future experience.

*Note [8]: Former UFLA Protection Plan – income replacement benefit 2005 and 2006*

For calculating the valuation reserves for this benefit, risk rates supplied by a leading reinsurer have been used. The risk rates are ultimate.

Sample ultimate risk rates for a level benefit ceasing at age 65, deferred period 13 weeks, class 1 occupation are as follows:

Age	Male non smoker	Male smoker	Female non smoker	Female smoker
25	0.003105	0.004140	0.004658	0.006210
35	0.003708	0.004944	0.005562	0.007416
45	0.009090	0.012120	0.013635	0.018180
55	0.024489	0.032652	0.036734	0.048978

Additional loadings apply for occupation classes 2, 3 or 4.

No allowance has been made for deterioration of future experience.

*Note [9]: RL (intermediary) and former SL Profitbuilder –critical illness benefit 2005 and 2006*

Living Cover (Critical Illness) Benefit under Profitbuilder contracts has been valued using the risk rates supplied by a leading reinsurer.

Sample ultimate risk rates for accelerated comprehensive critical illness including total and permanent disability (own occupation) are as follows:

Age	Male non smoker	Male smoker	Female non smoker	Female smoker
25	0.000876	0.001512	0.000684	0.001164
35	0.001092	0.001908	0.001440	0.002568
45	0.003024	0.005280	0.003576	0.006288
55	0.009612	0.016728	0.007944	0.013692

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (6)**

**4. (6)**

**Royal London IB & OB Subfund**

Expense assumptions are provided in the following table:

	Current year assumptions			Prior year assumptions		
	Per Policy (per annum)	% Office Premium	Investment	Per Policy (per annum)	% Office Premium	Investment
CWP savings endowment (120)	12.50	5.0%	0.09%	11.88	5.0%	0.08%
CWP target cash endowment (125)	12.50	5.0%	0.09%	11.88	5.0%	0.08%
CWP pensions (155/165)	18.25	5.0%	0.09%	17.16	5.0%	0.08%
Term assurance (325/330)	15.85	1.1%	0.06%	15.24	1.1%	0.06%
Critical illness (340/345/350/355)	15.85	1.1%	0.06%	15.24	1.1%	0.06%
Income protection (360/365)	15.85	1.1%	0.06%	15.24	1.1%	0.06%
Annuity (400)	£17.21	n/a	0.06%	£16.47	n/a	0.06%
UWP bond (500)	12.50	n/a	0.09%	11.88	n/a	0.08%
UWP savings endowment (510)	27.35	0%	0.03% - 0.09%	22.95	0%	0.05% - 0.08%
UWP target cash endowment (515)	27.35	0%	0.03% - 0.09%	22.95	0%	0.05% - 0.08%
UWP regular premium pension (525/545)	12.50	5.0%	0.09%	11.88	5.0%	0.08%
UWP single premium pension (525/545)	12.50	n/a	0.09%	11.88	n/a	0.08%
UWP group regular premium pension (535)	69.89	0%	0.03% - 0.09%	58.04	0%	0.05% - 0.08%
UWP group single premium pension (535)	49.29	0%	0.03% - 0.09%	35.39	0%	0.05% - 0.08%
UL bond (700)	13.42	n/a	0.24%	16.34	n/a	0.24%
UL savings endowment (715)	27.35	0%	0.09%	22.95	0%	0.09%
UL target cash endowment (720)	27.35	0%	0.09%	22.95	0%	0.09%
UL regular premium pensions (725)	52.02	0%	0.09%	58.68	0%	0.09%
UL single premium pensions (725)	4.32	0%	0.24%	3.63	0%	0.24%
UL group regular premium pension (735)	69.89	0%	0.09%	58.04	0%	0.09%
UL group single premium pension (735)	49.29	0%	0.09%	35.39	0%	0.09%

Notes:

- 1) A claim termination expense of £348.61 (per annum for income protection claims) applies to term assurance, critical illness, and income protection. [2005 : £335.11]
- 2) For unit linked business the investment expenses shown are for the unit fund, in addition investment expenses of 0.06% p.a. [2005 : 0.06%] were assumed on sterling reserves.
- 3) References to 0.03% [2005 : 0.05%] relate to policies with benefits in the Scottish Life Fund with expenses incurred by the Royal London IB&OB Subfund.

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (6)**

**United Friendly OB Subfund**

Expense assumptions are provided in the following table:

	Current year assumptions			Prior year assumptions		
	Per Policy (per annum)	% Office Premium	Investment	Per Policy (per annum)	% Office Premium	Investment
CWP savings endowment (120)	18.25	5.0%	0.09%	17.16	5.0%	0.08%
CWP target cash endowment (125)	18.25	5.0%	0.09%	17.16	5.0%	0.08%

**Scottish Life Fund**

Expense assumptions are provided in the following table:

	Current year assumptions			Prior year assumptions		
	Per Policy (per annum)	% office premium	investment	Per Policy (per annum)	% office premium	investment
CWP savings endowment (120)	26.68	0%	0.03%	25.52	0%	0.05%
CWP target cash endowment (125)	26.68	0%	0.03%	25.52	0%	0.05%
CWP pensions (155/165)	27.54	0%	0.03%	29.09	0%	0.05%
Term Assurance (325/330)	26.68	0%	0.03%	25.52	0%	0.05%
UWP regular premium pension (525/545)	27.54	0%	0.03%	29.09	0%	0.05%
UWP single premium pension (525/545)	25.24	0%	0.03%	24.25	0%	0.05%
UL savings endowment (715)	27.35	0%	0.09%	22.95	0%	0.09%

All expenses across all subfunds are shown gross. In calculating expense reserves UK life business expenses were netted down for tax relief at 20%.

**4. (7)**

The following unit growth assumptions were used to calculate non unit liabilities for unit-linked business:

	2006	2005
Life assurance and general annuity business	5.10%	4.90%
Pension and overseas business	5.50%	5.25%

The following inflation assumptions were used in the valuation of linked and non linked business:

	2006	2005
Inflation Rate for Future Expenses	4.00%	3.75%
Inflation Rate for Policy Charges on Linked Business Only	4.00% (see note)	3.75% (see note)

Note : An inflation rate is applied to policy charges only where there is an established practice of annual increases. For other business it is assumed that policy charges do not increase.

The growth rate is before the deduction of regular management charges.

**4. (8)**

As a realistic basis firm no specific reserve has been made for future bonus within the valuation of conventional or unitised with-profits business except for certain contracts in the United Friendly OB Subfund as described in paragraph 4. (1).

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (9)**

**4. (9)**

**Royal London IB & OB Subfund**

Average lapse, surrender, and PUP rates are provided in the following table. All rates apply to ordinary business unless indicated otherwise.

Product		Average lapse / surrender / paid-up rates for the policy years			
		1-5	6-10	11-15	16-20
Level term	lapse	0.00	0.00	0.00	0.00
Decreasing term	lapse	0.00	0.00	0.00	0.00
Accelerated critical illness	lapse	0.00	0.00	0.00	0.00
Income protection	lapse	0.00	0.00	0.00	0.00
CWP savings endowment	surrender	2.02	1.71	1.17	0.93
CWP target cash endowment	surrender	4.25	3.50	2.10	1.35
CWP target cash endowment (IB)	surrender	N/A	2.05	1.30	0.85
UWP savings endowment	surrender	3.91	4.25	4.25	4.25
UWP target cash endowment	surrender	3.91	4.25	4.25	4.25
UL savings endowment	surrender	0.00	0.00	0.00	0.00
UL target cash endowment	surrender	0.00	0.00	0.00	0.00
UWP bond	surrender	5.00	5.00	5.00	5.00
UWP bond	automatic withdrawals	100% current	100% current	100% current	100% current
UL bond	surrender	0.00	0.00	0.00	0.00
UL bond	automatic withdrawals	0.00	0.00	0.00	0.00
CWP pension regular premium	PUP	0.00	0.00	0.00	0.00
CWP pension regular premium	surrender	0.00	0.00	0.00	0.00
CWP pension single premium	surrender	0.00	0.00	0.00	0.00
UWP indiv pension regular premium	PUP	0.00	0.00	0.00	0.00
UWP indiv pension regular premium	surrender	0.00	0.00	0.00	0.00
UWP indiv pension single premium	surrender	0.00	0.00	0.00	0.00
UL indiv pension regular premium	PUP	See Note 2	See Note 2	See Note 2	See Note 2
UL indiv pension regular premium	surrender	0.00	0.00	0.00	0.00
UL group pension regular premium	PUP	See Note 2	See Note 2	See Note 2	See Note 2
UL group pension regular premium	surrender	0.00	0.00	0.00	0.00
UL indiv pension single premium	surrender	0.00	0.00	0.00	0.00

The following notes apply:

- 1) No allowance is made for lapses in the valuation of non profit business.
- 2) Paragraph 4. (1) (iii) describes the method used to calculate sterling reserves for regular premium business. No additional allowance is made for conversions to paid up status after the valuation date.
- 3) RL and former RA Unitised Whole Life Assurance contracts (included in UWP bond above) written prior to April 2001 contain an MVR free date on the 10th anniversary of the date on which the with-profits units were created. For valuation purposes, it has been assumed that contracts with this option will terminate on this anniversary. Contracts written from April 2001 do not contain this option.

**Refuge Assurance IB Subfund**

Average surrender rates are provided in the following table.

Product		Average surrender rates for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment (IB)	surrender	N/A	2.05	1.30	0.85

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**4. (9)**

**Scottish Life Fund**

Average lapse, surrender, and PUP rates are provided in the following table.

Product		Average lapse / surrender / paid-up rates for the policy years			
		1-5	6-10	11-15	16-20
Level term	lapse	0.00	0.00	0.00	0.00
Decreasing term	lapse	0.00	0.00	0.00	0.00
Income protection	lapse	0.00	0.00	0.00	0.00
CWP savings endowment	surrender	4.25	4.25	4.25	3.40
CWP target cash endowment	surrender	4.25	4.25	4.25	3.40
UWP savings endowment	surrender	3.91	4.25	4.25	4.25
UWP target cash endowment	surrender	3.91	4.25	4.25	4.25
UL savings endowment	surrender	0.00	0.00	0.00	0.00
CWP pension regular premium	PUP	0.00	0.00	0.00	0.00
CWP pension regular premium	surrender	1.39	2.04	2.04	2.04
CWP pension single premium	surrender	2.38	3.49	3.49	3.49
UWP indiv pension regular premium	PUP	0.00	0.00	0.00	0.00
UWP indiv pension regular premium	surrender	2.11	2.16	2.16	2.16
UWP indiv pension single premium	surrender	2.66	3.10	3.10	3.10
UL indiv pension regular premium	PUP	0.00	0.00	0.00	0.00
UL indiv pension regular premium	surrender	0.00	0.00	0.00	0.00
UL group pension regular premium	PUP	0.00	0.00	0.00	0.00
UL group pension regular premium	surrender	0.00	0.00	0.00	0.00
UL indiv pension single premium	surrender	0.00	0.00	0.00	0.00

The following note applies:

- 1) No allowance is made for lapses in the valuation of non profit business.

**United Friendly IB Subfund**

Average lapse, surrender, and PUP rates are provided in the following table.

Product		Average surrender rates for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment (IB)	surrender	N/A	2.38	1.80	1.20

**United Friendly OB Subfund**

Average lapse, surrender, and PUP rates are provided in the following table.

Product		Average surrender / paid-up rates for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	N/A	3.00	2.30	1.60
CWP target cash endowment	surrender	N/A	4.25	3.95	3.75
CWP pension regular premium	PUP	N/A	0.00	0.00	0.00
CWP pension regular premium	surrender	N/A	0.69	0.75	0.55
CWP pension single premium	surrender	0.25	0.25	0.25	0.25

**4. (10)**

There are no other material basis assumptions.

**4. (11)**

Use of derivative contracts and similar instruments is limited to the requirements of efficient portfolio management and the reduction of investment risk, together with a small portfolio of derivative based contracts.

**4. (12)**

Changes to the INSPRU valuation rules effective 31 December 2006 had no impact on the reserves calculated at this valuation date.

# VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

## 5. (1)

### Options and guarantees

#### 5. (1)

#### Royal London IB & OB Subfund

- (a) The mathematical reserves established for RL deferred retirement annuity personal pension policies incorporate an allowance for the guaranteed roll up and pension conversion rates contained in these policies. The addition to the reserves was determined by capitalising any shortfall in the projected pension calculated using the valuation basis, including future contributions where appropriate, compared to the guaranteed amount, discounted back to the valuation date. A flat take-up rate of 95% was assumed.

The valuation interest rate used to value these guarantees at retirement was determined using a stochastic method and varied by retirement year, age, sex and guarantee type. The Barrie & Hibbert Economic Scenario Generator was calibrated to the forward gilt curve as described in the realistic abstract (Appendix 9.4A) and 1000 market consistent scenarios were run to produce 25 year par yield annuities for each future calendar year. A spreadsheet method was used to calculate the cost of providing the guarantee per unit of benefit for each scenario assuming payments start in the retirement year, valuation mortality and expenses. The average cost over the simulations was calculated for each combination of retirement year, age, sex and guarantee type. The implied valuation interest rate was determined using a goal seeking approach and multiplied by 97.5%.

- (b) (i) RL deferred retirement annuity personal pension policies  
(ii) £144m including amounts in respect of increments which are not entitled to the guarantee.  
(iii) Policies vest in the period 2007 – 2046.  
(iv) £13m  
(v) 10.02%  
(vi) Increments can be made to the policy. However, the guarantee applies to contracts issued and increments effected prior to 25 September 1986 only.  
(vii) Monthly in advance, single life, 5 year guarantee, level.  
(viii) 60 - 75
- (a) Former RA Pension Business Pure Endowments issued or increments effected prior to 31 December 1994 incorporate guaranteed pension rates. The addition to the reserves for these guaranteed pension rates was determined by calculating the additional cost of converting to pension annuities the value of the sum assured plus attaching annual bonuses on the valuation basis over the guaranteed pension rates multiplied by an assumed flat take-up rate of 95%.

The valuation interest rates were determined using the approach described above.

- (b) (i) Former RA Pension Business Pure Endowment - tables WPCO (contracted out), WPPP (personal pension), WPAVC (FSAVC).  
(ii) Contracted out version £15m  
Other versions £91m  
These reserves include amounts in respect of increments which are not entitled to the guarantee.  
(iii) Policies vest in the period 2007 – 2042.  
(iv) Contracted out version £6m  
Other versions £38m  
(v) Contracted out version 5.64%  
Other versions 8.61%  
(vi) Increments can be made to the policy. However, the guarantee applies to contracts issued and increments effected prior to 31 December 1994 only.  
(vii) Contracted out version monthly in advance, joint life with 50% spouse's benefit, no guarantee, increases at 3% per annum.  
Other versions monthly in advance, single life, level, guaranteed 5 years, guarantee does not apply if increasing annuity or spouse's benefit required at vesting.  
(viii) Contracted out version males 65 - 75, females 60 - 75  
Other versions 50 - 75.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 5. (1)

#### Scottish Life Fund

- (a) In the case of Former SL deferred cash contracts with a guaranteed minimum annuity at vesting, the reserve was calculated using the higher of the cash amount and the value of the guaranteed minimum annuity at vesting. A flat take-up rate of 95% was assumed.

The valuation interest rates were determined using the approach described for the Royal London IB & OB Subfund above. The interest rates calculated for unit linked liabilities also allow for a stochastic projection of the unit funds to the option exercise date.

- (b) (i) Talisman Personal Pension Plan Series 1 issued pre July 1988, Sovereign Plan, Personal Pension Policy, Personal Pension Bonus Bond, Personal Pension Cashplan and With-Profits Variable Premium Bond.
- (ii) £261m
- (iii) Policies vest in the period 2007 - 2042
- (iv) £143m
- (v) 10.887
- (vi) Increments can be made to the Talisman Personal Pension Plan but these do not qualify for guaranteed annuity rates unless they were contractual increments arranged prior to 1995.
- (vii) Level, yearly in arrears.
- (viii) 50 - 75
- (b) (i) Talisman Personal Pension Plan Series 1 issued post June 1988 (non-Protected Rights)
- (ii) £290m
- (iii) Policies vest in the period 2007 - 2039
- (iv) £112m
- (v) 9.864
- (vi) Increments can be made to the policy but these do not qualify for guaranteed annuity rates unless they were contractual increments arranged prior to 1995.
- (vii) Level, yearly in arrears.
- (viii) 50 - 75
- (b) (i) Talisman Personal Pension Plan Series 1 issued post June 1988 (Protected Rights)
- (ii) £539m
- (iii) Policies vest in the period 2007 - 2041
- (iv) £411m
- (v) 5.673
- (vi) Increments cannot be made to these policies.
- (vii) Escalating at 3% pa, payable yearly in arrears. There is an attaching widows/widowers pension of 50%.
- (viii) 60 – 75 (including late vesting).
- (b) (i) Talisman Executive Pension Plan Series 1 and With-Profits Deferred MIPA
- (ii) £80m
- (iii) Policies vest in the period 2007 - 2035
- (iv) £42m
- (v) 10.000
- (vi) Increments can be made to the Talisman Executive Pension Plan but these do not qualify for guaranteed annuity rates unless they were contractual increments arranged prior to 1995. Increments can be made to the With-Profits Deferred MIPA contract.
- (vii) Level, monthly in advance, guaranteed 5 years.
- (viii) 46 – 75

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 5. (1)

#### United Friendly OB Subfund

- (a) The mathematical reserves established for certain Former UF endowment assurances issued prior to 1987 incorporate an allowance for the option to take the maturity proceeds as an annuity at a guaranteed rate varying with the age of the life assured at maturity. The reserve was calculated as the capitalised amount of any shortfall in the projected life annuity derived using the valuation basis compared to the guaranteed annuity, discounted back to the valuation date. A take-up rate of 15% was assumed based on recent experience of this option being effected.
- (b) (i) Former UF endowment assurances  
(ii) £36m including amounts in respect of policies which are not entitled to the guarantee and policies where the option was not selected.  
(iii) Policies mature in the period 2007 – 2030.  
(iv) £2m  
(v) 8.97%  
(vi) Increments cannot be made to the policy.  
(vii) Quarterly in advance, single life, 5 year guarantee, level.  
(viii) 50 - 70

#### 5. (2)

Not applicable.

#### 5. (3)

Not applicable.

#### 5. (4)

Guarantees have been issued to settle some cases under the review of pension transfers and opt-outs as instigated by the Securities and Investments Board. The guaranteed benefits have been valued using the following principal assumptions:

Interest rate in deferment	RPI + 1.375%
Interest rate in possession	RPI + 0.875%
Salary inflation	RPI + 2.5%
Promotional increases	1%
Rate of pension increase in payment	RPI
Rate of pension increase in deferment	RPI + 1%
Mortality in deferment	85% AM92 ult, 87% AF92 ult
Mortality in possession	100% modified PCMA00 & 90% modified PCFA00  (See Note [1] in 4. (4))

The gross reserves for the guarantees were reduced by the reserves for the guaranteed policies as shown in the following table. The net reserves are included within the total reserves for the pensions review shown in Forms 51 – 54 as appropriate.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 5. (4)

	Gross provision for guarantees	Mathematical reserves for underlying contracts	Net provision for guarantees
<b>Royal London IB &amp; OB Subfund</b>			
RL business	£96,589,000	£15,911,000	£80,678,000
Former RA business	£10,455,000	£2,196,000	£8,259,000
Former RIL business	£8,109,000	£2,784,000	£5,325,000
Former UFI business	£35,227,000	£7,549,000	£27,678,000
Former UFLA business	£1,379,000	£375,000	£1,004,000
<b>Total</b>	<b>£151,759,000</b>	<b>£28,815,000</b>	<b>£122,944,000</b>

#### **Royal London IB & OB Subfund**

##### **RL Business**

Under certain policies which are a combination of with-profits endowment assurances and additional temporary benefits, a guarantee of a minimum payment on maturity applies (GMDB).

From time to time as considered appropriate, the Society may compute the estimated maturity value under these policies and, where this is less than the GMDB, the endowment sum assured would be increased, without evidence of health, with an appropriate increase in premium.

Although there is no general premium rate guarantee, the following guarantees do apply:

- (a) any increase in premium is limited to 10% of the premium applying immediately prior to the review, and
- (b) the increase in premium is limited to such amount as will allow the policy to remain a qualifying policy under paragraphs 2(1)(c) and (d) of Schedule 15 of ICTA 1988, or the equivalent earlier legislation.

The mathematical reserve for these policies includes an amount of £44,800,000 being the present value of the projected shortfall. The shortfall calculation assumed no future bonuses are added to the policies in accordance with the requirements of INSPRU 1.2.

An additional reserve of £900,000 has been included in Form 51 in respect of options and guarantees.

##### **Former RA Business**

In respect of regular premium conventional with-profits pension policies written between March and September 1999, there is an undertaking safeguarding the interests of policyholders following the issue of any relevant announcements concerning the terms on which Stakeholder pensions might be sold. For those eligible to join a Stakeholder pension scheme, this will lead to enhanced transfer values being payable.

A reserve of £8,044,000 is included in Form 51 for the undertaking. The liability was calculated as the accumulated value of premiums paid from entry to the valuation date (£20,761,000) less the mathematical reserves held (£12,717,000).

An additional reserve of £250,000 has been included in Form 51 in respect of options and guarantees.

##### **Former UFI Business**

In respect of regular premium unit-linked pension policies written between March and September 1999, there is an undertaking safeguarding the interests of policyholders following the issue of any relevant announcements concerning the terms on which Stakeholder pensions might be sold. For those eligible to join a Stakeholder pension scheme, this will lead to enhanced transfer values being payable.

A non unit liability of £3,126,000 is included in Form 53 for the undertaking. The liability was calculated as the accumulated value of premiums paid from entry to the valuation date (£8,354,000) less the mathematical reserves held (£5,228,000).

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 5. (4)

#### Former UFLA Business

A sterling reserve of £268,000 has been included in Form 53 in respect of the mortality guarantee option on certain Investment Bond contracts. The reserve has been calculated by applying the ratio of annuity values on prospective mortality and guaranteed mortality tables determined using the sterling reserve discount rate for life business to eligible reserves of £19,829,000 and a take-up rate of 5% (based on experience).

#### Scottish Life Fund & Royal London IB & OB Subfund

Within the contract descriptions shown below some contracts have underlying guaranteed minimum pensions (GMPs). The GMPs are valued as non-profit deferred pensions with attaching widow's/er's pensions. An additional liability is calculated as the higher of zero and the value of the GMPs less the value of the non-guaranteed benefits. The valuation bases are described in Section 4.

Contract	Non-Guaranteed Reserve Scottish Life Fund	Non-Guaranteed Reserve Royal London IB & OB Subfund	GMP Reserve Scottish Life Fund	GMP Reserve Royal London IB & OB Subfund
Buyout Bond & Policy	£257,192,000		£782,000	
Crest Secure	£434,888,000		£79,395,000	
Talisman Buyout Bond – Series 2	£122,244,000	£25,029,000	£27,463,000	
Talisman Buyout Bond – 98 Series 1	£16,350,000	£64,651,000		£98,000
Individual Section 32 Buyout Plan		£62,802,000		£131,000

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 6. (1)

#### Expense reserves

#### 6. (1)

At least £97m is expected to arise during the calendar year after the valuation date from explicit allowances made in the valuation to meet expenses in fulfilling contracts in force at the valuation date. This amount consists of £17m investment expenses and £80m other maintenance expenses.

#### 6. (2)

There are no implicit expense allowances.

#### 6. (3)

The amount of expense shown in Form 43 line 14 is not significantly different to the amount expected on the valuation assumptions per paragraph 6. (1) above.

#### 6. (4)

The impact of writing new business on the provision for expenses in the valuation has been evaluated after taking into account anticipated levels of new business and expenses as projected in the Society's budgetary process. No additional provision was considered necessary.

#### 6. (5)

In assessing the adequacy of the provision for expenses in the mathematical reserves, the potential impact of additional expenses arising from closing the Society to new business twelve months after the valuation date has been evaluated. The investigation considered redundancy costs, vacant property provision and the termination of service agreements upon closure, together with the maintenance costs of continuing to service the existing book of business and margins projected to emerge on the existing business. No additional provision was considered necessary.

#### 6. (6)

All maintenance expenses have been classed as attributable expenses.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 7. (1)

#### Mismatching reserves

#### 7. (1)

#### ROYAL LONDON OTHER LONG TERM FUNDS

A schedule of the mathematical reserves (other than liabilities for property linked benefits), after distribution of surplus, analysed by reference to the currencies in which the liabilities are expressed to be payable together with the value of the assets which match such liabilities has been produced as follows:

Currency	Liabilities £000s	Assets £000s
Sterling	7,292,468	7,292,468
Euros	89,554	89,554

There are no liabilities in respect of deposits received from reinsurers.

#### SCOTTISH LIFE FUND

The total mathematical reserves (other than liabilities for property linked benefits), after distribution of surplus, amounts to £3,789,254,000. This is matched by assets in sterling to the same value.

There are no liabilities in respect of deposits received from reinsurers.

#### 7. (2)

Not applicable.

#### 7. (3)

There is no currency mismatching reserve as all liabilities are fully matched by assets in the same currency.

#### 7. (4) – (6)

As a realistic basis life firm the Society is no longer required calculate a resilience capital requirement as per INSPRU 3.1.10R

#### 7. (7)

The assets held in respect of technical provisions are adequately diversified and are appropriate to the type of business undertaken in relation to their safety, yield and marketability. The assets are substantially denominated in sterling and are of a sufficient amount and liquidity to ensure that inflows from the assets are expected to be sufficient to meet the insurance liabilities (including all guarantees and options) as they fall due. No additional reserve is necessary.

#### Other special reserves

#### 8.

There are no special reserves in excess of £10m.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 9. (1)

#### Reinsurance

#### 9. (1)

The Society does not cede any long term business on a facultative basis to a reinsurer who is not authorised to carry on insurance business in the United Kingdom.

#### 9. (2)

Details are set out below of each reinsurance treaty where the Society is the cedant, under which business was in force at the date of the investigation and where either the premium payable to the reinsurer or the mathematical reserves ceded to the reinsurer exceeded £10m.

(d) **Munich Reinsurance Company UK Life Branch (“Munich Re”).**

- (e) Under the treaty for individual life business under Bright Grey contracts, the Society ceded 90% of the sum assured up to a sum assured of £500,000 and 100% of the amount above this, for each case. Level reinsurance premiums are payable after a nil premium period.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £4,680,028.
- (g) This treaty does not contain any deposit back arrangements.
- (h) The treaty is closed to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £21.5 million.
- (k) Not applicable.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.
- (n) A credit risk exists in the event of default of the reinsurer and consequent recapture of the treaty, in that the additional premiums receivable, plus any amounts recoverable from the reinsurer, may not match the incidence of the additional risk. In view of the strong credit rating of the reinsurer and the scale of the reinsured liabilities, this risk is not material.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a ‘financing arrangement’.

(d) **Munich Reinsurance Company UK Life Branch (“Munich Re”).**

- (e) Under the treaty for individual life business under Bright Grey contracts, the Society ceded 90% of the sum assured up to a sum assured of £500,000 and 100% of the amount above this, for each case. Level reinsurance premiums are payable after a reduced premium period.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £474,668.
- (g) This treaty does not contain any deposit back arrangements.
- (h) The treaty is open to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £13.2 million.
- (k) The retention for new policies being reinsured under this treaty is 10% of the sum assured up to a maximum retention of £50,000.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.
- (n) A credit risk exists in the event of default of the reinsurer and consequent recapture of the treaty, in that the additional premiums receivable, plus any amounts recoverable from the reinsurer, may not match the incidence of the additional risk. In view of the strong credit rating of the reinsurer and the scale of the reinsured liabilities, this risk is not material.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a ‘financing arrangement’.

(d) **General Reinsurance Life UK Limited (“Gen Re UK”).**

- (e) Under the treaty for individual life business (decreasing benefit) under Bright Grey contracts, the Society ceded 80% of the sum assured up to a sum assured of £250,000 and 100% of the amount above this, for each case. The treaty is on a risk premium basis.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 9. (2)

- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £2,244,925.
  - (g) This treaty does not contain any deposit back arrangements.
  - (h) The treaty is open to new business.
  - (i) Not applicable.
  - (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £13.1 million.
  - (k) The retention for new policies being reinsured under this treaty is 20% of the sum assured up to a maximum retention of £50,000.
  - (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
  - (m) The reinsurer is not a connected company of the Society.
  - (n) A credit risk exists in the event of default of the reinsurer and consequent recapture of the treaty, in that the additional premiums receivable, plus any amounts recoverable from the reinsurer, may not match the incidence of the additional risk. In view of the strong credit rating of the reinsurer and the scale of the reinsured liabilities, this risk is not material.
  - (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
  - (p) The treaty is not a 'financing arrangement'.
- (d) **Hannover Life Reassurance (UK) Limited ("Hannover UK").**
- (e) Under the treaty for individual life business (level or increasing lump sum or family income benefit) under Bright Grey contracts, the Society ceded 90% of the sum assured up to a sum assured of £500,000 and 100% of the amount above this, for each case. 5% of the ceded amount was reinsured with Hannover UK and the balance with Hannover Ireland (the treaty described below). Level reinsurance premiums are payable after a nil premium period.
  - (f) The amount of premiums payable under the treaty during the period since the previous investigation was £46,279.
  - (g) This treaty does not contain any deposit back arrangements.
  - (h) The treaty is closed to new business.
  - (i) Not applicable.
  - (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £1.4 million.
  - (k) Not applicable.
  - (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
  - (m) The reinsurer is not a connected company of the Society.
  - (n) A credit risk exists in the event of default of the reinsurer and consequent recapture of the treaty, in that the additional premiums receivable, plus any amounts recoverable from the reinsurer, may not match the incidence of the additional risk. In view of the strong credit rating of the reinsurer and the scale of the reinsured liabilities, this risk is not material.
  - (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
  - (p) The treaty is not a 'financing arrangement'.
- (d) **Hannover Life Reassurance (Ireland) Limited ("Hannover Ireland").**
- (e) Under the treaty for individual life business (level or increasing lump sum or family income benefit) under Bright Grey contracts, the Society ceded 90% of the sum assured up to a sum assured of £500,000 and 100% of the amount above this, for each case. 95% of the ceded amount was reinsured with Hannover Ireland and the balance with Hannover UK (the treaty described above). Level reinsurance premiums are payable after a nil premium period.
  - (f) The amount of premiums payable under the treaty during the period since the previous investigation was £440,868.
  - (g) This treaty does not contain any deposit back arrangements.
  - (h) The treaty is closed to new business.
  - (i) Not applicable.
  - (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £25.9 million.
  - (k) Not applicable.
  - (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
  - (m) The reinsurer is not a connected company of the Society.
  - (n) A credit risk exists in the event of default of the reinsurer and consequent recapture of the treaty, in that the additional premiums receivable, plus any amounts recoverable from the reinsurer, may not match the incidence of the additional risk. In view of the strong credit rating of the reinsurer and the scale of the reinsured liabilities, this risk is not material.
  - (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 9. (2)

- (p) The treaty is not a 'financing arrangement'.
- (d) **UBS Global Asset Management Life Ltd.**
- (e) All benefits expressed in terms of units in the Scottish Life/UBS UK Equity and Scottish Life/UBS Managed Equity Pension funds are covered by the treaty.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £336,820.
- (g) This treaty does not contain any deposit back arrangements.
- (h) This treaty is open to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £13.0 million.
- (k) The retention for new policies being reinsured under this treaty is nil.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.
- (n) This treaty is in respect of the reinsurance of the investment liability arising in relation to funds, the performance of which is determined by property linked funds provided by UBS Global Asset Management Life Ltd. Any credit risk in respect of these funds would fall to the policyholder.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a 'financing arrangement'.
- (d) **Hermes Assured Limited.**
- (e) All benefits expressed in terms of units in the Scottish Life/Schroder Hermes UK Index Tracker Pension fund are covered by the treaty.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £101,725.
- (g) This treaty does not contain any deposit back arrangements.
- (h) This treaty is open to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £12.9 million.
- (k) The retention for new policies being reinsured under this treaty is nil.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.
- (n) This treaty is in respect of the reinsurance of the investment liability arising in relation to a fund, the performance of which is determined by a property linked fund provided by Hermes Assured Limited. Any credit risk in respect of this fund would fall to the policyholder.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a 'financing arrangement'.
- (d) **Barclays Global Investors Pensions Management Ltd.**
- (e) All benefits expressed in terms of units in the Scottish Life/BGI Consensus, Scottish Life/Global Managed Equity Core (BGI Global Equity Index 60/40), Scottish Life/US Core (BGI US Equity Index), Scottish Life/Europe Core (BGI European Equity Index), Scottish Life/UK Equity Core (BGI UK Equity Index), Scottish Life/BGI Global Equity Index (50:50), Scottish Life/BGI World (ex UK) Index, Scottish Life/BGI US Equity Index 'A' and Scottish Life/BGI European Equity Index 'A' Pension funds are covered by the treaty.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £77,184,101.
- (g) This treaty does not contain any deposit back arrangements.
- (h) This treaty is open to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £187.6 million.
- (k) The retention for new policies being reinsured under this treaty is nil.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 9. (2)

- (n) This treaty is in respect of the reinsurance of the investment liability arising in relation to funds, the performance of which is determined by property linked funds provided by Barclays Global Investors Pensions Management Ltd. Any credit risk in respect of these funds would fall to the policyholder.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a 'financing arrangement'.
  
- (d) **Winterthur Life UK Limited.**
- (e) All benefits expressed in terms of units in the Scottish Life/UK Equity Core Plus (Close TEAMS UK Equities (2%)), Scottish Life/UK Equity Core Plus (Close TEAMS UK Equities (1%)), Scottish Life/Global Managed Equity Core Plus (Close TEAMS Global Equities (2%)), Scottish Life/Global Managed Equity Core Plus (Close TEAMS Global Equities (1%)), Scottish Life/Close TEAMS Manager of Manager Global Equities (1%) Outperformance 'A' and Scottish Life/Close TEAMS Manager of Manager UK Equities (1%) Outperformance 'A' Pension funds are covered by the treaty.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £4,892,136.
- (g) This treaty does not contain any deposit back arrangements.
- (h) This treaty is open to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £46.3 million.
- (k) The retention for new policies being reinsured under this treaty is nil.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.
- (n) This treaty is in respect of the reinsurance of the investment liability arising in relation to funds, the performance of which is determined by property linked funds provided by Winterthur Life UK Limited. Any credit risk in respect of these funds would fall to the policyholder.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a 'financing arrangement'.
  
- (d) **Prudential Retirement Income Limited.**
- (e) Former SL and RL (intermediary) pension annuity business which has currency dates after 31 December 2004 is covered by the treaty.
- (f) The amount of premiums payable under the treaty during the period since the previous investigation was £138,745,350.
- (g) This treaty does not contain any deposit back arrangements.
- (h) This treaty is open to new business.
- (i) Not applicable.
- (j) The amount of mathematical reserves ceded under the treaty as at the date of the investigation was £188.4 million.
- (k) The retention for new policies being reinsured under this treaty was nil.
- (l) The reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company of the Society.
- (n) A credit risk exists in the event of default of the reinsurer and consequent recapture of the treaty, in that the additional premiums receivable, plus any amounts recoverable from the reinsurer, may not match the incidence of the additional risk. There is a floating charge in favour of the Society over all of the reinsurer's assets which ranks the liability under the treaty equally with all unsecured and unsubordinated Insurance Debts of the reinsurer on a winding up of the reinsurer.
- (o) No specific provision has been made for any liability to refund reinsurance commission in the event of early termination of policies.
- (p) The treaty is not a 'financing arrangement'.

**VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY**

**10. (1)**

**Reversionary (or annual) bonus**

**10. (1)**

**Royal London IB & OB Subfund**

Name of bonus series	Mathematical reserves	Reversionary bonus rate		Total guaranteed bonus rate for 2006
		2006	2005	
Conventional business:				
RL Regular premium assurances (simple)	£801m	0.58%	0.54%	0.58%
RL Single premium assurances (simple)	£94m	0.5%	0.5%	0.50%
RA Assurances (compound)	£355m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
RL Retirement annuity pension (compound)	£156m	1.0%/1.0%	1.0%/1.0%	1.0%/1.0%
RL Personal pension, Freestanding AVC (compound)	£1,301m	1.0%/1.0%	1.0%/1.0%	1.0%/1.0%
RA Pensions (compound)	£672m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
RL Industrial (simple)	£450m	0.5%	0.5%	0.5%
UWP business:				
RL Unitised Whole Life Assurance	£159m	2.5%	2.5%	2.5%
RA Unitised Whole Life Assurance	£36m	2.5%	2.5%	2.5%
RL With-Profits Bond (Series 3)	£3m	3.0%	3.0%	3.0%
RL Unitised With-Profits Savings Plans	£12m	1.75%	1.75%	1.75%
RL Insurance ISA	£101m	2.0%	2.0%	2.0%
European With-Profits Bond	£89m	3.04% *	3.25%	3.04% *
RL Unitised Personal Pension Plan (Series 2)	£10m	3.75%	3.75%	2.75% **
RA Unitised Personal Pension Plan (Series 1)	£27m	3.75%	3.75%	2.50% **
Talisman, Retirement Solutions, Individual & Pension Portfolio	£360m	3.0%/3.0%	3.0%/3.0%	3.0%/3.0%
Crest Growth Plan	£20m	3.0%	3.0%	3.0%

Note: Bonus rates marked “\*” indicate that the rate changed during the year, and the rate shown is a weighted average. Bonus rates marked “\*\*” are net of policy charges deducted from the gross bonus rate.

**Refuge Assurance IB Subfund**

Name of bonus series	Mathematical reserves	Reversionary bonus rate		Total guaranteed bonus rate for 2006
		2006	2005	
RA Industrial (compound)	£298m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%

Whole of life policies on which premiums ceased under the terms of the contract after 31 March 1988 are deemed to be participating policies.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 10. (1)

#### Scottish Life Fund

##### *Individual Policies*

Name of bonus series	Mathematical reserves	Reversionary bonus rate		Total guaranteed bonus rate for 2006
		2006	2005	
SL conventional business:				
Assurances (compound)	£690m	0.25%/0.25%	0.25%/0.25%	0.25%/0.25%
Pensions (compound)	£1,588m	0.25%/0.25%	0.25%/0.25%	0.25%/0.25%
SL UWP business:				
Profitbuilder, Budget Plan (TP1), Budget Plan (TP2)	£37m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
Talisman and Retirement Solutions	£146m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
SL deposit administration business:				
Sovereign Plan, Talisman Secure Account	£110m	2.75%*	2.75%**	2.75%

Note: bonus rates marked “\*” indicate that the rate shown applies for a policy year or scheme year 2006/2007, rates marked “\*\*” apply similarly for 2005/2006.

##### *Group Pension Policies*

Name of bonus series	Mathematical reserves	Reversionary bonus rate		Total guaranteed bonus rate for 2006
		2006	2005	
SL conventional business:				
Pensions (compound)	£137m	0.25%/0.25%	0.25%/0.25%	0.25%/0.25%
With-profits plan (compound)	£79m	0.5%*	0.5%** + 4.5% special bonus	0.5%
SL UWP business:				
Crest Growth	£106m	0.5%	0.5%	0.5%
SL deposit administration business:				
Crest Secure	£514m	2.0%*	2.0%**	2.0%
Protected Growth, Talisman EPP	£54m	2.75%*	2.75%**	2.75%

Note: bonus rates marked “\*” indicate that the rate shown applies for a calendar year, policy year or scheme year 2006/2007 as appropriate, rates marked “\*\*” apply similarly for 2005/2006.

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 10. (1)

#### United Friendly IB Subfund

Name of bonus series	Mathematical reserves	Reversionary bonus rate		Total guaranteed bonus rate for 2006
		2006	2005	
Whole life assurance (simple):				
Class 1 (table 7)	£133m	1.5%	2.0%	1.5%
Class 2 (table 27W)	£213m	1.5%	2.0%	1.5%
Class 3 (table 27L)	£66m	0.5%	0.5%	0.5%
Whole life assurance with recurring endowments (simple):				
Class 1 (table 5)	£86m	0.5%	0.5%	0.5%
Class 2 (table 25)	£26m	1.0%	1.5%	1.0%
Endowment assurance (simple):				
Class 3 (table 21L)	£92m	0.5%	0.5%	0.5%
All applicable contracts				
LAPR sum assured addition 6.4.79	Included above	0.5%	0.5%	0.5%
LAPR sum assured reduction 6.4.81	Included above	0.5%	0.5%	0.5%

The Society has issued business on three broad rating tables.

- Class 1 applies to weekly business written up to and including 5 April 1979.
- Class 2 applies to weekly business written between 6 April 1979 and 4 September 1988.
- Class 3 applies to all lunar monthly business.

#### United Friendly OB Subfund

Name of bonus series	Mathematical reserves	Reversionary bonus rate		Total guaranteed bonus rate for 2006
		2006	2005	
Whole life assurances (tables I, W):				
Series 1 with guarantee (simple)	£41m (including non guaranteed)	0.0%	0.0%	1.5%
Series 1 no guarantee (simple)	Included above	0.5%	1.0%	0.5%
Series 2 (compound)	£10m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
Endowment assurances (table Q):				
Series 1 with guarantee (simple)	£38m (including non guaranteed)	0.0%	0.0%	1.0%
Series 1 no guarantee (simple)	Included above	0.5%	1.0%	0.5%
Series 2 (compound)	£65m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
Low cost endowment assurance (table E):				
Series 1 (simple)	£13m	0.5%	0.5%	0.5%
Series 2 (compound)	£22m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
Pension business:				
DWP rebates (compound)	£945m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
Regular premium personal pensions (compound)	£141m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%
Single premium personal pensions (compound)	£21m	0.5%/0.5%	0.5%/0.5%	0.5%/0.5%

There are three bonus series for life assurance with-profits business:

- Series 1 applies to simple annual bonus contracts written up to 30 September 1989.
- Series 2 applies to compound annual bonus contracts written from 1 October 1989 (excluding low cost endowment contracts written from May 1994).

## VALUATION REPORT ON THE ROYAL LONDON MUTUAL INSURANCE SOCIETY

### 10. (2)

#### 10. (2)

The tables in paragraph 10. (1) above separately identify unitised with-profits business. Where a single rate has been supplied, this is the rate of increase in the unit price during the year. Where two rates have been provided, bonus units are added to the policies.

#### 10. (3)

The table in paragraph 10. (1) shows the separate rates applicable to the sum assured and existing bonus for super compound bonus series.

#### 10. (4)

The simple bonus rates granted to RL regular and single premium conventional assurances in the Royal London IB & OB Subfund vary by entry year. The average bonus rates shown in the table in paragraph 10. (1) show that the average bonus rate added to policies is slightly higher than the standard rate of 0.5% applied to the majority of business.