



Returns under the Accounts and Statements Rules

Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
Global business  
Financial year ended                      31 December 2006

**0310 – Net Valuation Differences**

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

	2006
	£000
<b>Positive valuation differences relating to liabilities</b>	
Mathematical reserves	2,344,279
Deferred fees and renewal commission	119,204
Deferred tax on PVIF / pension scheme surplus	22,321
<b>Negative valuation differences relating to liabilities</b>	
100% reinsured unit liability	(260,187)
Other	(244)
<b>Negative valuation differences relating to assets</b>	
Valuation of subsidiaries	(8,177)
<b>Net valuation differences</b>	<u>2,217,196</u>

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

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

The valuation difference relating to the valuation of subsidiaries of £8,177,000 negative arises from differences between the value determined under GENPRU and INSPRU rules and the value included in the Companies Act accounts prepared in accordance with IFRS.

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Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
Global business  
Financial year ended                      31 December 2006

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

Unlisted investments included on Form 13 at 31 December 2006 were as follows:

	£000
Line 42	67,315
Line 46	10,957
Line 48	50,728

Reversionary interests or remainders in property other than land or buildings included on Form 13 at 31 December 2006 were as follows:

	£000
Line 49	183,843

**1309 - Hybrid securities**

The aggregate value of hybrid securities included at line 46 amounted to £729,450,000.

**1310 – Amounts set off**

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

**1312 - Exposure to large counterparties**

At the year end there was no exposure to large counterparties.

**1313 – Collateral held in respect of counterparty exposure**

As at 31 December 2006 collateral with a market value of £174,861,000 was held in respect of counterparty exposures on derivative contracts included in Form 13, line 44.

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
Global business  
Financial year ended                      31 December 2006

#### 1318 – Other asset adjustments

The amounts included in Form 13, line 100 are as follows:

	2006
	£000
Inadmissible assets	2,040
Eliminate PVIF/goodwill	419,385
Pension scheme surplus eliminated	59,700
Items reclassified between assets and liabilities:	
100% reinsured unit liability	260,187
Taxation	(6,205)
Assets held to cover linked liabilities	33,415
Other	45
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	768,567
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#### 1319 - Maximum counterparty limit

During 2006, the maximum exposure to a counterparty permitted by the company's investment guidelines, excluding subsidiary undertakings and Royal London unit trusts, was such that no investment should be made which would result in the portfolio holding:

- a) in respect of each of the Royal London Other Long Term Funds and the Scottish Life Fund (the "Sub-funds") separately:
  - i) more than 10% of the total Sub-fund with any one counterparty.
  - ii) more than 10% of the share capital in issue of any one issuer, other than in the case of collective investment schemes.
  - iii) more than 1% of the value of the Sub-fund in unquoted securities, limited partnerships and development capital funds.
  
- b) in respect of the fund as a whole:
  - i) any investment that would cause the aggregate value of the assets of the company to be reduced in accordance with INSPRU rule 2.1.22R.
  - ii) more than 10% of the share capital in issue of any one issuer.



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Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
Global business  
Financial year ended                      31 December 2006

**1405 – Other adjustments to liabilities**

The amounts included in Form 14, line 74 are as follows:

	2006
	£000
Inadmissible assets	(2,040)
Eliminate PVIF/goodwill	(419,385)
Pension scheme surplus eliminated	(59,700)
CRR and other valuation adjustments of regulated subsidiaries	(28,486)
Items reclassified between assets and liabilities:	
100% reinsured unit liability	(260,187)
Taxation	6,205
Assets held to cover linked liabilities	(33,415)
Other	(45)
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	(797,053)
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**1406 – Increase or decrease in the value of non-linked assets**

The amount of the increase/(decrease) in the value of non-linked assets is as follows:

	2006
	£000
Royal London Other Long Term Funds	(256,395)
Royal London IB & OB Subfund	(113,262)
Refuge Assurance OB Subfund	(46,867)
Refuge Assurance IB Subfund	(9,274)
United Friendly OB Subfund	(49,486)
United Friendly IB Subfund	(37,506)
Scottish Life fund	(19,942)

**1600 - Form 16**

Form 16 has been omitted, as all the entries, including comparatives, would be nil.



## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company	The Royal London Mutual Insurance Society Limited
Global business	
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#### **4004 – Transfers of contracts from or to other funds**

On 31 December 2006, the long term business funds of the Refuge Assurance OB Subfund were transferred to the Royal London IB & OB Subfund for a nil consideration as anticipated under the UAG scheme of transfer.

The Group completed transfers to Prudential Retirement Income Limited of the majority of the reinsured annuities in payment by way of transfers undertaken in accordance with Part VII of the Financial Services and Markets Act 2000. The transfers had effective dates of 30 November and 31 December 2006. As the annuities were fully reinsured before the date of transfer, no entry is shown in Line 32. No additional consideration was paid for the transfers.

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

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

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

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

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

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

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

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

#### **4010 – Linked asset investment income**

Included within Line 12 is £254,699,000 of investment income relating to linked assets.

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

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

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

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company                      The Royal London Mutual Insurance Society Limited  
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Financial year ended                      31 December 2006

#### 4402 - Derivative Contracts

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

	Gross of variation margin	Net of variation margin
	2006	2006
	£000	£000
SLI Protected Funds	1,484	1,484
Security 98 Pension Fund	55	55
Security 100 Pension Fund	16	16
RLAM FTSE 350 Options Fund	91	-
Schroders FTSE 350 Options Fund	270	-

#### 4404 – Surplus Units

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

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

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

	2006
	£000
Bank charges, interest and transaction costs	880
Finance lease interest	1,405
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	2,285
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#### 4701 – New group schemes

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

Product code	Number of schemes
735	1

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

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

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

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company	The Royal London Mutual Insurance Society Limited
Global business	
Financial year ended	31 December 2006

#### 4801 – Asset share asset mix

##### Royal London Other Long Term Funds

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

##### Scottish Life Fund

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

Land and buildings	6.4%
Approved fixed interest securities	36.4%
Other fixed interest securities	29.2%
Variable interest securities	2.5%
UK listed equity shares	19.4%
Non-UK listed equity shares	4.9%
Unlisted equity shares	0.0%
Other assets	1.2%

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

Land and buildings	2.9%
Approved fixed interest securities	45.2%
Other fixed interest securities	36.3%
Variable interest securities	3.1%
UK listed equity shares	8.2%
Non-UK listed equity shares	2.1%
Unlisted equity shares	0.0%
Other assets	2.2%

#### 4802 – Expected income in default

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

#### 4803 – Split redemption bonds

Where securities may be redeemed over a period at the option of the guarantor or the issuer, the yield and market value are internally consistent and reflect the market's view of the likely redemption date within the available range. The total value of such bonds is £965m in the Royal London Other Long Term Funds and £636m in the Scottish Life Fund.

#### 4804 – Yields in lines 18 & 28

##### Royal London Other Long Term Funds

The yields shown in column 4 of lines 18 and 28 include cash yielding an average of 4.81% and policy loans yielding 8.41%.

##### Scottish Life Fund

The yields shown in column 4 of lines 18 and 28 include policy loans yielding 8.25% and other miscellaneous assets yielding 3.05%.

## Returns under the Accounts and Statements Rules

### Supplementary Notes (continued)

Name of company	The Royal London Mutual Insurance Society Limited
Global business	
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#### **4806 – Investment returns shown in column 5**

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

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

##### **Scottish Life Fund**

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

#### **4901 – Credit rating agency**

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

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

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

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

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

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

Under the Scottish Life Schedule 2C Scheme, certain inter-subfund payments are due from the Scottish Life Fund to the Royal London Other Long Term Funds where the value of such amounts would normally be inadmissible. FSA has issued the Society individual guidance which requires the long term insurance liabilities in the Scottish Life Fund to be increased by £1,841 in Form 51 Life and by £56,592,376 in Form 51 Pension. The long term insurance liabilities in the Royal London IB & OB Subfund have been reduced by £1,841 in Form 51 Life and by £56,592,376 in Form 51 Pension respectively.

#### **5106 – Number of contracts**

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

#### **5201 – Group schemes**

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

Product code	Number of schemes
555	2 (UK Life)
555	3 (UK Pension)



