

**Scottish Mutual Assurance Ltd  
(formerly Scottish Mutual Assurance  
plc)**

**Annual FSA Insurance Returns for the year ended**

**31 December 2006**

**Appendices 9.1, 9.3, 9.4, 9.4A and 9.6**

# Scottish Mutual Assurance Ltd

FSA Insurance Returns for the Financial Year ended 31 December 2006

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**Statement of solvency - long-term insurance business**Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
R2	110457	GL	31	12	2006	£000
			As at end of this financial year		As at end of the previous year	
			1		2	

**Capital resources**

Capital resources arising within the long-term insurance fund	11	773482	721586
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	547271	870062
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	1320753	1591648

**Guarantee fund**

Guarantee fund requirement	21	123444	146811
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	1197309	1444836

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	31	370331	440432
Resilience capital requirement	32		53753
Base capital resources requirement	33	2139	2030
Individual minimum capital requirement	34	370331	494186
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	370331	494186
Excess (deficiency) of available capital resources to cover 50% of MCR	37	1135587	1344554
Excess (deficiency) of available capital resources to cover 75% of MCR	38	1043005	1221008

**Enhanced capital requirement**

With-profits insurance capital component	39	328925	230420
Enhanced capital requirement	40	699256	724606

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	41	699256	724606
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	621497	867042

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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Name of insurer      **Scottish Mutual Assurance Ltd**

Global business

Financial year ended    **31 December 2006**

..... **G Singleton      Managing Director**

..... **K Luscombe      Director**

..... **S McGee      Director**

**27 March 2007**

**Components of capital resources**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/UK/CM	day	month	year	Units	
	<b>R3</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Core tier one capital**

Permanent share capital	<b>11</b>		1608500	1608500	1608500
Profit and loss account and other reserves	<b>12</b>		(60453)	(60453)	(353567)
Share premium account	<b>13</b>		9000	9000	9000
Positive valuation differences	<b>14</b>		577608	577608	529621
Fund for future appropriations	<b>15</b>		4303	4303	184763
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		2138958	2138958	1978317

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	<b>21</b>				
Implicit Items	<b>22</b>				
Tier one waivers in related undertakings	<b>23</b>				
Total tier one waivers as restricted (21+22+23)	<b>24</b>				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>				
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		2138958	2138958	1978317
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>		132814	132814	
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>				
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		132814	132814	
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		2006143	2006143	1978317

Components of capital resources

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>		200000	200000	
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>		200000	200000	

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>		200000	200000	
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>		200000	200000	

**Components of capital resources**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		2206143	2206143	1978317
Inadmissible assets other than intangibles and own shares	<b>73</b>		18652	18652	384999
Assets in excess of market risk and counterparty limits	<b>74</b>		866738	866738	
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				1671
Deductions of ineligible surplus capital	<b>77</b>				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		1320753	1320753	1591647

**Available capital resources for PRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		1320753	1320753	1591648
Available capital resources for 50% MCR requirement	<b>82</b>		1320753	1320753	1591648
Available capital resources for 75% MCR requirement	<b>83</b>		1320753	1320753	1591648

**Financial engineering adjustments**

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

## Calculation of general insurance capital requirement - premiums amount and brought forward amount

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Long term insurance business

		Company registration number	GL/UK/CM	day	month	year	Units	
		R11	110457	GL	31	12	2006	£000
				This financial year			Previous year	
				1			2	
Gross premiums written			11	189794			169172	
Premiums taxes and levies (included in line 11)			12					
Premiums written net of taxes and levies (11-12)			13	189794			169172	
Premiums for classes 11, 12 or 13 (included in line 13)			14					
Premiums for "actuarial health insurance" (included in line 13)			15	189794			168512	
<b>Sub-total A (13 + 1/2 14 - 2/3 15)</b>			16	63265			56831	
Gross premiums earned			21	178964			156429	
Premium taxes and levies (included in line 21)			22					
Premiums earned net of taxes and levies (21-22)			23	178964			156429	
Premiums for classes 11, 12 or 13 (included in line 23)			24					
Premiums for "actuarial health insurance" (included in line 23)			25	178964			156098	
<b>Sub-total H (23 + 1/2 24 - 2/3 25)</b>			26	59655			52364	
<b>Sub-total I (higher of sub-total A and sub-total H)</b>			30	63265			56831	
<b>Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure</b>			31					
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18		32	11388			10230	
	Excess (if any) over 53.1M EURO x 0.02		33	555			450	
<b>Sub-total J (32-33)</b>			34	10832			9780	
Claims paid in period of 3 financial years			41	151317			140381	
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis		42					
	For insurance business accounted for on an accident year basis		43	103640			58947	
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis		44					
	For insurance business accounted for on an accident year basis		45	27907			1358	
<b>Sub-total C (41+42+43-44-45)</b>			46	227050			197970	
Amounts recoverable from reinsurers in respect of claims included in Sub-total C			47	100859			118498	
<b>Sub-total D (46-47)</b>			48	126191			79472	
<b>Reinsurance Ratio (Sub-total D / sub-total C or, if more, 0.5 or, if less, 1.00)</b>			49	0.56			0.50	
<b>Premiums amount (Sub-total J x reinsurance ratio)</b>			50	6020			4890	
Provision for claims outstanding (before discounting and net of reinsurance)			51	10311			8042	
<b>Brought forward amount (12.43.2 x 51.1 / 51.2 or, if less, 12.43.2)</b>			52	10622			10622	
Greater of lines 50 and 52			53	10622			10622	



**Calculation of general insurance capital requirement - claims amount and result**

 Name of insurer **Scottish Mutual Assurance Ltd**

Global business

 Financial year ended **31 December 2006**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	110457	GL	31	12	2006	£000
				This financial year 1			Previous year 2	
Reference period (No. of months) See PRU 7.2.63R				11	36			36
Claims paid in reference period				21	151317			140381
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis			22				
	For insurance business accounted for on an accident year basis			23	103640			58947
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis			24				
	For insurance business accounted for on an accident year basis			25	27907			1358
Claims incurred in reference period (21+22+23-24-25)				26	227050			197970
Claims incurred for classes 11, 12 or 13 (included in 26)				27				
Claims incurred for "actuarial health insurance" (included in 26)				28	227050			197970
<b>Sub-total E (26 +1/2 27 - 2/3 28)</b>				29	75683			65990
<b>Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)</b>				31	25228			21997
Division of sub-total F (gross adjusted claims amount)	x 0.26			32	6559			5719
	Excess (if any) over 37.2M EURO x 0.03			33	11			
<b>Sub-total G (32-33)</b>				39	6548			5719
<b>Claims amount Sub-total G x reinsurance ratio (11.49)</b>				41	3640			2860
Higher of premiums amount and brought forward amount (11.53)				42	10622			10622
<b>General insurance capital requirement (higher of lines 41 and 42)</b>				43	10622			10622

**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	110457	GL	31	12	2006	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		32286
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43	427341	11609
Rights under derivative contracts	44	20597	
Fixed interest securities	Approved	45	
	Other	46	
Variable interest securities	Approved	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53	93840	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	
	More than one month withdrawal	55	
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	

**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>		864
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	21150	1052989
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	11757	13320
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	574685	1111068
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**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	574685	1111068
Assets in excess of market and counterparty limits	<b>92</b>	866738	
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		722
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		(2808)
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>		(500864)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	1441424	608118
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

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

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
	R13	110457	GL	31	12	2006	£000
							10
							As at end of this financial year
							As at end of the previous year
							1
							2
Land and buildings			11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		4386
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares		41	14489	30920
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	7973031	7251548
Rights under derivative contracts		44	(97766)	(21107)
Fixed interest securities	Approved	45		
	Other	46	12	2248310
Variable interest securities	Approved	47		
	Other	48		
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52	3426	3306
Other loans		53	6908	70
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	9778	9704
	Property linked	59	2350236	2711177

**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>	
Claims outstanding	<b>61</b>	
Provision for unexpired risks	<b>62</b>	
Other	<b>63</b>	

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	6249	9433
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>	44364	29227
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	39896	26545
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		41973
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	8428	43151
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	10359049	12388643
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**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

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

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	10359049	12388643
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		950
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		(3586)
Deferred acquisition costs excluded from line 89	<b>98</b>	132814	358922
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>	449730	655672
Other asset adjustments (may be negative)	<b>100</b>	64743	328948
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	11006337	13729549
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **With Profits Sub-Fund**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
	R13	110457	GL	31	12	2006	£000
							11
							As at end of this financial year
							As at end of the previous year
							1
							2
Land and buildings							11

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41	13880	30363
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43	6384202	6142724
Rights under derivative contracts	44	(98732)	(22750)
Fixed interest securities	Approved	45	
	Other	46	1454771
Variable interest securities	Approved	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	
	More than one month withdrawal	55	
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	



**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **With Profits Sub-Fund**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>11</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	37500	8823
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		41974
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	3174	38151
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	6340024	7694056
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**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **With Profits Sub-Fund**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>11</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	6340024	7694056
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>	82081	35726
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	6422105	7729782
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		



**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Other Business Sub-Fund**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>12</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	6249	9433
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>	44364	29227
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	2395	17722
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	5254	5000
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	4019025	4694587
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**Analysis of admissible assets**

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Category of assets **Other Business Sub-Fund**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>12</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	4019025	4694587
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		950
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		(3586)
Deferred acquisition costs excluded from line 89	<b>98</b>	132814	358922
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>	449730	655672
Other asset adjustments (may be negative)	<b>100</b>	(17338)	293223
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	<b>101</b>	4584232	5999768
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

## Long term insurance business liabilities and margins

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Total business/Sub fund **10 Summary**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	8675665	10767915	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	175553	165706	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	8851218	10933621	
Claims outstanding	Gross	<b>15</b>	68713	60932
	Reinsurers' share	<b>16</b>	9801	
	Net (15-16)	<b>17</b>	58912	60932
Provisions	Taxation	<b>21</b>	84366	(1483)
	Other risks and charges	<b>22</b>	100	20001
Deposits received from reinsurers	<b>23</b>	458903	493047	
Creditors	Direct insurance business	<b>31</b>	15695	17140
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	14651	15140
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	55337	206387	
Creditors	Taxation	<b>37</b>	102553	31068
	Other	<b>38</b>	119385	56910
Accruals and deferred income	<b>39</b>			
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	909902	899142	
Excess of the value of net admissible assets	<b>51</b>	597929	555881	
Total liabilities and margins	<b>59</b>	10359049	12388644	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	10667	2
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	2339035	2681494

Total liabilities (11+12+49)	<b>71</b>	9585567	11667057
Increase to liabilities - DAC related	<b>72</b>	39323	107676
Reinsurers' share of technical provisions	<b>73</b>	449730	655672
Other adjustments to liabilities (may be negative)	<b>74</b>	584376	218408
Capital and reserves and fund for future appropriations	<b>75</b>	347340	1080736
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	11006337	13729549

**Long term insurance business liabilities and margins**Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Total business/Sub fund **21 With Profits Sub-Fund**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	5805594	7242354
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>		
Balance of surplus/(valuation deficit)	<b>13</b>		
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	5805594	7242354
Claims outstanding	Gross	<b>15</b>	
	Reinsurers' share	<b>16</b>	
	Net (15-16)	<b>17</b>	
Provisions	Taxation	<b>21</b>	1222
	Other risks and charges	<b>22</b>	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	1911
	Reinsurance accepted	<b>32</b>	
	Reinsurance ceded	<b>33</b>	
Debenture loans	Secured	<b>34</b>	
	Unsecured	<b>35</b>	
Amounts owed to credit institutions	<b>36</b>	43244	
Creditors	Taxation	<b>37</b>	
	Other	<b>38</b>	6346
Accruals and deferred income	<b>39</b>		
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	51501	10822
Excess of the value of net admissible assets	<b>51</b>	482929	440881
Total liabilities and margins	<b>59</b>	6340023	7694057

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	10667	2
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	5857094	7253176
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>	560708	291827
Capital and reserves and fund for future appropriations	<b>75</b>	4303	184779
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	6422105	7729782

**Long term insurance business liabilities and margins**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Global business  
 Financial year ended **31 December 2006**  
 Total business/Sub fund **31 Other Business Sub-Fund**  
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	2870071	3525562	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	175553	165706	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	3045624	3691268	
Claims outstanding	Gross	<b>15</b>	68713	60932
	Reinsurers' share	<b>16</b>	9801	
	Net (15-16)	<b>17</b>	58912	60932
Provisions	Taxation	<b>21</b>	84366	(2706)
	Other risks and charges	<b>22</b>	100	20001
Deposits received from reinsurers	<b>23</b>	458903	493047	
Creditors	Direct insurance business	<b>31</b>	13784	14932
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	14651	15140
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	12093	206387	
Creditors	Taxation	<b>37</b>	102553	31068
	Other	<b>38</b>	113039	49518
Accruals and deferred income	<b>39</b>			
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	858402	888319	
Excess of the value of net admissible assets	<b>51</b>	115000	115000	
Total liabilities and margins	<b>59</b>	4019026	4694587	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	2339035	2681494

Total liabilities (11+12+49)	<b>71</b>	3728473	4413881
Increase to liabilities - DAC related	<b>72</b>	39323	107676
Reinsurers' share of technical provisions	<b>73</b>	449730	655672
Other adjustments to liabilities (may be negative)	<b>74</b>	23669	(73419)
Capital and reserves and fund for future appropriations	<b>75</b>	343037	895957
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	4584232	5999767



**Liabilities (other than long term insurance business)**Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

Company registration number	GL/UK/CM	day	month	year	Units	
<b>R15</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
				<b>1</b>	<b>2</b>	

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		29700
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>		
	Declared dividend	<b>48</b>		
	Other	<b>49</b>		
Accruals and deferred income		<b>51</b>	10414	11306
Total (19 to 51)		<b>59</b>	10414	41006
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>	217000	200000
Total (59 to 63)		<b>69</b>	227415	241006

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>		
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Reinsurers' share of DAC	<b>81</b>		
Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>		(864)
Capital and reserves	<b>84</b>	1214009	367975
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	<b>85</b>	1441424	608117

**Profit and loss account (non-technical account)**Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				This financial year		Previous year		
				1		2		
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>			282013	501290	
Investment income	Income		<b>14</b>			100779	40828	
	Value re-adjustments on investments		<b>15</b>			(31964)	1278	
	Gains on the realisation of investments		<b>16</b>			3424		
Investment charges	Investment management charges, including interest		<b>17</b>			27515	27532	
	Value re-adjustments on investments		<b>18</b>					
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>			29700		
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			356437	515864	
Tax on profit or loss on ordinary activities			<b>31</b>			13211	4163	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			343226	511701	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			343226	511701	
Dividends (paid or declared)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			343226	511701	

**Analysis of derivative contracts**Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		<b>1</b>		<b>2</b>		<b>3</b>		<b>4</b>	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>	20597						
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>	20597						

## Analysis of derivative contracts

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
		As at the end of this financial year			As at the end of the previous year				
		Assets		Liabilities		Assets		Liabilities	
		<b>1</b>		<b>2</b>		<b>3</b>		<b>4</b>	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>	4			35			
	Equity shares	<b>12</b>	90237			90912		7	
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>	158948			283147			
	Equity shares	<b>22</b>	148392			251543			
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>	63528			96281			
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>						26	
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>	(558875)			(743024)			
Total (11 to 41)		<b>49</b>	(97766)			(21106)		33	

## Analysis of derivative contracts

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Category of assets **With Profits Sub-Fund**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>11</b>
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		<b>1</b>		<b>2</b>		<b>3</b>		<b>4</b>	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>					7		
	Equity shares	<b>12</b>	3604				6888		
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>	158948				283147		
	Equity shares	<b>22</b>	148392				251538		
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>	63528				96281		
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							26
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>	(473203)				(660611)		
Total (11 to 41)		<b>49</b>	(98732)				(22750)		26

## Analysis of derivative contracts

Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Category of assets **Other Business Sub-Fund**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>110457</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>12</b>
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		<b>1</b>		<b>2</b>		<b>3</b>		<b>4</b>	
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>	4				27		
	Equity shares	<b>12</b>	86634				84024		7
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>					5		
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>	(85672)				(82413)		
Total (11 to 41)		<b>49</b>	966				1643		7

**With-profits insurance capital component for the fund**

Name of insurer **Scottish Mutual Assurance Ltd**  
 With-profits fund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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**Regulatory excess capital**

Regulatory value of assets	Long-term admissible assets of the fund	<b>11</b>	6340024	7694056
	Implicit items allocated to the fund	<b>12</b>		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	<b>13</b>		
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	<b>14</b>		
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	<b>15</b>		
	Total (11+12-(13+14+15))	<b>19</b>	6340024	7694056
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	<b>21</b>	5805594	7242354
	Regulatory current liabilities of the fund	<b>22</b>	51501	10822
	Total (21+22)	<b>29</b>	5857094	7253176
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		<b>31</b>	233790	291824
Resilience capital requirement in respect of the fund's with-profits insurance contracts		<b>32</b>		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		<b>39</b>	6090884	7545000
Regulatory excess capital (19-39)		<b>49</b>	249140	149056

**Realistic excess capital**

Realistic excess capital	<b>51</b>	(139367)	(81364)
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**Excess assets allocated to with-profits insurance business**

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	<b>61</b>	388506	230420
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	<b>62</b>		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	<b>63</b>		
Present value of future shareholder transfers arising from distribution of surplus	<b>64</b>	59582	
Present value of other future internal transfers not already taken into account	<b>65</b>		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	<b>66</b>	328925	230420

**Realistic balance sheet**

Name of insurer **Scottish Mutual Assurance Ltd**  
 With-profits fund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Realistic value of assets available to the fund**

Regulatory value of assets	11	6340024	7694056
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		4246
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22		
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	6340024	7698302
Support arrangement assets	27		
Assets available to the fund (26+27)	29	6340024	7698302

**Realistic value of liabilities of fund**

With-profits benefit reserve	31	5593222	6781434	
Future policy related liabilities	Part miscellaneous surplus attributed to with-profits benefits reserve	32		
	Part miscellaneous deficit attributed to with-profits benefits reserve	33		
	Planned enhancements to with-profits benefits reserve	34	62906	
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35		
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41	479785	767899
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43	166773	132011
	Future costs of smoothing (possibly negative)	44		
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	2407	2573
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	711872	902483
Realistic current liabilities of the fund	51	34930	(1235)	
Realistic value of liabilities of fund (31+49+51)	59	6340024	7682682	



**Realistic balance sheet**

Name of insurer **Scottish Mutual Assurance Ltd**  
 With-profits fund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Realistic excess capital and additional capital available**

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	<b>62</b>	6479391	7779666
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	<b>63</b>		
Value of relevant assets before applying the most adverse scenario (62+63)	<b>64</b>	6479391	7779666
Risk capital margin for fund (62-59)	<b>65</b>	139367	96984
Realistic excess capital for fund (26-(59+65))	<b>66</b>	(139367)	(81364)
Realistic excess available capital for fund (29-(59+65))	<b>67</b>	(139367)	(81364)
Working capital for fund (29-59)	<b>68</b>		15620
Working capital ratio for fund (68/29)	<b>69</b>		0.20

**Other assets potentially available if required to cover the fund's risk capital margin**

Additional amount potentially available for inclusion in line 62	<b>81</b>	467486	948405
Additional amount potentially available for inclusion in line 63	<b>82</b>		

**Long-term insurance business : Revenue account**

Name of insurer **Scottish Mutual Assurance Ltd**  
Total business / subfund **10 Long Term Fund**  
Financial year ended **31 December 2006**  
Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	484325	462791
Investment income receivable before deduction of tax	12	476726	410652
Increase (decrease) in the value of non-linked assets brought into the account	13	(211965)	877068
Increase (decrease) in the value of linked assets	14	108296	278798
Other income	15		
<b>Total income</b>	<b>19</b>	<b>857383</b>	<b>2029309</b>

**Expenditure**

Claims incurred	21	2235885	2047303
Expenses payable	22	227463	174552
Interest payable before the deduction of tax	23	53933	62674
Taxation	24	140491	104500
Other expenditure	25		20001
Transfer to (from) non technical account	26	282013	501290
<b>Total expenditure</b>	<b>29</b>	<b>2939784</b>	<b>2910320</b>

Business transfers - in	31		152629
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(2082401)	(728383)
Fund brought forward	49	10933619	11662002
Fund carried forward (39+49)	59	8851218	10933619

## Long-term insurance business : Revenue account

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	38812	25418
Investment income receivable before deduction of tax	12	307318	238996
Increase (decrease) in the value of non-linked assets brought into the account	13	(198184)	243348
Increase (decrease) in the value of linked assets	14		
Other income	15		
<b>Total income</b>	<b>19</b>	<b>147947</b>	<b>507762</b>

**Expenditure**

Claims incurred	21	1542549	407025
Expenses payable	22	18053	12222
Interest payable before the deduction of tax	23	27589	32406
Taxation	24	(5498)	(3268)
Other expenditure	25		1238097
Transfer to (from) non technical account	26	2013	1290
<b>Total expenditure</b>	<b>29</b>	<b>1584705</b>	<b>1687772</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(1436759)	(1180010)
Fund brought forward	49	7242352	8422362
Fund carried forward (39+49)	59	5805594	7242352

**Long-term insurance business : Revenue account**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	445513	437373
Investment income receivable before deduction of tax	12	169408	171656
Increase (decrease) in the value of non-linked assets brought into the account	13	(13781)	633721
Increase (decrease) in the value of linked assets	14	108296	278798
Other income	15		
<b>Total income</b>	<b>19</b>	<b>709436</b>	<b>1521548</b>

**Expenditure**

Claims incurred	21	693335	1640278
Expenses payable	22	209410	162329
Interest payable before the deduction of tax	23	26344	30269
Taxation	24	145990	107768
Other expenditure	25		(1218094)
Transfer to (from) non technical account	26	280000	500000
<b>Total expenditure</b>	<b>29</b>	<b>1355079</b>	<b>1222550</b>

Business transfers - in	31		152629
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(645643)	451627
Fund brought forward	49	3691267	3239640
Fund carried forward (39+49)	59	3045624	3691267

## Long-term insurance business : Analysis of premiums

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	306419	136589		443008	397378
Single premiums	12	1230	144081		145311	152143

**Reinsurance - external**

Regular premiums	13	104517	(524)		103994	86557
Single premiums	14					174

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	201901	137113		339014	310821
Single premiums	18	1230	144081		145311	151969

**Total**

Gross	19	307649	280670		588319	549521
Reinsurance	20	104517	(524)		103994	86731
Net	21	203131	281194		484325	462790

## Long-term insurance business : Analysis of premiums

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	18916	19966		38882	25494
Single premiums	12					2

**Reinsurance - external**

Regular premiums	13	68	1		69	78
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	18848	19965		38812	25416
Single premiums	18					2

**Total**

Gross	19	18916	19966		38882	25496
Reinsurance	20	68	1		69	78
Net	21	18848	19965		38812	25418

## Long-term insurance business : Analysis of premiums

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	287503	116624		404126	371884
Single premiums	12	1230	144081		145311	152141

**Reinsurance - external**

Regular premiums	13	104449	(525)		103924	86479
Single premiums	14					174

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	183054	117149		300202	285405
Single premiums	18	1230	144081		145311	151967

**Total**

Gross	19	288733	260705		549437	524025
Reinsurance	20	104449	(525)		103924	86653
Net	21	184284	261230		445513	437372

## Long-term insurance business : Analysis of claims

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	142463	10994		153457	165251
Disability periodic payments	12	670			670	895
Surrender or partial surrender	13	1175265	724428		1899693	1681442
Annuity payments	14		88956		88956	88814
Lump sums on maturity	15	72353	138332		210686	217286
<b>Total</b>	<b>16</b>	<b>1390751</b>	<b>962711</b>		<b>2353462</b>	<b>2153688</b>

**Reinsurance - external**

Death or disability lump sums	21	81090			81090	69740
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		36452		36452	36645
Lump sums on maturity	25	36			36	
<b>Total</b>	<b>26</b>	<b>81126</b>	<b>36452</b>		<b>117578</b>	<b>106385</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41	61374	10994		72368	95511
Disability periodic payments	42	670			670	895
Surrender or partial surrender	43	1175265	724428		1899693	1681442
Annuity payments	44		52505		52505	52169
Lump sums on maturity	45	72317	138332		210649	217286
<b>Total</b>	<b>46</b>	<b>1309625</b>	<b>926259</b>		<b>2235885</b>	<b>2047303</b>



## Long-term insurance business : Analysis of claims

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	3111	2630		5742	6607
Disability periodic payments	12					
Surrender or partial surrender	13	1114606	277618		1392223	261519
Annuity payments	14		14123		14123	27016
Lump sums on maturity	15	64366	66095		130461	111883
<b>Total</b>	<b>16</b>	<b>1182083</b>	<b>360466</b>		<b>1542549</b>	<b>407025</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41	3111	2630		5742	6607
Disability periodic payments	42					
Surrender or partial surrender	43	1114606	277618		1392223	261519
Annuity payments	44		14123		14123	27016
Lump sums on maturity	45	64366	66095		130461	111883
<b>Total</b>	<b>46</b>	<b>1182083</b>	<b>360466</b>		<b>1542549</b>	<b>407025</b>

## Long-term insurance business : Analysis of claims

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	139352	8364		147716	158644
Disability periodic payments	12	670			670	895
Surrender or partial surrender	13	60659	446810		507470	1419924
Annuity payments	14		74833		74833	61798
Lump sums on maturity	15	7987	72237		80224	105402
<b>Total</b>	<b>16</b>	<b>208668</b>	<b>602245</b>		<b>810913</b>	<b>1746663</b>

**Reinsurance - external**

Death or disability lump sums	21	81090			81090	69740
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		36452		36452	36645
Lump sums on maturity	25	36			36	
<b>Total</b>	<b>26</b>	<b>81126</b>	<b>36452</b>		<b>117578</b>	<b>106385</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41	58262	8364		66626	88904
Disability periodic payments	42	670			670	895
Surrender or partial surrender	43	60659	446810		507470	1419924
Annuity payments	44		38382		38382	25153
Lump sums on maturity	45	7951	72237		80188	105402
<b>Total</b>	<b>46</b>	<b>127542</b>	<b>565793</b>		<b>693335</b>	<b>1640278</b>

## Long-term insurance business : Analysis of expenses

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11	64080	543		64623	76609
Commission - other	12	12206	756		12962	16316
Management - acquisition	13	43390	18530		61920	37627
Management - maintenance	14	49599	55755		105354	37655
Management - other	15	(2109)	(15287)		(17396)	6345
<b>Total</b>	<b>16</b>	167166	60297		227463	174552

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	64080	543		64623	76609
Commission - other	42	12206	756		12962	16316
Management - acquisition	43	43390	18530		61920	37627
Management - maintenance	44	49599	55755		105354	37655
Management - other	45	(2109)	(15287)		(17396)	6345
<b>Total</b>	<b>46</b>	167166	60297		227463	174552

## Long-term insurance business : Analysis of expenses

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11				
Commission - other	12	278	27	305	365
Management - acquisition	13	1315	2442	3757	475
Management - maintenance	14	6099	7888	13987	5557
Management - other	15		3	3	5827
<b>Total</b>	<b>16</b>	<b>7692</b>	<b>10360</b>	<b>18053</b>	<b>12224</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42	278	27	305	365
Management - acquisition	43	1315	2442	3757	475
Management - maintenance	44	6099	7888	13987	5557
Management - other	45		3	3	5827
<b>Total</b>	<b>46</b>	<b>7692</b>	<b>10360</b>	<b>18053</b>	<b>12224</b>

## Long-term insurance business : Analysis of expenses

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11	64080	543		64623	76609
Commission - other	12	11928	729		12657	15951
Management - acquisition	13	42075	16089		58164	37152
Management - maintenance	14	43500	47867		91366	32098
Management - other	15	(2109)	(15290)		(17400)	518
<b>Total</b>	<b>16</b>	159474	49936		209410	162328

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	64080	543		64623	76609
Commission - other	42	11928	729		12657	15951
Management - acquisition	43	42075	16089		58164	37152
Management - maintenance	44	43500	47867		91366	32098
Management - other	45	(2109)	(15290)		(17400)	518
<b>Total</b>	<b>46</b>	159474	49936		209410	162328

## Long-term insurance business : Linked funds balance sheet

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	11	389330	537303
Directly held assets in collective investment schemes of connected companies	12	1549337	1792729
Directly held assets in other collective investment schemes	13	339477	302559
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>2278144</b>	<b>2632591</b>
Provision for tax on unrealised capital gains	15	4134	3675
Secured and unsecured loans	16		
Other liabilities	17	3141	22727
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>2270868</b>	<b>2606189</b>

**Directly held linked assets**

Value of directly held linked assets	21	72093	78586
--------------------------------------	----	-------	-------

**Total**

Value of directly held linked assets and units held (18+21)	31	2342961	2684775
Surplus units	32	3926	3281
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>2339035</b>	<b>2681494</b>

## Long-term insurance business : Revenue account for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Value of total creation of units	11	363661	313692
Investment income attributable to the funds before deduction of tax	12	73570	73299
Increase (decrease) in the value of investments in the financial year	13	115130	275806
Other income	14		
<b>Total income</b>	<b>19</b>	<b>552362</b>	<b>662797</b>

**Expenditure**

Value of total cancellation of units	21	866834	393393
Charges for management	22	18243	17746
Charges in respect of tax on investment income	23	2016	1669
Taxation on realised capital gains	24	132	2148
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	459	3669
Other expenditure	26		
<b>Total expenditure</b>	<b>29</b>	<b>887683</b>	<b>418625</b>

Increase (decrease) in funds in financial year (19-29)	39	(335321)	244172
Internal linked fund brought forward	49	2606189	2362016
Internal linked funds carried forward (39+49)	59	2270868	2606188

**Long-term insurance business : Summary of new business**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11	97459	2976		100435	96187
Single premium business	12	32	5553		5585	4440
<b>Total</b>	<b>13</b>	<b>97491</b>	<b>8529</b>		<b>106020</b>	<b>100627</b>

**Amount of new regular  
premiums**

Direct insurance business	21	47903	9113		57016	64034
External reinsurance	22					
Intra-group reinsurance	23		332		332	363
<b>Total</b>	<b>24</b>	<b>47903</b>	<b>9445</b>		<b>57348</b>	<b>64397</b>

**Amount of new single  
premiums**

Direct insurance business	25	1230	144013		145243	151968
External reinsurance	26					
Intra-group reinsurance	27	54			54	89
<b>Total</b>	<b>28</b>	<b>1283</b>	<b>144013</b>		<b>145297</b>	<b>152057</b>



## Long-term insurance business : Analysis of new business

Name of insurer

Scottish Mutual Assurance Ltd

Total business

Financial year ended

31 December 2006

Units

£000

UK Life / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
325	Level term assurance	12438	3690		
330	Decreasing term assurance	9939	2549		
340	Accelerated critical illness (guaranteed premiums)	38866	19298		
345	Accelerated critical illness (reviewable premiums)	6204	3632		
350	Stand-alone critical illness (guaranteed premiums)	6682	3095		
355	Stand-alone critical illness (reviewable premiums)	547	276		
360	Income protection non-profit (guaranteed premiums)	17502	8434		
365	Income protection non-profit (reviewable premiums)	884	293		
500	Life UWP single premium				158
510	Life UWP endowment regular premium - savings				
700	Life property linked single premium			32	1071
710	Life property linked whole life regular premium	4395	6623		
715	Life property linked endowment regular premium - savings	2	13		

**Long-term insurance business : Analysis of new business**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
500	Life UWP single premium (PLAL)				49
516	Life UWP endowment regular premium - (ISA - PLAL))				4

## Long-term insurance business : Analysis of new business

Name of insurer

Scottish Mutual Assurance Ltd

Total business

Financial year ended

31 December 2006

Units

£000

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
170	Conventional deferred annuity with-profits - increments (with guaranteed annuity option)		13		187
170	Conventional deferred annuity with-profits - increments (with guaranteed cash option)				42
180	Group conventional deferred annuity with-profits - increments (with guaranteed cash option)		813		358
325	Level term assurance		3		
400	Annuity non-profit (CPA)			3842	70442
530	Individual pensions UWP - increments		179		294
540	Group money purchase pensions UWP - increments		1266		661
570	Income drawdown UWP (Income withdrawal plan)				625
725	Individual pensions property linked	92	555	317	4796
730	Individual pensions property linked - increments		580		31206
735	Group money purchase pensions property linked	2884	2752	843	1132
740	Group money purchase pensions property linked - increments		2951		20
750	Income drawdown property linked (Income withdrawal plan)			544	31307
755	Trustee investment plan			7	2945

**Long-term insurance business : Analysis of new business**

Name of insurer

**Scottish Mutual Assurance Ltd**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Pension / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
530	Individual pensions UWP - increments (PLAL)		332		

**Long-term insurance business : Non- linked assets**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11					
Approved fixed interest securities	12		792388	38645	4.68%	
Other fixed interest securities	13	12	221521	12481	5.60%	
Variable interest securities	14		190	9	4.81%	
UK listed equity shares	15		953	7	1.15%	
Non-UK listed equity shares	16	610	1426	21	2.63%	
Unlisted equity shares	17					
Other assets	18	1658390	642533	36134	5.62%	
<b>Total</b>	<b>19</b>	<b>1659011</b>	<b>1659011</b>	<b>87296</b>	<b>5.16%</b>	

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

Land and buildings	21					
Approved fixed interest securities	22		1295148	64776	4.83%	
Other fixed interest securities	23		1346255	74413	5.49%	
Variable interest securities	24		1059	51	4.81%	
UK listed equity shares	25	13880	1977398	64339	5.44%	
Non-UK listed equity shares	26		646813	16040	4.44%	
Unlisted equity shares	27					
Other assets	28	6326144	1073351	54145	5.04%	
<b>Total</b>	<b>29</b>	<b>6340024</b>	<b>6340024</b>	<b>273764</b>	<b>5.16%</b>	

**Overall return on with-profits assets**

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

## Long-term insurance business : Non- linked assets

Name of insurer **Scottish Mutual Assurance Ltd**  
 Category of assets **11 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

## Assets backing non-profit liabilities and non-profit capital requirements

Land and buildings	11				
Approved fixed interest securities	12				
Other fixed interest securities	13				
Variable interest securities	14				
UK listed equity shares	15				
Non-UK listed equity shares	16				
Unlisted equity shares	17				
Other assets	18				
<b>Total</b>	<b>19</b>				

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

Land and buildings	21					20.05%
Approved fixed interest securities	22		1295148	64776	4.83%	0.95%
Other fixed interest securities	23		1346255	74413	5.49%	0.74%
Variable interest securities	24		1059	51	4.81%	0.00%
UK listed equity shares	25	13880	1977398	64339	5.44%	14.09%
Non-UK listed equity shares	26		646813	16040	4.44%	5.36%
Unlisted equity shares	27				0.00%	0.00%
Other assets	28	6326144	1073351	54145	5.04%	4.81%
<b>Total</b>	<b>29</b>	<b>6340024</b>	<b>6340024</b>	<b>273764</b>	<b>5.16%</b>	<b>6.16%</b>

## Overall return on with-profits assets

Post investment costs but pre-tax	31					6.12%
Return allocated to non taxable 'asset shares'	32					6.12%
Return allocated to taxable 'asset shares'	33					6.14%

**Long-term insurance business : Non- linked assets**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Category of assets **12 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11					
Approved fixed interest securities	12		792388	38645	4.68%	
Other fixed interest securities	13	12	221521	12481	5.60%	
Variable interest securities	14		190	9	4.81%	
UK listed equity shares	15		953	7	1.15%	
Non-UK listed equity shares	16	610	1426	21	2.63%	
Unlisted equity shares	17				0.00%	
Other assets	18	1658390	642533	36134	5.62%	
<b>Total</b>	<b>19</b>	<b>1659011</b>	<b>1659011</b>	<b>87296</b>	<b>5.16%</b>	

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

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	<b>29</b>					

**Overall return on with-profits assets**

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

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Scottish Mutual Assurance Ltd**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	1535042	9.46	4.73%	4.73%
<b>Other approved fixed interest securities</b>	<b>21</b>	552494	7.29	4.89%	4.80%
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	317302	9.73	5.07%	5.00%
AA/Aa	<b>32</b>	285503	7.72	5.39%	5.26%
A/A	<b>33</b>	635008	9.45	5.58%	5.33%
BBB/Baa	<b>34</b>	233956	7.91	5.87%	5.21%
BB/Ba	<b>35</b>	213	17.65	5.47%	4.81%
B/B	<b>36</b>	3896	11.88	5.96%	5.30%
CCC/Caa	<b>37</b>				
Other (including unrated)	<b>38</b>	91898	9.24	5.91%	5.43%
<b>Total other fixed interest securities</b>	<b>39</b>	1567776	8.96	5.51%	5.24%
<b>Approved variable interest securities</b>	<b>41</b>				
<b>Other variable interest securities</b>	<b>51</b>	1249	16.26	4.81%	4.73%
<b>Total (11+21+39+41+51)</b>	<b>61</b>	3656562	9	5.09%	4.96%



## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Scottish Mutual Assurance Ltd**  
 Category of assets **11 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	809132	8.21	4.81%	4.81%
<b>Other approved fixed interest securities</b>	<b>21</b>	486017	7.24	4.86%	4.78%
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	275710	9.61	5.05%	4.98%
AA/Aa	<b>32</b>	244027	7.69	5.38%	5.26%
A/A	<b>33</b>	544960	9.41	5.57%	5.32%
BBB/Baa	<b>34</b>	199875	7.89	5.86%	5.20%
BB/Ba	<b>35</b>	213	17.65	5.47%	4.81%
B/B	<b>36</b>	3318	11.84	5.95%	5.29%
CCC/Caa	<b>37</b>			0.00%	0.00%
Other (including unrated)	<b>38</b>	78153	9.22	5.91%	5.43%
<b>Total other fixed interest securities</b>	<b>39</b>	1346255	8.91	5.49%	5.23%
<b>Approved variable interest securities</b>	<b>41</b>			0.00%	0.00%
<b>Other variable interest securities</b>	<b>51</b>	1059	16.26	4.81%	4.73%
<b>Total (11+21+39+41+51)</b>	<b>61</b>	2642462	8.39	5.17%	5.02%

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Scottish Mutual Assurance Ltd**  
 Category of assets **12 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	725910	10.85	4.64%	4.64%
<b>Other approved fixed interest securities</b>	<b>21</b>	66478	7.70	5.08%	4.98%
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	41593	10.53	5.23%	5.16%
AA/Aa	<b>32</b>	41476	7.85	5.44%	5.32%
A/A	<b>33</b>	90048	9.71	5.67%	5.42%
BBB/Baa	<b>34</b>	34081	8.01	5.92%	5.26%
BB/Ba	<b>35</b>			0.00%	0.00%
B/B	<b>36</b>	578	12.08	5.99%	5.33%
CCC/Caa	<b>37</b>			0.00%	0.00%
Other (including unrated)	<b>38</b>	13746	9.34	5.94%	5.46%
<b>Total other fixed interest securities</b>	<b>39</b>	221521	9.24	5.60%	5.33%
<b>Approved variable interest securities</b>	<b>41</b>			0.00%	0.00%
<b>Other variable interest securities</b>	<b>51</b>	190	16.26	4.81%	4.73%
<b>Total (11+21+39+41+51)</b>	<b>61</b>	1014100	10.30	4.88%	4.81%

## Long-term insurance business : Summary of mathematical reserves

Name of insurer **Scottish Mutual Assurance Ltd**Total business / subfund **10 Long Term Fund**Financial year ended **31 December 2006**

Units

**£000**

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

**Gross**

Form 51 - with-profits	11	389769	1401309		1791078	1973206
Form 51 - non-profit	12	(87537)	1016996		929459	1335962
Form 52	13	2090112	1138268	786468	4014849	5268117
Form 53 - linked	14	406043	1932992		2339035	2681493
Form 53 - non-linked	15	33062	7972		41034	67549
Form 54 - linked	16	9778			9778	9704
Form 54 - non-linked	17	47			47	37
<b>Total</b>	<b>18</b>	<b>2841275</b>	<b>5497538</b>	<b>786468</b>	<b>9125282</b>	<b>11336068</b>

**Reinsurance - external**

Form 51 - with-profits	21	1031			1031	1216
Form 51 - non-profit	22	14391	449686		464078	567578
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25	(14348)			(14348)	388
Form 54 - linked	26					
Form 54 - non-linked	27					
<b>Total</b>	<b>28</b>	<b>1075</b>	<b>449686</b>		<b>450761</b>	<b>569182</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34					
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
<b>Total</b>	<b>38</b>					

**Net of reinsurance**

Form 51 - with-profits	41	388738	1401309		1790047	1971990
Form 51 - non-profit	42	(101929)	567310		465381	768384
Form 52	43	2090112	1138268	786468	4014849	5268117
Form 53 - linked	44	406043	1932992		2339035	2681493
Form 53 - non-linked	45	47410	7972		55382	67161
Form 54 - linked	46	9778			9778	9704
Form 54 - non-linked	47	47			47	37
<b>Total</b>	<b>48</b>	<b>2840200</b>	<b>5047852</b>	<b>786468</b>	<b>8674520</b>	<b>10766886</b>

## Long-term insurance business : Summary of mathematical reserves

Name of insurer **Scottish Mutual Assurance Ltd**Total business / subfund **21 With Profits Sub-Fund**Financial year ended **31 December 2006**Units  
**£000**

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

**Gross**

Form 51 - with-profits	11	389769	1401309		1791078	1973206
Form 51 - non-profit	12					
Form 52	13	2089680	1138254	786468	4014402	5269334
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16					
Form 54 - non-linked	17					
<b>Total</b>	<b>18</b>	<b>2479449</b>	<b>2539563</b>	<b>786468</b>	<b>5805480</b>	<b>7242540</b>

**Reinsurance - external**

Form 51 - with-profits	21	1031			1031	1216
Form 51 - non-profit	22					
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
<b>Total</b>	<b>28</b>	<b>1031</b>			<b>1031</b>	<b>1216</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34					
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
<b>Total</b>	<b>38</b>					

**Net of reinsurance**

Form 51 - with-profits	41	388738	1401309		1790047	1971990
Form 51 - non-profit	42					
Form 52	43	2089680	1138254	786468	4014402	5269334
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46					
Form 54 - non-linked	47					
<b>Total</b>	<b>48</b>	<b>2478417</b>	<b>2539563</b>	<b>786468</b>	<b>5804449</b>	<b>7241324</b>

## Long-term insurance business : Summary of mathematical reserves

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12	(87537)	1016996	929459	1335962
Form 52	13	433	15	447	(1217)
Form 53 - linked	14	406043	1932992	2339035	2681493
Form 53 - non-linked	15	33062	7972	41034	67549
Form 54 - linked	16	9778		9778	9704
Form 54 - non-linked	17	47		47	37
<b>Total</b>	<b>18</b>	<b>361827</b>	<b>2957975</b>	<b>3319801</b>	<b>4093528</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22	14391	449686	464078	567578
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25	(14348)		(14348)	388
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>	<b>44</b>	<b>449686</b>	<b>449730</b>	<b>567966</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42	(101929)	567310	465381	768384
Form 52	43	433	15	447	(1217)
Form 53 - linked	44	406043	1932992	2339035	2681493
Form 53 - non-linked	45	47410	7972	55382	67161
Form 54 - linked	46	9778		9778	9704
Form 54 - non-linked	47	47		47	37
<b>Total</b>	<b>48</b>	<b>361783</b>	<b>2508288</b>	<b>2870071</b>	<b>3525562</b>

## Long-term insurance business : Summary of mathematical reserves

Name of insurer **Scottish Mutual Assurance Ltd**Total business / subfund **32 Bonus Sub-Fund**Financial year ended **31 December 2006**Units  
**£000**

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

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12	82095		82095	81733
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16				
Form 54 - non-linked	17				
<b>Total</b>	<b>18</b>	82095		82095	81733

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>				

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42	82095		82095	81733
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				
Form 54 - non-linked	47				
<b>Total</b>	<b>48</b>	82095		82095	81733

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	999	26763	339				13828
120	Conventional endowment with-profits OB savings	37686	698804	12936				374394
125	Conventional endowment with-profits OB target cash (with gao)	74	646	2				603
205	Miscellaneous conventional with-profits	19	3					944
205	Miscellaneous conventional with-profits per annum		3					





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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
155	Conventional pensions endowment with-profits	24	16	1				493
165	Conventional deferred annuity with-profits(with guaranteed annuity option) per annum	14094	398559	5524				634553
165	Conventional deferred annuity with-profits(with guaranteed cash option) per annum	4657	24285	1068				279043
175	Group conventional deferred annuity with-profits(with guaranteed cash option) per annum	6027	21561	4387				214054
175	Group conventional deferred annuity with-profits(full profit) per annum	1044	10659					132847
175	Group conventional deferred annuity with-profits(reversionary bonus) per annum	12	1018					21329
185	Group conventional pensions endowment with-profits	315	9306	84				7885
200	Annuity with-profits (CPA)	1239	4485					42320
200	Annuity with-profits (CPA)(vested full profit)	1074	4275					62722
205	Miscellaneous conventional with-profits	171						2844
210	Additional reserves with-profits OB							3218

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB	3269	11509	138				8864
305	Single premium non-profit WL/EA OB		6041					6095
325	Level term assurance	93293	11130235	26502				(5555)
330	Decreasing term assurance	52720	4470387	13416				(12916)
330	Decreasing term assurance per annum		2554					
340	Accelerated critical illness (guaranteed premiums)	215947	21142838	109996				(129425)
345	Accelerated critical illness (reviewable premiums)	20171	2283178	12432				(12973)
350	Stand-alone critical illness (guaranteed premiums)	14495	3326768	17236				(12818)
355	Stand-alone critical illness (reviewable premiums)	964	175529	988				(970)
360	Income protection non-profit (guaranteed premiums)	25739	681344	18066				(58938)
365	Income protection non-profit (reviewable premiums)	1763	45273	1190				(3128)
380	Miscellaneous protection rider		1364	5551				8614
380	Miscellaneous protection rider per annum		110682					
385	Income protection claims in payment per annum		2070					11007
390	Deferred annuity non-profit per annum	92	15					763

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
395	Annuity non-profit (PLA) per annum	646	798					6179
435	Miscellaneous non-profit	923	7112	80				584
440	Additional reserves non-profit OB							24986

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB		22					18
325	Level term assurance		4588117	8693				17215
330	Decreasing term assurance		1406303	3549				1717
330	Decreasing term assurance per annum		41					
336	Mortality risk premium reinsurance		6438628	5943				9415
340	Accelerated critical illness (guaranteed premiums)		13481251	44049				(9067)
345	Accelerated critical illness (reviewable premiums)		1482465	5057				(5171)
350	Stand-alone critical illness (guaranteed premiums)		1951054	6598				4620
355	Stand-alone critical illness (reviewable premiums)		109724	402				251
360	Income protection non-profit (guaranteed premiums)		528233	8178				(29246)
365	Income protection non-profit (reviewable premiums)		35099	539				(770)
380	Miscellaneous protection rider		504	37				106
380	Miscellaneous protection rider per annum		741					
385	Income protection claims in payment per annum		1359					7386
435	Miscellaneous non-profit		1356	6				247



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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance	9927	325176	1143				11269
330	Decreasing term assurance	613	97943	218				(530)
390	Deferred annuity non-profit per annum	2672	8456					80868
400	Annuity non-profit (CPA) per annum	39636	83976					909443
435	Miscellaneous non-profit per annum	20	1741	2				9407
440	Additional reserves non-profit OB							6538

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		33566	42				325
330	Decreasing term assurance		88519	40				130
400	Annuity non-profit (CPA) per annum		46855					449218
435	Miscellaneous non-profit							14







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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium (SMA bonds)	45357	1271661		1271661	1230082		1230082
500	Life UWP single premium (PLAL bonds)		538391		538391	529593		529593
505	Life UWP whole life regular premium (SMA)		2301	414	2301	2301	21	2323
505	Life UWP whole life regular premium (PLAL)		3122	759	3122	3122		3122
510	Life UWP endowment regular premium - savings (SMA)		13615	2338	13615	13615	84	13699
510	Life UWP endowment regular premium - savings (PLAL)		264280	29319	264280	264360		264360
516	Life UWP endowment regular premium - (ISA) (PLAL)		46170	11299	46170	45933		45933
575	Miscellaneous UWP (PLAL)		568	190	568	568		568

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP (SMA)		548715	16389	548715	585922	4064	589986
525	Individual pensions UWP (PLAL)		188856	7883	188856	188871		188871
535	Group money purchase pensions UWP (SMA)		263660	10968	263660	292172	2322	294495
535	Group money purchase pensions UWP (PLAL)		23	4	23	23		23
570	Income drawdown UWP (income withdrawal plan)		44139		44139	43869		43869
571	Trustee investment plan UWP				21347	21009		21009





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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
700	Life property linked single premium	12769	314438		307739	307739	(919)	306820
710	Life property linked whole life regular premium	121432	15590470	78264	60786	60786	31130	91916
715	Life property linked endowment regular premium - savings	4829	174411	2766	33169	33169	781	33950
790	Miscellaneous protection rider (waiver of premium)			36			166	166
795	Miscellaneous property linked (term assurance)	3392	314071	1688	4349	4349	1080	5430
800	Additional reserves property linked			824			824	824

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium		2833					
710	Life property linked whole life regular premium		7982767	97			(15034)	(15034)
715	Life property linked endowment regular premium - savings		161	1				
795	Miscellaneous property linked (term assurance)		168774				321	321
800	Additional reserves property linked (extra premium - life and PHI)			365			365	365

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

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
725	Individual pensions property linked	107900	898505	29234	873951	871711	(5759)	865952
735	Group money purchase pensions property linked	150956	431909	31707	419396	419396	28095	447491
750	Income drawdown property linked	5916	432050		430176	430176	(18410)	411766
755	Trustee investment plan				211708	211708	512	212220
790	Miscellaneous protection rider			213			1035	1035
795	Miscellaneous property linked						795	795
800	Additional reserves property linked						1704	1704







## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Life Corporate Bond	04 - life - other managed fund	5974	Accumulation	1.00	1.1559	1.1522	(0.33)
Life Managed 100	04 - life - other managed fund	5836	Accumulation	1.00	1.2101	1.2410	2.55
Life Managed 95	04 - life - other managed fund	2898	Accumulation	1.00	1.1732	1.1814	0.70
Life Cash	04 - life - other managed fund	20558	Accumulation	1.00	2.5064	2.5827	3.04
Cash Plus Life Fund	04 - life - other managed fund	279	Accumulation		1.0481	1.0887	3.87
Unit Endowment	04 - life - other managed fund	4355	Accumulation	0.38	31.8905	34.2495	7.40
Life European	06 - life - overseas equity	10039	Accumulation	1.00	7.8609	9.3194	18.55
Life Far Eastern	06 - life - overseas equity	2942	Accumulation	1.00	4.1521	4.8645	17.16
Life Gilts & Fixed interest	04 - life - other managed fund	19499	Accumulation	1.00	4.0141	4.0076	(0.16)
Life Growth	02 - life - balanced managed fund	139226	Accumulation	1.00	4.1541	4.4301	6.64
Pegasus Aggressive Life	06 - life - overseas equity	1930	Accumulation	0.25	2.0576	2.2215	7.97
Pegasus Balanced Life	02 - life - balanced managed fund	19489	Accumulation	0.25	2.1596	2.2973	6.38
Pegasus Cautious Life	02 - life - balanced managed fund	672	Accumulation	0.25	2.5269	2.5658	1.54
Life International	06 - life - overseas equity	2797	Accumulation	1.00	4.6490	4.9604	6.70
Life Japanese	06 - life - overseas equity	1011	Accumulation	1.00	1.3896	1.2601	(9.32)
Life North American	06 - life - overseas equity	1770	Accumulation	1.00	5.3087	5.4342	2.36
Life Opportunity	06 - life - overseas equity	25099	Accumulation	1.00	3.6795	3.9826	8.24
Life Safety	03 - life - defensive managed fund	90904	Accumulation	1.00	4.1387	4.2130	1.79

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Life Technology	06 - life - overseas equity	36	Accumulation	1.50	0.7218	0.7012	(2.85)
Life UK Equity	05 - life - UK equity	9249	Accumulation	1.00	4.8792	5.5543	13.84
ABN AMRO Equity Income Life	05 - life - UK equity	1566	Accumulation	0.98	1.3006	1.5083	15.97
ABN AMRO Higher Income Life	04 - life - other managed fund	2670	Accumulation	0.96	1.2530	1.3824	10.33
ABN AMRO UK Growth Life	05 - life - UK equity	733	Accumulation	0.84	1.2014	1.4246	18.58
Artemis UK Smaller Cos Life	05 - life - UK equity	487	Accumulation	0.94	1.7702	2.0613	16.44
Artemis UK Special Sits Life	05 - life - UK equity	676	Accumulation	0.98	1.6700	1.9575	17.21
Attica Europe (Ex UK ) Life	06 - life - overseas equity	108	Accumulation	0.90	1.4764	1.7658	19.60
Attica Far East (ex Japan) Life	06 - life - overseas equity	66	Accumulation	0.90	1.7208	1.9673	14.33
Attica Japan Life	06 - life - overseas equity	53	Accumulation	0.90	1.4605	1.3556	(7.18)
Attica UK Bond Life	04 - life - other managed fund	164	Accumulation	0.90	1.1385	1.1215	(1.50)
Attica UK Equity Life	05 - life - UK equity	67	Accumulation	0.90	1.3279	1.5073	13.51
Attica US Equity Life	06 - life - overseas equity	174	Accumulation	0.90	1.2154	1.2220	0.54
Baillie Gifford British 350 Life	05 - life - UK equity	330	Accumulation	0.93	1.1791	1.3244	12.32
Baillie Gifford Pacific Life	06 - life - overseas equity	166	Accumulation	0.89	1.1923	1.5586	30.72
Fidelity American Life	06 - life - overseas equity	622	Accumulation	0.97	1.0630	1.0457	(1.63)
Fidelity European Life	06 - life - overseas equity	1254	Accumulation	0.91	1.6239	1.8531	14.12
Fidelity Managed Life	02 - life - balanced managed fund	1411	Accumulation	0.91	1.2138	1.3092	7.86

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Fidelity Special Sits Life	05 - life - UK equity	4368	Accumulation	0.90	1.5396	1.7678	14.82
Fidelity Wealthbuilder Life	02 - life - balanced managed fund	1091	Accumulation	0.93	1.4218	1.4970	5.29
Framlington Health Life	05 - life - UK equity	236	Accumulation	0.83	0.9185	0.8289	(9.75)
Framlington UK Growth Life	05 - life - UK equity	310	Accumulation	0.92	1.0638	1.1803	10.95
First State Global Emerging Markets Life	06 - life - overseas equity	187	Accumulation	0.89	1.7876	2.0752	16.09
First State Global Opportunities Life	06 - life - overseas equity	141	Accumulation	0.97	1.8247	1.7904	(1.88)
Gartmore Corporate Bond Life	04 - life - other managed fund	1293	Accumulation	0.94	1.1127	1.1163	0.32
Gartmore European Selected Opp Life	06 - life - overseas equity	732	Accumulation	0.88	1.2353	1.4653	18.62
Gartmore UK Focus Life	05 - life - UK equity	242	Accumulation	0.91	1.5170	1.8073	19.14
Inscape Cautious Growth Life	03 - life - defensive managed fund	788	Accumulation	0.89	1.1676	1.1843	1.43
Inscape Higher Growth Life	01 - life - stock market managed fund	282	Accumulation	0.91	1.3800	1.5166	9.90
Inscape Steady Growth Life	02 - life - balanced managed fund	923	Accumulation	0.89	1.2959	1.3739	6.02
Lion Trust First Income Life	05 - life - UK equity	1367	Accumulation	0.98	1.5577	1.8011	15.62
Morley Commercial Property Fund	07 - life - property	7153	Accumulation	0.91	1.2016	1.4064	17.04
Merrill Lynch Managed Life	02 - life - balanced managed fund	261	Accumulation	0.88	1.1245	1.2164	8.17
Merrill Lynch UK Smaller Cos Life	05 - life - UK equity	345	Accumulation	0.86	1.5531	1.9643	26.47
Merrill Lynch UK Value Life	05 - life - UK equity	441	Accumulation	0.89	1.3315	1.5577	16.99
Multi Manager Balanced Fund	04 - life - other managed fund	5297	Accumulation		1.1522	1.2173	5.65

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Multi Manager Cautious Fund	04 - life - other managed fund	2713	Accumulation		1.0684	1.0766	0.77
Multi Manager Equity Fund	06 - life - overseas equity	1145	Accumulation		1.2280	1.3623	10.94
Multi Manager Bond Fund	04 - life - other managed fund	1345	Accumulation		1.0464	1.0317	(1.40)
Multi Manager Growth Fund	02 - life - balanced managed fund	770	Accumulation		1.1868	1.2841	8.20
Newton Higher Income Life	04 - life - other managed fund	1990	Accumulation	0.94	1.5409	1.8063	17.22
Newton Income Life	05 - life - UK equity	1673	Accumulation	0.89	1.1977	1.3154	9.83
Newton Managed Life	02 - life - balanced managed fund	1908	Accumulation	0.91	1.1770	1.2835	9.05
Newton Oriental Life	06 - life - overseas equity	317	Accumulation	0.91	1.3410	1.5682	16.94
Invesco Perpetual Global Bond Life	04 - life - other managed fund	772	Accumulation	0.96	1.1410	1.0875	(4.69)
Invesco Perpetual Higher Income Life	04 - life - other managed fund	6375	Accumulation	0.94	1.4859	1.8727	26.03
Invesco Perpetual Managed Life	02 - life - balanced managed fund	1857	Accumulation	0.98	1.3270	1.5056	13.46
Schroders UK Mid 250 Life	05 - life - UK equity	1830	Accumulation	1.02	1.8551	2.3904	28.85
Schroders Medical Discovery Life	06 - life - overseas equity	6	Accumulation	0.92	1.0828	1.0901	0.67
3001	04 - life - other managed fund	379	Accumulation	1.00	1.9650	2.0497	4.31
3002	04 - life - other managed fund	4278	Accumulation	1.00	2.2608	2.4076	6.49
3003	04 - life - other managed fund	1166	Accumulation	1.00	2.4268	2.5999	7.13
3012	04 - life - other managed fund	766	Accumulation	1.00	3.2965	3.4243	3.88
3051	04 - life - other managed fund	1157	Accumulation	1.00	1.9777	2.1177	7.08

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
3066	04 - life - other managed fund	299	Accumulation	1.00	1.5506	1.6126	3.99
3072	04 - life - other managed fund	666	Accumulation	1.00	6.2505	6.8662	9.85
3085	04 - life - other managed fund	3361	Accumulation	1.00	11.2096	12.0531	7.53
3087	04 - life - other managed fund	574	Accumulation	1.00	5.6176	6.3396	12.85
3088	04 - life - other managed fund	305	Accumulation	1.00	3.4057	3.6731	7.85
Corporate Bond Pension Fund	14 - individualpension - other managed fund	314	Accumulation	1.00	1.1222	1.1200	(0.20)
Pension FTSE 100	14 - individualpension - other managed fund	5811	Accumulation	1.00	1.5606	1.6457	5.45
Pension FTSE 95	14 - individualpension - other managed fund	11562	Accumulation	1.00	1.2891	1.4867	15.33
Pension Managed 100	14 - individualpension - other managed fund	35580	Accumulation	1.00	1.6585	1.7132	3.30
Pension Managed 95	14 - individualpension - other managed fund	152323	Accumulation	1.00	1.8711	1.8933	1.18
Pension Cash	14 - individualpension - other managed fund	176684	Accumulation	1.00	3.5078	3.6493	4.03
Pension Trustee Cash Fund	14 - individualpension - other managed fund	31438	Accumulation	0.50	1.0643	1.1137	4.64
Pension Equity Tracker	15 - individualpension - UK equity	7886	Accumulation	1.00	0.9786	1.1311	15.58
Pension European	16 - individualpension - overseas equity	64767	Accumulation	1.00	7.9430	9.4377	18.82
Pension Gilts and Fixed Interest	14 - individualpension - other managed fund	51366	Accumulation	1.00	5.6513	5.6380	(0.24)
Pension Growth	12 - individualpension - balanced managed fund	480947	Accumulation	1.00	5.0627	5.4213	7.08
Pension Halifax	14 - individualpension - other managed fund	74568	Accumulation	0.75	4.5697	4.7319	3.55
Pension International	16 - individualpension - overseas equity	27350	Accumulation	1.00	5.0409	5.3684	6.50

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**

Total business

Financial year ended **31 December 2006**Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Pension Japanese	16 - individualpension - overseas equity	9057	Accumulation	1.00	1.3449	1.1862	(11.80)
Pension Far Eastern	16 - individualpension - overseas equity	21691	Accumulation	1.00	4.9655	5.8951	18.72
Pension Long Gilts	14 - individualpension - other managed fund	6398	Accumulation	1.00	1.5606	1.5463	(0.92)
Pension North American	16 - individualpension - overseas equity	21336	Accumulation	1.00	7.2985	7.4197	1.66
Pension Opportunity	16 - individualpension - overseas equity	120764	Accumulation	1.00	4.5327	4.9332	8.83
Pension Safety	13 - individualpension - defensive managed fund	118913	Accumulation	1.00	5.7927	5.9098	2.02
Pension Full Participation	14 - individualpension - other managed fund	2115	Accumulation		1.2116	1.3536	11.72
Pension Higher Protection	14 - individualpension - other managed fund	3579	Accumulation		1.1332	1.2081	6.61
Pension Select Income	14 - individualpension - other managed fund	219	Accumulation		1.1025	1.2023	9.05
TIA Pooled Cash	14 - individualpension - other managed fund	323	Accumulation		1.5523	1.6252	4.70
TIA Pooled Corporate Bond	14 - individualpension - other managed fund	5	Accumulation		1.4650	1.4758	0.74
TIA Pooled European	16 - individualpension - overseas equity	1129	Accumulation		1.1929	1.4565	22.10
TIA Pooled Far Eastern	16 - individualpension - overseas equity	623	Accumulation		1.5406	1.8978	23.18
TIA Pooled UK Gilts and Fixed Interest	14 - individualpension - other managed fund	978	Accumulation		1.5021	1.5127	0.71
TIA Pooled Long Gilt	14 - individualpension - other managed fund	6405	Accumulation		2.0209	2.0214	0.02
TIA Pooled Index linked Gilt	14 - individualpension - other managed fund	5	Accumulation		1.6828	1.7211	2.28
TIA Pooled Japanese	16 - individualpension - overseas equity	465	Accumulation		0.9227	0.8422	(8.72)
TIA Pooled Managed	12 - individualpension - balanced managed fund	7938	Accumulation		1.3687	1.7059	24.64



## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**

Total business

Financial year ended **31 December 2006**Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
TIA Pooled Managed 100 Guarantee	14 - individualpension - other managed fund	158	Accumulation		1.4873	1.5491	4.15
TIA Pooled Managed 95 Guarantee	14 - individualpension - other managed fund	173	Accumulation		1.2946	1.3211	2.04
TIA Pooled North American	16 - individualpension - overseas equity	712	Accumulation		1.0404	1.0586	1.75
TIA Quarriers Pension Fund	Closed fund		Accumulation		1.1833		(100.00)
TIA Staff Pension Scheme	14 - individualpension - other managed fund	(2)	Accumulation		1.3886		(100.00)
TIA Pooled UK Equity	15 - individualpension - UK equity	3856	Accumulation		1.5826	1.8114	14.45
Pension UK Equity	15 - individualpension - UK equity	102071	Accumulation	1.00	5.1381	5.9299	15.41
ABN AMRO Equity Income Pension	15 - individualpension - UK equity	5658	Accumulation	0.98	1.6150	1.8926	17.20
ABN AMRO Higher Income Pension	14 - individualpension - other managed fund	6841	Accumulation	0.96	1.2903	1.4153	9.69
ABN AMRO UK Growth Pension	15 - individualpension - UK equity	1821	Accumulation	0.84	1.5936	1.9154	20.19
Artemis UK Smaller Cos Pension	15 - individualpension - UK equity	2504	Accumulation	0.94	1.9556	2.2962	17.42
Artemis UK Special Sits Pension	15 - individualpension - UK equity	4758	Accumulation	0.98	1.8614	2.2083	18.63
Attica Europe (Ex UK ) Pension	16 - individualpension - overseas equity	87	Accumulation	0.90	1.6366	1.9699	20.36
Attica Far East (ex Japan) Pension	16 - individualpension - overseas equity	36	Accumulation	0.90	1.9185	2.1871	14.00
Attica Japan Pension	16 - individualpension - overseas equity	36	Accumulation	0.90	1.5965	1.4471	(9.36)
Attica UK Bond Pension	14 - individualpension - other managed fund	290	Accumulation	0.90	1.1289	1.1092	(1.75)
Attica UK Equity Pension	15 - individualpension - UK equity	359	Accumulation	0.90	1.4090	1.6044	13.87
Attica US Equity Pension	16 - individualpension - overseas equity	32	Accumulation	0.90	1.2020	1.1977	(0.36)

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Baillie Gifford British 350 Pension	16 - individualpension - overseas equity	1030	Accumulation	0.93	1.4350	1.6211	12.97
Baillie Gifford Pacific Pension	16 - individualpension - overseas equity	775	Accumulation	0.89	1.5757	2.1004	33.30
Fidelity American Pension	16 - individualpension - overseas equity	3117	Accumulation	0.97	1.2237	1.1932	(2.50)
Fidelity European Pension	16 - individualpension - overseas equity	5948	Accumulation	0.91	1.9775	2.2649	14.54
Fidelity Special Sits Pension	16 - individualpension - overseas equity	11135	Accumulation	0.90	1.8205	2.0887	14.74
Fidelity Wealthbuilder Pension	16 - individualpension - overseas equity	3009	Accumulation	0.93	1.4959	1.5703	4.97
SMA Fidelity Managed Pension	12 - individualpension - balanced managed fund	22553	Accumulation	0.91	1.2017	1.2983	8.03
Framlington Health Pension	16 - individualpension - overseas equity	416	Accumulation	0.83	1.4045	1.2372	(11.91)
Framlington UK Growth Pension	15 - individualpension - UK equity	1206	Accumulation	0.92	1.3556	1.5191	12.06
First State Global Emerging Markets Pension	16 - individualpension - overseas equity	1497	Accumulation	0.89	1.8938	2.2118	16.80
First State Global Opportunities Pension	16 - individualpension - overseas equity	1275	Accumulation	0.97	2.0003	1.9261	(3.71)
Gartmore Corporate Bond Pension	14 - individualpension - other managed fund	5810	Accumulation	0.94	1.1256	1.1321	0.58
Gartmore European Selected Opp Pension	16 - individualpension - overseas equity	2516	Accumulation	0.88	1.6044	1.9258	20.03
Gartmore UK Focus Pension	15 - individualpension - UK equity	1445	Accumulation	0.91	1.6643	1.9851	19.28
Inscape Cautious Growth Pension	13 - individualpension - defensive managed fund	159	Accumulation	0.89	1.1952	1.2084	1.10
Inscape Higher Growth Pension	11 - individualpension - stock market managed fund	57	Accumulation	0.91	1.4180	1.5504	9.34
Inscape Steady Growth Pension	12 - individualpension - balanced managed fund	1261	Accumulation	0.89	1.3158	1.3973	6.19
Liontrust First Income Pension	15 - individualpension - UK equity	1705	Accumulation	0.98	1.1507	1.3447	16.85

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**

Total business

Financial year ended **31 December 2006**Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Morley Commercial Property Pension	17 - individualpension - property	34876	Accumulation	0.91	1.2201	1.4594	19.61
SMA Merrill Lynch Managed Pension	12 - individualpension - balanced managed fund	6998	Accumulation	0.88	0.9613	1.0490	9.13
Merrill Lynch UK Smaller Cos Pension	15 - individualpension - UK equity	1618	Accumulation	0.86	2.1366	2.7318	27.86
Merrill Lynch UK Value Pension	15 - individualpension - UK equity	849	Accumulation	0.89	1.6600	1.9698	18.66
Multi Manager Balanced Pension	13 - individualpension - defensive managed fund	4452	Accumulation		1.1945	1.2624	5.68
Multi Manager Cautious Pension	14 - individualpension - other managed fund	2974	Accumulation		1.1001	1.1095	0.86
Multi Manager Equity Pension	16 - individualpension - overseas equity	553	Accumulation		1.2679	1.4175	11.80
Multi Manager Bond Pension	14 - individualpension - other managed fund	794	Accumulation		1.0717	1.0516	(1.88)
Multi Manager Growth Pension	16 - individualpension - overseas equity	1304	Accumulation		1.2131	1.3175	8.60
Newton Higher Income Pension	14 - individualpension - other managed fund	6782	Accumulation	0.94	1.5560	1.8754	20.53
Newton Income Pension	15 - individualpension - UK equity	3728	Accumulation	0.89	1.4885	1.6494	10.81
Newton Oriental Pension	16 - individualpension - overseas equity	3693	Accumulation	0.91	1.6785	1.9771	17.78
SMA Newton Managed Pension	11 - individualpension - stock market managed fund	44400	Accumulation	0.91	1.0121	1.1052	9.20
Invesco Perpetual Global Bond Pension	14 - individualpension - other managed fund	2469	Accumulation	0.96	1.1910	1.1222	(5.78)
Invesco Perpetual Higher Income Pension	14 - individualpension - other managed fund	17215	Accumulation	0.94	1.5874	2.0206	27.29
SMA Perpetual Managed Pension	12 - individualpension - balanced managed fund	27502	Accumulation	0.98	1.3715	1.5710	14.54
Schroders UK Mid 250 Pension	15 - individualpension - UK equity	9659	Accumulation	1.02	1.9605	2.5535	30.25
Schroders Medical Discovery Pension	16 - individualpension - overseas equity	46	Accumulation	0.92	1.0848	1.0758	(0.83)

## Long-term insurance business : Unit prices for internal linked funds

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
3501	14 - individualpension - other managed fund	2272	Accumulation	1.00	2.0689	2.2095	6.79
3502	14 - individualpension - other managed fund	15643	Accumulation	1.00	2.3369	2.5267	8.12
3503	14 - individualpension - other managed fund	3157	Accumulation	1.00	2.2068	2.4082	9.13
3551	14 - individualpension - other managed fund	159	Accumulation	1.00	2.5018	2.7077	8.23
3563	14 - individualpension - other managed fund	2018	Accumulation	1.00	4.0769	4.4833	9.97
3575	14 - individualpension - other managed fund	4245	Accumulation	1.00	3.4782	4.0896	17.58
3576	14 - individualpension - other managed fund	2831	Accumulation	1.00	2.8569	3.3528	17.36
3580	14 - individualpension - other managed fund	433	Accumulation	1.00	1.4473	1.5912	9.94
3583	14 - individualpension - other managed fund	2232	Accumulation	1.00	6.7746	7.1255	5.18
3584	14 - individualpension - other managed fund	6574	Accumulation	1.00	5.4493	6.0943	11.84
3585	14 - individualpension - other managed fund	3982	Accumulation	1.00	6.1634	7.0283	14.03
3586	14 - individualpension - other managed fund	371	Accumulation	1.00	1.8250	2.0016	9.68
Stakeholder Cash	14 - individualpension - other managed fund	2650	Accumulation	1.00		3.6313	
Stakeholder Gilt & Fixed interest	14 - individualpension - other managed fund	1467	Accumulation	1.00		5.6385	
Stakeholder Growth	12 - individualpension - balanced managed fund	16029	Accumulation	1.00		5.4242	
Stakeholder International	16 - individualpension - overseas equity	2465	Accumulation	1.00		5.3656	
Stakeholder Opportunity	12 - individualpension - balanced managed fund	1030	Accumulation	1.00		4.9279	
Stakeholder Safety	13 - individualpension - defensive managed fund	2778	Accumulation	1.00		5.9035	





## Long-term insurance business: analysis of valuation interest rate

Name of insurer                **Scottish Mutual Assurance Ltd**

Subfund                        **21 With Profits Sub-Fund**

Financial year ended        **31 December 2006**

Units                            **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK Life WPSF Form 51, Assurances, 3.35	387793	3.35%	3.90%	4.63%
UK Life WPSF Form 51, Miscellaneous	1372	n/a	n/a	4.63%
UK Pension WPSF Form 51, Deferred Annuity, 3.9	977233	3.90%	3.90%	4.63%
UK Pension WPSF Form 51, Deferred Annuity, 4.15	312972	4.15%	4.15%	4.63%
UK Pension WPSF Form 51, Annuities, 4.45	106186	4.45%	4.45%	4.63%
UK Pension WPSF Form 51, Miscellaneous	2417	n/a	n/a	4.63%
UK Pension WPSF Form 51, Additional reserves, 0	3218	0.00%	0.00%	4.63%
UK Life Form 52 UWP Assurances	2043747	3.60%	3.90%	4.63%
UK Life Form 52 UWP , ANL ISA	45933	3.90%	3.90%	4.63%
Overseas Life Form 52 UWP Life, SMI	786468	4.15%	4.15%	4.63%
UK Pension Form 52 UWP	1138254	3.90%	3.90%	4.63%
<b>Total</b>	5805594			

## Long-term insurance business: analysis of valuation interest rate

Name of insurer                    **Scottish Mutual Assurance Ltd**

Subfund                            **31 Other Business Sub-Fund**

Financial year ended            **31 December 2006**

Units                                **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK Life OBSF Form 51, Assurances, 4.15	(27690)	4.15%	4.15%	4.83%
UK Life OBSF Form 51, Assurances, 3.35	(188389)	3.35%	4.15%	4.83%
UK Life OBSF Form 51, Miscellaneous	14940	n/a	n/a	4.83%
UK Life OBSF Form 51, Annuities, 4.65	6179	4.65%	4.65%	4.83%
UK Life OBSF Form 51, Additional reserves, 0	10935	0.00%	0.00%	4.83%
UK Life BSF Form 51, Assurances, 0	82095	0.00%	0.00%	4.83%
UK Pension OBSF Form 51, Deferred Annuity, 4.15	80868	4.15%	4.15%	4.83%
UK Pension OBSF Form 51, Term Assurances, 4.15	10285	4.15%	4.15%	4.83%
UK Pension OBSF Form 51, Annuities, 4.65	460226	4.65%	4.65%	4.83%
UK Pension OBSF Form 51, Miscellaneous	9393	n/a	n/a	4.83%
UK Pension OBSF Form 51, Additional reserves, 0	6538	0.00%	0.00%	4.83%
UK Life OBSF Form 52, 53 & 54 Sterling Reserves	47266	3.40%	4.20%	4.83%
UK Pension OBSF Form 52, 53 & 54 Sterling Reserves	5247	4.20%	4.20%	4.83%
UK Life OBSF Form 53, Miscellaneous	166	n/a	n/a	4.83%
UK Pension OBSF Form 53, Miscellaneous	1035	n/a	n/a	4.83%
UK Life OBSF Form 53, Additional reserves, 0	459	0.00%	0.00%	4.83%
UK Pension OBSF Form 53, Additional reserves, 0	1704	0.00%	0.00%	4.83%
<b>Total</b>	521258			



**Long-term insurance business : Distribution of surplus**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **10 Long Term Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	8851219	10933619
Bonus payments in anticipation of a surplus	12	59795	39697
Transfer to non-technical account	13	282013	501290
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	9193028	11474606
Mathematical reserves	21	8674520	10766887
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	518507	707719

**Composition of surplus**

Balance brought forward	31	165706	115204
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	352801	592516
Total	39	518507	707720

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41	59795	39697
Cash bonuses	42		
Reversionary bonuses	43	1145	1028
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	60940	40725
Net transfer out of fund / part of fund	47	282013	501290
Total distributed surplus (46+47)	48	342953	542015
Surplus carried forward	49	175554	165706
Total (48+49)	59	518507	707721

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance business : Distribution of surplus**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **21 With Profits Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	5805595	7242352
Bonus payments in anticipation of a surplus	12	59795	39697
Transfer to non-technical account	13	2013	1290
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	5867403	7283339
Mathematical reserves	21	5804449	7241325
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	62954	42014

**Composition of surplus**

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	62954	42014
Total	39	62954	42014

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41	59795	39697
Cash bonuses	42		
Reversionary bonuses	43	1145	1028
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	60940	40725
Net transfer out of fund / part of fund	47	2013	1290
Total distributed surplus (46+47)	48	62953	42015
Surplus carried forward	49		
Total (48+49)	59	62953	42015

**Percentage of distributed surplus allocated to policyholders**

Current year	61	96.80	96.93
Current year - 1	62	96.93	97.43
Current year - 2	63	97.43	97.92
Current year - 3	64	97.92	98.42

**Long-term insurance business : Distribution of surplus**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **31 Other Business Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	3045624	3691266
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	280000	500000
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	3325624	4191266
Mathematical reserves	21	2870071	3525562
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	455553	665704

**Composition of surplus**

Balance brought forward	31	165706	115204
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	289847	550502
Total	39	455553	665706

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	280000	500000
Total distributed surplus (46+47)	48	280000	500000
Surplus carried forward	49	175554	165706
Total (48+49)	59	455554	665706

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance business : Distribution of surplus**

Name of insurer **Scottish Mutual Assurance Ltd**  
 Total business / subfund **32 Bonus Sub-Fund**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	82095	81733
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	82095	81733
Mathematical reserves	21	82095	81733
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29		

**Composition of surplus**

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

**Distribution of surplus**

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

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

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

Name of insurer **Scottish Mutual Assurance Ltd**  
Original insurer **41 Scottish Mutual Assurance**  
Date of maturity value / open market option **01 March 2007**

Category of with-profits policy 1	Original term (years) 2	Maturity value / open market option 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	10	£5,945.00	£0.00	N/A	CWP	N/A	£7,562.00
Endowment assurance	15	£11,408.00	£2,254.00	N/A	CWP	N/A	£13,490.00
Endowment assurance	20	£21,852.00	£3,843.00	N/A	CWP	N/A	£23,005.00
Endowment assurance	25	£38,005.00	£8,993.00	N/A	CWP	N/A	£31,003.00
Regular premium pension	5	£14,006.59	£1,931.94	n/a	UWP	N	ROF
Regular premium pension	10	£26,654.40	£2,136.69	n/a	UWP	N	ROF
Regular premium pension	15	£56,776.14	£1,084.87	n/a	UWP	N	ROF
Regular premium pension	20	£108,085.30	£10,509.83	n/a	UWP	N	ROF
Single premium pension	5	£12,323.27	£1,790.56	n/a	UWP	N	ROF
Single premium pension	10	£16,677.98	£2,048.17	n/a	UWP	N	ROF
Single premium pension	15	£30,986.31	£4,218.25	n/a	UWP	N	ROF
Single premium pension	20	£59,046.93	£11,674.67	n/a	UWP	N	ROF

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

Name of insurer **Scottish Mutual Assurance Ltd**  
Original insurer **41 Scottish Mutual Assurance**  
Date of surrender value **01 March 2007**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	£1,192.00	£0.00	N/A	CWP	N/A	£32,905.00
Endowment assurance	10	£4,047.00	£0.00	N/A	CWP	N/A	£32,905.00
Endowment assurance	15	£9,446.00	£964.00	N/A	CWP	N/A	£32,905.00
Endowment assurance	20	£20,542.00	£3,479.00	N/A	CWP	N/A	£32,905.00
With-profits bond	2	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	5	£11,191.12	£1,287.47	£0.00	UWP	Yes	£10,002.69
With-profits bond	10	£13,772.82	£779.59	£0.00	UWP	Yes	£13,123.16
Single premium pension	2	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	3	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	5	£12,323.17	£1,790.56	£0.00	UWP	Y	ROF
Single premium pension	10	£16,680.38	£2,048.47	£0.00	UWP	Y	ROF

**Long-term insurance capital requirement**Name of insurer **Scottish Mutual Assurance Ltd**

Global business

Financial year ended **31 December 2006**Units **£000**

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

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%					
Classes I (other), II and IX	12	0.1%	100682	103930		50	47
Classes I (other), II and IX	13	0.15%			0.50		
Classes I (other), II and IX	14	0.3%	43385417	13716239		65078	63159
Classes III, VII and VIII	15	0.3%	15872163	10043983	0.63	30132	29366
<b>Total</b>	<b>16</b>		59358261	23864152		95260	92572

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					10622	10622
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	6769184	6311618	0.93	63116	79873
Classes III, VII and VIII (investment risk)	33	1%	230209	230209	1.00	2302	3232
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	31793	31793	1.00	318	295
Classes III, VII and VIII (other)	35	25%				2457	2814
Class IV (other)	36	1%	(7882)	(1078)	0.85		427
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					68194	86641

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	6769184	6311618	0.93	189349	239620
Classes III, VII and VIII (investment risk)	43	3%	230209	230209	1.00	6906	9697
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	31793	31793			
Classes III, VII and VIII (other)	45	0%	2103122	2103122			
Class IV (other)	46	3%	(7882)	(1078)	0.85		1280
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		9126427	8675665		196255	250597

<b>Long term insurance capital requirement</b>	<b>51</b>					370331	440432
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## Abstract of Valuation Report on Scottish Mutual Assurance Ltd

### 1. Introduction

- 1.1 The date to which the investigation relates is 31 December 2006.
- 1.2 The date to which the previous investigation related was 31 December 2005.
- 1.3 Not applicable.

### 2. Product range

A new product called Self Assurance Pension Term Assurance was added to the product range on 8 May and removed on 11 December 2006. This is a non profit pension term assurance contract. Premiums are available on a guaranteed and reviewable basis.

There have been no other significant changes to the product range during the year.

With Profits Sub Fund is closed to new business except by increment.

### 3. Discretionary charges and benefits

- 3.1 The firm has the right to apply Smoothing Reductions to its Smoothed Investment Funds and Market Value Reductions to its various series of with-profits units.

There were no Smoothing Reductions applied during the year.

Throughout the year there have been some Market Value Reductions applying.

This table applies to regular premium.

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
Up to 1 Feb 2006	Business written in years 1992 to 1993	Nil
1 February to 26 March 2006	Nil	Nil
26 March to 6 June 2006	Business written in years 1995 to 1998	Nil
6 June to 26 October 2006	Business written in years 1993 to 1999	Nil
26 October to 4 December 2006	Business written in years 1995 to 1998	Nil
From 4 December 2006	Nil	Nil



This table applies for Single Premium business.

Date	UK Life With-Profits Funds	UK Pensions With-Profits Funds
Up to 1 Feb 2006	Business written in years 1998 to 2001	Business written in years 1999 to 2001
1 February to 26 March 2006	Business written in years 1998 to 2001	Business written in years 1999 to 2000
26 March to 4 December 2006	Business written in years 1998 to 2001	Business written in years 1997 to 2000
From 4 December 2006	Business written in years 1998 to 2000	Business written in years 1997 to 2001

3.2 There have been no changes to premiums on reviewable protection policies during the year. Changes were permitted but did not take place on gross sums assured of £3,101m of business.

3.3 N/A

3.4 Policy fees on unit-linked contracts were increased by between 0.00% and 4.72% during 2006. Policy fees for the majority of these contracts were increased by over 4%.

3.5 There have been no changes to benefit charges on linked policies during 2006.

3.6 There have been no changes to the unit management charges or notional charges on accumulating with profit policies during the year.

3.7

Method for unit pricing of internal linked funds:

Definition of terms used in pricing of internal linked funds.

Asset Units	The number of units in the fund, used to determine the price when creating or cancelling units in internal funds.
Net Asset Value	The market value of assets in the fund, on the pricing basis chosen, including costs of purchase or sale, tax provisions, accrued income and accrued charges as defined by the policy conditions.
Creation Price	The Net Asset Value calculated on market offer prices including purchase costs with tax provisions calculated on a consistent basis, divided by the number of Asset Units.
Cancellation Price	The Net Asset Value calculated on market bid prices less costs of sale with tax provisions calculated on a consistent basis, divided by the number of Asset Units.
Bare Price	Creation Price or Cancellation Price, depending on which pricing basis is being used (see below for details).
Offer Price	Price quoted to policyholders which is used when allocating units from premium and other payments.
Bid Price	Price quoted to policyholders to value their unit holdings and to cancel units to pay for charges as allowed in the policy conditions.

Initial Charge	The percentage used to calculate the quoted Offer Price from the Bare Price; this has averaged 5% during the year.
Bid-Offer Spread	The difference between Bid and Offer Prices; this has averaged 5% during the year.

#### **Method used for creation and cancellation of units**

The Bare Price is calculated each working day at a price no more than the Creation Price and no less than the Cancellation Price. The Creation Price is normally used except in situations where the whole fund is in decline, where the Cancellation Price would be used. Short-term fluctuations in cash flow are normally ignored but see below for further detail.

The shareholder owns a supply of units and this supply is used to avoid having to create and cancel units on a frequent basis and hence to change the Bare Price from Creation Price to Cancellation Price on a similarly frequent basis.

#### **Method used for allocation and de-allocation of units**

The quoted Offer Price for a particular day is the Bare Price divided by (1 minus the Initial Charge) and rounded up by no more than 0.1p. The quoted Bid Price equals the quoted Offer Price adjusted for the Bid-Offer Spread and rounded to the lower 0.1p.

The prices used for transactions on a particular day are determined based on the asset position of the fund at 12pm on the previous working day (except Broker Managed Funds which are priced at close of business). All funds use Forward Pricing, the timing of the transaction relative to the time at which the policyholder requested the trade varies by product and is defined in the policy conditions.

#### **Exceptional circumstances**

There will be occasional circumstances where a significant transaction requires the calculation of a special price. For example, if the transaction is a large sale and the normal quoted Bid Price has been based on a Creation Price, a special (lower) price might be quoted for the transaction.

Similarly, if a significant purchase of units is involved and the normal quoted Offer Price has been based on a Cancellation Price, a special (higher) price might have to be quoted. These special prices would be within the limits implied above.

The significance of a transaction will depend on the size of the fund, the expected cash flows and the current shareholder holding of units.

(b) Not applicable.

(c) The internal linked funds managed by ANAM invest predominantly in Abbey unit trusts and OEICs. These collective investment schemes are priced daily at 12pm. The cancellation price calculated for the unit trust on a particular day and single price calculated for an OEIC on a particular day is used in the valuation of the linked fund on the same day and is the price at which policyholder transactions in the linked fund on that working day are based.

3.8 Linked Life: Income tax deducted £2,046,603  
Tax on realised investment gains £117,662  
Tax charge on unrealised investment gains £463,624  
Linked Pension : Income tax deducted £1,191

There were no realised losses this year.

The tax in the linked funds for realised gains and realised losses is calculated at 31 December each year. In 2006 this was settled by paying the liability to the non-linked fund in May.

These figures include all gains, including those on collective investment schemes.

The CGT rate for realised gains is 17.00% and the CGT rate for unrealised gains is 17.00%.

- 3.9 Each internal fund is treated as an independent entity for the purposes of assessing capital gains tax. A rate of tax is levied on the gain net of any indexation relief and capital losses, as appropriate.

The maximum rate of tax for realised capital gains is the policyholder rate of tax for the period in question. Where appropriate, this may be reduced to reflect the period between the realisation of the gain and the date when the tax is actually due to be paid.

The maximum rate of tax for unrealised capital gains is the rate for realised capital gains. This is normally reduced to reflect the extra expected period until the gain is finally crystallised.

The rates applying to internal funds, excluding broker-managed funds, during the reporting period were:

	<b>01 Jan – 19 Sep 2006</b>	<b>20 Sep – 11 Oct 2006</b>	<b>12 Oct – 31 Dec 2006</b>
All realised gains	17.25%	17.25%	17.00%
All realised losses	10.00%	7.25%	7.50%
Unrealised gains	17.25%	17.25%	17.00%
Unrealised losses	10.00%	7.25%	7.50%

The rate applying to broker-managed funds for profits and losses during the reporting period was 20%.

- 3.10 Where internal linked funds invest in units of the type referred to in paragraph 5 of part 1 of Appendix 3.2, any discount or other allowance negotiated with the manager of the units is fully passed on to the appropriate policyholders.

#### **4. Valuation basis (other than for special reserves)**

##### **4.1 Methodology**

In general, non-linked non profit contracts have been valued using the gross premium method. Negative mathematical reserves are held on these contracts where the calculation yields a negative result. For the Smoothed Funds the reserve held is the sum of the sterling reserve and the valuation smoothed prices multiplied by the number of units. All non-linked with profit contracts have been valued using the gross premium method. Certain assurances accepted at an increased rate of premium are valued at correspondingly increased ages. A proportion of all other current extra premiums receivable is reserved.

It is assumed that annuities in payment occur at the end of the month in which they are due and that increments under increasing annuities take place at the end of the month in which they escalate. For certain annuities there is a capital guarantee that if the annuitant dies before the annuity payments made equal or exceed the purchase price, the shortfall becomes payable immediately. Provision for those extra guarantees is included with the reserves shown.

The benefits valued for group schemes are the amounts secured by premiums paid prior to the valuation date, except for contracts where benefits in force are secured by premiums fixed until retirement.

Linked contracts are valued individually with the number of units allocated to the contract being multiplied by the valuation price for the corresponding internal linked fund. Cash flow calculations have been made individually for each linked contract. The bases used are described below. For some contracts, the unit reserve has been reduced to allow for actuarial funding. The overall unit and sterling reserve for each contract is always at least equal to the surrender or transfer value, subject to a minimum of zero.

For unitised with profit business the funded value of the units has been compared to the surrender value taking into account policyholders' reasonable expectations, and the lower of these two items has been valued. The result of this calculation is then compared with a valuation using the bonus reserve method and the larger of the two items is then taken as the reserve. For units with a guaranteed rate of bonus this guaranteed rate is allowed for in the bonus reserve valuation.

For the Triple Bonus Bond, the liability comprises the market value of assets held to provide for policyholder guaranteed maturity benefits plus the market value of assets in the option holding fund (i.e. effectively the asset share of the policy). This amount is then compared with the expected present value of the Guaranteed Maturity Values, allowing for future bonuses, on the valuation basis with the greater of the two amounts being held as a reserve. In addition, there is a Sterling Reserve calculated on a gross premium cashflow basis including projection of assets at 97.5% of the yield on the Guaranteed Fund and a 6.25% return on the Options Holding Fund.

## 4.2 Valuation interest rates

Product group	Valuation interest rate at end of this financial year	Valuation interest rate at end of last financial year
Conventional with profit life assurances	3.35%	3.05%
Conventional with profit deferred annuities	4.15% in deferment 4.15% in possession for single  3.90% in deferment 3.90% in possession for regular	3.65% in deferment 3.65% in possession for single and regular
Conventional with profit immediate annuities (group)	4.45%	3.75%
Conventional with profit immediate annuities (individual)	4.45%	3.75%
Conventional non-profit life assurances	3.35%	3.00%
Conventional non-profit immediate annuities (life and pensions)	4.65%	4.15%
Conventional non-profit deferred annuities	4.40% in deferment 4.40% in possession for single  4.15% in deferment 4.15% in possession for regular	3.95% in deferment 3.95% in possession for single  3.70% in deferment 3.70% in possession for regular
Conventional non-profit PHI assurances	Regular 4.15% Single 4.15%	Regular 3.70% Single 3.95%
Unitised with profit life assurances	3.60%	3.15%
Unitised with profit life assurances ( ISAs)	3.90%	3.65%
Unitised with profit pensions	3.90%	3.65%
Sterling reserves on unitised with profit and unit-linked business (Life)	3.40%	3.05%
Sterling reserves on unitised with profit and unit-linked business (Pension)	4.20%	3.80%
Unitised with profit life assurances (overseas)	4.15%	3.70%

Life rates are adjusted for tax ; the above rates have been adjusted.

An additional reserve is held in respect of negative sterling reserves of £808,000. This has the effect of increasing the valuation interest rate used and is held for prudence.

## 4.3 Adjustments to valuation interest rates

Yields were adjusted for risk, to calculate the risk-adjusted yields shown in form 57, as follows:

- for equity shares, yields on each asset were reduced by 2.5%

- for non-approved fixed interest securities, the yield on each corporate bond was reduced by a fixed amount which depended on the bond's credit rating; these amounts were based on Moody's published default rates with a margin for prudence.
- there is currently no investment in property and so no risk adjustment is considered for this asset class.

#### 4.4 Mortality Assumptions

Product group	Mortality basis at end of this financial year	Mortality basis at end of previous financial year
Conventional with profit life assurances and non-profit life assurances excluding Pegasus and Self Assurance (individual)	75% AF92 (non-smoker F) 63% AM92 (non-smoker M) 121% AF92 (smoker F) 109% AM92 (smoker M) plus allowance for AIDS of 33% of R6A projection for males Ultimate	92% AF92 (non-smoker F) 74% AM92 (non-smoker M) 184% AF92 (smoker F) 147% AM92 (smoker M) plus allowance for AIDS of 33% of R6A projection for males Ultimate
Term assurance (pension)	93% TF92(female) 83%TM92 (male) Ultimate	156%TF92 (fem smoker) 78%TF92 (fem non smoker) 147% TM92 (male smoker) 74% TM92 (male non smoker) Ultimate
Term assurance (life)	105%TF92 (fem smoker) 82% TF92 (fem non smoker) 129% TM92 (male smoker) 62% TM92 (male non smoker) Ultimate	156%TF92 (fem smoker) 78%TF92(fem non smoker) 147% TM92 (male smoker) 74% TM92 (male non smoker) Ultimate
Self Assurance	Modified TM92/TF92 plus allowance for AIDS of 33% of R6A projection – see below Ultimate	Modified TM92/TF92 plus allowance for AIDS of 33% of R6A projection – see below Ultimate
Conventional with profit pensions assurances (individual)	69% AF92(Female) 75% AM92(Male) Ultimate	69% AF92(Female) 75% AM92(Male) Ultimate
Conventional with profit pensions assurances (group)	69% AF92(Female) 75% AM92(Male) Ultimate	69% AF92(Female) 75% AM92(Male) Ultimate
Conventional non-profit pensions assurances (individual)	69% AF92(Female) 75% AM92(Male) Ultimate	69% AF92(Female) 75% AM92(Male) Ultimate
Conventional non-profit pensions assurances (group)	69% AF92(Female) 75% AM92(Male) Ultimate	69% AF92(Female) 75% AM92(Male) Ultimate
Conventional PHI (mortality element)	100% A67/70 Ult –3 Ultimate	100% A67/70 Ult –3 Ultimate
Unit-linked life business excluding Pegasus and Homeowner	81% AM80/AF80 plus allowance for AIDS of 33% of R6A projection for males Ultimate	81% AM80/AF80 plus allowance for AIDS of 33% of R6A projection for males Ultimate
Homeowner (death only)	81% AM80/AF80 plus allowance for AIDS of 33% of R6A projection for males Ultimate	81% AM80/AF80 plus allowance for AIDS of 33% of R6A projection for males Ultimate
Pegasus	120.75% AF92(Phase 3, FS) 63.25% AF92(Phase 3, FN) 92% AM92(Phase 3, MS) 57.50% AM92(Phase 3, MN) 121% AF92(Series 10, FS) 63% AF92(Series 10, FN)	123% AF80(Phase 3, FS) 67% AF80(Phase 3, FN) 113% AM80(Phase 3, MS) 61% AM80(Phase 3, MN) 115% AF80(Series 10, FS) 63% AF80(Series 10, FN)

	92% AM92(Series 10, MS) 58% AM92(Series 10, MN) Select	105% AM80(Series 10, MS) 58% AM80(Series 10, MN) Select
Unit-linked pensions business	81% AM80/AF80 Ultimate	81% AM80/AF80 Ultimate

For Self Assurance with mortality benefits only (i.e. no critical illness benefits), rates are age-related percentages of TM92/TF92 ult. Sample mortality rates per £1,000 of benefit are:

<b>Age</b>	<b>Male non-smoker</b>	<b>Male smoker</b>	<b>Female non-smoker</b>	<b>Female smoker</b>
25	0.451	0.756	0.181	0.310
35	0.484	0.746	0.280	0.539
45	1.099	1.798	0.698	1.489
55	2.817	6.733	1.830	4.284

See paragraph 4.5 below for details of Self Assurance with critical illness benefits.

## Annuities

Product group	Mortality basis at end of this financial year	Expectations of life (years)	Mortality basis at end of previous financial year
Deferred annuities (individual) – life and pensions, with profit and non-profit	69% AF92 in deferment, Fem 75% AM92 in deferment, Male Ultimate  102% IFA92mc , fem 94% IMA92mc, male in possession, Life  Age related % of PFA92mc,fem PMA92mc,male with 1% p.a. underpin on mortality improvements in possession, Pension	At age 65: Life Mortality <ul style="list-style-type: none"> <li>• 24.0 (male currently age 45)</li> <li>• 23.6 (male currently age 55)</li> <li>• 25.8 (female currently age 45)</li> <li>• 25.4 (female currently age 55)</li> </ul> Pension Mortality <ul style="list-style-type: none"> <li>• 24.7 (male currently age 45)</li> <li>• 23.7 (male currently age 55)</li> <li>• 25.7 (female currently age 45)</li> <li>• 24.7 (female currently age 55)</li> </ul>	69% AF92 in deferment, Fem 75% AM92 in deferment, Male Ultimate  102% IFA92mc , fem 94% IMA92mc, male in possession, Life  119% PFA92mc,fem 102% PMA92mc,male in possession, Pension
Deferred annuities (group) – life and pensions, with profit and non-profit	69% AF92 in deferment, Fem 75% AM92 in deferment, Male Ultimate  102% IFA92mc ,fem 94% IMA92mc,male in possession, Life  Age related % of PFA92mc,fem PMA92mc,male with 1% p.a. underpin on mortality improvementsin possession, Pension		69% AF92 in deferment, Fem 75% AM92 in deferment, Male Ultimate  102% IFA92mc ,fem 94% IMA92mc,male in possession, Life  119% PFA92mc,fem 102% PMA92mc,male in possession, Pension
Annuities in payment (life)	108% IFA92mc,fem 99% IMA92mc,male	22.5 (male age 65) 14.0 (male age 75) 24.6 (female age 65) 15.2 (female age 75)	108% IFA92mc,fem 99% IMA92mc,male
Annuities in payment (pensions)	Age related % of PFA92mc,fem PMA92mc ,male with 1% p.a. underpin on mortality improvements	22.6 (male age 65) 14.2 (male age 75) 23.7 (female age 65) 14.9 (female age 75)	126% PFA92mc,fem 108% PMA92mc ,male

### 4.5 Morbidity Assumptions

Product group	Morbidity basis at end of this financial year	Morbidity basis at end of previous financial year
Conventional PHI (excluding Pegasus)	CMI 12 – 160% inception, 70% recovery rates	CMI 12 – 160% inception, 70% recovery rates
Self Assurance and Pegasus with critical illness	Based on reinsurers' rates – see below	Based on reinsurers' rates – see below

For Self Assurance with critical illness, the rates are based on the reinsurers' rates. Sample valuation rates per £1,000 are:



**Mortality & Critical Illness (with Work Tasks Total Permanent Disability)**

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.978	1.392	0.741	0.716
35	1.014	1.998	1.129	1.468
45	2.311	6.115	2.341	4.257
55	7.377	17.13	6.565	10.171

**Critical Illness (with Work Tasks Total Permanent Disability)**

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.656	0.737	0.602	0.534
35	0.887	1.367	1.301	1.588
45	2.129	4.422	2.740	4.671
55	7.390	13.425	7.443	10.773

An allowance for a future deterioration of 0.375% per annum was also made for Accelerated Critical Illness Cover morbidity for AIA critical illness and AIA TPD.

An allowance for a future deterioration of 0.75% per annum was also made for Stand Alone Critical Illness Cover morbidity for AIA critical illness and AIA TPD.

For Pegasus with critical illness, rates are similarly based on the reinsurers' rates. Sample valuation rates per £1,000 are:

**Critical Illness rates**

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.449	0.722	0.486	0.719
35	0.883	1.482	1.157	1.761
45	2.381	4.682	2.730	4.323
55	6.673	14.500	6.057	10.656

**Residual mortality rates**

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.340	0.594	0.107	0.189
35	0.203	0.391	0.107	0.191
45	0.281	0.725	0.137	0.288
55	0.334	1.110	0.303	0.999

For Homeowner, critical illness rates are again based on the reinsurers' rates. Sample valuation rates per £1,000 are:

**Critical Illness rates**

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.517	0.923	0.491	0.875
35	0.747	1.430	1.263	2.337
45	2.070	3.780	3.119	5.756
55	6.793	12.292	6.519	11.779

## Residual mortality rates

Age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
25	0.327	0.327	0.057	0.089
35	0.191	0.191	0.006	0.008
45	0.256	0.256	0.006	0.008
55	0.039	0.039	0.006	0.008

## 4.6 Expense Assumptions

Conventional	Expense basis at end of this financial year £ p.a.		Expense basis at end of last financial year £ p.a.	
	Premium paying	Paid Up	Premium paying	Paid Up
CWP savings endowment (product code 120 , 125)	36.47	25.53	42.31	29.62
CWP pensions (155/165)	47.04	32.93	54.58	38.21
Term assurance (325/330)	15.14	-	17.57	-
Income protection (360/365)	15.14	-	17.57	-
Critical illness (340/345/350/355)	15.14	-	17.57	-
Annuity (400)	24.52	-	28.46	-

Unit Linked				
UWP bond (500)	27.87	-	31.21	-
UWP savings endowment(510)	37.11	25.98	41.88	29.32
UWP regular premium pension(525/545)	43.95	30.77	48.66	34.06
UWP group regular premium pension(535)	43.24	30.27	35.94	25.16
UWP single premium pension(525/545)	30.76	-	34.06	-
UWP group single premium pension (535)	30.26	-	25.16	-
UL bond (700)	27.87	-	31.21	-
UL savings endowment(715)	37.11	25.98	41.88	29.32
UL regular premium pension(725)	43.95	30.77	48.66	34.06
UL single premium pension(725)	30.76	-	34.06	-

UL group regular premium pension (735)	43.24	30.27	35.94	25.16
UL group single premium pension (735)	30.26		25.16	

The Life expenses receive tax relief at the rate of 20%.

4.7 Unit growth rates before management charges assumed in calculation of non-unit reserves:

5.60% (gross) p.a.  
4.48% (net) p.a.

Inflation rates assumed in calculation of non-unit reserves:

5.30% for future expenses  
4.30% for future increases in policy charges

The reduction in valuation interest rate to allow for investment expenses is 0.043% p.a.

4.8

In accordance with INSPRU 1.2.9R, no future bonus rate assumptions are required in the valuation of with-profits policies, except for those UWP policies where there is a guaranteed bonus rate of 3% (life business) or 4% (pensions business). In these cases, the guaranteed bonus rates are used in the valuation.

4.9

Annual assumptions for calculation of the valuation reserves:

Product		Average lapse /surrender rate for the policy years			
		1 - 5	6 - 10	11 - 15	16 - 20
Level term	lapse	13.6%	6.6%	6.0%	6.0%
Decreasing term	lapse	14.6%	8.8%	8.0%	8.0%
Accelerated critical illness	lapse	14.2%	7.8%	7.1%	7.1%
Income protection	lapse	6.5%	5.0%	5.0%	5.0%
UWP bond	surrender	10.0%	10.0%	10.0%	10.0%
UWP bond	Automatic withdrawals	5.0%	5.0%	5.0%	5.0%
UL bond	Automatic withdrawals	2.5%	2.5%	2.5%	2.5%

Reserves for protection business are calculated using the lapse rates shown in the table and with lapse rates both increased and decreased by 40%. The highest reserve for each policy is taken, i.e. aggregate reserves may use a mixture of the 3 lapse scenarios.

4.10  
N/A

4.11

No allowance is made for derivatives in the determination of long-term liabilities except for in the valuation of the structured products (i.e. The Income Bond) and the Triple Bonus Bond. For the structured products, assets and liabilities are valued on a consistent basis. The liabilities comprise the market value of assets held to provide for policyholder maturity benefits, the value of call options is used to offset any

extra capital gains tax due on maturity and sterling reserves. The valuation of the Triple Bonus Bond is described in paragraph 4.1.

4.12

The valuation methodology was changed at 31 December 2006, allowing for negative reserves and the introduction of prudent lapse rates on protection business, effective from that date. Only the changes applying to protection business were adopted. The effects of those changes on the net reserves for the affected business are shown in the following table :

<b>£m</b>	<b>Net reserves</b>	<b>Change in reserves</b>
Methodology as at 31 December 2005	222.0	
Allowing for negative reserves	-351.7	-573.7
Allowing for lapses	-235.6	116.1

The modelling process used does not allow the effect of lapses to be calculated before the effect of negative reserves.

## **5. Options and guarantees**

### **5.1 Guaranteed annuity rate options**

Where a contract funding for cash has a guaranteed annuity option, the value of the guaranteed annuity at the vesting date (or maturity date) according to the mortality and interest tables in use is compared with the cash option. The reserve is calculated as a weighted average of the reserves for the guaranteed annuity option and the cash option, assuming a take-up rate of the guaranteed annuity option which may be less than 100%.

For Self Employed (S226) Personal Pensions, the take-up rate is:

- 80% for plans maturing immediately at the valuation date
- 95% for plans maturing 20 years after the valuation date
- interpolated linearly between these limits for intermediate maturity dates

A distribution of retirement ages has been assumed for these contracts, as shown in the table below:

<b>Product name</b>	Self Employed (S226)
<b>Basic reserve</b>	£421.9m
<b>Out-standing durations</b>	398mths to 1 month
<b>Guarantee reserve</b>	£214.4m
<b>GAR for male age 65</b>	11.0%
<b>Open for increments</b>	Yes
<b>Form of annuity</b>	Rate shown corresponds to annually in arrears. Annuity can be paid, monthly, quarterly, half yearly, with/out escalation, single or joint life, if single life a 5 or 10 year guarantee can be added

<b>Retirement ages</b>	<p>The following distribution of retirements has been assumed</p> <p>If &lt;= age 64 then 100% * age 64 benefits</p> <p>If &gt; age 64 then 100% * age 75 benefits</p> <p>The above are assumptions used for the valuation basis. Policyholders can retire from age 50 to 75. Specific professions e.g. professional footballers, can retire from age 35 onwards</p>
------------------------	--

## 5.2 Guaranteed surrender and unit-linked maturity values

The Flexible Endowment contract is written as a with profit endowment assurance maturing on the policy anniversary prior to the sixty-fifth birthday. There are guaranteed early maturity values available from the tenth policy anniversary. The contracts are valued both as endowment assurances to age 65 and as endowment assurances for the appropriate guaranteed sum assured at the earliest guaranteed option date. The greater of the two values is held.

<b>Product name</b>	Flexible Endowment
<b>Basic reserve</b>	£4.5m
<b>Out-standing durations</b>	479mths to 1month
<b>Guarantee reserve</b>	£8.0m
<b>Guaranteed amount</b>	£21.8m
<b>MVA-free conditions</b>	n/a
<b>In-force premiums</b>	£487k
<b>Open for increments</b>	No

## 5.3 Guaranteed insurability options

Self Assurance contracts may contain guaranteed insurability options:

- some may be written on a renewable basis, giving policyholders the option to renew their policies at the end of the initial term. The method used to calculate the reserve for the renewal option is “option premium \* 70%” for the accumulated option premiums paid to date.
- some include options, exercisable on the occurrence of certain prescribed events, to effect further assurances without evidence of good health

<b>Product name</b>	Self Assurance
<b>In-force premium</b>	£29.3m
<b>Sum assured</b>	£3.19bn
<b>Description of option</b>	Renewal – policyholder may renew policies at end of initial term.
<b>Guarantee reserve</b>	£108,000

#### 5.4

##### Other guarantees and options

Some classes of deferred annuity have a cash option. The reserve for these policies is calculated in the same way as for cash contracts with guaranteed annuity options, as described in paragraph 5.1. The value of the annuity at the vesting date (or maturity date) according to the mortality and interest tables in use is compared with the cash option. The reserve is calculated as a weighted average of the reserves for the guaranteed annuity option and the cash option, assuming a take-up rate for the cash option as shown below,

For Self Employed (S226) Personal Pensions and Masterpolicy plans, the take-up rate assumed for the cash option is:

- 20% for plans maturing immediately at the valuation date
- 5% for plans maturing 20 years after the valuation date
- interpolated linearly between these limits for intermediate maturity dates

For Individual Pension Arrangements, the take-up rate assumed for the cash option is 5% for all maturities. The vesting date is taken to be Normal Retirement Age for Individual Pension Arrangements and Masterpolicy plans; for Self Employed (S226) Personal Pensions the distribution of retirements with age is the same as that shown in paragraph 5.1.

The total reserves on these contracts, after allowing for the cash option which reduces the reserve from that which would be required if only the deferred annuity was valued, are:

<b>Deferred annuity contract</b>	<b>Total Mathematical reserves</b>	<b>Mathematical reserves if no option</b>	<b>Reduction to Mathematical reserve in respect of option</b>
Self Employed (S226) Personal Pensions	£12.9m	£13.7m	£0.78m
Individual Pension Arrangements	£277.4m	£283.0m	£5.6m
Masterpolicy plans	£164.2m	£174.4m	£10.2m

## 6. Expense reserves

6.1 The aggregate gross of taxation amount available in the next 12 months, arising from margins in the valuation basis, to meet ongoing expenses from existing business is £28.191 million. This is composed of:

- £1.006m from explicit allowances for investment expenses
- £26.077m from explicit allowances for other maintenance expenses
- £1.108m for implicit allowances

6.2 Implicit allowances for investment expenses for section 6.1 are calculated as a reduction in the valuation interest rate of 0.043%.

6.3 The maintenance expenses shown at line 14 of form 43 is £40.268m. This includes one-off pension contributions costs of £11.5m, which were not included in the valuation expense assumptions. Removing this amount leaves £28.8m, which is comparable to the amount in Section 6.1.

6.4 A model office projection using actual new business volumes for 2006 was used to determine the need, if any, for additional reserves to cover the costs of writing new business in 2007. The total actual new business written over 2006 increased the shareholder surplus in 2006. This is also expected to be the case in 2007 and so no additional reserve is needed to cover the cost of writing new business.

6.5 The projected statutory profit released in 2008 is more than sufficient to cover the costs of closure, and ongoing expenses. This projected statutory profit under a range of sensitivities is also more than sufficient to cover the costs of closure, and ongoing expenses. This is also more conservative than a best estimate basis as no new business in 2007 is allowed for. The costs of closure include redundancy costs and terminating management agreements.

6.6 N/A

## 7. Mismatching reserves

7.1

Currency in which benefits are payable	Mathematical reserves from Form 14 (excluding liabilities for property linked benefits) (£000)	Currencies in which assets are denominated	Matching assets (£000)
Sterling	5,569,144	Sterling	5,569,144
		TOTAL	5,569,144
Euro	724,485	Euro	681,111
		Sterling	43,375
		Total	724,485
US Dollar	43,000	US Dollar	43,000

7.2 No information required.

7.3 No reserve is held for currency mismatching. Non-profit liabilities are backed purely by sterling-denominated assets. Any non-sterling-denominated assets are held within the with profit fund as part of the diversified portfolio of investments. The discretionary nature of the payouts on with profit policies is such that they can vary with the returns on the assets and so there is no need to hold an additional reserve for currency mismatching.

7.4 N/A

7.5 N/A

7.6 N/A

7.7 No further reserve arises from the test on assets in INSPRU 1.1.34 R (2). The liabilities are analysed by duration and the investment strategy is chosen appropriately so that there is no significant mismatch between assets and liabilities.

## **8. Other special reserves**

There are no other special reserves that require to be detailed.



## 9. Reinsurance

9.1

£3.1m is payable to Revios Germany which is not authorised to do business in the UK.

9.2 Reinsurance treaties with reinsurance premiums and ceded reserves above the de minimis limits:

Reinsurer	Nature and extent of cover under treaty	Premiums paid under treaty during period	Amount deposited under deposit back arrangements	Open / closed to new business	Amount of undis-charged obligation of insurer	Mathematical reserves ceded under treaty	Retention level for new policies being reinsured
Munich Re	All non-profit pensions annuities in payment, subject to fulfilling terms of treaty.	£37,836,170	£449.22m	Closed	£0	£449.22m	Not applicable
Swiss RE	Pegasus policies – Various treaties covering : mortality only, mortality with attaching critical illness,waiver of premium benefit, other benefits (income replacement, medical expenses, hospital cash) for older policies. All reinsured on risk premium basis.	£21,251,540	No such arrangement exists	Closed	£0	£14.713m	For policies containing Critical Illness benefits, 50% of the sum at risk or £125,000 if less. For policies containing life cover only or life cover with terminal illness,

							first £400,000 of sum at risk.
Swiss Re Revios UK, Revios Germany, Hannover Re, Scottish Re, XL Re	Self Assurance contracts – Various treaties covering : Mortality, accelerated critical illness and stand alone critical illness. Accelerated and stand alone disability benefit. Premium payment benefit for sickness, accident and disability. Revios/Hannover/Scot RE reinsured All reinsured on risk premium basis. Some closed treaties are original terms.	£78,760,470	No such arrangement exists	Swiss Re open for disability income benefit  Hannover/Scot/Revios open for death benefit  Revios UK and Germany, XL Re, open for Stand Alone CIC  Swiss Re and Revios UK and Germany, XL Re open for Accelerated CIC	£0	£10.879m	25% or £45,000 p.a. if less  10% or £125,000 if less  50% or £125,000 if less  43.75% or £125,000 if less

**Notes:**

- (l) Revios Germany is not authorized to carry on insurance business in the UK.  
All of the other reinsurers listed above are authorised to carry on insurance business in the UK.
- (m) None of the listed reinsurers is a connected company.
- (n) None of the treaties is subject to any material contingencies.
- (o) No provision is made for any liability to refund any amounts of reinsurance commission in the event of lapse or surrender.
- (p) The Company is not party to any financing arrangements.

**10. Reversionary (or annual) bonus**

Bonus series	Gross Mathematical reserves	Reversionary bonus rate (this financial year)	Reversionary bonus rate (last financial year)	Total guaranteed bonus rate (this financial year)
Conventional life assurance and general annuity business	£390m	0%	0%	0%
Conventional pension business	£1,356m	0%	0%	0%
Unitised Life Series III	£2,039m	0%	0%	0%
Unitised Pensions Series I & II	£279m	4.00%	4.00%	4.00%
Other unitised Pensions Series	£853m	0%	0%	0%
Unitised ISA Series	£46m	0%	0%	0%
Unitised International Series I – £	£19m	0%	0%	0%
Unitised International Series I – \$ or Euro	£767m	0%	0%	0%
Triple Bonus Bond (all tranches)	£82m	0%	0%	0%
With Profit Annuity	£42m	Pre 2002 2% 2002 starts 6% 2003 starts 14%	0%	Pre 2002 2% 2002 starts 6% 2003 starts 14%

## SCOTTISH MUTUAL ASSURANCE (SMA)

### Abstract of Valuation Report for Realistic Valuation

31 December 2006

#### 1. Introduction

The current valuation date is 31 December 2006.

The previous valuation date was 31 December 2005.

An interim valuation was carried out at 30 June 2006.

#### 2. Assets

(1) – (5) Not applicable.

#### 3. With-Profits Benefit Reserve Liabilities

(1) Breakdown of methods used to calculate With-profits benefits reserve –

Product	Method	With-profits Benefits Reserve (£m)	Future Policy Related Liabilities (£m)	Total Policy Liabilities (£m)
CWP Life	Retrospective	494,099	16,980	511,079
CWP Life	Prospective	26,219	901	27,120
UWP Life	Retrospective	2,864,622	161,191	3,025,813
<b>Life Total</b>		<b>3,384,940</b>	<b>179,073</b>	<b>3,564,013</b>
CWP Pensions with GAO	Retrospective	441,803	212,996	654,799
CWP Pensions with GAO	Prospective	21,772	11,196	32,968
CWP Pensions with GCO	Retrospective	313,477	230,933	544,410
Group Full Profit	Prospective	124,367	2,429	126,796
Other DA	Prospective	115,363	18,656	134,019
UWP Pensions, 0%	Retrospective	669,680	9,755	679,435
UWP Pensions, 4%	Retrospective	521,820	46,834	568,654
<b>Pensions Total</b>		<b>2,208,282</b>	<b>532,799</b>	<b>2,741,081</b>
<b>Total</b>		<b>5,593,222</b>	<b>711,872</b>	<b>6,305,093</b>

(2) Not applicable

(3) See (1) above.

(4) See (1) above.

#### 4. With-profits benefits reserve – Retrospective method

(1) All the with-profits benefit reserves are based on asset shares calculated on an individual basis.

	Proportion valued on an individual basis	Proportion valued on a grouped basis
<u>Life</u>		
Conventional with profits	100%	0%
Unitised with profits	100%	0%
<u>Pensions</u>		
Conventional with profits	100%	0%
Unitised with profits	100%	0%

(2) There have been no significant changes in the valuation method.

(3)

(a) There is now a management services agreement with Resolution Management Services (RMS), which effectively means that RMS will provide the majority of administration services for SMA for a fixed policy fee. These expenses have been incorporated into the December 2006 basis.

(b) The service agreement will be reviewed on an annual basis.

(c) The total expenses allocated to the conventional with profits benefits reserves are:

Initial expenses	£0.021M
Maintenance expenses	£3.440M
Initial commission	£0.155M
Renewal commission	£0.448M
Investment expenses	£0.356M
<b>Total</b>	<b>£4.419M</b>

Expenses are charged to conventional with profits contracts by way of:

- An initial expense charge of a monetary amount per policy
- An initial expense charge at a percentage of the annual or single premium
- A renewal expense charge of a monetary amount per policy
- An investment expense charge at a percentage of the total asset share
- An initial commission charge and renewal commission charge

As the fund is closed to new business except for a very small number of incremental policies on existing pensions business, the Initial expense and commission charges are negligible.

All ongoing expenses have been charged to the with profit benefit reserve. One off and project costs are charged to the fund.

(4) Regular adjustments to asset shares may take place going forward due to the need to rebalance the hedge asset purchased to cover a substantial part of the guarantees within the With-profit fund as well as distributing profits and losses emerging. In 2006, there were no adjustments to the asset shares. In 2005, this amounted to a 0.8% reduction in the conventional asset shares and a 0.3% increase in unitised asset shares.

(5) Annual management charges deducted from the WPSF in respect of unitised with-profit business amounted to £39.08m over the period.

(6) The ratios of total claims paid to with-profits benefit reserve for those claims (plus any miscellaneous surplus or deficit)

2004	96.8%
2005	97.7%
2006	98.3%

(7) Investment returns for year to date (i.e. 31 December 2005 to 31 December 2006).

Fixed Interest	0.37%
UK Equities	4.55%
International Equities	0.37%
Property	0.05%
Cash	0.65%
Derivatives	0.16%
Other	0.01%
<b>Total</b>	<b>6.16%</b>

## 5. With-profits benefits reserve – Prospective method

(1) The benefit reserve for the Whole of Life policies are calculated using bonus reserve valuations based on the following assumptions.

(a) Risk Discount Rate	4.85%
(b) Investment Returns	4.85%
(c) Expense Inflation	4.30%
(d) Reversionary Bonus Rate	0%

### Terminal Bonus Rates

Term	UK
5	0%
10	0%
15	12%
20	22%
25	32%
30	67%
35	132%
40+	142%

(e) <u>Expenses</u>	
In-force Expenses	£35.75
Paid-up Expenses	£25.03
(f) <u>Decrements</u>	
Mortality	64% AM80
Persistency	0% lapses

(2) The benefit reserves for the conventional pensions policies are calculated using Gross premium valuations based on the following assumptions.

	(a) Risk Discount Rate	(b) Investment Return	(c) Expense Inflation	(d) Reversionary Bonus	(e) Premium Paying Expenses	(f) Paid Up Expenses
Group Full Profit	4.15%	N/A	5.30%	0.00%	47.04	-
Other Deferred Annuity	4.15%	N/A	5.30%	0.00%	47.04	32.93
With Profit Annuity	4.45%	N/A	5.30%	1.87%	23.83	-
Other Annuity	4.45%	N/A	5.30%	0.00%	24.52	-

No terminal bonus is assumed.

## 6. Costs of guarantees, options and smoothing

(1) Not applicable.

(2)

(a) The following table shows the types of guarantees applicable to SMA with-profit contracts, the valuation method used to value them and the extent of whole portfolio being captured.

<b>Products</b>	<b>Type of guarantees &amp; valuation method</b>	<b>No of individual contracts</b>	<b>No of model points used</b>
<u>Conventional WP Life Business</u>			
CWP Life	See Note 1	39,545	50
<u>Conventional WP Pensions Business</u>			
SE Pensions	See Note 1&2	27,520	249
IP Pensions	See Note 1&3	11,648	1,084
MP Pensions	See Note 1	29,106	619
<u>Unitised Life Business</u>			
ANL Low Cost Mortgage Endowment	See Note 1	92,819	24
ANL Low Start Mortgage Endowment	See Note 1	1,191	1
ANL WP Bond	See Note 1	23,961	4
SMA Select WP Bond	See Note 1	3,090	1
SMA WP Bond	See Note 1	2,622	1
SMA WP Investment Bond	See Note 1	46,824	18
SMI WP Investment Bond	See Note 1	4,411	32
<u>Unitised Pension Business</u>			
ANL Contracted Out Pension Plan	See Note 1	12,936	1
ANL Personal Pension Regular Premium	See Note 1	45,801	12
ANL Personal Pension Single Premium	See Note 1	4,584	2
EPP (Single and Regular Premium)	See Note 1	4,409	5
EPP Independence 96 Regular Premium	See Note 1	2,233	1
EPS Independence 95 Regular Premium	See Note 1	351	1
Group Pension Scheme Regular Premium	See Note 1	82,830	16
Group Pension Scheme Singles	See Note 1	4,682	1
Personal Pension Scheme	See Note 1	172,715	358
Personal Pension Scheme Ind 95 regular	See Note 1	4,125	1
Personal Pensions Protected Rights Rebate	See Note 1	12,469	83
PPR Independence 96 Regular	See Note 1	10,270	2
<b>Total</b>		<b>640,122</b>	<b>2,566</b>

Note on valuation method:

### Note 1 - Valuation of cash guarantees

The cost of cash guarantee is the excess of expected payment at guarantee date over its corresponding asset share. The asset share on guarantee date is heavily dependent on future investment performance of the with profit fund. The future likely economic variables are estimated by Monte Carlo simulation – risk neutral approach. The asset share at guarantee date can then be estimated for each model point.

For policies with MVA-free guarantees, the present value of this cost is multiplied by the likely take up rate. The take up on the MVA-free date depends on the money-ness of the option. Refer to Section 6.7 for the take up rate assumed for each money-ness band.

This calculation is done for each scenario and the value of cash guarantees is derived by the average of the individual scenario values.



#### Note 2 - Valuation of GAOs

GAO products give policyholders the option to convert the accumulated fund to an annuity at terms guaranteed at outset. Policyholders are likely to exercise the option when the prevailing market annuity rate at conversion is lower than the guaranteed annuity rate. The GAO cost is the excess of guaranteed annuity that can be converted from the fund at retirement over the equivalent market annuity. The future likely interest rate at conversion is estimated by stochastic Monte Carlo simulation – risk neutral approach. The annuity price has allowed for improvement of mortality.

The present value of this cost is multiplied by the likely GAO take up rate. The GAO take up rate depends on the money-ness of the option. Refer to Section 6.7 for the take up rate assumed for each money-ness band.

This calculation is done for each scenario and then the value of GAOs is derived by the average of the individual scenario values.

#### Note 3 - Valuation of GCOs

GCO products give policyholders the option at retirement to convert the pre-specified benefit defined in pension into a cash fund on guaranteed terms. Policyholders are likely to exercise the option when the prevailing market interest rate is higher than that implied by the guaranteed pension. The GCO cost is the excess of market annuity price over the guaranteed annuity multiplied by pension guaranteed at outset. The future likely interest rate at conversion is estimated by stochastic Monte Carlo simulation – risk neutral approach.

The present value of this cost is multiplied by the likely take up rate. The GCO take up rate depends on the money-ness of the option. Refer to Section 6.7 for the take up rate assumed for each money-ness upper band.

This calculation is done for each scenario and then the average is derived to give the value of GCOs. The value of the GCO will also depend on the difference between the mortality assumed in the guaranteed conversion rate and the mortality assumed in the market annuity price.

#### (b) Details of grouping process

(i) No with-profits contract has been valued on an individual basis.

(ii) All with-profits contracts have been valued on a grouped basis.

(iii) The number of individual contracts and the number of model points used to represent them are shown in the table above. The individual policy data are grouped by product code, sex, smoker status, premium frequency, paid up status, age at entry band, duration in force bands, outstanding policy term bands, sum assured or face value bands, accrued bonus bands, asset share bands and money-ness bands. The money-ness is calculated using closed form formulae at data manipulation stage. The values of guarantees using closed form approximations before and after grouping are compared to ensure the model points are a good representation of individual policy data.

(c) The remaining contracts are modelled using a proxy contract. The proxy contract is an accurately modelled contract. These model points are scaled such that in aggregate the asset share and guaranteed benefits are equal to the total values for the approximately modelled contract.

#### (3) Significant changes to valuation methods

The equity returns in scenario file are generated using a Local Volatility (monthly time-step) model for UK economy as opposed to the Constant Volatility model that was used at December 2005. The Local Volatility model allows for the variation of equity volatility by duration and money-ness of guarantees. The Constant Volatility model assumes constant volatility at all durations. This change was made to bring us into line with the approach adopted by the rest of the Resolution group.

As the majority of guarantees are hedged, it is appropriate to calibrate the liabilities to the hedge.

For the December 2005 valuation, we used a Weighted Monte Carlo (WMC) approach to bring our modelled results into line with the market value of our hedge. For December 2006 we have adopted a simpler scaling approach. This was shown to give similar results to those achieved by the WMC method. This approach involved scaling up the cost of guarantees by the ratio of the market hedge value (adjusted to a gilts + 10 basis) to the modelled hedge value.

Previously our hedge and our liabilities were valued on a mid-price. Now, the hedge and hedged liabilities are valued on a bid basis and the unhedged liabilities on an offer basis.

(4) Details of valuation methods

(a) A full stochastic approach is used to value our guarantees.

(i) All guarantees are valued in the stochastic model. GAO and MVA free guarantees are predominately in the money. Remaining guarantees vary by duration and policy size.

(ii) Asset Model

The stochastic Monte Carlo simulation – risk neutral approach of valuation is based on stochastic economic output generated by the Economic Scenario Generator (ESG). The ESG creates a 3000 scenarios file of each asset model. The parameters for each asset are based on standard calibrations performed in line with a standard methodology set out by Barrie & Hibbert.

Details of the asset model and calibration parameters used are as follows:

Nominal interest rates are modelled using a Monthly Libor Market Model (LMM). The model is calibrated to price at the money swaption implied volatilities with greatest attention paid to options on 20-year swaps. The calibration of nominal interest rates to fit the market price of swaptions has assumed a gilts curve +10bp to derive the risk free rate. The gilt yield curves & swaption implied volatility data are tabulated below.

Government gilt yield+10 bps (%)

<b>Term</b>	<b>GBP</b>	<b>EUR</b>	<b>USD</b>
2	5.31	3.96	4.87
3	5.25	3.98	4.82
4	5.19	4.00	4.80
5	5.13	4.02	4.82
6	5.07	4.04	4.84
7	5.01	4.06	4.87
8	4.96	4.07	4.90
9	4.91	4.09	4.94
10	4.86	4.11	4.96
20	4.45	4.20	5.14

Swaption Implied Volatility (%) – (20-year swaps) fit of the asset model to the market data

Term	GBP		EUR		USD	
	Market	Model	Market	Model	Market	Model
1	11.55	11.70	13.10	13.10	12.70	13.39
2	11.75	11.78	13.20	12.98	13.30	13.19
3	11.90	11.87	13.15	12.87	13.50	13.02
4	12.00	11.97	13.05	12.76	13.50	12.85
5	12.00	12.06	12.90	12.64	13.30	12.68
7	12.10	12.25	12.45	12.41	12.40	12.33
10	12.35	12.49	11.80	12.07	11.28	11.83
15	12.70	12.70	11.15	11.52	10.60	11.07
20	12.65	12.71	10.75	11.01	10.55	10.47
25	12.50	12.55	10.50	10.53	9.30	10.03
30	12.35	12.28	10.40	10.09	10.40	9.73

Expense inflation is modelled deterministically, currently set at 4.30% for SMA.

A multi-factor model models equity and property returns. The fund holds no property and therefore property volatilities and yields are not relevant. The equity volatilities are calibrated to implied volatilities of traded option prices. The equity volatilities models are different for UK and other economies. For UK, the company adopted Monthly Time-step Local Volatility model and Constant Volatility model for others. The approach is consistent with the Resolution group.

The fit of the asset model to the market data is as follows:

Constant Volatility Equities Models – For USD & EUR

Term (Yrs)	USD Equities		EUR Equities	
	Market	Model	Market	Model
2	14.3	20.3	17.5	22.8
5	17.0	20.2	19.7	22.7
10	20.0	20.0	22.5	22.5

Local Volatility Equity Model – Only for GBP

Strike/Share Term (yrs)	0.8		1.0		1.2	
	Market	Model	Market	Model	Market	Model
2	19.3	18.7	15.3	15.1	12.4	12.6
5	20.1	19.0	17.4	16.9	15.3	15.5
10	22.2	21.3	20.1	20.2	18.5	19.3

The equity dividend yields are shown below:

Market	GBP	USD	EUR
Dividend Yield	3.86%	1.79%	3.17%

Corporate bonds are modelled using a JLT Credit Calibration. The model is calibrated to fit gilt yield+ 10 basis points and all corporate bonds held are assumed to be grade A.

Spread (bps) of A-rated bond

Term (yrs)	GBP		EUR		USD	
	Market	Model	Market	Model	Market	Model
1	21	22	12	12	35	28
2	21	28	21	15	34	35
3	29	33	24	19	46	42
4	34	39	25	23	56	48
5	42	44	28	27	61	54
10	69	62	49	45	70	72
15	65	72	65	58	78	80
20	72	78	67	66	90	84
25	74	81	66	72	100	87
30	70	83	73	75	108	88

Nominal foreign exchange rates are modelled as the combination of real exchange rate and inflation rate where real exchange rate follows a mean-reverting process and is calibrated to the long-term best estimates derived by Barrie & Hibbert.

## (iii) UK FSA Asset Table

K	0.75				1				1.5			
	5	15	25	35	5	15	25	35	5	15	25	35
N	Duration (n)											
R	Annualised compound equivalent of the risk free rate assumed for the period (r)											
1	£778,569	£506,333	£349,533	£250,097	x	x	x	x	x	x	x	x
2	£65,994	£222,183	£329,823	£411,641	£174,849	£384,095	£519,051	£618,495	£600,675	£799,204	£957,306	£1,077,953
3	£55,387	£171,330	£236,403	£279,458	£148,719	£298,242	£375,223	£420,400	£526,449	£632,967	£703,621	£743,964
4	£32,720	£115,675	£183,178	£246,237	£149,026	£267,972	£353,426	£433,085	£603,692	£701,800	£787,937	£874,548
5	£23,865	£75,012	£108,026	£136,371	£119,197	£184,363	£222,412	£253,890	£528,099	£525,241	£531,932	£551,043
6	£3,350	£9,327	£7,263	£15,347	£63,787	£68,616	£77,531	£133,376	£578,466	£580,132	£581,106	£611,344
7	£1,780	£4,183	£2,439	£2,258	£41,179	£26,324	£12,926	£17,516	£495,428	£363,343	£271,322	£249,608
8	£12,771	£37,532	£53,795	£80,182	£81,149	£123,563	£148,281	£200,465	£580,474	£588,559	£590,712	£634,374
9	£9,705	£21,964	£26,058	£33,165	£58,551	£70,686	£71,459	£83,987	£497,441	£376,915	£305,939	£302,329
10	£33,586	£139,564	£221,977	£294,250	£132,918	£286,352	£392,885	£480,393	£587,762	£704,875	£821,240	£919,584
11	£25,872	£96,735	£143,676	£181,234	£106,108	£207,260	£261,641	£301,964	£509,684	£532,369	£569,456	£598,033
12	£29,115	£123,794	£197,751	£266,044	£121,312	£261,578	£358,283	£442,451	£581,030	£676,050	£777,032	£871,986
13	£22,052	£84,227	£125,812	£160,386	£96,764	£186,685	£234,788	£273,304	£501,505	£503,352	£529,471	£555,836
14	£10,562	£59,898	£108,646	£161,906	£90,237	£182,705	£250,900	£321,392	£578,995	£618,211	£675,565	£745,245
15	£6,790	£32,233	£54,688	£78,455	£65,759	£112,885	£139,351	£167,928	£496,843	£430,471	£419,168	£429,646
16	Sterling Receiver Swaptions											
	L = 15				L = 20				L = 25			
	8.46%	9.74%	8.43%	6.64%	11.18%	12.30%	10.48%	8.21%	13.68%	14.53%	12.23%	9.54%

## Notes to Table

The above table was based on 3000 scenarios and was produced using a similar model to that used for valuing the liabilities. It allows for the calibration adjustment mentioned in 6(3). The prices shown are on bid basis because this is the basis that has been used to value the majority of the guarantees (i.e. most of the guarantees are hedged).

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

Rows 2 to 15 inclusive have been completed for the appropriate asset classes to show the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date with strike price of  $K * £1,000,000 * (1+r*p)^n$ .

15 year bonds have been taken to mean rolling bonds traded to maintain the 15 year duration at all future dates. The corporate bonds have been assumed to be rolling AA rated zero coupon bonds.

Row 16 shows the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years. The values have been expressed as a percentage of nominal. The values of swaptions in Row 16 are based on swaptions with monthly payments.

In carrying out the calculations required to complete the table above, where appropriate, we have assumed that the options for which a value is to be included in the table are options, which where appropriate, are based on underlying asset portfolios which are continuously rebalanced to the stated proportions. The table above reflects the value that the liability model would produce for such options.

In each case the options have been valued with reinvestment of any dividend income into the FTSE All Share Index.

Tax has been ignored in all calculations.

All options have been assumed to be European-style.

(iv) The initial dividend yield assumed for the United Kingdom is 3.86%. The EU and the US territories have initial dividend yields of 3.17% and 1.79% respectively. Property rental yield is not applicable as the With Profit Fund does not hold any property as at 31 December 2006.

(v) The following tables show entries (K=1 only) for the risk free rate, line 1 and 2 for economies where the With Profit Fund has significant asset exposure. They are denominated in the appropriate respective currency and based on 3000 scenarios.

EU FSA Asset Table (denominated in Euros)

Asset type (EU assets)		K= 1			
n	Duration	5	15	25	35
	Strike price per €1m	1,218,050	1,845,305	2,810,289	4,277,493
r	Annualised compound equivalent of the risk free rate	4.02%	4.17%	4.22%	4.24%
1	Risk-Free Zero Coupon Bond	820,985	541,916	355,835	233,782
2	ESTOXX (p=1)	231,992	394,686	501,653	590,795

US FSA Asset Table (denominated in US\$)

Asset type (US assets)		K= 1			
n	Duration	5	15	25	35
	Strike price per US\$1m	1,265,469	2,100,676	3,530,916	5,925,679
r	Annualised compound equivalent of the risk free rate	4.82%	5.07%	5.18%	5.22%
1	Risk-Free Zero Coupon Bond	790,221	476,037	283,213	168,757
2	S&P (p=1)	208,869	349,138	455,765	550,125

(vi) SMA has significant hedge instruments that form a close match, in aggregate, to their liabilities. The hedge instruments include options on both bond (interest rate) and equity type assets.

(vii) The asset model of each main asset class - equities, risk free bonds, corporate bonds and cash were validated by projecting future income, gains and losses on asset values up to 40 years and the net present value of these amounts were compared to the current asset values. This is done for each of the dominant economies we have assets invested, namely the UK, EU and USA. At 3000 scenarios, the difference between the average net present value of each asset class of each economy and the current asset value is close (i.e. not statistically significant). This helps to confirm that the total return is a martingale and risk neutral.

(viii) The projections of assets and liabilities are carried out on 3,000 scenarios. At 1,000 scenarios, the cost of options and guarantees converges to  $\pm$  £4M movement at 95% confidence interval. When the number of scenarios is increased to 3,000, the cost of options and guarantees converges to  $\pm$  £2.3M. At 10,000 scenarios, it is estimated to be  $\pm$  £1.3M. 3000 scenarios is reasonable as it provides an acceptable level of accuracy without an exorbitant run time.

(b) Market cost of hedging  
Not applicable

(c) Deterministic approach  
Not applicable to SMA

(5) No assumptions have been made regarding future management actions except as shown in Section 10 for the purpose of the RCM calculation.

(6) SMA Lapse assumptions employed in Realistic Balance Sheet (as % of policies in force)

<b>Policy Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11+</b>
<u>Conventional WP Life Business</u>											
Mortgage	2.5	2.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
All (exc. Mortgage)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<u>Conventional WP Pensions Business</u>											
SE Pensions	2	2	2	2	2	2	2	2	2	2	2
IP Pensions	2	2	2	2	2	2	2	2	2	2	2
MP Pensions	2	2	2	2	2	2	2	2	2	2	2
Group Full Profit Single Premium	10	10	10	10	10	10	10	10	10	10	10
<u>Unitised Life Business</u>											
ANL Low Cost Mortgage Endowment	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
ANL Low Start Mortgage Endowment	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
ANL WP Bond (MVA Free)	15	15	15	15	15	15	15	15	15	15	10
ANL WP Bond (No MVA Free)	25	25	25	25	25	25	25	25	25	25	10
SMA Select WP Bond	40	40	40	40	40	40	40	40	40	40	10
SMA WP Bond	30	30	30	30	30	30	30	30	30	30	10
SMA WP Investment Bond	20	20	20	20	20	30	20	20	20	20	10
SMI WP Investment Bond	5	5	5	5	5	5	5	5	5	5	5
<u>Unitised Pension Business</u>											
ANL Contracted Out Pension Plan	1	1	1	1	1	1	1	1	1	1	1
ANL Personal Pension Regular Premium	10	3	3	3	3	3	3	3	3	3	3
ANL Personal Pension Single Premium	2	2	2	2	2	2	2	2	2	2	2
EPP Single Premium	7.5	7.5	10	10	10	10	10	10	10	10	10
EPP Independence 96 Regular Premium	8	8	14	14	14	14	14	14	14	14	14
EPS Independence 95 Regular Premium	8	8	14	14	14	14	14	14	14	14	14
EPP Regular Premium	5	5	5	5	5	5	5	5	5	5	5
Group Pension Scheme Single Premium	5	5	6	6	6	6	6	6	6	6	6
Group Pension Scheme Regular Premium	5	5	14	14	14	14	14	14	14	14	14
Personal Pension Scheme	1.5	1.5	4	4	4	4	4	4	4	4	4
Personal Pens Scheme Ind 95 regular	4	4	5	5	5	5	5	5	5	5	5
Personal Pension Single Premium	5	5	6	6	6	6	6	6	6	6	6
Personal Pensions Protected Rights Rebate	1	1	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5



6.7. Other policyholder actions

SMA – GAO

The following table shows the assumed take up rates for given levels of in the money-ness:

<b>Money-ness Upper limit (%)</b>	<b>Take-up Rate(%)</b>
100	0
140	67
160	85
9999	95

Money-ness in this case is defined as (Market annuity rate / GAO annuity rate) at retirement date for the GAO's – i.e. a figure of more than 100% implies the option is in the money from a policyholder perspective.

SMA – GCO

The following table shows the assumed take up rates for given levels of in the money-ness:

<b>Money-ness Upper limit (%)</b>	<b>Take-up Rate (%) IP Pensions</b>	<b>Take-up Rate (%) MP Pensions</b>
60	5	5
90	10	30
100	25	30
9999	100	100

Money-ness in this case is defined as (GCO factor / Market annuity) at retirement date for the GCO's – i.e. a figure of more than 100% implies the option is in the money from a policyholder perspective.

SMA – MVA-free options

The following table shows the assumed take up rates for given levels of in the money-ness:

<b>Money-ness Upper limit (%)</b>	<b>Take-up Rate(%)</b>
75	100
90	75
100	25
9999	0

Money-ness in this case is defined as (Asset share / Face value of units) on the MVA-free date for the MVA-free options – i.e. a figure of less than 100% implies the option is in the money from a policyholder perspective.

## 7. Financing costs

Not Applicable

## 8. Other long-term insurance liabilities

The Discounted Value of Future Transfers to Shareholders is £2.41m

## 9. Realistic current liabilities

The realistic current liabilities (F19.51) can be analysed as follows:

Regulatory current liabilities of fund	51.50
Recoverable deferred tax asset	-16.57
<b>Total</b>	<b>34.93</b>

## 10. Risk capital margin

(a) The risk capital margin is £139.4m.

This was based on the following assumptions.

(i) Market risk scenario - percentage change in equity and real estate market values

UK and "Non-significant" Overseas Holdings	20%
Europe	20%
USA	20%

A fall in equity values was more onerous.

Note that the With Profit Fund has not held any real estate since 31 December 2005.

(ii) Market risk scenario - nominal change in yields on fixed interest securities

	<b>Nominal Change in Yields</b>	<b>% change in long term gilt yield</b>
UK and "Non-significant" Overseas Holdings	0.81%	17.5%
Europe	0.71%	17.5%
USA	0.86%	17.5%

A decrease in yields was the most onerous.

(iii) Credit Risk Scenario

The average change in spread for bonds is 0.32%.

The percentage change in the asset values is –

(a) Change in value of bonds	-2.94%
(b) Change in value of debts	immaterial
(c) Change in values of reinsurance	immaterial
(d) Change in value of finance agreements	nil
(e) Change in value of other assets	immaterial

(iv) Persistency Risk Scenario

Lapse rates are assumed to drop by 32.5%. This leads to a £112.1m rise in the realistic value of liabilities.

(v) Correlation between values of Assets and Liabilities

Not Applicable

(b) Management Actions

(i) Management actions taken:

Due to the collateral promise on the UWP business (where the cost of CWP guarantees must not be borne by UWP policyholders), we need to set the management actions for UWP and CWP business separately.

The first action is to release the capital set aside for future asset share augmentations, by setting "Planned enhancements to with-profits benefits reserve" (F19L34) to zero. This does not cover the deficit in either part of the fund.

For the UWP business, the asset shares are then cut by 2.5% next year and 1.0% in the following year. This completely removes the UWP deficit.

For the CWP business, the asset shares are cut by 2.5% per annum for the next two years. This does not remove the CWP deficit. The remaining deficit is split between shareholders (65%) and policyholders (35%) in line with the agreement that was reached about the sharing of costs between policyholders and shareholders. However, there is not sufficient scope to cut asset shares by the amount required to recover the policyholders 35%. We have therefore applied a further cut of 2.5% in year 3, follow by 1% for the next 7 years and then assumed that any remaining deficit is borne by the shareholders.

No assumption changes have been made.

(ii) The impact of these management actions is to reduce the RCM by £147.5m.

(iii) No changes have been made to future proportions of equity assets or bonus rates. Annual bonus rates remain unchanged at zero.

(iv) The requirements of INSPRU 1.3.188R would be met if these management actions had been integrated into the projection of assets and liabilities.

(c) Assets covering risk capital margin

(i) The RCM of £139.4m is covered by assets held within the Other Business Sub-fund and are cash type assets.

A support arrangement of £220m is in existence. The funds are held within the OBSF and are available for transfer into the WPSF should the need arise.

## **11. Tax**

(i) The investment returns allocated to asset shares include an allowance for historic and future anticipated recoverable tax.

(ii) The investment returns allocated to the asset shares in the calculation of the future policy related liabilities have been reduced to allow for tax.

(iii) An amount of £16.6m in respect of deferred tax on anticipated recoverable investment losses has been used to reduce current liabilities.

## 12. Derivatives

The derivative contracts described in the following sections were held by the With-Profits fund to cover risk capital margin in part or in full during the financial year.

### I. Structured Derivatives

The following structured derivatives are held within the With Profit funds to hedge various guarantees attaching to certain with profit policies:

Type 1- A schedule of European vanilla put options with a combined equity and fixed interest index as the underlying. The options represent hedges of cash guarantees (i.e., maturity guarantees for CWP and MVA Free guarantees for UWP business).

Type 2 - A schedule of two-asset compound options with a combined equity and fixed interest index and a reference annuity index as the underlying instruments. The options represent hedges of guaranteed annuity options on top of with-profit maturity guarantees

Type 3 - A schedule of two-asset exchange and compound options with a combined equity and fixed interest index and a reference annuity index as the underlying instruments. The options represent hedges of maturity guarantees in respect of deferred with profit deferred annuity contracts with guaranteed commutation rates.

Type 4 A schedule of two-asset exchange and compound options with a combined equity and fixed interest index and a reference annuity index as the underlying instruments. The options represent hedges of maturity guarantees in respect of deferred with profit deferred annuity contracts with guaranteed commutation rates.

As at 31 December 2006, the aggregate nominal amount and value of the options were £3.3 billion and £370.9 million, respectively. The nominal amount is distributed according to the structured derivative type as follows:

Type 1	77%
Type 2	12%
Type 3	4%
Type 4	7%
<b>Total</b>	<b>100%</b>

### II. Futures

At 31 December 2006, equity futures positions represented exposures (not values) in the amount of -£89.7million were held in the With Profit fund for efficient portfolio management purposes.

### 13. Analysis of working capital

	<b>Working capital arising (£ M)</b>
<b>Opening Working Capital position</b> (Including planned future enhancements)	<b>15.6</b>
(a) Investment return on the opening working capital	1.0
(b) Mismatched profits and losses	63.7
(c) Assumption changes	
<i>Non-economic</i>	-90.8
<i>Economic</i>	32.8
<i>Policyholder Actions</i>	0.0
(d) Other Variances	
<i>Non-economic</i>	47.3
<i>Economic</i>	-1.7
(e) Impact of new business	0.0
(f) Changes in other liabilities	-0.2
(g) Modelling changes and opening adjustments	-4.9
<b>Closing Working Capital position</b> (Including planned future enhancements)	<b>62.9</b>

### 14. Optional disclosure

Not applicable

## Returns under the Accounts and Statements Rules

### Scottish Mutual Assurance Ltd

Financial year ended 31 December 2006

#### Notes to the Return

##### \*0211\* Restatement of prior year figures

The comparatives shown in lines 39 to 42 differ from the corresponding amounts shown in the previous year's returns. This is due to correction of an error in the original submitted results as detailed in note 1911

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

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<b>Net admissible assets per FSA return</b>		
Form 13 line 89 (Long term business)	10,359,049	12,388,642
Form 13 line 89 (Other than long term business)	574,685	1,111,068
Form 14 sum of lines 11,12,49	(9,585,566)	(11,667,056)
Form 15 line 69	(227,415)	(241,006)
Net admissible assets	1,120,753	1,591,648
Subordinated debt (Form 3 line 46)	200,000	-
Form 3 line 79	1,320,753	1,591,648

Form 15 line 63 recognises the amortised cost of the subordinated debt of £217,000k. For Upper Tier 2 Capital purposes the subordinated debt is recognised in Form 3 at its par value of £200,000k.

##### \*0310\* Positive valuation differences

Valuation differences are analysed below:

	<b>Positive valuation differences</b>		
	<b>(a)</b>	<b>(b)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Negative sterling reserves	43,158	-	43,158
Deferred income reserve	-	15,822	15,822
Adjustment to realistic liabilities in respect of FRS 27	-	479,305	479,305
Deferred tax liability on IFRS deferred acquisition cost asset	-	39,323	39,323
	43,158	534,450	577,608

(a) Relates to the positive valuation differences included within line 14 in respect of assets where INSPRU valuation exceeds the valuation in IFRS statutory financial statements.

(b) Relates to the positive valuation differences included within line 14 in respect of liabilities where INSPRU valuation is lower than the valuation in IFRS statutory financial statements.

**\*1301\*&****\*1308\* Unlisted Investments**

The aggregate value of unlisted investments included in lines 41, 46 and 48 is £12,250 in the Other Business Sub Fund and £8,633,217 in the With Profits Sub Fund.

Units or other beneficial interests in collective investment schemes which are not UCITS nor authorised under FSA 1996 are £862,161 in the Other Business Sub Fund and nil in the With Profits Sub Fund.

**\*1304\*&****\*1310\* Offset of debtor and creditor balances**

Debtors and creditors have only been offset to the extent that they are due from / to the same person and in accordance with United Kingdom generally accepted accounting principles.

**\*1305\*&****\*1319\* Maximum permitted counterparty limits**

- a) Prior to 1 September 2006 deposits could only be made with counterparties, which had been agreed by the Company's Credit and Market Risk Committee or its Investment Sub-Committee as set up under the Banco Santander Central Hispano governance structure. Banco Santander Central Hispano was until that date the Company's ultimate parent undertaking. Since that date, deposits can only be made with counterparties which have been agreed by the Company's Counterparty Risk Committee as set up under the Resolution Group governance structure. From that date Resolution plc is the Company's ultimate parent undertaking.

The maximum exposure allowable depends on the credit rating and type of institution. The maximum allowed is 5% of funds for AAA banks in respect of UK non-linked business.

- b) These limits apply also to counterparties, which are not 'approved counterparties'.  
c) There were no breaches of overall limits during the period.

**\*1306\*&****\*1312\* Counterparty exposure**

At 31 December 2006 exposure to the following counterparties was greater than 5% of the sum of base capital resources requirement and long-term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

	Total £'000	LTBF £'000	SHF £'000
Resolution plc *			
Unsecured Debt	956,872	-	956,872
Accrued Income	1,324	1,324	-
Debtors	9,292	9,292	-
	967,488	10,616	956,872
Banco Santander Central Hispano			
Equities	24,979	24,979	-
Debentures	678	678	-
Derivatives	370,868	370,868	-
Accrued Income	11,885	11,885	-
Cash	7,620	7,456	164
Debtors	634	634	-
	416,664	416,500	164

\* Resolution plc is the Company's ultimate parent undertaking.



**\*1307\*&****\*1313\* Exposures secured by collateral**

Form 13 line 44 includes a hedge asset of £370,868,000 held with Abbey National Treasury Services, which is secured by a collateral loan of £473,203,000 (see note 1701 for details of how this variation margin has been invested).

**\*1318\* Other Asset Adjustments**

Other asset adjustments on Form 13 line 100 are shown below.

	<b>WPSF</b>	<b>OBSF</b>	<b>LTF</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Form 13			
Line 100			
Net derivative asset offset with collateral loan	102,336	-	102,336
Product asset offset with product loan	-	1,388	1,388
Linked asset adjustments	-	(7,685)	(7,685)
Inadmissible preference shares	678	-	678
Reclassification of tax debtor	(22,946)	-	(22,946)
Settlement of WPF bonus	2,013	-	2,013
Write down of policyholder debtor	-	1,012	1,012
Reconciliation of derivatives to Form 17	-	(12,053)	(12,053)
	<u>82,081</u>	<u>(17,338)</u>	<u>64,743</u>

**\*1401\*&****\*1501\* Provisions for reasonably foreseeable adverse variations**

No provision has been made for reasonably foreseeable adverse variations on derivative contracts because there are, within the admissible assets of the Company, assets of a nature and quantity such that it is reasonable to expect that any adverse change would be matched by a favourable change in the value of the assets.

**\*1402\*&****\*1502\* Details of liabilities and charges**

No charge has been made on the assets of the Company.

Full provision is made in respect of Corporation Tax on the Long Term Business Fund within line 21 of Form 14. Full provision is made in respect of Corporation Tax on the Life fund proportion of unrealised capital gains in the long term business fund. The provision is nil due to excess losses.

There were no guarantees, indemnities or other contractual commitments effected by the Company in respect of the existing or future liabilities of any related companies at the end of the financial year.

Contingent liabilities not included in Form 14 and Form 15 are:

- 1 The Company is registered with HM Revenue and Customs as a member of a group for VAT purposes and as a result is jointly and severally liable on a continuing basis for amounts owing by any other member of that group in respect of unpaid VAT. £3m was outstanding at 31 December 2006 in respect of VAT (2005: £4m).
- 2 The Company is required under the Financial Services Compensation Scheme to contribute towards levies raised by that scheme on long term insurance business companies for the purpose of assisting policyholders of UK long-term business insurers that may become insolvent. The amount collected may vary, but cannot exceed 0.8% of relevant net premium income, gross of reinsurance, in any one financial year of the scheme. The amount levied in the year was £0.7m (2005: £1m).
- 3 The Company provides a guarantee in respect of certain mortgage advances made by a related Company to employees of the Company.

**\*1405\* Other Adjustments to Liabilities**

Other adjustments to liabilities on Form 14 line 74 are shown below.

	<b>WPSF £000</b>	<b>OBSF £000</b>	<b>LTF £000</b>
Form 14			
Line 74			
Net derivative asset offset with collateral loan	102,336	-	102,336
Product asset offset with product loan	-	1,388	1,388
Negative sterling reserves	-	43,158	43,158
FRS 27 realistic liabilities	479,305	-	479,305
Deferred income reserve	-	15,822	15,822
Settlement of WPF bonus	2,013	-	2,013
Deferred tax	-	(16,961)	(16,961)
Linked asset adjustments	-	(7,685)	(7,685)
Reclassification of tax debtor	(22,946)	-	(22,946)
Reconciliation of derivatives to Form 17	-	(12,053)	(12,053)
	<u>560,708</u>	<u>23,669</u>	<u>584,377</u>

**\*1601\* Foreign Currency Translation**

Assets and liabilities in currencies other than sterling have with minor exceptions been included in the return at the rates of exchange ruling at the end of the period. Revenue transactions are converted at the rates of exchange ruling on the date of settlement.

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

Included at Form 16 line 21 is income of £29.7m (2005: £nil). This figure relates to the release of a general contingency provision set up in respect of potential legal costs.

**\*1701\* Variation Margin**

The variation margin received has been invested as follows:

<b>WPF</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Fixed interest debt securities (included in Form 13, Line 46)	-	207,048
Holdings in collective investment schemes (included in Form 13, Line 43)	473,203	453,562
	<hr/>	<hr/>
	473,203	660,610
	<hr/>	<hr/>
<b>OBF</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Holdings in collective investment schemes (included in Form 13, Line 43)	85,672	82,413
	<hr/>	<hr/>

**\*1811\* Restatement of prior year figures**

The comparatives shown in lines 51 and 64 differ from the corresponding amounts shown in the previous year's returns. This is due to correction of an error in the original submitted results as detailed in note 1911

**\*1901\* Capital support**

The amount potentially available for inclusion in line 62 as shown in line 81 is equal to the capital resources arising within the Non Profit fund less the minimum capital requirement for the Non Profit fund plus the capital resources allocated towards long term insurance business arising outside the long term insurance fund. As noted in paragraph 10 of the Appendix 9.4A valuation abstract, an arrangement is in place to provide capital support for the risk capital margin amounting to £220m if the need arises. This amount is included in the value disclosed at line 81.

**\*1911\* Restatement of prior year figures**

The comparatives shown in lines 34, 41, 43, 65 and 68 differ from the corresponding amounts shown in the previous year's returns. This is due to correction of an error in the original submitted results. The basis that we had been using to value the assets and liabilities were inconsistent. This was identified during 2006 and updated version of the returns were submitted to the FSA at the end of August 2006.

#### **\*4002\* Other Expenditure**

In 2005 other expenditure on Form 40 line 25 consists mainly of intra-fund transfers. The With Profit Unit Transfers relate to net claims in respect of Phoenix Life Assurance Ltd and Scottish Mutual International Ltd and to unitised With Profits business written within Scottish Mutual Assurance Ltd. The transfer-in for the receiving fund is shown as negative on the same line. The net amounts cannot be analysed between premiums and claims.

The corresponding amounts for 2006 have been included at Form 42 Line 13.

<b>2005</b>		<b>WPSF £000</b>	<b>OBSF £000</b>	<b>Total £000</b>
Form 40				
Line 25	With Profit Expenses (a)	48,656	(48,656)	-
	With Profit Unit Transfers (a)	1,189,439	(1,189,439)	-
	Defined benefit pension scheme amortisation payments (b)	-	20,001	20,001
		<hr/>	<hr/>	<hr/>
		1,238,095	(1,218,094)	20,001

(a) Refer to note \*4201\* for 2006 amounts.

(b) Prior to 1 September 2006 the Company was the legal sponsoring employer of the SMA Limited Staff Pension Scheme, a funded defined benefit scheme. After this date, the legally sponsoring employer became Abbey National plc. As a result the pension scheme 5 year funding value has been released against Form 40 line 22.

#### **\*4003\* Transfer to Non-Technical Account**

Included at Form 40 line 26 is the share of the With Profits Sub Fund bonus attributable to the Shareholder Fund.

#### **\*4005\* Foreign Currency Translation**

Assets and liabilities in currencies other than sterling have with minor exceptions been included in the return at the rates of exchange ruling at the end of the period. Revenue transactions are converted at the rates of exchange ruling on the date of settlement.

#### **\*4006\* Basis of Apportionment between funds**

All income items are credited to and claims, commission and taxation are debited from the relevant fund. Administration and other expenses are initially charged to the Non Profit Fund, which then recharges the With Profit Fund in accordance the Scheme of Demutualisation.

#### **\*4008\* Management Services**

During the year, Management Services were provided to Scottish Mutual Assurance Ltd by Abbey National Financial & Investment Services plc and Abbey National Asset Managers Limited all of which are or were wholly owned subsidiaries of Abbey National plc. On the 1 September 2006 investment management services were transferred to Resolution Investment Services Limited following the acquisition of Scottish Mutual Assurance Ltd. Business administration services continued to be provided by Abbey National Financial & Investment Services plc, which has since been renamed RMS (Glasgow) Limited following acquisition.

**\*4008\* Management Services (continued)**

Charges from these companies were £75 million (2005: £74 million) from RMS (Glasgow) Limited.

Abbey National plc retained various pension schemes on acquisition of the Group by Resolution plc. Under the terms of the Sale and Purchase Agreement between Resolution plc and Abbey National plc, Resolution Group is required to make certain payments to those pensions schemes. These costs are being paid by RMS (Glasgow) Limited and £93m of these have been recharged to the Company along with other staff related costs, as at 31 December 2006 £102million (2005: £12million) was outstanding.

Management charges by Abbey National Asset Managers Limited included in the operating results up to the 1 September 2006 amounted to £0.6 million (2005: £1.7 million).

Management charges from Resolution Investment Services Limited included in the operating results amounted to £1.3 million

**\*4009\* Material Transactions With Connected Companies**

- a. Claim expense includes the following amounts in respect of net claims reassured from connected companies:

	<b>2006</b>	<b>2005</b>
	<b>£m</b>	<b>£m</b>
Phoenix Life Assurance Ltd (formerly Abbey National Life plc)	279	299
Scottish Mutual International Ltd	109	46

- b. Management Services were provided to Scottish Mutual Assurance Ltd throughout the year by Abbey National Financial & Investment Services plc and Abbey National Asset Managers Limited. Details of the charges and amounts outstanding at the end of the year have been provided in note 4008.
- c. At 31 December 2006, the company had entered into other connected party transactions with Resolution plc group companies – refer to note 1306. Resolution plc is the Company's ultimate parent.
- d. At 31 December 2006 £2,428 million (2005: £8,976 million) was invested in unit trusts or Open-ended Investment Companies managed by subsidiaries of Abbey National plc.
- e. At 31 December 2006 £7,534 million was invested in unit trusts or Open-ended Investment Companies managed by subsidiaries of Resolution plc.
- f. At 31 December 2006, the Company had entered into OTC derivative contracts with nominal values totalling £3.3bn (2005: £3.6bn) with Abbey National Treasury Services plc, a subsidiary of Abbey National plc to provide financial protection against a range of embedded policy guarantees. The contracts take the form of a number of options, specified to capture the material elements of the economic exposure of the With Profits fund to costs of guarantees attributable to equity returns, interest rate movements and foreign exchange rate movements. The terms of the options have been determined to match as closely as possible central expectations regarding asset management, management actions and customer choices.

**\*4009\* Material Transactions With Connected Companies (continued)**

<b>Guarantee Type</b>	<b>Option type</b>	<b>Maturity Date Range</b>
SMA		
Maturity guarantees on Conventional With Profit policies and Market Value Adjustment free guarantees on UWP policies	European put	29/12/07 to 03/11/31
CWP pensions maturity guarantees with guaranteed annuity options	Bespoke payoff	30/06/09 to 31/03/32
CWP deferred annuity contracts without guaranteed commutation options	Bespoke payoff	30/06/09 to 30/06/31
CWP deferred annuity contracts without guaranteed commutation options	Bespoke payoff	29/06/07 to 30/11/29

The premium payable by the Company for the purchase of these options was £614m.

At 31 December 2006, there is an unrealised loss of £244 million on the options held.

As security for the maturity proceeds of these derivatives, Abbey National Treasury Services plc had lent to the Company sums amounting to £473 million at 31 December 2006. Such liabilities are included in rights under derivative contracts, which is included at Form 13 line 44.

- g. The Company has issued index-linked contracts, the benefits of which are backed by derivative contracts issued by Abbey National Treasury Services. The value of such contracts at 31 December 2006 was £4.4 million (2005: £4.3 million), against which margin monies of £5.1 million (2005: £4.8 million) had been received from Abbey National Treasury Services.

**\*4201\* Unitised With Profits Business**

Included at Form 42 line 13 are the amounts shown in the table below in respect of net claims on With Profit Unit transfers relating to business reassured from Phoenix Life Assurance Ltd and Scottish Mutual International Ltd and unitised With Profits business written within Scottish Mutual Assurance Limited. The transfer-in for the receiving fund is shown as negative on the same line. The amounts are recorded net as they cannot be analysed between premiums and claims or between claim types.

<b>2006</b>	<b>WPSF £000</b>	<b>OBSF £000</b>	<b>Total £000</b>
Form 42			
Line 13			
With Profit Expenses	34,696	(34,696)	-
With Profit Unit Transfers	1,082,138	(1,082,138)	-
	<u>1,116,834</u>	<u>(1,116,834)</u>	<u>-</u>

The corresponding amounts for 2005 are included at Form 40 Line 25 (see Note 4002).

**\*4401\* Basis of Asset Valuation**

The fair values of financial instruments are determined by reference to quoted market prices or published prices. If quoted market prices or published prices are not available, fair values are determined or estimated by using various different techniques, including but not limited to balance sheet analysis and comparison to similar quoted securities.

**\*4404\* Surplus units**

The surplus units of the linked funds are held because it would not be costs effective to reinvest their value elsewhere.

**\*4806\* Assets used to calculate investment returns in column 5**

The investment returns in lines 21-29 of column 5 were calculated using the SMA WPSF GBP assets.

**\*4901\* Source of credit ratings**

The S&P rating was used to provide the split by credit rating.

**\*5301\* Number of Group Schemes**

There are 1636 group schemes with no record of details at member level. These all have product code 755 and description Trustee Investment Plan.

**\*5303\* Details of business reported under Miscellaneous product codes**

The product code 795 "Miscellaneous property linked" on form 53 for UK life is used for property linked term assurance, which does not appear to fit into any other product code.

**\*5701\* Consistency of liabilities with Form 54**

Negative mathematical reserves from products in the following 2 product groupings:

"UK Life OBSF Form 51, Assurances, 4.15"

"UK Life OBSF Form 51, Assurances, 3.35"

have been used to offset the positive liabilities of products in:

"UK Pension OBSF Form 51, Annuities, 4.65" and

"UK Pension OBSF Form 51, Term Assurances, 4.15"

The total value of these negative liabilities is (£216m).

## Returns under Accounts and Statement Rules

### Statement required by Rule 9.29 of the IPRU(INS)

#### Scottish Mutual Assurance Ltd

Financial Year ended 31 December 2006

#### Additional information on derivative contracts

- a The investment guidelines operated by the Company during the period up to 31 December 2006 for the use of derivative contracts were based on the principles of reduction of risk or efficient portfolio management.

In particular:

- i no uncovered liabilities were permitted;
- ii all contracts were either:
  - a transacted on an approved exchange; or
  - b with an approved counterparty.
- iii all monies relating to exchange traded positions were held in client money segregated accounts at a highly rated international bank.
- iv transactions were conducted within the Life Division North Delegated Authorities.

The use of derivatives was further restricted by the variety of regulations laid down for the use of derivatives in life assurance companies – in particular the rules and guidance set out in INSPRU 3.2.

- b The investment guidelines do not prohibit entry into contracts, which were not at the time of entry, reasonably likely to be exercised, to ensure that Life Division North is not prevented from entering into contracts which could potentially enhance efficient portfolio management.
- c The Company was not a party to any contract during 2006 that was not expected, at the time when the contract was entered into, to be reasonably likely to be exercised.
- d The extent to which any of the amounts recorded on Form 13 would be changed if assets which the Company had a right or obligation to acquire or dispose of under derivative contracts outstanding at the end of the financial year (being, in the case of options, only those options which it would have been prudent to assume would be exercised) had been so acquired or disposed of (including collateral):

<b>With Profits Sub-fund</b>		<b>£000</b>
Form 13 line 81	Cash at bank	4,920
Form 13 line 44	Rights under derivative contracts	(3,241)
Form 13 line 43	Collective investment schemes	(1,679)

<b>Other Business Sub-fund</b>		<b>£000</b>
Form 13 line 81	Cash at bank	86,638
Form 13 line 44	Rights under derivative contracts	(966)
Form 13 line 43	Collective investment schemes	(85,672)



d Continued

<b>Shareholder fund</b>		<b>£000</b>
Form 13 line 44	Rights under derivative contracts	(20,597)

- e If such options as were outstanding at 31 December 2006 had been exercised to change the amounts shown in Form 13 to the maximum extent there would be an additional net effect of (£101,972,000).
- f There was no material difference between the positions at the year end and that during the financial year.
- g No loss would have been incurred by the Company in the event of failure by any one other person to fulfil its obligations under derivative contracts outstanding at the year-end. At other times during the relevant period there may have been a loss but at any time the possible losses are included within the overall monitoring of counterparty exposure and subject to strict internal guidelines, collateralisation also limits overall exposure.
- h There has been no use of derivatives or contracts having the equivalent effect which did not meet the requirements of an approved derivative contract or did not fall within the definition of a permitted derivative contract.
- i The Company did not grant any rights under derivative contracts during the year.

## Returns under the Accounts and Statements Rules

### Statement required by Rule 9.30

#### Scottish Mutual Assurance Ltd

#### Financial year ended 31 December 2006

Prior to 10 August 2006 Scottish Mutual Assurance Ltd had the following controllers:

<u>Controller</u>	<u>Relationship</u>	<u>% Interest*1</u>
Banco Santander Central Hispano, S.A.	Ultimate parent company	100%
Abbey National plc	Ultimate UK parent company	100%
Abbey National SMA Holdings Limited *2	Immediate parent company	100%

From 10 August 2006 Scottish Mutual Assurance Ltd had the following controllers:

<u>Controller</u>	<u>Relationship</u>	<u>% Interest*1</u>
Resolution plc	Ultimate parent company	100%
RLL Holdings Limited *2	Immediate parent company	100%

\*1 Interest in respect of both share capital and voting rights.

\*2 RLL Holdings Limited changed its name in September 2006. It was formerly known as Abbey National SMA Holdings Limited.

## Returns under the Accounts and Statement Rules

### Statement required by Rule 9.36

#### Scottish Mutual Assurance Limited

#### Financial year ended 31 December 2006

#### Information on With Profits Actuary

Mr G Ross was the with-profits actuary from 1 September 2006. Mr D Ramsay was the with-profits actuary until 31 August 2006.

The following information relates to the year ended 31 December 2006:

- a Mr G Ross held the following share options in Resolution plc as at 31 December 2006:

Number of shares	Granted	Exercisable	Option price
9,275	March 2004	March 2007	£3.08
4,585	March 2000	March 2007	£6.55

Mr G Ross's spouse held 24,706 shares in Resolution plc as at 31 December 2006.

Mr D Ramsay held 7,229 shares in Banco Santander Central Hispano S.A. during the period to 31 August 2006.

- b Aggregate fees and remuneration, excluding pension contributions, received by Mr G Ross from Resolution Management Services Limited were £65,469. Aggregate remuneration, excluding pension contributions, received by Mr D Ramsay from Abbey National Financial and Investment Services plc during the period to 31 August was £91,833.

- c Other pecuniary benefits:

Mr G Ross is a deferred member of a Group Staff Pension Scheme.

The above particulars were furnished by Mr D Ramsay and Mr G Ross upon request and they agree with the accounts and records of the Company.

## Returns under the Accounts and Statements Rules

### Certificate required by Rule 9.34(1)

#### Scottish Mutual Assurance Limited

#### Financial year ended 31 December 2006

We certify that:

- a. the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU;
- b. we are satisfied that:
  - i. throughout the financial year, the Company has complied in all material aspects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), PRU, GENPRU and INSPRU (as applicable); and
  - ii. it is reasonable to believe that the Company has continued so to comply subsequently, and will continue so to comply in future;
- c. in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the Company that are available for the purpose, to enable the Company to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- d. the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business; and
- e. we have, in preparing the return, taken and paid due regard to:
  - i. advice from every actuary appointed by the Company to perform the actuarial function in accordance with SUP 4.3.13R; and
  - ii. advice from every actuary appointed by the Company to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

Graham Singleton  
**Managing Director**

Stephen McGee  
**Director**

Kerr Luscombe  
**Director**

27 March 2007

Note to the certificate required by Rule 9.34

During the year the Company underwent a change in ownership and control, which took effect on 10 August 2006. We have made appropriate enquiry of previous management to certify that we are satisfied that the Company has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU (INS), PRU, GENPRU and INSPRU (as applicable). We also carried out the usual due diligence enquiries prior to the change of ownership. As a result we have not been made aware of, nor discovered any evidence to suggest that the Company was not continuing in compliance in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU (INS), PRU, GENPRU and INSPRU (as applicable) during the period 1 January 2006 to 9 August 2006.

We have omitted part of standard wording of the certificate as we are unable to certify that the with profits fund has been managed in accordance with the Principles and Practice of Financial Management, as established, maintained and recorded under COB6.10 due to:

3 minor technical issues arising, one of which relates to 2005 which had not previously come to light. There have been no adverse consequences for any policyholder.

## **Independent auditors' report to the directors pursuant to rule 9.35 of the Accounts and Statements Rules**

### **Scottish Mutual Assurance Limited**

#### **Global business**

#### **Financial year ended 31 December 2006**

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

- Forms 2, 3, 11 to 19, 40 to 45, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by rule 9.29 ("the statement"); and
- the reports required by rule 9.31 ("the valuation reports")

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

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);
- the statements required by rules 9.30 and 9.36; and
- the certificate signed in accordance with rule 9.34(1).

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

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

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

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

## **Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 27 March 2007. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation reports.

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

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

## **Opinion**

In our opinion:

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

Ernst & Young LLP

Registered Auditor

London

27 March 2007