



# A STRONG PERFORMANCE



*Annual Report and Accounts 2017*

# Royal London is the largest mutual life insurance and pensions company in the UK

## Our vision

We aspire to be rated by our customers as the most trusted and most recommended provider in our chosen markets.

## Our purpose

Royal London exists to create the best customer outcomes and the best customer experiences in its chosen markets. This reflects the fact that we are a member-owned business and so our focus is creating value for customers and members. In contrast, our competitors exist to create shareholder value.

## We're concentrating on our customers and members

As a mutual, profits that we do not share immediately with our members are reinvested to help us improve products and services for the long term.

8.8m

The Group has 8.8 million policies across our offerings, ranging from insurance to investments, pensions and other savings products

1.2m

Royal London is a mutual with more than 1.2 million members who share in our success

£792m

Since 2007 we have allocated £792m to our members and qualifying customers, ensuring that they benefit from our strong performance

£12bn

We wrote £12bn of new life and pensions business in 2017, calculated on the present value of new business premiums (PVNBP), an increase of 38% on the previous year

£114bn

We are the largest life and pensions mutual in the UK, with £114bn funds under management

38%

Increase in our life and pensions new business on the previous year, calculated on the present value of new business premiums basis

£142m

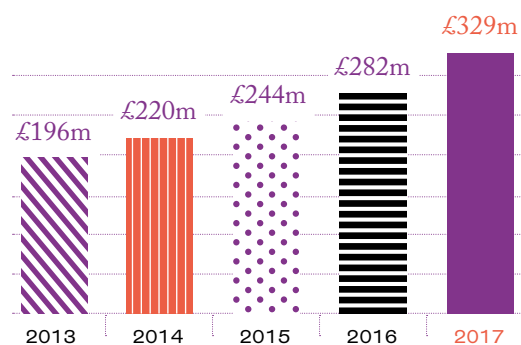
ProfitShare allocation for 2017 after tax

£434m

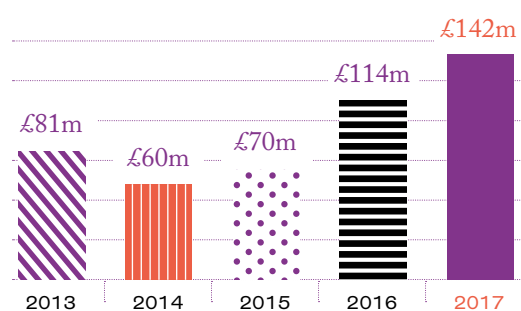
IFRS total transfer to unallocated divisible surplus

## Performance at a glance

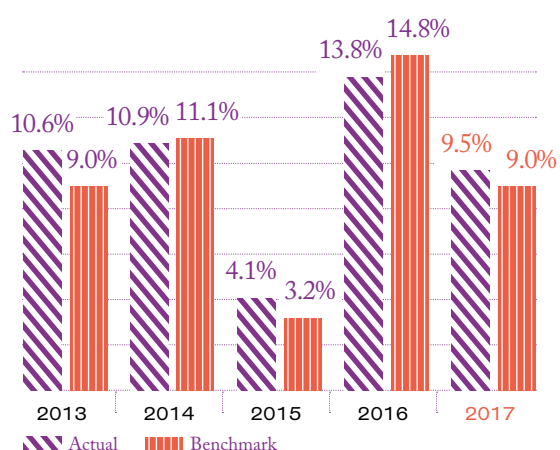
### EEV operating profit before tax and exceptional items



### ProfitShare (after tax)



### Royal London open fund with-profits performance



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# OUR BUSINESS STRATEGY



## How we grow the business

We grow our business by building value-for-money propositions that are shaped by customer and adviser needs, and are designed to deliver the best customer outcomes and experiences in the market at compelling prices. We achieve this through...

### > Our people

We recognise the critical role of our people in delivering our vision; we strive to provide a great experience for them so that they in turn can deliver a great experience for our customers.

### > Customer focus

Our focus is on the needs of customers and advisers, not on the needs of shareholders. This drives our thinking and decision-making.

### > A distinctive brand

Our strong reputation and position as the UK's largest mutual life insurance and pensions company allows us to take a different perspective from the competition, and to reward our members.

### > Service excellence

We are proud of our outstanding service reputation, but we know that customer and adviser needs change over time, and we will continue to respond to that.

### > A hard-to-copy business model

Our mutual status and customer-first approach allow us to build propositions that offer added value to customers and protect their interests over the long term.

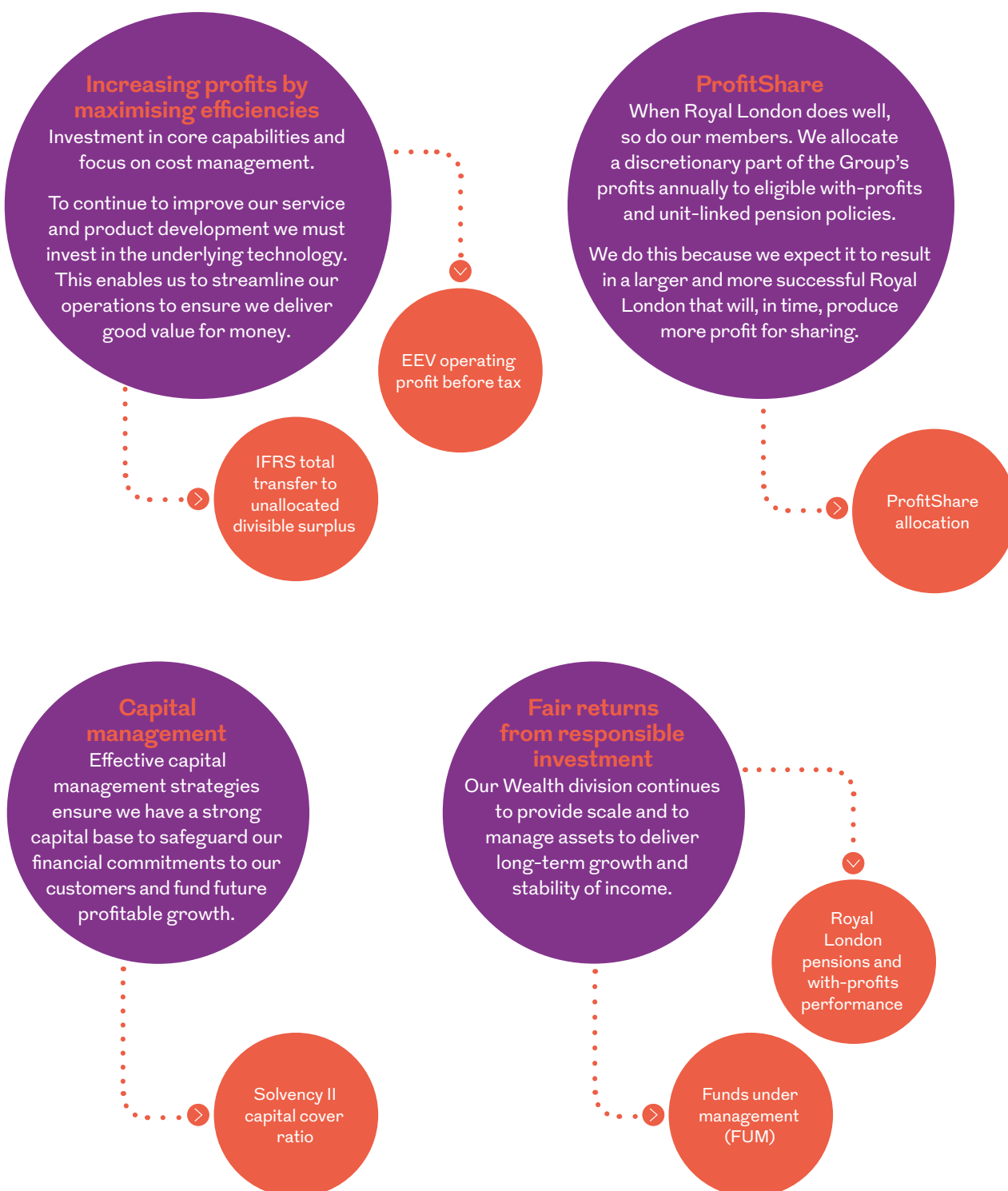
### > Efficient operations

We want to offer great value to our customers, so we strive to be as efficient as possible, which allows us to keep our costs down and our prices competitive.

## How do we generate long-term value for our members?

We create long-term value through effective use of our resources and relationships. We approach business in a responsible way and have embedded our core values and culture in everything we do.

Our business model is focused on achieving long-term value for our members. We do this by growing business in the pensions, protection and wealth management markets in the UK and Ireland, and also by managing our assets and capital in order to deliver long-term growth and stability of income. See below for more specific detail on how we generate long-term value (in purple) and some of the outcomes of that work (orange).



2017 performance on these outcomes can be found on page 1 and page 11



# CHAIRMAN'S STATEMENT

**We have had another good year with EEV operating profit and new business delivering strong returns;** however, these achievements only remind us not to become complacent amid a challenging market





*Rupert Pennant-Rea*

Rupert Pennant-Rea  
Chairman

66

Whether our focus is on customers, members or regulators, the aim is the same: to make Royal London the most trusted and valued provider of a range of financial services

99

£142m

ProfitShare for our members,  
up from £114m in 2016

I am pleased to report on another good year for Royal London. The financial results were strong, the IT systems are starting to benefit from heavy investment, and the Group's public profile has become more prominent. All these achievements should alert us to beware of complacency, because the markets in which we operate are getting more competitive and the regulatory pressures more demanding. To survive and prosper, your 157-year-old Mutual Society has to keep on its toes.

The financial headlines are encouraging. In 2017 the Group's European Embedded Value (EEV) operating profit was £329m, up 17% on the previous year. The Present Value of New Business Premiums (PVNBP) for life and pensions business also grew strongly, by 38%. The main driver behind both these figures was the Intermediary pensions business, but there was also heartening growth in the Intermediary protection business and Consumer division. As for fund management, Royal London Asset Management (RLAM) had another impressive year, with net inflows of £2.8bn and funds under management rising to £114bn. Our Platform business also made progress this year, and has growth strategies in place to improve its returns for your Group. More detail on the Group's financial performance starts on page 36 of this report.

To some degree, the various successes reflect the continuing flux in the wider financial world. Pension freedoms and auto-enrolment are still creating opportunities for your Group, and strong stock markets have helped all fund managers. But it would be misleading to give the impression that Royal London has found the secret to producing double-digit growth year after year. The reality is that we live in a single-digit world, and our financial results are at some stage bound to reflect that.

The Board has therefore taken a suitably prudent approach to ProfitShare. It is proposing to raise ProfitShare for 2017 to £142m, up from £114m in 2016, and the relevant amount will be added to qualifying policies: a boost of 1.4% in the case of with-profits policyholders and 0.18% for unit-linked pension policies, both consistent with the percentage allocations made for 2016. The increase

in monetary terms is due to our expanding membership. In all, more than one million policyholders are now benefiting from ProfitShare.

Because we are a mutual, all 1.2 million members are both owners and customers. For Royal London, it is a matter of cultural principle to aim for the highest standards of customer satisfaction. The policies we offer should be straightforward, easy to understand and meet the needs of each customer. The way in which they are sold, serviced and redeemed should live up to every customer's expectations. In 2017, we won an encouraging number of awards for customer approval and our staff regard these as a spur to doing even better.

The goal of customer satisfaction complements our strategic imperative of capital strength: our owner-customers benefit on both counts. Just as important, happy customers plus a strong balance sheet are the combination we seek in order to satisfy our two regulators, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). In 2017 our relations with both of them were open and co-operative. One part of the Group – our business in Ireland – reports to a third regulatory body, the Central Bank of Ireland, and with the UK's decision to leave the European Union in mind, we will be extending that relationship in the year ahead as we look to open a subsidiary in Ireland.

Whether our focus is on customers, members or regulators, the aim is the same: to make Royal London the most trusted and valued provider of a range of financial services. This theme is echoed in our continuing programme to develop the purple pelican brand. We have invested heavily to advertise on TV and extended our sponsorship of one-day cricket for a further two years. Although we are not yet as well-known as some of our bigger competitors, we are closing the gap on them.

During 2017, the Board changed slightly, with the retirement of Duncan Ferguson and the arrival of Olivia Dickson. I am grateful to all the directors for their hard work and sound judgement, and I know they join me in thanking Royal London's staff for their many achievements last year.

# GROUP CHIEF EXECUTIVE'S STATEMENT

**We have grown at a dramatic pace, securing record levels of new business and profitability in 2017**, while continuing to differentiate ourselves from our biggest competitors and offering some of the best products in the market with exceptional service







*P. D. Loney*

Phil Loney  
Group Chief Executive

## 2017 AWARDS

### Financial Adviser Service Awards

#### WINNER

Outstanding achievement award

#### FIVE STARS

Pensions service  
Protection service  
RLAM service  
RLPS service

### FTadviser and Innovation Awards

#### WINNER

Company of the year

#### FIVE STARS

Online service – pension  
Online service – protection

### Money Marketing Financial Services Awards

#### WINNER

Best Pension Provider

### Brokers Ireland Excellence Awards

#### WINNER

Service Excellence

For Royal London, 2017 was a year of record new business and profitability. By offering our customers well-designed, value-for-money products and excellent service, we generated sales for life and pensions new business of £12bn, on a present value of new business premiums (PVNBP) basis. That in turn enabled us to deliver a 17% rise in EEV operating profit before tax to £329m, a record for the Group.

Five years ago, we implemented our strategy with the aim of differentiating ourselves by offering customers some of the best products in the market at competitive prices, delivered with excellent service. Our progress has been remarkable. Since 2012, our funds under management increased from £50bn to £114bn. Total sales over the five-year period, expressed on a PVNBP basis, have risen from £3.2bn to £12bn, and in most of our markets we have improved our market position to be one of the leading providers. We now exert a much bigger competitive influence over our markets than in the past. We have grown at a dramatic pace over recent years, with our propositions well-placed to take advantage of some big changes affecting our industry such as auto-enrolment and pension freedoms. We are still seeing markets grow but expect this, and consequently our growth, to slow going forward.

All this has been achieved while maintaining a strong capital position, as Tim Harris, our Deputy Group Chief Executive & Group Finance Director, outlines in more detail on page 41.

Group pensions and individual pensions were both highlights of the year, with total sales of pensions increasing by 39% to £10.8bn (31 December 2016: £7.7bn). Our Intermediary protection business maintained its recent success as a leading player in its market. Our asset management business (RLAM) continued to attract net inflows at a time when many of our competitors have experienced outflows. Crucially, RLAM also delivered another year of impressive investment performance, helped by rising stock markets, which reached new highs during the year despite a backdrop of political upheaval. The Consumer division, still

a relatively new business area for us in its third full year of operations since it was set up, has expanded significantly and grown strongly, both in direct business and through partnerships. With a growing share in our key chosen market segments, we expect to make further enhancements to profitability during 2018 from our new range of life assurance and funeral plan products. Our wrap platform business, trading as Ascentric, has experienced solid growth in assets under administration, attracting new customers with a simplified low-cost charging structure.

We are particularly proud to have been recognised with an Outstanding Achievement Award by the Financial Adviser Awards in November 2017, for consistently delivering excellent service across all our business areas.

### Membership and ProfitShare

We welcomed more than 200,000 new members to Royal London in 2017, taking the total to 1.2 million. This shows a dramatic increase over time – in 2012 at the start of our new strategy, membership totalled 530,000. ProfitShare increased to £142m from £114m in 2016. The increased allocation reflects the expanded membership base while maintaining contribution levels to existing members.

Each year's ProfitShare may not seem a large amount taken in isolation, but the combined effect of multiple payments over the years, and any investment growth on those ProfitShare payments, can make a meaningful difference to a final pension pot or the value of your savings. Royal London started to share its profits with members in 2007 and over the years we have added £792m to the value of the savings enjoyed by our members.

The allocation of a ProfitShare each year is at the discretion of the Board. The decision on how much, if anything, to distribute depends on the Board's view on matters such as the financial performance of Royal London, our capital position, the risks and volatility of the financial markets and the outlook of your mutual for the period ahead.

The benefits of membership continued to expand in 2017. Having listened to

## Group Chief Executive's statement continued

our members, we launched the Insight into Work Programme in 2017, which opened the doors of Royal London to members and their direct families. The work placements allowed members to nominate themselves or a family member for a two-weeks of shadowing or four-weeks of work experience. This was specifically aimed at those leaving school or university, and anyone considering a career change or wanting to return to work after a long break. We had 10 successful placements in 2017, with many more planned for 2018.

We also relaunched the Royal London Foundation to help make a difference in the communities that matter to our members. The first two rounds of grants have benefited local not-for-profit organisations that help change lives in their local communities. All nominations are made by our members.

During the year, we worked hard to engage members more effectively, including using digital channels to provide quarterly communications. Having up-to-date email addresses and contact details for members is key to this, and enables members to hear from the people who are managing their money on how their fund is performing. They can also view information on Royal London's performance and access our rich range of financial education articles in the online members area. If you would like to receive our quarterly updates in future please register your email address at [members@royallondon.com](mailto:members@royallondon.com)

### **Pensions sold by financial advisers**

Strong sales growth was the predominant theme in our pensions business. In workplace pensions, 2017 was the final full year of auto-enrolment roll-out, the scheme under which employers are required to provide a workplace pension scheme and employees are automatically enrolled unless they opt out.

For the past few years, we have been one of the leading providers of new insurance-based, auto-enrolment pension schemes. Inevitably, now that the roll-out is complete, we expect to see this market return to lower, normalised levels. Our focus will therefore be on providing service and value for the 585,600 individual pension members we have in workplace schemes. In 2017,

we have benefited from new members joining existing workplace schemes and some consolidating their pension arrangements with us. Although the market for new schemes will reduce, we expect to continue to benefit from new members joining the schemes we have won, particularly over the past few years. The pension freedoms introduced by the Government in 2015 have led to rapid growth in individual pensions over the past few years. Drawdown, in which a pension pot remains invested and funds can be drawn down over time, has now become the retirement vehicle of choice in the UK, overtaking annuities, which have been less attractive during this period of low interest rates. We have been a net beneficiary of this trend because of the strong proposition and value for money we offer. We have also benefited from the FCA's cap on exit charges, which has enabled people to move their pension pots without unfair penalties. In total, individual pensions including drawdown sales rose by 68% during the year to £6.3bn.

### **Life assurance sold by financial advisers**

We have become one of the leading providers in the intermediated retail life assurance market, growing our market share since rebranding as Royal London in 2015. Our focus has been on making it easier for customers to buy insurance, and making the products more accessible to groups of customers who have been historically underserved by the insurance industry. An example of this is the trial of a new life assurance application service called 'Streamlined Mortgage Protection', which has been developed alongside mortgage brokers London & Country Mortgages to simplify the application process for mortgage customers and provide an online, immediate decision using existing mortgage application questions.

It has been an outstanding year for our Intermediary protection business in Ireland, with new business contribution exceeding the prior year by 24%. Market share reached 17%, driven by a market-leading and customer-centric proposition and a good service experience to customers and advisers. We won first place for service excellence in the 2017 Brokers Ireland Excellence Awards.

This is the first time Royal London has achieved the top spot.

### **Direct to Consumer**

2017 was a successful year for our Consumer business, which sells life assurance and funeral plans to the public directly, and through partnerships with like-minded companies. Sales increased by £107m to £408m. Sales of Over 50s life and term assurance grew strongly, boosted by an increased television advertising presence. We believe our Over 50s product gives more cover per pound than most of the competitors in the market, as well as being fairer in its payout policies.

Our existing partnerships with Co-operative Funeral Services and Ecclesiastical Insurance both continued to flourish, and our partnership with the Post Office had a successful first year in 2017. We have also recently announced a new partnership with the Clydesdale Bank and Yorkshire Bank brands, which will offer our Over 50s Life and term assurance products to their customers.

We have continued to oversee our 6.5 million policies in our legacy books, belonging to our long-standing customers, regularly reviewing these propositions to ensure we deliver fair outcomes and returns, while ensuring these customers have access to any new propositions where appropriate.

### **Asset management**

Our asset management business expanded in both the institutional market (with clients such as pension schemes and local authorities) and in the wholesale market, where we reach customers through financial advisers and wealth managers. RLAM generated net new external client inflows of £2.8bn, up 21% from £2.3bn in 2016. We launched one of the largest ever UK property funds, which has a portfolio of over £2.7bn, a Multi-Asset Credit Fund and the Royal London Emerging Market Equity Tracker Fund, which tracks the performance of an index of emerging market companies with high environmental, social and governance performance relative to their peers.

# £500m

The amount invested in new technology and transformation projects since 2014

# £6.3bn

Total sales of individual pensions including drawdown, an increase of 68% on the previous year

# £408m

Sales in our Consumer business, up from £301m in 2016

### **Wrap platform**

Our wrap platform business has experienced solid growth, with assets under administration increasing 17% to £14.4bn in 2017 (2016: £12.3bn), primarily resulting from pensions freedoms and in particular an increase in Self-Invested Personal Pension (SIPP) business. The business trades under the Ascentric brand and through providing white label platform services to chosen partners. The simplified pricing structure introduced for Ascentric in May 2017, which involves charging a single 'all-in' charge that is unique in the platform market, has been successful in attracting new business in 2017.

### **Investing your money**

Producing excellent investment returns is critical for our customers' futures and for our own commercial success, but good returns are only part of our role. In 2017, we continued to be vocal in issues affecting the corporate governance of companies, for example, in voting against poor company governance and against high executive pay that does not result from high company performance.

We are one of the largest environmental, social and governance (ESG) or 'sustainable' investment managers in the UK. Sustainable investment is about focusing on companies that are good for the environment and good for a sustainable economy, and investors are increasingly attracted to this area.

Royal London also worked towards reducing our carbon footprint in 2017, focusing on lowering our energy consumption and paper usage, and ensuring our offices maximise recycling opportunities. We are also pushing the companies in which we invest to consider their impact on the environment.

### **Brand**

The profile of the Royal London brand remained strong during the year, helped by extensive advertising campaigns including the promotion of ProfitShare and our Helping Hand product. Our cricket sponsorship increased awareness of our brand and our products, and we have recently renewed this for another two years. Prompted brand awareness has increased by 23 percentage points since our rebrand four years ago.

We have also run a series of campaigns to help people manage their money better. Royal London published a number of *Good with Your Money* guides on a range of topical issues such as the 'bank of mum and dad' and the pros and cons of transferring out of defined benefit pension schemes. Sir Steve Webb, our Director of Policy and External Communications and a former pensions minister, is a regular contributor to the public debate on pensions and personal finance issues. Helping to educate the public on the importance of planning for the future and providing useful information on managing their money remains an important part of our vision.

### **Investing in the business**

Our strong performance has allowed us to invest more than £500m since 2014 in new technology and transformation projects. This investment was essential to ensure our business remains competitive and makes the most of the opportunities available in an increasingly digital world. New technology for our wrap platform is making good progress, with testing under way, and we expect it to go live during 2018. Our #thinkbeyond programme, which will transform our pensions business to compete effectively and deliver for our customers in a digital age, has completed its planning phase. The investment has been approved by the Board and will be implemented over the next four years. We also plan to move our capital management to an internal model basis in 2019.

### **Customer service**

For the first time ever, all our UK frontline business areas have scooped five stars for service at the Financial Adviser Service Awards. I'm particularly proud to be able to add that Royal London has also received an Outstanding Achievement Award. We've been recognised by the Financial Adviser Service Awards because of the quality of service we have delivered across multiple businesses over so many years.

Being recognised this way is a tremendous achievement for Royal London and follows on from a number of other awards we've won this year at both the Money Marketing Financial Services Awards and the FT Adviser Online Innovation and Service Awards.

## Group Chief Executive's statement continued

Going forward, we will continue to focus our investment on providing great customer service. We have a number of activities ongoing in our operations team with a focus on areas that will provide the greatest customer benefit. For example, our Pathways programme is designed to strengthen our operational capabilities with investment into our telephony platform, speech analytics, capacity planning, robotics and customer data management. Our ongoing investment in improving systems and processes is helping us to redesign our customer journeys to improve the overall experience.

### Supporting our people

Bringing together the different parts of the organisation to create a single Royal London started in 2013. The legal part of the process is now complete, with all our businesses (with the exception of Ascentric) trading under the Royal London name. In 2017, we concentrated on a single Royal London being in the 'hearts and minds' of our people. We are now much more one Royal London than ever before. For example, our remuneration systems, recruitment, induction and career development processes are now the same across the Group. In addition, our employee engagement increased for the third consecutive year, increasing from 67% in 2015 to 80% in 2017. We continue to believe that more engaged employees deliver better service to customers.

Our people also spent time giving back to their communities – 14% of our people became volunteers for local community organisations and many raised money for local charities. We then match the money they raise so, in total, Royal London and our staff gave £144,000 in 2017 to local causes based around supporting people with a chronic or long-term condition – a theme that was chosen by our staff.

### Looking ahead

The initial impacts of pension freedoms and auto-enrolment are coming to an end. Over the past five years we have become a significantly bigger player in our markets, so we are now attracting greater competition from the largest providers in the industry. These factors mean that while we still see scope for growth in many areas of our business

over the coming year, we expect our growth from 2018 onwards to return to more normal levels.

We remain optimistic about the outlook for 2018 and beyond, and expect to continue growing key areas of our business by focusing on providing high-quality products and service at competitive prices. We will harness our investment in new technology to ensure that our cost base remains competitive, so that we can continue to offer our customers value-for-money products and excellent customer service. We will also focus on how we can make it harder for our competitors to copy some of our innovations.

Our success in 2018 and beyond will come from building on our mutual heritage by continuing to innovate and provide better products and services than our competitors, always at an attractive price. We remain committed to building a business that creates growing value for its customers and members, offers a stimulating place to work and has a positive impact on some of the very real problems facing our society.

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Our employee engagement increased for the third consecutive year, increasing from 67% in 2015 to 80% in 2017. We believe that more engaged employees deliver better service to customers

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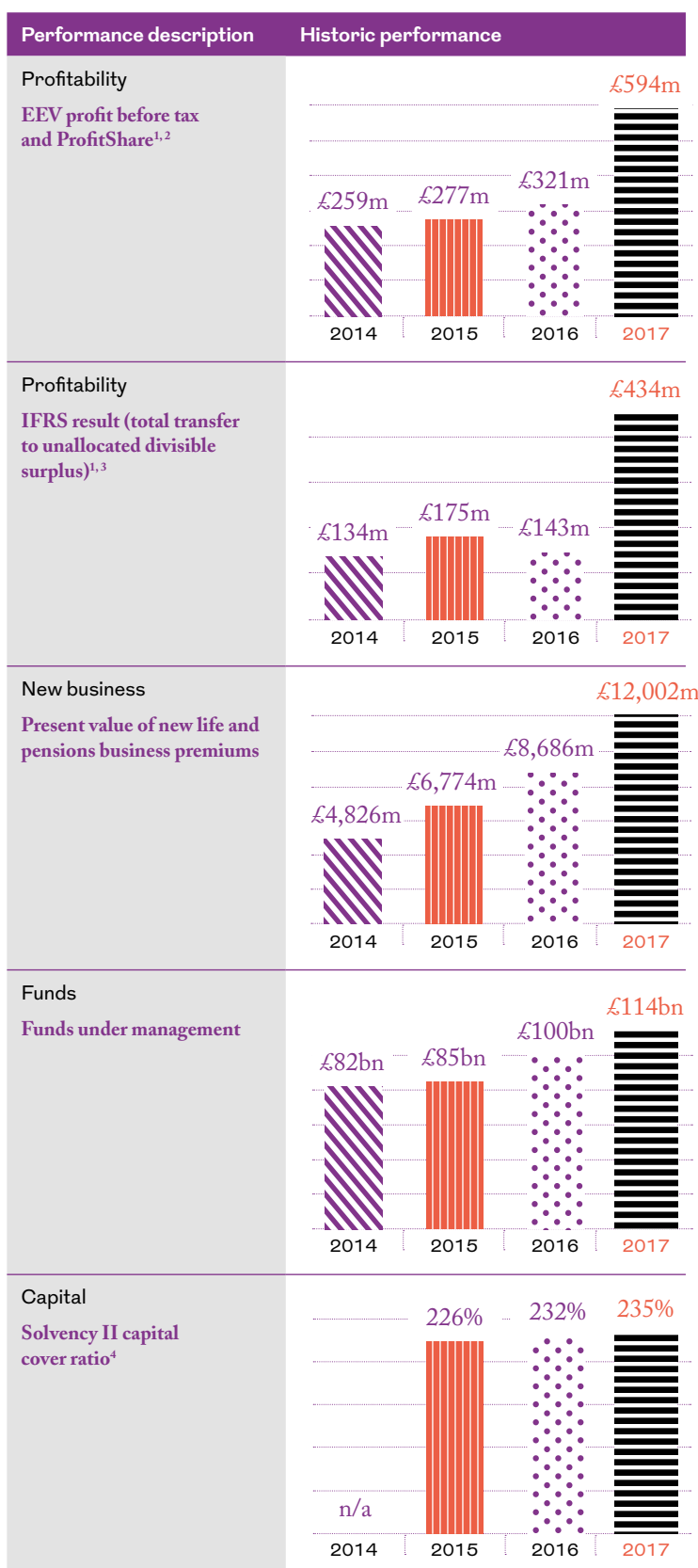
## Group performance

### Measuring our performance

Our internal balanced scorecards are aligned with our strategic deliverables. They ensure we monitor our ability to deliver improved customer service and satisfaction, increased market share and fair investment returns, as well as new business growth and profitability. Elements of these confidential, internal-facing scorecards are reflected in our externally published key performance indicators (KPIs) as presented on this page.

All but one of the KPIs we use are alternative performance measures (APMs), which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. The terms are described in our glossary on pages 217 to 220.

When it comes to measuring our financial performance, EEV is the basis by which we manage the business. Why? We believe it provides a more realistic view of the value of the business than the snapshot view provided by IFRS and is therefore a more meaningful basis. A reconciliation between our EEV profit and IFRS transfer to unallocated divisible surplus is provided on page 214.



1 2014 includes an exceptional item being the £61m charge relating to the pensions charge cap.  
 2 2016 result is before the change in basis for Solvency II of £182m.  
 3 2016 IFRS result is before the impact of the change in basis for Solvency II of £165m.  
 4 The Solvency II capital cover ratio is the total Own Funds of the Royal London Open Fund and Royal London Closed Funds divided by the Solvency Capital Requirement. It is before the restriction of the surplus in the Closed Funds. We call this the 'investor view'.

## Risk management and internal control

The Board is **responsible for the Group's system of risk management and internal control**, as well as for reviewing its effectiveness.

The system is designed to manage and mitigate the risks of failure to achieve business objectives, and provides reasonable assurance against material misstatement or loss. The system has been in place throughout the period under review and accords with the UK Corporate Governance Code 2016: An Annotated Version for Mutual Insurers (the 'Code'). The Board is very conscious of the importance of the Group's internal controls and attaches high priority to developing them in line with good practice. The Board is aware that from time to time, due to the size and scale of the Group, issues could arise that impact the reputation of the Group and its operations. In the event of such risk materialising, the Board ensures that necessary actions are taken to address them.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The management of each business unit and support function is responsible for identifying, evaluating, rating (in terms of probability of occurrence and likely impact), assigning responsibility for, reporting, managing and mitigating all risks relevant to its area of business. This includes the design and operation of suitable internal controls.

Our system of governance comprises risk management, risk appetite, risk policies, internal control and monitoring activities, and the internal environment including the Group's philosophy, culture and behaviours.

Taken together these elements are designed to:

- facilitate the effective and efficient operation of the Group by enabling us to respond appropriately to significant strategic, business, operational, financial, regulatory and other risks that could impact upon the delivery of our objectives;

- promote a clear understanding of the risks faced to allow the Group to balance risk, capital and return effectively, enhancing our decision-making capacity;
- promote the preparation of reliable published financial statements and selected financial data; and
- facilitate compliance with applicable laws, regulations and internal policies.

We have a formal governance structure of committees to manage risk; reporting to the Board, and accountability has been further strengthened through implementation of the Senior Insurance Managers Regime (SIMR) in 2016. Risk management is an integral part of our corporate agenda and employees at all levels have risk management responsibilities. Our primary objective in undertaking risk management is to ensure that the achievement of the Group's performance and objectives is not undermined by unexpected events and that sufficient capital is maintained. During 2017, the risk management system, in conjunction with the Solvency Capital Requirement (SCR), the Internal Model, our risk register and the Own Risk and Solvency Assessment (ORSA), has been used to help identify, mitigate, monitor and quantify significant risks to which we are exposed.

This approach enables the early identification of risks and, through an assessment of likelihood and impact, we seek to understand fully the dimensions of the exposures the Group faces. In response to unacceptable exposures, targeted action plans are put in place. Regular reporting on risks and mitigating actions is undertaken by individual business units through the Executive Risk Committee to the Board Risk Committee.

We have made a considerable effort to ensure that there is a strong risk management culture in all important decision-making processes and that

the risk management system is well embedded across all business areas. During 2017, we continued to strengthen our approach to risk management with further enhancements to the design of our processes and risk management software, used by all areas of the Group to manage all the elements of the risk management system on one platform. We have also established a programme of activities to focus on further strengthening our internal control system, standards and processes. These will continue to deliver a range of enhanced controls across the Group during 2018.

The Board reviewed the effectiveness of the Group's Risk Management System and Internal Control System during the year ended 31 December 2017. This took into account matters arising up to the date of approval of the 2017 Annual Report and Accounts. It covers all material controls across business, financial, compliance and risk management processes. It was conducted on an ongoing basis, via reports submitted to the Board, the Board Risk Committee and the Audit Committee, and also by reports prepared as part of the year-end process. In the event of any significant weaknesses being identified, the Board ensures that necessary actions are taken to address them.

### Three lines of defence

Our governance structures for risk management are based on the 'three lines of defence' model. Primary responsibility for risk management lies with the business units and specialist operational process functions. A second line of defence is provided by the Group's independent Risk and Compliance function, a specialist function which undertakes monitoring, challenge and policy setting. The third line of defence is provided by Group Internal Audit, which provides independent assurance.

In practice, executive management has been delegated the day-to-day responsibility for establishing and implementing appropriate systems and controls and for managing the risks

which impact upon their respective areas of responsibility. Business unit managers identify, assess and record material risks, including information on their likelihood and severity, and the mitigating controls or actions planned.

This risk management system allows us to assess our overall risk exposure and to create a map of major risk exposures, along with associated actions. This map is continually monitored and refreshed, and evidence of control effectiveness is regularly reported.

These processes are supported by the Group Risk and Compliance function, which is independent of the business and reports to the Group Chief Executive via the Chief Risk Officer. Group Risk and Compliance provides specialist knowledge, review, challenge and quality assurance, as well as the co-ordination of reporting to appropriate committees and the Board.

### Group risk appetite framework

Our risk appetite framework consists of three components:

- ▶ the risk strategy, together with risk preferences, defines the types of risks we aim to take or avoid in the pursuit of our business objectives and sets the boundaries within which our risk appetite will operate;
- ▶ the risk appetite statements explain how much risk we are prepared to be exposed to in relation to each risk category outlined in the risk strategy and why; and
- ▶ the risk metrics help to measure the amount of risk we are exposed to against risk appetite. Each metric has inbuilt threshold limits designed to provide an early warning of when we are approaching our risk appetite limits.

The risk appetite statements and metrics have been constructed around the following five high-level risk categories that are considered core to the Group's business:

#### Capital

We will maintain a strong and credible capital position with good quality assets. Maintaining a strong and credible capital

position, even in extreme but foreseeable circumstances, is a key target for our sustainability. Policyholders may be wary of placing or keeping their business with a company whose strength is materially out of line with the market or who appears to have poor quality assets backing its capital strength.

#### Liquidity

We will be sufficiently liquid to retain customer and member confidence even in extreme but foreseeable circumstances. Maintaining enough liquid assets even in these circumstances is a key target for the Group's sustainability.

#### Performance

We will deliver quality earnings and attractive growth with well-managed volatility. We have a number of principles, which relate to long-term returns to customers and policyholders, and meeting their reasonable expectations. This covers not only shorter-term volatility, but also volatility around expected longer-term value and returns.

#### Insurance risk

We will apply strong insurance risk management disciplines for new and existing business. This can be done in a variety of ways, such as only taking on risks where we feel that we have sufficient expertise to manage them and taking on specific types of insurance risk in order to improve our overall financial position.

#### Operational

We operate strong controls over our business environment, with a robust risk management approach designed to ensure we do not expose the Group or our customers and members to inappropriate operational risks or inappropriate risk taking. By doing this, we aim to deliver better customer and member outcomes than our peers. We aim to provide a positive customer and member experience in everything that we do. In addition, we seek to have good relationships with our regulators and also with law enforcers.

#### Group risk policies

Our risk policies are the high-level standards and requirements that determine the way in which risks are to be managed and controlled.

The Board ensures that policies are regularly reviewed to reflect the changing commercial and regulatory environment, as well as the Group's organisational structure.

#### Anti-corruption and anti-bribery

The Group is committed to the highest standards of governance, personal and corporate ethics, compliance with all laws and regulations, integrity and honesty in dealings with employees, customers, suppliers and other stakeholders. The Group has a financial crime policy, which sets out the framework for managing financial crime arising from bribery and corruption, as well as fraud, money laundering and market abuse. A separate Financial Crime unit operates within our Compliance team to monitor adherence to this policy.

#### Solvency II

The EU-wide Solvency II regime, which is intended to strengthen the integration of risk and capital management, allows insurers to use a standard formula or an Internal Model. We are planning to seek approval from the PRA to use an Internal Model for determining our regulatory capital requirements. The use of a model enables us to make more effective decisions by fully integrating risk and capital management, building on our existing strong capital modelling and control capabilities. The Solvency II standard formula approach has been used since 1 January 2016 as we develop our Internal Model. It is our intention to continue using our own current model to assist in the management of our capital position until approval of our regulated Internal Model in 2019 is achieved.

#### Principal risks and uncertainties

Managing risk is fundamental to our activities in order to generate returns for our customers and members. We have processes in place to identify and manage risks, which include assessing scenarios and reverse stress tests. Our approach to risk management is set out earlier in this statement. The Board believes the principal risks and uncertainties facing the Group are as set out on pages 15 to 18, with the actions taken to manage and mitigate them.

## The Group's risk governance structures

### Risk responsibilities of the Board

#### **Board**

The Board approves and has oversight of the plans and structures in place to ensure Royal London achieves its strategic objectives within the risk appetite framework.

#### **Board Risk Committee**

The role of the committee is to ensure that the interests of members and customers of Royal London are properly protected through the application of effective risk and capital management systems. This includes overseeing conduct for fairer customer outcomes.

#### **Audit Committee**

The role of the committee is to assist the Board by monitoring the performance and objectivity of external and internal auditors, and reviewing the effectiveness of the company's financial controls.

### Risk responsibilities of management

#### **Executive Risk Committee**

The role of the committee is to support the Group Chief Executive by giving consideration to and developing proposals and recommendations in respect to areas within the risk management system.

#### **Capital Management Committee**

The role of the committee is to support the Group Finance Director by giving consideration to and developing proposals and recommendations, in respect of economic and regulatory requirements, investment strategies and decisions, balance sheet risk, derivatives, and risk appetite related to market, credit and liquidity risks, policies and reporting.

#### **Customer Standards Committee**

The role of the Committee is to support the Group Chief Executive in overseeing customer outcomes in relation to our customer strategy. It provides challenge over business practices relevant to our strategic customer objectives and conduct regulatory requirements.

#### **Internal Model Steering Committee**

The committee is responsible for embedding the internal model within the business. This includes reporting and escalation to the Group Executive Committee as appropriate, and ensuring compliance with other business-as-usual processes and committees.

#### **Internal Model Governance Committee**

The role of the Committee is to support the Group Chief Executive by giving consideration to and developing proposals and recommendations that ensure the Internal Model accurately reflects the structure and risk profile of the business.



## Principal risks and uncertainties

Managing risk is fundamental to the Group's activities in order to generate returns for policyholders. We have a system in place to identify, manage, monitor and report risks, supported by risk tools and processes such as contingency planning, escalation of events, assessing scenarios and reverse stress tests.

The Board confirms the principal risks and uncertainties facing the Group are as set out on the following pages, along with the actions taken to mitigate and manage them. The Board monitors principal risks and uncertainties on a quarterly basis, and undertakes a full review annually. Our approach to risk management, including the process of assessing and reviewing these risks, is set out below and on the following three pages.

Our risk profile is stable and generally changes only gradually from year to year. Although most of the principal risks and uncertainties set out last year are still relevant, we recognise that these continue to evolve due to the events and developments that continue into 2018. Progress has been made on a number of activities to manage and reduce certain risks. We also recognised the importance of cyber security as a principal risk in 2017.

### The economy and Royal London's key markets

Principal risk and uncertainty	Risk mitigation and management
<p><b>The economic environment continues to be uncertain</b></p> <p>Like other insurance groups, our business is subject to inherent risks arising from general and sector-specific economic conditions in the markets in which we operate, particularly in the UK, where our earnings are predominantly generated.</p> <p>Low or negative interest rates continue to have a significant impact on the insurance sector.</p> <p>Also, fluctuations in the value of both assets and liabilities can arise from volatility in the global capital markets, the economy of the UK, the stability of European markets such as the future of European bonds and the global economy generally. This may have a materially adverse effect on the Group where such a market change impacts differently on the value of assets and liabilities.</p>	<p>Our forward-looking risk profile, with regular monitoring of exposures by risk class, including consideration of possible risk concentrations, allows us to evaluate scenarios where we may be exposed to asset and liability values moving differently, and allows us to have a good understanding of the impact this may have on our risk profile.</p> <p>Through regular monitoring and discussion at executive and Board level, decisions are made to mitigate risks where these do not align to our business strategy and/or risk preferences. Mitigation is also undertaken by hedging to offset adverse risk.</p>
<p><b>A change in economic trends and consumer behaviours can affect performance</b></p> <p>Volatility in the economy and investment markets, and the continuing prospects for low growth rates in the UK can affect consumers' disposable incomes and appetite for our products and services.</p> <p>Changing socio-economic trends (such as customers wanting to deal direct, transactions through mobile applications and data security) present opportunities and challenges to our business model.</p>	<p>We undertake regular reviews to ensure we are developing strategies and operational capabilities to take account of current and future changes in markets and consumer behaviours.</p> <p>We monitor our product range and market position regularly through analysis of policyholder experience and business volumes. This helps us to re-price products dynamically and develop new ones in response to changes in demand.</p>

### Changing political and regulatory environment

The referendum outcome in favour of the UK leaving the European Union (EU) is the key development reflected in the political and regulatory environment principal risks and uncertainties.

Principal risk and uncertainty	Risk mitigation and management
<p><b>The arrangements for the UK's exit from the EU continue to create uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation</b></p> <p>The impact on financial markets is likely to be a marked rise in uncertainty resulting in a further impact on economic confidence, sterling, the UK credit rating and increased inflation.</p> <p>Uncertainty over the outcome of negotiations with the EU and the transition leads to a lack of clarity over future regulation and legislation for the insurance and investment markets.</p>	<p>The UK's exit from the EU is not expected to have a materially detrimental impact on Royal London's strategy and business, due to our focus on the UK. However, we recognise the potential impact on our business in Ireland and any potential implications with regard to Scotland's possible independence. In preparation, we are planning arrangements including Part VII transfers to a new Irish subsidiary to protect and enhance our existing market position in Ireland.</p> <p>Risks related to financial markets will be mitigated through our normal market risk monitoring and capital management activity.</p> <p>Given the Group's UK-focused business, we are less exposed than many of our peers to the risk of failing to access the single European market.</p> <p>We will continue to maintain a watching brief on developments relating to UK exit as they occur, particularly in relation to regulation and legislation, and will prepare appropriate responses.</p>

## Principal risks and uncertainties continued

Principal risk and uncertainty	Risk mitigation and management
<p>Uncertainty over the Solvency II Internal Model Application Process (IMAP)</p> <p>We intend to use a Solvency II Internal Model, subject to approval of an Internal Model application. Until such time as an application is approved, we remain exposed to the risk that our capital position will be subject to capital add-ons which may misstate our true capital position, leading to potential reputational damage and product uncompetitiveness.</p> <p>Whilst the high level regulations and process are understood, important elements of the details around the design of our Internal Model and the application process itself are still to be agreed with the regulator.</p> <p>There is a risk that we will have insufficient time to respond to feedback from the regulator, which increases the risk of significant re-work later in the application process or failure in achieving approval of our Internal Model.</p>	<p>In line with PRA recommendations, we have continued to enhance our Internal Model and our risk and capital management systems, monitoring closely the potential impacts on capital requirements and ProfitShare.</p> <p>Our ongoing engagement with the PRA, which will lead to the submission of our Internal Model application, aims to identify any design issues to be addressed in advance of the application and increases the likelihood of a successful outcome in the Internal Model being approved.</p>
<p>Changes in the legislative and regulatory landscape may alter the design and marketing of propositions</p> <p>Unprecedented levels of change in legislation and heightened regulatory activity could adversely impact our ability to implement and deliver changes, as well as our reputational, operational and financial position. The conduct and prudential environment is still developing, and this could impact how we develop and distribute new propositions, as well as how we administer and deal with contracts sold in the past. It is possible that regulatory, thematic, industry-wide reviews from the regulators may have a significant impact on the Group.</p>	<p>Meeting the expectations of customers and our regulators is at the forefront of everything we do. To that end, we actively engage with regulators on an ongoing basis.</p> <p>We continue to monitor the impact of developments and, where necessary, enhance our processes to meet any new requirements. During 2017 we were preparing for the General Data Protection Regulation, the fourth Money Laundering Directive and the Markets in Financial Instruments Directive (MiFID) on our investment operations.</p> <p>Our conduct risk framework is in place, together with an associated proposition development and review process designed with the aim to achieve fair outcomes and experiences for our customers.</p> <p>We continue to be represented on several industry bodies including Association of British Insurers (ABI) senior committees.</p>
<p>Changes to financial services markets may arise from the political environment</p> <p>The political environment may give rise to changes that alter the viability of our propositions in the markets in which we operate. This could include a broadening and/or tightening of the application of the pensions dashboard on workplace pensions, and a focus on asset management fees.</p>	<p>As the political environment changes, we continually evaluate how our markets are evolving and look to develop propositions to meet the needs of customers and distributors. For example the FCA's proposals from the Asset Management Market Study will be reflected in our proposition development. To support this we undertake regular monitoring of our performance, and the political and regulatory environment. The Group is one of the 17 product providers who have supported the pensions dashboard prototype produced by the Association of British Insurers following the recent outcome of the government's charge caps review. We continue to monitor potential outcomes in future that may follow.</p> <p>We also undertake scenario testing of external factors that could detrimentally impact our business model.</p> <p>In addition, we undertake a role in lobbying on political and legislative issues in the best interest of our customers.</p>

### Maintaining our financial strength

In 2017, elements of risk exposure have reduced in relation to counterparties and managing our funding commitment.

Principal risk and uncertainty	Risk mitigation and management
<p>An increase in our funding commitments for defined benefit pension schemes may impact on our financial position</p> <p><b>Our main risks in managing our defined benefit pension schemes arise from their exposure to inflation, interest rates and longevity, and from risks associated with the funds' investment strategies. Any adverse movements in these factors could increase future funding costs and could impact our financial position.</b></p>	<p>Overall, the schemes are reasonably well funded; however, the Board recognises this position could change and continues to closely monitor funding levels and work with the Trustee Boards to assess opportunities to reduce volatility and risk.</p> <p>The Royal London Group Pension Scheme (RLGPS), the main Group defined benefit scheme closed to future accrual from 31 March 2016, reducing the current funding commitment to that scheme. During 2017, the RLGPS increased its hedging of interest rates and inflation to 90% of its ongoing liabilities.</p>
<p>We are exposed to the risk of failure or default of one or more of our counterparties</p> <p><b>As part of our business, we invest in debt securities and other assets in order to meet our obligations to policyholders. As a result of this activity, exposures can arise to issuers of debt and other financial instruments. Our day-to-day activities also mean we have exposures to banking, insurance and reinsurance counterparties, as well as third-party providers of IT and administration services.</b></p>	<p>We seek to manage exposure to any one counter-party or third party. We actively monitor and report against limits in respect of investments.</p> <p>Contracts with third parties and suppliers are governed by strict service level agreements, which are monitored and discussed at regular account management meetings.</p> <p>The Capital Management Committee reviews large exposures that approach or exceed risk appetite, and reviews the actions being taken to manage the exposures. Our counter-party exposure has reduced in 2017.</p>
<p>If our assumptions are subsequently proven to be wrong then adjustments may impact on our financial position</p> <p><b>Our business involves the underwriting of risks where the ultimate liability is dependent on long-term trends in factors such as mortality, lapse rates, interest rates and counter-party defaults.</b></p> <p><b>We take a prudent approach when calculating capital requirements. However, extreme movements can take place. Such events could arise from, for example, medical science advances and movements in financial markets, or in the broader economic environment. It may be necessary to review assumptions if this did happen, potentially impacting our financial position.</b></p>	<p>In the event that actual claims experience is less favourable than envisaged, our reinsurance arrangements will provide significant mitigation. Additionally, we use our experience to assess and set prices for known risks, and to ensure that reserves are appropriate. The calculation of reserves is underpinned by stress and scenario testing, which assesses the appropriateness of key assumptions to a combination of extreme events, including financial and economic conditions, investment performance and product-specific matters.</p>

### Core processes and organisational delivery

We continue to monitor change as a principal risk, recognising that the amount of internal changes across our systems and processes could also affect our ability to deliver. We also recognised the importance of cyber security as a principal risk in 2017.

Principal risk and uncertainty	Risk mitigation and management
<p>Organisational capabilities may be impaired by the high level of change across the Group</p> <p><b>The Group has grown in recent years and we have completed change programmes in line with this growth in order to continually improve our capabilities and the experience of our customers. Two of our largest programmes will significantly enhance the IT infrastructure supporting the current and future propositions in our chosen markets. There is a risk that the continued growth plans and changes to our operational systems and processes, combined with the significant amount of external change in markets, regulation and legislation, result in possible future inefficient or ineffective organisational delivery, with consequential operational loss and/or reputational damage.</b></p> <p><b>This includes, for example, the ongoing actuarial system enhancement programme, which if not delivered effectively could give rise to a material financial reporting error.</b></p>	<p>Our strategic and operational plans are regularly reviewed by the Board. These take account of our resources and the scale and diversity of change currently underway, and planned for the future.</p> <p>Specific change programme monitoring and reporting takes place at project, programme, portfolio and strategic execution level, utilising a dashboard of measures to ensure appropriate risk-based decisions are made and that resources are allocated in an efficient and sustainable manner. The portfolio is also constructed to take account of the anticipated level of resourcing available.</p> <p>Our most significant change programmes, covering our core pensions administration system and a new wrap platform in RLPS, have quality assurance processes built into our internal management and governance. These are also subject to independent oversight by our Internal Audit and Risk and Compliance functions.</p> <p>Additionally, the risk of financial reporting errors arising during and after the actuarial enhancement programme is mitigated by thorough testing of the systems before, during and after implementation, and ongoing control monitoring through the control framework for financial reporting data.</p>

## Principal risks and uncertainties continued

Principal risk and uncertainty	Risk mitigation and management
<p><b>Cyber Security</b></p> <p>There is a risk that third parties and other unauthorised users may attempt to gain access to our systems for misuse of customer and company data, or disrupt the business using malware and viruses. This could lead to corrupted or lost data, business interruption, compliance breaches, regulatory fines and reputational damage.</p>	<p>We continue to invest in our security systems, strengthening beyond our core controls and reducing vulnerabilities. Our security is now proactive with advanced monitoring, prevention and testing.</p> <p>Cyber security awareness is a key part of our training, with social engineering exercises and other testing of security awareness. Where new threats are identified, awareness training and communications are immediately sourced.</p> <p>As we recognise this as a key business risk, we carried out a stress testing analysis on a cyber-attack scenario in 2017, and continue to regularly review and test cyber risk developments.</p>

### Material outsourcers and supplier relationships

Principal risk and uncertainty	Risk mitigation and management
<p><b>Outsourced services may not meet regulatory or service requirements</b></p> <p>In line with other large financial services organisations, we have a number of material relationships with outsourcers and service providers. Whilst processing or specialist work is undertaken by these organisations, we remain fully responsible for the oversight, management and performance of the outsourced activity. There is a risk that we would be unable to meet our regulatory obligations following the failure of, or a significant degradation in, service received from a material outsourcer or service provider.</p>	<p>We have a framework for the governance and oversight of material outsourcer and supplier arrangements. It includes the requirement for executive approval prior to commencing material outsourcer and supplier arrangements, together with policies and processes for the oversight and escalation of risks and issues to the attention of the appropriate risk committees.</p> <p>The business closely manages outsourcer and supplier relationships, and the governance arrangements for material outsourcers require that our customers do not face an increased level of risk due to an outsourced arrangement.</p>

### Legacy products

We have made progress to reduce the risk on legacy products through our programme of activities during 2017.

Principal risk and uncertainty	Risk mitigation and management
<p><b>Legacy remediation</b></p> <p>We have a large number of legacy products in which policyholders are still invested.</p> <p>There is a risk of historic remediation required within these books as there are a large number of legacy systems and propositions involved, and often manual and/or complex processes which can lead to historic issues being found.</p>	<p>Significant focus has been placed on managing this risk, including a dedicated proposition team overseeing legacy customer outcomes within a robust control framework. Within this, we are delivering activities related to our proposition reviews, Longstanding Customer Thematic Review programme and Remediation programme.</p> <p>We have reviewed the majority of propositions within the legacy book with any remaining lower-risk propositions to be completed in 2018 and all propositions will continue on a regular review schedule.</p> <p>We have made good progress on our Longstanding Customer Thematic Review programme, including making significant changes to our communications to the relevant annual statements and event driven communications with positive customer research.</p> <p>We have also been implementing a Remediation unit and making good progress on our Remediation programme.</p> <p>We continue to provide regular updates to the FCA on both the Longstanding Customer Thematic Review and Remediation programmes.</p>



## Longer-Term Viability Statement

### Assessment of prospects

#### The context for the assessment

The Group's business model is long term; indeed, we were founded more than 150 years ago. Our business model and strategy are integral to understanding the Group's prospects, with risk appetite and framework fundamental to continued viability. Further detail can be found on pages 2 to 3.

Overarching this risk appetite framework is the Board's strategy, which is subject to the ongoing monitoring and development described on this page. The principal risks and uncertainties that the Group is exposed to underpin this strategic planning process and are outlined in further detail on pages 15 to 18.

The Group's current strategy, detailed on page 2, has been in place for several years and remains at the core of everything we do. The Board continues to take a conservative approach to the Group's strategy and the focus is on building trust with our customers, raising awareness of our brand and delivering value to our members, while meeting the expectation of regulators and other stakeholders.

Decisions relating to major new projects and investments – for example, developing our IT infrastructure – are made with a low risk appetite and are subject to escalating approval levels. The focus placed on developing our IT infrastructure takes advantage of opportunities to bring an enhanced digital experience for customers, lower our operating cost base and at the same time respond to regulatory changes.

#### The assessment process

The Group's prospects are assessed primarily through its strategic planning process, which is led by the Group Chief Executive and involves all relevant functions. The

Board fully participates in this process and undertakes a robust review and challenge of the strategy and assumptions, in particular, through the use of stress and scenario testing, as well as receiving regular updates from relevant functions and committees. There are a number of scenarios tested that are updated annually, with the current scenarios being summarised in the table below.

As part of the prudent management of the long-term business of the Group, management carries out and assesses various long-term financial projections. However, there is inherent uncertainty involved in these projections, which increases as the term of the projections increases.

While the directors have no reason to believe that the Group will not be viable over a longer period, the period over which the directors consider it possible to form a reasonable expectation as to the Group's longer-term viability is the five-year period to December 2022.

This period has been selected because the Group's medium-term business planning process sets out its strategy and assumptions on a five-year time horizon. The latest business plans, which include in-depth analysis of the Group's risk profile, liquidity, and profit and capital projections, cover the period to December 2022.

#### Assessment of viability

Although the strategic plan reflects the directors' best estimate of the future prospects of the business, they have also tested the potential impact of a number of scenarios over and above those included in the plan, which represent 'severe but plausible' scenarios that the Group could experience. These scenarios encompass:

- a range of sensitivity analyses and stress tests over key economic, insurance and operational risks – for example, a 1 in 200 adverse impact from financial markets, counter-party failure or a significant medical science advance; and
- stress testing the business plan as part of the Group's Own Risk and Solvency Assessment (ORSA) process for adverse scenarios impacting profitability, liquidity and/or solvency, including:
  - margin compression from competitor, regulatory or legislative developments;
  - vertical integration amongst competitors leads to 'lock out' from some of our markets;
  - adverse regulatory or legislation changes affecting the Group's products or distribution;
  - technological advances allowing more competitors to enter markets and adversely impacting product pricing; and
  - cyber-attack on the Group's systems and data.

Each scenario is designed to be severe but plausible, and take account of the availability and likely effectiveness of potential mitigating actions management could take to avoid or reduce the impact in the circumstances. In considering the effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, discussed on pages 12 and 13, are taken into account.

Reverse stress tests have also been conducted which identify scenarios which may lead to the failure of the business model; the combinations of events required to cause failure of the model are so extremely severe and remote that they are not considered to affect the directors' expectations of the Group's longer-term viability.

#### Viability statement

Based on their robust assessment of the principal risks and uncertainties facing the Group, and the stress-testing-based assessment of the Group's prospects described above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022.

#### Going concern

The directors also considered it appropriate to prepare the financial statements on a going concern basis, as explained on page 50 in the Corporate Governance section.

<b>Base scenario</b>	<ul style="list-style-type: none"> <li>➤ UK economic growth remains constrained in 2018 driven by continued uncertainty about UK trading arrangements, before moving closer to trend.</li> <li>➤ An EU Free Trade Agreement is signed which includes a post-Brexit implementation phase.</li> </ul>
<b>Adverse scenario</b>	<ul style="list-style-type: none"> <li>➤ EU negotiations end without agreement, including UK passporting rights ceasing and tariffs payable on imports.</li> <li>➤ UK recession with increases to unemployment and inflation, weak Sterling and reduced UK growth.</li> <li>➤ The world economy is weaker than the base scenario with slowdown in global growth.</li> </ul>
<b>Favourable scenario</b>	<ul style="list-style-type: none"> <li>➤ Brexit impact is limited with a UK-EU trade deal agreed quickly.</li> <li>➤ Sterling recovers which eases inflation and real wage pressure.</li> <li>➤ Strong global growth rates, particularly in the US and China.</li> </ul>

## Intermediary

**Our intermediary division had an excellent year,** generating new business and becoming one of the leading providers of auto-enrolment pensions schemes

2017 was another highly successful year for our Intermediary business, defined by our unwavering commitment to financial advisers and our belief that the needs of our customers are best served through a combination of value-for-money propositions and professional, impartial advice.

New business growth was strong in both pensions and protection. Although the two markets remain very different, both our pensions and protection products are underpinned by award-winning technology, great service and clear communications. This all adds up to a market-leading proposition, which makes it easy for advisers to do business with us – and deliver the right products, with the right outcomes for our customers and members.

Of course, what makes us truly different is our mutual status. While our protection customers and advisers aren't members, we apply our mutual values in different ways:

- **We share our profits** – when we do well, we'll aim to boost our pension customers' retirement savings by adding a share of our profits to their plan each year; and
- **We support our customers** – our Helping Hand service provides protection customers experiencing serious illness, injury or bereavement with the additional support they might need beyond a financial payout.

We aim to bring some much needed innovation to the Protection market. We strongly believe there's an opportunity to offer affordable protection products that provide value for money to customers and their families. In 2017, we set out to break down barriers that are stopping some customers from accessing protection products. Our long-term ambition is to widen our customer base to include more individuals who struggle to get cover due to a managed health condition.

The Intermediary Pensions business has gone through a sustained period of high performance, with new business volumes more than trebling over the past five years. Despite increased demand, we were awarded an outstanding achievement award and five stars for service at the 2017 Financial Adviser Service Awards. This has been achieved by having a clear focus on delivering value-for-money propositions for advisers, underpinned by great service and investment governance. Now is the right time for us to capitalise on this success and the momentum we have in our chosen markets – we're looking to transform our business to meet the needs of the digital age.

Our customers are looking for greater transparency, fairness and choice and as a mutual we have a great opportunity to connect with customers and support them in making well informed decisions about their savings and protection needs. As customers seek to have greater control over all aspects of their financial lives, we're setting out to build an engagement model that will make us relevant to our customers in a truly digital world that's always on, characterised by rapid response, personalisation and self-service.

In 2017, we launched our Review Service, designed to save advisers time and money by providing their Royal London pensions clients in one place. 2017 was also the last year of auto-enrolment. Although this provided additional sales growth in group pensions, we expect this to return to more normal levels in the future. In personal pensions, people continued to take advantage of the pension freedoms, which gives them more flexibility in how and when they can access their retirement savings.

Low interest rates boosted transfer values in defined benefit pension schemes, resulting in an increase in people transferring out of final salary pension schemes.

### Workplace pensions

We continued to play an active role in the final phase of auto-enrolment, and in 2017 we were one of the leading providers of insurance-based new auto-enrolment pensions schemes. We supported over 5,500 employers through auto-enrolment in 2017. We inevitably saw a slowdown in the second half of the year as auto-enrolment drew to a close. Despite this, our new business sales rose by 12% to £4,346m (2016: £3,872m). We have also benefited from our members increasing their contributions to existing schemes.

In 2018 we expect to see further increases in member contributions as by law, under automatic enrolment minimum pension contributions are set to increase.

Our success in auto-enrolment has transformed our market position in group pensions and we remain a significant player. We aim to stay one step ahead of our competitors by setting out to understand what really matters to advisers, employers and employees and we stay firmly focused on delivering the best customer outcomes.

For many people, joining their employer's workplace pension is the first interaction they'll have with financial services. There's a huge opportunity for us to build relationships with these customers, by helping them understand the true value of their pension. Throughout 2017, we continued to work hard to ensure customers have a positive experience every time they interact with us and this remains a key area of focus in 2018.

### Individual pensions

Since pension freedoms, we've seen huge changes in how people are using their retirement savings. Over the past two years, we've experienced a surge in customers looking to access some or all of their savings, which has created a greater demand for our award-winning income drawdown product, Income Release. As a result, sales of personal pensions (including drawdown) rose by 68% to £6,339m (2016: £3,778m).

We paved the way by offering an income drawdown product eight years before pension freedoms were introduced. Having an established product under our belt allowed us to focus on developing tools and support – such as our review service and drawdown governance service – that will make life easier for advisers and help them deliver what really matters to their clients and their business.

Also underpinning the popularity of Income Release is our Governed Retirement Income Portfolios (GRIPs). GRIPs are a range of five investment portfolios, designed exclusively for customers looking to enjoy flexible access to their savings.

The five portfolios are based on sensible risk targets, which take account of the level of risk required to achieve a particular level of income.

They fall under our Governed Range, which means they benefit from regular reviews, hands-on supervision and ongoing fine-tuning to help make sure they meet their objectives.

During the year, we introduced our flexible access proposition for existing customers who insist, despite our prompts, that they're comfortable making their own retirement choices. Whilst we continue to champion the value of impartial advice, we believe we have a responsibility to support these customers and make sure they can access the retirement outcome they want. Although we won't actively promote this option, we'll now offer them a simplified version of our Income Release product.

We continued to support the Association of British Insurers (ABI) in its government-led initiative to create a Pensions Dashboard (PD). We believe this has the potential to boost competition in the UK pensions market. It's an important project designed to give customers a comprehensive view of their retirement savings and entitlements all in one place – to determine their retirement income. The PD could also help those customers looking for better value for money by consolidating a number of small pension pots.

### Protection

Despite increased competition we've maintained our market position, leveraging our improved proposition through our focus on adviser relationships and customer service. As a result, new business sales rose by 25% to £807m (2016: £647m).

In addition, we trialled new propositions that we believe will provide future sales growth.

According to Diabetes UK, over four million people in the UK are living with diabetes. In April 2017, we started an important trial of our new Diabetes Life Cover plan, using a real-time underwriting process. This made it easier for advisers to secure life cover for their customers at point of sale and reduced the time taken to accept an application from weeks to less than an hour.

Further, in June 2017 a new life insurance application service moved into pilot called 'Streamlined Mortgage Protection', which uses advanced machine learning to simplify the underwriting journey and provide an online, immediate decision to mortgage customers without the need for additional underwriting questions and medical evidence.

At the heart of everything we do is a clear vision of the role we can play in protecting people's (and their loved ones') lives. Our strategy remains to deliver excellent value for money by focusing on creating the best customer outcomes and best customer experiences at really competitive prices. This philosophy is rooted in our status as a mutual. In the protection market we seek to include the underinsured people in our community, growing the market by increasing access to protection products. We want to make it easy for advisers to do business with us. We'll focus on building and maintaining good relationships and streamlining our processes to improve the customer experience – especially critical moments of truth such as the underwriting process and the customer claim.

### Intermediary relationships

We're proud to champion the value of impartial advice. We believe it brings customers closer to the products that are right for them. It's a key step towards delivering better outcomes. And it builds trust for our products and services.

That's why we design our products and services to complement the role of the adviser – giving them the freedom to tailor solutions to suit their clients' needs.

We use our voice in the market to lobby on behalf of advisers. We actively promote the value of their expertise and we do all we can to help them keep on top of the ever-changing legislation and regulation.

We believe customers should have access to high quality and affordable financial advice. Our tools and technology aim to help advisers make their businesses more efficient, so they can spend more time doing what matters most – providing quality advice to their clients.

While we'll always invest in technology and tools to help deliver more efficient services, we absolutely believe it's the quality of our *people* that really makes the difference. It's this approach that's seen us awarded five stars for service at the Financial Adviser Service Awards for nine consecutive years. Maintaining a high standard of service whilst dealing with unprecedented volumes of business is testament to the quality, expertise and attitude of our people.

We've also put a great focus on the skills and development of our people. We've set the bar high for our sales force, with many of our consultants now having the same level of qualifications as the financial advisers they regularly deal with.

## Consumer

**Our business continued to form new partnerships**, while also increasing the share of digital sales by providing customers with an easy-to-use platform and swift application process

The Consumer division continued to grow during the year, building direct sales and creating new partnerships with like-minded companies.

The division was established to offer our products direct to consumers or through partnerships. It is also home to Royal London customers who deal with us directly, rather than through a financial adviser.

Total sales, on a PVNBP basis, grew by 36% across the division to £408m, up from £301m in 2016. By delivering well-designed products that offer excellent value for money, we have graduated from a little-known, new entrant to a real force in our chosen markets.

Our Over 50s life product grew both market share and volume during the year. We are now one of the largest players in this market, a significant achievement considering the Over 50s product was launched just over three years ago. We sold more than 30,000 policies in 2017, up from 20,000 the previous year and 10,000 in 2015.

We used a wide range of media to alert customers to our products, including advertising on television, radio, direct mail and the press. We also invested significantly in digital advertising during the year, becoming one of the first in our field to recognise the changing behaviour of consumers and adapt our strategies as a result. Targeted advertising on search engines, for example, enabled us to identify customers who are looking for the products we offer. Although we will continue to use a range of media to attract customers, digital advertising has become a key part of our acquisition mix.

Almost 30% of sales now come to us digitally, using online applications either on mobile phones, tablets or computers. This has been achieved by ensuring our digital offering is easy to use and applications can be completed relatively swiftly.

Our success so far has been predicated on creating products that serve customers well and offering benefits not available from other providers.

In November 2017, the Consumer division won a gold award for digital – Best Use of Search at the DMA awards. We were recognised for improving our search engine participation, which resulted in year-on-year branded cost per clicks reducing by 35%, sales increasing by 47% and cost per acquisition lowering by 53%.

Growth in our Consumer division comes partly from increasing our visibility to customers, but also by offering good value products with benefits that our customers can't easily find elsewhere. In 2018, we will launch our own-branded Funeral Plan, which will expand the range of products we offer directly to customers to meet funeral planning needs. The Royal London Funeral Plan will give consumers the option to protect themselves against rising funeral costs, offering a solution that is transparent, fair and good value for money.

### Partners

This was the first year of our partnership with the Post Office and we have been delighted with its success. Our Over 50s product is now available through all Post Office outlets and online. Feedback from Post Office customers has been very positive, and sales exceeded 14,000 policies in the first year of operation.

Our partnerships with Co-operative Funeral Services and Ecclesiastical Insurance continued to flourish, producing strong sales performances of £290m.

We also reached an agreement to form a new partnership with CYBG plc, owner of Clydesdale Bank and Yorkshire Bank, to offer Over 50s and term assurance products to their customers. The partnership was agreed towards the end of 2017 and we look forward to developing the relationship in 2018.

We have further partnership proposals in the pipeline for the coming year.

### Existing customers

Our legacy business remains very important. We continued to oversee our long-standing customers' outcomes through our dedicated legacy team, delivering our extensive proposition review schedule to ensure that all our customers receive great customer outcomes and experience from their products, in line with our Group strategy. We have driven continuous improvements in our customer experience including our 'Moments of Truth' projects, which have significantly improved payout times, so the majority of claims are fast-tracked and paid a few days rather than weeks after notification. Our Net Promoter Scores remain very strong from customers who have transacted with us.

We have ensured that our long-standing customers have access to our new propositions where appropriate. For example, with regard to enabling access to pension freedoms, our Retirement Account enables people to access their cash more flexibly at retirement, while our Individual Savings Account (ISA) offers tax efficiency. Our Annuity Bureau ensures policyholders can find an annuity that offers good value, taking into account their specific circumstances.



## A loyal partnership

This was the first year of our partnership with the Post Office and sales exceeded 14,000 policies



We invested significantly in digital advertising, becoming one of the first in our field to recognise the changing behaviour of consumers and adapt our strategies as a result



# 30,000+

The number of Over 50s Life Cover policies sold in 2017





## Wealth

### Once again, our Wealth business stood firm despite political and economic instability, delivering desirable investment returns and continuing to grow funds under management

Our Wealth division delivered an excellent performance in 2017. Investment returns were impressive, both in absolute and in relative terms, benefiting our existing customers and showcasing our abilities to new customers. Across the Wealth division, our businesses attracted new funds and customers, and improved service and efficiency. In 2016 we broke through the £100bn barrier in funds under management. In 2017 funds under management increased by £14bn to £114bn. At the end of the year, the assets of Royal London policyholders and members represented 61% of RLAM's total funds under management.

Royal London's Wealth division is made up of two businesses. The larger is Royal London Asset Management (RLAM), which manages investments both for Royal London members and customers, and for external customers. The second is Royal London Platform Services (RLPS), which trades as Ascentric. RLPS is a wrap platform that offers financial advisers access to a range of investments in different wrappers to manage their clients' savings.

#### RLAM

RLAM's sales performance in 2017 was exceptional. Our aim is always to grow our asset base so we can generate higher profits and economies of scale, allowing us to deliver the best possible range of investment solutions and outcomes for our clients. We found many ways of achieving that goal during the year.

Many asset managers saw outflows of money during 2017, but RLAM was one of the few to avoid the trend. We generated inflows of £2.8bn in 2017, up from £2.3bn in 2016 and £0.5bn in 2015. It was pleasing to see significant flows from both the institutional and wholesale sides of our business. Institutional clients such as pension schemes and local authorities, and wholesale clients such as wealth managers and IFAs, continued to buy our fixed income and cash funds, with our Sustainable range also gaining popularity.

We also made good progress in building the business. We recruited a highly-regarded global equity team, launching two new global equity funds. We also completed one of the largest ever launches of a UK property fund, with a portfolio of over £2.7bn, and launched both a multi-asset credit fund, in response to client demand for greater diversification of credit in a low-yield environment, and the Royal London Emerging Market Equity Tracker Fund, which looks to track the performance of an index of emerging market companies.

Our investment managers delivered excellent returns in 2017, but in our business it is the long term, rather than a single year's success, that counts. Our fixed-income team has an almost unsurpassed record over the past 20 years, and in UK Equity Income we are also highly regarded. Recent hires have added strength to our mid-cap and small-cap investment teams, which both saw good inflows. Our Sustainable investment team was a star performer, delivering excellent investment performance and generating net inflows of £200m during the year.

Working with the Royal London Intermediary division and other parts of the Group, we continued to refresh the range of products used in the highly successful Governed range of products. These are increasingly used by those wishing to take advantage of the greater flexibility now available within pensions.

#### How we invest your money

Our highly successful Sustainable investment team joined us as part of our acquisition of the Co-operative Asset Management in 2013, and has become an important part of our investment offering, reflecting both increased investor appetite and our team's successful track record. The Sustainable team invests in companies that provide a net benefit to society, through environmental, social and governance (ESG) leadership and socially positive products and services. This approach is

more flexible and positive than many traditional ethical investment vehicles, and endeavours to showcase the best of sustainable capitalism.

#### Responsible investing and stewardship

We are shareholders in thousands of companies on behalf of our customers and we are committed to being a responsible investor.

We believe good management of ESG issues translates into a better-run company, protects the welfare of employees and ultimately generates better shareholder returns, benefiting our clients and members.

In 2017, we voted on 12,576 resolutions at 887 company meetings, the vast majority of which are UK-listed companies.

Overall, we voted in favour of 91% of the proposals and against 7%, abstaining on 2%. Remuneration is the area where we most regularly vote against the resolution proposed by the Board.

Across 1,465 remuneration votes in 2017, we voted 'For' 64%, 'Against' 27% and 'Abstained' on 9%. We wrote to companies held in our actively managed funds to explain our reasons for voting against or abstaining on a proposal.

Over the course of the year we spoke to 191 companies on issues such as executive pay, succession planning, workforce, culture, climate change, the energy transition, diversity and cyber security.

In cases where voting and engagement have not led to meaningful improvements, we spoke out publicly to draw attention to our concerns. For example, we raised concerns about Burberry's pay and corporate governance, and questioned Sky's governance in light of the takeover proposal from Fox. We also engaged with advertising giant WPP's board about the succession planning for Sir Martin Sorrell.

We publish details of all Company votes on the RLAM website, along with details of our policies and a regular newsletter called *Responsibility Matters*.

### Regulation

Financial regulators paid close attention to the asset management industry during 2017. MiFID II, the second part of the EU's financial instruments regulation, comes into force from 2018, and we have concentrated on ensuring that our systems and processes are ready to comply with the new regime. MiFID II will involve greater reporting requirements for asset managers, but we are well prepared to implement the necessary changes.

MiFID II has highlighted the issue of investment research costs, with managers either having to absorb the costs themselves or add this as an explicit cost to funds managed. We are pleased to confirm that RLAM will bear all research costs, across all asset classes. This is a natural solution for Royal London, a mutual company, and fits perfectly with our emphasis on delivering value to our clients.

Our commitment throughout the change period is to ensure we remain as transparent as possible about what fees and commissions we pay, and that we put our customers first in all cases.

### Awards

We received numerous industry awards during the year, but receiving the Financial Times (FT) Adviser Five-Star Service Award for the third consecutive year was a particular highlight. Another was the FT Pension Investment and Provider award for High Yield Bonds, which we won for the third time in four years. Our Sustainable team, which includes our Corporate Governance team, received a gratifying amount of recognition and a number of awards for its efforts.

### RLPS (Ascentric)

A new, industry-leading charging structure helped RLPS, Royal London's wrap platform, to deliver record inflows into the business in 2017. RLPS, which trades as Ascentric, enables financial advisers to manage their clients' long-term savings directly, to highlight its independent approach. During the year,

assets under administration increased by 17% to £14.4bn (2016: £12.3bn), with 9,458 new client accounts opened.

In May, RLPS revamped its charging structure to create a single, all-in customer charge of 0.3% with no additional or hidden charges. It is a unique structure in the platform market, developed in response to customer demand and meeting with regulators' preference for transparent, simple charges.

The new pricing has freed up advisers to give advice based entirely on customer need, without having to consider ancillary costs. As a result, we have seen a significant increase in trading volume on the platform. It enabled us to deliver more value to our target customers for the platform and this trend will also result in a favourable commercial impact on the business. Our Self-Invested Personal Pension (SIPP) business grew, helped both by the pricing structure and the buoyant market in transferring out of defined benefit pension schemes.

In the first half of 2017, we implemented a new service model, which gives advisers a much improved experience, including delivering same-day payments in 89% of all transactions. We were delighted to receive a five-star service award for the first time at the Financial Adviser Service Awards, and another for Most Improved Provider in the investment category.

We invested in projects that will deliver future growth. We prepared the business for the introduction of MiFID II, focusing on helping advisers manage the change. Development of our new back-office system, which will offer a much-improved customer experience also made good progress.

## 2017 AWARDS

### Financial Adviser Service Awards

#### FIVE STARS

Investments – RLAM  
Investments – RLPS

#### MOST IMPROVED PROVIDER

Investments – RLPS

### FT Adviser 100 Club Awards

#### WINNER

Sterling Strategic Bond –  
RL Sterling Extra  
Yield Bond

### Global Investor Awards

#### WINNER

Fixed Income Manager  
of the Year – RLAM

### Insurance Asset Management Awards

#### WINNER

ESG Manager  
of the Year – RLAM

# £14.4bn

The amount of RLPS assets under administration as at 31 December 2017, an increase of 17% from 2016





# OUR SOCIAL RESPONSIBILITY

**At Royal London, being a responsible business and having a positive social impact is a top priority,** which is why in 2017 we focused on creating the right culture for employees, while increasing our engagement with local communities and supporting society through our investment philosophy

With thanks to the teachers and children at Murrayburn Primary School, Edinburgh

## Our vision

We aspire to be rated by our customers as the most trusted and most recommended provider in our chosen markets.

## Our purpose

Royal London exists to create the best customer outcomes and the best customer experiences in its chosen markets. This reflects the fact that we are a member-owned business and so our focus is creating value for customers and members. In contrast, our competitors exist to create shareholder value.

At Royal London it is not just about doing business but doing it the right way. As the largest mutual life insurance and pensions company in the UK, we are owned by our members. Being a responsible business means ensuring we have a robust governance structure in place, and a prudent strategy to ensure continued long-term growth and success. It is also about creating the right culture to support our people to achieve the best outcomes and experiences for our customers and members, and strengthening our local communities and the environments we are in. This includes taking a customer-centric approach when developing our products and services to meet our overall goal of customer satisfaction. It also means that we use our thought leadership and campaigning work to bring fresh ideas to enable consumers to understand the complex and jargon-filled world of financial services, and have trialled products for groups that were underserved by our industry. We take being a responsible business very seriously, and we will continue to invest in understanding our impact further in 2018.

### **Taking a customer-centric approach** **Understanding our customers**

At Royal London we want to deliver outcomes and experiences that are driven by putting the customer at the heart of everything we do: from understanding wants and needs to ensuring that we create the right products and offer support at the right times and in the right way.

To achieve this, we continue to use our customer value statements. They

represent the seven outcomes that matter most and we measure our progress against these to ensure we keep improving in the right areas.

During 2017, we also focused on helping everyone at Royal London understand the range of personal circumstances that can make it challenging for people to deal with us, and what we can do to make it easier. This focused on a variety of topics, including bereavement, ageing and financial difficulties.

We're working hard in customer services to support the different needs of our customers, including:

- ▶ referring cases where customers have additional support needs to a panel of experts so we can set up appropriate and consistent support for them; and
- ▶ starting to connect foreign language speakers at Royal London with customers who don't speak English as a first language.

### **Feedback from customers**

We're seeing positive results from this work. In 2017, over 78,000 customers left feedback on their experience. Alongside this, our Net Promoter Score (NPS), which measures customers' willingness to recommend us, increased by 4.5 points. On our annual employee survey, the feedback was that our focus on customers is continuing to increase. We are proud that our hard work was recognised by Investor in Customers (IIC) when we received their highest accreditation for outstanding customer experience for a second year running.

### **Developing customer-centric products and services**

We launched the streamlined mortgage protection product, which can be applied for as part of a mortgage process. This gives more customers the opportunity to access life – and in 2018 critical illness – cover easily by removing the need for a separate, time-consuming application. This will enable more advisers to talk about protection with their clients during the mortgage sale process.

We have reduced the time it takes to make claims by simplifying our processes and ensuring more claims can

### **Recommended by customers – our NPS score**

We've been measuring our Net Promoter Score (NPS) since 2015. We transfer customers who have called us to a survey and it's the data from this survey that helps us calculate the score. We ask customers how likely they are to recommend Royal London on a scale of 0 to 10 where 10 is most likely. The score is then calculated using a challenging methodology where we count any scores of 9 and 10 and deduct any scores of 0 to 6.

Since 2015, our NPS average score for the year has increased from 47 to 58.8. Over this period we have significantly increased the number of departments who participate and the overall number of surveys we carry out. The survey sample size increased from an average of 3,600 surveys per month in 2016 to an average of 8,100 per month in Q4 2017.

We work with ORC International, a leading Business Intelligence firm, on our Customer Voice Transactional Survey. According to ORC, the overall financial services NPS benchmark is 35. Royal London's score of 58.8 is therefore a fantastic result, and one we want to continuously improve.



## Our social responsibility continued



### Over 50s Life Cover – rated 5\* by Fairer Finance

We're proud that Royal London Over 50s Life Cover has been awarded a 5\* rating from the consumer group Fairer Finance. Not only that, we are the only provider to secure this top category rating for our product. The intention of these ratings is to provide customers with a true indicator of product fairness and, as such, the scoring criteria is incredibly stringent. This is a true endorsement of the quality of the product and the value that we offer to our customers.

be submitted over the telephone. Over 75% of our Over 50s Life Cover claims are now paid on the same day and the product has been rated 5\* by Defaqto.

Being off work because of illness or injury is one of the biggest risks individuals face. In 2017, we updated our Income Protection cover by adding new benefits, such as fracture cover, as standard to help our customers and their families get the support they need – whenever they need it.

We've made improvements to help us deliver fairer and more inclusive products. For example, we introduced the pioneering Diabetes Life Cover, which is more cost-effective and tailored to the type of diabetes that a person has. We designed our Over 50s Life Cover to be fairer too. With us, if you need to stop paying, your loved ones could still get some money when you pass away.

Helping Hand is a support service that's included in all our protection products. It's available from the day a customer starts their plan, they don't need to pay anything extra to use it, and their partner and children can use it too. Helping Hand is our way of going above and beyond, providing financial help with emotional and practical support including legal and career helplines too. Over 70% of our customers who claim use Helping Hand; in addition, more people use the service long after a claim has been paid or even where there hasn't

been a claim at all. We are proud to be involved with Helping Hand.

### Working for members

As a mutual, our 1.2 million members own our business, so ensuring they are able to actively engage with us and feel valued is very important. We have listened to what our members have said, and over the course of 2017 we launched a number of initiatives that benefit them and their communities. This includes the relaunch of the Royal London Foundation (more in the communities section) and the Insight into Work programme.

### Insight into Work

The Insight into Work programme opens the doors of Royal London to members and their direct families. The work placements allow members to nominate themselves or a direct family member for a one to two-week voluntary experience or four-week paid work experience. It is aimed at those leaving school or university, and anyone considering a career change or wanting to return to work after a long break. In 2017, there were 10 successful placements across various teams within Royal London. In 2018, we are aiming to host 24 placements across a wide range of teams, including within our Consumer division, Group Operations, Finance and HR teams.

### ProfitShare

Members qualify for our ProfitShare scheme. This is where, when we do well,

### Insight: working with Maggie's in Manchester



We regularly involve consumers in the design and testing of our products. During the year, we sought insight and understanding from people who have been diagnosed with illnesses to help shape our products and services. We worked closely with cancer support charity Maggie's, consulting with visitors to their Manchester Centre to help us better understand the financial impact of a cancer diagnosis and their experiences with access to/approach to life and critical illness cover. From this we gained a

huge amount of insight from consumers and customers who had actually experienced serious illness, and could articulate their needs and wants as they progressed through treatment and recovery. Three prototypes of potential developments and many smaller actions emerged and we hope that we will be able to commence work on some of these from early 2018.

Additionally, we will be launching a new simplified direct-to-consumer critical illness proposition in Q1 2018, based on these insights.



66

We've made improvements to help us deliver fairer and more inclusive products... we've introduced the pioneering Diabetes Life Cover that's more cost-effective and tailored to the type of diabetes someone has

99

75%

The percentage of Over 50s Life Cover claims paid on the same day

£792m

Amount allocated since 2007 in ProfitShare. When we do well, so do you

## Media campaigning

We regularly use the national media to highlight and raise awareness of areas where people are not claiming the help they may be entitled to. This year, we highlighted that married couples are missing out on unclaimed tax allowances and that grandparents looking after their grandchildren and military wives may be unaware that they could be entitled to valuable National Insurance credits to help them build up a state pension. The fourth Royal London *National Funeral Cost Index* revealed funeral debt has reached an all-time high and we are campaigning for the level of social fund funeral grants to bear more relation to the actual costs of funerals.

We use our voice to campaign for social issues and we have had a powerful reach. There were more than 400 million 'opportunities to see' these campaigning stories in national, regional and broadcast press.

so do you. We allocate a discretionary part of the Group's profits annually to eligible policies. This is paid into your savings products, boosting the value of your savings. You can read more about this in our Group Chief Executive's statement. We're proud that we have allocated £792m since 2007.

The online Member Update is a hub of useful information, helping members to get the most out of their membership and their Royal London products. It features a range of content, from useful articles to engaging videos and animations.

### Supporting you to navigate your money

We know that the world of money can be baffling and bewildering for many people. Our aim is to build financial capability by using the expertise of specialists across the business to help our customers and members navigate the world of personal finance with confidence and manage their own money effectively.

One way we seek to do this is through our *Good with Your Money* guides, which we publish on our website. In 2017 we published three new editions to help people:

- › understand their tax code and what it means to them;
- › appreciate the financial implications of living together in later life; and
- › spot the warning signs if a family member is at risk of a financial 'scam'.

We also produced a guide for parents thinking about helping their children get on the property ladder.



Our Director of Policy, Sir Steve Webb, acts as the pensions 'agony aunt' for the *This is Money* website, writing a weekly column in response to reader questions. We also make sure that our regular emails to members include articles to help them better understand their finances

## Our social responsibility continued



### Supporting customers

A growing area of work for Royal London is helping people improve their financial capability. This is to help people manage their money better so that they can make good financial choices on a day-to-day basis, as well as preparing for significant life events and managing periods of financial difficulty. At the start of 2017, we published the results of a study of 800 of our customers looking at whether using various budgeting tools could help them manage their money better.

The team also carried out in-depth interviews with some of our bereaved customers to understand the financial issues they faced in the weeks and months after the death of their loved one and what help they would have found useful. We are using the findings from this research to try out new ways of supporting customers in 2018. This will include piloting two new guides: one with useful sources of help and support when someone dies, and another aimed at encouraging people to plan ahead for death.

### Being a responsible investor

One of the biggest ways the Group can have a positive impact on society is through our investment philosophy. When our policyholders choose a pension or life insurance product, their payments are re-invested on their behalf in stocks, bonds and commercial property. We use the profits from these investments to pay out insurance claims and pensions to our members. This is a large responsibility, and that's why we make sure we are investing that money in a responsible way that will contribute to an overall positive impact on society and our members, as well as generating good returns.

The majority of our assets are invested with Royal London Asset Management (RLAM), an investment management subsidiary of Royal London Group. RLAM manages £114bn globally. As well as managing assets for Royal London life and pension policyholders, RLAM manages assets for a range of clients including charities, local authorities and universities. Investing money responsibly is part of everyday business for us. In undertaking our responsibilities, we vote at company annual meetings, engage with management and boards of directors to improve corporate practices, and we advocate for strong corporate governance.

On PRI\*, we were rated

# A or A+

\*UN-supported Principles for Responsible Investment (PRI)

Number of companies we spoke to in 2017

191  
individual companies

251  
engagements

Number of meetings voted

# 887

How we voted overall

91%  
for

7%  
against

2%  
abstained\*\*

Number of resolutions voted

# 12,576

Executive pay, how we voted

64%  
for

27%  
against

9%  
abstained\*\*

\*\*We abstain for two reasons: (1) we have concerns about the issue but not enough to warrant a vote against; and (2) we use it to flag a concern to a company in the first instance (first year or first offence). If nothing changes the following year, we usually escalate to vote against.



We invest in a responsible way that contributes to an overall positive impact on society and our members as well as generating good returns



£114bn

The amount managed globally

16

The number of awards won this year, highlighting how sustainability can be a driver of great investment performance

**Governance and advocacy**

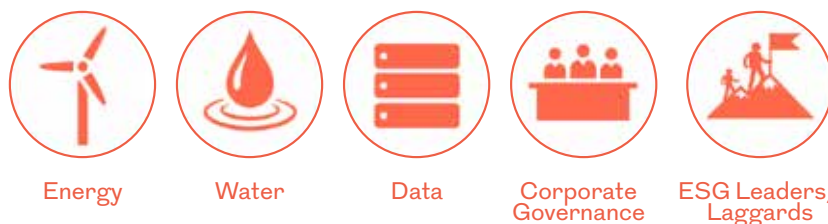
We advocate for strong corporate governance practices across all companies we invest in. For example, this year we have expressed our concern about the potential erosion of governance standards to facilitate the London listing of Saudi Aramco, the world's largest oil company. We have also supported changes to executive pay at BP and Shire this year, and have opposed large increases to executive pay at house-builder Persimmon.

**Ethical and ESG funds**

We have an Ethical Bond Fund that does not invest in tobacco or arms companies, as well as those that have poor records on human rights and the environment. We have two Global Equity Funds that consider environmental, social and governance (ESG) issues when evaluating companies for investment. We also launched an ESG emerging markets tracker fund in 2017, and our Cash Funds do not invest in tobacco and arms. Overall, we have £11.36bn in assets under management across eight funds.

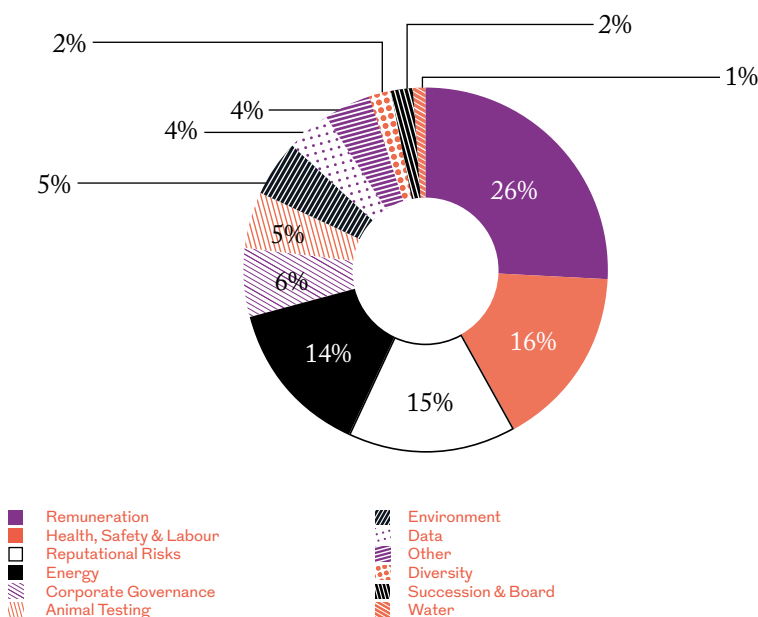
**2017-2019 engagement plan**

Our focus on engagement throughout 2017 has been, and will continue to be until 2019, on these five areas:



**2017 company engagement topics**

Throughout 2017 we spoke to 191 different companies a total of 251 times on topics such as remuneration, climate change, diversity and animal testing. The breakdown of topics covered is as follows.



## Our social responsibility continued

### Social impact of investments

We have a specialist team dedicated to looking at issues such as the 'social impact' of our investments. This team is responsible for monitoring and engaging with companies on environmental, social and corporate governance issues across all of our investments.

#### RLAM's tangible social impact



##### Social housing

We currently lend £3bn to the UK social housing sector, investing in bonds issued by charities whose main mission is to provide housing to those in need. The funding we provide helps to support housing associations in building new affordable homes, as well as maintaining its existing stock, filling a gap in funding due to lower support from government and reduced lending by banks.



##### Green infrastructure

We support 'green infrastructure' projects such as offshore wind farms, biomass plants and sanitation services. One example of this, the Thames Tideway super sewer, will divert tens of millions of tonnes of sewage from the river Thames and our investment will help fulfil a key component of HM Treasury's National Infrastructure Plan. Our financing for offshore wind farms and biomass is helping the UK to reduce its carbon emissions and to build a more sustainable energy infrastructure. RLAM's total investment in these projects is £274m.



##### Sustainable Funds

We have five Sustainable Funds that currently have over £1.7bn in assets under management, and the mandate is to invest in companies that provide a 'net benefit to society' or are leaders in managing ESG issues. The Sustainable Funds invest in companies that are working towards making the world a better place, such as sustainable agriculture, healthcare, cloud computing and electric vehicles. These funds have won 16 awards this year, highlighting how sustainability can be a driver of great investment performance.

# 3,500+

The number of acts recognised by colleagues for positive behaviours and actions under the *In the Spirit* recognition scheme

# 3,500+

The number of delegates places being taken through internal training workshops

# 40%

Having signed up for the HM Treasury Women in Finance Charter in 2016, we aim for 40% of our most senior grade to be female by 2020. Thereafter, we will set new targets to achieve a level of female participation that fully reflects their representation in the UK workforce



**Creating a great place to work**

We believe that creating the right culture will support our people to achieve the best outcomes and experiences for our customers and members, and we are firmly on that journey.

During our 2017 Employee Roadshows we launched our People Commitments. Based upon our people’s feedback, we designed a set of promises that will make Royal London an even better place to work. The focus was on career development, reward and leadership. This builds on our existing, internal culture programme, which aims to engage our employees through embedding our values and behaviours. Feedback from our employees through our annual employee engagement survey also indicates that our desired culture is increasingly defining the way we work.

Improving employee engagement at Royal London is a priority. Research conducted within the group indicates that engaged employees deliver better customer outcomes. We also believe that providing a great working experience for our people is important, particularly because, as a mutual, our employees are also members and customers.

We invite our employees to share their experience of Royal London through our Employee Engagement survey and we are proud to report positive gains in our Employee Engagement Index results over the last four years (2014-2017).

**Our values**



In 2017, 90% of our employees participated in the survey and we achieved a favourable Employee Engagement index score of 80%, a result that exceeds the Financial Services norm.

Our recognition scheme *In the Spirit* had its first anniversary in July 2017. More than 3,500 acts were recognised by colleagues as positive behaviours and actions.

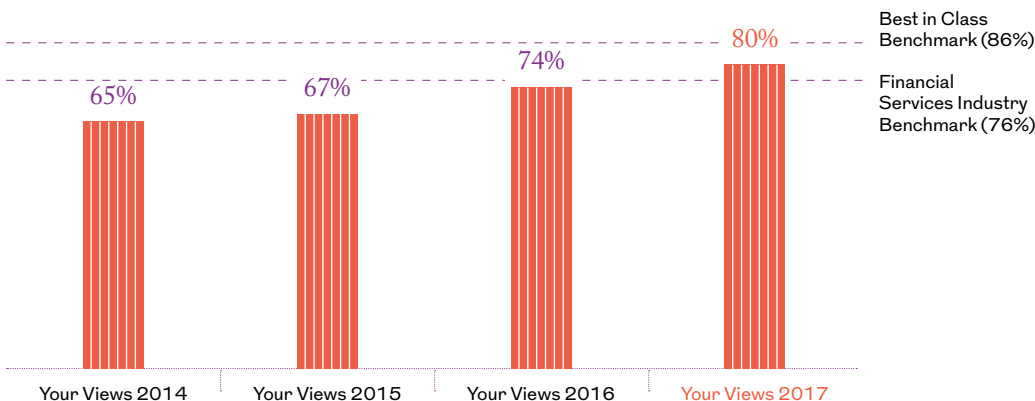
We believe that rewarding our staff fairly is critical and so in 2017 we benchmarked the salaries of all our employees to bring their wages within the range of 90-110% of the market salary. We are proud that in March we became accredited as a Living Wage Employer. Also in 2017, we started work with our partners Elior, and were supported by Mencap, to create new employment opportunities supporting people with a learning disability. We will share more on this in 2018.

We take the development of our employees seriously and continue to encourage learning across the group, with over 3,500 delegate places being taken through internal training workshops, including seven delegates from staff at East London Business Alliance, our London volunteering partner.

We believe our culture and people are fundamental to our success, and recognise the importance of a diverse workforce. Having signed up to the HM Treasury Women in Finance Charter (WiFC) in 2016, our initial target is for our most senior grade to be 40% female by the end of 2020. We will then set a new target to achieve a level of female participation that fully reflects their representation in the UK workforce. When we signed up our most senior grade it was 32.6% and at the end of September 2017 it was 33.7%. The Group Executive Committee is committed to contributing to our Diversity agenda and, in particular, the achievement of our WiFC target. We publish how we’re doing against the targets every year on our website.

**Our employee engagement journey**

**80%** of our people are engaged (emotionally connected to Royal London)





## Our social responsibility continued

### Making a difference in our local communities

In 2017, we launched the Royal London Community programme, with six local charity partners chosen by our people to support those with a chronic or long-term condition. This aligns with our business model as a life and pensions provider. We also relaunched the Royal London Foundation to help members make a difference in their local communities. Both of these initiatives focus on smaller, local organisations, ensuring that the impact of our activity meets the needs of local groups and people. Our internal Community Engagement programme is led by over 70 social responsibility champions across all our offices.

# 81%

### Proportion of people who feel encouraged to take part in community activities

As a result of our investment in our community activity, 81% of our people say they are encouraged to take part in community activities, a 24% increase on 2016.

# 6,500

### Number of people our team challenge programme has supported

In partnership with Business in the Community our team challenge programme has supported 6,500 people.

# £144,000

### Amount donated overall to charity

We match a portion of our people's fundraising efforts. In 2017, we and our people donated a total of £144,000 to charity.

# 3

### Number of Volunteer of the Month awards

We are proud that three of our London staff were chosen as Volunteer of the Month by our partners East London Business Alliance, in 2017.

# 3,281

### Hours volunteered by staff in 2017

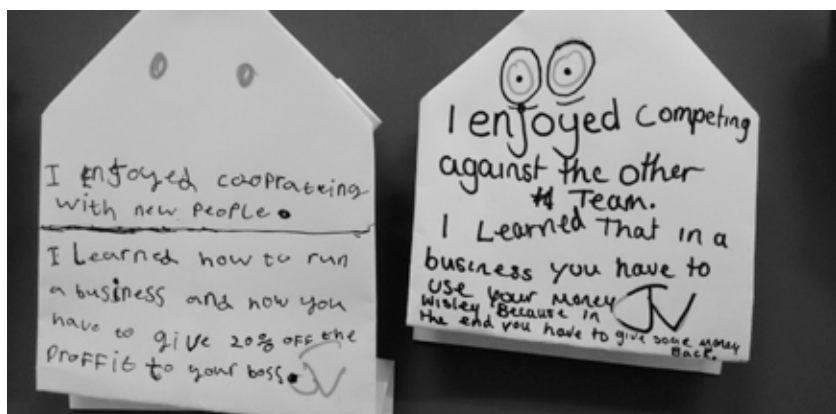
Our Employee Volunteer programme gives our people two days annually to volunteer in their local community.

# £185,000

### Amount given in grants from the Royal London Foundation in its relaunch year

We paid out £185,000 to 37 not-for-profit organisations nominated by members across the UK in 2017.

As one of our Premier Members, Royal London Group makes a significant contribution to support the Prince's Responsible Business movement. We recognise them for their commitment to improving the impact of their business and for demonstrating that shared value can be created by pursuing the responsible business agenda. **Business in the Community** The Prince's Responsible Business Network



Working with local schoolchildren through our team challenge partners Business in the Community

### **Managing our environmental impact**

We take the environmental impacts of our business and operations seriously. By monitoring our actions, we are able to gauge the effectiveness of our operations and equipment, and can design upgrade programmes to reduce our impact.

### **Sustainable approach to investment properties**

Royal London takes a strong, sustainable approach to both existing properties and development sites, and we have a Sustainability Policy in place that guides our approach. We set annual targets to reduce energy consumption, all energy consumed is from renewable sources and we seek to ensure that less than 1% of waste is sent to landfill. Our Sustainability Policy can be found on our RLAM Property pages.

### **Our offices**

In 2017 we reduced our CO<sub>2</sub> emissions by 1,081 tonnes against 2016, and we are committed to improving this further. With our energy procured from green sources, and reducing generation of CO<sub>2</sub> emissions, we are on course to achieve our objective for minimal environmental impact.

The upgrading of our premises is seen as a strategic development within the business, and we have spent time in 2017 working on the key priorities for our new Wilmslow office. We really wanted to ensure that we had minimal impact on our people, the local community and the environment. Our new office is currently being designed with the aim of achieving a minimum Building Research Establishment Environmental Assessment Method 'Very Good' rating (an industry-recognised standard).

Within our existing buildings we have been working on a number of initiatives, including:

- › upgrading our lighting to ensure we only light spaces when occupied;
- › upgrading our toilet facilities in Edinburgh to make them more water-efficient;

- › assessing our consumables across our catering contract to reduce the amount of waste, including the use of fully recyclable packaging where possible; and
- › trialling a new cleaning system to use ionized water instead of chemicals to clean our offices, which will be rolled out this year to the rest of our operational properties throughout 2018.

We are also proud that none of our waste in our offices goes to landfill.

In 2017, we began a review across our properties, with our partners Business in the Community, to understand our environmental impact and clarify our environment policy and commitments. We will publish the outcomes on our website in 2018.

### **Respect for human rights**

In 2016, the Group introduced a Modern Slavery Act statement which sets out the steps we are taking to ensure that neither modern slavery nor human trafficking is taking place within our businesses or supply chain. We ask all suppliers and contractors to provide their Modern Slavery Statements and confirm compliance with the Modern Slavery Act 2015, to ensure they have their own processes and policies in place to deal with slavery and human trafficking.

### **Looking forward to 2018**

In 2018, we are continuing on our journey towards understanding the social impact of our activities. We will increase our staff engagement in our local communities through our Community programme, report on our outcomes from the Environment review, and continue to collaborate across our business and with our partners to ensure we get maximum benefit for society from our activities.

Visit our social responsibility pages to find out more about how we support customers and members, our people and our work in local communities: [royallondon.com/about/social-responsibility](http://royallondon.com/about/social-responsibility)



We will increase staff engagement in local communities through our Community programme, report on our outcomes from the Environment review, and continue to collaborate across our business, and with partners, to ensure we get maximum benefit for society from our activities



# GROUP FINANCE DIRECTOR'S REVIEW

**The inflow of new business has been remarkable this year. As a result, we have been able to translate that growth into** a significant increase in EEV operating profit, positioning us comfortably to face the future





**Tim Harris**  
Deputy Group Chief Executive  
& Group Finance Director

We remained true to our commitment of always putting our members' and customers' interests first. This commitment is a key ingredient in ensuring our prosperity over the long term

**£329m**

Our EEV operating profit before tax compared with £282m in 2016

Royal London delivered another good performance in 2017, taking advantage of the opportunities in our markets to grow our new business significantly.

We generated strong new business sales during 2017 and translated that growth into a 17% increase in European Embedded Value (EEV) operating profit. We took the opportunity to ensure the business is well positioned to face the future, while also maintaining the level of ProfitShare allocation per member, which has increased in total from £114m to £142m, taking into account the increasing number of members eligible to receive it.

Throughout the year, we remained true to our commitment of always putting our members' and customers' interests first. This commitment, we believe, is both the right thing to do and a key ingredient in ensuring our prosperity over the long term.

We continued to be a leader in the provision of workplace pension schemes in the final full year of auto-enrolment, enabling thousands of people to become members of a scheme for the first time, and members of Royal London. We were active participants in helping customers and advisers navigate the pension freedoms, and we gained further momentum in our direct and intermediated protection businesses. Our asset management business performed particularly well, attracting new funds and delivering strong investment performance for our own members and policyholders and for external customers.

In both workplace and personal pensions, we have benefited from significant changes to the industry over recent years. That phase of very high growth is now over, particularly in group pensions, and is returning to more sustainable levels, which will likely result in lower EEV new business profits going forwards.

We also know from experience that our industry is frequently subject to regulatory or political changes and it is imperative for us to be in good shape to face the future.

In this review, I will explain the main factors that drove our financial performance during the year. Given the complex nature of accounting and regulation in our industry, it is not always easy to make these explanations simple, but our aim is always to be as clear as possible. A glossary of financial jargon on pages 217 to 220 will help explain some of the terminology.

### Financial summary

Profit from sales of our new business rose by 31% to £292m during 2017 (31 December 2016: £223m). Operating profit before tax grew by 17% to £329m (31 December 2016: £282m). These are calculated using the EEV method, which we believe is still the most meaningful basis on which to manage our business. In 2016 we took steps to align, where possible, our EEV methodology to our regulatory basis, Solvency II.

EEV profit before tax and ProfitShare was £594m, compared with £321m in 2016. The 2016 EEV profit before tax and ProfitShare is stated before an accounting charge of £182m arising on the alignment of our EEV methodology to Solvency II requirements. The increase was driven by a strong operating performance as a direct result of excellent new business sales, strong investment performance, changes to our future operating assumptions and also includes a £30m benefit arising from release of a counter-party default reserve, following a change to the reinsurance agreement with BlackRock. This was partially offset by higher strategic development costs from the investments being made in the business and an impairment charge of £31m. The Royal London Group Pension Scheme (RLGPS), which is now closed to future accrual, benefited from improved economic conditions and saw an increase in its IAS 19 funding level of £73m in 2017 (2016: decrease of £118m).

The International Financial Reporting Standard (IFRS) total transfer to unallocated divisible surplus for the year ended 31 December 2017 was £434m (2016: £143m before change in accounting estimate for Solvency II). As with EEV, our IFRS result benefits from the strong trading performance of the Group and continues to be affected by the low interest rate environment.



## Group Finance Director's review continued

Our capital position under Solvency II remains strong. Our capital cover ratio on a Solvency II basis at 31 December 2017 is 226% (31 December 2016: 209%) for the Royal London Open Fund and 235% (31 December 2016: 232%) for the Total Company (Investor view)\*.

ProfitShare increased by 25% to £142m (£150m gross of tax). This increase takes into account the larger number of people receiving ProfitShare – 1.2 million in 2017 compared with 1 million in 2016 – but the amount for each individual remains at a similar level to last year.

### Key developments

Investment in the business remained a key focus in 2017. We recognised one-off costs of £23m (2016: £16m) for investment in people, systems and capacity to ensure our businesses have up-to-date technology and are well-placed to deal with changing markets and regulations. This takes the total investment in our systems and transformation programmes since 2014 to more than £500m.

We are transforming our systems, successfully launching some of them, while others are still a work in progress. A number of our new financial and actuarial systems are now in use and we continue to develop the remaining technology to meet the accelerating reporting deadlines of the Solvency II regime.

Our new back-office system for our platform business, RLPS (Ascentric), has made good progress and we expect it to begin roll-out in the first half of 2018. RLPS also invested in systems and support for the introduction of MiFID II, focusing on helping financial advisers cope with the new regulatory regime.

Work on transforming our pensions business, known as #thinkbeyond, is well underway and development on our pensions platform has commenced. The new platform will replace IT systems, but the vision and purpose of the programme is much more. We believe it will deliver better outcomes and experiences for our customers as well as delivering a new digital proposition.

We continue to work hard on cost control and our Operational Efficiency programme, launched in 2014, is used to identify and realise cost savings with the emphasis on sustainable cost reductions. During the year, the programme identified a further £16m of savings for 2018.

Savings have been achieved through a variety of initiatives, from the deployment of continuous improvement end-to-end process reviews to procurement opportunities and optimising cost growth against a backdrop of growing new business volumes. During 2018, we will continue to explore further ways to streamline

our business model and strive to remove more waste and complexity from our current processes and structures.

We continue to monitor the implications of the UK leaving the EU, but expect to continue to trade as normal. We are in the process of setting up a regulated insurance subsidiary in Ireland to enable our business in the Republic of Ireland to continue to trade, and to mitigate any uncertainty for Royal London and policyholders.

### New business results

Sales of life and pensions new business on a PVNBP basis were strong in 2017, increasing by 38% to £12,002m. Intermediary saw total sales rise by 38% to £11,594m, Consumer by 36% to £408m. In Wealth net inflows were £2,802m (2016: £2,321m), taking total funds under management to £114bn (2016: £100bn). All three business areas delivered impressive performances, while also maintaining control of costs. Margins remained broadly in line with the previous year at 1.8% (2016: 1.9%).

### Intermediary

We remained a significant player in the provision of workplace pensions through auto-enrolment, and new business sales of workplace pensions increased by 12% in 2017 to £4,346m. We won significant new business in individual pensions, up 68% from 2016, where pension freedoms

\*Total Company is The Royal London Mutual Insurance Society Limited, which comprises the Royal London Open Fund, into which all new business is written, and seven closed, ring-fenced funds from previous acquisition activity. The Investor View includes the surplus from the closed funds.

### New business results<sup>1</sup>

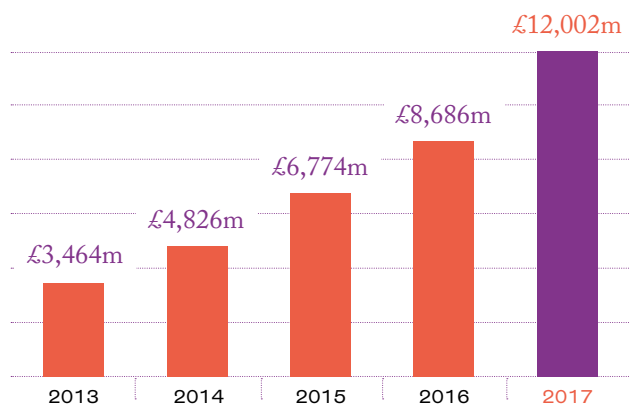
	New business contribution		PVNBP		New business margin	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 %	2016 %
<b>Intermediary</b>						
<b>Pensions</b>	<b>241.6</b>	170.6	<b>10,787</b>	7,738	<b>2.2</b>	2.2
<b>Protection</b>	<b>49.8</b>	42.8	<b>807</b>	647	<b>6.2</b>	6.6
<b>Consumer</b>	<b>(5.3)</b>	4.3	<b>408</b>	301	<b>(1.3)</b>	1.4
<b>Life and pensions business</b>	<b>286.1</b>	217.7	<b>12,002</b>	8,686	<b>2.4</b>	2.5
<b>Wealth<sup>2</sup></b>	<b>46.8</b>	37.7	<b>6,906</b>	5,065	<b>0.7</b>	0.7
<b>Total</b>	<b>332.9</b>	255.4	<b>18,908</b>	13,751	<b>1.8</b>	1.9

<sup>1</sup> New business contribution in the table above has been grossed up for tax at 19% (2016: 20%). We have done this to help compare our results with the results of shareholder-owned life insurance companies, which typically pay tax at 19% (2016: 20%).

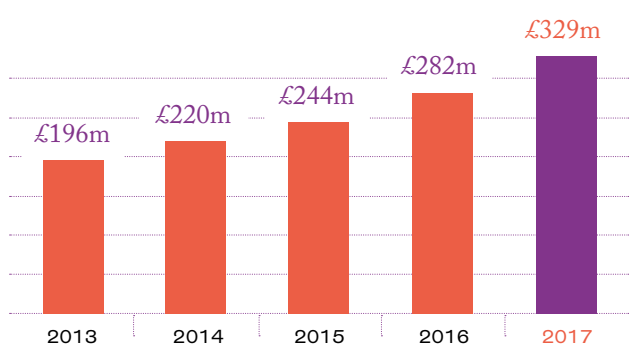
<sup>2</sup> PVNBP for Wealth relates to gross sales inflows in the period, excluding external cash mandates which are treated as uncovered business and not valued on an EEV basis. The 2016 PVNBP and new business margin comparatives have been updated to exclude cash mandates.



### New life and pensions business premiums PVNBP



### EEV operating profit before tax and exceptional items



continued to drive volumes and low interest rates made transfers from defined benefit pension schemes more attractive. Intermediary protection continued to build momentum, with new business sales up 25% to £807m.

#### Consumer

Total sales on a PVNBP basis increased by 36% to £ 408m, up from £301m in 2016. Our Over 50s life product grew both market share and volume during the year. Pre-paid funeral plans through partnerships with the Co-operative Funeral Services and Ecclesiastical Insurance produced strong sales of £290m (2016: £245m), and the partnership with the Post Office entered into in January 2017 to sell life cover products performed well. The negative new business contribution in 2017 was due to the business still being relatively new and being impacted by the low-yield environment. With a growing share in our key chosen market segments, we expect to make further enhancements to profitability metrics during 2018 from our new range of life assurance and funeral plan products.

#### Wealth

RLAM's consistently impressive investment performance attracted increased attention from both wholesale and institutional customers, resulting in net fund inflows of £2.8bn in 2017, while many rivals were seeing outflows. The Ascentric wrap platform saw assets under administration increase by 17% to £14.4bn (31 December 2016: £12.3bn). Ascentric launched a new flat-rate pricing structure in May 2017, which has helped increase volume of accounts set up on the platform, including a significant increase in Self-Invested Personal Pension (SIPP) accounts.

#### Financial review

##### EEV operating profit

EEV operating profit before tax rose by 17% to £ 329m (2016: £282m), mainly driven by the new business sales, particularly in pensions.

Profit contribution from new business was £292m, up 31% from the previous year, reflecting the quality of the new business we are writing. In particular, the contribution from the sale of new

pensions business increased £71m, driven by pension freedoms and auto-enrolment, which is expected to return to normalised levels of growth in future.

Profits from managing our existing book of business increased by £93m to £278m. This mainly consists of a £33m increase in experience variances and an increase of £61m (122%) from changing our operating assumptions. The key change in assumptions is an update to longevity assumptions, reflecting latest forecasts that future life expectancy will not improve by as much as previously predicted. Other assumptions have been brought in line with latest experience, and positive changes have been seen, particularly in our protection business. These changes have more than offset the impact of updating our Group Pensions persistency assumptions to reflect latest experience. We also changed our assumptions to reflect our expectation of lower unit costs, following the successful growth in new business sales. We continued to make further provision for developing our Pensions platform, a change that we believe will enable us to deliver a market-leading digital proposition and deliver better outcomes and experiences for our customers.

Our uncovered business generated an overall loss of £33m (2016: £44m) mainly due to significant cost being incurred in 2017 relating to the development of new back office software in Ascentric. We have recognised an impairment of £31m in the year (2016: £44m) reflecting the expected increase in costs relating to the sophistication of the new system and complying with MiFID II regulations.

Strategic development costs and other items increased to £208m (2016: £82m), which related primarily to providing for future change such as IFRS 17 and MiFID II and upgrading of our premises. Other items include provisions relating to the costs of servicing historic remediation and expected costs associated with setting up a new legal entity in Ireland following Brexit. These costs are offset by a one-off £30m benefit from the restructure of an arrangement with BlackRock, resulting in the release of a counter-party default reserve.

## Group Finance Director's review continued

**EEV profit before tax and ProfitShare** EEV profit before tax and ProfitShare in 2017 was £594m (2016: £321m, before change in accounting estimate for Solvency II). The increase on the previous year is due to our strong operating performance, investment return being better than expected at the start of the year and positive changes to economic assumptions, and the Royal London Group Pension Scheme (RLGPS) moving from a deficit to a surplus.

### IFRS results

Alongside EEV, Royal London prepares its statutory accounts under International Financial Reporting Standards (IFRS). While the two methods broadly follow each other, there are key differences outlined in notes (i) and (j) to the financial statements on pages 213 and 214 that contribute to the differences in respective results. As a mutual, the transfer to the unallocated divisible surplus (UDS) is a key measure of accumulation of funds available for us to share with our with-profits customers.

### Transfer to UDS

Our total transfer to UDS was £434m (2016: before the change in accounting estimate for Solvency II was £143m), an increase of 204%. This reflected the strong business performance and better-than-expected investment returns.

The 2016 IFRS results included a £165m charge for a change in accounting estimate for Solvency II.

Our 2017 operating profit (IFRS basis) was £296m (2016: £281m). On an IFRS basis, operating profit differs from EEV in that it recognises the amortisation of certain intangible assets. However, IFRS does not recognise the embedded value profits of our asset management business (these are included in the EEV profit). The table below reconciles our operating profit to the IFRS total transfer to/deduction from UDS.

The most notable items are:

- › investment return variances and assumption changes of £352m representing the impact of the movement in the market value of assets and offset by the movement in economic experience and assumptions used in calculating actuarial liabilities;
- › a tax charge of £103m. The majority of our tax charge represents policyholder tax, most of which has arisen due to gains on equities and income and gains on fixed-interest securities; and
- › ProfitShare of £142m, reflecting the amount allocated to qualifying members in 2017, consistent with the treatment in EEV.

### Reconciliation of operating profit to IFRS total transfer to/deduction from UDS

	2017 £m	2016 £m
<b>Operating profit (on IFRS basis)</b>	<b>296</b>	<b>281</b>
<b>Adjusting for the following items:</b>		
Investment return variances and economic assumption changes	352	373
Pension schemes costs recognised in profit	(4)	(3)
Finance costs	(47)	(47)
ProfitShare <sup>1</sup>	(142)	(114)
Change in basis for Solvency II	–	(165)
<b>IFRS result before tax and before transfer to unallocated divisible surplus</b>	<b>455</b>	<b>325</b>
Tax charge	103	249
Other comprehensive income	82	98
<b>Total transfer to/(deduction from) to unallocated divisible surplus</b>	<b>434</b>	<b>(22)</b>

<sup>1</sup> ProfitShare is not reported on the face of the IFRS Income Statement, instead it forms part of the movement in insurance contract liabilities and movement in non-participating value of in-force business.

66

Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies

99

£2.4bn

The Royal London Open Fund Solvency Surplus

### IFRS balance sheet

Our balance sheet remains robust. Our total investment portfolio, including investment property, grew by 12% to £89.4bn. Our financial investment portfolio remains well balanced across a number of financial instruments, with the majority (84%) in equity securities and fixed income assets.

### Staff pension schemes

The RLGPS was closed to future accrual of benefits in March 2016, which was an important step in managing our costs and capital requirements. All employees are now encouraged to join the Royal London Group Personal Pension or the Ascentric Group Personal Pension, both of which are consistent with the products we offer to our customers through our pensions business. Around 96% of employees are now members of one of these arrangements.

The RLGPS has moved to a surplus of £47m in 2017 (2016: £26m deficit), benefiting from positive investment performance, and an increase in corporate bond yields, but offset by increasing inflation expectations. During the year, the Trustee of the RLGPS increased the interest rate and inflation hedge so that it now covers approximately 90% of ongoing funding liabilities.

We also operate two schemes for former Royal Liver employees. The surplus from these schemes is included as part of the valuation of the closed Royal Liver Sub-Fund and, therefore, does not count towards the position of the Royal London Open Fund. The combined Royal Liver schemes surplus as at 31 December 2017 was £139m (2016: £131m surplus).

We continue to work closely with the Trustee Boards of all our schemes to assess options for reducing the schemes' exposure to market volatility and other risks.

### Capital strength

A strong capital base is an essential requirement for our business, both to ensure we have the capital to fund further growth and to safeguard the peace of mind of our members that we can meet our financial commitments to them.

Maintaining this strong capital position and managing it effectively is a key priority for us.

### Solvency II capital position on a Standard Formula basis

Our capital position is robust, reflecting the strength of our underlying business and effective capital management

strategies. The Royal London Open Fund had a solvency surplus of £2.4bn (2016: £1.9bn) and a capital cover ratio of 226% at 31 December 2017 (2016: 209%). The closed funds are also well capitalised with a Solvency Surplus of £3.1bn (2016: £2.6bn) and a Capital Cover Ratio of 243% (2016: 254%).

In common with the rest of the industry, we present two cover ratios: an 'Investor View' for analysts and investors in our subordinated debt (which does not restrict the surplus in the closed funds), and a 'Regulatory View' where the closed funds' surplus is treated as a liability. The Investor View Capital Cover Ratio for the Total Company is 235% including surplus in the closed funds (2016: 232%).

The table overleaf illustrates the movements in our Solvency II Surplus and Capital Cover Ratio (Investor View). The estimated cover ratio of 232% (published in the 2016 Annual Report and Accounts) reduced to a final cover ratio of 202% (including post balance sheet events and published in our 2016 Solvency and Financial Condition Report [SFCR]). This was due to an increase in the capital add on agreed with the PRA and the step down in Transitional Measure on Technical Provisions (TMTTP) on

### Solvency II capital position on a Standard Formula basis

31 December 2017

	Royal London Open Fund (£bn)	Royal London Closed Funds (£bn)	Total Company (Investor View) (£bn)	Closed Funds Restriction	Total Company (Regulatory View) (£bn)
<b>Own Funds:</b>					
Tier 1	3.4	5.3	8.7	–	8.7
Tier 2	0.9	–	0.9	–	0.9
<b>Total Own Funds</b>	<b>4.3</b>	<b>5.3</b>	<b>9.6</b>	<b>–</b>	<b>9.6</b>
Closed Funds restriction	–	–	–	(3.1)	(3.1)
<b>Adjusted Own Funds (A)</b>	<b>4.3</b>	<b>5.3</b>	<b>9.6</b>	<b>(3.1)</b>	<b>6.5</b>
<b>Solvency Capital Requirement (B)</b>	<b>1.9</b>	<b>2.2</b>	<b>4.1</b>	<b>–</b>	<b>4.1</b>
<b>Surplus</b>	<b>2.4</b>	<b>3.1</b>	<b>5.5</b>	<b>(3.1)</b>	<b>2.4</b>
<b>Capital cover ratio (A/B)</b>	<b>226%</b>	<b>243%</b>	<b>235%</b>	<b>n/a</b>	<b>159%</b>
<b>31 December 2016 Capital cover ratio (A/B)</b>	<b>209%</b>	<b>254%</b>	<b>232%</b>	<b>n/a</b>	<b>155%</b>

1 The 31 December 2017 figures are estimated and are unaudited. The final figures will be presented in the 2017 SFCR to be published on our website on 4 May 2018.

2 Figures presented in the table are rounded and the capital cover ratio is calculated based on exact figures.

3 The 31 December 2016 Solvency II surplus and capital cover ratios are as presented in Royal London's 2016 Annual Report and Accounts. These figures were estimates and final figures were disclosed in the SFCR in May 2017; being a capital cover ratio of 227% and £4.4bn surplus (Investor View), and capital cover ratio of 153% and £1.8bn surplus (Regulatory View) before post balance sheet events.

## Group Finance Director's review continued

1 January 2017. The capital add-on increase was mainly as a result of the lower risk-free curve applicable at 31 December 2016. The TMTP smooths the transition from the old Solvency I regime to the Solvency II regime, with the key difference being in the valuation of technical provisions, which is recalculated every two years.

Accordingly, on a like for like basis, Capital Cover has increased from the final 2016 ratio of 202% to an estimated 235% at the end of 2017, largely as a result of the 2 year recalculation in TMTP.

The 2017 SFCR is expected to be published on 4 May 2018 and will contain further information about our solvency and capital position. Further detail on our capital can also be seen in note 41 to the IFRS Financial Statements on pages 197 to 199.

### Ratings agencies

Assessing the financial strength and stability of financial services companies is a complex undertaking, and ratings agencies are one way of providing an independent assessment of the Group and its financial position. Both Standard & Poor's and Moody's, two of the leading agencies, regularly issue ratings on Royal London.

In June 2017, Moody's affirmed our existing A2 insurance financial strength rating and revised its outlook for Royal London from negative to stable. Moody's announcement stated its expectation that the impact on Royal London of the UK's decision to leave the EU will be moderate over the next 12 to 18 months, and for Royal London to maintain strong capitalisation and profitability.

In July 2017, Standard & Poor's reaffirmed Royal London's counter-party credit rating of A, with a stable outlook.

### Returning value to our members and policyholders

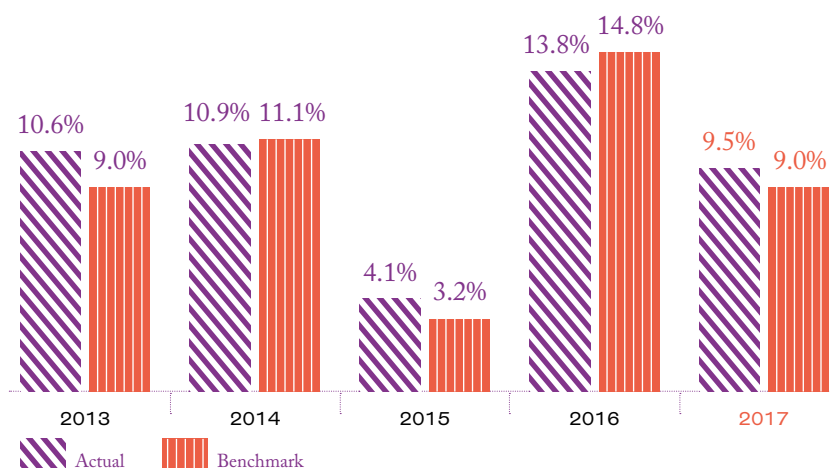
Our members saw good returns in 2017 from:

- positive investment returns on their policies, helped by rising stock markets and despite low interest rates;
- ProfitShare of £142m, up from £114m in 2016; and

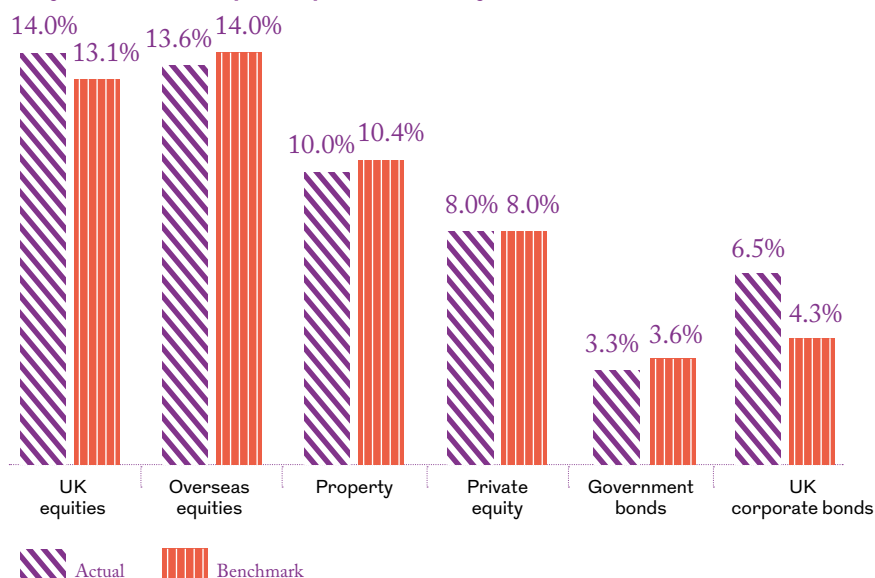
### Solvency II Solvency Surplus and Capital Cover Ratio (Investor View)

	Solvency Surplus (£bn)	Capital Cover Ratio (%)
<b>31 December 2016 (published in 2016 ARA)</b>	<b>4.5</b>	<b>232</b>
<b>Post balance sheet events and estimation differences</b>	<b>(0.6)</b>	<b>(30)</b>
<b>1 January 2017 (published in 2016 SFCR)</b>	<b>3.9</b>	<b>202</b>
Operating experience and assumption changes	-	(6)
Economic experience and assumption changes	0.5	13
Recalculation of TMTP at 31 December 2017	1.3	32
ProfitShare	(0.1)	(3)
Other	(0.1)	(3)
<b>31 December 2017 (estimated)</b>	<b>5.5</b>	<b>235</b>

### Royal London with-profits performance



### Royal London with-profits performance by asset class in 2017





- payouts to maturing with-profit policies during the year, which compare well with our industry.

### Investment returns

Investment returns for Royal London policyholders were strong, both in absolute terms and in relation to benchmarks. Performance was boosted by buoyant stock markets, which reached new highs during the year, and continued positive performance from corporate bonds and property.

Political events created an uncertain backdrop for investment markets, but the prospect of positive economic growth helped further gains in equity markets, while continued low interest rates kept bond yields low. This backdrop meant that demand by institutions for fixed-income solutions remained strong.

Our investment performance is measured both in absolute terms and against benchmarks that look at returns from different types of assets, such as property, equities and bonds. Each of our funds has different benchmarks to reflect their mix of assets and to ensure we are comparing like with like.

### With-profit investment returns

During the year, our investments backing the asset shares of the Royal London Open Fund, our largest fund, achieved a return of 9.5%, ahead of the benchmark of 9.0%. The second chart on page 42 illustrates the performance of the different types of investment in asset classes that underpin the fund. During 2017, performance was broadly in line with benchmark across all asset categories. Returns across key asset classes such as government bonds were significantly lower than the high returns seen in 2016 and equity returns were good despite being lower than those seen in 2016.

### Unit-linked investment returns

The Governed Portfolios range delivered extremely strong gains over the course of 2017, which was characterised by robust returns for equities against a backdrop of very low interest rates, which encouraged continued investor appetite for risk and positive price momentum. Where permitted, we generally had a bias towards equities, notably Japan and emerging markets, which helped performance. Within bonds, we generally had a

preference for corporate bonds and high yield bonds, which also helped, as these outperformed government debt. Over a cumulative three-year performance period the portfolios have outperformed their benchmark by 0.21% on average.

### With-profits policyholder bonuses

Although investment returns have been strong over 2017, interest rates remained at historic lows and despite the 0.25% rise in UK interest rates observed in late 2017, they remain at very low levels. We expect market volatility as the impacts of Brexit become clearer but, despite this, we have been able to maintain our annual bonus rates at the same level as 2016. Positive investment returns mean we have been able to increase payouts for some of our traditional with-profits policyholders. However, one of the main features of with-profits policies is smoothing. We held back some of the particularly strong investment returns in 2016 and 2017 to top up with-profits payouts in future years, if investment returns are poorer than expected.

We continue to manage our closed with-profits funds in line with our Principles and Practices of Financial Management, treating all our policyholders fairly. In particular, we aim to maximise the long-term returns for our with-profits policyholders, while ensuring we can pay all the amounts guaranteed to our policyholders.

### ProfitShare

Over recent years we have expanded the reach of ProfitShare to include thousands more of our members, and in 2017 another 200,000 new members qualified to receive ProfitShare. We said in 2016 that we hoped to maintain the allocation to each member in 2017 and we have achieved that goal with an enhancement of 1.4% to qualifying with-profits members and a 0.18% enhancement for eligible unit-linked pension policies. As a result of maintaining the level of ProfitShare across our increased membership base, the total amount allocated in ProfitShare has increased from £114m to £142m in 2017.

We hope to award a similar level of ProfitShare per member next year and our business plan supports that. However, the level of ProfitShare is determined by the performance of markets, of our business and other external risk factors.



Our investments backing the asset shares of the Royal London Open Fund, our largest fund, achieved a return of 9.5%, ahead of a benchmark of 9%



£142m

The total ProfitShare award, up from £114m the previous year

1.4%

The proportion by which we have been able to enhance our traditional with-profits customers' ProfitShare return

200,000

The number of new members that qualified to receive ProfitShare in 2017

## Group Finance Director's review continued

We strive to do all that we can to maintain ProfitShare at an attractive level.

### Tax strategy

We take our responsibilities as a tax payer seriously and manage our tax affairs in accordance with our tax strategy, which is now available on our website.

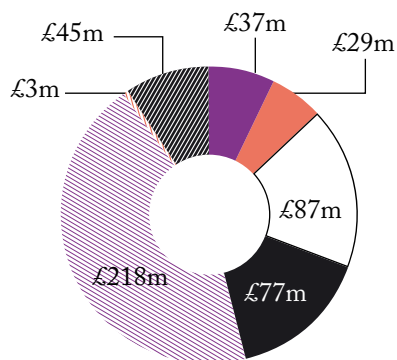
We strive to pay the right amount of tax, in the right place, at the right time and a fair amount of tax, striking a balance between all our stakeholders and ensuring that our policyholders are being treated fairly.

We are open and transparent in our approach to taxation at all times, and behave responsibly and proactively in our dealings with relevant tax authorities.

### How Royal London is taxed

We are subject to various taxes, including corporate taxes, employment taxes on salaries and indirect taxes such as VAT. The corporation tax that the Company pays is a proxy for policyholder tax liabilities, paid on behalf of certain life assurance policyholders. For these life policies, tax is charged on taxable income, less expenses and is largely driven by market movements. This tax is paid directly to HMRC and the Irish Revenue by the Company as corporation tax on behalf of policyholders.

For pension policies, the returns to the policyholder accumulate without suffering a similar corporation tax charge. This is part of the UK and Irish Governments' strategy of incentivising saving for



- UK and Irish transaction taxes
- UK and Irish corporation tax
- UK and Irish employment taxes
- UK and Irish VAT
- UK and Irish tax deducted at source
- Other UK and Irish taxes
- Overseas withholding taxes

Tax paid of £74m (as per the statements of cash flows on page 101) is the sum of the corporation tax of £29m and overseas withholding taxes of £45m.

retirement. The tax is paid directly by the pension policyholder when they receive their pension.

In 2017, the total tax contribution of the Group was £496m (2016: £493m) and a summary chart of the total contribution of the Group for 2017 is shown below.

The Group's total tax contribution is made up of the taxes borne and collected by the Group in the period. Taxes borne are the taxes suffered by the Group in the period which impact on the results of the Group. Taxes collected are those administered by the Group on behalf of government and collected from others for onward payment to HMRC and other tax authorities. In 2017, taxes of £185m (2016: £192m) were borne by the Group and the Group collected £311m (2016: £301m) of taxes on behalf of the tax authorities.

### Summary and outlook

Royal London has consistently demonstrated that it is a robust business that can produce impressive new business sales and profitability. Our strategic goal to become the most trusted and recommended provider of life insurance and investment products in the eyes of our customers is coming to fruition. This focus is driving sales as customers and financial advisers recognise the quality of our innovative value-for-money products and excellent customer experience.

In 2018, we will enter a new phase as the group and personal pensions market start returning to more sustainable levels of growth after a period of huge change driven by pension freedoms and the auto-enrolment of workers into company pension schemes. We have made the most of the opportunity from our strong performance to invest in our business for the future and improve the experience for customers and advisers. We have new products and partnerships in the pipeline for 2018 that will help to drive continued growth, at a more sustainable pace.

**Tim Harris**  
Deputy Group Chief Executive  
& Group Finance Director

### Forward-looking statements

This Strategic Report contains forward-looking statements with respect to certain Royal London plans, its current goals and expectations relating to its future financial position. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond our control. These include:

- UK economic and business conditions;
- market-related risks, such as fluctuations in interest rates;
- the policies and actions of governmental and regulatory authorities;
- the impact of competition; and
- the timing, impact and other uncertainties of future mergers or combinations within relevant industries.

As a result, Royal London's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in our forward-looking statements. We undertake no obligation to update the forward-looking statements contained in this document or any other forward-looking statement it may make.

### Strategic report

The 2017 Strategic report, from pages 2 to 45, was approved by the Board of Directors on 28 March 2018.

By order of the Board

**Fergus Speight**  
Company Secretary  
For and on behalf of  
Royal London Management  
Services Limited  
28 March 2018



## Balancing act

In 2017 we delivered an exceptional performance, while remaining true to our commitment of always putting our members' and customers' interests first

## Corporate Governance



# YOU MATTER TO US

**As a mutual, we're owned by our members, not outside shareholders,**  
but that doesn't mean we're not committed to following corporate governance rules  
– in fact, it's a way of keeping the Board and the management up to the mark





*Rupert Pennant-Rea*

Rupert Pennant-Rea  
Chairman



We are increasing the amount of attention we pay to a full range of stakeholders – not just customers and members, but also employees and suppliers



An article in the *Financial Times (FT)* in October 2017 started with two provocative questions: “Does corporate governance matter? Or, to be more precise, do investors really care about it?” At first glance, this seems almost blasphemous. What about those countless enquiries and reports on corporate governance, the umpteen academic articles in learned journals, the codes that sanctify certain boardroom practices and condemn others? If none of this matters, a lot of people in the western world have been wasting millions of well-paid hours over the past 20 years or so. Of course governance matters, of course it does.

After the harrumphing has died away, though, that *FT* article still makes two points that can’t be lightly dismissed. One is that all forms of passive investing – those funds that invest in the component firms of indexes like the FTSE 100 – have no need to pay attention to the firms’ governance arrangements, or anything else for that matter. If a firm drops out of the index, passive funds sell their holding in it, to be replaced by an investment in the index’s new member. This sort of index-matching is increasingly popular, to the point where it accounts for a quarter of all the money invested in the world’s stock markets.

The second argument is just as powerful. It is that many asset managers now take the advice of so-called proxy advisers – specialist firms that judge whether or not a listed company is following good practice on, for example, executive pay or handling conflicts of interest. You might say that these advisers think of little else but corporate governance, in which case the asset managers who follow their advice are wisely accepting the views of experts. But what if the fund managers are just mightily relieved that someone else is dealing with all that tedious governance stuff, freeing them to concentrate on the red meat of buying shares if they think they’ll go up and selling them if they think they’ll go down? And what if the proxy advisers themselves have conflicts of interest?

These are uncomfortable questions – for quoted companies. What relevance have they got for a mutual like Royal London, owned by its members rather than by outside shareholders? The short answer is that the Corporate Governance Code really does matter to us because we use it as one of several ways of keeping our own Board and the management up to the mark. We don’t have shareholders to tell us what matters to them, but the ‘Code’<sup>1</sup> helps us to behave as if we did.

That is why, in the pages of this Annual Report and Accounts, you will find plenty of references to how Royal London complies with evolving best practice in boardrooms, as well as changes in company law. To give you a few examples:

- we provide enhanced information on executive pay – not just what it is but also how and why it is set this way;
- we are becoming a more diverse company. Last year we appointed an excellent new non-executive director who happens to be a woman. We now have three female Board members and in 2017 we signed up to a target to increase our senior female leadership from 33% to 40% by the end of 2020; and
- we are increasing the amount of attention we pay to a full range of stakeholders – not just customers and members, but also employees and suppliers.

Last year we also did something a bit more novel. We asked someone on our own staff – RLAM’s Head of Responsible Investment – to take a critical look at our Remuneration report. Does it provide useful information? Does it avoid the reams of detail that are often hard to wade through, let alone to interpret? How does it compare with the many reports that RLAM receives from the companies it invests in? The broad answer was encouraging – we are doing pretty well – but in some areas we could do more or do it differently. We have followed up on these recommendations, and this year’s report should be clearer and more informative as a result.

<sup>1</sup> The UK Corporate Governance Code 2016: An Annotated Version for Mutual Insurers (The ‘Code’).

## Our leadership



### Rupert Pennant-Rea Chairman

**Appointed:** 13 December 2012.

**Skills and experience:** Rupert was appointed Chairman after the AGM in 2013. He has extensive financial services experience. He was chairman of Henderson Group for eight years and stepped down at its AGM in May 2013. He was deputy governor of the Bank of England from 1993 to 1995, prior to which he spent 16 years with *The Economist*, where he was editor from 1986 to 1993.

**Committee memberships:** Nomination Committee (Chair) and attends all other committees.

**External appointments:** Non-executive chairman of the Economist Group and PGI Group Limited, Independent National Director of Times Newspapers Holdings Limited.

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### Phil Loney Group Chief Executive

**Appointed:** 1 October 2011.

**Skills and experience:** Prior to joining the Group, Phil spent eight years working in the Insurance Division of Lloyds Banking Group, most recently as managing director of the Life, Pensions and Investments business. Before joining Lloyds Banking Group, Phil held senior leadership positions with AXA, Norwich Union, CGU and Lloyds Abbey Life among others. Phil's experience has been across both long-term savings and general insurance.

**Committee memberships:** Disclosure Committee (Chair).

**External appointments:** Association of British Insurers (Senior Independent Director).

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### Tim Harris Deputy Group Chief Executive & Group Finance Director

**Appointed:** 19 May 2014.

**Skills and experience:** Tim joined Royal London as the Group Finance Director and in January his role changed to Deputy Group Chief Executive & Group Finance Director. Prior to joining Royal London, Tim was group chief finance officer for Torus Insurance and held a number of senior executive positions at Aviva Plc, most recently deputy group chief financial officer, and served on the boards of Aviva Ireland and Aviva France. He was also a partner in the Global Capital Markets practice at PricewaterhouseCoopers LLP (PwC). Tim is a Fellow of the Institute of Chartered Accountants (ICAEW) and a Chartered Insurance Practitioner, and serves on the Insurance Committee of the Financial Services faculty of the ICAEW.

**Committee memberships:** Disclosure, Investment and With-Profits Committees.

**External appointments:** ABI Prudential Regulation, Financial Reporting & Tax Committee (Chair) and ABI (Director). Tim is a member of the PRA Practitioners Committee.

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### Jon Macdonald Chief Risk Officer

**Appointed:** 14 December 2012.

**Skills and experience:** Jon joined the Group in November 2012 as Chief Risk Officer. He was previously group chief risk officer for RSA and Prudential and has held a number of senior risk and capital management roles at Prudential, PwC, Aviva Plc, Fox-Pitt Kelton, Swiss Re and Zurich and is a Fellow of the Institute of Actuaries.

**Committee memberships:** Disclosure, Independent Governance and Investment Committees.

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### Andrew Palmer Independent Non-Executive Director

**Appointed:** 1 April 2011.

**Skills and experience:** Andrew was Group Finance Director of Legal & General Group plc, where he also held a number of financial and operational roles in the asset management, insurance and international businesses.

**Committee memberships:** Audit Committee (Chair), Board Risk and Nomination Committees.

**Subsidiary appointment:** Royal London Asset Management Limited (Chair).

**External appointments:** Non-executive director of Direct Line Insurance Group, a trustee and honorary treasurer of Cancer Research UK. Member of Financial Reporting Review Panel of the Financial Reporting Council. Chairman of The Royal School of Needlework.

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**Sally Bridgeland** Independent Non-Executive Director

**Appointed:** 14 January 2015.

**Skills and experience:** Sally spent 20 years at Aon Hewitt, followed by seven years as chief executive officer of the BP Pension Fund. Sally is a Fellow of the Institute of Actuaries and the Board benefits from her extensive knowledge of asset liability modelling, along with investment strategy design and implementation.

**Committee memberships:** With-Profits Committee (Chair), Investment, Nomination and Remuneration Committees.

**External appointments:** Independent trustee for Lloyds Banking Group Pension Trustee Limited, Nuclear Liabilities Fund Limited and NEST Corporation and a member of the Trust Investment Committee at innovation charity Nesta. Non-Executive Director of Impax Asset Management Group plc and Local Pensions Partnership Limited. Former Master of the Worshipful Company of Actuaries.



**Olivia Dickson** Independent Non-Executive Director

**Appointed:** 15 June 2017.

**Skills and experience:** Olivia held a number of roles as managing director with J.P. Morgan and was a senior adviser to the Financial Services Authority on a range of strategic projects. Previously, Olivia was a non-executive director of Canada Life, Virgin Money, Investec, Aon and the London International Financial Futures Exchange.

**Committee memberships:** Investment, Nomination and Remuneration Committees.

**External appointments:** Non-executive director of The Financial Reporting Council Limited where she chairs the Actuarial Council, non-executive adviser to Travers Smith and a member of the Government's Advisory Group on Social Impact Investing.



**Ian Dilks** Independent Non-Executive Director

**Appointed:** 14 November 2014.

**Skills and experience:** Ian spent his entire career at PricewaterhouseCoopers LLP, joining the firm (which was then Coopers & Lybrand) in 1974, becoming a partner in 1986. He rose to become a member of the global financial services leadership team and global insurance leader. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network.

**Committee memberships:** Investment (Chair), Nomination and Audit Committees.

**External appointments:** NHS Resolution (Chair) (formerly NHS Litigation Authority); Expert Adviser, House of Commons Treasury Committee.



**Tracey Graham** Independent Non-Executive Director

**Appointed:** 10 March 2013.

**Skills and experience:** Tracey was chief executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that, she was president of Sequoia Voting Systems and customer services director at AXA, and held a number of senior positions at HSBC.

**Committee memberships:** Remuneration Committee (Chair), Board Risk and Nomination Committees.

**Subsidiary appointment:** Investment Funds Direct Limited (Chair).

**External appointments:** Non-executive director of Link Scheme Limited, Istock plc and Acal plc.



**David Weymouth** Independent Non-Executive Director

**Appointed:** 1 July 2012.

**Skills and experience:** David's 27-year career at Barclays, including five years as a member of the Group Executive Committee, gave him a wide experience and insight across Operations, Technology, Transformational Change and Risk Management in a global organisation. During seven years as a member of the Executive Committee at RSA Insurance, he extended his skills across another sector of Financial Services. He has, in addition, consulted to a number of blue chip and Government organisations and served as a non-executive director on several Boards both in the UK and overseas.

**Committee memberships:** Board Risk Committee (Chair), Nomination and Audit Committees.

**External appointments:** Chairman of Mizuho International Holdings plc, Chairman of One Savings Bank plc and non-executive director of Fidelity International Holdings (UK) plc.



**Fergus Speight** General Counsel and Company Secretary

**Appointed:** 13 April 2011.

**Skills and experience:** Fergus is a solicitor and the General Counsel and Company Secretary. He joined the Group in 2011 from Resolution, having previously held senior positions in Legal and Company Secretarial at Nomura and Aviva. Before becoming a solicitor, Fergus was an insurance underwriter with Sun Alliance. His legal career began in 1994 at Standard Life, which was then mutual. Fergus is a member of the Law Society of Scotland.

**Other directors who served during the year:** Duncan Ferguson, Senior Independent Non-Executive Director, resigned as a member of the Board of Directors on 14 June 2017.

## Directors' report for the year ended 31 December 2017

The directors present their report for the year ended 31 December 2017. **The Directors' report should be read together with the Strategic report and the Corporate Governance statement**, which are incorporated in this Directors' report by way of reference

The purpose of the Strategic report is to provide a fair, balanced, understandable and comprehensive view of the development and performance of the Group's business, its financial performance during the year and likely developments. It also reports on the Group's ongoing strategy and business model.

The Corporate Governance statement reports on the Company's compliance with the UK Corporate Governance Code 2016: An Annotated Version for Mutual Insurers (the 'Code') published in September 2016, and includes information about any principal risks and uncertainties associated with the business. The Code is published by the Association of Financial Mutuals with the permission of the Financial Reporting Council, and is a revised version of the UK Corporate Governance Code published in April 2016. It provides a guide to effective Board practice and is based on the principles of good governance: accountability, transparency, probity and a focus on the sustainable success of an entity over the longer term. The Board believes that its practices are consistent with each of the principles of the Code, are appropriate and offer the necessary levels of protection for our members.

### Principal activities

The Group comprises The Royal London Mutual Insurance Society Limited (Registered Number 99064) and its subsidiaries. The Group is structured into a number of businesses as set out in the Strategic report. The principal activity of the Group is the transaction of long-term insurance business covering life and pensions. A list of the Group's subsidiaries is set out in note 20 to the financial statements.

### Going concern

After making enquiries, the directors are satisfied that the Company and the Group have adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis. There are no material uncertainties

to our ability to adopt the going concern basis of accounting.

Our Longer-Term Viability Statement is set out on page 19.

### Dividend

The Company is limited by guarantee without share capital and therefore no dividend is payable. A description of how value is returned to members is provided on pages 42 and 43.

### Annual General Meeting

The AGM of the Company will be held at 11am on Wednesday 13 June 2018, at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD. The Notice convening the meeting, together with guidance on the AGM, is sent to all members.

### Directors

Details of the current directors are set out on pages 48 and 49.

In accordance with the Code, all continuing directors retire and offer themselves for reappointment each year. The details of the executive directors' service contracts are set out in the Directors' remuneration report on pages 72 to 89. None of the directors has, or had, an interest in the equity shares of any Group undertaking.

### Directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Company and Group financial statements in accordance with IFRS as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs

of the Company and the Group, and of the profit or loss and cash flow of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business; and
- make a Longer-Term Viability Statement that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a defined period.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

It should be noted that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for the maintenance and integrity of the Group's website.



Having taken into account all matters considered by the Board and brought to its attention during the year, each of the directors, whose names and functions are shown on pages 48 and 49, confirms that, to the best of their knowledge:

- › the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, cash flows and profit of the Group;
- › the Strategic Report on pages 2 to 45 includes a fair review of the development and performance of the business and the position of the Group;
- › a description of the principal risks and uncertainties that the Group faces, together with details of the Group's risk governance structure are provided on pages 14 to 18; and
- › the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members to assess the Group's position, performance, business model, prospects and strategy.

#### **Directors' indemnities**

The directors have the benefit of a qualifying third-party indemnity provision (as defined in section 234 of the Companies Act 2006). The Group also maintains directors' and officers' liability insurance in respect of itself and its directors.

#### **Directors' conflicts**

In accordance with the articles of association, which are available on the Group's website, the Board is authorised to approve conflicts or potential conflicts of directors' interests. The Board has reviewed the interests of the directors and their connected persons and has authorised any interests which conflicted or potentially conflicted with the interests of the Group. On an ongoing basis, the Board periodically reviews conflict authorisations to determine whether the authorisation given should continue, be added to, or be revoked by the Board.

#### **Persons with significant control**

The Company is a mutual and limited by guarantee. It has no shareholders and therefore, no individual controls 25%, or more, of the Company.

#### **Financial instruments**

The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments, and information on the risk exposures arising from those instruments are set out in note 19 to the financial statements.

#### **Employees**

Details of the Group's employment policies are shown on page 10.

#### **Risk management**

The Group has procedures in place to identify, monitor and evaluate the significant risks it faces. The Group's risk management objectives and policies are set out on pages 12 and 13 and in note 40 on pages 183 to 197 of the financial statements.

#### **Political donations**

No political donations were made in the year ended 31 December 2017 (2016: £nil).

#### **Essential contracts**

The Company has contractual and other arrangements with numerous third parties in support of its business activities.

#### **Senior Insurance Managers' Regime (SIMR)**

The Group has a formal governance structure of committees to manage risk, reporting to the Board, and individual accountability was strengthened through implementation of SIMR in 2016. Further detail on risk and governance responsibilities can be found in the risk management and control section on page 12.

#### **Supplier payment policy and performance**

It is the Company's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.



The Strategic report provides a fair, balanced, understandable and comprehensive view of the development and performance of the Group's business, its financial performance during the year and likely developments



## Directors' report for the year ended 31 December 2017 continued

### Social responsibility

The directors regularly engage with key stakeholders in order to comply with the requirements of section 172 of the Companies Act 2006. More information regarding the Group's approach to social responsibility and managing the interests of its various stakeholders can be found in the strategic report on pages 26 to 35.

### Auditors

A resolution for the reappointment of PricewaterhouseCoopers LLP (PwC) as auditors of the Group will be proposed at the AGM. The directors who held office at the date of approval of this Directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and
- each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

During 2016, the European Union (EU) Audit Directive and Regulation came into effect, and as a result the Group must rotate auditors by no later than 2023 (effective for the year ending 31 December 2024). After careful consideration, the Group has no immediate plans to perform an audit tender process, however this decision is reviewed annually by the Audit Committee. Further details on this year's review can be found on page 63.

### Strategic report

For the purposes of the UK Companies Act 2006, the Directors' report for the year ended 31 December 2017 comprises pages 50 to 52 of the Corporate Governance report.

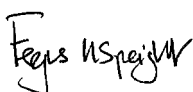
As it is entitled to do by the Companies Act 2006, the Board has chosen to set out in the strategic report (pages 2 to 45) those matters required to be disclosed in the Directors' report which it considers to be of strategic importance to the Group, as follows:

Information	Location in Annual Report
Risk management and internal controls	Strategic report, pages 12 and 13
Corporate Governance structure	Corporate Governance statement, pages 53 to 59
Principal risks and uncertainties	Strategic report, pages 15 to 18
Longer-Term Viability Statement	Strategic report, page 19

In addition, the information in the following table is also included in the Annual Report as referenced below:

Information	Location in Annual Report
Disclosure of information to the auditor	Directors' report, page 52
Future development of business of the Group	Group Chief Executive's statement, pages 6 to 10
Employee and stakeholder involvement	Our social responsibility, pages 26 to 35

By order of the Board



### Fergus Speight

*General Counsel and Company Secretary*  
For and on behalf of Royal London  
Management Services Limited  
28 March 2018



The Group has a formal governance structure of committees to manage risk, reporting to the Board, and individual accountability was strengthened through implementation of SIMR in 2016



## Corporate Governance statement

**The Board is committed to high standards of corporate governance,** which it believes are essential to business integrity and performance, as well as to maintaining member confidence

In this report, the term ‘period under review’ means the period from 1 January 2017 to the date of this report.

### The UK Corporate Governance Code 2016: (the ‘Code’): An Annotated Version for Mutual Insurers (the ‘Code’)

As previously referenced on pages 47 and 52, the Board believes that its practices are consistent with each of the principles of the Code, and offer the right degree of protection for our members.

### Members

As a mutual, the Group has no shareholders and is owned by its members. This means that the focus of the Group is to provide long-term benefit to those members. The Group has extended its ProfitShare participation, so that more members can share in the success of the Group. The Board uses the AGM to communicate with members and to encourage their participation. The 2017 AGM was held at the Clothworkers’ Hall in the City of London. Details of the 2018 AGM can be found on page 215.

### Leadership – the Board

The stewardship and good governance of the Group continues to be a high priority for the Board. The Board is given the powers to manage the Group’s business by the members. The Chairman, with the assistance of the Company Secretary, ensures that the Board programme focuses on matters that are of strategic importance to the Group, to enable the Board to ensure that the Group is managed and risks are monitored.

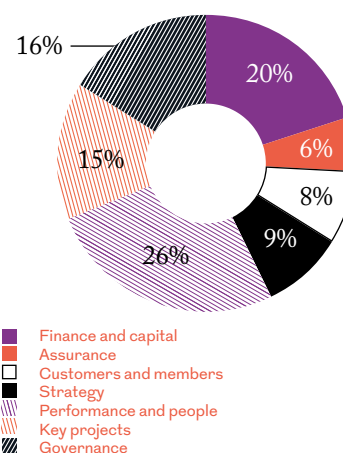
### Role

The Board meets regularly to determine the Group’s strategy within a framework of prudent and effective controls, to review the Group’s operating and financial performance, to set the Group’s risk appetite and to provide oversight that the Group is adequately resourced and effectively controlled. The Board determines the Group’s:

- › values, standards and ethics;
- › strategy and objectives;
- › risk appetite and internal control system;
- › organisational structure; and
- › remuneration (including pension) policies.

### Board activity and areas of focus

The chart below provides an illustration of the time allocated to matters considered by the Board during the year.



The Board has certain matters reserved for its consideration and delegates certain matters to the Group Chief Executive. There is a clear allocation of responsibilities among executive directors and senior managers, in order that the business of the Group can be effectively managed and reported.

### Main activities of the Board during 2017

The Board	
Finance and capital	<ul style="list-style-type: none"> <li>› received regular updates on the financial position of the company</li> <li>› reviewed and approved the half year and annual report and accounts and related documents</li> <li>› reviewed and approved the MTP and ORSA</li> <li>› received regular reports from the Chief Actuary on the capital position of the With-Profits funds</li> <li>› reviewed and approved the Capital Management Plan and Framework and the Capital Risk Limits</li> <li>› reviewed and approved the PRA Capital Add-on to the Standard Formula Capital and the assessment of the appropriateness of the Standard Formula</li> <li>› reviewed and approved fund and pension bonus recommendations</li> </ul>

## Corporate Governance statement continued

### Main activities of the Board during 2017 continued

	The Board
Assurance	<ul style="list-style-type: none"> <li>› received regular updates on the key risks facing the business</li> <li>› reviewed and approved reports on Solvency II and the Internal Model Application</li> <li>› received quarterly updates on Conduct Risk matters</li> <li>› considered reports on cyber-crime and IT security, including the results of a cyber-attack exercise undertaken by Deloitte</li> <li>› oversaw the progress of the implementation of the MiFID II projects in RLAM and RLPS</li> <li>› undertook an annual review and approved changes to the Risk Appetite Framework</li> <li>› reviewed and approved the Group Recovery and Resolution Plans</li> </ul>
Customers and members	<ul style="list-style-type: none"> <li>› received regular updates on the management of the With-Profits Funds</li> <li>› received updates on Group Brand</li> <li>› received updates on and approved changes to the Customer Value Scorecard</li> <li>› received updates on Customer Value Statements</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>› held a dedicated strategy meeting in October to consider the overall strategy of the group which included deep-dive sessions on the strategies of RLAM, Royal London Protection and Royal London Consumer</li> <li>› received reports on the Legacy Business strategy</li> <li>› received reports on Royal London Ireland strategy review</li> <li>› considered a report on Royal London Estate Strategic Asset Allocation</li> <li>› received reports on Royal London's IT strategy and change capabilities</li> <li>› received regular updates on Royal London's Strategic Scorecard performance</li> </ul>
Performance	<ul style="list-style-type: none"> <li>› received regular updates and detailed quarterly reports on the performance of the individual business areas</li> <li>› received a report from the CRO at each meeting on the key risks in the business</li> <li>› received a report on the triennial review of the performance of RLAM</li> </ul>
Key projects	<ul style="list-style-type: none"> <li>› received and reviewed the full business case for Royal London's #thinkbeyond project, which aims to simplify the Company's funds and legacy systems, and approved funding for the project</li> <li>› received reports on and approved a project looking at a potential GAR Compromise Scheme</li> <li>› approved a project initiated to look at the use of derivatives in Royal London's unit-linked funds and approved an extension of their use</li> <li>› approved the matters reserved to the Group Board for the K2 Project launch in RLAM</li> <li>› oversaw Royal London's contingency plans for the UK's exit from the European Union</li> </ul>
Governance	<ul style="list-style-type: none"> <li>› considered the re-election of directors at Royal London's AGM and approved changes to the non-executive director fees</li> <li>› oversaw the implementation of actions identified as part of the 2016 external Board Effectiveness Review</li> <li>› considered Royal London's work to comply with the Women in Finance Charter</li> <li>› reviewed and approved a number of governance changes including the Board Committee Terms of Reference</li> </ul>
People	<ul style="list-style-type: none"> <li>› received regular updates on the results of the Employee Engagement survey and monitored the implementation of actions identified to address areas identified for improvement</li> <li>› reviewed the Whistleblowing Report</li> </ul>



## Separation of responsibilities

The Chairman	The Group Chief Executive	Non-executive directors	Senior Independent Director
Leads the Board and ensures that its principles and processes are maintained	Leads the executive team in the day-to-day running of the Company	Constructively challenge and contribute to strategy development	Acts as sounding board for the Chairman
Promotes high standards of corporate governance	Develops appropriate frameworks to support the Group's objectives	Contribute to the determination of risk appetite and identification of risks	Focal point for Board communications
Sets agendas with the directors and the Company Secretary	Makes operational decisions	Scrutinise and challenge management performance	Leads Chairman evaluation exercise
Ensures the directors receive accurate, timely and clear information	Leads strategy	Provide a broader perspective to key business matters	Point of contact for members
Encourages open debate and constructive discussion and decision making	Oversees internal and external communication	Review, prior to publication, the financial statements, announcements and member communications	Leads the Chairman's succession process
Assesses board performance and facilitates training needs	Represents the Group to its members and external stakeholders and regulators	Oversee succession planning and talent management, and executive remuneration	

No one individual has unfettered powers of decision making. All directors have access to the advice and services of the Company Secretary. In addition, all directors have access to independent professional advice at the Group's expense, where they consider it necessary for the discharge of their statutory duties.

### Composition, balance and length of tenure

The Board currently comprises the Chairman, six independent non-executive directors and three executive directors.

	Board composition		
	Total	Male	Female
Executive	3	3	-
Non-executive	7	4	3

	Length of tenure		
	1 to 3 years	More than 3 years	6 years or more
Executive	-	2	1
Non-executive	3	3	1

Membership of the Board's committees is set out in this statement. Following the resignation of Duncan Ferguson as a director of the company, a number of changes were made to the roles of the directors. Andrew Palmer is due to succeed Duncan Ferguson as Senior Independent Director during 2018. Sally Bridgeland was appointed Chair of the Company's With-Profits Committee and Ian Dilks took on Sally Bridgeland's role as

Chair of the Investment Committee. To fill the vacancy created on the Board, external search firms were used to recruit a new, independent non-executive director, Olivia Dickson.

The Board considers that Andrew Palmer will continue to be an independent non-executive director after his appointment as Senior Independent Director. Although he has been a director on the Board for over six years, and chairs Royal London Asset Management Limited, he continues to demonstrate independence of thought and judgement, and acts with an independent character.

The biographies of the directors are on pages 48 and 49, together with summaries of their experience and qualifications and a note of their other significant commitments. The Board's policy is to appoint and retain non-executive directors, who can apply their wider knowledge and experience, and to review and refresh regularly the skills and experience the Board requires. The Board is satisfied that each non-executive director is able to devote sufficient time to the role in order to discharge their duties effectively.

The Nomination Committee is responsible for succession planning of directors and other senior executives to ensure that an appropriate balance of skills and experience is maintained and there is periodic refreshing of the Board. As part of the process for the appointment of new directors, the Nomination Committee, on behalf of the Board, considers the diversity of the Board, including gender. The aim is that the Board as a whole should have an appropriate mix of skills, experience, independence and knowledge to enable each director and the Board as a whole to discharge their duties and responsibilities effectively.

## Corporate Governance statement continued

A formal, rigorous and transparent process for appointing new directors is conducted by the Nomination Committee and a description of its duties is set out in its report.

### **Board and committee effectiveness**

The Board conducts an annual evaluation of its effectiveness and seeks an external evaluation every three years. The last external evaluation was conducted in 2016. During the year, the Board has overseen the implementation of the changes identified in the external effectiveness review and has undertaken internal Board and Committee evaluations to identify further areas for improvement. The next external evaluation is scheduled to take place during 2019.

The Senior Independent Director also undertakes an annual evaluation of the Chairman's performance with the other Board directors.

### **Induction and development**

The Chairman is responsible for ensuring that a full and tailored induction is provided to all new directors specific to their needs. The inductions are designed to enhance the directors' knowledge and understanding of the Group's businesses, operations and regulatory environment.

The core topics covered by the induction programme for a non-executive director include:

- › an introduction to the Group, its business areas and functions;
- › market information and details of the Group's products;
- › business strategy and model, how RL operates and IFAs, and customers;
- › risk management and internal controls, and financial management and reporting;
- › governance oversight and controls;
- › remuneration policy;
- › regulatory framework and requirements; and
- › ProfitShare accounts.

The Chairman has the responsibility to review and agree with each director their training and development needs, and the Company Secretary has primary responsibility for co-ordinating the ongoing training and development of all directors in order to refresh their skills and knowledge. The continuing development of the directors entails regular updates on the Group's businesses and industry-related matters as well as any changes in the regulatory environment.

The non-executive directors are also required to complete the Group's mandatory training, as required for all employees. This covers areas such as the Senior Insurance Managers Regime, Solvency II, Fighting Financial Crime, Data Protection and Treating Customers Fairly.

During the year, the directors received regular briefings to develop their knowledge and understanding of key business issues. The main topics were:

- › Solvency II and the Internal Model Application Process;
- › Group strategy;
- › industry, markets and products;
- › key projects;
- › IT security; and
- › IFRS 17.

### **Succession and diversity**

The Board is committed to ensuring a diverse pool of candidates is considered for any vacancies that may arise and that they are filled by the most qualified candidates based on merit, having regard to the benefits of diversity. More information on the Group's approach to diversity can be found in the social responsibility statement on pages 26 to 35 and in the Nomination Committee report on page 64.

### **Role as an institutional investor**

The Group, through RLAM, firmly believes in the use of best practices by the companies in which it invests and its approach is set out in the social responsibility statement on pages 26 to 35.

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The Board conducts an annual evaluation of its effectiveness and seeks an external evaluation every three years. The last evaluation was conducted in 2016

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### Attendance of Board and Board Committee meetings

The table below shows the number of meetings each director attended and the maximum number they could have attended.

	Board	Audit Committee	Board Risk Committee	Investment Committee	Nomination Committee	Remuneration Committee	With-Profits Committee	Independent Governance Committee	Disclosure Committee
Total number of scheduled meetings in 2017	10	10	10	6	3	9	8	5	4

A number of ad hoc meetings are held to deal with matters arising between scheduled meetings, typically relating to Solvency II or other regulatory matters. There were four ad hoc Board Risk Committee meetings in 2017. Additionally, a joint meeting of the Audit Committee and Board Risk Committee was also held in the year.

Attendance									
Member	Board	Audit Committee	Board Risk Committee	Investment Committee	Nomination Committee	Remuneration Committee	With-Profits Committee	Independent Governance Committee	Disclosure Committee
Sally Bridgeland	10	-	-	6	3	-	6	-	-
Olivia Dickson	6	-	-	2	-	2	-	-	-
Ian Dilks	10	10	-	6	3	-	-	-	-
Tracey Graham	10	1	9	-	3	9	-	-	-
Tim Harris	10	-	-	5	-	-	7	-	3
Phil Loney	10	-	-	-	-	-	-	-	3
Jon Macdonald	9	-	-	4	-	-	-	5	2
Andrew Palmer	10	10	10	-	3	7	-	-	-
Rupert Pennant-Rea	10	-	-	-	3	7	-	-	-
David Weymouth	10	10	10	-	2	-	-	-	-

1 The table shows attendance for those Committees where the individual is a member.

2 Non-executive directors may also attend Committees where they are not a member.

3 All non-executive directors attend meetings of the Board Risk Committee.

4 Duncan Ferguson resigned as a director on 14 June 2017. Olivia Dickson was appointed as a director on 15 June 2017, joining the Nomination Committee and the Investment Committee on 18 September 2017. Tracey Graham stepped down from the Audit Committee and became a member of the Board Risk Committee on 7 March 2017. Sally Bridgeland joined the With-Profits Committee on 14 June 2017 and stepped down from the Investment Committee on 6 December 2017.

As part of an ongoing initiative to promote better engagement with the business, the Board and certain committees met on 18 and 19 April 2017 in Edinburgh, where 1,259 employees are based, and on 18 and 19 September 2017 in Wilmslow, where 1,250 employees are based. Board dinners were arranged to coincide with these meetings to give some employees the opportunity to meet the directors informally. The Board also held five strategy sessions throughout the year, including 'deep-dives' into particular areas of the business.

## Corporate Governance statement continued

### Our stakeholders

We are conscious of the societal impact of Royal London and regularly engage with our key stakeholders. We intend to do more work in this area in 2018, to ensure our activities continue to contribute positively to the wider society. The social responsibility report set out on pages 26 to 35 provides more information on how we are doing this.

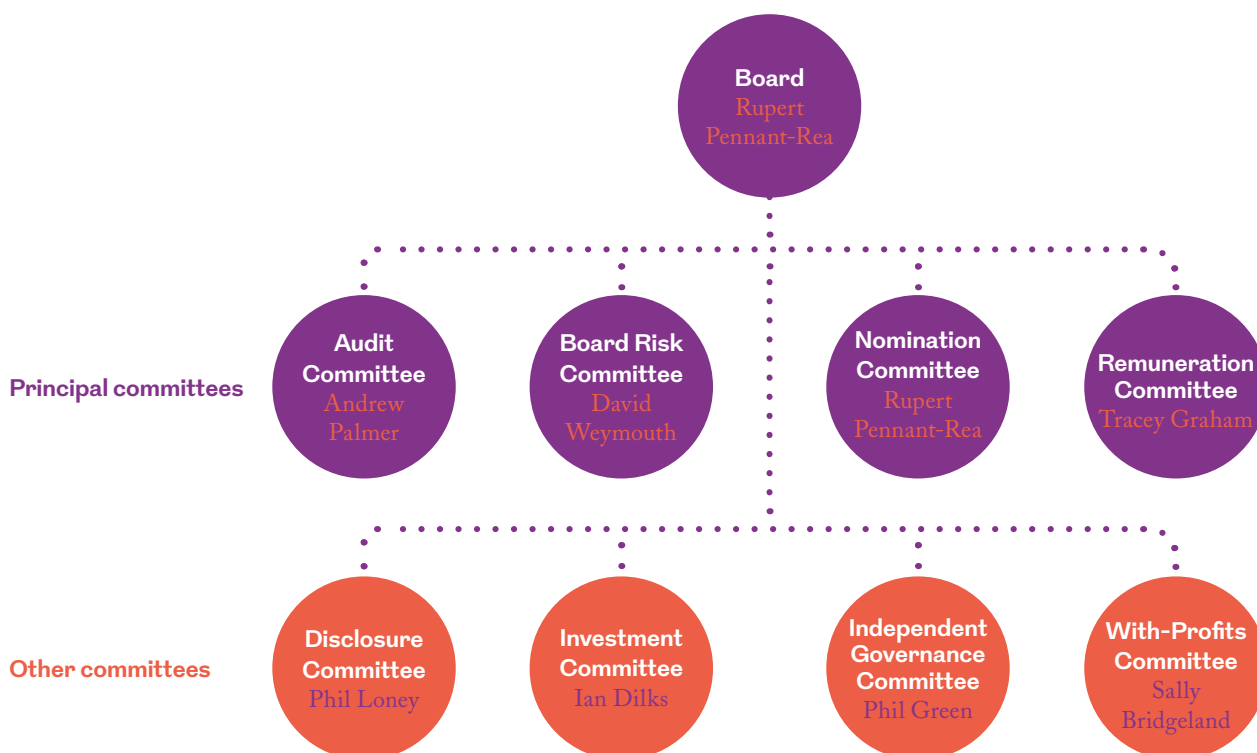
Stakeholders	How we engage	Outcomes and future initiatives
Employees	<ul style="list-style-type: none"> <li>➤ Annual employee engagement survey</li> <li>➤ Internal communications (such as employee roadshows)</li> <li>➤ Employee Representation</li> <li>➤ Spirit of Royal London</li> </ul>	<ul style="list-style-type: none"> <li>➤ Culture – Pod initiatives</li> <li>➤ Spirit of Royal London recognition scheme</li> <li>➤ Accredited as a Living Wage Employer</li> <li>➤ ‘People Commitments’ – a set of commitments that the Group Executive Committee have agreed to following employee feedback</li> <li>➤ Social responsibility champions network, to ensure engagement in the social responsibility programme</li> <li>➤ Modern slavery statement</li> <li>➤ More focus on employee well-being in 2018</li> </ul>
Customers	<ul style="list-style-type: none"> <li>➤ Customer value statements</li> <li>➤ Customer feedback</li> <li>➤ Responsible investment policy</li> <li>➤ RLAM engages with the companies in which our members’ funds are invested</li> </ul>	<ul style="list-style-type: none"> <li>➤ Developing products to meet our customers’ needs</li> <li>➤ Supporting the different needs of customers when they engage with us</li> <li>➤ Social impact of investments</li> </ul>
Members	<ul style="list-style-type: none"> <li>➤ Member mailings, AGM</li> <li>➤ Member section on the website</li> </ul>	<ul style="list-style-type: none"> <li>➤ Improving individuals’ financial capability knowledge</li> <li>➤ Increasing the local community reach of the Royal London Foundation</li> <li>➤ ProfitShare</li> </ul>
Investors	<ul style="list-style-type: none"> <li>➤ Half-yearly calls with our subordinated debt investors</li> </ul>	
Community	<ul style="list-style-type: none"> <li>➤ Royal London Community programme; working with local charity partners around each office</li> <li>➤ Volunteering: working with BITC and ELBA to support local communities</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increase our skilled engagement in local communities and support our charity partners.</li> <li>➤ Continue to understand where we can have the biggest impact using our specific knowledge and skills</li> <li>➤ Launch our Environment policy for our offices</li> </ul>
Government and regulators	<ul style="list-style-type: none"> <li>➤ Regular open and co-operative engagement with regulators on wide-ranging issues</li> <li>➤ Campaigning work</li> </ul>	<ul style="list-style-type: none"> <li>➤ Maintain media profile to address key challenges facing customers and members, in particular the work published by Sir Steve Webb, our Director of Policy and External Communications</li> </ul>



### Board Committees

The Board has established a number of committees as set out in the organisational chart below. There is also a Board Recovery Plan Committee that is a formal committee of the Board, which meets only in the event of a serious business interruption incident.

The terms of reference of the Board's key Committees are published on the Group's website in the Corporate Governance section.



## Corporate Governance statement continued

### Report of the Audit Committee

As Chair of the Audit Committee (the Committee) I am pleased to present the Committee's report for the year ended 31 December 2017.

#### Committee membership

The membership of the Committee, as set out in the table to the right, is comprised solely of independent non-executive directors. Rupert Pennant-Rea attends meetings of the Committee, but is not a member of the Committee. The qualifications of each member of the Committee are included in their biographies on pages 48 and 49.

The Board is satisfied that the Committee possesses relevant insurance industry experience and competence, and it is further satisfied that Andrew Palmer and Ian Dilks possess relevant financial experience and the requisite competence in accounting. The Committee members have received training during the period on IFRS 17, in addition to Board training, to keep their skills current and relevant.

The Audit Committee held 11 meetings during 2017, with one of the meetings (October 2017) being a joint Board Risk Committee and Audit Committee, which was held to jointly review and approve the 2018 combined assurance plan of the Group Internal Audit and Group Risk and Compliance functions. The joint meeting ensures that the two committees are operating effectively together on areas of adjacent responsibility and where either of the Committees is required to collaborate on, or assume responsibility for, a review conducted by the other. Attendance at the meetings of the Committee during 2017 is outlined in the Corporate Governance statement on page 57.

The directors and some members of senior management, including the Group Audit Director and the external auditors, are invited to attend meetings of the Committee, but only members of the Committee have the right to attend. Some members of senior management submit reports to the Committee.

		Member since
Andrew Palmer (Chair)	Non-executive	2011
Ian Dilks	Non-executive	2014
David Weymouth	Non-executive	2014

Tracey Graham stepped down as a member of the Audit Committee on 7 March 2017. Duncan Ferguson retired as a Director on 14 June 2017 and is no longer a Committee member.

The Committee meets privately and separately on a regular basis with the external auditor and Group Audit Director, and senior management. These meetings address the level of co-operation and adequacy of resources, and provide an opportunity for participants to raise any concerns directly with the Committee.

#### Key responsibilities, purpose and role

The Committee's main responsibilities include:

- › monitoring the content, integrity and quality of the financial statements and formal announcements relating to financial performance;
- › reviewing accounting matters requiring the exercise of judgement including actuarial liabilities;
- › monitoring and reviewing the effectiveness of the Group's internal financial controls;
- › reviewing the effectiveness of the internal audit function (Group Internal Audit) and its reports on an ongoing basis; and
- › overseeing the external auditor relationship including assessing its independence and effectiveness, monitoring and approving non-audit services, agreeing the external audit fee and managing the process for any external audit tenders.

Responsibilities of the Audit Committee are set out in its terms of reference, which are reviewed annually and are available in full on the Group's website at: [royallondon.com/about/corporategovernance/articles](http://royallondon.com/about/corporategovernance/articles)

The Committee reports to the Board on the above matters, identifying any issues which it considers require action or improvement and makes recommendations to the Board for approval.

The Chair of the Committee attends the AGM at which members are able to ask questions regarding all aspects of the Committee's role and its work.

#### Areas of focus during the year

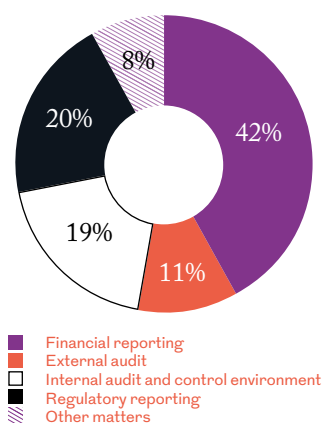
The Committee has a number of standing agenda items that it considers each year affecting the Group's financial statements and policies, financial risks, internal control matters and external audit. In addition, each year the Committee focuses on a number of operational matters. Some of the items the Committee spent time on during 2017 were:

- › review of the Group's financial statements, results announcements and Solvency II regulatory reporting;
- › review of accounting policies and judgements in the Group's reporting;
- › assessment of the going concern assumption and the Longer-Term Viability Statement;
- › updates from Group Finance on governance and monitoring of investment risk and, in particular, difficult-to-value investments and valuation uncertainty;
- › updates from management on the effectiveness of the Group's control environment, including FRDCF progress updates;
- › findings from Group Internal Audit reports and how high-priority findings are being followed up by management;

- › updates to the Group Internal Audit charter and annual plan;
- › updates on work completed by the external auditor;
- › monitoring external auditor independence and objectivity, including review of non-audit services, auditor effectiveness and audit tender and reappointment;
- › annual review of the Audit Committee's terms of reference;
- › review reports from the Valuation Oversight Committee and its terms of reference; and
- › annual review of the Group Reporting and Disclosure policy.

#### Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2017.



#### Significant matters considered by the Audit Committee

The table below highlights some significant matters considered by the Committee during the period and the actions taken.

Significant matters considered by the Committee	How the matter was addressed by the Committee
Key accounting issues and judgements	<p>The Committee considered and challenged significant accounting and actuarial judgements, and estimates that the Committee members believe could be material to the financial statements and Solvency II reporting. It also reviewed and recommended to the Board the proposed approach for key accounting and actuarial judgements, and assumptions.</p> <p>Judgements considered relating to 2017 reporting included investment asset valuations, impairment of goodwill and intangible assets, provisions, valuation of subsidiaries, capitalisation of an intangible asset relating to IT programmes and reserving for insurance contracts. Solvency II judgements focused on the valuation of own funds.</p>
Long-term business liability valuations – methodology and assumption recommendations	<p>The Committee considered the actuarial assumptions for the year ended 31 December 2016 for Solvency II reporting, including mortality, persistency and expense assumptions.</p> <p>The Committee also reviewed and challenged the Group's long-term business liability valuations as at 31 December 2017 and accepted the Valuation Report of the Actuarial Function Holder, for the year ended 31 December 2017, including the changes to reserving assumptions and methodology. The main assumption changes for 2017 were longevity, persistency assumptions on pension business and unit cost assumptions; the most material being longevity assumption improvements whereby the CMI 2016 longevity model was proposed for use, following internal experience analysis and obtaining external opinions. The proposed assumption changes (including longevity) were challenged and debated by the Committee, who concluded that based on the evidence provided it was appropriate to use the assumptions (including the CMI 2016 longevity model) in the 2017 long-term business liability valuations.</p>
Financial reporting	<p>During 2017, the Committee reviewed and approved the results announcement of the Group's 2016 financial results, the 2016 Annual Report and Accounts and the 2017 interim results announcement.</p> <p>This included assessing the appropriateness of the going concern assumption and the Longer-Term Viability Statement. The Committee ensured the financial statements were fair, balanced and understandable before recommending them to the Board for approval. The Committee also reviewed the draft 2017 Annual Report and Accounts, which included the process by which the Longer-Term Viability Statement is made and the Group accounting policies.</p>

## Corporate Governance statement continued

### Significant matters considered by the Audit Committee continued

Significant matters considered by the Committee	How the matter was addressed by the Committee
<b>Solvency II regulatory reporting</b>	<p>The Committee reviewed the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR) for the year ended 31 December 2016, and recommended them to the Board for approval.</p> <p>The Committee also reviewed management proposals for the SFCR and a summary of changes report to the PRA for the year ended 31 December 2017. The Committee also considered and approved management proposals for the recalculation of the Transitional Measure on Technical Provisions (TMTP) at 31 December 2017 and the revised capital add-on agreed with the PRA. The RLMIS SFCR will be published on 4 May 2018.</p>
<b>Internal control and external audit</b>	<p>The Committee considered regular reports from the external auditor and Group Internal Audit on the effectiveness of the Group's control environment, including that provided by the outsourced service provider Capita. The Committee also considered updates on the embedding of the Financial Reporting and Data Controls Framework (FRDCF) across the Group, including assessment of outstanding control deficiencies.</p> <p>Additionally, the Committee reviewed external audit and Group Internal Audit plans, and approved the appointment of a new Group Audit Director, Chris Miller, following an extensive search and interview process. An effectiveness review of Group Internal Audit was conducted during 2017 by an external party, which reported favourably on its ongoing performance.</p> <p>Reports from the external auditor were reviewed by the Committee throughout 2017, which included monitoring audit firm independence and the level of non-audit fees, reviewing the findings raised during audits and management's responses to those findings, and performing the annual assessment of timing of the external audit tender.</p>
<b>Other matters</b>	<p>During 2017, the Committee reviewed and approved updates to the Group Reporting and Disclosure Policy, and updated its terms of reference which was subsequently submitted to and approved by the Board, and approved updates to the terms of reference of the Valuation Oversight Committee. The Committee also reviewed reports on governance, accounting and regulatory updates during the period, including the Group's ongoing considerations in respect of IFRS 17.</p>

#### External audit

The Group's external auditor is PricewaterhouseCoopers LLP (PwC) and oversight of the relationship with them is one of the Committee's key responsibilities. The Committee reviewed and recommended to the Board for approval PwC's terms of engagement for the statutory audit and the audit fee. In addition, the Committee also approved fees for non-audit services in accordance with the Group's policy.

#### Auditor independence and non-audit services policy

The Group has a policy which is aimed at safeguarding and supporting the independence and objectivity of the external auditor. The policy is in full compliance with requirements of the Code and the Financial Reporting Council's (FRC) Guidance on Audit Committees 2016, and takes into account the auditor independence requirements from the EU Audit Regulation and Directive, and the FRC's Revised Ethical Standard 2016 for Auditors.

The policy regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the non-audit services of the external auditor. The policy distinguishes between: (i) those services where it is considered appropriate to use the external auditor (such as statutory and non-statutory audit and assurance work); and (ii) prohibited services where the independence of the external auditor could be threatened and the external auditor must not be used.

The external auditor has reviewed its own independence in line with these criteria and its own ethical guidance standards, and has confirmed to the Committee that following its review it is satisfied that it has acted in accordance with relevant regulatory and professional requirements and that its objectivity is not impaired.

Having considered compliance with our policy and the fees paid to the external auditor, the Committee is satisfied as to the continued independence and objectivity of the external auditor.

#### Audit and non-audit fees and services

In 2017, the Group paid PwC £4.6m (2016: £5.2m) for audit, audit-related and other assurance services, including £0.9m (2016: £0.8m) of Solvency II audit fees. In addition, PwC were paid £0.3m (2016: £1.3m) for other non-audit services, resulting in a total fee to PwC of £4.9m (2016: £6.5m). This included £0.2m (£2016: £0.3m) relating to Internal Model validation work. The ratio of non-audit fees to audit and audit-related assurance fees is 9% (2016: 22%). Further details are provided in note 9 of the financial statements.



### Effectiveness of the external auditor

To assess the effectiveness of the external auditor, the Committee conducts an annual review of the external auditor through completion of a questionnaire by senior management across the Group and members of the Group's finance community. The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by Group Internal Audit. The results of the questionnaire were evaluated by the Committee, which concluded that PwC continued to perform a high-quality audit, and provided an effective and independent challenge to management. The Committee, using its own judgement and taking into account management views and its own interactions with PwC, was satisfied with the external audit process and that the independence of the external auditor was in no way compromised.

### External audit tender

The external audit was last put out to competitive tender in 2000, when the present auditor PwC was appointed. The Committee considers the need to re-tender the external audit on an annual basis and considered it in June 2017, concluding that there was nothing in the performance of the auditor which required such a tender.

The Committee acknowledges the provisions contained in the Code in respect of audit tendering, along with European and UK legislation on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end, and thereafter the external audit contract will be put out to tender at least every ten years.

During the year, the Committee examined a number of options regarding the timing of tendering for the external audit. The Committee considered a number of factors including: anticipated business changes, regulatory developments such as the Internal Model Approval Process, the new insurance accounting standard due for implementation in 2021 and the appointment of a new audit partner by

PwC during 2017, following an audit partner rotation process. The Committee concluded that it was not appropriate to tender the external audit contract for the 2018 year end. This conclusion remains subject to the Committee's normal annual review and continued satisfactory performance of the external auditor.

### Audit Committee effectiveness

Effectiveness of all Board committees, including the Audit Committee, is reviewed annually in order to ensure each committee has fulfilled its duties under its terms of reference during the year and fully discharged its role and responsibilities.

The Board's 2017 committee effectiveness review is outlined in the Corporate Governance statement on page 60. The Board confirmed its satisfaction with the performance of the Audit Committee.



**Andrew Palmer**  
*Chair of the Audit Committee*



The results of the questionnaire concluded that PwC continued to perform a high-quality audit and provided an effective and independent challenge to the management



## Corporate Governance statement continued

### Report of the Nomination Committee

As Chair of the Nomination Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2017.

#### Committee membership

The membership of the Committee, as set out to the right, is comprised solely of independent non-executive directors.

		Member since
Rupert Pennant-Rea (Chair)	Non-executive	2012
Sally Bridgeland	Non-executive	2014
Olivia Dickson	Non-executive	2017
Ian Dilks	Non-executive	2014
Tracey Graham	Non-executive	2012
Andrew Palmer	Non-executive	2011
David Weymouth	Non-executive	2012

Duncan Ferguson resigned as a member of the committee on 14 June 2017.

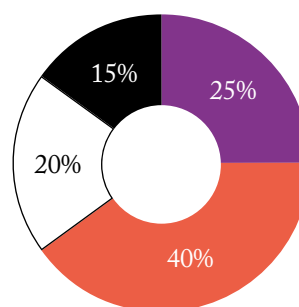
#### Key responsibilities, purpose and role

The responsibilities of the Nomination Committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and its Committees and making recommendations for any changes;
- nominating for Board approval candidates to fill vacancies on the Board and its Committees;
- succession planning, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future; and
- keeping under review the leadership needs of the organisation, both executive and non-executive, so as to ensure the continued ability of the organisation to compete effectively in the marketplace.

Significant matters considered by the Committee	How the matter was addressed by the Committee
Annual reappointment of directors	<p>The Committee considered the reappointment of the Group's directors. When reviewing the composition of the Board, the Committee considered the balance of skills, knowledge, expertise and diversity. It also looked at the independence and performance of the directors, and considered the Board's future needs.</p> <p>The Committee judged that the non-executive directors (NEDs) continued to perform well and remained independent, and were free from any relationship or circumstances that could affect, or appear to affect, their independent judgement.</p> <p>All directors have been recommended for re-election at the 2018 AGM.</p>
Board and Committee Composition	<p>As a consequence of the retirement of Duncan Ferguson, the Committee reviewed the Board's composition and the roles and responsibilities of the NEDs.</p> <p>The review of the Board's composition determined that an additional NED should be sought. The Chairman, assisted by the Committee, led the external search process, working with Royal London's network of partners to identify suitable candidates. The Committee considered the short list of applicants and made a recommendation to the Board to appoint Olivia Dickson.</p> <p>The review of roles and responsibilities of the NEDs led to a number of changes being made to the Chairmanship and membership of Board Committees, as set out in the committee reports.</p>
Appointment of SID	<p>The Committee considered the appointment of a new Senior Independent Director and determined that Andrew Palmer be appointed to this role by virtue of his skills, experience and understanding of the Group.</p>
Executive leadership and succession planning	<p>In readiness for Britain's exit from the European Union, the Committee considered and made recommendations for the appointment of executives and non-executive directors to a new insurance company being established as a subsidiary of the Group.</p>

#### Allocation of time



- Annual re-election of directors
- Board/Committee composition
- Appointment of SID
- Executive leadership and succession planning

**Rupert Pennant-Rea**  
Chair of the Nomination Committee

## Report of the Board Risk Committee

As Chair of the Board Risk Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2017.

### Committee membership

The membership of the Committee, as set out in the table to the right, is comprised solely of independent non-executive directors.

The Group's Chief Risk Officer attends all meetings and the remaining non-executive and executive Board directors are standing invitees. In addition, the Committee draws on the input of certain members of senior management, such as the Group Head of Regulatory Risk and Compliance, and the Group Audit Director who attend meetings regularly by invitation.

### Key responsibilities, purpose and role

The responsibilities of the Committee, as set out in its terms of reference which are reviewed annually and made available to members on the Group's website, include:

- › making recommendations to the Board for approval on an annual basis regarding the Group's overall risk strategy, risk appetite and risk preferences, and oversight that the business strategy of the Group is consistent with these;
- › advising the Board on the Group's overall risk management system, including the oversight of current risk exposures of the Group, by reviewing and recommending to the Board actions on significant risk issues, trends, practices, litigation and loss events that have implications for the Group;
- › advising and making recommendations to the Board on the Group's Own Risk and Solvency Assessment (ORSA), the recommendations in the ORSA and the ORSA process; advising and making recommendations to the Board on the Group's Internal Model;
- › reviewing any proposed changes in mandatory regulations and making recommendations to the Board in response to these;
- › reviewing its Emerging Risk Framework and making recommendations to the Board in response to these;
- › reviewing and making recommendations to the Board on the Group's capital management framework and monitoring the availability and use of capital in the Group so as to ensure that it is optimally structured to meet ratings, regulatory and risk benchmarks through ongoing review and independent assurance;
- › ensuring that the Group conducts appropriate review and due diligence of potential acquisitions;
- › overseeing and challenging the design and execution of stress and scenario tests, reverse stress tests and ensuring the adequacy of the Recovery and Resolution Plans within the Group;
- › monitoring and reviewing the effectiveness of the Group's internal control system, with the exception of financial controls which are the responsibility of the Audit Committee;
- › overseeing the management of conduct risk to ensure the Group's customers receive the best experience and outcomes;
- › overseeing the management of material breaches of risk and compliance limits and material incidents, and the implementation of remedial actions where these have Group-wide implications;

		Member since
David Weymouth (Chair)	Non-executive	2012
Tracey Graham	Non-executive	2017
Andrew Palmer	Non-executive	2011

Duncan Ferguson resigned as a member of the committee on 14 June 2017.

- › reviewing the procedures for handling allegations from whistle-blowers and the arrangements for employees to raise concerns about financial improprieties, as set out in the Group's Whistle Blowing policy; and
- › recommending to the Board the appointment and removal of the Chief Risk Officer, and reviewing the adequacy and quality of the risk and compliance function.

The Committee reports to the Board on all of the matters detailed above, identifying any matters in respect of which it considers that action or improvement is needed and makes recommendations to the Board.

One joint Board Risk and Audit Committee meeting was held in October 2017. This was to jointly review and approve the 2018 combined assurance plan of the Group Internal Audit and Risk and Compliance functions.

A Joint Board Risk and Remuneration Committee meeting was held in March 2017. The purpose of the meeting was to review the discretion applied to the incentive schemes within the Group, to ensure incentive scheme performance awards and conditions were within risk appetite and to review the appropriateness of the remuneration of controlled function holders.

## Corporate Governance statement continued

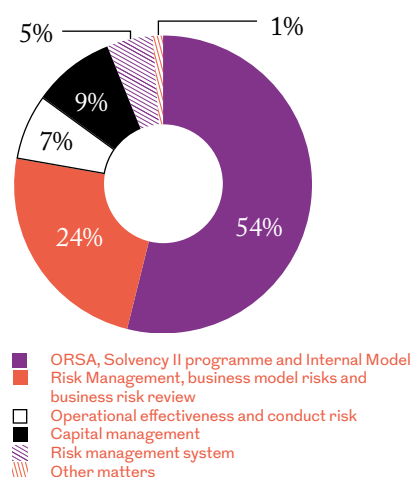
### Significant matters considered by the Board Risk Committee

The table below highlights some significant matters considered by the Committee during the period and the actions taken.

Significant matters considered by the Committee	How the matter was addressed by the Committee
Solvency II programme and Internal Model	In 2017, the Board has overseen, reviewed and challenged key decisions and judgements relating to the Group's Internal Model under Solvency II, as well as scrutinising any limitations of the approach taken, and has taken recommendations for approval from the Committee where appropriate. In addition to regular reporting on progress of the Internal Model application at scheduled Committee meetings, the Committee held five ad hoc meetings in 2017 to challenge and review those decisions, judgements and limitations. The Group's external validators were invited to attend these meetings to inform the Committee of the results of its independent assurance of the Group's approach. Board members who were not Committee members were also invited to attend all Committee meetings during 2017 to oversee the governance of the Internal Model Application.
Own Risk and Solvency Assessment (ORSA)	The Committee was responsible for advising and making recommendations to the Board on the Group's ORSA, the recommendations in the ORSA and the ORSA process.
Risk reviews	During 2017, the Committee conducted several 'deep- dive' reviews into the risk management of the Group Finance function; Royal London's Intermediary, Asset Management and Consumer businesses; and the Group's material outsourcers and suppliers.
Capital management	The Committee reviewed the Group's capital management plan, which set out actions to be progressed over the short, medium and longer term to improve and protect the Group's capital position.
Significant projects	The Committee was responsible for risk oversight in respect of a number of material transactions and projects undertaken by the Group in 2017.
Group policies and Committee terms of reference	During 2017, the Committee reviewed and approved updates to a number of policies within the Group Policy Framework (including the Group's Data Policy and Business Continuity and Disaster Recovery Management Policy), and proposed updates to its terms of reference (which were subsequently submitted to and approved by the Board).

### Allocation of agenda time

The chart provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2017.



**David Weymouth**  
Chair of the Board Risk Committee



## Report of the Investment Committee

As Chair of the Investment Committee (the 'Committee'), I am pleased to present the Committee's report for the year ended 31 December 2017.

### Committee membership

The membership of the Committee, as set out in the table to the right, is comprised of both executive and non-executive directors and independent members. Andrew Carter (CEO, RLAM), Piers Hillier (Chief Investment Officer, RLAM), and the Head of the Investment Office attend meetings of the Committee, but are not members of the Committee.

Having taken on the role of Chair in June 2017, I would like to express thanks on behalf of the Committee for Sally Bridgeland's hard work and dedication chairing the Committee since September 2015. I would also like to welcome Olivia Dickson, who joined the Board in June 2017 and the Committee in September 2017.

### Key responsibilities, purpose and role

The responsibilities of the Committee, as set out in its terms of reference which are reviewed annually and made available to members on the Group's website include:

- receiving and reviewing on an annual basis assurance from the executive that the investment risk framework adopted by the Group is appropriate, including the executive's approach to compliance with the Solvency II Prudent Person Principle;
- ensuring that the executive has the appropriate plans and controls in place with the necessary resources and capability to manage the investment risk framework; and
- reviewing the risk reporting provided by the executive to ensure it is aligned to the Group's investment risk framework and to confirm its suitability to escalate to the Board Risk Committee or Board (as appropriate) investment related risks, for example, actions outside of the investment risk framework or risk appetite.

		Member since
Ian Dilks (Chair)	Non-executive	2014
Olivia Dickson	Non-executive	2017
Tim Harris	Executive	2014
Jon Macdonald	Executive	2013
Julius Pursaill	Independent	2014

Sally Bridgeland chaired the Committee until June 2017, Ian Dilks became chair on 15 June 2017 and Sally remained a member of the Committee until she resigned on 6 December 2017.

### Philosophy, strategy and investment

- reviewing the investment principles which are approved by the Board from time to time (the 'Investment Philosophy');
- reviewing the executive's assessment of investment strategies deployed using the Group's investment assets against Investment Philosophy, risk appetite and customers' needs, and approving changes where these are aligned to the Investment Philosophy, risk appetite and customers' needs;
- reviewing proposals from the executive for recommendation to the Board, on the suitability of new investment classes (or sub-classes) for the Group's investment assets by considering them in the context of the Investment Philosophy, investment strategy and against the investment risk framework and risk appetite, approving changes where these are aligned to the investment risk framework and risk appetite; and

➤ reviewing and approving matters (such as property transactions) above individuals' delegated authorities and within current Committee parameters.

The Committee also considers the oversight, and approving, where appropriate, the appointment and removal of asset managers and other third parties, including custodians, involved in investment and new fund launches.

The Group's Investment Office, which is part of the Group's Finance function, provides the Committee with significant support to help it discharge its responsibilities. The Investment Office makes recommendations regarding the investment risk framework, Investment Philosophy and strategy, performs strategic asset allocation reviews linked to agreed risk appetites and investment constraints, monitors how agreed strategy has been implemented, reviews new fund launches and asset classes, and

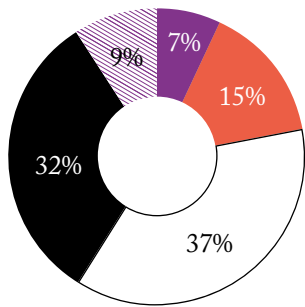
Significant matters considered by the Committee	How the matter was addressed by the Committee
Investment strategy	The Committee supported the Board in setting the investment strategy.
Investment Philosophy and investment risk framework	The Committee reviewed the statement of Investment Philosophy, investment beliefs and the investment risk framework to aid management, the Committee and Board in their investment decision-making process.
Asset management performance	The Committee reviewed its asset managers' performance and suitability to manage the Group's investment mandates, including review of quarterly market and economic data, assessment of investment performance of key funds and the review of the asset managers' investment management agreements.
Other matters	The Committee reviewed and recommended for Board approval transactions above delegated authorities, including two real estate transactions.

## Corporate Governance statement continued

oversees the investment performance and operational effectiveness of asset managers. It produces quarterly reports and information for the Committee to enable it to fulfil its duties

### Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during the period.



- General committee matters
- Supporting Committee oversight and escalation items
- Investment strategy / new investment proposals
- Risk, governance and oversight
- Other

**Ian Dilks**

*Chair of the Investment Committee*



The Investment Committee reviewed the statement of Investment Philosophy, investment beliefs and the investment risk framework to aid management, the Committee and Board in their investment decision-making process



## Report of the Disclosure Committee

As Chair of the Disclosure Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2017.

### Committee membership

The Committee's membership is currently comprised solely of executive directors. Other members of senior management are invited to attend as appropriate, but only members of the Committee have the right to attend meetings. The qualifications of each member of the Committee are included in the biographies of the directors on pages 48 and 49.

### Key responsibilities, purpose and role

The key responsibilities of the Committee, as set out in its terms of reference which are reviewed annually and made available to members on the Group's website, include:

- approving all announcements regarding the Group's new business performance;
- approving the Group's quarterly quantitative reporting templates (including the Financial Stability templates) not directly overseen by the Audit Committee, before submission to the relevant supervisory authority;
- approving any material non-financial announcement where approval is not already a matter reserved for the Board;
- reviewing annually and updating its terms of reference, recommending any changes to the Board and evaluating its own membership and performance on a regular basis;
- reporting to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;
- reporting to the Board regarding any matters where it considers that action or improvement are needed, and to make recommendations as to the steps to be taken; and

		Member since
Phil Loney (Chair)	Executive	2016
Tim Harris	Executive	2016
Jon Macdonald	Executive	2016

➤ in carrying out its duties, the Committee:

- gives due consideration to all applicable laws and regulations, including the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules, as applicable;
- ensures that disclosures are made in line with the Group's policies; and
- where appropriate, ensures the disclosures are made in keeping with the views of the Audit Committee and the Board Risk Committee.

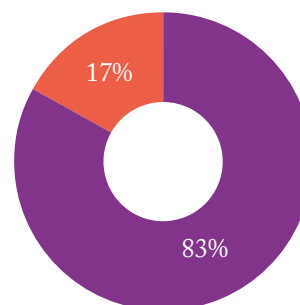
### Areas of focus during the year

The Committee met four times during 2017, primarily to review the integrity of the Group's quarterly regulatory reporting and the effectiveness and appropriateness of the control environment in place. The Committee's main focus in 2017 was considering and approving the necessary Solvency II regulatory reporting templates and returns.

Following the decision taken by the Group not to issue quarterly new business press releases during 2017, there was no requirement for the Committee to approve new business press releases. However, it retains the ability to do so as and when required. New business information was included in the press releases accompanying the Group's interim and full year results announcements, which were approved by the Group's Audit Committee.

### Allocation of agenda time

The chart provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2017.



■ Solvency II Reporting Governance

*P. D. Loney*

**Phil Loney**  
Chair of the Disclosure Committee

## Corporate Governance statement continued

### Report of the With-Profits Committee

As Chair of the With-Profits Committee (the 'Committee') I am pleased to present the Committee's report for year ended 31 December 2017.

#### Committee membership

The membership of the Committee is set out in the table to the right. The Committee also continues to be well served by Brian Murray in the With-Profits Actuary role. I would like to thank Duncan Ferguson who retired as Chair of the Committee in June 2017, having been Chair since the Committee was established in 2012. My biography can be found on page 49.

#### Key responsibilities, purpose and role

The Committee's main responsibilities include:

- considering the interests of all policyholders in the Royal London Group who are entitled to share in the profits of the Group and exercise independent judgement in advising the Board on how to allocate profits to them fairly;
- providing independent opinion and oversight on a range of matters that affect with-profits policyholders;

		Member since
Sally Bridgeland (Chair)	Non-executive	2017
Nick Dumbreck	Independent	2015
Jim Gallagher	Independent	2012
Tim Harris	Executive	2014
Bridget Rosewell	Independent	2015

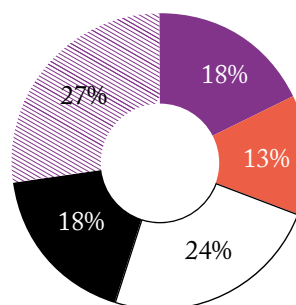
Duncan Ferguson retired as a Director on 14 June 2017 and, accordingly, is no longer the chair of the Committee.

- assessing compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);
- assessing reports and providing clear advice regarding the way in which with-profits funds are invested and managed; and
- assessing whether the interests of with-profits policyholders, and the respective interests of different groups of with-profits policyholders, are fairly reflected in the management of the funds and PPFM.

The With-Profits Committee's responsibilities are set out in the terms of reference, which are reviewed annually and are available in full on the Group's website at: [royallondon.com/about/corporategovernance/articles](http://royallondon.com/about/corporategovernance/articles)

#### Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during the period.



- 'Growing the cake' – investment strategy and results
- 'Sharing the cake fairly' – bonus rates and surrender values
- Customer experience – policyholder communications, complaints and service
- Policyholder security – capital management and run-off plans
- ▨ Governance, regulation and compliance

Significant matters considered by the Committee	How the matter was addressed by the Committee
Group strategy and results, including investments	During the period, the Committee reviewed the investment performance and investment strategy of the various with-profits funds. The Committee also focused on the interaction of Group strategy with the interests of with-profits policyholders.
Bonus rates and surrender values	The Committee considered and provided recommendations to the Board on the ProfitShare and bonus rates to be declared in respect of 2017, and awarded in 2018.
Policyholder communications, complaints and service	The Committee considered reporting on the quality of the service provided to with-profits policyholders, having regard to complaints and other measures. The Committee undertook activity intended to improve outcomes for policyholders in the Scottish Life Fund.
Capital management and run-off plans	The Committee considered opportunities to simplify and improve the management of existing business, and assessed reporting on the financial and capital management of the with-profits funds, including revisions to run-off plans.
Other matters	During the period, the Committee assessed the effectiveness of the With-Profits Actuary and concluded the performance to be satisfactory.

#### Significant matters considered by the With-Profits Committee

The table to the left highlights some significant matters considered by the Committee during the period and the actions taken.

**Sally Bridgeland**  
Chair of the With-Profits Committee



## Report of the Independent Governance Committee

### Committee membership

The Committee's membership, throughout 2017, as set out in the table to the right, comprised of four independent members and two company members.

### Key responsibilities, purpose and role

The responsibilities of the Committee, as set out in its terms of reference, are reviewed annually and made available to members on the Group's website.

The Committee was established in April 2015 in response to the Financial Conduct Authority's (FCA) directive regarding independent governance for workplace pensions. The Committee assesses the ongoing value for money of relevant workplace pension schemes offered by Royal London; reports and escalates issues which are identified and remain unresolved; and prepares an annual report on its activities and the value for money offered by the relevant pension schemes. The Committee's annual report is made available at: [royallondon.com/about/corporategovernance/articles](http://royallondon.com/about/corporategovernance/articles)

The Committee is required to perform its duties in accordance with FCA rules relating to Independent Governance Committees and, in particular, the Committee must act solely in the interests of relevant workplace pension policyholders.

The FCA guidance for Independent Governance Committees forms the basis of the Committee's activities. Broadly the Committee reviews and, where necessary, reports on the following:

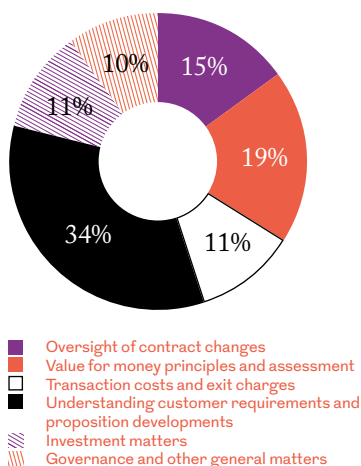
- the Committee's opinion on the value for money delivered by relevant schemes, particularly against those items listed in the FCA Rules;
- how the Committee has considered relevant policyholders' interests;

		Member since
Phil Green (Chair)	Independent	2015
Peter Dorward	Independent	2015
Myles Edwards	Independent	2016
David Gulland	Independent	2015
Isobel Langton	Company Member	2015
Jon Macdonald	Company Member	2015

- any concerns raised by the Committee with the Board and the response received to those concerns;
- whether the membership of the Committee has sufficient expertise, experience and independence to act in relevant policyholders' interests;
- the name of each independent member of the Committee and confirmation that the Committee considers these members to be independent; and
- the arrangements put in place by the Group to ensure that the views of relevant policyholders are directly represented to the Committee.

### Allocation of agenda time

The Committee met six times during 2017. The chart below provides an illustration of the approximate percentage of time spent by the Committee on various matters during the year.



### Significant matters considered by the Independent Governance Committee

The Committee has focused its activities on the following:

- reviewing and understanding customer requirements, researching all aspects of customer engagement including complaints and service;
- reviewing the principles with which to assess the value for money delivered by all of Royal London's relevant workplace pension contracts to ensure they remain appropriate;
- reviewing and monitoring transaction costs;
- ongoing assessment of Royal London's relevant workplace pension contracts (including legacy contracts) against those principles;
- monitoring proposition developments;
- reviewing the proposals and implementation plans for updating the default investment fund for workplace pension contracts; and
- now that employer staging is coming to an end, reviewing Royal London's plans to ensure schemes have the appropriate qualifying status.

**Phil Green**  
Chair of the Independent  
Governance Committee

# 2017 Directors' remuneration report

## Annual statement from the Remuneration Committee Chair

Dear member,

On behalf of the Board, I am pleased to present the Remuneration Committee report for 2017. As last year, the remuneration report is split into three parts:

- › a summary of the directors' remuneration policy, which sets out how the Group will remunerate its directors over the period 2017 to 2019. The policy was voted on and approved by members at the 2017 Annual General Meeting (AGM);
- › the directors' proposed remuneration for 2018, showing how the policy will impact remuneration in 2018 and going forwards; and
- › the 2017 annual report on remuneration, which explains the link between executive remuneration and Group performance, detailing what payments and awards have been made to directors during the year. As last year, this section will be put to a members' advisory vote at the 2018 AGM. Details can be found on pages 78 to 85 of this report.

The remuneration policy has the same four aims that were published in our 2016 annual report. They continue to be relevant and are as follows:

- › to help align executives' interests with those of our members and policyholders;
- › to support the delivery of the Group's strategy, while ensuring adherence to the Group's risk appetite;
- › to ensure remuneration is competitive and helps the Group attract and retain talent; and
- › to ensure fair outcomes for our people, members and policyholders.

The Group is committed to being transparent with its members. Our remuneration disclosures continue to be in line with listed company remuneration reporting requirements, to the extent they enhance members' understanding of how our remuneration strategy supports the Group's strategy and members' interests.

### Remuneration policy in 2018

Remuneration within financial services is subject to significant amounts of regulation and Royal London has to comply with many different codes. The Committee has worked closely with regulators to ensure our remuneration complies with all the relevant requirements. This year, the focus of the Committee has been on ensuring our policy is also compliant with the remuneration requirements of the second Markets in Financial Instruments Directive (MiFID II), which became effective on 3 January 2018, as well as all other regulations.

The Committee conducted a review of Executive Remuneration during 2016 and the members voted in favour of approval of the recommended changes at the 2017 AGM. Having conducted further work during 2017, the Committee proposes to make changes to the structure of the Long-Term Incentive Scheme (LTIS) to ensure it reflects the approach taken for schemes in other organisations. For 2018 onwards, it is proposed to have a scheme where a proportion of the award vests once a threshold level of performance is met.

The overall structure of the Royal London reward package will be unchanged and continues to be a salary, a Short-Term Incentive Plan (STIP) linked to the achievement of the annual business plan, an LTIS linked to the achievement of the five-year business plan and market-related pension and benefit provision. For participants in the Group STIP who are subject to Deferral, 40% of their award is deferred for up to three years and pays out in three equal tranches. This policy will apply until the 2020 AGM.

It is the intention of the Committee to introduce risk-adjusted profit measures to the STIP and LTIS in line with Solvency II during 2018. This will help broaden the risk data points available to the Committee for consideration.

### Remuneration in 2017

The Board's assessment of Group performance is based on the scorecards that capture one-year and three-year financial and strategic performance. These are detailed further on pages 79 to 81. I am pleased to report that the Group has made strong progress during 2017, performing well despite another unpredictable year in politics and markets. Royal London's operating profit has continued to grow despite the low interest rate regime and our performance has translated into an increase in total ProfitShare for 2017. The Committee has sought input and sign-off from the Audit Committee regarding the quality of the Group's earnings, and assurance from the Board Risk Committee that the Group's performance has been achieved within its stated Risk Appetite.

As a result, the Committee agreed a final award under the 2017 STIP of 124% of salary for the Group Chief Executive, 92% for the Group Deputy Chief Executive & Group Finance Director and 61% for the Chief Risk Officer. This corresponds to a final scorecard result of 132% out of 200% and takes into account personal performance, which for the executive directors ranged from Good to Strong.

The three-year LTIS awarded in 2015 resulted in awards of 164% of salary for the Group Chief Executive (out of 187.5%), 164% of salary for the Group Deputy Chief Executive & Group Finance Director (out of 187.5%) and 110% of salary for the Chief Risk Officer (out of 125%).

### Remuneration in 2018

The Committee determined to increase the salaries of the Group Chief Executive, Group Deputy Chief

Executive & Group Finance Director and Chief Risk Officer by 3.5%, 5.0% and 2.5%, effective from 1 April 2018, which is in line with increases for other Group employees with the same performance ratings.

The executive directors will be eligible for 2018 STIP and LTIS awards, subject to members' advisory approval of up to 150% of salary for the STIP and up to 187.5% of salary for the LTIS.

#### **Consideration of the wider workforce**

We value the contribution of every colleague at Royal London and we recognise that our people make a difference to our customers and members. So, it's important that we treat them fairly and ensure they feel valued. At our employee roadshows in 2017, the Group made three People Commitments to enhance the employee experience of being an employee of Royal London Group:

- › **Pay and Reward** – ensuring all our people are paid fairly compared to other people doing similar roles in other organisations. This resulted in the Group becoming accredited by the Living Wage Foundation as a Living Wage Employer;
- › **Leadership Consistency** – ensuring our people had a consistent leadership experience from their People Manager; and
- › **Personal Development and Career Progression** – creating opportunities for everyone in Royal London to develop and grow.

I am delighted to say that each of the People Commitments was delivered in 2017, and have made a positive impact on employee engagement and how individuals feel about working for Royal London.

We believe that rewarding our staff fairly is critical and in 2017 we undertook salary benchmarking for all our staff, committing to bring wages within the

market range of between 90-100% of the market salary for all those performing at a Good or above level. In September 2016, the Group became a signatory of the Women in Finance Charter and set ourselves a target of increasing our female management population internally graded at RL1 (or equivalent), which is our most senior grade, from 32.6% to 40% by the end of 2020. The achievement of this target is a key objective for all our executives. In September 2017, one year on from becoming a signatory, we were pleased to report that the proportion of women has increased to 33.7%, an increase of 1.1%.

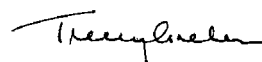
Details of other activities undertaken by the Committee during 2017 are provided in the annual report on remuneration on page 86.

#### **Conclusion**

The Group has been pursuing its current strategy for approximately six years and over that period Funds Under Management (FUM) have increased by 138% and our life and pensions sales by 280%. New life and pensions sales grew by 38% in 2017 and the Group delivered £329m operating profit, an increase of 17%.

The Committee is satisfied the reward structure continues to attract and retain the talent the Group needs to deliver good outcomes for members and customers, and continue the long-term success of the Group, a position which is further strengthened by the proposed change to LTIS.

The Committee and the Board recommend that you vote for both the resolutions on the remuneration policy and the annual report on remuneration.



**Tracey Graham**  
Chair of the Remuneration Committee



The Group is committed to being transparent with its members. Our remuneration disclosures continue to be in line with listed company remuneration reporting requirements



## 2017 Directors' remuneration report continued

### Directors' remuneration policy

Last year the Committee conducted an independent review of our remuneration policy, in order to ensure our plans were easy for our people and members to understand, had maximum alignment with our members and customers, and remained regulatory compliant.

The policy applicable for 2017-2019 was voted on and approved by 94% of members at the 2017 AGM. It can be found in the 2016 Annual Report and Accounts available at: [royallondon.com/about/annual-reports/annualreport](http://royallondon.com/about/annual-reports/annualreport)

### Key principles of remuneration policy

To achieve the four aims of the remuneration policy as set out in the Chairman's introduction, the Remuneration Committee has agreed the following principles:

Align executives' interests with those of our members and customers	Performance-related incentive arrangements will be designed to align the interests of executives with those of members and customers.
Support delivery of the Group's strategy while ensuring adherence to the Group's risk appetite	<p>Performance-related incentive arrangements will be designed to reinforce the achievement of the Group's strategy.</p> <p>The remuneration policy will have regard to the remuneration codes of all relevant regulators, including the PRA and FCA, as well as institutional investor guidance on remuneration governance best practice.</p> <p>The Committee will ensure that risk-taking outside of the Group's risk appetite is not rewarded and it will have absolute discretion to amend incentive amounts prior to payment to ensure they are appropriate.</p> <p>When assessing performance, the Committee will take into account not just the measures and targets in the balanced scorecard, but also wider views of Group performance, quality of earnings and the sustainability of performance before finalising awards.</p>
Ensure remuneration is competitive for our markets to help the Group attract and retain talent	Total remuneration will be appropriately competitive to support the recruitment, retention and motivation of talented people, and to help the Group compete effectively with other leading UK life insurers and financial services companies.
To ensure fair outcomes for our people, members and policyholders	Remuneration policy is consistent across Royal London, although remuneration levels differ and not all employees participate in the LTIS.

### Remuneration policy – executive directors

#### Base salary

The aim of base salary is to support recruitment and retention of talented people.

Salaries are reviewed annually, taking into account each executive director's role and responsibilities, individual performance and the external market data (principally top UK life insurers, other mutuals, general insurers and other firms with which we compete for talent). While there is no maximum salary or % salary increase, it will be typically in line with those for the Group's broader employee population who have received the same performance rating and have a similar pay positioning to market.

#### Short-Term Incentive Plan (STIP)

The aim of the STIP is to focus participants on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy. The maximum STIP payable is 120–150% of salary dependent on role. Half of the award is payable for on-target performance, or 60–75% of base salary.

Performance is assessed using a scorecard of one-year financial and strategic measures that are reviewed each year, and individual performance ratings (determined by the Committee for the Group Chief Executive and by the Group Chief Executive for the other executive directors).

There is no payment for threshold performance and the sub-measures/tasks within each category are assessed broadly to provide greater flexibility to reward critical measures that reflect business priorities each year. The weighting on financial measures will be no less than 30% and the Committee reserves the right to apply a discretionary override to ensure that awards fairly reflect underlying performance.

To avoid any conflict that could impact upon the independence of control functions, the STIP for executives in control functions is based on the performance of the function, and the financial element focuses on cost management and operational efficiency rather than profit. Of the executive directors, this arrangement only currently applies to the Chief Risk Officer.

Payment of 40% of any amount earned under the STIP is deferred for up to three years. The deferred award is converted into Royal London Group European Embedded Value (EEV) units. These EEV units vest (are converted back into cash and paid) in three equal tranches on the year anniversary of the award. The change in value of EEV units supports alignment of executive director interests with the long-term interests of our members.

Malus may be applied to unvested awards at the discretion of the Committee for reasons such as, but not limited to, gross misconduct, material financial restatement or behaviour that could lead to significant reputational damage.



### Long-Term Incentive Scheme (LTIS)

The aim of the LTIS is to align executives with the long-term interests of members and customers.

Vesting of awards is based on performance over three years against the Group's key long-term performance measures and is deferred as follows:

- 50% is payable after three years;
- 25% is payable after four years; and
- 25% is payable five years from the date of grant.

The LTIS award is converted into EEV units at the start of the three-year performance period and the value of units is adjusted to reflect the change in the value of the Group to its members over the vesting period. The vesting calculation is reviewed by Internal Audit.

LTIS awards of up to 150% of salary are assessed using a balanced scorecard of three-year performance measures. They may be subject to discretionary adjustment of up to +25% or down to zero by the Committee based on a basket of performance measures that include, but are not limited to, strategic milestones and performance relative to peers. The maximum potential award opportunity is therefore 187.5% of salary.

The Committee has discretion to add or remove performance measures.

Vesting outcomes are subject to a discretionary override by the Committee (which may decrease or increase the award) to ensure that overall awards fairly reflect underlying performance.

The awards are subject to malus or clawback for reasons such as, but not limited to, gross misconduct, material financial restatement or behaviour that could lead to significant reputational damage.

### Benefits

The aim of providing competitive benefits is to support the recruitment and retention of our people.

Benefits may vary by individual and level, and are reviewed regularly to ensure they remain competitive. Currently they include life insurance, private medical insurance, medical screening, a discretionary living-away-from-home allowance and either a company car or a cash allowance in lieu of a car. Executive directors may participate in the Group's flexible benefits scheme and may be eligible to receive relocation support based on the requirements of their role, as determined by the Group.

### Pension

The aim of a market-competitive pension contribution is to support the recruitment and retention of our people.

With effect from 1 April 2016, all pension benefits for existing and new directors are Defined Contribution. Executive directors can receive a cash allowance in lieu of pension or they may elect

to pay all or part of their allowance into their pension plan. The maximum pension contribution is 25% of salary.

### Scope for Committee discretion

The Committee has discretion to override formulaic outcomes for the STIP and LTIS, either positively or negatively. The Committee intends to use its discretion only when it is necessary to ensure that awards fairly reflect underlying business performance and value creation for members and policyholders. Any discretion would only be exercised within the pre-approved limits of the relevant plan.

### Remuneration policy for non-executive director fees

#### Board fee

The fees for non-executive directors (NEDs) are set to be sufficient to attract and retain directors of the highest calibre, reflecting the responsibilities and time commitment required. These fees are reviewed annually against fee levels at companies of a similar size, with particular reference to financial services and other UK life insurers. While there is no specific cap on fees, they are targeted to be within 20% of the median Board fees at previously mentioned comparators.

#### NED/Chairmanship fees

The remuneration of the Group Chairman is determined by the Committee, while the remuneration of other non-executive directors is determined by the Chairman and executive directors. All directors abstain on determination of their own remuneration.

Additional fees are paid to NEDs for chairing committees and subsidiary boards to reflect the additional time commitment that is required. NEDs are not eligible for additional per diem fees for activities beyond their normal workload.

Remuneration for newly appointed NEDs will be aligned with the approach taken for the existing NEDs.

The NEDs are not eligible to participate in incentive schemes and their service is not pensionable.

### Approach to the recruitment of executive directors

The Nomination Committee of the Board appoints executive directors who it considers to be the most appropriate for each position. The Committee's approach to determining remuneration for new executive directors is to pay sufficient to recruit the individual, giving careful consideration to internal and external market pay levels, as well as taking into account their existing remuneration.

The following limits are placed on remuneration awarded to new executive directors:

- the maximum STIP award will not exceed 150% of salary;
- the maximum LTIS opportunity on recruitment will not exceed 187.5% of salary; and
- pension and benefits will be as outlined in the policy table on page 78.

## 2017 Directors' remuneration report continued

Where a newly recruited executive forfeits incentives from their previous employer, Royal London may make compensatory awards, which are always performance-based, typically using one-off additional STIP, LTIS or EEV unit awards to offset any losses. Such awards will be made on no more than an equal fair value basis, taking into account performance, employment conditions and any other conditions attached to the award being forfeited. Depending on the value of the award forfeited, the normal maximum plan limits may need to be exceeded on a one-off basis.

In the event of an internal promotion to the Board, any prior contractual obligations and incentive awards to the new executive director may be honoured.

### Exit payment policy

Any payments in the event of termination of an executive director will take account of the individual circumstances, including the reason for termination, any contractual obligations and applicable incentive plan, and pension scheme rules. Executive directors' contracts do not include any specific compensation for severance as a result of a change of control.

The Committee retains discretion to alter the provisions contained in the relevant plan rules on a case-by-case basis following a review of circumstances in order to ensure fairness for members and participants. Under certain circumstances, it may be in the members' interests for the Group to enter into a legally binding agreement with an executive director when their employment is terminated.

### External appointments

Subject to the approval of the Board, executive directors may accept external non-executive director appointments at other organisations. The executive director may retain any fees that they receive from these appointments. None of the executive directors currently holds a paid external appointment. Details of any external directorships will be disclosed in the annual report on remuneration for the relevant year.

### Service contracts

The service contract of any new executive director will require 12 months' notice to the Group, and will also require that the director mitigate any pay in lieu of notice. The main terms of executive director service contracts are provided in the table below.

	Group CEO terms	Other executive director terms
<b>Duration</b>	Continuous term to retirement age.	Continuous term to retirement age.
<b>Notice period</b>	12 months by the Group. 12 months by the CEO.	12 months by the Group. Up to 12 months by the executive director.
<b>Pay in lieu of notice</b>	Pay in lieu of notice (salary and contractual benefits) if employment is terminated by the Group for reasons other than misconduct.	Pay in lieu of notice (salary and contractual benefits) if employment is terminated by the Group for reasons other than misconduct.
<b>Other allowances</b>	Group reimburses travel and overnight expenses in connection with work-related travel to and from home to place of work.	Group reimburses travel expenses for the Group Deputy Chief Executive & Group Finance Director in connection with work-related travel to and from home to place of work.

The Chairman and non-executive directors have letters of appointment with Royal London. Letters of appointment do not contain provisions for loss of office payments, or any additional remuneration other than the fees set out in this policy. All non-executive directors have a notice period of three months and the dates of their board appointment are provided in the table below.

	Date of Board appointment
Sally Bridgeland	14 January 2015
Olivia Dickson	15 June 2017
Ian Dilks	14 November 2014
Tracey Graham	10 March 2013
Andrew Palmer	1 April 2011
Rupert Pennant-Rea	13 December 2012
David Weymouth	1 July 2012

### EEV unit holding guideline

The Group Chief Executive and other executive directors are required to hold EEV units earned under the short-term and long-term incentive schemes, and build up a minimum holding over a period of three to five years. This means that the value of a participant's holding changes in line with the value of the Group to its members. The holding requirement for the Group Chief Executive is 200% of salary and it is 150% and 100% of salary for the Group Deputy Chief Executive & Group Finance Director and Chief Risk Officer respectively.

The Committee believes that holding of EEV units reinforces the principles underlying the Group's remuneration policy and further aligns the interests of executives with those of members.

Executive directors are given time to acquire units, with 50% of any LTIS and deferred STIP (net of tax) vesting deferred in units until the holding requirement is satisfied. The Committee will review these guidelines periodically to ensure they remain appropriate for the Group, taking into account market practice and the Board's assessment of what is appropriate.

### Remuneration under previous policies

Any awards made prior to the implementation of the remuneration policy detailed in this report will be honoured. These include the Group deferred STIP, LTIS and RLAM LTIP awards from prior years.

### Alignment with remuneration policy for the wider workforce

The remuneration policy for Group employees is broadly the same as for executive directors, although the levels of remuneration clearly differ and the majority of employees do not participate in the LTIS or any other long-term incentive arrangement. The Executive Committee, which reports to the Group Chief Executive, is eligible for LTIS and is subject to similar deferral requirements where applicable.

The Committee receives detailed information from management regarding the annual pay reviews for all employee groups and also reviews the Group Chief Executive's recommendations for salary and STIP for his direct reports. It also reviews all awards made under the LTIS and other long-term incentive plans.

For all employees, remuneration is set with reference to the specific requirements of the individual role and pay levels in the relevant talent markets.

The Committee does not consult directly with employees specifically on remuneration policy for directors, but is mindful of pay and employment conditions elsewhere in the Group when doing so, and when considering potential payments under the policy.



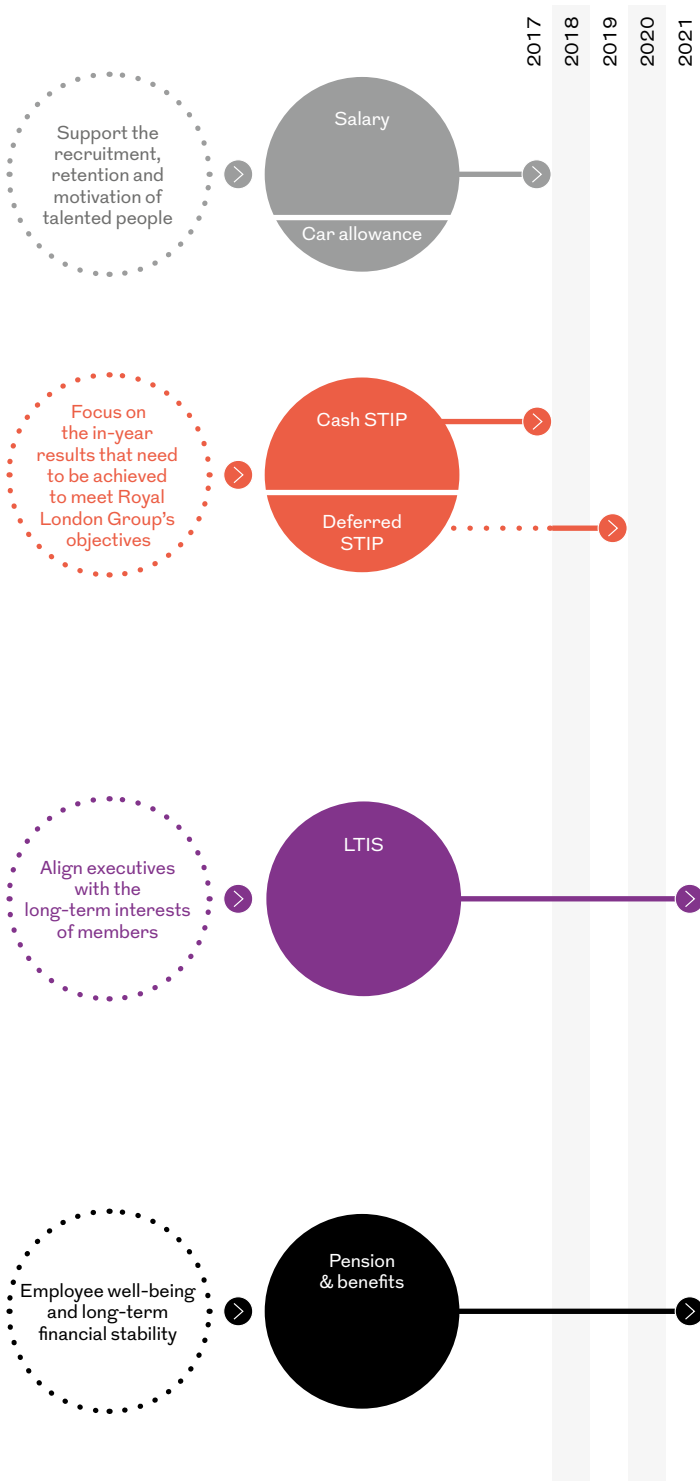
For all employees, remuneration is set with reference to the specific requirements of the individual role and pay levels in the relevant talent markets



## 2017 Directors' remuneration report continued

### 2017 Annual report of remuneration

This section of the report details how the Group implemented the 2017 approved policy, as well as the required disclosures such as the single figure table. A diagram that summarises the 2017 implementation is also provided below.



- Fixed pay
- Short-term variable pay
- Long-term variable pay
- Benefits & pension

Key features of the policy	2017 Implementation
<p>Reviewed annually considering:</p> <ul style="list-style-type: none"> <li>➤ Role and responsibilities;</li> <li>➤ Benchmarking of comparator groups;</li> <li>➤ Individual performance;</li> <li>➤ Group performance; and</li> <li>➤ Broader employee population.</li> </ul>	<p>Salary increases were 4.3%</p>
<p>Performance is assessed against a balanced scorecard of one-year measures, with vesting outcomes subject to a discretionary override by the Committee.</p> <p>Maximum STIP opportunity of up to 150% of salary. Target STIP opportunity of up to 75% of salary.</p> <p>40% of the award is subject to deferral and paid out in equal tranches over three years and is adjusted for the change in the value of Royal London to its members over the period.</p>	<p>Short-term performance measures are:</p> <ul style="list-style-type: none"> <li>➤ Financial performance – 45%;</li> <li>➤ Best customer propositions – 15%;</li> <li>➤ Our people – 15%;</li> <li>➤ Assurance – 10%; and</li> <li>➤ Building the future – 15%.</li> </ul>
<p>Vesting of awards is based on performance over three years against the Group's key long-term performance measures released as follows:</p> <ul style="list-style-type: none"> <li>➤ 50% vests after three years;</li> <li>➤ 25% vests after four years; and</li> <li>➤ 25% after five years from the date of grant.</li> </ul> <p>Vesting outcomes are subject to a discretionary override by the Committee.</p> <p>The maximum potential opportunity is 187.5% of salary. No award is payable for delivering an 'on plan' level of performance from LTIS key features.</p>	<p>Long-term performance measures are:</p> <ul style="list-style-type: none"> <li>➤ Operating profit – 50%;</li> <li>➤ Investment performance – 25%;</li> <li>➤ Customer experience – 10%; and</li> <li>➤ Quality of proposition – 15%.</li> </ul>
<p>The Group operates a Defined Contribution Scheme. Directors may elect to receive all or part of the Group contribution to the Defined Contribution Scheme as a cash allowance.</p> <p>Benefits vary by individual and level.</p>	<p>Benefits include:</p> <ul style="list-style-type: none"> <li>➤ Up to 25% of salary;</li> <li>➤ Life insurance;</li> <li>➤ Private medical insurance;</li> <li>➤ Medical screening;</li> <li>➤ Discretionary living-away-from-home allowance; and</li> <li>➤ Flexible benefits (optional).</li> </ul>



### Executive director remuneration in 2017 – audited

The table below sets out the single figure for total remuneration for each executive director.

	Phil Loney		Tim Harris		Jon Macdonald	
	2017 (£000)	2016 (£000)	2017 (£000)	2016 (£000)	2017 (£000)	2016 (£000)
Salary	750	716	440	428	315	305
Benefits	65	60	17	15	15	15
Pension supplement	188	179	88	84	43	4
Pension benefits	-	-	-	2	4	41
<b>TOTAL</b>	<b>1,003</b>	<b>955</b>	<b>545</b>	<b>529</b>	<b>377</b>	<b>365</b>
STIP	934	1,085	409	468	193	250
<b>TOTAL remuneration for performance year</b>	<b>1,937</b>	<b>2,040</b>	<b>954</b>	<b>997</b>	<b>570</b>	<b>615</b>
Long-term incentives vesting	1,271	993	619	278	391	307
<b>Total remuneration</b>	<b>3,208</b>	<b>3,033</b>	<b>1,573</b>	<b>1,275</b>	<b>961</b>	<b>922</b>

1 Salaries are shown gross of any Salary Sacrifice element and the pension benefits for Jon Macdonald do not include employee contributions made by Salary Sacrifice. Jon Macdonald, Phil Loney and Tim Harris received cash supplements in lieu of pension of 15%, 25% and 20% respectively. Jon Macdonald invested part of his supplement into the Group's Defined Contribution Plan.

2 Benefits include life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car). Phil Loney and Tim Harris receive a transport and overnight expenses allowance to fund travel between their home and additional work locations. It is currently £46,000 and £10,000 per annum respectively and is reviewed in April each year to ensure it has been set at the correct level. No travel expenses are reimbursed for travel to their primary work locations. STIP values are the full value awarded for the performance year including amounts due to be deferred, subject to continued service requirements and any other performance conditions. The long-term incentives values are based on the estimated value of awards exercisable, subject to being employed on the payment date (after a three-year performance period) at the reporting date, and exclude any estimated value of awards deferred to future years (but include awards restricted by holding conditions).

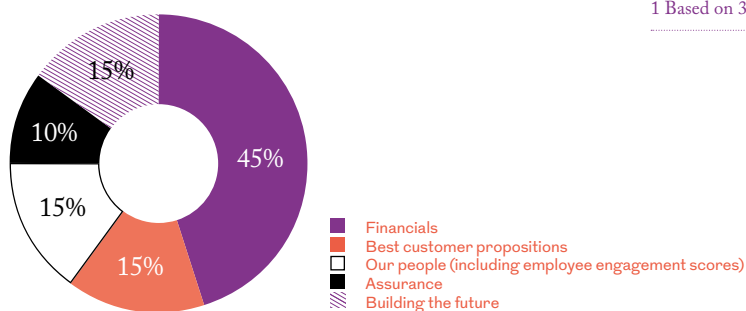
### 2017 STIP outcome – audited

The maximum STIP opportunity levels and resulting overall STIP outcomes for each executive director in respect of 2017 are shown in the table.

The 2017 overall STIP outcome was determined by assessing the Group's performance over the year against a scorecard of financial and non-financial measures and personal performance rating of the individual for that year.






	Max award (as % of salary)	Outcome (as % of salary) <sup>1</sup>
Jon Macdonald	120	61
Phil Loney	150	124
Tim Harris	120	92

<sup>1</sup> Based on 31 December 2017 salary.



## 2017 Directors' remuneration report continued

The scorecard for 2017 was set at the start of year and consisted of threshold, target and maximum targets for each measure that was grouped into five categories. The categories for the 2017 STIP and resulting performance outcomes against each category are detailed below.

Measure and weighting	Threshold	Target	Maximum
Financials 45%			
Best customer propositions 15%			
Our people 15%			
Assurance 10%			
Building the future 15%			

 Actual performance







Overall the scorecard result was 132% out of maximum of 200%. This result, combined with personal performance ratings of Strong, Strong and Good, meant that STIP awards of 124%, 92% and 61% of salary were paid out to the Group Chief Executive, Group Deputy Chief Executive & Group Finance Director and Chief Risk Officer. The Committee is committed to disclosing as much as is commercially possible on the financial measures in the 2019 report.

### Long-term incentives vesting in 2017 – audited

The table on the right details the percentage of long-term incentive awards granted in 2015 which vested as at 31 December 2017.

	Scheme	Initial award (as % of salary)	Vesting (as % of salary)
Jon Macdonald	LTIS	100	110
Phil Loney	LTIS	150	164
Tim Harris	LTIS	150	164

The performance measures and estimated outcomes for the 2015 LTIS are as shown below.

Measure and weighting	Threshold	Maximum
Existing business performance 25%		
New business performance 15%		
Profit from target growth areas 15%		
Customer services measure 10%		
Investment performance 25%		
Quality of proposition 10%		

 Actual performance

As a result of Royal London's performance against the measures, 109.6% of the 2015 LTIS award is estimated to vest, which equates to 164% (out of 187.5%), 164% (out of 187.5%) and 110% (out of 125%) of salary – which is subject to further EEV unit price changes – for the Group Chief Executive, Group Deputy Chief Executive & Group Finance Director and Chief Risk Officer. In line with policy, 50% of the award will vest immediately, with 25% vesting after one year and the remaining 25% after two years.

For additional context, the awards paid in 2016 (2013 LTIS and 2015 STIP) included the following financial thresholds, maximum and actuals.

2015 STIP	Threshold	Max	Actuals
New business contribution	£71.0m	£106.5m	£149.0m
Existing business profits	£45.0m	£165.0m	£169.6m

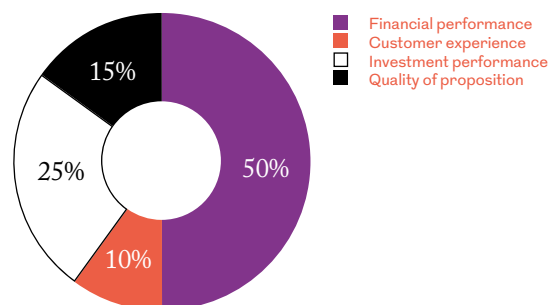
2013 LTIS	Threshold	Max	Actuals
Growth in value compared to peers	71%	85%	77%
EEV growth	15%	35%	41%
New business growth	£224m	£246m	£287m

In publishing the relative STIP and LTIS performance outcomes to thresholds, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the plans, while protecting the commercial sensitivity of the underlying metrics. All STIP and LTIS award outcomes are reviewed by Group Internal Audit.

#### Long-term incentives granted in 2017 – audited

In 2017, the Committee granted initial LTIS awards of 150% of salary to the Group Chief Executive and Group Deputy Chief Executive & Group Finance Director and 100% to the Chief Risk Officer (maximum of 187.5% and 125% of salary).

The vesting of these awards will be dependent on the following performance measures and is subject to +/- 25% fully discretionary multiplier.



	Scheme	Type of interest added	Face value (as % of salary)	Face value (£000)	Minimum value at vesting (£)	End of performance period
Tim Harris	2017 LTIS	EEV Units	150	647	0	31 December 2019
Phil Loney	2017 LTIS	EEV Units	150	1,104	0	
Jon Macdonald	2017 LTIS	EEV Units	100	306	0	

The Committee is committed to disclosing as much as is commercially possible on the financial measures in the 2019 report when this award vests.

#### Exercise of discretion by the Committee

Having considered the outcome of both the 2017 STIP and 2015 LTIS scorecards and the overall performance of the Group, the Committee believes that the result delivered by the scorecards accurately reflects strong performance and is within the risk appetite of the Group. The Committee did not see a need to exercise any further discretion on this occasion on the payouts/ vesting of these awards.

## 2017 Directors' remuneration report continued

### Outstanding awards under incentive schemes – audited

The following table provides details of outstanding awards under incentive schemes, including deferred STIP and other deferred bonus awards. In order to show a complete picture of remuneration that has been awarded to date, it includes estimated figures in respect of plans which have not reached their third anniversary or date of exercise.

	Value of non-exercisable awards		Exercisable awards	Total awards
	Awards subject to time (£000)	Awards subject to time and performance (£000)		
Tim Harris	1,159	879	786	2,824
Phil Loney	2,167	1,433	1,692	5,292
Jon Macdonald	581	418	533	1,532

The following payments were also made to past directors in 2017: Andrew Carter, £927k; Stephen Shone, £272k.

### Units held by executive directors

The table below sets out the value of units held by executive directors as at 31 December 2017 and their individual holding requirements. Holding requirements cease on leaving date but all awards subject to deferral remain.

	Holding Requirement (£000)	Value of units held at 31 Dec 2017 (£000)
Tim Harris	665	1,782
Phil Loney	1,510	3,486
Jon Macdonald	318	1,037

### Payments to past directors – audited

At the end of 2015, Andrew Carter, the CEO of Wealth, stepped down as a director of the Company. He did not receive a payment for loss of office, as he remains an employee of the Group.

However, during 2015 when Andrew Carter was a director of the Group, he was granted LTIS and RLAM LTIP awards (which were disclosed in the relevant 2015 report). The outcome of these awards has been provided below.

	Scheme	Initial award (% salary)	Vesting (% salary)
Andrew Carter	LTIS	80	88
	RLAM LTIP	146	136

The LTIS performance is detailed on page 80. The performance measures and outcomes for the 2015 RLAM LTIP were as follows:

Measure and weighting	Threshold	Target	Maximum
Investment performance 70%			
Revenue growth 30%			

Actual performance

In publishing the relative LTIP performance outcomes to targets, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the plans, while protecting the commercial sensitivity of the underlying metrics. All long-term incentive award outcomes (LTIS and RLAM LTIP) are reviewed by Group Internal Audit.

No additional payments were made to other past directors during 2017, nor were any payments made for loss of office in 2017.

### Non-executive directors' remuneration in 2017 – audited

The non-executive directors received the remuneration detailed below.

	Annual fee (£000)		Committee chairmanship fee (£000)		Additional fee (£000)		Total (£000)	
	2017	2016	2017	2016	2017	2016	2017	2016
Sally Bridgeland	71	65	18	15	-	2	89	82
Olivia Dickson <sup>2</sup>	39	-	-	-	-	-	39	-
Ian Dilks	71	65	8	-	-	2	79	67
Duncan Ferguson <sup>3</sup>	35	65	17	33	-	7	52	105
Tracey Graham	71	65	20	20	65	27	156	112
Andrew Palmer	71	65	28	20	90	37	189	122
Rupert Pennant-Rea	260	245	-	-	-	-	260	245
David Weymouth	71	65	22	22	-	7	93	94

1 Non-executive directors do not receive any taxable benefits.

2 Olivia Dickson was appointed to the Board on 15 June 2017.

3 Duncan Ferguson resigned on 14 June 2017.

Andrew Palmer was paid additional fees from 14 June 2017 on agreeing to perform the role of Senior Independent Director. Sally Bridgeland was paid fees from 13 June 2017 on agreeing to perform the role of Chair of the Company's With-Profits Committee. Ian Dilks took on Sally Bridgeland's role as Chair of the Investment Committee from 15 June 2017. To fill the vacancy created on the Board, external search firms were used to recruit a new independent non-executive director, Olivia Dickson, who was appointed to the Board on 15 June 2017.

The continued focus of regulation in the financial services industry had led to increased accountability for all Board Committees as part of their core role. Following the annual benchmarking activity, the annual base fees were increased from £69,100 to £71,200 from April 2017.

In line with ensuring the appropriate governance and Board oversight of subsidiary companies, Andrew Palmer was appointed Chair of RLAM Limited on 8 October 2016 and Tracey Graham was appointed Chair of Investment Funds Direct Limited (IFDL) on 2 September 2016 to reflect these changes. Andrew received additional fees of £90,000 per annum and Tracey £65,000 per annum to reflect the additional accountability and time commitment for chairing these respective subsidiary Boards. The amounts received in 2017 have been included as additional fees in the table above. The annual fees for these two roles were independently benchmarked.



## 2017 Directors' remuneration report continued

### Group Chief Executive's single remuneration figure growth

The table below shows the Group Chief Executive's single remuneration figure growth over the past nine years.

		2009	2010	2011	2012	Restated 2013	2014	2015	2016	2017
<b>Group Chief Executive</b>	Total single figure (£000s)	-	-	1,403	1,703	2,614	2,859	3,136	3,033	<b>3,208</b>
<b>Phil Loney</b>	Bonus vesting as a % of maximum	-	-	93	85	93	95	100	98	<b>82</b>
	LTIS vesting as a % of maximum	-	-	-	-	71	39	37	55	<b>88</b>
<b>Group Chief Executive</b>	Total single figure (£000s)	1,385	2,343	4,420	-	-	-	-	-	-
<b>Mike Yardley</b>	Bonus vesting as a % of maximum	82	94	92	-	-	-	-	-	-
	LTIS vesting as a % of maximum	No maximum award limit. Value at vesting included in total single figure stated above.			-	-	-	-	-	-

2013 restated to reflect the percentage of Royal London units which vested.

Phil Loney joined the Group on 1 October 2011. The remuneration shown before that date is that of Mike Yardley who resigned on 30 September 2011.

### Group Chief Executive remuneration compared to other employees

	% change in base salary 2017 vs. 2016 <sup>1</sup>	Change in STIP as % of salary	% change in total remuneration 2017 vs. 2016 <sup>2</sup>
<b>Group Chief Executive</b>	4.75	(23.71)	5.77
<b>All employees</b>	6.65	(4.94)	(3.85)
<b>All employees rated Strong or Exceptional</b>	7.43	(4.77)	(3.19)

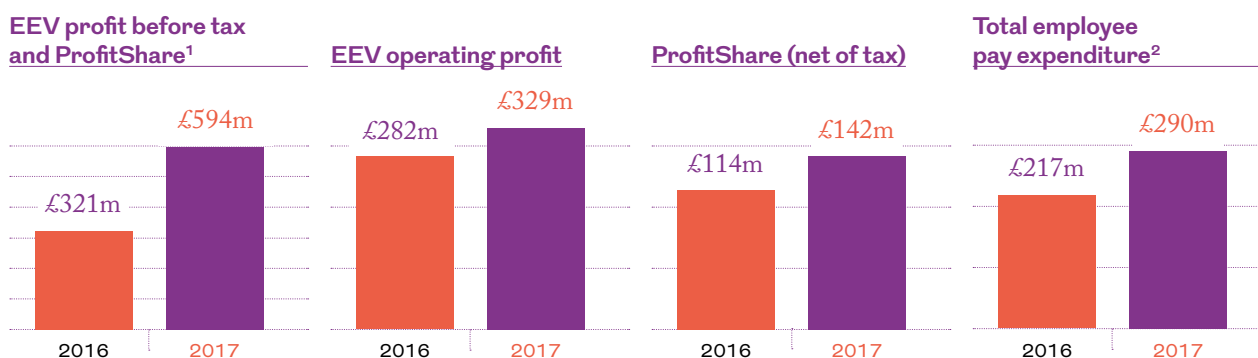
<sup>1</sup> See single figure table.

<sup>2</sup> For Group Chief Executive it includes salary, benefits, pensions and incentives (see single figure table).

The salary increase received by the Group Chief Executive from 1 April 2017 resulted in an increase in pay received during 2017 compared with pay received during 2016 of 4.75%, which reflects internal and external market relativities and his strong performance during 2017. In comparison, average salary increases for other Royal London employees rated Strong or Exceptional were 7.4% and 8.6% respectively, which included promotional increases. All salary increases are determined using the same criteria, which link the percentage increase to individual performance rating and position within the market range. Change in STIP as a percentage of salary is down for all employees, including the Group Chief Executive, which reflects a strong 2017 performance for Royal London, on the back of a very strong 2016.

### Distribution statement

The illustration below shows the increase in EEV profit before tax and ProfitShare; EEV operating profit; ProfitShare; and total employee pay expenditure in 2017.



<sup>1</sup> Note the 2016 comparative is stated before the inclusion of a one-off charge of £182m for a change in estimate for Solvency II.

<sup>2</sup> In 2016 the reported amount of £217m is net of a £21m gain from closure of the Royal London Group Pension Scheme (RLGPS) to future accrual. The 2016 amount has been restated to include employee benefits of £5m.

### Remuneration Committee meetings in 2017

The Remuneration Committee met seven times in 2017. In addition, a Joint Board Risk and Remuneration Committee meeting was held in March 2017. The purpose of the meeting was to review the discretion applied to the incentive schemes within the Group to ensure incentive scheme performance awards and conditions are within risk appetite and to review the appropriateness of the remuneration of controlled function holders. During 2017, the members of the Committee were as follows:

- Tracey Graham (Chair);
- Sally Bridgeland; and
- Rupert Pennant-Rea until 19 September 2017;
- Olivia Dickson from 19 September 2017.

The Committee received support and advice from external advisers during the year. From time to time it undertook due diligence to ensure that the advice it receives was independent. The table below provides details of the external advisers to the Committee and the respective fees paid to them in 2017. Fees are charged based on the scope and requirements of the work as agreed with the Committee or the Group as a whole.

	Nature of advice provided to the Remuneration Committee	Total (£000)	Nature of advice provided to other parts of the Royal London Group	Appointed by
Kepler, a brand of Mercer	Independent advice on all aspects of remuneration of the executive directors and senior executives. Provides support on other aspects of Group remuneration for the Committee.	101	None.	Appointed by the Remuneration Committee. Kepler's parent company, Mercer, provides unrelated services to the Group in the areas of fund management performance tracking and provision of advice to the pension Trustees. However, the Committee is satisfied that Kepler, in providing remuneration advice to the Committee, did not have any connection with the Group that impaired its independence.
Pinsent Masons	Legal support with regard to incentives matters during 2017. Advisers to the Company on operation of the Group's incentive HR matters. Advice on proposed termination payments.	31	General legal advice.	Appointed by the Group to advise on Group HR matters.
Deloitte	Review of LTIP performance paper and MRT communications papers.	16	General advice.	Appointed by the Committee to advise on Group HR matters.

## 2017 Directors' remuneration report continued

### Activities of the Remuneration Committee during 2017

The table below sets out the principal activities of the Committee during 2017.

Area	Activity
Directors' remuneration policy	The Committee reviewed the Directors' remuneration policy and agreed that only a few changes were required for 2018.
Incentive scheme targets	The Committee agreed the targets for the 2017 STIP, the 2017 LTIS and the 2017 RLAM LTIP.
Salary review	As part of the annual salary review, the Committee benchmarked salaries relative to the competitive market for each role, and adjusted salaries taking into consideration the current market pay positioning and the performance of the executives.
Chairman's fee proposal	The Committee reviewed and agreed the Chairman of the Group's fees for 2017/18.
Incentive scheme outcomes	The Committee reviewed STIP, LTIS and RLAM LTIP outcomes for 2017 in the context of overall Group performance and risk appetite.
Joint risk and remuneration meeting	The Committee held a joint meeting with the Board Risk Committee to jointly consider any required risk adjustments to variable pay outcomes and how risk is captured in all aspects of the remuneration policy.
STIP and LTIS measures	The Committee kept the performance conditions in the Group's STIP and LTIS under review to ensure that they continued to align with the Group's overall purpose and strategy, which includes maximising value for the Group's members and customers as described on page 88.
Regulatory considerations	The Committee has ensured the Group complies with all prevailing regulations, for example, Solvency II including Remuneration Policy Statement submission and the new MiFID II requirements.
RLAM remuneration policy	The Committee continued its review of its approach to RLAM remuneration policy, and reviewed all RLAM STIP and LTIP schemes as part of an annual reward cycle and in the context of the FCA requirements.
Annual review of Terms of Reference	The key responsibilities of the Committee are set out in its terms of reference, which are reviewed annually and made available to members on the Group's website. An effectiveness review was undertaken by the Group during Q4 2017 and found that the Committee had fulfilled its duties under its terms of reference during the year.
Other allowances	Group reimburses travel and overnight expenses in connection with work-related travel to and from home to place of work. The Committee reviewed any allowances in place for executive directors.

### Consideration of members' views

In determining the remuneration policy, the Committee takes into account the views of members as expressed at our AGMs, following the Remuneration Committee Chair's presentation. All members of the Committee are available to speak with members at the AGM.

The voting outcomes on the annual report of remuneration at the 2015, 2016 and 2017 AGMs are shown in the table below for the previous year's report. Members have not expressed any adverse views at these AGMs on our current remuneration policies and procedures.

ARR for year	Number of votes cast for	Percentage of votes cast for (%)	Number of votes against	Percentage of votes cast against (%)	Total votes cast	Number of votes withheld
2017	15,429	96.0	645	4.0	16,074	456
2016	14,604	96.4	543	3.6	15,147	325
2015	15,732	96.7	536	3.3	16,268	315



In determining the remuneration policy, the Committee takes into account the views of members as expressed at our AGMs, following the Remuneration Committee Chair's presentation



## 2018 Director remuneration

The following sections set out the proposed remuneration for executive and non-executive directors for 2018 in line with the policy, including details of salary increases and short- and long-term incentive awards.

### Salaries

There were no changes proposed to the policy for fixed pay and benefits. Salaries for executive directors continue to be reviewed considering their roles and responsibilities, individual and Group performance, competitiveness against comparator organisations and the broader employee population.

The following table sets out the annual salaries payable to each executive director from 1 April 2018.

	2018 (£000)	2017 (£000)	Increase (%)
Tim Harris	465	443	5.0
Phil Loney	782	755	3.5
Jon Macdonald	326	318	2.5

The salaries for the executive directors have been reviewed following a robust benchmarking exercise conducted by the independent advisers to the Committee. The actual increases applied are in line with the approach adopted for all employees within the Group.

### Pension and benefits

Benefits continue to vary by individual and level, and include life insurance, private medical insurance, medical screening, discretionary living-away-from-home allowance and either a company car (or a cash allowance in lieu of a car). Executive directors may participate in the Group's flexible benefit scheme and may be eligible to receive relocation support, based on the requirements of their role as determined by the Group.

Pension benefits for existing and new directors are provided through the Defined Contribution Plan or they will receive a payment in lieu of pension for 2018.

### STIP opportunities for 2018

A review of STIP levels for executive directors indicated that a target STIP opportunity of up to 75% (maximum 150%) of salary remains competitive. No changes have been made to Phil Loney or Jon Macdonald's maximum STIP opportunities for 2018, although Tim Harris' maximum STIP opportunity increased from 120% to 150%, as a result of his change in role.

	Maximum (as % of salary)
Tim Harris	150
Phil Loney	150
Jon Macdonald	120

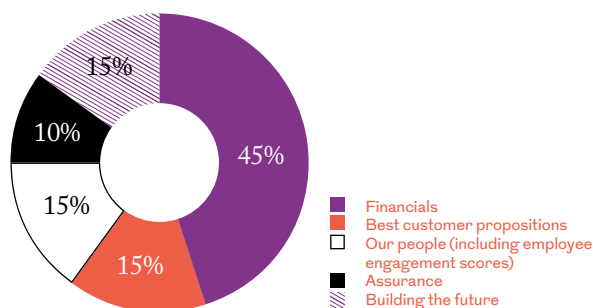
## 2017 Directors' remuneration report continued

### Performance measure selection and approach to target setting: 2018 STIP

The focus remains on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy, and the Committee will continue to focus on the most relevant metrics.

Performance will continue to be assessed against a scorecard covering five areas of performance and will also take into account the personal performance rating for the individual executive director.

For 2018 the measures and weights are as follows:



The sub-measures and tasks within each category are assessed broadly to provide greater flexibility to reward critical measures that reflect business priorities each year. The weighting on financial measures will be no less than 30% and the Committee reserves the right to apply a discretionary override to ensure that awards fairly reflect underlying performance.

To avoid any conflict with control function independence, the control function STIP is based on the performance of the function, and the financial element targets cost management and operational efficiency, rather than profit-based performance. Of the executive directors, this arrangement only applies to Jon Macdonald.

Payment of 40% of any amount earned under the STIP is deferred for up to three years. The deferred award is converted into Royal London Group European Embedded Value (EEV) units. These EEV units vest (are converted back into cash and paid) in three equal tranches on the year anniversary of the award.

Malus may be applied to unvested awards at the discretion of the Committee for reasons such as, but not limited to, gross misconduct, material financial restatement or behaviour that could lead to significant reputational damage.

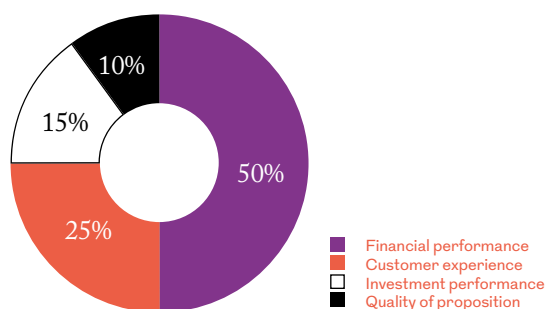
Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2019, unless the Committee considers them too commercially sensitive to disclose.

### LTIS awards to be granted in 2018

LTIS opportunities are also expected to remain unchanged from 2017; however, having reviewed the competitiveness of the scheme against those in operation in competitor organisations, the Committee proposes that from 2018 onwards 20% of the award will vest once an acceptable threshold level of performance is met and 45% of the award will vest once target level of performance is met, however both these would be subject to the absolute discretion of the Committee over actual vesting. The following awards will be granted to executive directors.

	Scheme	Face value (as % of salary)	% vesting for plan performance	End of performance period
Tim Harris	LTIS	150	45	
Phil Loney	LTIS	150	45	31 December 2020
Jon Macdonald	LTIS	100	45	

### Performance measure selection and approach to target setting: 2018 LTIS



The aim of the LTIS continues to be the alignment of executives with the long-term interests of members and customers. The performance measures for 2018 LTIS are anticipated to be as described in the chart to the left.

The 2018 LTIS award may also be subject to discretionary adjustment by the Committee, based on a basket of measures which include, but are not limited to, strategic milestones and performance relative to peers.

Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2020, unless the Committee considers them too commercially sensitive to disclose.



### Pay scenario charts

The charts (right) illustrate the potential pay opportunities available for each executive director for 2018 based on different performance scenarios.

Scenario	Salary, pension and benefits	STIP outcome (% of max)	LTIS outcome (% of max)
Fixed	Received in line with contractual entitlement.	0	0
On plan performance (achieves targets)		50	36
Maximum performance (significantly exceeds targets)		100	100

Actual variable pay outcomes can vary between 0% and 100% of maximum depending on actual performance delivered.

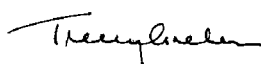
### Non-executive director fees for 2018

The annual base fee for non-executive directors from January 2018 is £73,335. Additional fees are payable for Committee chairmanship as follows:

- › Board Risk Committee: £22,000
- › Investment Committee: £16,000
- › With-Profits Committee: £20,000
- › Audit Committee: £22,000
- › Remuneration Committee: £20,000
- › Chair of RLAM: £92,700
- › Chair of IFDL: £66,950

The annual fee for the Group Chairman is £267,800 and the annual fee for the Senior Independent Director is £13,500.

By order of the Board

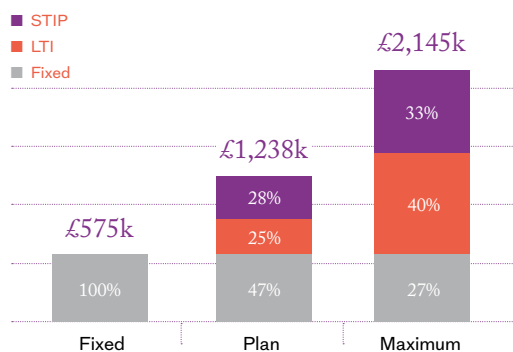


### Tracey Graham

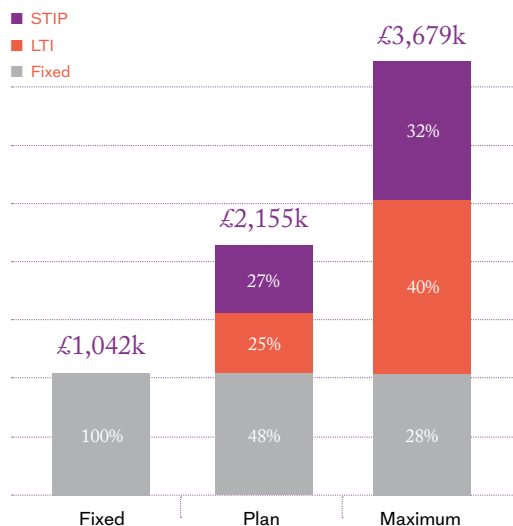
Chair of the Remuneration Committee

### Pay scenarios

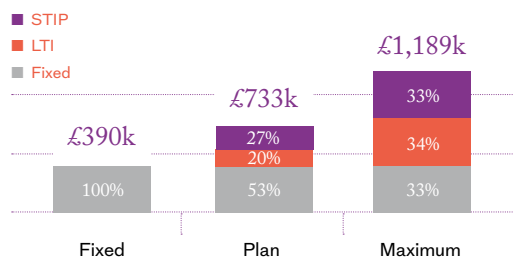
#### Tim Harris



#### Phil Loney



#### Jon Macdonald



## Auditors' report

### Independent auditors' report to the members of The Royal London Mutual Insurance Society Limited

#### Report on the audit of the financial statements

##### Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's Group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017, and of the Group's result and the Group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and parent company balance sheets as at 31 December 2017; the Group consolidated statement of comprehensive income, the Group and parent company statements of cash flows for the year then ended; and the notes to the financial statements, excluding note 41(c) on pages 198 and 199, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the

financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the Group or the parent company in the period from 1 January 2017 to 31 December 2017.

#### Our audit approach

##### Overview

<b>Materiality</b>	<ul style="list-style-type: none"> <li>➤ Overall Group materiality: £90 million (2016: £85 million), based on 2.4% of Unallocated Divisible Surplus (UDS); and</li> <li>➤ Overall parent company materiality: £85 million (2016: £85 million), based on 2.2% of Unallocated Divisible Surplus (UDS).</li> </ul>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>➤ A component was deemed to be financially significant and in-scope if it contained more than 10% of the total Group insurance or investment contract liabilities. A component was also deemed to be financially significant and in-scope if they contained balances relating to one of the areas of audit focus. For the one component identified, a full scope audit was performed.</li> <li>➤ Additional balance components were selected to ensure sufficient coverage across all material financial statement line items. For the large balance components, specified audit procedures were performed over the financial statement line item.</li> <li>➤ Our audit scope allowed us to test 99.1% of the transfer to UDS and 99.4% of the total asset balance.</li> <li>➤ Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.</li> </ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>➤ Valuation of insurance contract liabilities – persistency assumptions (Group and parent).</li> <li>➤ Valuation of insurance contract liabilities – longevity assumptions (Group and parent).</li> <li>➤ Valuation of insurance contract liabilities – valuation using a new actuarial model (Group and parent).</li> <li>➤ Valuation of insurance contract liabilities – expense assumptions (Group and parent).</li> <li>➤ Pension scheme liability valuation (Group and parent).</li> <li>➤ Valuation of complex investments (Group and parent).</li> </ul>

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We designed audit procedures at a Group level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements including, but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

## Auditors' report continued

Key audit matters	How our audit addressed the key audit matter
<p><b>Valuation of insurance contract liabilities – persistency assumptions</b></p> <p><i>Persistency impacts the value of the Group insurance contract liabilities, non-participating value of in-force business and intangible assets. Insurance contract liabilities total £40.5bn (2016: £40.6bn) and non-participating value of in-force business total £1.5bn (2016: £1.2bn) across the Group as at 31 December 2017. See notes 23 and 26 to the financial statements for more information. The Group financial statements include intangible assets relating to management's estimate of the Acquired Present Value of In-Force Business (PVIF), which total £81m (2016: £131m) across the Group as at 31 December 2017. See note 18 to the financial statements for more information.</i></p> <p>When valuing future cashflows of insurance and investment contracts, an assumption needs to be made regarding how many policies will be in force in future time periods. Lapses are a key element of future policies in-force and thus a key assumption when valuing the total quantum of insurance contract liabilities and non-participating value of in-force business.</p> <p>The Group has material non-participating value of in-force business, being the value of the projected future profits arising from the income from servicing policies. The Group also has material intangible assets, in particular the Acquired PVIF, being the value of insurance and investment contracts at the date of acquisition of those contracts. We focused on persistency because this is a significant assumption for these calculations.</p> <p>Persistency assumptions are driven by past experience (the experience investigations), and assumptions about future changes to policyholder behaviour which are difficult to predict and therefore there is judgement applied when setting an appropriate basis.</p> <p>Persistency can be impacted by a range of factors including changes to regulation for products sold, such as the April 2015 pension freedoms. We focused on whether management had made appropriate assumptions against this background.</p> <p>This is a key audit matter for both the Group and parent company.</p>	<p>We tested Management's controls over:</p> <ul style="list-style-type: none"> <li>➤ The accuracy of the data being used in the experience investigation to ensure it is consistent with the data used in previous valuations;</li> <li>➤ The calculation of historical persistency (the experience investigations);</li> <li>➤ The evidence of review and challenge, ensuring adequate sign-off and reasons for changing assumptions; and</li> <li>➤ Input of assumptions into the valuation models.</li> </ul> <p>With respect to the experience investigations, we assessed:</p> <ul style="list-style-type: none"> <li>➤ The methodology of the experience analysis process, including methodology changes since prior year;</li> <li>➤ The calculations performed in the experience analysis, and the assumption and experience analysis reports produced by Management;</li> <li>➤ Any judgements applied, including prudent margins, understanding the impact and rationale for the application, comparing with our expectations;</li> <li>➤ Past events in the data when considering the past experience observed and whether these are representative of the likely future experience;</li> <li>➤ The impact of the additional experience data obtained following pensions freedoms regulatory changes;</li> <li>➤ Using our understanding of the expected impact of regulatory changes we tested Management's assumptions by analysing the experience for lines of business that may be affected by changing policyholder behaviours as a result of these regulatory changes. We considered the impact that auto-enrolment on Group Pensions business has on the rate of paid-up policies and the possible impact that statutory future increases to minimum contributions may have on the rate of paid-up policies and the resulting judgements applied to set appropriate long-term assumptions;</li> <li>➤ Using our in-house industry benchmarking data, we compared the methodology used by Management to derive the persistency assumptions with those adopted by other insurers.</li> </ul> <p>This is an inherently subjective area. Based on the results of our testing, we concluded that the assumptions used were appropriately supported, based on the evidence obtained.</p>

Key audit matters	How our audit addressed the key audit matter
<p><b>Valuation of insurance contract liabilities – longevity assumptions</b></p> <p><i>Longevity impacts the value of the Group insurance contract liabilities. Insurance contract liabilities total £40.5bn (2016: £40.6bn) across the Group as at 31 December 2017. See note 23 to the financial statements for more information. Longevity assumptions are important for the modelling of annuity contracts as they estimate the duration over which annuity income will be paid to policyholders; the longer this duration, the higher the associated insurance contract liabilities for those policies. The Group's annuity portfolio liabilities are sensitive to longevity assumptions due to the high proportion of pension contracts with guaranteed annuity rate options.</i></p> <p>Assumptions are required for the base mortality (the choice and percentage of the standard table used) as well as the rate at which mortality rates will improve in the future. Setting the assumed future rate of mortality improvements is more subjective and requires Management to apply its judgement.</p> <p>Management updated their longevity assumptions, including making updates to the methodology used to derive the base mortality assumptions and updating their mortality improvement assumptions, taking into account the latest information released in the Institute and Faculty of Actuaries' CMI model, CMI_2016.</p> <p>Longevity is difficult to predict given the long-term nature of the assumptions and its correlation with many factors such as healthcare spending, medical advances, political and legislative changes. This leads to a high level of uncertainty. Further, the Group is consistent with the majority of peers in using population data to set its assumptions, therefore, judgement is required to set an appropriate basis for its own portfolios. We focused on the key judgements made by Management in setting the longevity assumptions and whether Management had made appropriate assumptions against this background.</p> <p>Given the sensitivity of the insurance contract liabilities to longevity assumptions and the significant changes in population longevity in recent years, it was considered a key audit matter for both the Group and parent company.</p>	<p>We performed testing over the appropriateness of the judgements made in deriving the mortality improvements by:</p> <ul style="list-style-type: none"> <li>➤ Obtaining evidence to support Management's justification for the CMI model used in assumption and substantively investigating the CMI model outputs;</li> <li>➤ Challenging the evidence presented by Management to support the setting of the long-term rate assumption and the setting of the smoothing parameter assumption;</li> <li>➤ Performing controls and substantive testing over the input of assumptions in the valuation models; and</li> <li>➤ Testing the impacts resulting from the longevity assumptions updates.</li> </ul> <p>We performed testing over the process and appropriateness of the judgements made in deriving the base mortality by:</p> <ul style="list-style-type: none"> <li>➤ Reviewing Management's process and controls for inputting and manipulating the policyholder data used in deriving the assumptions;</li> <li>➤ Challenging Management over the appropriateness of the risk factors selected to derive mortality assumptions for various Groups of policyholders and the methodology used to allocate policyholders to these various Groups;</li> <li>➤ Testing the credibility and sufficiency of data used to determine mortality rates and the approach taken when there was a paucity of data;</li> <li>➤ Using our in-house industry benchmarking data we compared the assumptions and methodology used by Management to derive the longevity assumptions with those adopted by other insurers.</li> </ul> <p>This is an inherently subjective area. Based on the results of our testing, we concluded that the assumptions used were appropriately supported based on the evidence obtained.</p>
<p><b>Valuation of insurance contract liabilities – valuation using a new actuarial model</b></p> <p><i>For the valuation of the insurance contract liabilities contained within the Group financial statements, the valuation of the majority of the Open Fund liabilities will be performed using a new actuarial model for the first time.</i></p> <p>The calculation of Open Fund liabilities with the new model represents a significant area of complexity due to the magnitude of the Open Fund both in value and number of products that are written in to the Open Fund. Further the Open Fund liabilities are a key driver of the Group's Unallocated Divisible Surplus.</p> <p>The use of the new model to perform the actuarial liability valuation calculations also introduces a significant risk as it is the first time the model will be used for the Open Fund.</p> <p>This is a key audit matter for both the Group and parent company.</p>	<p>We tested Management's controls over the new model for the Open Fund by:</p> <ul style="list-style-type: none"> <li>➤ Evaluating the operating effectiveness of the new end-to-end model results production process;</li> <li>➤ Evaluating the operating effectiveness of the revised new Analysis of Change process as a key control on the liability and surplus results; and</li> <li>➤ Reviewing the model change controls to ensure the impacts of model developments over 2017 do not adversely affect Open Fund results.</li> </ul> <p>We substantively tested the completeness and accuracy of the new model and actuarial liability calculations of the Open Fund by:</p> <ul style="list-style-type: none"> <li>➤ Baselining the Open Fund new model through review of the opening model release for the Main Fund and the two major model releases during 2017;</li> <li>➤ Reviewing the reconciliation of the new model and old model results for year-end 2016 and half-year 2017;</li> <li>➤ Reviewing the updated new model processes and controls, and testing the operating effectiveness of controls for year-end 2017 results production;</li> <li>➤ Reviewing the newly developed new model analysis of change for the Open Fund as well as the analysis of the new business and embedded value results produced using new outputs;</li> <li>➤ Reviewing the disclosures production process using new model outputs;</li> <li>➤ Reviewing the 2017 'go-live' implementation of the new model for the Open Fund and the appropriateness of the new model year-end 2017 results.</li> </ul> <p>We found no material issues as a result of this testing of the new actuarial model.</p>



## Auditors' report continued

Key audit matters	How our audit addressed the key audit matter
<p><b>Valuation of insurance contract liabilities – expense assumptions</b></p> <p><i>The Group financial statements include liabilities for the estimated future expenses that would be incurred in continuing to maintain the existing policies to maturity. These expense liabilities are included within the insurance and investment contract liabilities. See note 27 to the financial statements for more information.</i></p> <p>The expense assumptions are calculated using an Activity Based Costing (ABC) model. The significant assumptions and judgements in this model are the overall recurring costs incurred in the year, together with the cost allocations between products, which have different expected durations and therefore different expected product lifetime costs. The most significant area of risk with expense reserving lies in the methodology used to categorise expenses between one-off, acquisition and maintenance, of which only the latter is used in the expense reserving calculation. Any change in methodology applied could have a significant impact on the quantum of the expense reserve.</p> <p>This is a key audit matter for both the Group and parent company.</p>	<p>We obtained evidence over key inputs and assumptions by:</p> <ul style="list-style-type: none"> <li>➤ We tested the completeness of the expenses used in the calculation of the expense liabilities through reconciling the total expenses recorded within the accounting records of the Group, to the total expenses input into the ABC model;</li> <li>➤ We tested the total number of policies used in setting expense assumptions by corroborating these to data extracts from the policy systems;</li> <li>➤ We assessed significant judgements made in setting the assumptions such as the split between acquisition and maintenance costs, the one-off project costs and the allocation of costs to different products. This was performed by agreeing a sample of costs to supporting evidence, and tracing the allocation of each cost within the sample through the model, to verify that the final allocation was appropriate;</li> <li>➤ We recalculated the per-policy expense across a sample of policies; and</li> <li>➤ We compared the resulting expense assumptions to the expenses incurred over the prior 12 months, along with any known expected increases, in order to satisfy ourselves that the assumptions were sufficient in aggregate.</li> </ul> <p>We found no material issues as a result of the testing performed.</p>
<p><b>Pension scheme liability valuation</b></p> <p><i>The Royal London Group Pension Scheme has a surplus of £47m (2016: net deficit £26m), comprising assets of £2,688m (2016: £2,611m) and liabilities of £2,641m (2016: £2,637m).</i></p> <p>The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in assumptions about inflation, discount rates and mortality can have a material impact on the calculation of the liability, and can be affected by a range of factors. The market volatility and low corporate bond yields have significantly impacted on the discount rate, increasing the sensitivity of other changes and therefore the uncertainty over the valuation. We have focused on whether management has applied the appropriate assumptions given the current economic environment.</p> <p>This is a key audit matter for both the Group and parent company.</p>	<p>We tested the reliability of the data used to determine the pension scheme valuation by:</p> <ul style="list-style-type: none"> <li>➤ Testing the completeness and accuracy of the scheme data used by the actuary to calculate the pension liability by agreeing a sample of member records back to source documentation and found no material exceptions.</li> </ul> <p>We evaluated management's assumptions in relation to the valuation of the liabilities in the pension plan as follows:</p> <ul style="list-style-type: none"> <li>➤ We assessed through using internal PwC valuation experts, the appropriateness of the discount rate, Retail Price Index/Consumer Price Index (inflation) spread and life expectancy of both pensioners and non-pensioners. We found them to be consistent with prior years and within a tolerable range using an internally developed range of acceptable assumptions for valuing pension liabilities, based on our view of various economic indicators.</li> </ul>

Key audit matters	How our audit addressed the key audit matter
<p><b>Valuation of complex investments</b></p> <p><i>The Group holds investments in property, private equity and hedge funds. We focused on this area because these asset classes are complex in nature, there is subjectivity in their valuation due to limited or no observable market prices. The valuation of investment property is obtained through reports from management's valuation experts. The valuation of private equity and hedge funds is obtained through independent confirmations from the fund managers.</i></p> <p><b>This is a key audit matter for both the Group and parent company.</b></p>	<p>We performed testing for directly held property by:</p> <ul style="list-style-type: none"> <li>➤ We obtained valuation reports from management's valuation experts and assessed their independence and competency;</li> <li>➤ We assessed the assumptions and methodology used by management's valuation experts by using internal PwC valuation experts to check these were appropriate. We found the assumptions were supported by the audit evidence obtained; and</li> <li>➤ We agreed a sample of inputs used by management's valuation experts to source documentation.</li> </ul> <p>We found that the inputs and assumptions used to value the investment property were supported by audit evidence obtained and in line with industry practice.</p> <p>We performed detailed testing for private equity and hedge funds as follows:</p> <ul style="list-style-type: none"> <li>➤ We obtained independent confirmations for 69.6% of the fair value as at 31 December 2017 directly from fund managers;</li> <li>➤ We considered the fund managers' bases of valuation for these funds and assessing the appropriateness of the valuation methods used;</li> <li>➤ For a sample of funds, compared the unaudited quarterly statements with the last audited net asset value to obtain evidence over the accuracy of the reporting of the fund manager;</li> <li>➤ We considered the appropriateness of the accounting policies applied by the funds as a proxy for fair value in the Group and whether any liquidity adjustments were required; and</li> <li>➤ For a sample of funds, we obtained post year-end valuations to obtain evidence of the valuations as at 31 December 2017.</li> </ul> <p>We found that, based on the testing performed, the valuation of private equity and hedge funds were supported by the evidence obtained.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate.

A component was deemed to be financially significant and in-scope if it contained more than 10% of the total Group insurance or investment contract liabilities. A component was also deemed to be financially significant and in-scope if they contained balances relating to one of the areas of audit

focus. For the one component identified being the parent company a full scope audit was performed.

Additional balances from components were selected to ensure sufficient coverage across all material financial statement line items. For the balances identified from these components, specified procedures were performed. Our audit scope allowed us to test 99.1% of the transfer to UDS and 99.4% of the total asset balance.

Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£90 million (2016: £85 million).	£85 million (2016: £85 million).
How we determined it	2.4% of Unallocated Divisible Surplus (UDS).	2.2% of Unallocated Divisible Surplus (UDS)
Rationale for benchmark applied	We believe that UDS is the most applicable measure to use as we regard this as the primary measure used by members of the Society as this represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.	We believe that UDS is the most applicable measure to use as we regard this as the primary measure used by members of the Society as this represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.

## Auditors' report continued

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.6 million and £85 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4.25 million (Group and parent company audit), (2016: £4.25 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK), we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to

perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).



We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate



<b>Strategic Report and Directors' Report</b>	<p>In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)</p> <p>In light of the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)</p>
<b>The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group</b>	<p>As a result of the directors' reporting on how they have applied the UK Corporate Governance Code – An Annotated version for mutual insurers (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:</p> <ul style="list-style-type: none"> <li>▶ The directors' confirmation on page 19 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;</li> <li>▶ The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> <li>▶ The directors' explanation on page 19 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul> <p>We have nothing to report in respect of this responsibility.</p>
<b>Other Code Provisions</b>	<p>As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>▶ The statement given by the directors, on page 50, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company obtained in the course of performing our audit.</li> <li>▶ The section of the Annual Report on page 60 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> <li>▶ The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, by the Association of Financial Mutuals, for review by the auditors.</li> </ul> <p>We have nothing to report in respect of this responsibility.</p>

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the directors for the financial statements**

As explained more fully in the Directors' Responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going

concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions

of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [frc.org.uk/auditorsresponsibilities](http://frc.org.uk/auditorsresponsibilities) This description forms part of our auditors' report.

#### **Use of this report**

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Auditors' report continued

### Other required reporting

#### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- › we have not received all the information and explanations we require for our audit; or
- › adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- › certain disclosures of directors' remuneration specified by law are not made; or
- › the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 December 2000 to audit the financial statements for the year ended 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement is 18 years, covering the years ended 31 December 2000 to 31 December 2017.

### Other voluntary reporting

#### Going concern

The directors have requested that we review the statement on page 19 in relation to going concern, as if the parent company were a premium listed company. We have nothing to report having performed our review.

#### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

The directors have requested that we perform a review of the directors' statements on page 19 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the parent company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and parent company, and their environment obtained in the course of the audit. We have nothing to report having performed this review.

#### Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the parent company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' remuneration

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.



#### **Thomas Robb**

*Senior Statutory Auditor*  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
London  
28 March 2018

<sup>1</sup> The maintenance and integrity of The Royal London Mutual Insurance Society Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

<sup>2</sup> Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	Group	
		2017 £m	2016 £m
<b>Revenues</b>			
Gross earned premiums	3 (a)	1,239	1,291
Premiums ceded to reinsurers		(265)	(730)
Net earned premiums		974	561
Fee income from investment and fund management contracts	4	297	254
Investment return	5	6,031	10,864
Other operating income	6	64	76
<b>Total revenues</b>		<b>7,366</b>	<b>11,755</b>
<b>Policyholder benefits and claims</b>			
Claims paid, before reinsurance	7 (a)	2,665	2,703
Reinsurance recoveries	7 (a)	(519)	(507)
Claims paid, after reinsurance		2,146	2,196
(Decrease)/increase in insurance contract liabilities, before reinsurance <sup>1</sup>		(114)	4,545
Reinsurance ceded		581	(548)
Increase in insurance contract liabilities, after reinsurance		467	3,997
Increase in non-participating value of in-force business <sup>1</sup>		(271)	(317)
Increase in investment contract liabilities <sup>1</sup>		3,215	3,974
<b>Total policyholder benefits and claims before change in basis for Solvency II</b>		<b>5,557</b>	<b>9,850</b>
Change in basis for Solvency II		-	165
<b>Total policyholder benefits and claims</b>		<b>5,557</b>	<b>10,015</b>
<b>Operating expenses</b>			
Administrative expenses	8, 9	561	561
Investment management expenses	11	321	266
Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets	18	92	120
Investment return attributable to external unit holders	33	192	308
Other operating expenses	12	141	113
<b>Total operating expenses</b>		<b>1,307</b>	<b>1,368</b>
<b>Finance costs</b>	13	<b>47</b>	<b>47</b>
<b>Result before tax and before transfer to the unallocated divisible surplus</b>		<b>455</b>	<b>325</b>
Tax charge	14 (a)	103	249
<b>Transfer to the unallocated divisible surplus</b>	28	<b>352</b>	<b>76</b>
<b>Result for the year</b>		<b>-</b>	<b>-</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of defined benefit pension schemes	35 (b)	82	(98)
Transfer to/(deduction from) the unallocated divisible surplus	28	82	(98)
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

1 The 2016 figures are presented before the change in basis for Solvency II of £165m.

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus. Accordingly, there is no total comprehensive income for the year shown in the statement of comprehensive income.

## Balance sheets

as at 31 December 2017

	Notes	Group		Parent company	
		2017 £m	2016 £m	2017 £m	2016 £m
<b>ASSETS</b>					
Property, plant and equipment	16	53	51	-	-
Investment property	17	6,103	5,297	3,404	5,290
Intangible assets					
Goodwill		232	232	232	232
Acquired PVIF on investment contracts		-	15	-	7
Acquired PVIF on insurance contracts		81	116	81	116
Deferred acquisition costs on investment contracts		262	301	262	300
Other intangible assets		31	19	30	19
<b>Total intangible assets</b>	18	<b>606</b>	683	<b>605</b>	674
Reinsurers' share of insurance contract liabilities	23	5,326	5,907	5,326	5,907
Pension scheme asset	35	186	131	186	131
Current tax asset		5	3	2	1
Financial investments	19	83,328	74,479	47,925	47,856
Investments in Group entities	20	-	-	33,182	22,699
Trade and other receivables	21	651	788	439	582
Cash and cash equivalents	22	3,061	3,292	1,262	1,856
<b>Total assets</b>		<b>99,319</b>	90,631	<b>92,331</b>	84,996
<b>LIABILITIES</b>					
Participating insurance contract liabilities	23	33,154	32,709	33,234	32,765
Participating investment contract liabilities	26	2,214	2,154	2,214	2,154
Unallocated divisible surplus	28	3,726	3,292	3,855	3,368
Non-participating value of in-force business	25	(1,488)	(1,217)	(1,488)	(1,217)
		<b>37,606</b>	36,938	<b>37,815</b>	37,070
Non-participating insurance contract liabilities	23	7,301	7,860	7,301	7,860
Non-participating investment contract liabilities	26	38,847	31,329	38,847	31,329
		<b>46,148</b>	39,189	<b>46,148</b>	39,189
Subordinated liabilities	29	745	744	745	744
Payables and other financial liabilities	30	7,225	7,448	6,930	7,274
Provisions	31	282	279	268	268
Other liabilities	32	271	279	157	209
Liability to external unit holders	33	6,785	5,502	-	-
Pension scheme liability	35	-	26	-	26
Deferred tax liability	34	222	226	233	216
Current tax liability		35	-	35	-
<b>Total liabilities</b>		<b>99,319</b>	90,631	<b>92,331</b>	84,996

The Parent company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a parent company statement of comprehensive income. The Parent company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or deduction from the unallocated divisible surplus.

The financial statements on pages 99 to 199 were approved by the Board of Directors and signed on its behalf on 28 March 2018.



**Tim Harris**  
Deputy Group Chief Executive & Group Finance Director

## Statements of cash flows

for the year ended 31 December 2017

	Notes	Group		Parent company	
		2017 £m	2016 £m	2017 £m	2016 £m
<b>Cash flows from operating activities</b>					
Transfer to/(deduction from) the unallocated divisible surplus		434	(22)	487	9
Adjustments for non-cash items	39 (a)	4,185	1,834	6,512	2,086
Adjustments for non-operating items	39 (b)	47	47	(48)	65
Acquisition of investment property		(820)	(623)	(832)	(627)
Net acquisition of financial investments		(5,438)	(5,309)	(6,718)	(3,951)
Proceeds from disposal of investment property		355	305	309	216
Changes in operating receivables		137	(242)	143	(199)
Changes in operating payables		(207)	2,214	(358)	2,095
Change in liability to external unit holders		1,283	2,357	-	-
<b>Net cash flows from operating activities before tax</b>		<b>(24)</b>	561	<b>(505)</b>	(306)
Tax paid		(74)	(98)	(32)	(71)
<b>Net cash flows from operating activities</b>		<b>(98)</b>	463	<b>(537)</b>	(377)
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(8)	(7)	-	-
Acquisition of intangibles		(53)	(22)	(22)	-
Acquisition of Group entities	39 (d)	-	-	-	(71)
Proceeds from disposal of Group entities	39 (d)	-	12	-	25
Dividends received from Group entities		-	-	38	57
<b>Net cash flows from investing activities</b>		<b>(61)</b>	(17)	<b>16</b>	11
<b>Cash flows from financing activities</b>					
Interest paid		(47)	(47)	(47)	(47)
<b>Net cash flows from financing activities</b>		<b>(47)</b>	(47)	<b>(47)</b>	(47)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(206)</b>	399	<b>(568)</b>	(413)
<b>Cash and cash equivalents at 1 January</b>		<b>3,211</b>	2,812	<b>1,785</b>	2,198
<b>Cash and cash equivalents at 31 December</b>	22	<b>3,005</b>	3,211	<b>1,217</b>	1,785

An integral part of the operations of the Group is the management of a portfolio of investment assets. Cash flows relating to the purchase and sale of these assets have been treated as operating cash flows for the purposes of the statements of cash flows. In the Parent company, Open Ended Investment Companies (OEICs) and other investment funds that are classified for financial reporting purposes as subsidiaries are also part of this operating portfolio of investment assets and hence cash flows in relation to these assets are also classified as operating cash flows for the Parent company statement of cash flows.

# Notes to the financial statements

for the year ended 31 December 2017

## 1. Accounting policies

### (a) Basis of preparation

The financial statements of the Group and the Parent company ('the financial statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union. The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by IFRS. The accounting policies set out below are reviewed for appropriateness each year. These policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

### New and amended standards adopted by the Group

The following new and amended standards have been adopted for the first time in these financial statements. None of them have had a material impact:

- Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'.
- Amendments to IAS 7, 'Disclosure Initiative'. An additional disclosure has been included for the statements of cash flows to meet the requirement to further explain the movements in debt and other borrowings.
- Annual Improvements to IFRS 2014-2016 Cycle: IFRS 12 'Disclosure of interest in other entities'.

### New and amended standards not yet effective

The following new and amended standards, which have been issued but are not yet effective, have not been applied in these financial statements. The Group's assessment of the impact of these new standards is set out below.

- IFRS 9, 'Financial Instruments', final version issued in July 2014. This standard covers the classification and measurement of financial instruments, impairment and hedge accounting.
  - The number of classifications for financial assets is reduced to three:

amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification of the Group's financial assets and liabilities is not expected to change as a result of implementing IFRS 9.

- The IFRS 9 impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets held at amortised cost and will therefore only apply to the Group's trade and lease receivable balances and to intercompany balances between the Parent company and its subsidiaries. All other financial assets will continue to be held at FVTPL.
- The Group does not hedge account so this section of IFRS 9 is not relevant.

Although effective from 2018, the Group's current intention is to defer implementation of IFRS 9 until 2021 in accordance with the amendment to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. Using the December 2015 balance sheets, as required, it has been determined that both the Group and the Parent company meet the criteria for applying the temporary exemption:

- Neither has previously adopted any version of IFRS 9;
- Both the Group and Parent company's activities are predominately connected with insurance, as evidenced by the fact that the carrying amount of liabilities within the scope of IFRS 4 is significant when compared to the carrying amount of total liabilities; and
- The percentage of the Group and Parent company's liabilities connected with insurance exceed 90% of total liabilities. Included within those liabilities 'connected with insurance', as permitted by the Standard are: £24,982m of non-participating investment contract liabilities, £743m of subordinated debt and £2,804m of payables arising under reinsurance contracts.

- IFRS 15, 'Revenue from contracts with customers', which replaces IAS 18 with effect from 1 January 2018. This standard is based on the principle that revenue is recognised when control of a good or

service transfers to a customer. The Group's fee income from investment and fund management contracts will be affected by the changed requirements, although this is not expected to be significant for the Group and its subsidiaries.

In 2018, all contracts will be reviewed for compliance with IFRS 15's five-step process. The standard permits either a full retrospective or a modified retrospective approach. It is likely that the Group will adopt a modified retrospective approach, which means the cumulative impact of adoption will be recognised in the unallocated divisible surplus as at 1 January 2018 and that comparatives will not be restated. The impact on the Group is not expected to be material.

- IFRS 16, 'Leases', issued in January 2016 and effective 1 January 2019. This standard replaces IAS 17 and will result in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The standard will primarily affect the Group's accounting for operating leases. At 31 December 2017, the Group has total non-cancellable operating lease commitments of £21m (note 37). Based on the exiting operating leases the Group has carried out an initial assessment of the standard and the impact on the Group is not expected to be material.

IFRS 17, 'Insurance contracts', issued in May 2017 and effective from 1 January 2021. This standard will have a significant impact on the Group's insurance contracts. The Group is in the process of understanding the contents of this standard and its implication for the Group as a mutual. IFRIC 23, 'Uncertainty over Income tax treatment', was issued in June 2017 and is effective from 1 January 2019. It provides clarification on the recognition and measurement requirements of IAS 12 when there is some uncertainty over the acceptance by taxation authorities of certain tax treatments. Work is ongoing to determine how future uncertain tax provisions should be accounted for in accordance with this IFRIC. There are no other standards or interpretations that have been issued but are not yet effective that would be expected to have a material impact on the Group.

## 1. Accounting policies (continued)

### (b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Parent company and its subsidiaries.

Subsidiaries are those entities (including OEICs and other investment funds) over which the Group has control. The Group controls an entity when it has power over it, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group considers all relevant facts and circumstances when determining whether control exists and makes a re-assessment whenever those facts and circumstances change. Profits or losses of subsidiaries sold or acquired during the period are included in the consolidated results up to the date that control ceases or from the date of gaining control.

The Group applies the purchase method in accounting for business combinations. The cost of business combinations comprises the fair value of the consideration paid and of the liabilities incurred or assumed. For acquisitions completed prior to 2010, the cost of business combinations also included any directly related expenses. For subsequent acquisitions, all acquisition costs are expensed as incurred. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

The excess of the cost of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the business combination is less than the fair value of identifiable net assets acquired, the difference is recognised immediately in the statement of comprehensive income. The Group has chosen to apply predecessor accounting to transactions whereby the trade and assets of a Group entity or the entity itself are transferred to another entity within the Group, known as common control business combinations. The effect of predecessor accounting is that the assets and liabilities recognised by the acquiring entity in such a transaction are those used previously in the Group consolidated accounts.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group. Intra-group

transactions, balances and unrealised gains and losses on intra-group transactions are eliminated.

The Group invests in investment funds, which themselves invest mainly in equities, bonds and cash and cash equivalents. Some of these funds are managed by Group companies and therefore in addition to investment income from its holding in the funds, the Group also receives management fees from external unit holders. Where the Group's holding is greater than 50% it is presumed that it is exposed to variable returns from the fund and can use its power to influence those returns; in such cases the fund is consolidated. Conversely where the Group's holding is less than 20% it is not considered to have significant influence over the fund and the fund is accounted for within financial investments at fair value. Holdings between 20% and 50% are assessed to determine whether the Group is deemed to have control; judgement is made around the concept of power and the factors taken into account include:

- ▶ the Group's level of combined interest in the fund (from investment income and management fees); and
- ▶ any rights held by other parties and the nature of those rights.

Where the funds are consolidated, the interests of the other parties are included within liabilities and are presented as 'Liability to external unit holders'. Holdings of investment funds of between 20% and 50%, which are not consolidated, are treated as associates.

The Group also invests in certain private equity funds and property unit trusts, which are managed by external third-party administrators. The structure of each fund, the terms of the partnership agreement and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the fund/unit trust should be consolidated.

Associates are entities over which the Group has significant influence but not control, generally accompanying an ownership interest of between 20% and 50%. The Group's investments in associates are all investment funds and have been accounted for as financial assets held at fair value through profit or loss as permitted by IAS 28, 'Investments in Associates and Joint Ventures'.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. A joint arrangement is accounted for as a joint operation when the Group, along with the parties that have a joint control of the arrangement, have rights to the assets and obligations for the liabilities relating to the arrangement. The Group's share of jointly controlled assets, related liabilities, income and expenses are reported with the equivalent items in the financial statements on a line-by-line basis.

### (c) Classification of contracts

The Group classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- ▶ that are likely to be a significant proportion of the total contractual payments; and
- ▶ whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
  - the performance of a specified pool of contracts, or a specified type of contract, or
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as 'with-profits' or as 'participating' contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with-profits (participating) investment mediums at the same time. Certain hybrid contracts that are classified as investment contracts are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue. Hybrid contracts that contain significant insurance risk are classified as insurance contracts.



## 1. Accounting policies (continued)

### (d) Revenue

#### (i) Premiums

Premiums received and reinsurance premiums paid relate to insurance and non-hybrid participating investment contracts. They are accounted for when due for payment except for recurring single premiums and premiums in respect of unit-linked business, which are accounted for when the related liabilities are created.

#### (ii) Fee income from investment and fund management contracts

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees, which relate to the future provision of services, are deferred and recognised in the statement of comprehensive income over the anticipated period in which the services will be provided. Such deferred fee income is shown as a liability in the balance sheet.

#### (iii) Investment return

Investment return comprises the investment income and fair value gains and losses derived from assets held at fair value through profit or loss, rental income and fair value gains and losses derived from investment property and interest income derived from cash and cash equivalents.

Investment income derived from assets held at fair value through profit or loss includes dividends and interest income. Dividends are recorded on the date on which the shares are declared ex-dividend. UK dividends are recorded net of the associated tax credits; overseas dividends are recorded gross, with the related withholding tax included within the tax expense as foreign tax. Interest income is recognised on an accruals basis. Rental income from investment property, net of any lease incentives received or paid, is recognised on a straight-line basis over the term of the lease.

#### (iv) Commission income

The Group acts as an introducer for certain third-party insurers. Commission income and profit commission received on the underwriting results of those insurers is recognised in the statement of comprehensive income as the related services are provided.

#### (e) Claims

Claims paid and reinsurance recoveries relate to insurance and non-hybrid participating investment contracts. For non-linked policies, maturity claims and annuities are accounted for when due for

payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the related contract liabilities. Death claims and all other non-linked claims are accounted for when notified. For linked policies, claims are accounted for on cancellation of the associated units.

Claims payable include related claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

#### (f) Tax expense

Tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

##### (i) Current tax

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

##### (ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The following temporary differences are not provided for:

- the initial recognition of goodwill not deductible for tax purposes; and
- temporary differences arising on investments in subsidiaries where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### (g) Property, plant and equipment

Owner-occupied land and buildings are carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, and is based on

market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in profit or loss, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income.

Other plant and equipment consisting of computer equipment, office equipment and vehicles are stated at cost less accumulated depreciation and impairment losses. Cost comprises the fair value of the consideration paid to acquire the asset and includes directly related expenditure.

Subsequent costs are included in an asset's carrying value only to the extent that it is probable that there will be future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

Owner occupied land and buildings are not depreciated. Depreciation on other items of property, plant and equipment is charged to the statement of comprehensive income and is calculated so as to reduce the value of the assets to their estimated residual values on a straight-line basis over the estimated useful lives of the assets concerned, which range from three to eight years.

The residual values and estimated useful lives are reviewed annually. Where an asset's carrying amount exceeds its recoverable amount the carrying amount is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

#### (h) Intangible assets

##### (i) Goodwill

Goodwill arising on the acquisition of subsidiaries is included in intangible assets. It is stated at cost less accumulated impairment costs. Any gain or loss on subsequent disposal of a subsidiary will include any attributable goodwill remaining.

## 1. Accounting policies (continued)

### (h) Intangible assets (continued)

#### (ii) Acquired PVIF

The present value of acquired in-force business (PVIF) arises on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary. It represents the net present value of the expected pre-tax cash flows of the contracts which existed at the date of acquisition and is amortised over the remaining lifetime of those contracts. The amortisation is recognised in the statement of comprehensive income and is calculated on a systematic basis to reflect the pattern of emergence of profits from the acquired contracts. Amortisation is stated net of any unwind of the discount rate.

The estimated lifetime of the acquired contracts ranges from 7 to 27 years.

The value of the acquired PVIF is assessed annually for impairment and any impairment is recognised in full in the statement of comprehensive income in the year it is identified.

#### (iii) Deferred acquisition costs

Deferrable acquisition costs for non-participating and hybrid participating investment contracts are capitalised as an intangible asset, provided that it is considered probable that those costs are recoverable. Deferrable costs are restricted to directly related and incremental costs incurred for the acquisition of new contracts. This consists of commission only, including the value of future commission payable to third parties. All other acquisition costs are expensed as incurred. The deferred acquisition cost asset is amortised over the anticipated lifetime of the related contracts in the same pattern as the related services are provided.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

#### (iv) Other intangible assets

Other intangible assets include investment management rights, administration servicing rights and distribution agreements acquired as part of a business combination, computer software and deferred incremental acquisition costs directly related to the costs of acquiring new unit trust business. They are carried at cost less accumulated amortisation and impairment losses. The initial cost is determined as the fair value of the intangible asset at the date of

acquisition. Where that fair value is not readily observable it is determined using a valuation technique such as discounted cash flow analysis.

Other intangible assets are amortised on a straight-line basis over their useful lives, which range from 3 to 10 years. The useful lives are determined by considering relevant factors such as the remaining term of agreements, the normal lives of related products and the competitive position.

#### (i) Reinsurance

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Reinsurance assets represent short-term payments due from reinsurers and longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the reinsured insurance contracts. Reinsurance liabilities represent premiums payable for reinsurance.

#### (j) Investments

##### (i) Investment property

Investment property is property held for rental, capital growth or both, excluding that occupied by the Group or the Parent company. Investment property includes freehold and leasehold land and buildings.

Investment property is initially measured at cost. For freehold property, cost comprises the fair value of the consideration paid plus the associated transaction costs. For leasehold property, the cost is the lower of the fair value of the property and the present value of the minimum lease payments at the inception of the lease.

All investment property is subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

The carrying value of investment property differs from market value as it takes into account debtors arising from lease incentives which are shown separately within 'Trade and other receivables'.

##### (ii) Financial investments

All investment transactions are recognised at trade date.

All financial investments are classified upon initial recognition as held at fair value through profit or loss (FVTPL). The Group does not classify any financial investments as 'available for sale' or as 'held to maturity'. The FVTPL category has two sub-categories: financial assets held for trading and those designated as FVTPL. All derivative instruments are classified as held for trading as required by IAS 39, 'Financial Instruments: Recognition and Measurement'. All other financial investments are classified as designated as FVTPL. Financial assets that are designated as FVTPL are:

- ▶ financial assets held in the internal linked funds of the Group backing unit-linked insurance and investment contract liabilities. The designation of these assets at FVTPL eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- ▶ financial assets managed and whose performance is evaluated on a fair value basis.

Financial assets classified as FVTPL, including derivatives classified as held for trading, are initially recognised at the fair value of the consideration paid. They are subsequently measured at fair value with any resultant gain or loss recognised in the statement of comprehensive income.

## 1. Accounting policies (continued)

### (j) Investments (continued)

Fair value for quoted investments in an active market is the bid price, which management believe is representative of fair value. For investments in unit trusts, OEICs and other pooled funds (including those classified as investments in Group entities) it is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. If the market for a quoted financial investment is not active or the investment is unquoted, the fair value is determined by using valuation techniques. For these investments, the fair value is established by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques include the use of recent arm's length transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs from independent sources and relying as little as possible on entity specific inputs.

### (iii) Investments in Group entities

Investments in Group entities within the Parent company financial statements are designated as FVTPL. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined using the same valuation techniques as are used for unquoted investments, as described above.

### (k) Trade and other receivables

Trade and other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest method.

### (l) Finance leases

#### (i) Group acting as lessor

Leases under which substantially all the risks and rewards of ownership are transferred by the lessor are classified as finance leases.

The Group leases certain freehold buildings to third parties by way of finance lease.

No amount is recognised for these buildings within investment property. Instead an asset is recognised within trade and other receivables that represents the Group's net receivable from finance leases. This asset is initially stated at an amount equal to the present value of the minimum lease rentals receivable at the inception of the lease.

As lease rentals are received, these are split between an interest element, calculated on an effective interest basis, which is credited to the statement of comprehensive income and a capital element, which reduces the finance lease receivable.

#### (ii) Group acting as lessee

Leases under which substantially all the risks and rewards of ownership are assumed by the lessee are classified as finance leases.

Leasehold investment property is accounted for as a finance lease. At the commencement of the lease an asset is recognised within investment property at an amount equal to the lower of the fair value of the property and the present value of the minimum lease payments. An equal liability is established to represent the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability.

#### (m) Operating lease payments

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments under operating leases, net of lease incentives received, are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

#### (n) Impairment

Goodwill is tested for impairment annually. The carrying amounts of other intangible assets, property, plant and equipment and financial assets (other than those at FVTPL) are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable.

For non-financial assets, an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

For financial assets (other than those at FVTPL) an impairment loss is recognised if the present value of the estimated future cash flows arising from the asset is lower than the asset's carrying value. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised in the statement of comprehensive income.

An impairment loss in respect of goodwill is never reversed. In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. For financial assets (other than those at FVTPL) an impairment loss is reversed if there is a decrease in the impairment that can be related objectively to an event occurring after the impairment was recognised. An impairment loss is reversed only to the extent that after the reversal, the asset's carrying amount is no greater than the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (o) De-recognition and offset of financial assets and financial liabilities

A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or where they have been transferred and the Group has also transferred substantially all of the risks and rewards of ownership.

A financial liability is de-recognised when the obligation specified in the contract is discharged or cancelled or expires.

All derivatives are accounted for on a contract-by-contract basis and are not offset in the balance sheet.

#### (p) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances, deposits held on call with banks and other short-term highly liquid investments with three months or less to maturity from the date of acquisition.

Cash and cash equivalents in the statement of cash flows are stated net of bank overdrafts.

## 1. Accounting policies (continued)

### (q) Insurance contracts and participating investment contracts

Under IFRS 4, 'Insurance Contracts', insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS. A change to those accounting policies is permitted if it makes the financial statements more relevant and no less reliable, or more reliable and no less relevant. Following the introduction of Solvency II on 1 January 2016, the Group made a change to the way that the 'non-participating value of in-force business' is presented to more closely align with Solvency II.

The estimation techniques and assumptions used are periodically reviewed, with any changes in estimates reflected in the consolidated statement of comprehensive income as they occur.

#### *Participating insurance and participating investment contracts*

For participating insurance and participating investment contracts, the liabilities are determined in accordance with the measurement requirements of the former UK GAAP standard FRS 27, 'Life Assurance', which was adopted on transition to IFRS. Under FRS 27, the participating liabilities are measured using the PRA's realistic balance sheet regime. That regime was replaced by Solvency II with effect from 1 January 2016. However the Group is continuing to apply the realistic basis, including any waivers or guidance from the PRA that were in force on transition to Solvency II, because it is the measurement basis established on transition to IFRS. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic basis.

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Parent company's Principles and Practices of Financial Management.

For the closed funds, any excess of the IFRS value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-Fund, the United Friendly OB Sub-Fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) Fund.

The present value of future profits on non-participating investment contracts, the value of future transfers from the Group's 90:10 with-profits funds and the value of administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds are accounted for as part of the calculation of the realistic value of participating contract liabilities. The value of administration and asset management arrangements can be allocated to participating policies and so the participating liabilities are shown net of this item. The future profits on non-participating investment contracts and the value of future transfers cannot be allocated to particular participating liabilities and so are shown as a separate negative liability on the face of the balance sheet, the 'non-participating value of in-force business'.

#### *Non-participating insurance contracts*

For non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts. The cash flows are determined on a best estimate basis plus an allowance for risk, which is made by including margins within the assumptions used.

#### *Liability adequacy test*

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

#### *Claims outstanding*

The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date.

### (r) Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host contract and they meet the definition of a derivative.

### (s) Unallocated divisible surplus

The nature of benefits for participating contracts is such that the allocation of surpluses between participating policyholders is uncertain. The amount not allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus.

### (t) Non-participating investment contracts

All the non-participating investment contracts issued by the Group are unit-linked. The financial liabilities for these contracts are designated at inception as at fair value through profit or loss. This classification has been used because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitheld investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date.

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

### (u) Premiums received and claims paid on investment contracts

For non-participating investment and certain hybrid participating investment contracts the amounts received as premiums are not included in the statement of comprehensive income but are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet.



## 1. Accounting policies (continued)

### (u) Premiums received and claims paid on investment contracts (continued)

Amounts repaid as claims on non-participating investment and certain hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as a deduction from investment contract liabilities.

### (v) Subordinated debt

Liabilities for subordinated debt are recognised initially at the fair value of the proceeds received, net of any discount and less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost. The transaction costs and discount are amortised over the period to the earliest possible redemption date on an effective interest rate basis.

The amortisation charge is included in the statement of comprehensive income within finance costs. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value. Interest costs are expensed as they are incurred.

### (w) Payables and other financial liabilities

#### (i) Reinsurance arrangement

The Group has a financial liability in respect of a reinsurance arrangement and holds an unquoted debt security which has cash flows which exactly match those of the reinsurance liability. Consequently both the debt security and the reinsurance liability are designated at FVTPL in order to avoid an accounting mismatch.

Movements in the fair value of the liability are recognised within revenue in the statement of comprehensive income within premiums ceded to reinsurers. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within investment return.

#### (ii) Other financial liabilities

All other payables and financial liabilities are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently measurement is at amortised cost using the effective interest method.

### (x) Provisions, contingent liabilities and contingent assets

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future losses. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if:

- there is a possible obligation as a result of a past event; or
- there is a present obligation as a result of a past event, but a liability is not recognised either because a payment is not probable or the amount cannot be reliably estimated.

Contingent assets are disclosed when an inflow of economic benefit is considered probable.

### (y) Pension costs

The Group operates three defined benefit schemes and a number of defined contribution arrangements.

#### (i) Defined benefit schemes

The defined benefit schemes provide benefits based on pensionable pay. The assets of the schemes are held in separate Trustee administered funds. The position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The pension scheme asset recognised in the balance sheet is the excess that is recoverable of the fair value of the plan assets in a scheme over the present value of that scheme's liabilities. Deficits in the value of a scheme's assets over its scheme liabilities are recognised in the balance sheet as a pension scheme liability. 'Current service cost' and the 'Net interest on the net defined benefit asset' are included within 'Administrative expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Administrative

expenses'. Remeasurements are charged or credited to the unallocated divisible surplus in other comprehensive income in the period in which they arise.

#### (ii) Defined contribution arrangements

The Group operates a number of defined contribution arrangements for employees. The Group pays contractual contributions in respect of these arrangements and such contributions are recognised as an expense as the related employee services are provided.

### (z) Foreign currency translation

The primary economic environment in which the Group and the Parent company operate is the United Kingdom. Hence the functional currency of the Group and the Parent company is pounds sterling. Assets and liabilities denominated in foreign currencies are expressed in sterling at the exchange rate ruling on the balance sheet date. Revenue transactions for foreign operations are translated at average rates of exchange for the year.

For all other operations, revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at the rates of exchange ruling at the time of the respective transactions. Exchange differences arising from the translation of foreign operations are included within the statement of comprehensive income within other operating income or other operating expenses as appropriate. Any other exchange differences are dealt with in the statement of comprehensive income under the same heading as the underlying transactions are reported.

### (aa) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Board of Directors.



## 1. Accounting policies (continued)

### (bb) Use of judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. In selecting accounting policies where IFRS permits a choice of policy, the directors have applied judgement in determining the most appropriate policy as follows:

- measurement model for certain assets. IFRS allows a choice of measurement model for financial assets, investment property, property, plant and equipment and, in the Parent company balance sheet, investments in Group entities. This is typically a choice between a cost and a fair value model. The Group and Parent company have applied a fair value model to all these assets, with the exception of trade and other receivables and computers, office equipment and vehicles. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;
- measurement model for non-participating investment contracts. As set out in note 1 (t) these liabilities have been valued at fair value in order to match their valuation to the related assets;
- valuation of financial assets in illiquid markets. The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique as described in note 1 (j) (ii);
- the classification of contracts as insurance or investment on initial recognition, which requires an assessment of whether significant insurance risk has been transferred to the Group; and
- the determination of whether the Group has control over an entity. This decision requires the consideration of a number of factors. As set out in note 1 (b) these include the Group's ownership interest, any other rights it has over the entity and the rights of third parties.

The preparation of financial statements also requires the use of estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant to the following:

- The valuation of the Group's financial assets and liabilities - the fair value measurement note (note 15) explains the assumptions used in the valuation, particularly in respect of level 3 assets and liabilities. The impact on the Group's result of changes in these assumptions to reasonably possible alternative assumptions is also illustrated.
- Impairment of intangible assets – acquired VIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Goodwill and other acquired intangible assets are recognised and tested for impairment using the present value of future cash flows expected to arise from the asset. Significant estimates include forecast cash flows and discount rates. Further information is provided in note 18.
- Insurance and investment contracts – the key assumptions used in calculating the year-end insurance and investment contract liabilities are described in note 27. This note also presents the effects of changes in these assumptions from the previous year.
- Provisions, contingent liabilities and contingent assets – the Group evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimate of the expenditure required to settle the obligation. Further information is shown in notes 31 and 36. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits.

- Pension schemes – note 35 sets out the major assumptions used to calculate the pension scheme asset/liability and the sensitivity of the schemes' liabilities to changes in key assumptions.

In addition to the above, the sensitivity of the Group and Parent company's assets and insurance contract liabilities to insurance risk and market risk is analysed in note 40.

## 2. Segmental information

The segmental disclosures required under IFRS are based on operating segments that reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally.

The activities of each operating segment are described below.

### Intermediary

#### › Pensions

Royal London provides pensions and other retirement products to individuals and to employer pension schemes in the UK.

#### › Protection

UK Protection provides protection products to individuals in the UK. Royal London Ireland provides protection products to individuals in the Republic of Ireland.

### Consumer

Consumer administers the Group's direct to customer business.

### Wealth

The Wealth segment mainly comprises Royal London Asset Management, which is the fund management operation of the Group. It provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities and charities as well as individuals. This segment also includes Ascetric, the Group's wrap platform.

### Central items

This segment comprises mainly centrally held items, such as Group functions.

### (a) Segment profit

The profit measure used by the Group Board of Directors to monitor performance is European Embedded Value (EEV) operating profit before tax. Further detail on the EEV results is given within the EEV section on pages 200 to 214. The EEV operating profit by operating segment is shown in the following table, together with a reconciliation of the total EEV operating profit before tax to the IFRS result before tax. Revenues by segment are not given as this information is not provided to the Group Board of Directors and consequently there is no reconciliation of reportable segments' revenues to the Group's revenue.

The tables in the geographical analysis present revenues split by the geographic region in which the underlying business was written.

	Group	
	2017 £m	2016 £m
Intermediary		
› Pensions	363	263
› UK Protection	48	22
› Royal London Ireland	6	2
Consumer	74	90
Wealth	34	35
Central items	(196)	(130)
<b>EEV operating profit before tax</b>	<b>329</b>	<b>282</b>
Amortisation of intangibles	(11)	30
Change in basis for Solvency II	-	(165)
Valuation differences between EEV and IFRS	(22)	(31)
Economic assumption changes and investment return variances	352	373
Pension schemes' costs recognised in profit	(4)	(3)
Financing costs	(47)	(47)
ProfitShare	(142)	(114)
<b>IFRS result before tax and before transfer to the unallocated divisible surplus</b>	<b>455</b>	<b>325</b>

## 2. Segmental information (continued)

### (b) Geographical analysis

	Group – 2017		
	UK £m	International £m	Total £m
<b>Revenues</b>			
Net earned premiums	928	46	974
Fee income from investment and fund management contracts	297	-	297
Investment return	5,973	58	6,031
Other operating income	64	-	64
<b>Total revenues</b>	<b>7,262</b>	<b>104</b>	<b>7,366</b>
	Group – 2016		
	UK £m	International £m	Total £m
<b>Revenues</b>			
Net earned premiums	519	42	561
Fee income from investment and fund management contracts	254	-	254
Investment return	10,666	198	10,864
Other operating income	76	-	76
<b>Total revenues</b>	<b>11,515</b>	<b>240</b>	<b>11,755</b>

### (c) Major customers

The directors consider the Group and Parent company's external customers to be the individual policyholders. As such, the Group and Parent company are not reliant on any individual customer.

## 3. Premiums

### (a) Gross earned premiums

	Group	
	2017 £m	2016 £m
<b>Regular premiums</b>		
› Insurance contracts	802	796
› Participating investment contracts	21	24
	<b>823</b>	<b>820</b>
<b>Single premiums</b>		
› Insurance contracts	415	466
› Participating investment contracts	1	5
	<b>416</b>	<b>471</b>
	<b>1,239</b>	<b>1,291</b>

### (b) Premiums received on investment contracts

As set out in note 1(u) the Group does not account for the amounts received as premiums in relation to non-participating and certain hybrid participating investment contracts as premium income in the statement of comprehensive income. These amounts are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet. The amounts received by the Group during the year were £8,652m (2016: £5,514m) in respect of non-participating contracts and £12m (2016: £10m) in respect of hybrid participating contracts.

#### 4. Fee income from investment and fund management contracts

	Group	
	2017 £m	2016 £m
Investment contract fees receivable		
‣ Annual management charges applied to linked funds	141	125
‣ Policy administration fees	9	11
‣ Bid/offer spread and other charges	5	3
	155	139
Fund management fees receivable	120	93
	275	232
Change in deferred fee income	22	22
	297	254

#### 5. Investment return

	Group	
	2017 £m	2016 £m
Investment income from financial investments held at fair value through profit or loss	2,188	1,745
Fair value gains from financial investments held at fair value through profit or loss	3,147	9,088
Rental income from investment property	255	263
Fair value gains/(losses) from investment property	318	(60)
Interest income from cash and cash equivalents	21	12
Net foreign exchange gain/(loss)	102	(184)
	6,031	10,864

The fair value gains from financial investments held at fair value through profit or loss (FVTPL) and the fair value gains from investment property include both the net fair value gain and loss on the revaluation of assets held at the balance sheet date and the gains and losses realised on assets disposed of during the year. The fair value gains from financial investments held at FVTPL include a loss of £34m (2016: gain of £371m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 30).

Included within fair value gains from financial investments held at FVTPL are fair value losses of £140m (2016: losses of £964m) arising on assets held for trading.

#### 6. Other operating income

	Group	
	2017 £m	2016 £m
Commission income	12	12
Foreign currency translation	4	19
Other	48	45
	64	76

## 7. Claims

### (a) Claims paid

	Group	
	2017 £m	2016 £m
Claims paid, before reinsurance		
‣ Insurance contracts	2,475	2,516
‣ Participating investment contracts	190	187
	<b>2,665</b>	<b>2,703</b>
Reinsurance recoveries		
‣ Insurance contracts	(519)	(507)
Claims paid, after reinsurance		
‣ Insurance contracts	1,956	2,009
‣ Participating investment contracts	190	187
	<b>2,146</b>	<b>2,196</b>

### (b) Claims on investment contracts

As set out in note 1(u) the Group does not account for the amounts paid out as claims in relation to non-participating and certain hybrid participating investment contracts as a claim expense in the statement of comprehensive income. These amounts are accounted for as deposits repaid and are deducted from the value of investment contract liabilities in the balance sheet. The amounts repaid by the Group during the year totalled £4,097m (2016: £2,855m) in respect of non-participating investment contracts and £50m (2016: £58m) in respect of hybrid participating investment contracts.

## 8. Administrative expenses by type

	Group	
	2017 £m	2016 £m
Acquisition costs		
‣ Expenses	149	157
‣ Commission	146	139
Movement in deferred acquisition costs on investment contracts (note 18)		
‣ Additions	(2)	(5)
‣ Amortisation and impairment charges	41	48
	<b>334</b>	<b>339</b>
Maintenance costs		
‣ Operational expenses	156	151
‣ Renewal commission	32	34
‣ Movement in provision for future commission (note 31)	(4)	19
‣ Pension scheme cost (note 35)	4	(18)
	<b>188</b>	<b>186</b>
Other administrative expenses, including long-term incentive plans	39	36
	<b>561</b>	<b>561</b>



## 9. Administrative expenses by nature

	Group	
	2017 £m	2016 £m
Staff costs (note 10)	192	164
Movement in deferred acquisition costs on investment contracts (note 18)	39	43
Acquisition commission	146	139
Renewal commission	32	34
Depreciation of property, plant and equipment (note 16)	7	6
Information systems, maintenance and rent	26	38
Property costs	12	11
Regulatory, professional and administration fees	93	84
Movement in provision for future commission (note 31)	(4)	19
Other expenses	18	23
<b>Total</b>	<b>561</b>	<b>561</b>

### Auditors' remuneration, net of VAT

	Group	
	2017 £000	2016 £000
Fees payable to PwC for the audit of the Parent company and consolidated financial statements	2,675	2,461
Fees payable to PwC for other services:		
‣ Audit of the company's subsidiaries	680	823
‣ Audit related assurance services	1,138	1,776
‣ Tax compliance services	-	51
‣ Tax advisory services	-	534
‣ Other assurance services	150	175
‣ Other non-audit services	287	694
<b>Total</b>	<b>4,930</b>	<b>6,514</b>

The appointment of auditors to the Group's pension schemes and the fees paid in respect of those audits are agreed by the Trustee of the scheme who acts independently from the management of the Group.

Fees in respect of the Royal London Group Pension Scheme – Audit	41	43
Fees in respect of the Royal Liver Assurance Superannuation Fund – Audit	14	16
Fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI) – Audit	14	16
<b>Total</b>	<b>69</b>	<b>75</b>

In addition to the above audit fees, the Royal Liver Assurance Limited Superannuation Fund also had non-audit fees (categorised as other non-audit services) of £15,000 in relation to advisory services provided to the trustees regarding longevity assumptions and risks. There is also an expected fee of £5,000 for the 2017 audit of Royal London Ireland Pension Plan (categorised as audit related assurance services).

## 10. Staff costs

### (a) Analysis of staff costs

	Group		Parent company	
	2017 £m	2016 Restated £m	2017 £m	2016 Restated £m
Wages and salaries	247	201	234	190
Social security contributions	20	19	19	18
Other pension costs – defined contribution arrangements	17	13	17	13
Other pension costs – defined benefit schemes (note 35)	4	(18)	4	(18)
Termination benefits	2	2	2	2
	<b>290</b>	<b>217</b>	<b>276</b>	<b>205</b>
	Number	Number	Number	Number
The average number of persons (including executive directors) employed by the Group during the year was:				
Sales and sales support	424	419	381	382
Administration	3,828	3,107	3,514	2,839
	<b>4,252</b>	<b>3,526</b>	<b>3,895</b>	<b>3,221</b>

The total staff costs of £290m (2016: £217m) are included within the statement of comprehensive income within administration expenses (2017: £192m, 2016: £164m), within investment management expenses (2017: £49m, 2016: £32m) and within other operating expenses (2017: £56m, 2016: £21m). The Parent company pays its employees via a subsidiary company. Wages and salaries include contractor costs. 2016 has been restated to include costs relating to employee benefits.

### (b) Directors' emoluments

	Group	
	2017 £m	2016 £m
Total emoluments	6	5
Long-term incentives vesting in the year	2	2

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 72 to 89. The information included therein, together with the table above, encompasses that required by the Companies Act 2006.

### (c) Key management compensation payable

Compensation payable to key management, including executive directors, is shown in the table below. The number of key management for the year, including executive and non-executive directors, was 31 for the Group and 24 for the Parent company (2016: 29 for the Group and 22 for the Parent company).

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Salaries, short-term incentive plans and other benefits	20	13	14	10
Change in amounts payable under long-term incentive plans	7	8	4	6
	<b>27</b>	<b>21</b>	<b>18</b>	<b>16</b>

The Group's policy for determining key management remuneration, including executive directors, is for total remuneration to be at the median of the UK financial services market. Bonus plans are designed to encourage and reward increases in the value of the business for the benefit of members. The total amount receivable by key management, including executive directors, under long-term incentive plans was £7m as at 31 December 2017 (2016: £4m). The amount of long-term incentive plans exercised by key management during the year was £7m (2016: £8m).

## 11. Investment management expenses

	Group	
	2017 £m	2016 £m
Property expenses	47	30
Other transaction costs	29	22
Costs of in-house investment management operations – staff costs	42	32
Costs of in-house investment management operations – other	50	43
Distributions to external unit holders from consolidated funds	88	99
Other	65	40
	<b>321</b>	<b>266</b>

## 12. Other operating expenses

	Group	
	2017 £m	2016 £m
Operating interest payable	2	2
Provisions	26	22
Foreign currency translation	1	3
Other project costs – staff costs	55	21
Other project costs – other	57	65
	<b>141</b>	<b>113</b>

## 13. Finance costs

	Group	
	2017 £m	2016 £m
Finance costs comprise interest payable arising from:		
‣ Subordinated liabilities	46	46
‣ Other	1	1
	<b>47</b>	<b>47</b>

## 14. Tax charge

### (a) Tax charge in the statement of comprehensive income

	Group	
	2017 £m	2016 Restated £m
Tax has been provided as follows:		
UK corporation tax charge		
‣ Current year	77	93
‣ Adjustments in respect of prior periods	(2)	(2)
	75	91
Foreign tax partially relieved against UK corporation tax	32	26
Deferred tax (note 34)	(4)	132
	103	249

The prior year comparatives have been updated to split out the Irish tax on Royal London's Irish Branch from other foreign tax predominately related to overseas withholding tax.

### (b) Reconciliation of the effective tax rate

Tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated companies as follows:

	Group	
	2017 £m	2016 Restated £m
Result before tax and before transfer to the unallocated divisible surplus	455	325
Tax calculated at the standard rate of corporate tax in the UK <sup>1</sup>	91	65
Factors affecting tax charge:		
Accounting profit not subject to policyholder tax	(97)	(66)
Items taxed on a different basis	66	230
Items disallowed in tax computation	23	(3)
Group consolidation adjustments	(5)	4
Foreign tax partially relieved against UK corporation tax	25	19
Tax charge for the year (note 14a)	103	249

<sup>1</sup> UK corporation tax in the statement of comprehensive income has been calculated at a rate of 20% (2016: 20%) on the taxable profits in respect of insurance business of the long-term fund and at 19.25% (2016: 20%) on the taxable profits of the subsidiaries of the long-term fund.

The Finance Act 2016 reduced the rate of corporation tax to 17% from 1 April 2020. The impact of this reduction in tax rate, which is applicable to the subsidiaries of the long term fund is reflected in the deferred tax (credit)/charge above.

The total tax and transfer to the unallocated divisible surplus is wholly attributable to policyholders.

## 15. Fair value measurement

### (a) Fair value of the Group and Parent company's assets and liabilities that are measured at fair value on a recurring basis

Some of the Group and Parent company's assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these assets and liabilities are determined.

Asset/liability	Valuation techniques and key inputs	2017			2016		
		Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level	Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level
Owner-occupied land and buildings	Fair value is determined using both income capitalisation and market comparison valuation methods.	38	-	3	36	-	3
Investment property	Fair value is determined using both income capitalisation and market comparison valuation methods.	6,103	3,404	3	5,297	5,290	3
Derivatives – equity Options	Mark to model technique using expected dividend yields and market-implied volatility.	65	65	2	61	61	2
Derivatives – interest rate swaps	Mark to model technique using market swap rates.	3,972	3,972	2	4,020	4,020	2
Derivatives – interest rate swaptions	Mark to model technique using forward swap rates and interest rate volatility.	196	196	2	200	200	2
Derivatives – currency Forwards	Mark to model technique using expected foreign exchange rates.	10	8	2	2	2	2
Derivatives – total return swaps	Mark to model technique using market swap rates.	-	-	2	16	16	2
Derivatives – inflation swaps	Mark to model technique using market swap rate.	19	19	2	23	23	2
Equity securities – quoted	Quoted prices in an active market.	28,474	8,205	1	24,240	7,980	1
Equity securities – quoted	Quoted prices, but insufficient trading activity to confirm market is active.	48	3	2	33	4	2
Equity securities – quoted	Quoted prices, but shares have been delisted or there are pending corporate actions.	7	2	3	1	-	3
Equity securities – unquoted	Fair value is derived using observable market prices.	4	-	1	10	10	2
Equity securities – unquoted	Fair value is based on the net asset value (NAV) of the entity.	2	-	3	2	-	3
Equity securities – unquoted – private equity	The NAV provided by the third-party administrator adjusted for any cash flows occurring after the NAV date and before the reporting period end.	180	180	3	193	193	3
Equity securities – unquoted – property funds	The NAV provided by the external fund managers.	255	208	3	227	227	3
Government bonds – UK treasuries	FTSE Tradeweb price (average of prices used in actual transactions).	13,116	10,787	1	12,755	11,046	1
Government bonds – other	Quoted prices provided by third-party pricing sources.	2,328	1,190	2	2,362	1,395	2
Other quoted debt and fixed income securities	Quoted prices provided by third-party pricing sources, using consensus pricing.	17,391	9,820	2	14,230	10,176	2
Other quoted debt and fixed income securities	Quoted prices in an active market.	9	9	1	5	1	1
Other quoted debt and fixed income securities	Mark to model technique using a gross redemption yield.	2	2	3	6	5	3
Loans secured by policies	Carrying value.	4	4	3	5	5	3



## 15. Fair value measurement (continued)

### (a) Fair value of the Group and Parent company's assets and liabilities that are measured at fair value on a recurring basis (continued)

Asset/liability	Valuation techniques and key inputs	2017			2016		
		Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level	Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level
Other unquoted debt and fixed income securities	Prices provided by third-party pricing sources, using consensus pricing.	3,134	3,133	2	3,241	3,241	2
Other unquoted debt and fixed income securities	Mark to model technique using a gross redemption yield.	32	30	3	2	2	3
Unit trusts and other pooled investments – quoted	Quoted prices in an active market.	8,569	8,278	1	6,648	6,466	1
Unit trusts and other pooled investments – unquoted	The NAV provided by external fund manager.	385	269	3	425	323	3
Investment in Group entities – shares	Net present value of future projected cash flows and PE multiple.	-	491	3	-	429	3
Investment in Group entities – loans	Carrying value.	-	13	3	-	18	3
Investment in Group entities – investment funds	Quoted prices in an active market.	-	29,865	1	-	22,248	1
Investment in Group entities – investment funds	The NAV provided by external fund manager.	-	2,813	3	-	4	3
Non-participating investment contract liabilities	Determined by the fair value of the net assets of the underlying unitised investment funds.	(38,847)	(38,847)	2	(31,329)	(31,329)	2
Liability to external unit holders	Quoted prices in an active market.	(6,785)	-	1	(5,502)	-	1
Reinsurance liability	Discounted cash flows are used to derive the fair value.	(2,957)	(2,957)	2	(3,069)	(3,069)	2
Derivative liabilities	As described above for each type of derivative.	(1,511)	(1,510)	2	(1,586)	(1,574)	2
Provision for future commission	Present value of future projected cash flows.	(163)	(163)	3	(167)	(167)	3

The Group and Parent company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period. £7m in the Group and £1m in the Parent company has been transferred from level 2 to level 1 as a quoted price in an active market was available as at 31 December 2017 (2016: £202m in the Group and £197m in the Parent company). In addition, £10m in the Group (2016: £21m) and £2m in the Parent company (2016: £3m) was transferred from level 1 to level 2, as although quoted prices were available at 31 December 2017, there was insufficient trading activity to evidence that the market was active at that date. Transfers in and out of Level 3 are disclosed in note 15(d).

There are no fair value measurements in the balance sheet on a non-recurring basis.

## 15. Fair value measurement (continued)

(b) Fair value of the Group and Parent company's assets and liabilities that are not measured at fair value on a recurring basis (but the fair values are disclosed)

Asset/liability	Valuation techniques and key inputs	Group and Parent company			
		2017		2016	
		Fair value £m	Fair value hierarchy level	Fair value £m	Fair value hierarchy level
Subordinated liabilities	Quoted market price.	883	2	801	1

Subordinated liabilities have been reclassified into level 2 as there was insufficient trending activity to evidence an active market at the reporting date.

### (c) Fair value hierarchy

Assets and liabilities held at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The position assigned to the asset or liability in the fair value hierarchy has to be determined by the lowest level of any input to its valuation that is considered to be significant to the valuation of the asset or liability in its entirety. The hierarchy only reflects the methodology used to derive the asset's or liability's fair value. The three levels of the hierarchy are as follows:

#### Level 1 – Quoted prices in active markets

Inputs to level 1 fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and at sufficient volumes to provide pricing information on an ongoing basis.

#### Level 2 – Inputs other than quoted prices included within level 1 that are observable

Inputs to level 2 fair values are those other than quoted prices included within level 1, which are observable for the asset or liability, either directly as prices or indirectly, i.e. derived from prices. Level 2 inputs include:

- quoted prices for identical assets in markets that are not active;
- quoted prices for similar assets in active markets; and
- inputs to valuation models that are observable for the asset. For example, interest rates and yield curves observable at commonly quoted intervals, volatilities and swap rates.

#### Level 3 – Inputs not based on observable data

Inputs to level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs are typically used where observable inputs are not available.

## 15. Fair value measurement (continued)

### (c) Fair value hierarchy (continued)

The Group and Parent company's assets and liabilities classified into the three levels of the fair value hierarchy are shown in the following tables.

	Group – 2017			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Assets</b>				
Owner-occupied land and buildings (note 16)	-	-	38	38
Investment property (note 17)	-	-	6,103	6,103
Financial investments:				
Derivative assets	-	4,262	-	4,262
Equity securities				
> Quoted	28,474	48	7	28,529
> Unquoted	4	-	437	441
Debt and fixed income securities				
> Government bonds	13,116	2,328	-	15,444
> Other quoted	9	17,391	2	17,402
> Loans secured by policies	-	-	4	4
> Other unquoted	-	3,134	32	3,166
Other investments				
> Unit trusts and other pooled investments	8,569	-	385	8,954
Total financial investments for fair value hierarchy	50,172	27,163	867	78,202
> Deposits with credit institutions	-	-	-	5,126
Total financial investments (note 19)	50,172	27,163	867	83,328
<b>Total assets at fair value</b>	<b>50,172</b>	<b>27,163</b>	<b>7,008</b>	<b>89,469</b>
<b>Liabilities</b>				
Non-participating investment contract liabilities (note 26)	-	(38,847)	-	(38,847)
Reinsurance liability (note 30)	-	(2,957)	-	(2,957)
Derivative liabilities (note 30)	-	(1,511)	-	(1,511)
Provision for future commission (note 31)	-	-	(163)	(163)
Liability to external unit holders (note 33b)	(6,785)	-	-	(6,785)
<b>Total liabilities at fair value</b>	<b>(6,785)</b>	<b>(43,315)</b>	<b>(163)</b>	<b>(50,263)</b>

## 15. Fair value measurement (continued)

### (c) Fair value hierarchy (continued)

	Group – 2016			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Assets</b>				
Owner-occupied land and buildings (note 16)	-	-	36	36
Investment property (note 17)	-	-	5,297	5,297
Financial investments:				
Derivative assets	-	4,322	-	4,322
Equity securities				
> Quoted	24,240	33	1	24,274
> Unquoted	-	10	422	432
Debt and fixed income securities				
> Government bonds	12,755	2,362	-	15,117
> Other quoted	5	14,230	6	14,241
> Loans secured by policies	-	-	5	5
> Other unquoted	-	3,241	2	3,243
Other investments				
> Unit trusts and other pooled investments	6,648	-	425	7,073
Total financial investments for fair value hierarchy	43,648	24,198	861	68,707
> Deposits with credit institutions	-	-	-	5,772
Total financial investments (note 19)	43,648	24,198	861	74,479
<b>Total assets at fair value</b>	<b>43,648</b>	<b>24,198</b>	<b>6,194</b>	<b>79,812</b>
<b>Liabilities</b>				
Non-participating investment contract liabilities (note 26)	-	(31,329)	-	(31,329)
Reinsurance liability (note 30)	-	(3,069)	-	(3,069)
Derivative liabilities (note 30)	-	(1,586)	-	(1,586)
Provision for future commission (note 31)	-	-	(167)	(167)
Liability to external unit holders (note 33b)	(5,502)	-	-	(5,502)
<b>Total liabilities at fair value</b>	<b>(5,502)</b>	<b>(35,984)</b>	<b>(167)</b>	<b>(41,653)</b>

## 15. Fair value measurement (continued)

### (c) Fair value hierarchy (continued)

	Parent company – 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Investment property (note 17)	-	-	3,404	3,404
Financial investments:				
Derivative assets	-	4,260	-	4,260
Equity securities				
> Quoted	8,205	3	2	8,210
> Unquoted	-	-	388	388
Debt and fixed income securities				
> Government bonds	10,787	1,190	-	11,977
> Other quoted	9	9,820	2	9,831
> Loans secured by policies	-	-	4	4
> Other unquoted	-	3,133	30	3,163
Other investments				
> Unit trusts and other pooled investments	8,278	-	269	8,547
Total financial investments for fair value hierarchy	27,279	18,406	695	46,380
> Deposits with credit institutions	-	-	-	1,545
Total financial investments (note 19)	27,279	18,406	695	47,925
Investments in Group entities	29,865	-	3,317	33,182
<b>Total assets at fair value</b>	<b>57,144</b>	<b>18,406</b>	<b>7,416</b>	<b>84,511</b>
<b>Liabilities</b>				
Non-participating investment contract liabilities (note 26)	-	(38,847)	-	(38,847)
Reinsurance liability (note 30)	-	(2,957)	-	(2,957)
Derivative liabilities (note 30)	-	(1,510)	-	(1,510)
Provision for future commission (note 31)	-	-	(163)	(163)
<b>Total liabilities at fair value</b>	<b>-</b>	<b>(43,314)</b>	<b>(163)</b>	<b>(43,477)</b>



## 15. Fair value measurement (continued)

### (c) Fair value hierarchy (continued)

	Parent company – 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Investment property (note 17)	-	-	5,290	5,290
Financial investments:				
Derivative assets	-	4,322	-	4,322
Equity securities				
> Quoted	7,980	4	-	7,984
> Unquoted	-	10	420	430
Debt and fixed income securities				
> Government bonds	11,046	1,395	-	12,441
> Other quoted	1	10,176	5	10,182
> Loans secured by policies	-	-	5	5
> Other unquoted	-	3,241	2	3,243
Other investments				
> Unit trusts and other pooled investments	6,466	-	323	6,789
Total financial investments for fair value hierarchy	25,493	19,148	755	45,396
> Deposits with credit institutions	-	-	-	2,460
Total financial investments (note 19)	25,493	19,148	755	47,856
Investments in Group entities	22,248	-	451	22,699
<b>Total assets at fair value</b>	<b>47,741</b>	<b>19,148</b>	<b>6,496</b>	<b>75,845</b>
<b>Liabilities</b>				
Non-participating investment contract liabilities (note 26)	-	(31,329)	-	(31,329)
Reinsurance liability (note 30)	-	(3,069)	-	(3,069)
Derivative liability (note 30)	-	(1,574)	-	(1,574)
Provision for future commission (note 31)	-	-	(167)	(167)
<b>Total liabilities at fair value</b>	<b>-</b>	<b>(35,972)</b>	<b>(167)</b>	<b>(36,139)</b>

### (d) Level 3 assets and liabilities

For the majority of level 3 investments, the Group and Parent company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and Parent company review the appropriateness of these valuations on the following basis:

- ▶ for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- ▶ private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market; and
- ▶ corporate bonds are predominantly valued using single broker indicative quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements.

## 15. Fair value measurement (continued)

### (d) Level 3 assets and liabilities (continued)

The fair value measurements for level 3 investments are reviewed by the RLAM Investment Committee and the Group Valuation Oversight Committee and approved by the Audit Committee at the half year and year end for inclusion in the financial statements. The Group Valuation Oversight Committee is responsible for agreeing the valuation basis for any investment assets or liabilities where a market price is not readily available, as well as agreeing any changes to the valuation principles applicable to all investment assets and liabilities.

Changes in the assumptions used to calculate the level 3 valuations to reasonably possible alternative assumptions would have the following impact on the Royal London Group IFRS result before tax for the year. Only changes in assets held by the Royal London Open Fund would impact the Group's IFRS result for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below.

- ▶ for level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2017 would result in a £6.9m increase or decrease in result before tax or total assets or liabilities;
- ▶ for level 3 corporate bonds, increasing assumed yields at 31 December 2017 by 100bps would result in a decrease in result before tax and the fair value of the corporate bonds of £0.3m. Decreasing assumed yields at 31 December 2017 by 100bps would result in an increase in result after tax and the fair value of the corporate bonds of £0.3m;
- ▶ for investments in Group entities (where the net present value of future projected cash flows is used) a 100bps increase or decrease in risk-free interest rates would result in a £17.6m increase or decrease in result before tax and fair value of investment in Group entities; and
- ▶ for the provision for future commission, a 10% increase or decrease in the value of the underlying funds at 31 December 2017 would result in a £10.3m increase or decrease in the provision for future commission and a 10% increase or decrease in future surrender rates would result in a £11.0m decrease or increase in the provision.

Information about fair value measurements using significant unobservable inputs:

Asset/liability	Valuation technique	Unobservable input	Range (weighted average)
Owner-occupied property and investment property	Income capitalisation	Equivalent yield Estimated rental value per square foot	5.3%-11.9% (5.5%) £4.44-£47.00 (£24.07)
	Market comparison	Price per acre	£3,250,000
Equity securities – unquoted – private equity and property funds	Adjusted net asset value	Adjustment to net asset value	n/a
Debt and fixed income securities	Single broker quotes	Unadjusted single broker quotes	n/a
Loans secured by policies	Carrying value	Adjustment to carrying value	n/a
Unit trusts and other pooled Investments	Adjusted net asset value	Adjustment to net asset value	n/a
Investments in Group entities – shares	Net present value of future projected cash flows and PE multiple	RLUM	
		Fees (bps) p.a.	12.5
		Expenses (bps) p.a.	6.0
		Investment return (%) p.a.	2.0
		Surrender rate (%) p.a.	9.0-16.0
		Funds under management end 2017 (£m)	3,488
		Tax	At enacted rates of corporation tax
	RLAM		
	PE multiple	15	
Investments in Group entities – Loans	Carrying value	Carrying value	n/a
Provision for future commission	Present value of future projected cash flows	Fund based renewal commission rated (%) p.a.	0.00%-1.00% (0.52%)
		Investment return (%) p.a.	0.38% (0.38%)
		Surrender rate (%) p.a.	0%-13% (6.6%)
		Value of underlying funds at end 2017 (£m)	4,040

## 15. Fair value measurement (continued)

### (d) Level 3 assets and liabilities (continued)

Movement during the year in the level 3 assets and liabilities:

	Group – 2017			
	Financial investments £m	Owner-occupied property £m	Investment property £m	Total £m
At 1 January	861	36	5,297	6,194
Purchases	216	-	774	990
Sales	(166)	-	(134)	(300)
Net (losses) and gains recognised in statement of comprehensive income	(56)	2	166	112
Transfers into level 3	12	-	-	12
At 31 December	867	38	6,103	7,008
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(72)	2	166	96

	Group – 2016			
	Financial investments £m	Owner-occupied property £m	Investment property £m	Total £m
At 1 January	849	27	5,036	5,912
Purchases	48	-	623	671
Transfer to/(from) Property, Plant and Equipment	-	3	(3)	-
Sales	(116)	-	(285)	(401)
Net gains and (losses) recognised in statement of comprehensive income	78	6	(74)	10
Transfers into level 3	2	-	-	2
At 31 December	861	36	5,297	6,194
'Net gains and (losses) recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	56	6	(74)	(12)

## 15. Fair value measurement (continued)

### (d) Level 3 assets and liabilities (continued)

	Parent company – 2017			
	Financial investments £m	Investment property £m	Investments in Group entities £m	Total £m
At 1 January	755	5,290	451	6,496
Purchases	150	760	-	910
Sales	(164)	(66)	(3)	(233)
Transfers into investment in Group entities (note 17)	-	(2,679)	2,679	-
Net (losses) and gains recognised in statement of comprehensive income	(58)	99	115	156
Transfers into Level 3	12	-	75	87
<b>At 31 December</b>	<b>695</b>	<b>3,404</b>	<b>3,317</b>	<b>7,416</b>
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(72)	75	115	118

	Parent company – 2016			
	Financial investments £m	Investment property £m	Investments in Group entities £m	Total £m
At 1 January	729	4,936	622	6,287
Purchases	49	627	71	747
Sales	(101)	(197)	(161)	(459)
Net gains and (losses) recognised in statement of comprehensive income	78	(76)	(81)	(79)
<b>At 31 December</b>	<b>755</b>	<b>5,290</b>	<b>451</b>	<b>6,496</b>
'Net gains and (losses) recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	56	(57)	(81)	(82)

The 'Net gains and (losses) recognised in statement of comprehensive income' shown above are included within 'Investment return'. The Group and Parent company's policy is to recognise transfers into and out of level 3 at the end of the reporting period.

The movement in the provision for future commission is shown in note 31.

## 16. Property, plant and equipment

	Group – 2017		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
<b>Cost or valuation</b>			
At 1 January	48	24	72
Additions	-	7	7
<b>At 31 December</b>	<b>48</b>	<b>31</b>	<b>79</b>
<b>Accumulated depreciation and impairment losses</b>			
At 1 January	(12)	(9)	(21)
Depreciation charge	-	(7)	(7)
Reversal of impairment losses	2	-	2
<b>At 31 December</b>	<b>(10)</b>	<b>(16)</b>	<b>(26)</b>
<b>Net book value</b>			
At 1 January	36	15	51
<b>At 31 December</b>	<b>38</b>	<b>15</b>	<b>53</b>

## 16. Property, plant and equipment (continued)

	Group – 2016		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
<b>Cost or valuation</b>			
At 1 January	45	97	142
Additions	-	6	6
Disposals	-	(79)	(79)
Transfers from investment property (note 17)	3	-	3
<b>At 31 December</b>	<b>48</b>	<b>24</b>	<b>72</b>
<b>Accumulated depreciation and impairment losses</b>			
At 1 January	(18)	(82)	(100)
Depreciation charge	-	(6)	(6)
Disposals	-	79	79
Reversal of impairment losses	6	-	6
<b>At 31 December</b>	<b>(12)</b>	<b>(9)</b>	<b>(21)</b>
<b>Net book value</b>			
At 1 January	27	15	42
<b>At 31 December</b>	<b>36</b>	<b>15</b>	<b>51</b>

For the purposes of the disclosure required by IAS 1, 'Presentation of Financial Statements', all property, plant and equipment held by the Group is classified as being held for more than 12 months from the balance sheet date. The Parent company did not hold any property, plant and equipment at the balance sheet date or at the previous balance sheet date.

Owner-occupied land and buildings shown above are held on a freehold basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2017 £m	2016 £m
Cost	38	38
Accumulated depreciation and impairment losses	(10)	(12)
<b>Net book value</b>	<b>28</b>	<b>26</b>



## 17. Investment property

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Fair value</b>				
At 1 January	5,297	5,036	5,290	4,936
Additions				
▶ Capitalised expenditure on existing properties	99	91	99	91
▶ Acquisition of new properties	675	532	661	536
Disposals	(134)	(285)	(66)	(197)
Transfer to Investment in Group Entities	-	-	(2,679)	-
Transfer to property, plant and equipment (note 16)	-	(3)	-	-
Net gain/(loss) from fair value adjustments	165	(80)	99	(76)
Foreign exchange gains	1	6	-	-
<b>At 31 December</b>	<b>6,103</b>	<b>5,297</b>	<b>3,404</b>	<b>5,290</b>
Rental income from investment property	255	263	219	260
Direct operating expenses arising from investment property	47	30	34	30

The Parent company transferred £2,679m of investment properties into The Royal London UK Real Estate Fund, a subsidiary of the Group.

For the purposes of the disclosure required by IAS 1, the amount of investment property at the balance sheet date that is classified as being held for more than 12 months is £6,018m for the Group (2016: £5,168m) and £3,354m for the Parent company (2016: £5,204m).

The fair value of investment property above includes £601m (2016: £494m) for the Group and £311m (2016: £494m) for the Parent company held under finance leases.

The total direct expenses above relating to properties that did not generate income are £7m (2016: £7m) for the Group and £7m (2016: £7m) for the Parent company.

Investment property is revalued to fair value annually with an effective date of 31 December. The fair values are determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The principal valuers used were CBRE Limited, Cushman & Wakefield, and Knight Frank LLP. Fair value is determined using market and income approaches (note 15 (d)). In estimating the fair value of properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The net gain/(loss) from fair value adjustments shown above represents the net fair value gain/(loss) on the revaluation of properties held at the balance sheet date and does not include gains or losses realised on properties disposed of during the year.

Investment properties are leased to third parties under operating leases. Under the terms of certain leases, the company is required to repair and maintain the related properties. At the balance sheet date the future minimum lease payments receivable under non-cancellable leases are shown in the following table. For the purposes of this table, the minimum lease period has been taken as the period to the first possible date that the lease can be terminated by the lessee.

## 17. Investment property (continued)

These total future minimum lease payments receivable can be analysed as follows:

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Not later than one year	255	245	142	243
Later than one year and not later than five years	780	749	462	747
Later than five years	1,520	1,470	564	1,469
	<b>2,256</b>	<b>2,464</b>	<b>1,168</b>	<b>2,459</b>

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Freehold	2,218	2,171	1,087	2,166
Leasehold	338	293	81	293
	<b>2,556</b>	<b>2,464</b>	<b>1,168</b>	<b>2,459</b>

## 18. Intangible assets

The following tables show the movements in the intangible assets of the Group and the Parent company.

	Group – 2017					Total £m
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	
<b>Cost</b>						
At 1 January	250	421	1,013	858	260	2,802
Additions	-	-	-	2	54	56
At 31 December	250	421	1,013	860	314	2,858
<b>Accumulated amortisation and impairment losses</b>						
At 1 January	(18)	(406)	(897)	(557)	(241)	(2,119)
Amortisation charge	-	(15)	(25)	(41)	(11)	(92)
Impairment losses	-	-	(10)	-	(31)	(41)
At 31 December	(18)	(421)	(932)	(598)	(283)	(2,252)
<b>Net book value</b>						
At 1 January	232	15	116	301	19	683
At 31 December	232	-	81	262	31	606

The net book value of intangible assets at 31 December 2017 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) is shown below:

Within 12 months	-	-	23	38	8	69
In more than 12 months	232	-	58	224	23	537
	<b>232</b>	<b>-</b>	<b>81</b>	<b>262</b>	<b>31</b>	<b>606</b>

**18. Intangible assets (continued)**

	Group – 2016					Total £m
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	
<b>Cost</b>						
At 1 January	250	421	1,013	853	237	2,774
Additions	-	-	-	5	23	28
<b>At 31 December</b>	<b>250</b>	<b>421</b>	<b>1,013</b>	<b>858</b>	<b>260</b>	<b>2,802</b>
<b>Accumulated amortisation and impairment losses</b>						
At 1 January	-	(391)	(857)	(509)	(185)	(1,942)
Amortisation charge	-	(9)	(28)	(48)	(12)	(97)
Impairment losses	(18)	(6)	(12)	-	(44)	(80)
<b>At 31 December</b>	<b>(18)</b>	<b>(406)</b>	<b>(897)</b>	<b>(557)</b>	<b>(241)</b>	<b>(2,119)</b>
<b>Net book value</b>						
At 1 January	250	30	156	344	52	832
<b>At 31 December</b>	<b>232</b>	<b>15</b>	<b>116</b>	<b>301</b>	<b>19</b>	<b>683</b>

The net book value of intangible assets at 31 December 2016 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) is shown below:

Within 12 months	-	15	24	40	11	90
In more than 12 months	232	-	92	261	8	593
	<b>232</b>	<b>15</b>	<b>116</b>	<b>301</b>	<b>19</b>	<b>683</b>

	Parent company – 2017					Total £m
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	
<b>Cost</b>						
At 1 January	232	410	1,003	857	138	2,640
Additions	-	-	-	2	22	24
<b>At 31 December</b>	<b>232</b>	<b>410</b>	<b>1,003</b>	<b>859</b>	<b>160</b>	<b>2,664</b>
<b>Accumulated amortisation and impairment losses</b>						
At 1 January	-	(403)	(887)	(557)	(119)	(1,966)
Amortisation charge	-	(7)	(25)	(40)	(11)	(83)
Impairment losses	-	-	(10)	-	-	(10)
<b>At 31 December</b>	<b>-</b>	<b>(410)</b>	<b>(922)</b>	<b>(597)</b>	<b>(130)</b>	<b>(2,059)</b>
<b>Net book value</b>						
At 1 January	232	7	116	300	19	674
<b>At 31 December</b>	<b>232</b>	<b>-</b>	<b>81</b>	<b>262</b>	<b>30</b>	<b>605</b>

The net book value of intangible assets at 31 December 2017 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) is shown below:

Within 12 months	-	-	23	38	8	69
In more than 12 months	232	-	58	224	22	536
	<b>232</b>	<b>-</b>	<b>81</b>	<b>262</b>	<b>30</b>	<b>605</b>

## 18. Intangible assets (continued)

	Parent company – 2016					Total £m
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	
<b>Cost</b>						
At 1 January	232	410	1,003	853	138	2,636
Additions	-	-	-	4	-	4
<b>At 31 December</b>	<b>232</b>	<b>410</b>	<b>1,003</b>	<b>857</b>	<b>138</b>	<b>2,640</b>
<b>Accumulated amortisation and impairment losses</b>						
At 1 January	-	(389)	(853)	(509)	(108)	(1,859)
Amortisation charge	-	(10)	(23)	(48)	(11)	(92)
Impairment losses	-	(4)	(11)	-	-	(15)
<b>At 31 December</b>	<b>-</b>	<b>(403)</b>	<b>(887)</b>	<b>(557)</b>	<b>(119)</b>	<b>(1,966)</b>
<b>Net book value</b>						
At 1 January	232	21	150	344	30	777
<b>At 31 December</b>	<b>232</b>	<b>7</b>	<b>116</b>	<b>300</b>	<b>19</b>	<b>674</b>

The net book value of intangible assets at 31 December 2016 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) is shown below:

Within 12 months	-	7	24	40	11	82
In more than 12 months	232	-	92	260	8	592
	<b>232</b>	<b>7</b>	<b>116</b>	<b>300</b>	<b>19</b>	<b>674</b>

### (a) Goodwill

Goodwill is the only intangible asset that has an indefinite useful life. The carrying value of £232m comprises £119m relating to the acquisition of the former Resolution businesses and assets in 2008 (2016: £119m), £110m (2016: £110m) in respect of the acquisition of Scottish Life in 2001 and £3m (2016: £3m) in relation to a cash management business.

Goodwill is tested for impairment annually. The impairment test involves comparing the carrying value of the goodwill to its recoverable amount on a cash-generating unit basis. The recoverable amount of the goodwill has been determined using a value-in-use calculation. This is determined as the present value of the expected profits arising from the future new business written by the relevant business unit. The key assumptions used for the value-in-use calculations are as follows:

- expected profits from future new business are based on the medium-term plan approved by the Board of Directors, which covers a five-year period, and as such reflects the best estimate of future profits based on both historical experience and expected growth rates of around 3%. Some of the assumptions that underlie the budgeted expected profits include customer numbers, premium rate and fee income changes, claims inflation and commission rates;
- growth rates – cash flows beyond that period have been assumed to grow at a steady rate of 1% per annum (2016: 1% per annum); and
- discount rates – the cash flows have been discounted using a risk-adjusted discount rate of 7% (2016: 7%).

For all goodwill items held on the Group and Parent company Balance Sheets as at 31 December 2017 the recoverable amount exceeds the carrying amount of the goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the goodwill to exceed its recoverable amount.

### (b) Acquired PVIF and Deferred Acquisition Costs (DAC)

Following the annual review of impairment for 2017 a further £10m was written off due to 2017 assumption changes.

The 2016 impairment loss includes £9m impact from the change in basis for Solvency II (£4m reported within Acquired PVIF on investment contracts and £5m reported within Acquired PVIF on insurance contracts). The balance of the 2016 impairment loss on Acquired PVIF was due to 2016 assumption changes.

## 18. Intangible assets (continued)

### (c) Other intangible assets

Other intangible assets consist of distribution channel relationships, software and incremental acquisition costs directly related to acquiring new unit trust management business. They are being amortised over their expected useful lives of between 3 and 10 years. The impairment loss in the Group of £31m (2016: £44m) is the amount by which the carrying value of certain software within the Wealth segment exceeds its recoverable amount. It is reported within the 'Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets' line of the Consolidated statement of comprehensive income. The software is in the process of being developed and the recoverable amount has been estimated using a value in use calculation based on the latest Board approved business plans and using a discount rate of 10%.

## 19. Financial investments

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Financial investments held at fair value through profit or loss (FVTPL)				
‣ Classified as held for trading	4,262	4,322	4,260	4,322
‣ Designated as FVTPL	79,066	70,157	43,665	43,534
	<b>83,328</b>	<b>74,479</b>	<b>47,925</b>	<b>47,856</b>

For the purposes of the disclosure required by IAS 1, it has been assumed that financial investments will be realised in order to settle the claims expected to arise during the 12 months following the balance sheet date. On this basis, the amount of financial investments at the balance sheet date that are classified as being held for more than 12 months is £78,143m for the Group (2016: £69,168m) and £42,734m for the Parent company (2016: £42,545m).

The Parent company includes within its investment portfolio a significant holding in OEICs and other investment funds managed by subsidiary companies. Those funds over which the Parent company has control are classified as subsidiaries ('consolidated funds'). The Parent company's investment in these consolidated funds is shown in note 20 and is not included in the Parent company figures below. On consolidation, the underlying investments of the consolidated funds are included within the appropriate investment line in the balance sheet and are therefore included in the Group figures shown below.

### (a) Financial investments classified as held for trading

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Derivatives (note 19 (c))				
‣ Unquoted	4,262	4,322	4,260	4,322



## 19. Financial investments (continued)

### (b) Financial investments designated as FVTPL

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Equity securities				
‣ Quoted	28,529	24,274	8,210	7,984
‣ Unquoted	441	432	388	430
	28,970	24,706	8,598	8,414
Debt and fixed income securities				
‣ Government bonds	15,444	15,117	11,977	12,441
‣ Other quoted	17,402	14,241	9,831	10,182
‣ Loans secured by policies	4	5	4	5
‣ Deposits with credit institutions	5,126	5,772	1,545	2,460
‣ Other unquoted	3,166	3,243	3,163	3,243
	41,142	38,378	26,520	28,331
Other investments				
‣ Unit trusts and other pooled investments	8,954	7,073	8,547	6,789
<b>Total financial investments designated as FVTPL</b>	<b>79,066</b>	<b>70,157</b>	<b>43,665</b>	<b>43,534</b>

Included in the figures for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £175m for the Group (2016: £208m) and £173m for the Parent company (2016: £177m).

Included in the Group and Parent company figure for unquoted debt securities above is £2,957m (Group 2016: £3,069m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 30).

Included in the Group and Parent company figures for deposits with credit institutions is £1,160m (2016: £1,898m) of reverse repurchase deposits.

### (c) Derivative financial instruments

The Group and Parent company utilise derivative instruments to hedge market risk (see note 40), for efficient portfolio management and for the matching of liabilities to policyholders. Derivatives are either 'exchange-traded' (regulated by an exchange), which have a quoted market price, or 'over-the-counter' (individually negotiated between the parties to the contract), which are unquoted.

The Group is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other financial investments. To mitigate this risk, a portion of the fair value of the derivatives held by the Group at any point in time is matched by collateral and cash margin received from the counterparty to the transaction. Cash margin is collateral in the form of cash. Initial cash margin is exchanged at the outset of the contract. Variation margin is exchanged during the life of the contract in response to changes in the value of the derivative. Further details are given in note 19(e). The remaining credit risk is managed within the Group's risk management framework, which is discussed further in note 40.

The Group and Parent company utilise the following derivatives:

#### Options and warrants

Options are contracts under which the seller grants the buyer the right, but not the obligation, to buy or to sell a specific amount of a financial instrument at a pre-determined price, at or by a set date, or during a set period. The Group uses equity options to manage its exposure to fluctuations in equity markets and to back certain products which include a guaranteed investment return based on equity values. Warrants give the holder the right to purchase a particular equity at a specified price.

#### Futures

A futures contract is an agreement to buy or sell a given quantity of a financial instrument, at a specified future date at a pre-determined price. The Group uses futures to manage its exposure to fluctuations in equity markets.

#### Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

## 19. Financial investments (continued)

### (c) Derivative financial instruments (continued)

#### Swaptions

Swaptions are options to enter into an interest rate swap at a future date, and are used to limit exposure to fluctuations in interest rates over the long term.

#### Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are principally used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

#### Currency forwards

A currency forward is a contract to exchange an agreed amount of currency at a specified exchange rate and on a specified date. The Group uses currency forwards to reduce exposure to movements in exchange rates.

#### Inflation swaps

An inflation swap is a contract under which there is an exchange of cash flows in order to transfer inflation risk. One party pays a fixed rate while the other party pays a floating rate that is linked to an inflation index.

#### Fair value of derivative instruments held

	Group					
	2017			2016		
	Contract/ notional amount £m	Fair values		Contract/ notional amount £m	Fair values	
	Assets £m	Liabilities £m		Assets £m	Liabilities £m	
Equity options and warrants	553	65	(14)	584	61	(16)
Interest rate swaps	30,307	3,972	(1,482)	18,659	4,020	(1,532)
Interest rate swaptions	7,139	196	-	7,747	200	-
Total return swaps	987	-	(12)	447	16	(16)
Inflation swaps	664	19	(1)	304	23	-
Currency forwards	1,211	10	(2)	1,387	2	(22)
<b>Total derivative assets/(liabilities)</b>		<b>4,262</b>	<b>(1,511)</b>		<b>4,322</b>	<b>(1,586)</b>

	Parent company					
	2017			2016		
	Contract/ notional amount £m	Fair values		Contract/ notional amount £m	Fair values	
	Assets £m	Liabilities £m		Assets £m	Liabilities £m	
Equity options and warrants	553	65	(14)	584	61	(16)
Interest rate swaps	30,307	3,972	(1,482)	18,659	4,020	(1,534)
Interest rate swaptions	7,139	196	-	7,747	200	-
Total return swaps	987	-	(12)	447	16	(16)
Inflation swaps	664	19	(1)	304	23	-
Currency forwards	796	8	(1)	847	2	(8)
<b>Total derivative assets/(liabilities)</b>		<b>4,260</b>	<b>(1,510)</b>		<b>4,322</b>	<b>(1,574)</b>

In addition to the above, the Group and Parent company make use of futures contracts. At 31 December 2017, the Group and Parent company had entered into equity futures trades giving exposure to equities with a notional value of Group £1,938m (2016: £671m) and Parent company £447m (2016: £340m). The equity futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

The Group paid initial cash margin of £35m (2016: £35m) and Parent company £18m (2016: £18m) in respect of these trades, which is included within 'trade and other receivables'.

## 19. Financial investments (continued)

### (c) Derivative financial instruments (continued)

The net variation margin payable by the Group and Parent company was £1m at 31 December 2017 (2016: £4m), being the amount due for the movement on the last business day of 2017, which was settled on the first business day in 2018. Variation margin receivable is included within 'trade and other receivables' and variation margin payable is included within 'payables and other financial liabilities'.

### (d) Collateral and other arrangements

#### (i) Stock loan agreements

The Group and Parent company have entered into a number of stock lending transactions that transfer legal title to third parties, but not the exposure to the income and market value movements arising from those assets. As a result, the Group and Parent company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and Parent company balance sheets. There are no restrictions arising from the transfers.

The assets transferred under these agreements are secured by the receipt of collateral. The level of collateral held is monitored regularly and adjusted as necessary to manage exposure to credit risk.

The collateral received was in the form of UK, US, Japanese and European Government bonds and quoted equities. There were no borrower defaults in the year (2016: none).

The following table shows the assets within the Group and Parent company balance sheets that have been transferred under stock loan agreements and the related collateral received.

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Stock loan agreements				
▶ Listed equities	2,595	877	919	122
▶ Corporate bonds	84	50	64	36
▶ Government bonds	1,557	920	1,390	750
	4,236	1,847	2,373	908
Collateral received	4,446	1,937	2,470	953

#### (ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £877m for both the Group and the Parent company (2016: £869m). The collateral received was in the form of UK Gilts. It may be sold or re-pledged in the absence of default. No collateral was sold or re-pledged in the year (2016: £nil) and there were no defaults in the year (2016: none).

Cash margin received was £1,943m (2016: £1,976m) for both the Group and the Parent company. Cash margin received is included within 'cash and cash equivalents', with an offsetting liability included within 'payables and other financial liabilities'.

The market value of derivatives in respect of which collateral and cash margin were received was £2,814m for both the Group and the Parent company (2016: £2,881m).

Collateral of £2,961m was received for both the Group and the Parent company (2016: £3,101m) in respect of an unlisted debt security. The collateral received was in the form of UK Government bonds, other fixed income debt securities, floating rate notes and cash. The market value of the debt security in respect of which the collateral was received was £2,957m (2016: £3,069m).

#### (iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £18m for both the Group and the Parent company (2016: £68m). The collateral pledged was in the form of UK Gilts. It may be sold or re-pledged in the absence of default.

Cash margin pledged in respect of derivatives was £77m (2016: £56m) for both the Group and Parent company. A corresponding asset is included within 'trade and other receivables'.

The market value of derivatives in respect of which collateral and cash margin were pledged was £68m for both the Group and the Parent company (2016: £125m).

In addition, the Group and Parent company pledged £968m of initial margin (2016: £1,022m) in respect of derivatives. This was pledged in the form of UK gilts.

## 19. Financial investments (continued)

### (d) Collateral and other arrangements (continued)

#### (iii) Assets pledged as collateral (continued)

The Group and Parent company have entered into reverse repurchase transactions with a cash value of £1,160m (2016: £1,898m). The value of the UK gilts associated with these deposits at 31 December 2017 was £1,167m (2016: £1,937m). Collateral in the form of UK gilts of £5m (2016: £42m) was pledged in respect of those transactions.

#### (e) Sovereign debt exposures

Included within the Group and Parent company's government bonds are the following exposures to sovereign debt shown by country:

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
UK	13,116	12,680	10,787	10,968
Germany	157	142	128	117
France	189	201	169	167
Italy	33	44	15	26
Spain	20	13	8	8
Belgium	53	49	50	45
Austria	24	21	24	21
Finland	5	23	5	5
The Netherlands	47	43	39	40
Other Europe	126	144	118	136
USA	237	599	57	287
Canada	9	4	2	1
Japan	124	136	26	38
Rest of World	38	64	33	45
<b>Total</b>	<b>14,178</b>	<b>14,163</b>	<b>11,461</b>	<b>11,904</b>

The Group's exposure to the sovereign debt of Greece, Italy, Portugal and Spain represents less than 1% (2016: less than 1%) of the total investment portfolio.

## 20. Investments in Group entities

The Parent company's investments in Group entities comprise:

	Parent company	
	2017 £m	2016 £m
Shares	491	429
Loans	13	18
OEICs and other investment funds	32,678	22,252
	<b>33,182</b>	<b>22,699</b>

Investments in Group entities are carried in the balance sheet at fair value. For the purposes of the disclosure required by IAS 1, all of the investments in Group entities held at the balance sheet date are classified as being held for more than 12 months.

The OEICs and other investment funds represent the Parent company's investment in funds which are managed by subsidiaries of the Group and over which the Group has control.

## 20. Investments in Group entities (continued)

### (a) Subsidiaries

The Parent company has the following subsidiaries with a registered office of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted by a letter which corresponds to the addresses listed in the table on page 141. All subsidiary undertakings are included in the consolidation.

Name	% holding		Nature of business	Registered Office
	2017	2016		
Operational subsidiaries:				
› Royal London Asset Management Limited	100.0	100.0	Investment management	-
› Royal London Asset Management Bond Funds plc	99.0	99.0	Investment management	A
› Royal London Unit Trust Managers Limited	100.0	100.0	Unit trust management	-
› RL Marketing (CIS) Limited	100.0	100.0	ISA management	-
› Royal London Savings Limited	100.0	100.0	ISA management	-
› RL Finance Bonds No.2 plc	100.0	100.0	Finance company	-
› RL Finance Bonds No.3 plc	100.0	100.0	Finance company	-
› RLUM Limited	100.0	100.0	Unit trust management	-
› Royal London Management Services Limited	100.0	100.0	Service company	-
› Hornby Road Investments Limited <sup>1</sup>	100.0	100.0	Property company	-
› Wrap IFA Services Limited <sup>1</sup>	100.0	100.0	Holding company	-
› Investment Funds Direct Group Limited	100.0	100.0	Holding company	B
› Investment Funds Direct Holdings Limited	100.0	100.0	Holding company	B
› Investment Funds Direct Limited	100.0	100.0	Wrap platform management	B
› ISL Software (India) Private Limited	100.0	100.0	Software development	C
› RL Corporate Pension Services Limited <sup>1</sup>	100.0	100.0	Pensions administration & consultancy services	-
› Royal London Asset Management C.I. Limited	100.0	100.0	Investment management	D
› Royal London Custody Services C.I. Limited	100.0	100.0	Custodian	D
› Royal London Marketing Limited	100.0	100.0	Intermediary	-
Nominee companies:				
› Fundsdirect Isa Nominees Limited	100.0	100.0	Nominee company	B
› Fundsdirect Nominees Limited	100.0	100.0	Nominee company	B
› IFDL Personal Pensions Limited	100.0	100.0	Nominee company	B
› Icen Nominees (No 3) Limited	100.0	100.0	Nominee company	-
› Icen Nominees (No 4) Limited	100.0	100.0	Nominee company	-
› RL Marketing ISA Nominees Limited	100.0	100.0	Nominee company	-
› RLAM (Nominees) Limited	100.0	100.0	Nominee company	-
› RLS Nominees Limited	100.0	100.0	Nominee company	-
Trustee companies:				
› R.L. Pensions Trustees Limited	100.0	100.0	Trustee company	-
› R.L.M. Staff Pension Trust Limited	100.0	100.0	Trustee company	-
› RL Pension Trustees (ROI) Limited	100.0	100.0	Trustee company	E
› RLGPS Trustee Limited	100.0	100.0	Trustee company	-
› Royal Liver Pension Trustee Services Limited	100.0	100.0	Trustee company	-
› Royal Liver Trustee Services Ireland Limited	100.0	100.0	Trustee company	E
› Royal Liver Trustees Limited	100.0	100.0	Trustee company	-
› Royal London Trustee Services Limited	100.0	100.0	Trustee company	-



## 20. Investments in Group entities (continued)

### (a) Subsidiaries (continued)

Name	% holding		Nature of business	Registered Office
	2017	2016		
Unit trusts, OEICs and other investment funds reported as subsidiaries under IFRS:				
› The Royal London UK Mid Cap Growth Fund	72.0	64.4	OEIC	-
› The Royal London UK Opportunities Fund	98.5	98.3	OEIC	-
› The Royal London European Opportunities Fund (previously The Royal London European Income Fund)	99.9	99.9	OEIC	-
› The Royal London Japan Tracker Fund	95.4	92.2	OEIC	-
› The Royal London FTSE 350 Tracker Fund	95.3	86.1	OEIC	-
› The Royal London US Tracker Fund	94.5	89.1	OEIC	-
› The Royal London All Share Tracker Fund	65.7	68.2	OEIC	-
› The Royal London Index Linked Fund	68.4	70.9	OEIC	-
› The Royal London UK Growth Fund	94.0	93.0	OEIC	-
› The Royal London European Growth Fund	93.2	91.6	OEIC	-
› The Royal London UK Equity Fund	93.8	92.9	OEIC	-
› The Royal London Asia Pacific ex Japan Tracker Fund	96.1	92.4	OEIC	-
› The Royal London UK Smaller Companies Fund	98.0	98.2	OEIC	-
› The Royal London Cash Plus Fund	66.8	67.6	OEIC	-
› The Royal London Enhanced Cash Plus Fund	57.0	56.9	OEIC	-
› The Royal London Investment Grade SD Credit Fund	33.0	48.0	OEIC	-
› The Royal London Global Bond Opportunities Fund	99.8	100.0	OEIC	A
› The Royal London European Corporate Bond Fund	99.6	99.8	OEIC	-
› The Royal London Europe ex UK Tracker Fund	97.8	98.2	OEIC	-
› The Royal London International Government Bonds Fund	93.8	90.4	OEIC	-
› The Royal London Short Duration Gilt Fund	45.7	45.1	OEIC	-
› The Royal London Short Duration Global High Yield Fund	39.4	38.7	OEIC	A
› The Royal London Global High Yield Bond Fund	97.0	94.2	OEIC	A
› The Royal London Short-term Money Market Fund	75.9	75.7	OEIC	-
› The Royal London Short Duration Credit Fund	N/A	38.4	OEIC	-
› The Royal London Absolute Return Government Bond Fund	90.8	86.0	OEIC	A
› The Royal London Growth Fund	80.1	95.8	OEIC	-
› The Royal London Conservative Fund	98.4	99.7	OEIC	-
› The Royal London Balanced Fund	71.5	93.8	OEIC	-
› The Royal London Adventurous Fund	62.2	99.5	OEIC	-
› The Royal London Dynamic Fund	98.1	98.9	OEIC	-
› The Royal London Defensive Fund	64.9	85.6	OEIC	-
› The Royal London Short Duration Global Index Linked Fund	N/A	46.0	OEIC	-
› The Royal London Emerging Markets Equity Tracker Fund <sup>2</sup>	96.3	N/A	OEIC	-
› The Royal London Global Equity Diversified Fund <sup>2</sup>	100.0	N/A	OEIC	-
› The Royal London Global Select Fund <sup>2</sup>	100.0	N/A	OEIC	-
› The Royal London UK Real Estate Fund <sup>2</sup>	100.0	N/A	OEIC	-
› The Royal London UK Government Bond Fund <sup>2</sup>	38.3	N/A	OEIC	-
› The Royal London Multi Asset Credit Fund <sup>2</sup>	64.2	N/A	OEIC	-
› The Royal London Sustainable Managed Income Trust	66.3	86.3	Unit trust	-
› The Royal London Sustainable Managed Growth Trust	44.5	65.6	Unit trust	-
› The Royal London US Growth Trust	58.1	58.3	Unit trust	-
› The Royal London European Growth Trust	38.2	37.9	Unit trust	-
› The Royal London Corporate Bond Monthly Fund	36.2	34.6	Unit trust	-
› Goldman Sachs Multi-Strategy Portfolio COIS Limited	100.0	100.0	Investment fund	-
› The Royal London Property Trust	100.0	100.0	Property trust	-
› Vision Park Management Limited	86.0	66.0	Property trust	J

## 20. Investments in Group entities (continued)

### (a) Subsidiaries (continued)

Name	% holding		Nature of business	Registered Office
	2017	2016		
Non-trading companies:				
› Brightgrey Limited	100.0	100.0	Non-trading	-
› Canterbury Life Assurance Company Limited	100.0	100.0	Non-trading	-
› Capitol Way Commercial No 1 Limited	100.0	100.0	Non-trading	-
› Capitol Way Commercial No 2 Limited	100.0	100.0	Non-trading	-
› Capitol Way Estate Management Limited	100.0	100.0	Non-trading	-
› Capitol Way Estate No 1 Limited	100.0	100.0	Non-trading	-
› Capitol Way Estate No 2 Limited	100.0	100.0	Non-trading	-
› Euro-Luxembourg SA <sup>3</sup>	N/A	100.0	Non-trading	F
› GRE Part 7 Limited	100.0	100.0	Non-trading	I
› Investment Sciences Limited	100.0	100.0	Non-trading	-
› Leyburn Developments Limited	100.0	100.0	Non-trading	-
› The Lion Insurance Company Limited	100.0	100.0	Non-trading	-
› Nodessa File (One) Limited	100.0	100.0	Non-trading	H
› Nodessa File (Two) Limited	100.0	100.0	Non-trading	H
› RL Finance Bonds plc	100.0	100.0	Non-trading	-
› RL Schedule 2C Holdings Limited	100.0	100.0	Non-trading	-
› R.A.Securities Limited	100.0	100.0	Non-trading	-
› Refuge Assurance Limited	100.0	100.0	Non-trading	-
› Refuge Investments Limited	100.0	100.0	Non-trading	-
› Refuge Life Assurance Consultants Limited	100.0	100.0	Non-trading	-
› Refuge Portfolio Managers Limited	100.0	100.0	Non-trading	-
› RL LA Limited	100.0	100.0	Non-trading	G
› RL Money Manager Limited	100.0	100.0	Non-trading	-
› RL NPB Services Limited	100.0	100.0	Non-trading	-
› RLM Finance Bonds Plc	100.0	100.0	Non-trading	-
› RLM Finance Plc <sup>1</sup>	100.0	100.0	Non-trading	-
› Royal Liver (IFA Holdings) Plc	100.0	100.0	Non-trading	-
› Royal Liver Asset Managers Limited	100.0	100.0	Non-trading	-
› Royal Liver Management Services Limited	100.0	100.0	Non-trading	-
› Royal London 360 Holdings Limited	100.0	100.0	Non-trading	G
› Royal London Asset Management (CIS) Limited	100.0	100.0	Non-trading	-
› Royal London Cash Management Limited <sup>3</sup>	N/A	100.0	Non-trading	H
› Royal London (CIS) Limited	100.0	100.0	Non-trading	-
› Royal London Homebuy Limited	100.0	100.0	Non-trading	-
› Royal London Pooled Pensions Company Limited	100.0	100.0	Non-trading	G
› S.L. (Davenport Green) Limited <sup>1</sup>	100.0	100.0	Non-trading	G
› Scottish Life (Coventry) Property Limited	100.0	100.0	Non-trading	G
› Scottish Life Administration Services Limited	100.0	100.0	Non-trading	G
› The Scottish Life Assurance Company	100.0	100.0	Non-trading	G
› Scottish Life Finance Limited	100.0	100.0	Non-trading	G
› Southpoint General Partner Limited	50.0	50.0	Non-trading	H
› St Andrew Estates Limited	100.0	100.0	Non-trading	-
› The Scottish Life Guarantee Company Limited	100.0	100.0	Non-trading	G
› United Assurance Group Limited	100.0	100.0	Non-trading	-
› United Friendly Group Limited	100.0	100.0	Non-trading	-
› United Friendly Insurance Limited	100.0	100.0	Non-trading	-
› United Friendly Life Assurance Limited	100.0	100.0	Non-trading	-
› United Friendly Staff Pension Fund Limited	100.0	100.0	Non-trading	-

1 The subsidiaries for which we have claimed audit exemption in 2017 are S.L. (Davenport Green) Limited, Hornby Road Investments Limited, Wrap IFA Services Limited, Royal London Corporate Pension Services Limited and RLM Finance Plc.

2 The Royal London Emerging Markets Equity Tracker Fund, The Royal London Global Equity Diversified Fund, The Royal London Global Equity Select Fund, The Royal London UK Real Estate Fund and The Royal London Multi Asset Credit Fund have been accounted for as a subsidiary in 2017. They were not accounted for as a subsidiary in 2016 as they are new funds. The Royal London UK Government Fund has been accounted for as a subsidiary in 2017 and was accounted for as an associate in 2016 and the Royal London Short Duration Global Index Linked Fund has been accounted for as an associate in 2017 and was accounted for as a subsidiary in 2016, see note 20(b).

3 Euro Luxembourg SA and Royal London Cash Management Limited were liquidated during the year.

## 20. Investments in Group entities

### (a) Subsidiaries (continued)

The Parent company subsidiaries and associates which have a registered office other than 55 Gracechurch Street, London EC3V 0RL, United Kingdom, are noted below by letter.

Reference	Registered address
A	70 Sir John Rogerson's Quay, Dublin 2, Ireland
B	Trimbridge House, Trim House, Trim Street, Bath, BA1 1HB, United Kingdom
C	374/35, First Floor, (Out House) 6th Cross Wilson Garden, Bangalore, KA560027, India
D	30 Cornet Street, St Peter Port, Guernsey, GY1 1LF, United Kingdom
E	47/48 St Stephen's Green, Dublin 2, Ireland
F	5, Allee Scheffer, L – 2520, Luxembourg
G	St Andrew House, 1 Thistle Street, Edinburgh, EH2 1DG, United Kingdom
H	KPMG LLP, 8 Princes Parade, Liverpool, L3 1QH, United Kingdom
I	KPMG LLP, Russell Court, 1 Stokes Place, St Stephen's Green, Dublin, Ireland
J	Bidwell House, Trumpington Road, Cambridge, CB2 9LD, United Kingdom
K	PO Box 650, 1 <sup>st</sup> Floor Royal Chambers, St Julian's Avenue, St Peters Port, Guernsey, Channel Islands, GY1 3JX, United Kingdom
L	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
M	8-9 Well Court, London, EC4M 9DN, United Kingdom
N	9 West 57 <sup>th</sup> Street, Suite 4200, New York, 10019, United States
O	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom

## 20. Investments in Group entities (continued)

### (b) Interests in associates

All of the Group's associates are investment funds accounted for as financial assets held at fair value through profit or loss and are all incorporated in England with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted in the table on page 141. At 31 December 2017, the following funds have been recognised as associates:

Name of investment fund	Group's % holding		Registered Office
	2017	2016	
➤ Royal London UK Growth Trust	25.2	24.6	-
➤ Royal London Property Fund	22.7	22.2	-
➤ Royal London Global Index Linked Fund	27.9	32.3	-
➤ Royal London UK Government Bond Fund <sup>1</sup>	N/A	31.2	-
➤ Royal London Sterling Extra Yield Bond Fund <sup>1</sup>	N/A	21.8	A
➤ Royal London Duration Hedged Credit Fund	32.8	24.6	-
➤ Royal London Short Duration Global Index Linked Fund <sup>1</sup>	30.2	N/A	-
➤ Royal London UK Growth with Income Trust	21.0	N/A	-
➤ Royal London Sterling Credit Fund	28.7	30.4	-

<sup>1</sup> Royal London UK Government Bond Fund is not accounted for as an associate in 2017, as it has been accounted for as a subsidiary, see note 20(a), and Royal London Sterling Extra Yield Bond Fund is not accounted for as an associate or subsidiary in 2017. Royal London Short Duration Global Index Linked Fund and Royal London UK Income with Growth Fund are now accounted for as associates in 2017. Royal London Short Duration Global Index Linked Fund was accounted for as a subsidiary in 2016, see note 20(a).

### Summarised financial information for associates:

#### (i) Summarised balance sheet

	2017							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Growth with Income Trust	Royal London Short Duration Global Index Linked Fund	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Current assets</b>								
Cash and cash equivalents	16	30	4	9	2	14	20	95
Other current assets	2	7	2	3	3	2	30	49
<b>Total current assets</b>	<b>18</b>	<b>37</b>	<b>6</b>	<b>12</b>	<b>5</b>	<b>16</b>	<b>50</b>	<b>144</b>
<b>Current liabilities</b>								
Financial liabilities	2	6	1	1	-	21	1	32
Other current liabilities	-	1	1	-	1	-	13	16
<b>Total current liabilities</b>	<b>2</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>21</b>	<b>14</b>	<b>48</b>
<b>Non-current assets</b>	<b>1,212</b>	<b>366</b>	<b>227</b>	<b>369</b>	<b>287</b>	<b>195</b>	<b>1,592</b>	<b>4,248</b>
<b>Total net assets</b>	<b>1,228</b>	<b>396</b>	<b>231</b>	<b>380</b>	<b>291</b>	<b>190</b>	<b>1,628</b>	<b>4,344</b>

**20. Investments in Group entities (continued)****(b) Interests in associates (continued)****(i) Summarised balance sheet (continued)**

	2016							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Government Bond Fund	Royal London Sterling Extra Yield Bond Fund	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Current assets</b>								
Cash and cash equivalents	10	19	1	3	(11)	1	24	47
Other current assets	2	7	2	5	30	3	23	72
<b>Total current assets</b>	<b>12</b>	<b>26</b>	<b>3</b>	<b>8</b>	<b>19</b>	<b>4</b>	<b>47</b>	<b>119</b>
<b>Current liabilities</b>								
Financial liabilities	-	5	-	-	-	21	-	26
Other current liabilities	2	-	4	7	1	1	11	26
<b>Total current liabilities</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>7</b>	<b>1</b>	<b>22</b>	<b>11</b>	<b>52</b>
<b>Non-current assets</b>	<b>1,129</b>	<b>362</b>	<b>160</b>	<b>543</b>	<b>1,399</b>	<b>183</b>	<b>993</b>	<b>4,769</b>
<b>Total net assets</b>	<b>1,139</b>	<b>383</b>	<b>159</b>	<b>544</b>	<b>1,417</b>	<b>165</b>	<b>1,029</b>	<b>4,836</b>

**(ii) Summarised statement of comprehensive income**

	2017							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Growth with Income Trust	Royal London Short Duration Global Index Linked Fund	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Investment income	37	-	2	18	2	8	59	126
Net gains on investments	140	13	4	17	1	4	39	218
Other (expense)/income	(39)	(1)	(2)	(23)	(1)	(6)	(51)	(123)
<b>Net income</b>	<b>138</b>	<b>12</b>	<b>4</b>	<b>12</b>	<b>2</b>	<b>6</b>	<b>47</b>	<b>221</b>

	2016							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Government Bond Fund	Royal London Sterling Extra Yield Bond Fund	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Investment income	33	-	1	13	91	9	37	184
Net gains/(losses) on investments	69	6	8	26	-	(3)	32	138
Other (expense)/income	(34)	-	(1)	(15)	(6)	(7)	(33)	(96)
<b>Net income</b>	<b>68</b>	<b>6</b>	<b>8</b>	<b>24</b>	<b>85</b>	<b>(1)</b>	<b>36</b>	<b>226</b>

## 20. Investments in Group entities (continued)

### (c) Interests in other significant holdings

The Group also invests in the following private equity funds, which represent an ownership interest of greater than 20%. These are all managed by external administrators and the Group has no involvement in the management, operation or decision making of the funds. As such, the presumption that significant influence exists is overcome and these investments have not been recognised as associates, but have been treated as investment funds within financial investments. The registered addresses of the private equity funds are included in the table on page 141.

Name	% holding		Registered Office
	2017	2016	
SPL ARL Private Finance	99.4	99.4	K
WP Global Mezzanine Private Equity	38.5	38.5	L
Core Alpha Private Equity Partners	29.9	29.8	L
R.L. Private Equity Fund	N/A	44.2	M
KKR CIS Global Investor L.P.	100.0	100.0	N
Enterprise Ventures Growth Ltd	45.2	N/A	O
RJD Private Equity Fund III 'A' L.P.	21.3	N/A	M
Rising Star Growth Fund II	21.8	21.8	O

### (d) Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group's interests in structured entities are comprised of investments in a range of investment vehicles, principally pooled investment funds and unquoted equity securities, managed both internally and externally, and some investments in asset-backed securities.

#### (i) Consolidated structured entities

Where it has been determined that the Group has control over a structured entity it has been consolidated. The Group has not provided, nor has any intention of providing, financial or other support to any consolidated structured entity.

#### (ii) Unconsolidated structured entities

The Group also invests in unconsolidated structured entities. The Group has not provided, nor has any intention of providing, financial or other support to any unconsolidated structured entity.

The following table shows the carrying value of the Group's holdings in unconsolidated structured entities, all of which are reported within 'financial investments'.

	2017 £m	2016 £m
<b>Debt and fixed income securities</b>		
Asset-backed securities	1,609	1,640
<b>Unquoted equity securities</b>		
Private equity funds	180	193
Land investment pools	255	227
<b>Unit trusts and other pooled investments</b>		
Investment in associates	1,231	1,245
Unit trusts	830	2,232
OEICs	4,361	574
Venture capital offshore funds	297	434
Other investment funds	2,091	2,588
<b>Total</b>	<b>10,854</b>	<b>9,133</b>

The Group's maximum exposure to loss from those investments that are not managed by Group companies is the carrying value of the investment on the Group balance sheet.



## 20. Investments in Group entities (continued)

### (d) Interests in structured entities (continued)

#### (iii) Other interests in unconsolidated structured entities

The Group also has interests in structured entities through management fees received on those investments that the Group manages. The Group's maximum exposure to loss from these investments is the carrying value on the Group balance sheet and future management fees. The Group's holdings in these investments are included in the table on the previous page.

The table below shows those assets under management in which the Group does not have a holding and the management fees earned during the year.

	2017		2016	
	Assets under administration £m	Management fees £m	Assets under administration £m	Management fees £m
<b>Investment funds</b>				
OEICs	12,881	33	10,464	26
Unit trusts	3,275	11	2,789	7
<b>Total</b>	<b>16,156</b>	<b>44</b>	<b>13,253</b>	<b>33</b>

### (e) Interests in joint operations

The Group has an interest in a joint operation giving rise to a 7.5% beneficial ownership interest in a property, the Bluewater Shopping Centre, Kent. The arrangement entitles the Group to 7.5% of the net rental income of the property.

## 21. Trade and other receivables

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts due from customers	62	118	29	24
Receivables arising under reinsurance contracts	29	27	29	27
Investment income receivable	180	162	96	117
Amounts due from brokers	214	295	163	264
Finance lease receivables	4	10	4	10
Amounts due from other Group entities	-	-	24	22
Prepayments and accrued income	32	38	2	3
Other receivables	130	138	92	115
	<b>651</b>	<b>788</b>	<b>439</b>	<b>582</b>
Expected to be recovered within 12 months	647	779	435	573
Expected to be recovered in more than 12 months	4	9	4	9
	<b>651</b>	<b>788</b>	<b>439</b>	<b>582</b>

Trade and other receivables are carried in the balance sheet at amortised cost, which approximates to fair value.

## 21. Trade and other receivables (continued)

### Finance lease receivables

The Group and the Parent company have leased to third parties a number of properties under long-term leases, which are classified as finance leases. The average term of the finance leases entered into is 55 years.

	Group and Parent company	
	2017 £m	2016 £m
Receivables under finance leases – minimum lease receipts		
Not later than one year	-	1
Later than one year and not later than five years	2	4
Later than five years	10	20
	12	25
Less: future charges	(8)	(15)
Present value of receivables under finance leases	4	10
Present value of receivables under finance leases		
Not later than one year	-	1
Later than one year and not later than five years	2	4
Later than five years	2	5
	4	10

## 22. Cash and cash equivalents

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Bank balances	2,113	2,120	881	1,038
Short-term bank deposits	943	1,123	376	770
Short-dated debt	5	49	5	48
	3,061	3,292	1,262	1,856

The cash and cash equivalents for the purposes of the statements of cash flows are as follows:

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Cash and cash equivalents	3,061	3,292	1,262	1,856
Bank overdrafts (note 30)	(56)	(81)	(45)	(71)
Cash and cash equivalents in the statements of cash flows	3,005	3,211	1,217	1,785

### 23. Insurance contract liabilities and reinsurance assets

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Gross</b>				
Total participating insurance contract liabilities	<b>33,154</b>	32,709	<b>33,234</b>	32,765
Total non-participating insurance contract liabilities	<b>7,301</b>	7,860	<b>7,301</b>	7,860
<b>Total insurance contract liabilities</b>	<b>40,455</b>	40,569	<b>40,535</b>	40,625
<b>Reinsurers' share of insurance contract liabilities</b>				
Total participating insurance contract liabilities	<b>(1,440)</b>	(1,668)	<b>(1,440)</b>	(1,668)
Total non-participating insurance contract liabilities	<b>(3,886)</b>	(4,239)	<b>(3,886)</b>	(4,239)
<b>Total reinsurers' share of insurance contract liabilities</b>	<b>(5,326)</b>	(5,907)	<b>(5,326)</b>	(5,907)
<b>Net of reinsurance</b>				
Total participating insurance contract liabilities	<b>31,714</b>	31,041	<b>31,794</b>	31,097
Total non-participating insurance contract liabilities	<b>3,415</b>	3,621	<b>3,415</b>	3,621
<b>Total insurance contract liabilities, net of reinsurance</b>	<b>35,129</b>	34,662	<b>35,209</b>	34,718

## 24. Insurance contract liabilities and reinsurance assets

The movement in long-term insurance contract liabilities and reinsurance assets in the year is shown in the following tables.

	Group – 2017					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non- participating £m	Participating £m	Non- participating £m	Participating £m	Non- participating £m
At 1 January	32,709	7,860	(1,668)	(4,239)	31,041	3,621
Expected changes during the year	(2,284)	(328)	173	172	(2,111)	(156)
Expected closing position	30,425	7,532	(1,495)	(4,067)	28,930	3,465
New business	246	2	-	(121)	246	(119)
Experience variations						
Demographic	544	71	(35)	(4)	509	67
Economic	1,701	157	4	(2)	1,705	155
	2,245	228	(31)	(6)	2,214	222
Changes in assumptions						
Demographic	(102)	(455)	84	319	(18)	(136)
Expense	18	10	-	(3)	18	7
Economic	215	(38)	14	4	229	(34)
Management actions	78	-	-	-	78	-
Methodology	33	(14)	(2)	(24)	31	(38)
	242	(497)	96	296	338	(201)
Other movements						
Claims outstanding	-	28	-	(2)	-	26
Other	(4)	8	(10)	14	(14)	22
	(4)	36	(10)	12	(14)	48
At 31 December	33,154	7,301	(1,440)	(3,886)	31,714	3,415

**24. Insurance contract liabilities and reinsurance assets (continued)**

	Group 2016 – Restated					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non- participating £m	Participating £m	Non- participating £m	Participating £m	Non- participating £m
At 1 January	28,708	6,682	(1,350)	(3,702)	27,358	2,980
Expected changes during the year	(1,974)	(273)	187	150	(1,787)	(123)
Expected closing position	26,734	6,409	(1,163)	(3,552)	25,571	2,857
New business	202	141	-	(173)	202	(32)
Experience variations						
Demographic	224	42	8	(2)	232	40
Economic	3,503	230	(7)	(5)	3,496	225
	3,727	272	1	(7)	3,728	265
Changes in assumptions						
Demographic	(4)	27	(10)	15	(14)	42
Expense	15	(9)	-	-	15	(9)
Economic	1,537	717	(253)	(370)	1,284	347
Management actions	63	-	-	-	63	-
Methodology	(4)	(82)	6	48	2	(34)
	1,607	653	(257)	(307)	1,350	346
Other movements						
Claims outstanding	-	37	-	(20)	-	17
Other	439	348	(249)	(180)	190	168
	439	385	(249)	(200)	190	185
At 31 December	32,709	7,860	(1,668)	(4,239)	31,041	3,621

## 24. Insurance contract liabilities and reinsurance assets (continued)

	Parent company – 2017					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non- participating £m	Participating £m	Non- participating £m	Participating £m	Non- participating £m
At 1 January	32,765	7,860	(1,668)	(4,239)	31,097	3,621
Expected changes during the year	(2,284)	(328)	173	172	(2,111)	(156)
Expected closing position	30,481	7,532	(1,495)	(4,067)	28,986	3,465
New business	246	2	-	(121)	246	(119)
Experience variations						
Demographic	544	71	(35)	(4)	509	67
Economic	1,701	157	4	(2)	1,705	155
	2,245	228	(31)	(6)	2,214	222
Changes in assumptions						
Demographic	(102)	(455)	84	319	(18)	(136)
Expense	18	10	-	(3)	18	7
Economic	215	(38)	14	4	229	(34)
Management actions	102	-	-	-	102	-
Methodology	33	(14)	(2)	(24)	31	(38)
	266	(497)	96	296	362	(201)
Other movements						
Claims outstanding	-	28	-	(2)	-	26
Other	(4)	8	(10)	14	(14)	22
	(4)	36	(10)	12	(14)	48
At 31 December	33,234	7,301	(1,440)	(3,886)	31,794	3,415



## 24. Insurance contract liabilities and reinsurance assets (continued)

	Parent company 2016 – Restated					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
<b>At 1 January</b>	28,783	6,682	(1,350)	(3,702)	27,433	2,980
<b>Expected changes during the year</b>	(1,974)	(273)	187	150	(1,787)	(123)
<b>Expected closing position</b>	26,809	6,409	(1,163)	(3,552)	25,646	2,857
<b>New business</b>	202	141	-	(173)	202	(32)
<b>Experience variations</b>						
Demographic	224	42	8	(2)	232	40
Economic	3,503	230	(7)	(5)	3,496	225
	3,727	272	1	(7)	3,728	265
<b>Changes in assumptions</b>						
Demographic	(4)	27	(10)	15	(14)	42
Expense	15	(9)	-	-	15	(9)
Economic	1,537	717	(253)	(370)	1,284	347
Management actions	44	-	-	-	44	-
Methodology	(4)	(82)	6	48	2	(34)
	1,588	653	(257)	(307)	1,331	346
<b>Other movements</b>						
Claims outstanding	-	37	-	(20)	-	17
Other	439	348	(249)	(180)	190	168
	439	385	(249)	(200)	190	185
<b>At 31 December</b>	32,765	7,860	(1,668)	(4,239)	31,097	3,621

For the purposes of the disclosure required by IAS 1, the amount of insurance contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £37,460m for the Group (2016: £37,388m) and £37,533m for the Parent company (2016: £37,444m).

The amount of the reinsurers' share of insurance liabilities classified as due to be recovered in more than 12 months from the balance sheet date is £4,932m (2016: £5,285m) for the Group and Parent company.

The amounts presented above for the Parent company represent the liabilities of the open and closed sub-funds.

The Group has continued to invest in its actuarial modelling capability during the year; resulting in a change to the analysis of movement in planned enhancements and manual provisions. The movements presented for Group and Parent company in 2016 have been restated to be on a consistent basis to 2017. There is no change in the opening and closing position of the participating and non-participating insurance liabilities.

The Other movements for 2016, includes the impact of the change in estimate for Solvency II. This includes £345m increase in participating liabilities gross of reinsurance, £290m increase in non-participating liabilities gross of reinsurance, £162m increase in the reinsurers' share of participating liabilities and £145m increase in the reinsurers' share of non-participating liabilities. These impacts, combined with the £9m reduction in acquired PVIF (see note 18), £10m reduction in non-participating VIF (see note 25) and £182m reduction in investment contract liabilities (see note 26) generate an overall impact from the basis change of £165m as reported in the income statement.

## 25. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Parent company	
	2017 £m	2016 Restated £m	2017 £m	2016 Restated £m
<b>At 1 January</b>				
Non-participating value of in-force business included within participating contract liabilities	<b>1,217</b>	910	<b>1,217</b>	910
Acquired PVIF	<b>131</b>	186	<b>123</b>	171
Adjusted deferred acquisition costs arising on investment contracts	<b>209</b>	236	<b>209</b>	236
Deferred fee income on investment contracts	<b>(150)</b>	(171)	<b>(150)</b>	(171)
<b>Total value of in-force business at 1 January</b>	<b>1,407</b>	1,161	<b>1,399</b>	1,146
<b>Expected changes during the year</b>	<b>(139)</b>	(161)	<b>(132)</b>	(155)
<b>Expected closing position</b>	<b>1,268</b>	1,000	<b>1,267</b>	991
<b>New business</b>	<b>261</b>	194	<b>261</b>	194
<b>Experience variations</b>				
Demographic	<b>24</b>	32	<b>24</b>	32
Economic	<b>99</b>	130	<b>99</b>	130
	<b>123</b>	162	<b>123</b>	162
<b>Changes in assumptions</b>				
Demographic	<b>(38)</b>	67	<b>(38)</b>	67
Expense	<b>54</b>	115	<b>54</b>	115
Economic	<b>3</b>	(81)	<b>3</b>	(81)
Management actions	<b>(52)</b>	(40)	<b>(52)</b>	(40)
Methodology	<b>7</b>	10	<b>7</b>	10
	<b>(26)</b>	71	<b>(26)</b>	71
<b>Other movements</b>	<b>(4)</b>	(20)	<b>(3)</b>	(19)
	<b>1,622</b>	1,407	<b>1,622</b>	1,399
<b>At 31 December</b>				
Non-participating value of in-force business included within participating contract liabilities	<b>1,488</b>	1,217	<b>1,488</b>	1,217
Acquired PVIF	<b>81</b>	131	<b>81</b>	123
Adjusted deferred acquisition costs arising on investment contracts	<b>181</b>	209	<b>181</b>	209
Deferred fee income on investment contracts	<b>(128)</b>	(150)	<b>(128)</b>	(150)
<b>Total value of in-force business at 31 December</b>	<b>1,622</b>	1,407	<b>1,622</b>	1,399

## 25. Non-participating value of in-force business (continued)

The adjusted deferred acquisition costs arising on investment contracts shown on the previous page are equal to the deferred acquisition costs arising on investment contracts shown in note 18 less the element of those deferred acquisition costs that relates to future commission.

The other movements for 2016, includes a £10m reduction arising from the change in basis for Solvency II. This element of reduction in non-participating value of in-force is part of the overall £165m impact of the basis change as reported on the 2016 income statement.

The deferred fee income on investment contracts shown on the previous page is equal to the deferred fee income shown in note 32. For the Group only, this is adjusted to remove deferred fee income in relation to fund management contracts of £1m at 31 December 2017 (2016: £1m).

For the purposes of the disclosure required by IAS 1, the amount of the Group and Parent company balance of £1,488m (2016: £1,217m) of non-participating value of in-force business classified as due to be recovered in more than 12 months from the balance sheet date is £1,402m (2016: £1,155m).

The Group has continued to invest in its actuarial modelling capability during the year; resulting in a change to the analysis of movement in planned enhancements and manual provisions. The movements presented for Group and Parent company in 2016 have been restated to be on a consistent basis to 2017. There is no change in the opening and closing position of the non-participating value of in-force business.

## 26. Investment contract liabilities

### (a) Movement in investment contract liabilities

The movement in investment contract liabilities in the year is shown in the tables below.

	Group			
	2017		2016 - Restated	
	Participating £m	Non- participating £m	Participating £m	Non- participating £m
At 1 January	2,154	31,329	2,232	24,984
Expected changes during the year	(157)	(2,261)	(121)	(1,459)
Expected closing position	1,997	29,068	2,111	23,525
New business	21	7,473	16	4,689
Experience variations				
Demographic	22	(282)	(13)	(2)
Economic	138	2,599	225	3,116
	160	2,317	212	3,114
Changes in assumptions				
Demographic	40	-	-	-
Expense	4	-	(18)	-
Economic	1	-	18	-
Management actions	3	-	(5)	-
Methodology	(1)	(5)	(2)	-
	47	(5)	(7)	-
Other movements	(11)	(6)	(178)	1
At 31 December	2,214	38,847	2,154	31,329

## 26. Investment contract liabilities (continued)

### (a) Movement in investment contract liabilities (continued)

	Parent company			
	2017		2016 - Restated	
	Participating £m	Non- participating £m	Participating £m	Non- participating £m
At 1 January	2,154	31,329	2,232	24,984
Expected changes during the year	(157)	(2,261)	(121)	(1,459)
Expected closing position	1,997	29,068	2,111	23,525
New business	21	7,473	16	4,689
Experience variations				
Demographic	22	(282)	(13)	(2)
Economic	138	2,599	225	3,116
	160	2,317	212	3,114
Changes in assumptions				
Demographic	40	-	-	-
Expense	4	-	(18)	-
Economic	1	-	18	-
Management actions	3	-	(5)	-
Methodology	(1)	(5)	(2)	-
	47	(5)	(7)	-
Other movements	(11)	(6)	(178)	1
At 31 December	2,214	38,847	2,154	31,329

The participating investment contract liabilities include a discretionary element, determined by management from time to time, with regard to the returns earned on investments in the relevant with-profits fund. These liabilities have been calculated on a basis consistent with the valuation of insurance contracts. It is not considered practicable to provide a fair value for these liabilities.

For the purposes of the disclosure required by IAS 1, the amount of investment contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £38,872m (2016: £30,730m) for the Group and Parent company.

The Other movements for 2016, includes a £182m reduction in participating investment contract liabilities. This element of reduction in participating investment contract liabilities is part of the overall £165m impact of the change in estimate for Solvency II as reported on the 2016 income statement.

The amounts presented above represent the liabilities of the open and closed sub-funds.

The Group has continued to invest in its actuarial modelling capability during the year; resulting in a change to the analysis of movement in planned enhancements and manual provisions. The movements presented for Group and Parent company in 2016 have been restated to be on a consistent basis to 2017. There is no change in the opening and closing position of the participating and non-participating investment contract liabilities.

## 27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions

### (a) Assumptions

The assumptions used to determine insurance and investment contract liabilities are set by the Board of Directors based on advice given by the Group Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used can be summarised as follows.

#### (i) Demographic

##### *Mortality and morbidity*

Mortality and morbidity risks are inherent in most lines of business. For protection business an increase in mortality and morbidity rates leads to increased claim levels and hence an increase in liabilities. For annuity business the risk is that policyholders live longer than expected. Reinsurance arrangements have been put in place to mitigate mortality and morbidity risks.

The rates of mortality and morbidity are set in line with recent company experience, where it is available in sufficient volume to provide reliable results. Where company experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured.

A margin is included to provide for potential adverse variations in experience. The margins are typically 2% for mortality risks, 4.8% morbidity risks with reviewable premiums and 8.9% for morbidity business with guaranteed premiums.

The principal mortality assumptions are shown in the following table.

## 27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

### (a) Assumptions (continued)

#### (i) Demographic (continued)

Class of business	2017 mortality	2016 mortality
<b>Ordinary long-term assurances</b>		
Royal London Mutual and Ex-United Assurance Group non-linked	<b>85.68% AMC00 and 111.18% AFC00</b> <b>56.10% AMC00 and 91.80% AFC00</b>	85.68% AMC00 and 111.18% AFC00
Ex-Scottish Life	<b>56.10% AMC00 and 91.80% AFC00</b>	56.10% AMC00 and 91.80% AFC00
Ex-Royal Liver	<b>106.08% AMC00 and 111.18% AFC00</b>	106.08% AMC00 and 111.18% AFC00
RL Consumer non-linked term assurances (level benefits)		
‣ male non-smokers	<b>83.64% TMN00 sel</b>	83.64% TMN00 sel
‣ male smokers	<b>83.64% TMS00 sel</b>	83.64% TMS00 sel
‣ female non-smokers	<b>83.64% TFN00 sel</b>	83.64% TFN00 sel
‣ female smokers	<b>83.64% TFS00 sel</b>	83.64% TFS00 sel
RL UK Protection term assurances (level benefits)		
‣ male non-smokers	<b>53.04% TMN00 sel</b>	53.04% TMN00 sel
‣ male smokers	<b>59.16% TMS00 sel</b>	71.40% TMS00 sel
‣ female non-smokers	<b>68.34% TFN00 sel</b>	68.34% TFN00 sel
‣ female smokers	<b>84.66% TFS00 sel</b>	84.66% TFS00 sel
RL Ireland Protection term assurances (level benefits)		
‣ male non-smokers	<b>54.06% TMN00 sel</b>	54.06% TMN00 sel
‣ male smokers	<b>72.42% TMS00 sel</b>	72.42% TMS00 sel
‣ female non-smokers	<b>68.34% TFN00 sel</b>	68.34% TFN00 sel
‣ female smokers	<b>85.68% TFS00 sel</b>	85.68% TFS00 sel
RL (CIS)		
‣ traditional with-profits, whole life	<b>66.30% AMC00</b>	66.30% AMC00
‣ traditional with-profits, endowment	<b>63.24% AMC00</b>	63.24% AMC00
‣ accumulating with-profits bond	<b>96.90% AMC00</b>	96.90% AMC00
<b>Pensions – deferred annuities in deferment</b>		
Ex-Refuge Assurance OB non-linked	<b>78.40% PPMD00 and 80.36% PPFDO</b>	78.40% PPMD00 and 80.36% PPFDO0
Ex-Scottish Life – individual	<b>68.60% AMC00 and 71.54% AFC00</b>	68.60% AMC00 and 71.54% AFC00
Ex-Scottish Life – group	<b>59.78% AMC00 and 50.96% AFC00</b>	59.78% AMC00 and 50.96% AFC00
<b>Pensions – immediate annuities and deferred annuities in payment</b>		
Royal London Mutual and Ex-United Assurance Group	<b>95.06% PML08 CMI (2016) 1.5% pa<sup>1</sup></b> <b>90.16% PFL08 CMI (2016) 1.5% pa<sup>1</sup></b>	117% PPMV00 CMI (2014) 1.75% pa <sup>2</sup> 102% PPFV00 CMI (2014) 1.75% pa <sup>2</sup>
Ex-Scottish Life	<b>87.22% PML08 CMI (2016) 1.5% pa<sup>1</sup></b> <b>82.32% PFL08 CMI (2016) 1.5% pa<sup>1</sup></b>	107% PPMV00 CMI (2014) 1.75% pa <sup>2</sup> 97% PPFV00 CMI (2014) 1.75% pa <sup>2</sup>
RL (CIS) immediate annuities in payment		
‣ Personal pensions in payment	<b>106.82% PML08 CMI (2016) 1.5% pa<sup>1</sup></b> <b>98.00% PFL08 CMI (2016) 1.5% pa<sup>1</sup></b>	133.33% PPMV00 CMI (2014) 1.75% pa <sup>2</sup> 123.53% PPFV00 CMI (2014) 1.75% pa <sup>2</sup>
‣ Section 226 retirement annuity	<b>100.94% PML08 CMI (2016) 1.5% pa<sup>1</sup></b> <b>93.10% PFL08 CMI (2016) 1.5% pa<sup>1</sup></b>	112.75% RMV00 CMI (2014) 1.75% pa <sup>2</sup> 117.65% RFV00 CMI (2014) 1.75% pa <sup>2</sup>
RL (CIS) deferred annuities in payment		
‣ Personal pensions in payment	<b>100.94% PML08 CMI (2016) 1.5% pa<sup>1</sup></b> <b>97.02% PFL08 CMI (2016) 1.5% pa<sup>1</sup></b>	133.33% PPMV00 CMI (2014) 1.75% pa <sup>2</sup> 123.53% PPFV00 CMI (2014) 1.75% pa <sup>2</sup>
‣ Section 226 retirement annuity	<b>98.00% PML08 CMI (2016) 1.5% pa<sup>1</sup></b> <b>94.08% PFL08 CMI (2016) 1.5% pa<sup>1</sup></b>	112.75% RMV00 CMI (2014) 1.75% pa <sup>2</sup> 117.65% RFV00 CMI (2014) 1.75% pa <sup>2</sup>



## 27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

### (a) Assumptions (continued)

#### (i) Demographic (continued)

Class of business	2017 mortality	2016 mortality
<b>Industrial assurance</b>		
Royal London Mutual	<b>60.18% ELT16 (males)</b>	60.18% ELT16 (males)
Ex-United Assurance Group	<b>74.46% ELT16 (males)</b>	74.46% ELT16 (males)
Ex-Royal Liver	<b>61.20% ELT16 (males)</b>	61.20% ELT16 (males)
RL (CIS)		
‣ endowment	<b>76.50% ELT16 (males)</b>	76.50% ELT16 (males)
‣ whole life	<b>66.30% ELT16 (males)</b>	66.30% ELT16 (males)

1 The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2016 CMI model mortality improvements and a percentage per annum long-term improvement rate.

2 The mortality basis is displayed as a percentage of base table mortality in 2000 projected in line with the 2014 CMI model mortality improvements and a percentage per annum long-term improvement rate.

#### *Persistency*

Persistency is the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry.

The rates of persistency are set in line with recent company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience. The rates vary by product line, sales channel, duration in force and for some products by fund size.

A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

#### (ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A margin is included to provide for potential adverse variations in experience. The margin is typically 2%. For RL (CIS) and Royal Liver business covered by rate cards, margins of 0.7% and nil% are applied during the guaranteed period of the respective rate card.

Excluding RL (CIS), expenses are assumed to inflate in line with the change in the Retail Price Index plus 1%. For RL (CIS) business, the costs arising under the rate card are assumed to increase in line with the change in the Retail Price Index +0.6%, while the actual expenses incurred from servicing this business are assumed to increase in line with the change in the Retail Prices Index+0.8%.

## 27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

### (a) Assumptions (continued)

#### (ii) Expenses (continued)

The principal expense assumptions are shown in the following table.

Class of business	2017			2016		
	Per policy £	Premium %	Reserve %	Per policy £	Premium %	Reserve %
<b>Ordinary long-term</b>						
RL OB WP life	11.73	5.10	0.090	13.89	5.10	0.097
RL OB AWP pensions	11.76	5.10	0.090	6.83	5.10	0.097
Ex-RA OB WP pre 1998	12.54	4.08	0.078	12.13	4.08	0.078
Ex-RA OB WP pre 1998 pensions	9.59	4.08	0.078	9.33	4.08	0.078
Ex-UF OB WP DWP pensions	-	-	0.140	-	-	0.140
Ex-Scottish Provident business	24.63	-	0.061	18.98	-	0.061
Ex-Bright Grey	15.41	-	0.061	14.24	-	0.061
RL Consumer protection business	15.95	-	0.061	14.13	-	0.061
RL Ireland Protection	38.12 <sup>1</sup>	-	0.061	30.95 <sup>1</sup>	-	0.061
RL (CIS)						
OB Investments						
▶ premium paying	22.34	-	0.190	21.25	-	0.180
▶ single premium/paid up	19.24	-	0.190	18.27	-	0.180
OB Protection						
▶ premium paying	20.60	-	0.190	19.60	-	0.180
▶ single premium/paid up	18.11	-	0.190	17.20	-	0.180
▶ OB annuities in payment	18.62	-	0.190	17.55	-	0.180
<b>Pensions – deferred annuities</b>						
Ex-Scottish Life – Individual RP	36.94	-	0.054	40.40	-	0.072
Ex-Scottish Life – Group RP	26.93	-	0.054	28.22	-	0.072
RL (CIS)						
▶ premium paying	19.99	-	0.190	19.15	-	0.180
▶ paid up	17.22	-	0.190	16.50	-	0.180
<b>Industrial assurance</b>						
Royal London Mutual	11.34	5.10	0.090	7.30	5.10	0.097
Ex-Refuge Assurance	10.49	2.55	0.061	10.19	2.55	0.062
Ex-Royal Liver	11.29	-	0.260	10.92	-	0.260
Ex-United Friendly	10.11	2.55	0.080	9.83	2.55	0.073
RL (CIS)						
▶ premium paying	14.23	-	0.190	13.57	-	0.180
▶ paid up	12.18	-	0.190	11.58	-	0.180

<sup>1</sup> RL Ireland Protection is quoted in Euro's.

## 27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

### (a) Assumptions (continued)

#### (iii) Economic

##### › Non-participating liabilities

The non-participating liabilities have been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to a risk-free rate from the forward swap curve adjusted for risk of default. A reduction in interest rates will increase the liabilities.

##### › Participating liabilities

The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market consistency by:

- deriving the underlying risk-free rate from the forward swap curve adjusted for risk of default; and
- calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist.

##### › Non-participating value of in-force business

The non-participating value of in-force business has been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to risk-free yields.

## 27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

### (b) Changes in assumptions

The following tables show the impact of changes in the assumptions used to calculate insurance contract liabilities and reinsurance assets during the year. The tables demonstrate this effect by showing the 2017 year-end liabilities as if they had been calculated using the 2016 year-end assumptions.

	Group 2017					Liability using 2017 assumptions £m
	Liability using 2016 assumptions £m	Impact of change in variable			Other £m	
		Demographic £m	Expenses £m	Economic £m		
<b>Insurance contract liabilities, gross</b>						
Participating insurance contracts	32,912	(102)	18	215	111	33,154
Non-participating insurance contracts						
▶ Unit-linked	1,844	(71)	(1)	-	(29)	1,743
▶ Non-profit, other than annuities	715	(160)	6	(12)	7	556
▶ Non-profit annuities	4,900	(224)	5	(26)	8	4,663
▶ Claims outstanding	339	-	-	-	-	339
	7,798	(455)	10	(38)	(14)	7,301
	40,710	(557)	28	177	97	40,455
<b>Reinsurers' share of insurance liabilities</b>						
Participating insurance contracts	(1,536)	84	-	14	(2)	(1,440)
Non-participating insurance contracts						
▶ Non-profit, other than annuities	(297)	131	-	(10)	(2)	(178)
▶ Non-profit annuities	(3,776)	188	(3)	14	(22)	(3,599)
▶ Claims outstanding	(109)	-	-	-	-	(109)
	(4,182)	319	(3)	4	(24)	(3,886)
	(5,718)	403	(3)	18	(26)	(5,326)
<b>Insurance contract liabilities, net</b>						
Participating insurance contracts	31,376	(18)	18	229	109	31,714
Non-participating insurance contracts						
▶ Unit-linked	1,844	(71)	(1)	-	(29)	1,743
▶ Non-profit, other than annuities	418	(29)	6	(22)	6	379
▶ Non-profit annuities	1,124	(36)	2	(12)	(15)	1,063
▶ Claims outstanding	230	-	-	-	-	230
	3,616	(136)	7	(34)	(38)	3,415
	34,992	(154)	25	195	71	35,129
<b>Non-participating value of in-force business</b>	(1,515)	38	(54)	(3)	46	(1,488)

**27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)**  
**(b) Changes in assumptions (continued)**

	Group 2016 – Restated					Liability using 2016 assumptions £m
	Liability using 2015 assumptions £m	Impact of change in variable				
		Demographic £m	Expenses £m	Economic £m	Other £m	
<b>Insurance contract liabilities, gross</b>						
Participating insurance contracts	31,121	(4)	15	1,537	40	32,709
Non-participating insurance contracts						
‣ Unit-linked	1,743	25	1	84	(14)	1,839
‣ Non-profit, other than annuities	610	(29)	(2)	158	(25)	712
‣ Non-profit annuities	4,541	31	(8)	476	(43)	4,997
‣ Claims outstanding	312	-	-	-	-	312
	7,206	27	(9)	718	(82)	7,860
	38,327	23	6	2,255	(42)	40,569
<b>Reinsurers' share of insurance liabilities</b>						
Participating insurance contracts	(1,411)	(10)	-	(253)	6	(1,668)
Non-participating insurance contracts						
‣ Non-profit, other than annuities	(249)	40	-	(21)	(1)	(231)
‣ Non-profit annuities	(3,576)	(25)	-	(349)	49	(3,901)
‣ Claims outstanding	(107)	-	-	-	-	(107)
	(3,932)	15	-	(370)	48	(4,239)
	(5,343)	5	-	(623)	54	(5,907)
<b>Insurance contract liabilities, net</b>						
Participating insurance contracts	29,710	(14)	15	1,284	46	31,041
Non-participating insurance contracts						
‣ Unit-linked	1,743	25	1	84	(14)	1,839
‣ Non-profit, other than annuities	361	11	(2)	137	(26)	481
‣ Non-profit annuities	965	6	(8)	127	6	1,096
‣ Claims outstanding	205	-	-	-	-	205
	3,274	42	(9)	348	(34)	3,621
	32,984	28	6	1,632	12	34,662
<b>Non-participating value of in-force business</b>	(1,146)	(67)	(115)	81	30	(1,217)

**27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)**  
**(b) Changes in assumptions (continued)**

	Parent company 2017					Liability using 2017 assumptions £m
	Liability using 2016 assumptions £m	Impact of change in variable				
		Demographic £m	Expenses £m	Economic £m	Other £m	
<b>Insurance contract liabilities, gross</b>						
Participating insurance contracts	32,968	(102)	18	215	135	33,234
Non-participating insurance contracts						
‣ Unit-linked	1,844	(71)	(1)	-	(29)	1,743
‣ Non-profit, other than annuities	715	(160)	6	(12)	7	556
‣ Non-profit annuities	4,900	(224)	5	(26)	8	4,663
‣ Claims outstanding	339	-	-	-	-	339
	7,798	(455)	10	(38)	(14)	7,301
	40,766	(557)	28	177	121	40,535
<b>Reinsurers' share of insurance liabilities</b>						
Participating insurance contracts	(1,536)	84	-	14	(2)	(1,440)
Non-participating insurance contracts						
‣ Non-profit, other than annuities	(297)	131	-	(10)	(2)	(178)
‣ Non-profit annuities	(3,776)	188	(3)	14	(22)	(3,599)
‣ Claims outstanding	(109)	-	-	-	-	(109)
	(4,182)	319	(3)	4	(24)	(3,886)
	(5,718)	403	(3)	18	(26)	(5,326)
<b>Insurance contract liabilities, net</b>						
Participating insurance contracts	31,432	(18)	18	229	133	31,794
Non-participating insurance contracts						
‣ Unit-linked	1,844	(71)	(1)	-	(29)	1,743
‣ Non-profit, other than annuities	418	(29)	6	(22)	6	379
‣ Non-profit annuities	1,124	(36)	2	(12)	(15)	1,063
‣ Claims outstanding	230	-	-	-	-	230
	3,616	(136)	7	(34)	(38)	3,415
	35,048	(154)	25	195	95	35,209
Non-participating value of in-force business	(1,515)	38	(54)	(3)	46	(1,488)



**27. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)**  
**(b) Changes in assumptions (continued)**

	Parent company 2016 – Restated					Liability using 2016 assumptions £m
	Liability using 2015 assumptions £m	Impact of change in variable			Other £m	
		Demographic £m	Expenses £m	Economic £m		
<b>Insurance contract liabilities, gross</b>						
Participating insurance contracts	31,177	(4)	15	1,537	40	32,765
Non-participating insurance contracts						
‣ Unit-linked	1,743	25	1	84	(14)	1,839
‣ Non-profit, other than annuities	610	(29)	(2)	158	(25)	712
‣ Non-profit annuities	4,541	31	(8)	476	(43)	4,997
‣ Claims outstanding	312	-	-	-	-	312
	7,206	27	(9)	718	(82)	7,860
	38,383	23	6	2,255	(42)	40,625
<b>Reinsurers' share of insurance liabilities</b>						
Participating insurance contracts	(1,411)	(10)	-	(253)	6	(1,668)
Non-participating insurance contracts						
‣ Non-profit, other than annuities	(249)	40	-	(21)	(1)	(231)
‣ Non-profit annuities	(3,576)	(25)	-	(349)	49	(3,901)
‣ Claims outstanding	(107)	-	-	-	-	(107)
	(3,932)	15	-	(370)	48	(4,239)
	(5,343)	5	-	(623)	54	(5,907)
<b>Insurance contract liabilities, net</b>						
Participating insurance contracts	29,766	(14)	15	1,284	46	31,097
Non-participating insurance contracts						
‣ Unit-linked	1,743	25	1	84	(14)	1,839
‣ Non-profit, other than annuities	361	11	(2)	137	(26)	481
‣ Non-profit annuities	965	6	(8)	127	6	1,096
‣ Claims outstanding	205	-	-	-	-	205
	3,274	42	(9)	348	(34)	3,621
	33,040	28	6	1,632	12	34,718
<b>Non-participating value of in-force business</b>	(1,146)	(67)	(115)	81	30	(1,217)

## 28. Unallocated divisible surplus

The movement in the unallocated divisible surplus (UDS) during the year is shown in the table below.

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
At 1 January	3,292	3,314	3,368	3,359
Transfer from the statement of comprehensive income	352	76	405	107
Transfer from other comprehensive income	82	(98)	82	(98)
<b>At 31 December</b>	<b>3,726</b>	<b>3,292</b>	<b>3,855</b>	<b>3,368</b>

The UDS represents a surplus for which the allocation between participating policyholders has yet to be determined. Therefore, for the purposes of the disclosure required by IAS 1, the whole of the UDS at the balance sheet date has been classified as a balance that will be settled after more than 12 months.

The closing balance on the UDS for both the Group and Parent company includes amounts attributable to the Royal London fund only. The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) with-profits funds.

## 29. Subordinated liabilities

	Group and Parent company			
	2017 £m	2016 £m	Effective interest rate	
			2017 %	2016 %
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	396	396	6.20	6.20
Guaranteed Subordinated Notes due 2028	349	348	6.20	6.20
	<b>745</b>	<b>744</b>		

All of the balance shown above is expected to be settled more than 12 months after the balance sheet date.

Subordinated liabilities are carried in the balance sheet at amortised cost. Their fair value at 31 December 2017 was £883m (2016: £801m).

### *Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043*

On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Parent company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all of the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023 the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

### *Guaranteed Subordinated Notes due 2028*

On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly owned subsidiary of the Parent company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

### 30. Payables and other financial liabilities

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts due to customers	205	164	204	162
Payables arising under reinsurance contracts	2,991	3,103	2,991	3,103
Amounts due to brokers	325	310	107	204
Finance lease obligations	22	20	11	20
Cash collateral	1,943	1,976	1,943	1,976
Derivative liabilities (note 19 (c))	1,511	1,586	1,510	1,574
Amounts due to other Group entities	-	-	45	60
Bank overdrafts (note 22)	56	81	45	71
Other payables	172	208	74	104
	<b>7,225</b>	<b>7,448</b>	<b>6,930</b>	<b>7,274</b>
Expected to be settled within 12 months	1,979	2,530	1,915	2,356
Expected to be settled in more than 12 months	5,246	4,918	5,015	4,918
	<b>7,225</b>	<b>7,448</b>	<b>6,930</b>	<b>7,274</b>

The payables arising under reinsurance contracts include a financial liability of £2,957m (2016: £3,069m) which is valued at fair value through profit or loss. The liability is owed to a major reinsurer under a reinsurance agreement to reinsure a proportion of the Group's obligations in respect of deferred annuities and annuities in payment of the RL (CIS) with-profits fund. Under the reinsurance agreement, the RL (CIS) with-profits fund is contracted to pay premiums in accordance with a schedule of payments covering a period of up to 2066. At inception of the contract, which was before RL (CIS) was acquired by the Group, it recognised its premium obligation in full within the statement of comprehensive income by a charge representing the net present value of the contracted payments. The Group and Parent company continue to recognise a financial liability to the extent that the premium has yet to fall due for payment. At inception of the contract, RL (CIS) also purchased a debt security, cash flows from which will fund the discharge of the financial liability as amounts fall due for payment. The movement in the fair value of the liability in the year was a loss of £34m (2016: gain of £371m) which is included in premiums ceded to reinsurers.

The reinsurance liability and the derivative liabilities are stated at fair value. All the remaining payables and other financial liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

#### (a) Finance lease obligations

Leased investment property is accounted for as if it had been acquired under a finance lease. At the commencement of the lease a liability is established to represent the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability. The average term of finance leases entered into is 150 years for the Group (2016: 130 years) and 149 years for the Parent company (2016: 130 years). The interest rate inherent in the leases is fixed at the start of the lease.

### 30. Payables and other financial liabilities (continued)

#### (a) Finance lease obligations (continued)

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Obligations under finance leases – minimum lease payments:				
Not later than one year	1	1	1	1
Later than one year and not later than five years	5	6	3	6
Later than five years	216	182	118	182
	222	189	122	189
Less: future charges	(200)	(169)	(111)	(169)
Present value of obligations under finance leases	22	20	11	20
Present value of obligations under finance leases:				
Not later than one year	1	1	1	1
Later than one year and not later than five years	4	5	3	5
Later than five years	17	14	7	14
	22	20	11	20

#### (b) Cash collateral

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Cash collateral – contractual maturity analysis:				
Not later than one year	-	1	-	1
Later than one year and not later than five years	4	13	4	13
Later than five years	1,939	1,962	1,939	1,962
	1,943	1,976	1,943	1,976

### 31. Provisions

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Provision for future commission	163	167	163	167
Other provisions	119	112	105	101
	282	279	268	268
Expected to be settled within 12 months	41	45	31	45
Expected to be settled in more than 12 months	241	234	237	223
	282	279	268	268

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force.

Other provisions comprise amounts in respect of the long-term incentive plan, regulatory projects and rectification programmes.

### 31. Provisions (continued)

The movement in provisions during the year is shown in the following table.

	Group		Parent company	
	Provision for future commission £m	Other provisions £m	Provision for future commission £m	Other provisions £m
At 1 January 2017	167	112	167	101
Additional provisions	2	37	2	24
Experience variations	15	-	15	-
Utilised during the year	(22)	(30)	(22)	(20)
Unwind of the discount rate	1	-	1	-
At 31 December 2017	163	119	163	105

### 32. Other liabilities

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Deferred fee income	129	151	128	150
Accrued expenses	85	70	-	-
Other	57	58	29	59
	271	279	157	209
Expected to be settled within 12 months	163	151	49	80
Expected to be settled in more than 12 months	108	128	108	129
	271	279	157	209

Deferred fee income is front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

Other liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

### 33. Balances in respect of external unit holders

#### (a) Investment return attributable to external unit holders

The investment return attributable to external unit holders represents the portion of the investment return included within the Group statement of comprehensive income that relates to the consolidated funds that are owned by third parties.

#### (b) Liability to external unit holders

The liability to external unit holders represents the portion of the consolidated funds included within the Group balance sheet but which is owned by third parties. The balance is stated at fair value being the quoted bid price of the relevant fund on the last day of the accounting period on which investments in such funds could be redeemed.

For the purposes of the disclosure required by IAS 1, none of the balance (2016: none) is classified as being expected to be settled in more than 12 months from the balance sheet date.

### 34. Deferred tax (asset)/liability

#### (a) Net deferred tax balance

The tables below show the movement in the net deferred tax balance in the year. The deferred tax assets and liabilities are considered to be non-current.

	Group – 2017			
	1 Jan £m	Exchange differences £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(30)	-	6	(24)
Excess of management expenses carried forward	(1)	-	1	-
Revaluation of investments	258	-	(7)	251
Other short-term timing differences	(1)	-	(4)	(5)
<b>Net deferred tax liability</b>	<b>226</b>	<b>-</b>	<b>(4)</b>	<b>222</b>

	Group – 2016			
	1 Jan £m	Exchange differences £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(41)	-	11	(30)
Excess of management expenses carried forward	(51)	-	50	(1)
Revaluation of investments	183	3	72	258
Other short-term timing differences	-	-	(1)	(1)
<b>Net deferred tax liability</b>	<b>91</b>	<b>3</b>	<b>132</b>	<b>226</b>

	Parent – 2017			
	1 Jan £m	Exchange differences £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(30)	-	6	(24)
Excess of management expenses carried forward	(1)	-	1	-
Revaluation of investments	244	-	6	250
Other short-term timing differences	3	-	4	7
<b>Net deferred tax liability</b>	<b>216</b>	<b>-</b>	<b>17</b>	<b>233</b>

	Parent – 2016			
	1 Jan £m	Exchange differences £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(41)	-	11	(30)
Excess of management expenses carried forward	(51)	-	50	(1)
Revaluation of investments	171	-	73	244
Other short-term timing differences	8	-	(5)	3
<b>Net deferred tax liability</b>	<b>87</b>	<b>-</b>	<b>129</b>	<b>216</b>



### 34. Deferred tax (asset)/liability (continued)

#### (a) Net deferred tax balance (continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset as they all meet the criteria above.

#### (b) Unrecognised deferred tax balances

##### (i) Unrecognised deferred tax assets

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £2m (2016: £1m), of which £1m (2016: £1m) related to the Parent company. These unused losses and allowances can be carried forward and utilised as long as the company in which they arose is active or trading.

##### (ii) Unrecognised deferred tax liabilities

Deferred tax liabilities arising from gains on subsidiary holdings have not been recognised by the Parent company as it controls the timing of any sale of a subsidiary and the repatriation of any dividend and it is not probable that a sale or repatriation will happen in the foreseeable future as the Group's intention is that these investments will be held to provide long-term returns. The potential tax liability arising is less than £1m (2016: less than £1m).

There are no other unrecognised deferred tax liabilities within the Group.

### 35. Pension schemes

#### Defined contribution arrangements

The Group provides pension benefits for its employees in order to support recruitment, retention and motivation of talented people.

All employees are eligible to join either the Royal London Group Personal Pension (RLGPP), the Ascetric Group Personal Pension Plan (AGPPP) or the Royal London Ireland Pension Plan (RLIPP) according to their employment. The RLGPP, the AGPPP and the RLIPP are all defined contribution arrangements.

These defined contribution arrangements are benchmarked to ensure that the reward package overall is competitive. Where possible under local regulation, employees are auto-enrolled and the Group sees a correspondingly high take-up across employees. The Group pays contributions in respect of these arrangements and these contributions are recognised as an expense as the related employee services are provided. The expense recognised in 2017 is £15m (2016: £13m) and is reported within staff costs (note 10(a)).

#### Defined benefit schemes

In addition to the above arrangements, the Group operates three legacy funded defined benefit schemes, which are established under separate trusts. The assets of the schemes are held in separate Trustee administered funds and the funding position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The ability of the defined benefit pension schemes to meet the projected pension payments is maintained through investments and, where applicable, contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions.

The largest defined benefit scheme is the Royal London Group Pension Scheme ('RLGPS'). RLGPS was closed to new entrants on 1 September 2005 and to future accrual of benefits on 31 March 2016.

As a result of the Royal Liver acquisition on 1 July 2011, the Group took responsibility for two further defined benefit pension schemes: the Royal Liver Assurance Limited Superannuation Fund ('Royal Liver UK') and the Royal Liver Assurance Limited (ROI) Superannuation Fund ('Royal Liver ROI'). Royal Liver employees in these schemes stopped earning additional defined benefit pensions on 30 June 2011.

In addition, the Group also operates a small, legacy unfunded unapproved arrangement for certain executives who joined before 1 September 2005, which provides mirror RLGPS benefits for accrual above that provided by RLGPS. This has £13m (2016: £13m) of liabilities, for which a provision is held in the Group's balance sheet.

The Group has agreed a funding framework with the RLGPS Trustee, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent triennial valuation dated 31 December 2016, RLGPS had a funding level of 98%. In line with the provisions of the funding framework, the Company and the Trustee agreed that expected investment returns in excess of the prudent assumptions made would be sufficient to eliminate this shortfall.

### 35. Pension schemes (continued)

#### Defined benefit schemes (continued)

Consequently, as the Scheme is closed to future accrual, the only contributions payable are, if RLGPS has insufficient surplus, in respect of costs of any augmentations including the award of discretionary pension increases.

The Royal Liver schemes are supported in the first instance by the Royal Liver Assurance fund. Only in the event of that fund having insufficient assets to meet the needs of the Royal Liver schemes would the Royal London Open Fund be required to provide support. This structure is supported via guarantees from the Parent company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2015. As these schemes are closed to future accrual, no contributions are currently payable.

#### (a) Amounts recognised in the balance sheet

The amounts recognised in the balance sheet for the Group and Parent company are shown below:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fair value of plan assets	3,306	3,223	2,688	2,611	379	376	239	236
Pension scheme obligation	(3,120)	(3,118)	(2,641)	(2,637)	(288)	(290)	(191)	(191)
Net Pension scheme asset/(liability)	186	105	47	(26)	91	86	48	45
Reported as:								
Pension scheme asset	186	131	47	-	91	86	48	45
Pension scheme liability	-	(26)	-	(26)	-	-	-	-

Other than a single contribution to fund discretionary pension increases, no contributions were made to the RLGPS in the year to 31 December 2017. No contributions were made to the Royal Liver schemes in the year to 31 December 2017.

In accordance with paragraph 64 of IAS 19, 'Employee Benefits' the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes, where applicable.

**35. Pension schemes (continued)****(b) Reconciliation of pension scheme asset/(liability)**

The movement in the net pension scheme asset and liability during the year can be analysed as follows:

Total	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m	Net pension scheme asset £m	Net pension Scheme Liability £m
At 1 January 2016	(2,611)	2,788	177	177	-
RLGPS (net liability at 31 December 2016 from net asset at 31 December 2015)					
<i>Costs recognised in result for the year:</i>				(71)	71
Current service cost	(2)	-	(2)	-	(2)
Administration costs	-	(4)	(4)	(2)	(2)
Interest (expense)/income	(93)	99	6	4	2
Past service cost	18	-	18	(2)	20
	(77)	95	18	-	18
<i>Remeasurements recognised in OCI:</i>					
Return on plan assets in excess of interest income	-	438	438	72	366
Changes in demographic assumptions	12	-	12	12	-
Changes in financial assumptions	(557)	-	(557)	(65)	(492)
Experience gains	9	-	9	1	8
	(536)	438	(98)	20	(118)
<i>Other movements:</i>					
Exchange differences	(25)	30	5	5	-
Employer contributions	-	3	3	-	3
Employee contributions	-	-	-	-	-
Benefit payments	131	(131)	-	-	-
At 31 December 2016	(3,118)	3,223	105	131	(26)
Net liability at 31 December 2016 to net asset at 31 December 2017	-	-	-	(26)	26
<i>Costs recognised in result for the year:</i>					
Administration costs	-	(4)	(4)	(4)	-
Interest (expense)/income	(79)	82	3	3	-
Past service cost	(3)	-	(3)	(3)	-
	(82)	78	(4)	(4)	-
<i>Remeasurements recognised in OCI:</i>					
Return on plan assets in excess of interest income/(expense)	-	137	137	137	-
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	(59)	-	(59)	(59)	-
Experience gains	4	-	4	4	-
	(55)	137	82	82	-
<i>Other movements:</i>					
Exchange differences	(7)	9	2	2	-
Employer contributions	-	1	1	1	-
Benefit payments	142	(142)	-	-	-
At 31 December 2017	(3,120)	3,306	186	186	-

### 35. Pension schemes (continued)

#### (b) Reconciliation of pension scheme asset/(liability) (continued)

The past service cost of £3m represents the increase in the pension scheme obligation due to the granting of discretionary pension increases to certain categories of scheme members in both RLGPS and Royal Liver UK. There have been no other plan amendments, curtailments or settlements in the year.

	RLGPS		
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m
At 1 January 2016	(2,203)	2,274	71
<i>Costs recognised in result for the year:</i>			
Current service cost	(2)	-	(2)
Administration costs	-	(2)	(2)
Interest (expense)/income	(80)	82	2
Past service cost	20	-	20
	(62)	80	18
<i>Remeasurements recognised in OCI:</i>			
Return on plan assets in excess of interest income	-	366	366
Changes in demographic assumptions	-	-	-
Changes in financial assumptions	(492)	-	(492)
Experience gains	8	-	8
	(484)	366	(118)
<i>Other movements:</i>			
Exchange differences	-	-	-
Employer contributions	-	3	3
Employee contributions	-	-	-
Benefit payments	112	(112)	-
At 31 December 2016	(2,637)	2,611	(26)
<i>Costs recognised in result for the year:</i>			
Administration costs	-	(3)	(3)
Interest (expense)/income	(68)	68	-
Past service cost	(2)	-	(2)
	(70)	65	(5)
<i>Remeasurements recognised in OCI:</i>			
Return on plan assets in excess of interest income	-	130	130
Changes in demographic assumptions	-	-	-
Changes in financial assumptions	(54)	-	(54)
Experience gains	1	-	1
	(53)	130	77
<i>Other movements:</i>			
Exchange differences	-	-	-
Employer contributions	-	1	1
Benefit payments	119	(119)	-
At 31 December 2017	(2,641)	2,688	47

**35. Pension schemes (continued)****(b) Reconciliation of pension scheme asset/(liability) (continued)**

	Royal Liver UK		
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m
At 1 January 2016	(248)	321	73
<i>Costs recognised in result for the year:</i>			
Current service cost	-	-	-
Administration costs	-	(1)	(1)
Interest (expense)/income	(9)	12	3
Past service cost	(2)	-	(2)
	(11)	11	-
<i>Remeasurements recognised in OCI:</i>			
Return on plan assets in excess of interest income	-	56	56
Changes in demographic assumptions	7	-	7
Changes in financial assumptions	(49)	-	(49)
Experience gains	(1)	-	(1)
	(43)	56	13
<i>Other movements:</i>			
Exchange differences	-	-	-
Employer contributions	-	-	-
Employee contributions	-	-	-
Benefit payments	12	(12)	-
At 31 December 2016	(290)	376	86
<i>Costs recognised in result for the year:</i>			
Administration costs	-	(1)	(1)
Interest (expense)/income	(8)	10	2
Past service cost	(1)	-	(1)
	(9)	9	-
<i>Remeasurements recognised in OCI:</i>			
Return on plan assets in excess of interest income	-	9	9
Changes in demographic assumptions	-	-	-
Changes in financial assumptions	(5)	-	(5)
Experience gains	1	-	1
	(4)	9	5
<i>Other movements:</i>			
Exchange differences	-	-	-
Employer contributions	-	-	-
Benefit payments	15	(15)	-
At 31 December 2017	(288)	379	91

### 35. Pension schemes (continued)

#### (b) Reconciliation of pension scheme asset/(liability) (continued)

	Royal Liver ROI		
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m
At 1 January 2016	(160)	193	33
<i>Costs recognised in result for the year:</i>			
Current service cost	-	-	-
Administration costs	-	(1)	(1)
Interest (expense)/income	(4)	5	1
Past service cost	-	-	-
	(4)	4	-
<i>Remeasurements recognised in OCI:</i>			
Return on plan assets in excess of interest income	-	16	16
Changes in demographic assumptions	5	-	5
Changes in financial assumptions	(16)	-	(16)
Experience gains	2	-	2
	(9)	16	7
<i>Other movements:</i>			
Exchange differences	(25)	30	5
Employer contributions	-	-	-
Employee contributions	-	-	-
Benefit payments	7	(7)	-
At 31 December 2016	(191)	236	45
<i>Costs recognised in result for the year:</i>			
Administration costs	-	-	-
Interest (expense)/income	(3)	4	1
Past service cost	-	-	-
	(3)	4	1
<i>Remeasurements recognised in OCI:</i>			
Return on plan assets in excess of interest (expense)/income	-	(2)	(2)
Changes in demographic assumptions	-	-	-
Changes in financial assumptions	-	-	-
Experience gains	2	-	2
	2	(2)	-
<i>Other movements:</i>			
Exchange differences	(7)	9	2
Employer contributions	-	-	-
Benefit payments	8	(8)	-
At 31 December 2017	(191)	239	48



### 35. Pension schemes (continued)

#### (c) Analysis of plan assets

	Total					
	2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	269	-	269	257	-	257
High-yield bonds	111	-	111	135	-	135
Index-linked bonds	863	-	863	795	-	795
Corporate bonds	915	6	921	923	4	927
Debt instrument investment funds	14	156	170	-	-	-
Equities	454	-	454	584	-	584
Equity investment funds	86	88	174	155	45	200
Diversified growth collective investment scheme	-	13	13	-	13	13
Property	-	-	-	-	1	1
Property investment funds	230	-	230	217	-	217
Derivative instruments:						
Foreign exchange forwards	-	-	-	-	(4)	(4)
Interest rate and inflation swaps	-	(3)	(3)	-	(2)	(2)
Total return swaps	(1)	7	6	(3)	13	10
Cash and other receivables	-	98	98	-	90	90
<b>Fair value of plan assets</b>	<b>2,941</b>	<b>365</b>	<b>3,306</b>	<b>3,063</b>	<b>160</b>	<b>3,223</b>

	RLGPS					
	2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	83	-	83	64	-	64
High-yield bonds	111	-	111	135	-	135
Index-linked bonds	749	-	749	681	-	681
Corporate bonds	678	5	683	685	4	689
Debt instrument investment funds	14	156	170	-	-	-
Equities	454	-	454	584	-	584
Equity investment funds	86	35	121	155	-	155
Property investment funds	230	-	230	217	-	217
Derivative instruments:						
Foreign exchange forwards	-	-	-	-	(4)	(4)
Interest rate and inflation swaps	-	(1)	(1)	-	-	-
Total return swaps	(1)	6	5	(3)	14	11
Cash and other receivables	-	83	83	-	79	79
<b>Fair value of plan assets</b>	<b>2,404</b>	<b>284</b>	<b>2,688</b>	<b>2,518</b>	<b>93</b>	<b>2,611</b>

The RLGPS IAS 19 plan assets include a total of £291m (2016 £168m) investment in Group managed funds.

**35. Pension schemes (continued)**  
**(c) Analysis of plan assets (continued)**

	Royal Liver UK					
	2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	74	-	74	74	-	74
Index-linked bonds	114	-	114	114	-	114
Corporate bonds	164	1	165	163	-	163
Equity investment funds	-	22	22	-	19	19
Property	-	-	-	-	1	1
Derivative instruments:						
Interest rate and inflation swaps	-	(2)	(2)	-	(2)	(2)
Total return swaps	-	1	1	-	1	1
Cash and other receivables	-	5	5	-	6	6
<b>Fair value of plan assets</b>	<b>352</b>	<b>27</b>	<b>379</b>	<b>351</b>	<b>25</b>	<b>376</b>

	Royal Liver ROI					
	2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	112	-	112	119	-	119
Corporate bonds	73	-	73	75	-	75
Equity investment funds	-	31	31	-	26	26
Diversified growth collective investment scheme	-	13	13	-	13	13
Derivative instruments:						
Total return swaps	-	-	-	-	(2)	(2)
Cash and other receivables	-	10	10	-	5	5
<b>Fair value of plan assets</b>	<b>185</b>	<b>54</b>	<b>239</b>	<b>194</b>	<b>42</b>	<b>236</b>

### 35. Pension schemes (continued)

#### (d) Risks

All three schemes are exposed to differing levels of interest rate, inflation, credit and market risk. The Group has agreed with the Trustee Boards of each pension scheme that, where appropriate, each scheme's risks will be managed in line with the Group's risk appetite. In particular, the schemes' investment strategies are designed to minimise interest rate, inflation and market risk exposure where this is cost and capital effective.

The schemes have active liability-driven investment strategies using a combination of corporate and sovereign debt and derivative instruments such as interest rate and inflation swaps. Approximately 60% of RLGPS assets and 90% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk. During the year the Trustee of the RLGPS adopted a lower risk investment strategy which included increasing the hedge ratio to around 90% of interest rate and inflation exposure on the technical provisions through the use of various derivative instruments.

The schemes' exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. within RLGPS by allocations to property and to high-yield debt). Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection.

The schemes, and therefore the Group, are also exposed to longevity risk. The Group believes that some of this risk exposure is partially mitigated via a natural hedge with the mortality risk inherent in the protection business written by the Group.

Further information on the schemes' risk management strategies can be found in the schemes' annual reports and accounts which are available on the Group's website.

#### (e) Assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme asset for both the Group and the Parent company are shown below.

	2017			2016		
	RLGPS %	UK %	ROI %	RLGPS %	UK %	ROI %
Discount rate	2.5	2.5	1.8	2.7	2.7	1.8
Price inflation (RPI)	3.2	3.2	N/A	3.3	3.3	N/A
Price inflation (CPI)	2.1	2.1	1.8*	2.2	2.2	1.8*

\* Figures shown are Irish CPI used for increasing deferred pensions between leaving and retirement. Pension increases for ROI pensions in payment are based on UK CPI.

The most significant non-financial assumption is the assumed rate of mortality. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a scheme member aged 60 (non-pensioner is assumed to be 45 now). A weighted average is shown for the UK schemes.

	Group and Parent company			
	2017		2016	
	UK	ROI	UK	ROI
Pensioner				
Male	27	26	26	26
Female	29	29	29	28
Non-pensioner				
Male	28	28	28	28
Female	30	30	30	30

### 35. Pension schemes (continued)

#### (e) Assumptions and sensitivity analysis (continued)

The sensitivity of the defined benefit obligations to changes in the principal assumptions is shown in the table below.

	Increase in defined benefit obligation			
	Total £m	RLGPS £m	RL UK £m	RL ROI £m
100 basis point decrease in discount rates	639	557	55	27
5% proportionate decrease in mortality	51	44	4	3
100 basis point increase in price inflation (RPI & CPI)	381	334	31	16

This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognised within the balance sheet.

The information provided above shows the sensitivity of the schemes' liabilities to changes in the key assumptions. Due to the asset-liability matching strategies, the impact of changes in discount rates and inflation will also impact the schemes' asset values, thereby mitigating the effect of such changes on the Group.

#### (f) Maturity profile

The weighted average duration of the defined benefit obligation is 19 years (2016: 19 years).

### 36. Contingent liabilities

#### *Regulatory reviews*

During the year, the Group and Parent company continued to address issues from past inappropriate selling practices and other regulatory matters. The directors consider that they have made prudent provision for any liabilities arising across the Group and, as and when the circumstances calling for such provision arise, that the Group and Parent company have adequate reserves to meet all reasonably foreseeable eventualities.

### 37. Commitments

#### (a) Capital expenditure

The Group and Parent company have the following commitments to make capital purchases as at the balance sheet date.

	Group and Parent company	
	2017 £m	2016 £m
Investment property	29	45

### 37. Commitments (continued)

#### (b) Investments in private equity funds

The Group and Parent company have a portfolio of investments in private equity funds. The structure of these funds is such that the commitment is drawn down during the life of the fund to make investments and to pay approved costs of the fund. The total amount committed but undrawn at the balance sheet date for the Group and Parent company is £178m (2016: £163m).

#### (c) Operating lease commitments

Operating lease payments represent rentals payable by the Group for land and buildings. The total future minimum lease payments due under these arrangements, net of any related sub-lease receipts, are shown in the following table.

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Total future minimum lease payments under non-cancellable leases:</b>				
Not later than one year	5	3	4	2
Later than one year and not later than five years	13	14	10	11
Later than five years	3	5	3	4
	<b>21</b>	<b>22</b>	<b>17</b>	<b>17</b>
<b>Less: total future minimum sub-lease payments under non-cancellable sub-leases expected to be received</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
	<b>19</b>	<b>20</b>	<b>15</b>	<b>15</b>

### 38. Related party transactions

The Parent company is the ultimate parent undertaking of the Group. The Group and Parent company carried out the following transactions with related parties.

#### (a) Related party transactions of the Group

Transactions between Group entities are eliminated on consolidation. The following are those transactions carried out by Group entities with those related parties that are outside the Group.

##### (i) Subsidiaries' transactions with OEICs and other investment funds

The Group markets a portfolio of OEICs and other investment funds. A number of these funds are classified as subsidiaries for the purposes of financial reporting and hence are included within the Group. For those funds not consolidated within the Group the transactions during the year were as follows.

	2017 £m	2016 £m
Management fees earned during the year	77	67

There were no amounts outstanding between the Group and the funds at the year end (2016: £nil). The total value of units held by the Parent company at 31 December 2017 in the funds that are not consolidated into the Group was £1,752m (2016: £1,832m). The acquisition and sale of units in the funds during the year were as follows.

	2017 £m	2016 £m
Acquisition of funds	413	1,168
Proceeds from sale of funds	414	494

The subsidiaries of the Parent company are shown in note 20. Transactions between the Parent company and its subsidiaries and other related party transactions of the Parent company are shown below.

##### (ii) Administration and investment management services provided by subsidiaries

Subsidiary companies perform the administration and investment management activities of the Parent company. The Parent company is charged fees for these services under management services agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer.

### 38. Related party transactions (continued)

#### (b) Related party transactions of the Parent company

The following table summarises the fees and recharges incurred by the Parent company during the year.

	Parent company	
	2017 £m	2016 £m
Administration fees	264	276
Investment management fees	38	32
	302	308

#### (i) Financing transactions undertaken with subsidiaries

The Parent company has provided loans to subsidiaries.

As set out in note 29, two subsidiaries have issued subordinated liabilities, lending the proceeds to the Parent company on the same terms as the original debt issue.

The following table summarises the interest income and expense incurred by the Parent company during the year in relation to these transactions.

	Parent company	
	2017 £m	2016 £m
Interest expense on subordinated liabilities	(46)	(46)

#### (ii) Other income received from subsidiaries

	Parent company	
	2017 £m	2016 £m
OEIC management fee rebates	88	65
OEIC distributions	471	367
Other dividends receivable from subsidiaries	38	57
Rental income	3	3
	600	492

The OEIC management fee rebates relate to the investment in Group OEICs made by certain unit-linked funds of the Parent company. The Parent company deducts an investment management fee from the unit-linked fund. The authorised corporate director of the OEICs, which is a subsidiary of the Parent company, deducts an investment management fee from the OEIC in which the unit-linked fund has invested. In order to avoid the unit-linked fund bearing both these investment management fees, the subsidiary company rebates the portion of its charge relating to the internal holding of OEICs to the unit-linked fund.

OEIC distributions are those received from OEICs that are classified as subsidiaries for financial reporting purposes.

#### (iii) Outstanding balances with Group entities at the year end

At the year end, the following balances were outstanding with Group entities in relation to the transactions above.

	Parent company	
	2017 £m	2016 £m
Amounts due from Group entities	24	22
Loans to Group entities	13	18
	37	40
Subordinated liabilities	(745)	(744)
Amounts due to Group entities	(45)	(60)
	(790)	(804)

The amounts due to and from Group entities are due on demand and are not secured.



### 38. Related party transactions (continued)

#### (b) Related party transactions of the Parent company (continued)

##### (iv) Other transactions of the Parent company with related parties

As part of its portfolio of investment assets, the Parent company has holdings in OEICs and other funds, managed by subsidiaries.

The Parent company's acquisitions and sales of these funds during the year are shown below.

	Parent company	
	2017 £m	2016 £m
Acquisition of funds	12,781	8,389
Proceeds from sale of funds	4,433	4,254

##### (v) Transactions with key management personnel

No director had transactions or arrangements with the Group that require disclosure, other than those given in the Directors' remuneration report. Key management remuneration is disclosed in note 10.

### 39. Additional cash flow information

#### (a) Adjustments for non-cash items

Adjustments in the statements of cash flows for non-cash items comprise the following:

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Tax charge	103	249	82	221
Depreciation of property, plant and equipment	7	6	-	-
Reversal of impairments on property, plant and equipment	(2)	(6)	-	-
Fair value (gain)/loss on investment property	(341)	60	(245)	57
Amortisation and impairment charges on acquired PVIF, goodwill and other intangible assets (2016 includes change in basis for Solvency II)	92	129	52	59
Change in deferred acquisition costs	39	43	38	44
Change in reinsurers' share of insurance liabilities	581	(855)	581	(855)
Change in net pension scheme asset	(81)	72	(81)	72
Fair value gain on financial investments	(3,147)	(9,088)	(3,575)	(8,621)
Net foreign exchange (gain)/loss on financial investments	(102)	184	(27)	70
Change in participating insurance contract liabilities	445	4,001	469	3,982
Change in participating investment contract liabilities	60	(78)	60	(78)
Change in non-participating value of in-force business	(271)	(307)	(271)	(307)
Change in non-participating insurance contract liabilities	(559)	1,177	(559)	1,178
Change in non-participating investment contract liabilities	7,518	6,345	7,518	6,345
Change in provisions	3	55	-	49
Non-cash transfer of investments	(200)	-	2,457	-
Other non-cash items	40	(153)	13	(130)
	4,185	1,834	6,512	2,086

Non-cash transfers of investments of £200m related to assets transferred in by external clients (2016: £nil). Included in other non-cash items in the Parent company is an amount of £2,657m in relation to the transfer of investment properties to the new property fund.

### 39. Additional cash flow information (continued)

#### (b) Adjustments for non-operating items

Adjustments in the statements of cash flows for non-operating items comprise the following:

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Fair value (gain)/loss on investments in Group entities	-	-	(57)	75
Dividends received from subsidiaries	-	-	(38)	(57)
Finance costs	47	47	47	47
	47	47	(48)	65

The fair value (gain)/loss on investments in Group entities and the dividends received from subsidiaries shown above exclude amounts in relation to OEICs and other funds treated as subsidiaries for financial reporting purposes.

#### (c) Dividends and interest

Interest and dividend receipts and payments included in the statements of cash flows are as follows:

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Dividends received:				
➤ Operating cash flows (including Group OEICs)	1,144	688	736	600
➤ Investing cash flows	-	-	38	57
	1,144	688	774	657
Interest received:				
➤ Operating cash flows	1,096	1,073	828	898
Interest paid:				
➤ Operating cash flows	2	2	2	2
➤ Financing cash flows	47	47	47	47
	49	49	49	49

#### (d) Acquisition and disposal of Group entities

The Parent company's operating portfolio of investment assets includes OEICs and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows for the Parent company statement of cash flows. The amount included within 'Net acquisition of financial investments' relating to the acquisition and disposal of such funds was a net acquisition of £8,348m (2016: £4,135m).

The figures for the acquisition and disposal of Group entities in the statements of cash flows can be analysed as follows:

- in 2016 the acquisition of Group entities in the Parent company of £71m related to capital contributions and a share capital injection into Wrap IFA Services Limited; and
- in 2016 the Parent company proceeds of £25m related to proceeds from the sale of RLGI (£12m) and proceeds from the liquidation of RL Cash Management (£9m) and the repayment of a loan by a subsidiary (£4m). The Group proceeds of £12m related to the proceeds from the sale of RLGI.

### 39. Additional cash flow information (continued)

#### (e) Changes arising from movements in debt and other borrowing

Group	Opening balance as at 1 January 2017 £m	Cash flows £m	Non-cash movements £m	Closing balance as at 31 December 2017 £m
<b>Liabilities</b>				
Subordinated debt	744	-	1	745
Finance lease obligations	20	-	2	22
<b>Total liabilities from financing activities</b>	<b>764</b>	<b>-</b>	<b>3</b>	<b>767</b>

Parent	Opening balance as at 1 January 2017 £m	Cash flows £m	Non-cash movements £m	Closing balance as at 31 December 2017 £m
<b>Liabilities</b>				
Subordinated debt	744	-	1	745
Finance lease obligations	20	-	(9)	11
<b>Total liabilities from financing activities</b>	<b>764</b>	<b>-</b>	<b>(8)</b>	<b>756</b>

### 40. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences which define the types of risk the Group views as being desirable, neutral towards or undesirable and which form a core part of the Group's risk management system and control techniques. The Group seeks to manage its exposures to risk through its risk management system ensuring that the residual risk exposures are within acceptable tolerances agreed by the Board. The risk management system established within the Group is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Group is well capitalised. The Strategic Report section of this Annual Report and Accounts includes a summary of the Group's risk management and internal controls approach.

The key control techniques for the major categories of risk exposure are summarised in the following sections.

#### (a) Insurance risk

Insurance risk arises within the Group from the inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities.

The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future experience, in particular mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks can be summarised as follows:

- ▶ mortality – the risk that policyholders die sooner than expected. Mortality risk only applies to liabilities which increase under these circumstances;
- ▶ morbidity – the risk that policyholders make morbidity related claims more frequently or for a longer period of time than expected;
- ▶ persistency – the risk that the rate of policy lapses, terminations, renewals, partial withdrawals and surrenders, or the number of policies converting to paid-up status, is different from that expected, resulting in an increase in liabilities;
- ▶ longevity – the risk that policyholders live longer than expected. Longevity risk only applies to liabilities which increase under these circumstances;
- ▶ expense – the risk that the expense associated with investing in assets, or of administering pensions, insurance or reinsurance contracts held within the Group is higher than expected; and
- ▶ option take-up – the risk that the take-up rate of options, in particular guaranteed annuity options, provided to policyholders is different from expected, resulting in an increase in benefit payments and therefore liabilities.

In addition, it is necessary for the Group to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include the allocation of investments between asset classes, the setting of with-profits policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms.

## 40. Risk management (continued)

### (a) Insurance risk (continued)

Insurance risk is largely mitigated, monitored and managed by the various business units/divisions within the Group. Risk relating to the Group's final salary pension schemes is managed separately by a specialist area in the Group, supported by external advisers.

Insurance risks are managed through the following mechanisms:

- › the use of the Group insurance risk policy to provide Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks;
- › regular monitoring of actual exposures compared to agreed limits to ensure that the insurance risk accepted remains within risk appetite. This is monitored at the Insurance Risk Committee;
- › members of the Group Assumptions Governance Committee ("GAGC") are responsible for reviewing and approving all key demographic and expense assumption changes;
- › the use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Group's exposure to large single claims and catastrophes and to alleviate the impact of new business strain;
- › the diversification of business over several classes of insurance and over large numbers of individual risks to reduce variability in loss experience; and
- › control over product development and pricing: members of the Product Pricing Approval Committee ("PPAC") are responsible for assessing the pricing of new products and the repricing of existing products manufactured by the Group.

These techniques are supported by the use of actuarial models to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used to determine appropriate assumptions for those models.

The primary responsibility for ongoing oversight and effectiveness of the management of insurance risk falls to the Insurance Risk Committee. The Committee also considers the Group's reinsurance coverage.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Group's Insurance Risk Policy for an annual review of the policy by the policy content owner. The policy provides Group wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks. The policy content owner makes sure that the policy is implemented appropriately within the Group. The Insurance Risk Committee is responsible for maintaining and reviewing the policy on an annual basis.

#### *Concentration risk*

The Group and Parent company write a diverse mix of businesses across a diverse customer base. The most material concentration of insurance risk relates to persistency risk in respect of unit-linked pension business. As the Group has written substantially all of its business in the UK, results are also sensitive to demographic and economic changes arising in the UK. The Group seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits (including limits on individual lives).

The Group's diverse portfolio of business helps mitigate concentration risk across sectors (pensions, protection, intermediated, direct), but there is some concentration risk within sectors. In particular, there is a risk associated with legislative changes affecting pension business, which could result in a marked worsening in persistency, however, although the Group's portfolio of employer-sponsored pension schemes includes some large schemes there are no schemes that represent an excessive percentage of the relevant portfolio. Due to the nature of the UK market, another potential area of concentration is the reliance of the Group on new business from key Independent Financial Adviser ("IFA") networks but this is not considered to be material.

#### *Sensitivity analysis*

The following tables present the sensitivity of insurance and investment contract liabilities to the insurance risks set out above. Sensitivities are only shown in one direction as an equal and opposite movement in the variable for the majority of business would have an equal and opposite impact on the value of insurance and investment contract liabilities.

- › **Mortality and morbidity**  
5% proportionate decrease in base mortality and morbidity rates. This sensitivity demonstrates the effect of a decrease in the rate of deaths and serious illness.

The impact of such a change on the contract liabilities varies depending on the type of business written. For life assurance business a decrease in mortality rates will typically decrease the liabilities as there will be fewer payouts for early death. However, for those policies which contain a guaranteed annuity option the policy liability may increase as its value depends in part on the length of time over which the guaranteed rate will be paid. Likewise, for annuity business a decrease in mortality rates will increase the liability as the average period over which annuity payments have to be made will be extended.

## 40. Risk management (continued)

### (a) Insurance risk (continued)

#### › Persistency

10% proportionate decrease in lapse rates. This sensitivity reflects a single, downward movement in lapse rates. This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in force.

#### › Expenses

10% decrease in maintenance expenses – the ongoing cost of administering contracts. This sensitivity is applied to the projected level of expenses. There is no change to the assumed rate of future expense inflation. A reduction in expenses will reduce the value of the liabilities for most classes of business. For some unit-linked contracts where future charges cover expenses, however, the liability may be unaffected.

The tables demonstrate the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, the assumptions may be interdependent. It should also be noted that the impact on the liabilities from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

	Group							
	2017				2016			
	Liability as reported £m	Impact of change in variable			Liability as reported £m	Impact of change in variable		
Mortality and morbidity £m		Lapses £m	Expenses £m	Mortality and morbidity £m		Lapses £m	Expenses £m	
<b>Insurance contract liabilities, gross</b>								
Participating insurance contracts	33,154	21	2	(23)	32,709	24	6	(21)
Non-participating insurance contracts								
› Unit-linked	1,743	(11)	(4)	(4)	1,839	(4)	(2)	(5)
› Non-profit, other than annuities	556	(170)	25	(40)	712	(165)	25	(38)
› Non-profit annuities	4,663	95	-	(7)	4,997	95	-	(7)
› Claims outstanding	339	-	-	-	312	-	-	-
	7,301	(86)	21	(51)	7,860	(74)	23	(50)
	40,455	(65)	23	(74)	40,569	(50)	29	(71)
<b>Insurance contract liabilities, net</b>								
Participating insurance contracts	31,714	(7)	2	(23)	31,041	(10)	5	(21)
Non-participating insurance contracts								
› Unit-linked	1,743	(1)	(4)	(4)	1,839	(4)	(2)	(5)
› Non-profit, other than annuities	379	(16)	14	(40)	481	(7)	11	(38)
› Non-profit annuities	1,063	21	-	(7)	1,096	19	-	(7)
› Claims outstanding	230	-	-	-	205	-	-	-
	3,415	4	10	(51)	3,621	8	9	(50)
	35,129	(3)	12	(74)	34,662	(2)	14	(71)
<b>Non-participating value of in-force business</b>	(1,488)	(2)	(228)	(86)	(1,217)	(2)	(124)	(96)
<b>Investment contract liabilities</b>								
Participating investment contracts	2,214	(15)	(4)	1	2,154	(16)	(5)	2
Non-participating investment contracts	38,847	-	-	-	31,329	-	-	-
	41,061	(15)	(4)	1	33,483	(16)	(5)	2

**40. Risk management (continued)**  
**(a) Insurance risk (continued)**

	Parent company							
	2017				2016			
	Liability as reported £m	Impact of change in variable			Liability as reported £m	Impact of change in variable		
Mortality and morbidity £m		Lapses £m	Expenses £m	Mortality and morbidity £m		Lapses £m	Expenses £m	
<b>Insurance contract liabilities, gross</b>								
Participating insurance contracts	33,234	21	2	(23)	32,765	24	6	(21)
Non-participating insurance contracts								
> Unit-linked	1,743	(11)	(4)	(4)	1,839	(4)	(2)	(5)
> Non-profit, other than annuities	556	(170)	25	(40)	712	(165)	25	(38)
> Non-profit annuities	4,663	95	-	(7)	4,997	95	-	(7)
> Claims outstanding	339	-	-	-	312	-	-	-
	7,301	(86)	21	(51)	7,860	(74)	23	(50)
	40,535	(65)	23	(74)	40,625	(50)	29	(71)
<b>Insurance contract liabilities, net</b>								
Participating insurance contracts	31,794	(7)	2	(23)	31,097	(10)	5	(21)
Non-participating insurance contracts								
> Unit-linked	1,743	(1)	(4)	(4)	1,839	(4)	(2)	(5)
> Non-profit, other than annuities	379	(16)	14	(40)	481	(7)	11	(38)
> Non-profit annuities	1,063	21	-	(7)	1,096	19	-	(7)
> Claims outstanding	230	-	-	-	205	-	-	-
	3,415	4	10	(51)	3,621	8	9	(50)
	35,209	(3)	12	(74)	34,718	(2)	14	(71)
<b>Non-participating value of in-force business</b>	(1,488)	(2)	(228)	(86)	(1,217)	(2)	(124)	(96)
<b>Investment contract liabilities</b>								
Participating investment contracts	2,214	(15)	(4)	1	2,154	(16)	(5)	2
Non-participating investment contracts	38,847	-	-	-	31,329	-	-	-
	41,061	(15)	(4)	1	33,483	(16)	(5)	2



## 40. Risk management (continued)

### (b) Market risk

Market risk arises from the possibility that the fair value or cash flows of the Group's assets and liabilities change as a result of movements in interest rates, foreign currency exchange rates and other market prices. Market risk arises for the Group in particular where the impact of a market change impacts differently on the value of assets from the effect on liabilities.

The Group manages market risk within the risk management system outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Capital Management Committee regularly monitors these processes.

The Group is not materially exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements constrain the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk, gilt spread risk and currency risk.

#### (i) Equity risk and property risk

Equity risk and property risk are the risks that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices of equities or investment properties, other than those arising from interest rate or currency risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is delegated to the Group's asset management subsidiary with monitoring procedures in place.

The investment management agreement in place between the Parent company and its asset management company specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular asset category or specific investment. The Group's Capital Management Committee and Investment Committee monitor the actual asset allocation and performance against benchmark. The Group hedges some of its equity risk arising from investment guarantees and unit-linked charges using equity derivatives.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi).

#### (ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Parent company uses interest rate swaps to provide interest rate sensitivity matching.

A sensitivity analysis to interest rate risk is included in section (vi).

#### (iii) Inflation risk

Inflation risk is the risk that inflation results in the value of the Group's liabilities increasing by more than the value of its assets. It arises principally in the Group's defined benefit pension scheme, where higher inflation would result in higher increases in deferred pensions and would be expected to be associated with higher increases in pensions in payment.

The Group mitigates some inflation risk by the use of inflation swap derivatives.

#### (iv) Credit spread risk

Credit spread risk is the risk that the difference between the yields on non-sovereign investment bonds and the yields on interest rate swaps increase from current levels, causing the value of the Group's holdings of non-sovereign bonds to reduce by more than the value of the associated liabilities. Gilt spread risk is similar to credit spread risk but arises in respect of the Group's holdings of sovereign bonds. The Group manages its exposures to spread risks through its hedging strategy and regular review of its hedging arrangements.

## 40. Risk management (continued)

### (b) Market risk (continued)

#### (v) Currency risk

Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change as a result of a change in foreign exchange rates. As the Group operates principally in the UK its assets and liabilities are mainly denominated in sterling. For investment assets, the Group's investment management policies and procedures allow for a small exposure to overseas markets, via both equities and fixed interest securities. The resulting currency risk is managed by the use of exposure limits and authorisation controls operated within the Group's risk management system.

The following tables demonstrate the extent to which the assets and liabilities of the Group and the Parent company are exposed to currency risk. Linked assets are not subject to currency risk as this risk is borne by the customers concerned. A sensitivity analysis of the Group and Parent company's exposure to currency risk is included in section (vi).

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-linked assets denominated in GBP	55,124	53,835	48,170	48,258
Non-linked assets denominated in EUR	924	919	890	863
Non-linked assets denominated in USD	2,169	2,240	2,169	2,238
Non-linked assets denominated in JPY	289	223	289	223
Non-linked assets denominated in other currencies	223	246	223	246
	<b>58,729</b>	57,463	<b>51,741</b>	51,828
Linked assets not subject to currency risk	40,590	33,168	40,590	33,168
	<b>99,319</b>	90,631	<b>92,331</b>	84,996
Non-linked liabilities denominated in GBP	57,665	56,364	50,677	50,729
Non-linked liabilities denominated in EUR	1,064	1,099	1,064	1,099
	<b>58,729</b>	57,463	<b>51,741</b>	51,828
Linked liabilities not subject to currency risk	40,590	33,168	40,590	33,168
	<b>99,319</b>	90,631	<b>92,331</b>	84,996

At 31 December 2017, the Group and Parent company held currency forwards with a sterling notional value of £352m (2016: Group and Parent company £511m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

#### (vi) Market risk sensitivity analysis

The following table shows the impact on the unallocated divisible surplus (before tax) from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

##### Interest rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities increases when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

##### Currency rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and liabilities denominated in that currency. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the unallocated divisible surplus.

## 40. Risk management (continued)

### (b) Market risk (continued)

#### (vi) Market risk sensitivity analysis (continued)

##### Equity/property capital values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. Consequently, the unallocated divisible surplus will be reduced by a fall in asset values.

	Group		Parent company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Impact before tax on the UDS</b>				
Interest rates +100bp	(31)	81	(31)	81
Interest rates -100bp	42	(139)	42	(139)
10% increase in GBP/EUR exchange rate	(99)	1	(96)	6
10% decrease in GBP/EUR exchange rate	121	(1)	117	(8)
10% increase in GBP/USD exchange rate	(155)	(147)	(22)	(147)
10% decrease in GBP/USD exchange rate	190	179	27	179
10% increase in GBP/JPY exchange rate	(24)	(17)	(24)	(17)
10% decrease in GBP/JPY exchange rate	30	20	30	20
10% increase in GBP/other currencies exchange rates	(17)	(22)	(17)	(22)
10% decrease in GBP/other currencies exchange rates	19	22	19	22
Equity/property prices +10%	221	248	221	248
Equity/property prices -10%	(233)	(285)	(233)	(285)

##### Limitations of sensitivity analysis

The table above demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks.

The Group's assets and liabilities are actively managed. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment market conditions change, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to with-profits policyholders and taking other protective action.

It should also be noted that the impact on the unallocated divisible surplus from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

### (c) Credit risk

Credit risk is defined as the risk of loss if a counterparty fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Group's exposure to credit risk arises principally from its investment portfolio, from its holdings in bonds, derivatives and cash in particular and from reinsurance arrangements. The credit risk policy sets out various high level requirements relating to the identification, measurement, modelling, management, monitoring, reporting and documentation of credit risk. The policy is supported by a guidance document that indicates 'what good looks like' and provides examples of evidence that can support compliance with the policy requirements. A separate derivatives risk management policy sets out other specific requirements relating to legal, collateral, and valuation arrangements. Where possible, significant counterparty exposures, particularly in respect of stock lending and derivatives, are mitigated by the use of collateral.

A comprehensive system of limits is in place in order to control exposure to credit risk. While ratings provided by external agencies such as Standard & Poor's and Moody's and expert investment advice are taken into account when setting limits to individual counterparties. There are separate limits for exposures in respect of cash and deposits and for corporate bond and sovereign debt exposures, expressed as percentages of the fund's total assets. The one exception is exposure to the UK government – investment in government debt is a key part of the Group's investment and asset liability management strategies and it has been decided that no limit should be set. If the UK's credit standing were to deteriorate significantly, however, this decision would need to be reviewed.

## 40. Risk management (continued)

### (c) Credit risk (continued)

Exposures to individual counterparties are monitored against the agreed limits by the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Capital Management Committee. For bond holdings, exposures are also monitored by industry sector and by credit rating.

The Group is also exposed to credit risk in respect of its reinsurance arrangements. The credit exposures for reinsurance contracts are monitored by the Group's Capital Management and Insurance Committees as part of the overall credit risk policy.

The following tables show the assets of the Group and Parent company that are subject to credit risk and a reconciliation to the balance sheet carrying values. The credit risk in respect of linked assets is borne by the holders of the contracts concerned except where investment is made in the funds of other life companies via reinsurance contracts.

	Group					
	2017			2016		
	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m
Financial investments						
▶ Debt and fixed income securities	19,159	21,983	41,142	21,571	16,807	38,378
▶ Derivatives	4,260	2	4,262	4,322	-	4,322
Cash and cash equivalents	1,202	1,859	3,061	1,819	1,473	3,292
Reinsurers' share of insurance liabilities	5,326	-	5,326	5,907	-	5,907
Trade and other receivables	308	343	651	448	340	788
	<b>30,255</b>	<b>24,187</b>	<b>54,442</b>	<b>34,067</b>	<b>18,620</b>	<b>52,687</b>

	Parent company					
	2017			2016		
	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m
Financial investments						
▶ Debt and fixed income securities	19,159	7,361	26,520	21,511	6,820	28,331
▶ Derivatives	4,260	-	4,260	4,322	-	4,322
Cash and cash equivalents	966	296	1,262	1,580	276	1,856
Reinsurers' share of insurance liabilities	5,326	-	5,326	5,907	-	5,907
Trade and other receivables	244	195	439	298	284	582
	<b>29,955</b>	<b>7,852</b>	<b>37,807</b>	<b>33,618</b>	<b>7,380</b>	<b>40,998</b>

The following tables show an analysis of the credit quality of those assets that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. AAA is the highest rating possible for assets exposed to credit risk.

The credit ratings in respect of derivative financial investments are those of the counterparties to the derivative contracts. The debt and fixed income securities which have not been rated by an external agency are subject to internal analysis to provide an internal rating, the average of which at 31 December 2017 was BBB+ (2016: BBB+).

The internal rating process used by the Group is to assess credit risk within the context of the bond issuer's financial position, the bond's covenants and structure and the likely recovery should default occur. Three major sectors that are significant issuers of sterling denominated unrated bonds, namely social housing, investment trusts and property, are each asset rich. For these sectors, documented specific credit analysis is undertaken, which assesses the individual risks of bonds in the sector and relates the risk of loss to that implied by the rating bands of the rating agencies. The internal ratings produced are compared for consistency with formally rated, broadly equivalent stocks in the same sector and for consistency with the market pricing of the underlying bond. For stocks in other sectors, the background of the issuer and the bond characteristics are assessed within a framework similar, where possible, to credit rating agency methodology.

## 40. Risk management (continued)

### (c) Credit risk (continued)

In order to minimise its exposure to credit risk the Group and Parent company invest primarily in higher graded assets, rated BBB or above. The Group and Parent company also make use of collateral arrangements in respect of their derivative exposures and stock lending activity, wherever possible. Further details of the collateral held are shown in note 19(e).

	Group 2017							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
<b>Assets subject to credit risk:</b>								
Financial investments								
▶ Debt and fixed income securities	677	11,447	3,156	2,752	319	-	808	19,159
▶ Derivatives	-	-	4,217	43	-	-	-	4,260
Cash and cash equivalents	5	-	-	1,197	-	-	-	1,202
Reinsurers' share of insurance liabilities	-	3,783	1,534	9	-	-	-	5,326
Trade and other receivables	-	-	-	-	-	-	308	308
	682	15,230	8,907	4,001	319	-	1,116	30,255
	Group 2016							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
<b>Assets subject to credit risk:</b>								
Financial investments								
▶ Debt and fixed income securities	2,676	13,588	1,636	3,005	414	7	245	21,571
▶ Derivatives	-	636	3,637	47	-	-	2	4,322
Cash and cash equivalents	48	935	222	601	13	-	-	1,819
Reinsurers' share of insurance liabilities	-	4,149	1,742	16	-	-	-	5,907
Trade and other receivables	-	-	-	-	-	-	448	448
	2,724	19,308	7,237	3,669	427	7	695	34,067
	Parent company 2017							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
<b>Assets subject to credit risk:</b>								
Financial investments								
▶ Debt and fixed income securities	677	11,447	3,156	2,752	319	-	808	19,159
▶ Derivatives	-	-	4,217	43	-	-	-	4,260
Cash and cash equivalents	5	-	-	961	-	-	-	966
Reinsurers' share of insurance liabilities	-	3,783	1,534	9	-	-	-	5,326
Trade and other receivables	-	-	-	-	-	-	244	244
	682	15,230	8,907	3,765	319	-	1,052	29,955

## 40. Risk management (continued)

### (c) Credit risk (continued)

	Parent company 2016							Total £m
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	
<b>Assets subject to credit risk:</b>								
Financial investments								
▶ Debt and fixed income securities	2,676	13,528	1,636	3,005	414	7	245	21,511
▶ Derivatives	-	636	3,637	47	-	-	2	4,322
Cash and cash equivalents	48	934	-	591	7	-	-	1,580
Reinsurers' share of insurance liabilities	-	4,149	1,742	16	-	-	-	5,907
Trade and other receivables	-	-	-	-	-	-	298	298
	2,724	19,247	7,015	3,659	421	7	545	33,618

The following tables show the financial assets that are exposed to credit risk, analysing them between those that are neither past due nor impaired, those that are past due (by age band) but are not considered to be impaired and those that have been impaired.

	Group 2017						Total £m
	Neither past due nor impaired £m	Assets that are past due but not impaired				Assets that have been impaired £m	
		0-3 months £m	3-6 months £m	6 months- 1 year £m	>1 year £m		
<b>Assets subject to credit risk:</b>							
Financial investments							
▶ Debt and fixed income securities	19,159	-	-	-	-	-	19,159
▶ Derivatives	4,260	-	-	-	-	-	4,260
Reinsurers' share of insurance liabilities	5,325	-	-	-	1	-	5,326
Trade and other receivables	294	14	-	-	-	-	308
	29,038	14	-	-	1	-	29,053

	Group 2016						Total £m
	Neither past due nor impaired £m	Assets that are past due but not impaired				Assets that have been impaired £m	
		0-3 months £m	3-6 months £m	6 months- 1 year £m	>1 year £m		
<b>Assets subject to credit risk:</b>							
Financial investments							
▶ Debt and fixed income securities	21,571	-	-	-	-	-	21,571
▶ Derivatives	4,322	-	-	-	-	-	4,322
Reinsurers' share of insurance liabilities	5,903	1	1	1	1	-	5,907
Trade and other receivables	437	6	-	-	5	-	448
	32,233	7	1	1	6	-	32,248



**40. Risk management (continued)****(c) Credit risk (continued)**

	Parent company 2017						Total £m
	Neither past due nor impaired £m	Assets that are past due but not impaired				Assets that have been impaired £m	
		0–3 months £m	3–6 months £m	6 months– 1 year £m	>1 year £m		
<b>Assets subject to credit risk:</b>							
Financial investments							
▶ Debt and fixed income securities	19,159	-	-	-	-	-	19,159
▶ Derivatives	4,260	-	-	-	-	-	4,260
Reinsurers' share of insurance liabilities	5,325	-	-	-	1	-	5,326
Trade and other receivables	230	14	-	-	-	-	244
	<b>28,974</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>28,989</b>

	Parent company 2016						Total £m
	Neither past due nor impaired £m	Assets that are past due but not impaired				Assets that have been impaired £m	
		0–3 months £m	3–6 months £m	6 months– 1 year £m	>1 year £m		
<b>Assets subject to credit risk:</b>							
Financial investments							
▶ Debt and fixed income securities	21,511	-	-	-	-	-	21,511
▶ Derivatives	4,322	-	-	-	-	-	4,322
Reinsurers' share of insurance liabilities	5,903	1	1	1	1	-	5,907
Trade and other receivables	291	6	-	-	1	-	298
	<b>32,027</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>32,038</b>

No collateral was held against assets that are past due or impaired (2016: £nil). There were no material financial assets that would have been past due or impaired had the terms of the instrument not been renegotiated.

**(d) Liquidity risk**

The Group defines liquidity risk as the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group has limited exposure to liquidity risk due primarily to its financial strength and availability of liquid assets. However, the Group recognises that extreme liquidity issues could have a serious impact on the Group. The Group believes that its liquidity risk is managed effectively and that the Group has good capabilities in this area within its Group functions and its investment management subsidiary.

The Group's liquidity management process includes:

- ▶ maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term;
- ▶ holding sufficient assets in investments that are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- ▶ setting minimum amounts of cash balances in each of its long-term funds. These are set by reference to recent and expected cash outflows and include a margin above reasonably expected amounts in order to reduce risk;
- ▶ maintaining a contingency funding plan that covers the framework to enable ongoing monitoring of the Group's capacity to meet its short and medium-term liabilities. It also includes a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios;
- ▶ appropriate matching of the maturities of assets and liabilities. The Group's market risk policy covers asset liability management to ensure the duration of liabilities is matched by assets; and a risk limit framework for Liquidity Coverage Ratios; and
- ▶ reporting of liquidity exposures to the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Capital Management Committee.

## 40. Risk management (continued)

### (d) Liquidity risk (continued)

These processes are regularly reviewed and updated to ensure their continued effectiveness.

The Group's exposure to liquidity risk arises from insurance and investment contracts and the use of derivatives. The following tables show a maturity analysis for the Group and Parent company's insurance and investment contract liabilities. As permitted by IFRS 4, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the non-participating investment contracts has been shown on the same basis for consistency. Had the analysis for these liabilities been presented on the basis of the earliest contractual maturity date (as required by IFRS 7) then the whole balance would have been included in the '0–5 years' column, as customers can exercise surrender options at their discretion. In such a scenario the liability may be reduced by the application of surrender penalties (if applicable). The tables also show a maturity analysis for the Group and Parent company's derivative liabilities and the reinsurance liability held at FVTPL presented on a contractual cash flow basis.

The longer-term matching of assets and liabilities is covered within market risk, note 40 (b). As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Group considers the residual liquidity risk arising from its activities to be immaterial. Therefore, an analysis of the Group's asset cash flows by contractual maturity is not considered necessary to evaluate the nature and extent of the Group's liquidity risk.

	Group 2017						
	Balance sheet carrying value £m	Cash flows (undiscounted)					Total £m
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	
Participating insurance contract liabilities	(33,154)	(11,204)	(9,582)	(8,946)	(4,647)	(2,202)	(36,581)
Participating investment contract liabilities	(2,214)	(638)	(533)	(468)	(306)	(417)	(2,362)
Non-participating insurance contract liabilities	(7,301)	(2,052)	(1,799)	(1,559)	(1,104)	(1,371)	(7,885)
Non-participating investment contract liabilities	(38,847)	(10,347)	(9,811)	(8,070)	(5,930)	(9,235)	(43,393)
	(81,516)	(24,241)	(21,725)	(19,043)	(11,987)	(13,225)	(90,221)
Derivative liabilities	(1,511)	(438)	(430)	(403)	(372)	(449)	(2,092)
Reinsurance liability	(2,957)	(476)	(591)	(626)	(579)	(1,438)	(3,710)
	Group 2016						
	Balance sheet carrying value £m	Cash flows (undiscounted)					Total £m
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	
Participating insurance contract liabilities	(32,709)	(10,938)	(8,966)	(8,905)	(5,106)	(2,508)	(36,423)
Participating investment contract liabilities	(2,154)	(625)	(431)	(372)	(257)	(378)	(2,063)
Non-participating insurance contract liabilities	(7,860)	(2,133)	(1,916)	(1,663)	(1,242)	(1,743)	(8,697)
Non-participating investment contract liabilities	(31,329)	(8,964)	(6,939)	(6,249)	(4,848)	(7,817)	(34,817)
	(74,052)	(22,660)	(18,252)	(17,189)	(11,453)	(12,446)	(82,000)
Derivative liabilities	(1,586)	(494)	(429)	(403)	(373)	(443)	(2,142)
Reinsurance liability	(3,069)	(456)	(582)	(638)	(604)	(1,576)	(3,856)

## 40. Risk management (continued)

### (d) Liquidity risk (continued)

	Parent company 2017						
	Balance sheet carrying value £m	Cash flows (undiscounted)					Total £m
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	
Participating insurance contract liabilities	(33,234)	(11,231)	(9,606)	(8,969)	(4,657)	(2,206)	(36,669)
Participating investment contract liabilities	(2,214)	(638)	(533)	(468)	(306)	(417)	(2,362)
Non-participating insurance contract liabilities	(7,301)	(2,052)	(1,799)	(1,559)	(1,104)	(1,371)	(7,885)
Non-participating investment contract liabilities	(38,847)	(10,347)	(9,811)	(8,070)	(5,930)	(9,235)	(43,393)
	(81,596)	(24,268)	(21,749)	(19,066)	(11,997)	(13,229)	(90,309)
Derivative liabilities	(1,510)	(438)	(430)	(403)	(372)	(449)	(2,092)
Reinsurance liability	(2,957)	(476)	(591)	(626)	(579)	(1,438)	(3,710)

	Parent company 2016						
	Balance sheet carrying value £m	Cash flows (undiscounted)					Total £m
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	
Participating insurance contract liabilities	(32,765)	(10,921)	(8,951)	(8,890)	(5,099)	(2,505)	(36,366)
Participating investment contract liabilities	(2,154)	(625)	(431)	(372)	(257)	(378)	(2,063)
Non-participating insurance contract liabilities	(7,860)	(2,132)	(1,916)	(1,663)	(1,242)	(1,743)	(8,696)
Non-participating investment contract liabilities	(31,329)	(8,964)	(6,939)	(6,249)	(4,848)	(7,817)	(34,817)
	(74,108)	(22,642)	(18,237)	(17,174)	(11,446)	(12,443)	(81,942)
Derivative liabilities	(1,574)	(470)	(429)	(403)	(373)	(443)	(2,118)
Reinsurance liability	(3,069)	(456)	(582)	(638)	(604)	(1,576)	(3,856)

### (e) Pension schemes

The Group maintains three defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and regular contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions. Management of the assets of the pension schemes is the responsibility of each scheme's Trustees, who also appoint the Scheme Actuaries to perform triennial valuations to assess the level of funding required to meet the scheme's liabilities. The schemes' main exposures are to equity, interest rate, inflation and longevity risk. For further information on pension scheme assets and liabilities, see note 35. The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and are used in discussions with the Trustees, through whom any risk management activity must be conducted.

### (f) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, human resources, change management, tax, legal, fraud and compliance. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes and systems under their control.

## 40. Risk management (continued)

### (f) Operational risk (continued)

Details of risks on inherent (before controls) and residual (after controls) bases are maintained on risk registers, with each part of the business being responsible for identifying, assessing, managing and reporting on its operational risks and for implementing and maintaining controls in accordance with the Group's operational risk methodology. In performing these assessments, account is taken of the Group's risk appetite with greater significance being placed on those risks that fall outside these parameters. This is used as a basis for review and challenge by senior management, Risk Committees and the Board of Directors. Management attention is focused upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weakness is identified. In addition, the Group conducts a series of operational risk scenarios. These scenarios allow the Group to consider how effective controls will be should an extreme event occur and to make improvements where necessary. The scenarios also provide data that is used to calculate the capital held by the Group for operational risk. Within the Group's management of operational risks significant consideration is given to conduct risk and the risk of unfair outcomes to our customers and members.

### (g) Emerging risk

All insurers may be impacted by risks that are potentially significant but are currently only just beginning to emerge. The Group has defined emerging risks as being newly developing or changing risks which are difficult to quantify or may be uncertain and which could have a major impact on an organisation. Typically the drivers for these risks are technological, economic, environmental or geo-political. The Group's Emerging Risk Forum comprises members from across the Group who identify and assess emerging risks and possible mitigating actions. Information about emerging risks is provided to senior management and the Board and is used to inform decision making.

### (h) Risk governance

An independent Risk and Compliance function provides challenge to the business on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place and any actions being progressed. In many parts of the Group, governance and risk teams are embedded within business units supporting the process. The independent function provides advice and guidance on the impact of regulatory change and undertakes risk-based compliance monitoring reviews to assess the quality of business processes and controls, reporting the results of its findings to management and to the Board monthly.

### (i) Stress and scenario testing

The Group conducts a range of sensitivity analysis and stress and scenario testing activity in order to help it understand its risk profile and assess and manage its risks. This is a key element of the Group's risk management system, as well as being a regulatory requirement.

Stress and scenario testing in various forms is carried out on a regular basis as part of business as usual and in response to specific regulatory initiatives and can involve either:

- › straightforward stress tests/sensitivity analysis: analyses of the sensitivity of financial and operational metrics and the risk profile to discrete changes in market values or demographic experience; or
- › scenarios that involve a combination of changes in economic parameters or that concentrate on specific operational, non-market and/or market risks.

The following outputs are produced as part of business as usual and include results from one or both of the tests described above:

- › Group Performance Reviews, produced monthly;
- › Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- › Capital Management Plan, produced bi-annually;
- › Reports on the capital requirements of the Parent company, produced annually;
- › Internal Capital Adequacy Assessment Process (ICAAP) results for regulated non-insurance firms (where applicable), produced annually; and
- › Medium-Term Plans, produced annually.

The stress testing performed includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

Operational risk stresses and scenarios are completed to calculate the capital required for this risk. The stresses allow an assessment of the extreme impacts arising from a given risk by way of assessment of the frequency of occurrence and the distribution. A top-down approach is used for determining the Parent company's capital requirements which involves the analysis of single, but potentially catastrophic, events/risks which cover all risks used for modelling the capital requirement.

Various broad-based scenarios and reverse stress tests have been considered in the Group over the year, as well as business model analysis activity. These scenarios provide a top-down analysis of events that would affect the Group in a significant way. These events could be in relation to issues such as the markets in which the Group operates, financial strength, long-term strategy and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

## 40. Risk management (continued)

### (i) Stress and scenario testing (continued)

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

## 41. Capital management

### (a) Capital management policies and objectives

The Group's capital management objectives are:

- ▶ to protect the Group's financial strength, providing security to policyholders;
- ▶ to ensure that the Group's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board; and
- ▶ to comply with Solvency II's capital requirements.

The Group's capital position is monitored on a regular basis and reviewed formally by the Capital Management Committee. The Group's capital requirements are forecast on a regular basis and those forecasts are compared against the available capital. Potential investments are measured against the Group's required minimum internal rate of return taking into account the risk associated with the investment.

From 1 January 2016, the Group has been required to maintain and report its capital position under Solvency II. Under Solvency II, the Group is required to hold sufficient capital to withstand adverse outcomes from its key risks, e.g. that equity markets fall. This 'Solvency Capital Requirement' (SCR) is calibrated so that it is broadly equal to the adverse experience likely to occur once in every 200 years.

The Group is calculating and reporting this SCR using the 'Standard Formula' specified within the Solvency II rules. In addition to the Standard Formula SCR, the PRA has issued the Group with a 'capital add-on' increasing the SCR capital requirement. This 'capital add-on' is largely due to additional longevity and interest rate risk not captured in the Standard Formula SCR calculation.

The Group has not breached its Solvency II capital requirement at any point in 2017.

As well as calculating and reporting the Standard Formula SCR, the Group manages capital using an internal basis because it believes that this is more appropriate for the Group's business than the Standard Formula. The Group's risk appetite is to hold an additional amount of capital on top of this internal required capital, to act as a 'buffer' and avoid breaching the regulatory capital requirement. The current position and the target level of capital are expressed as a capital cover ratio, this being the amount of available capital as a proportion of the internal capital requirement.

### (b) Capital statement

The table below shows the Parent company's estimated Solvency II available own funds at 31 December 2017 and reconciles this to the IFRS unallocated divisible surplus. Figures are presented for the Parent company only as the Group is not required to produce a Solvency II capital calculation at the level of the Royal London Group.

The estimated Solvency II available own funds includes a Transitional Measure on Technical Provisions (TMTP). The TMTP smooths the transition from the old Solvency I regime to the Solvency II regime with the key difference being in the valuation of technical provisions and is recalculated every two years. In Royal London, the TMTP primarily provides benefit to the closed funds, however we are not reliant on the TMTP to meet our capital requirements. The original TMTP was approved by the PRA with effect from 1 January 2016 and a reduction of 1/16<sup>th</sup> was applied on 1 January 2017. Royal London has applied to the PRA to recalculate the TMTP at 31 December 2017. The estimated Solvency II available own funds are presented based on both the amount of the "approved TMTP" (as at 1 January 2017) and management's estimate of the recalculated 31 December 2017 value of the TMTP ("estimated TMTP"). The final TMTP will be published in the Solvency and Financial Condition Report in May 2018.

## 41. Capital management (continued)

### (b) Capital statement (continued)

	2017 £m	2016 £m
<b>Solvency II available own funds – estimated</b>		
Unallocated divisible surplus	3,855	3,368
Adjustments onto a Solvency II basis (approved TMTP):		
‣ Adjustment to the value of technical provisions and reinsurance assets	(323)	(178)
‣ Goodwill and other intangible assets	(262)	(251)
‣ Other valuation differences	(271)	(146)
‣ Own funds of closed funds	2,191	1,691
Other sources of capital:		
‣ Subordinated liabilities	883	801
<b>Solvency II available own funds (approved TMTP) – estimated</b>	<b>6,073</b>	<b>5,285</b>
Further adjustments onto a Solvency II basis for estimated TMTP:		
‣ Adjustment to the value of technical provisions and reinsurance assets	430	-
‣ Own funds of closed funds	(2)	-
<b>Solvency II available own funds (estimated TMTP) – estimated</b>	<b>6,501</b>	<b>5,285</b>

The Solvency II own funds are determined using the Solvency II valuation rules. The adjustment to the value of technical provisions and reinsurance assets relates to the removal of the margins of prudence included in the IFRS values (so that assumptions are all best estimate), the inclusion of the Solvency II risk margin, the use of the Solvency II yield curve including the volatility adjustment for appropriate lines of business, the adoption of Solvency II contract boundary definitions (mainly affecting unit-linked business) and also any benefit from the Solvency II transitional provisions.

The adjustment to goodwill and other intangible assets is to reduce the value of these assets to nil as required by Solvency II. The other valuation adjustments relate principally to the value of participations which are held at their Solvency II net asset value and to subordinated debt which is held at amortised cost for IFRS and at fair value for Solvency II.

The adjustment for the own funds of closed funds is the available own funds of the closed funds. For IFRS any excess of assets over liabilities within the closed funds is included within liabilities so the unallocated divisible surplus includes amounts relating to the Royal London open fund only. For Solvency II the excess within the closed funds is included within total available own funds, but only up to the value of the capital requirement (SCR) of the closed funds. Any excess value in the closed funds over and above the value of their SCR is excluded from total available own funds. This deduction is known as the ring fenced funds restriction. The amount of £2,189m (2016: £1,691m) based on the estimated TMTP is the total excess of assets over liabilities in the closed funds of £5,329m (2016: £4,300m) less the ring fenced fund restriction of £3,140m (2016: £2,609m).

### (c) Movement in available capital (unaudited)

The table shown below presents the movement in estimated Solvency II own funds. Figures are presented for the Parent company as the Group is not required to produce a Solvency II capital calculation at the level of the Royal London Group.

	2017		Total Parent company £m
	Open funds £m	Closed funds £m	
At 1 January (after closed fund restrictions)	3,594	1,691	5,285
Closed fund restrictions (i.e. assets in excess of SCR)	-	2,609	2,609
At 1 January (before closed fund restrictions)	3,594	4,300	7,894
Changes in assumptions	71	617	688
Investment performance	356	(99)	257
New business	190	-	190
Changes in management policy	(128)	(129)	(257)
Other movements (based on approved TMTP)	(201)	(236)	(437)
Other movements (adjustment for estimated TMTP)	430	876	1,306
<b>Movement</b>	<b>718</b>	<b>1,029</b>	<b>1,747</b>
At 31 December (before closed fund restrictions)	4,312	5,329	9,641
Closed fund restrictions (i.e. assets in excess of SCR)	-	(3,140)	(3,140)
At 31 December (after closed fund restrictions)	4,312	2,189	6,501



## 41. Capital management (continued)

### (c) Movement in available capital (unaudited) (continued)

	2016		
	Open funds £m	Closed funds £m	Total Parent company £m
At 1 January (after closed fund restrictions)	3,566	1,535	5,101
Closed fund restrictions (i.e. assets in excess of SCR)	-	1,729	1,729
At 1 January (before closed fund restrictions)	3,566	3,264	6,830
Changes in assumptions	2	210	212
Investment performance	261	922	1,183
New business	159	-	159
Changes in management policy	(119)	(2)	(121)
Other movements (based on approved TMTP)	(275)	(94)	(369)
Other movements (adjustment for estimated TMTP)	-	-	-
Movement	28	1,036	1,064
At 31 December (before closed fund restrictions)	3,594	4,300	7,894
Closed fund restrictions (i.e. assets in excess of SCR)	-	(2,609)	(2,609)
At 31 December (after closed fund restrictions)	3,594	1,691	5,285

The table above shows key elements of the movement in Solvency II own funds analysed by open and closed funds within the Parent company. The impact from assumption changes includes the impact of changes to economic, persistency, mortality, and expense assumptions on the liabilities.

The investment performance impact comprises the after-tax return on opening capital and assets backing non-profit liabilities, the change in the value of future profits on unit-linked business from stronger than expected fund performance, the performance on assets backing liabilities in respect of guarantees, options and smoothing and other future policy-related liabilities, and the reduction in cost of guarantees caused by the higher than expected value of underlying asset shares.

With the exception of economic assumptions, the value of new business is calculated on the basis used to value liabilities within the Solvency II balance sheet. For economic assumptions, the assumptions from the start of the period were used. The value is quoted net of development costs and tax.

Changes in management policy reflected actions taken by the Board which affected the value of liabilities set aside to meet future payments to with-profits policyholders.

Other movements included experience profits over the year including those earned on the non-life subsidiary and opening adjustments to reflect improved modelling, changes to the Solvency II risk margin and TMTP and residual items.

## European Embedded Value supplementary information

### Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information

The directors of Royal London have chosen to prepare supplementary information in accordance with the European Embedded Value Principles (the EEV Principles) issued in April 2016 by the CFO Forum. When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles. The directors have chosen not to adopt the Market Consistent Embedded Value Principles issued by the CFO Forum in April 2016.

In preparing the EEV supplementary information, the directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data and then applied them consistently;
- made estimates that are reasonable and consistent; and
- determined the basis on which business that is not covered business has been included in the supplementary information.

## Independent auditors' report to the directors of The Royal London Mutual Insurance Society Limited on the supplementary financial statements – European Embedded Value Basis

### Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's supplementary financial statements for the year ended 31 December 2017 have been properly prepared, in all material respects, in accordance with the European Embedded Value ('EEV') basis set out in Note (a) – Basis of preparation.

We have audited the EEV supplementary information of The Royal London Mutual Insurance Society Limited ('the Company') for the year ended 31 December 2017 which comprise the Consolidated income statement – EEV Basis, Consolidated balance sheet – EEV Basis and the related notes ('the supplementary financial statements') which have been prepared in accordance with the EEV basis set out in Note (a) – Basis of preparation and which should be read in conjunction with the Group's financial statements.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'), including ISA (UK) 800, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the supplementary financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the supplementary financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Emphasis of matter – Basis of preparation

In forming our opinion on the supplementary financial statements, which is not modified, we draw attention to Note (a) to the supplementary financial statements, which describes the Basis of preparation. The supplementary financial statements are prepared to assist the Company in applying the financial reporting provisions set out in Note (a). As a result, the supplementary financial statements may not be suitable for another purpose.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- ▶ the directors' use of the going concern basis of accounting in the preparation of the supplementary financial statements is not appropriate; or
- ▶ the directors have not disclosed in the supplementary financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the supplementary financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the supplementary financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the supplementary financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the supplementary financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the supplementary financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the supplementary financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Responsibilities for the supplementary financial statements and the audit

### Responsibilities of the directors for the supplementary financial statements

As explained more fully in the Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information, the directors are responsible for the preparation of supplementary financial statements in accordance with the EEV basis set out in Note (a) – Basis of preparation. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of supplementary financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the supplementary financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the supplementary financial statements

Our objectives are to obtain reasonable assurance about whether the supplementary financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these supplementary financial statements.

A further description of our responsibilities for the audit of the supplementary financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our engagement letter dated 26 January 2018 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
28 March 2018

### Footnotes:

- 1 The supplementary financial statements are published on the website of the Royal London Group; [www.royallondon.com](http://www.royallondon.com). The maintenance and integrity of the Royal London Group website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the supplementary financial statements since they were initially presented on the website.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of supplementary financial statements may differ from legislation in other jurisdictions.

## Consolidated income statement – EEV basis

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
<b>Operating activities</b>			
Contribution from new business	(g) (i)	292	223
Profit from existing business	(g) (ii)		
‣ Expected return		104	90
‣ Experience variances		37	4
‣ Operating assumption changes		111	50
Expected return on opening net worth	(g) (iii)	26	41
Loss on uncovered business	(g) (iv)	(33)	(44)
Strategic development costs and other items	(g) (v)	(208)	(82)
<b>Total operating profit before tax</b>		<b>329</b>	<b>282</b>
Economic experience variances	(g) (vi)	159	395
Economic assumption changes	(g) (vii)	79	(192)
Movement in Royal London Group Pension Scheme	(g) (viii)	73	(118)
Financing costs	(g) (ix)	(46)	(46)
<b>EEV profit before tax, ProfitShare and change in estimate for Solvency II</b>		<b>594</b>	<b>321</b>
ProfitShare	(g) (x)	(150)	(120)
Change in estimate for Solvency II	(g) (xi)	-	(182)
<b>EEV profit before tax</b>		<b>444</b>	<b>19</b>
Attributed tax charge	(g) (xii)	(30)	(40)
<b>Total EEV profit/(loss) after tax</b>		<b>414</b>	<b>(21)</b>

## Consolidated balance sheet – EEV basis

as at 31 December 2017

	2017 £m	2016 £m
<b>Assets</b>		
Assets held in closed funds	37,056	37,033
Assets backing non-participating liabilities	39,726	29,882
Reinsurance assets	5,384	8,442
Assets backing participating liabilities and net worth	9,090	8,759
Value of in-force business	2,544	2,065
Pension scheme surplus (RLGPS)	47	-
<b>Total</b>	<b>93,847</b>	<b>86,181</b>
<b>Liabilities</b>		
Liabilities in closed funds	37,056	37,033
Non-participating liabilities	39,726	29,882
Reinsured liabilities	5,384	8,442
Participating liabilities	6,526	6,129
Current liabilities	1,595	1,523
Pension scheme deficit (RLGPS)	-	26
<b>Total</b>	<b>90,287</b>	<b>83,035</b>
<b>Embedded Value</b>		
Net worth	969	1,107
Value of in-force business	2,544	2,065
Pension scheme surplus / (deficit) (RLGPS)	47	(26)
<b>Total</b>	<b>3,560</b>	<b>3,146</b>

## Value of in-force business – EEV basis

as at 31 December 2017

	2017 £m	2016 £m
Value of in-force business before allowance for burn-through and capital costs	2,580	2,105
Burn-through cost	(3)	(9)
Cost of capital	(33)	(31)
<b>Value of in-force business</b>	<b>2,544</b>	<b>2,065</b>



### (a) Basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the EEV Basis for Conclusions issued in April 2016 by the CFO Forum. They provide supplementary information for the year ended 31 December 2017 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union. Following the introduction of Solvency II on 1 January 2016, revised EEV Principles were issued in April 2016 to permit, but not require, the use of projection methods and assumptions consistent with Solvency II. The Group has made a number of changes to its EEV methodology as a result of Solvency II, as set out below.

The EEV Principles were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles accordingly. The reported embedded value provides an estimate of Royal London's value to its members.

#### EEV methodology - impact of Solvency II

The Group's EEV results were previously prepared using the PRA's realistic balance sheet regime up to 31 December 2015. Although that regime was replaced by Solvency II with effect from 1 January 2016, the Group is continuing to apply a basis for preparing its EEV results which is consistent with the former realistic regime. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic regime.

As a result of the introduction of Solvency II, a number of changes were made to the basis which is used to produce the EEV balance sheet to more closely align with the methodology used for Solvency II. The main changes were to use a swap curve to discount cash flows compared to a gilt curve used previously; a change in the methodology to reserve for reinsurer default; and consequential changes to the methodology for calculating the value of in-force business (VIF).

#### EEV operating profit

The definition of EEV operating profit follows the same principles as IFRS operating profit with the exception of those items which are recognised under IFRS but are excluded from EEV as they cannot be recognised for regulatory purposes. Most notably, IFRS operating profit includes amortisation and impairment of intangibles whereas in EEV reporting, goodwill and other intangible assets (other than VIF) are excluded because they are not permitted to be recognised for regulatory purposes.

### (b) EEV methodology

#### (i) Overview

The EEV basis of reporting is designed to recognise the economic value of a new policy at the point it is written. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

For the purposes of EEV reporting, the Group has adopted a market-consistent methodology. Within a market-consistent framework, assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.

#### (ii) Covered business

The EEV Principles require an insurance company to distinguish between covered and uncovered business according to whether the business is valued on EEV Principles. The covered business, which represents the vast majority of the Group's total business, incorporates:

- ▶ life and pensions business defined as long-term business by UK and overseas regulators; and
- ▶ asset management business; both that derived from the life and pensions business and that arising from external clients (except that arising from cash mandates, which is treated as uncovered).

### (iii) Embedded value

The reported embedded value provides an estimate of the value of the covered business, including future cash flows expected from the existing business but excluding any value that may be generated from future new business. For covered business, it comprises the sum of the net worth calculated on an EEV basis and the value of in-force business. For uncovered business, it comprises the IFRS net worth.

The net worth is the market-consistent value of the net assets (excluding the value of in-force business and pension scheme deficit/surplus) over and above those required to manage the business in line with the published Principles and Practices of Financial Management (PPFM). It is based on the working capital, consistent with the previous realistic regime, in those funds within the Group that are open to new business and allows for the value of the subordinated debt.

The value of in-force business is the expected future profits from the existing business at the valuation date, on a realistic basis allowing for risk, adjusted for the cost of holding the required capital.

### (iv) Allowance for risk

The allowance for risk is a key feature of the EEV Principles. The table below summarises how each item of risk has been allowed for.

Type of risk	EEV methodology
Market-related risks	Allowed for explicitly in the EEV calculations
Non-market risks which are symmetrical in terms of the impact on EEV	Allowed for within the estimates of future operating experience
Non-market risks which are asymmetrical in terms of the impact on EEV	Allowed for in the calculation of VIF and financial options by way of an additional margin in the estimates of future operating experience

#### *Market risk*

The approach adopted to calculate the Market Consistent Embedded Value combines deterministic and stochastic techniques. Deterministic techniques have been used to value 'non-option cash flows'; that is cash flows whose values vary linearly with market movements. Stochastic techniques have been used to value cash flows with an asymmetric effect on profit, such as investment guarantees on with-profits products.

In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate and a bond cash flow is valued using a bond risk discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate. In practice, it is not necessary to discount each cash flow at a different rate. For cash flows that are either independent or move linearly with the market, a method known as the 'certainty equivalent approach' will achieve the same results. Under this method all assets are assumed to earn the risk-free rate of return and all cash flows are discounted using the risk-free rate. This approach has been adopted to value the 'non-option cash flows' within a deterministic model.

#### *Non-market risk*

In general, the allowance for non-market risk is covered by the margin incorporated into the Group's estimates of future operating experience assumptions. The methodology used to determine the appropriate allowance for non-market risk is based on the analyses undertaken as part of the calculation of the Group's internal capital requirements.

### (c) Cost of capital

The EEV Principles require capital allocated to the covered business to be split between required capital, the future distributions of which are restricted, and free surplus. We have defined the amount of required capital to be that necessary to meet the Group's internal assessment of capital requirements.

The EEV VIF includes a deduction for the frictional cost of holding the required capital. Frictional costs, being the tangible costs of holding capital, have been allowed for on a market-consistent basis. These consist of the total taxation and investment expenses incurred on the required capital over the period it is anticipated to be required. They reflect the cost to a member of having an asset held within a mutual insurance company, rather than investing in the asset directly.

No allowance has been made for any agency costs. These represent the potential markdown to value that members might apply because they do not have direct control over their capital. Any adjustment would be subjective and different members will have their own views of what adjustment, if any, should be made.

**(d) Burn-through cost**

Under adverse conditions, the funds that remain open to new business may be required to make good any deficits that arise in the closed funds. The time value cost of this potential liability, known as the burn-through cost, is modelled stochastically, as it will only occur in adverse scenarios.

The burn-through cost is calculated as the average value of the capital support required in a large number of market-consistent scenarios. Allowance has been made under the different scenarios for management actions, such as altered investment strategy, consistent with the PPFM.

The stochastic models used to calculate this liability have been calibrated to market conditions at the valuation date. In addition, due to its asymmetric nature, an additional margin has been incorporated into the operating assumptions.

**(e) Expenses**

The EEV Guidance requires companies to perform an active review of expense assumptions, and include an appropriate allowance for corporate costs and service company costs.

**Corporate costs**

Corporate costs are those costs incurred at a corporate level that are not directly attributable to the covered businesses. To the extent that future corporate costs have not been anticipated within the EEV they are accounted for as they arise.

**Service company costs**

An in-house administration service company, which receives a fee in respect of each policy it administers, is responsible for the administration of the majority of the Group's policies. A similar arrangement exists for asset management services, although the fee is applied as a percentage of assets. The VIF life and pensions business has been calculated using the service company (including asset management) fees.

Costs within the in-house administration service company have been classified as either ongoing (including an element of development expenditure) or non-recurring costs. Non-recurring costs have not been anticipated within the EEV and instead are accounted for as they arise. The profits expected to arise from life and pensions business within the administration service company from activities related to the maintenance of existing business and within RLAM in respect of investment management services have been capitalised within the EEV. These calculations result in the recognition of further value of in-force business. £5m (2016 £6m) is recognised in respect of the administration service company and £121m (2016 £123m) is recognised in respect of RLAM's investment management services.

No allowance has been made for future productivity gains.

**(f) New business**

New covered business includes:

- premiums from the sale of new contracts (including any contractual future increments on new contracts);
- non-contractual increments (both regular and single premium) on existing policies; and
- premiums relating to new entrants in group pension schemes.

## (g) Analysis of EEV profit

### (i) Contribution from new business

The contribution from new business is calculated using economic assumptions at the start of the period. It is shown after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as total single premium sales received in the year plus the discounted value, at point of sale, of regular premiums expected to be received over the term of the new contracts. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate the new business contribution, so the components of the new business margin are on a consistent basis.

The new business contribution in the table below represents the new business contribution grossed up for tax at 19% (2016 20%). This is to aid comparability with proprietary companies which typically pay tax at the main corporation tax rate of 19% (2016 20%).

The new business margin represents the ratio of the new business contribution to PVNBP.

	PVNBP £m	New business contribution £m	New business margin %
<b>2017</b>			
Intermediary			
Pensions	10,787	241.6	2.2
Protection	807	49.8	6.2
Consumer	408	(5.3)	(1.3)
<b>Total life and pensions business</b>	<b>12,002</b>	<b>286.1</b>	<b>2.4</b>
Wealth	6,906	46.8	0.7
<b>Total</b>	<b>18,908</b>	<b>332.9</b>	<b>1.8</b>
<b>2016 - Restated</b>			
Intermediary			
Pensions	7,738	170.6	2.2
Protection	647	42.8	6.6
Consumer	301	4.3	1.4
<b>Total life and pensions business</b>	<b>8,686</b>	<b>217.7</b>	<b>2.5</b>
Wealth	5,065	37.7	0.7
<b>Total</b>	<b>13,751</b>	<b>255.4</b>	<b>1.9</b>

Pension volumes have increased by 39% with strong growth observed in both the individual and group markets. Margins are consistent with 2016.

Protection comprises Royal London Intermediary Protection and Royal London Ireland. Overall, volumes have increased by 25%. Lower margins are mainly due to the more challenging economic environment.

Consumer volumes have increased by 36% however new business contribution from the prepaid Funeral Plan has reduced due to a material reduction in the yield curve which significantly increases the costs of guarantees. The overall new business margin has also moved from positive to negative as a result. During 2018, the Funeral Benefit Plan offering will be changed and as a result the costs of guarantees will reduce.

RLAM's new business volumes increased and margins remained consistent with 2016. PVNBP for Wealth relates to gross sales inflows in the period, excluding external cash mandates which are treated as uncovered business and not valued on an EEV basis. The 2016 comparative has been updated to exclude cash mandates.

**(ii) Profit from existing business**

Profit from existing business comprises:

- the expected return on the value of in-force business at the start of the period;
- profits and losses caused by differences between actual experience for the period and that assumed in the embedded value calculations at the start of the period; plus
- the impact of any changes in the assumptions regarding future operating experience.

The expected return reflects the opening risk-free rate which is 1.50% (2016 2.00%).

The key change in assumptions is an update to longevity assumptions, reflecting latest forecasts that future life expectancy will not improve by as much as previously predicted. Other assumptions have been brought in line with latest experience, and positive changes have been seen, particularly in our Protection business. These changes have more than offset updates to Group Pensions persistency assumptions where experience is expected to continue to be challenging. We also changed our assumptions to reflect our expectation of lower future costs, particularly in our pensions business.

**(iii) Expected return on opening net worth**

The expected return on opening net worth represents the expected investment return on the net worth over the period.

**(iv) Loss on uncovered business**

Loss on uncovered business has been valued on an IFRS basis, as used in the primary financial statements with the exception of goodwill which is not recognised in the EEV balance sheet. A breakdown of the (loss)/profit reported on uncovered business is shown in the table below.

	2017 £m	2016 £m
General insurance commissions	1	2
Annuity and other commissions	5	5
Ascentric	(42)	(50)
Royal London Asset Management (cash mandates)	3	(1)
<b>Total</b>	<b>(33)</b>	<b>(44)</b>

The loss in the Ascentric item in both 2017 and 2016 is mainly as a result of an impairment loss on the costs associated with developing new back-office systems.

**(v) Strategic development costs and other items**

Strategic development costs represent investments that we believe are important for our future competitiveness and we expect will deliver good returns in the future.

Other items represent a combination of:

- corporate costs and other development costs, which are typically investments made to improve future EEV profits (for example, by reducing ongoing expense levels or increasing new business volumes); and
- other non-recurring items. As an example, this would include the impact of any changes in the way the business is modelled and improvements to valuation techniques.

A breakdown of these items is shown in the table below.

	2017 £m	2016 £m
Strategic development costs	(23)	(16)
Corporate and other development costs	(222)	(117)
Modelling and other changes	5	51
Restructure of reinsured unit linked funds	32	n/a
<b>Total</b>	<b>(208)</b>	<b>(82)</b>

In 2017:

- › The “strategic development costs” include development of our Pensions platform and brand.
- › The “corporate and other development costs” include provisions that have been set up for providing future change such as IFRS17, MiFID II and upgrading our premises. Other items include provisions relating to the costs of servicing historic remediation and expected costs associated with setting up a new legal entity in Ireland following Brexit.
- › The ‘modelling and other changes’ component reflects modelling and methodology changes. There are no significant changes for 2017.
- › The “restructure of reinsured unit linked funds” reflects the restructure of the £2.5bn unit linked funds previously reinsured with BlackRock Life. A profit of £32m has been generated from the release of the provision for reinsurer default.

In 2016:

- › The “strategic development costs” mainly related to the development of our brand.
- › The “corporate and other development costs” included provisions that were set up for providing for future regulatory change as well as servicing historic remediation.
- › The ‘modelling and other changes’ component included a notable one-off gain of £21m resulting from the closure of the RLGPS to future accrual during 2016.

#### (vi) Economic experience variances

This shows the impact of actual investment returns relative to those expected. Economic experience variances have an impact on the VIF and net worth.

The economic experience variance on the VIF arises from the change in policy values in which the Group has an interest. The economic experience variance on the net worth represents the impact that investment returns, being different to those anticipated, have on:

- › the value of the opening net worth;
- › the value of financial options and guarantees \*; and
- › the value of the assets backing the financial options and guarantees \*.

\* Excluding those movements due solely to changes in the yield curve, which have been netted off against the movement in the value of assets caused by the shift in the yield curve.

The value of the second and third items above is generally far more significant for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profits funds is restricted typically to 10% of the distributable surplus.

For assets held within the Royal London Fund, private equity investments returned in excess of 8%, UK and overseas equities both earned in excess of 13%, UK bonds returned in excess of 4% and property returned in excess of 10%. Overseas bond returns were slightly negative. Returns on other asset categories were fairly flat during 2017.

#### (vii) Economic assumption changes

Long-term economic assumptions were revised to take into account the financial conditions at the end of the period including the impact of related management actions. The effect of these changes contributed a profit of £79m (2016 loss of £192m) to the pre-tax result. Further details of the economic basis used are provided in section (h).

#### (viii) Pension scheme surplus/(deficit)

The principal scheme is the Royal London Group Pension Scheme, a final salary scheme that closed to the future accrual of benefits during 2016. On an International Accounting Standard (IAS) 19 basis, the scheme had a surplus of £47m at 31 December 2017 (December 2016 deficit of £26m). The move into surplus during 2017 is due to a combination of good returns on equity and credit assets and lower real yields used to value the liabilities.

The surplus in the two pension schemes acquired as part of the Royal Liver transaction is part of the closed Royal Liver Sub-fund and so is not included in the EEV income statement.

#### (ix) Financing costs

Royal London has two tranches of subordinated debt in issue at 31 December 2017: £400m nominal issued on 29 November 2013 and £350m nominal issued on 13 November 2015, both of which carry a coupon of 6.125% per annum. There has been no change to the subordinated debt in issue over the year. The cost of servicing the debt over the year has remained at £46m (2016 £46m).



**(x) ProfitShare**

In 2017, Royal London's Board exercised its discretion to allocate a proportion of the profits to certain asset shares by crediting an investment return in excess of the rate earned on the underlying assets, thereby directly increasing the value of the liabilities set aside to meet future payments to relevant policyholders.

In 2016 we expanded the reach of ProfitShare to include the vast majority of our unit-linked pension customers by enhancing their unit holdings. We continue to follow the same approach in 2017.

The total ProfitShare for 2017 is £142m as referred to in the Chairman's statement (£142m being the net of tax amount). In 2016, the corresponding figure was £114m.

**(xi) Change in estimate for Solvency II**

As a result of the introduction of Solvency II on 1 January 2016 we made a number of changes to the basis used to produce the EEV results. The purpose of these changes was to better align our EEV reporting to the approach taken to prepare our capital position under the new Solvency II regulations. The adjustments were treated as a change in estimate which was recognised in the 2016 period. The main changes were to use a swap curve to discount cash flows compared to a gilt curve used previously, a change in methodology to reserve for reinsurer default and consequential changes in the methodology for calculating VIF. The total impact was a one-off charge of £182m to the Group's Embedded Value.

Note that the swap curve includes an adjustment for the risk of default in line with the Solvency II credit risk adjustment but excludes the Solvency II volatility adjustment.

The table below summarises the impact of the change in basis for Solvency II included in the 2016 analysis only.

	2016 £m
Change in yield curve	(168)
Change in reinsurance default reserve	(19)
Other changes	5
<b>Change in basis for Solvency II</b>	<b>(182)</b>

#### (xii) Attributed tax charge

EEV profits are calculated net of tax and then grossed up at an appropriate tax rate. In general, this will be 5% (2016 5%), the expected long-term rate of tax payable by the Group, although subsidiary companies may be subject to different rates of tax.

#### (h) EEV assumptions

##### (i) Principal economic assumptions – deterministic

Economic assumptions are reviewed actively and are based on the prevailing market yields on risk-free assets at the valuation date. The risk free assumptions are based on the Solvency II swap curve including the credit risk adjustment but with no allowance for the Solvency II volatility adjustment. Sample assumptions are shown in the following table.

	2017 Euro %	2017 Sterling %	2016 Sterling %
15-year risk-free swap forward rate	1.92	1.63	1.59
15-year retail price inflation	2.15	3.80	3.88
15-year expense inflation	3.15	4.80	4.88

Note that we are now valuing the Group's Irish business on a Euro curve consistent with the currency that the liabilities are denominated in. Previously this business was valued on a Sterling yield curve.

##### (ii) Principal economic assumptions – stochastic

The value of financial options (including premium rate guarantees and guaranteed annuity options), smoothing costs and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation.

The economic scenarios achieve market consistency by:

- deriving the underlying risk-free rate from the forward swap curve; and
- calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist. We attempt to achieve the best possible fit, although modelling restrictions prevent this from being perfect.

The tables below show the implied volatilities used in the modelling by asset class.

2017	Term (years)				
	5	10	15	20	30
15-year risk-free zero coupon bonds	8.5%	6.8%	5.6%	4.8%	5.3%
15-year AA-rated corporate bonds	10.0%	8.5%	7.4%	6.6%	6.9%
Equities	17.9%	20.2%	21.9%	23.5%	24.8%

2016	Term (years)				
	5	10	15	20	30
15-year risk-free zero coupon bonds	9.9%	7.1%	5.3%	4.6%	5.7%
15-year AA-rated corporate bonds	11.5%	8.9%	7.4%	6.7%	7.3%
Equities	21.0%	23.3%	24.9%	26.4%	27.5%

**(iii) Expected returns in reporting period**

For the purposes of calculating the expected returns over the period, allowance is made for a risk premium as set out in the following table.

	2017 %	2016 %
Risk premium – cash	(1.00)	(1.00)
Risk premium – index linked bonds	(0.50)	0.00
Risk premium – corporate bonds	1.00	1.00
Risk premium – property	3.00	3.00
Risk premium – UK equities	4.00	3.50
Risk premium – overseas equities	4.25	3.50

All other assets are assumed to earn the risk-free rate.

**(iv) Other assumptions**

Demographic assumptions are regularly reviewed having regard to past, current and expected future experience, and any other relevant data. These are generally set as best estimate with an appropriate margin for adverse deviations.

**(v) Sensitivity analyses**

The table below shows the sensitivity of the embedded value at 31 December 2017 and the 2017 contribution from new business to changes in assumptions.

	Notes	Change in embedded value £m	Change in new business contribution £m
100 basis point reduction in risk-free rates		36	(60)
10% increase in market values of equities and property	1	266	-
10% proportionate decrease in lapse and paid-up rates		245	63
10% proportionate decrease in expenses		219	48
5% proportionate decrease in mortality and morbidity		(26)	3
50% increase in capital requirements		(17)	(1)

1 The value of new business is assessed at the point of sale. Increases in the value of equities and property at this date have no impact on the value of new business.

2 The sensitivities in the table include the impact of stress testing the Royal London Group Pension Scheme.

**(i) Reconciliation of the IFRS unallocated divisible surplus to the European Embedded Value**

	2017 £m	2016 £m
<b>IFRS unallocated divisible surplus</b>	<b>3,726</b>	<b>3,292</b>
Valuation differences between IFRS and EEV		
‣ Goodwill and intangible assets	(239)	(250)
‣ Deferred tax valuation differences	(6)	(2)
‣ Subordinated debt at market value	(134)	(52)
‣ Capital requirements of subsidiaries and other valuation differences	(2)	(8)
Add items only included on an embedded value basis		
‣ Valuation of asset management and service subsidiaries	126	137
Other valuation differences	89	29
<b>European Embedded Value</b>	<b>3,560</b>	<b>3,146</b>

**(j) Reconciliation of IFRS transfer to unallocated divisible surplus to EEV profit**

	2017 £m	2016 £m
IFRS transfer to/(deduction from) unallocated divisible surplus	434	(22)
Amortisation and impairment of intangible assets	11	30
Differences in valuation of subsidiaries	(5)	(12)
Change in realistic value of subordinated debt	(82)	(27)
Movement in valuation differences for deferred tax assets	(4)	(1)
Other movements in valuation bases	60	11
<b>EEV profit for the year</b>	<b>414</b>	<b>(21)</b>

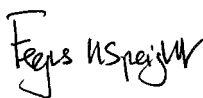
## Notice of Annual General Meeting

Notice is hereby given that the 2018 Annual General Meeting of The Royal London Mutual Insurance Society Limited (the 'Company') will be held at 11am on Wednesday 13 June 2018, at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD, for the transaction of the following business.

To consider and, if thought fit, vote for the following resolutions as ordinary resolutions:

1. to receive and consider the Company's Annual Report and Accounts with the related auditor's report for the year ended 31 December 2017;
2. to approve the Directors' remuneration policy;
3. to approve the annual report on remuneration for the year ended 31 December 2017;
4. to reappoint PricewaterhouseCoopers LLP as auditors of the Company until the conclusion of the next Annual General Meeting;
5. to authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers LLP;
6. to reappoint Sally Bridgeland as a director of the Company;
7. to reappoint Olivia Dickson as a director of the Company;
8. to reappoint Ian Dilks as a director of the Company;
9. to reappoint Tracey Graham as a director of the Company;
10. to reappoint Tim Harris as a director of the Company;
11. to reappoint Phil Loney as a director of the Company;
12. to reappoint Jon Macdonald as a director of the Company;
13. to reappoint Andrew Palmer as a director of the Company;
14. to reappoint Rupert Pennant-Rea as a director of the Company; and
15. to reappoint David Weymouth as a director of the Company.

By order of the Board



**Fergus Speight**  
*Company Secretary*  
 For and on behalf of Royal London  
 Management Services Limited  
 28 March 2018

The Royal London Mutual Insurance  
 Society Limited

55 Gracechurch Street, London  
 EC3V 0RL

Registered in England and Wales,  
 No.99064

## Commentary on the resolutions

### Resolution 1 – Annual Report and Accounts 2017

Following changes introduced by the Companies Act 2006 (the Act), the Company is not required to lay its accounts before a general meeting. The Board nonetheless considers it best practice to do so and will continue to present the Annual Report and Accounts to the Annual General Meeting.

### Resolutions 2 and 3 – Directors' remuneration policy and annual report on remuneration

The Act requires FTSE-listed companies to include certain content in regard to remuneration within their annual report and accounts. Although Royal London is not a FTSE-listed company, your Board has elected to comply with the standards applicable to FTSE-listed companies under the Act. Therefore, Royal London's Remuneration Committee report includes:

- › our Directors' remuneration policy; and
- › our annual report on remuneration.

Resolution 2 seeks approval for the Directors' remuneration policy and is subject to a vote of the members at least every three financial years, or earlier if it is proposed that the policy is amended during that time. The Remuneration Committee will take into account the members' vote when setting future policy.

Resolution 3 seeks approval for the 2017 annual report on remuneration.

### Resolutions 4 and 5 – Appointment and remuneration of auditors

PricewaterhouseCoopers LLP are the Company's existing auditors and it is proposed that they be reappointed, until the next general meeting. You are asked to authorise their reappointment and to authorise the Audit Committee to determine their remuneration.

### Resolutions 6 to 15 – Reappointment of directors

The Board considers that each of the directors offering themselves for reappointment brings a wealth of valuable experience to the Board, enhancing its skill and knowledge base and should be reappointed.

Note: The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office at 55 Gracechurch Street, London EC3V 0RL during business hours on any weekday (except public holidays).



## Glossary

### A

#### **Association of British Insurers (ABI)**

The ABI represents the collective interests of the UK's insurance industry.

#### **Acquired VIF**

The present value of acquired in-force business arising on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary.

#### **Acquisition costs**

The costs of acquiring and processing new business, including a share of overheads.

#### **Adviser**

Someone authorised by the FCA, who is qualified by experience and examination to provide financial advice. See also Independent financial adviser in glossary.

#### **Alternative performance measures (APM)**

A financial measure of performance not defined or specified by accounting standards.

#### **Annuity**

An insurance policy that provides a regular income in exchange for a lump-sum payment.

#### **Annuity Bureau**

Launched in 2014, a Royal London service used to help customers who wish to buy a guaranteed income for life find the best rate for their individual circumstances.

#### **Asset share**

A policy's asset share is calculated by accumulating the premiums paid, deducting all applicable expenses and tax, and adding its share of the investment returns achieved by the with-profits fund over the policy's lifetime.

#### **Assets under administration (AUA)**

The total assets administered on behalf of individual customers and institutional clients through our wrap platform business. It includes those assets for which the Group provides investment management services, as well as those that the Group administers where the customer has selected an external third-party investment manager.

#### **Auto-enrolment**

A governmental law designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. The scheme also requires employers to contribute if their employees do.

### B

#### **Board**

Royal London Mutual Insurance Society Board.

#### **Burn-through cost**

Under adverse conditions, the fund that remains open to new business may be required to make good any deficits that arise in the closed funds. This potential liability is known as the burn-through cost. It is modelled using stochastic techniques, as it will only occur in adverse scenarios.

### C

#### **Capital Cover Ratio**

Own Funds divided by Solvency Capital Requirement.

#### **Capital markets**

Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

#### **CFO Forum**

A high-level discussion group formed and attended by the Chief Financial Officers of major European insurance companies to discuss and harmonise reporting standards.

#### **CIS**

The Co-operative Insurance Society Limited purchased by the Group on 31 July 2013. On 1 August 2013 it was renamed Royal London (CIS) Limited.

#### **Closed funds**

Our funds that are now closed to new business

#### **Company**

The Royal London Mutual Insurance Society Limited.

#### **Consumer division**

Our business division that sells life and pensions business directly to customers.

#### **Consumer Price Index (CPI)**

A measure of changes in the price level of a basket of consumer goods and services purchased by households.

#### **Covered business**

The business covered by the EEV methodology. This includes life and pensions business defined as long-term business by UK and overseas regulators and asset management business (excluding cash management).

### **Critical illness cover**

Cover that pays a lump sum if the insured person is diagnosed with a serious illness that meets the cover's definition.

### D

#### **Deferred acquisition costs (DAC)**

The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

#### **Deferred fee income**

The method of accounting whereby up-front policy charges are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

#### **Defined benefit scheme**

A type of occupational pension scheme, where the benefits are based on the employee's salary and service.

#### **Discounting**

The process of expressing a future cash transaction in terms of its present value using a discount rate which reflects the time value of money.

#### **Division**

A sub-division of the Group that focuses on a specific product offering, market or function. A business unit may be a statutory entity or part of one or more separate statutory entities.

#### **Drawdown**

Drawdown is a flexible way way of using your savings. With a defined contribution scheme, once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

### E

#### **Economic assumptions**

Assumptions of future interest rates, investment returns, inflation and tax rates. The impact of variances in these assumptions is treated as non-operating profit or loss under EEV.

## Glossary continued

### **European Embedded Value (EEV)**

The EEV basis of reporting attempts to recognise the true economic value added over a period and is calculated according to guidelines issued by the CFO Forum. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of the recognition is different.

### **EEV operating profit**

The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds.

### **Exceptional items**

Items that, in the directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance on an EEV basis.

## F

### **Fair value**

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction.

### **Final salary**

A defined benefit scheme that provides a pension based on salary at retirement

### **Financial Conduct Authority (FCA)**

An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

### **Financial options and guarantees**

For Royal London business, 'financial options' refers principally to guaranteed annuity options. 'Guarantees' refers to with-profits business where there are guarantees that parts of the benefits will not reduce in value, or are subject to a minimum value.

### **Financial Reporting Council**

The Financial Reporting Council is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

### **FTSE 100**

This is the share index of the 100 largest companies by market capitalisation listed on the London Stock Exchange.

### **Funds under management (FUM)**

The total of assets actively managed or administered by, or on behalf of, the Group, including funds managed on behalf of third parties. It excludes assets administered by our platform business.

## G

### **Group**

The Royal London Mutual Insurance Society Limited and its subsidiaries.

## I

### **Independent financial adviser (IFA)**

Someone authorised by the FCA, qualified by experience and examination to provide financial advice, who is not working for any single product provider company.

### **Individual Savings Account (ISA)**

An ISA is a tax-efficient way to invest money into cash, stocks and shares up to a yearly allowance.

### **Intermediary division**

Our business division that sells life, pensions and protection business through intermediaries, primarily independent financial advisers.

### **Internal Model/IMAP**

The processes, systems and calculations that together allow the Group to control the risks that it faces and quantify the capital needed to support those risks under the Solvency II regime. It includes a calculation engine to quantify capital requirements, the Group's risk management framework and its system of governance. Our Internal Model is used for Internal Capital management purposes and we are seeking formal approval in 2019 to use this to calculate our Capital Requirements.

### **Internal rate of return (IRR)**

The discount rate at which the present value of the after-tax cash flows we expect to earn over the lifetime of the business written is equal to the total capital invested to support the writing of that business.

### **International Financial Reporting Standards (IFRS)**

Accounting standards issued by the International Accounting Standards Board (IASB) applied to these financial statements.

## K

### **Key performance indicator (KPI)**

An indicator used by a business to measure its development, performance or position.

## M

### **Maintenance expenses**

Expenses related to the servicing of the in-force book of business, including investment and termination expenses and a share of overheads.

### **Market-consistent basis**

A basis of valuation in which assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets. An insurance contract combining savings and protection elements designed to repay the principal of a loan or mortgage.

### **Market Value Adjustment (MVA)**

An adjustment (positive or negative) that may be applied to a policy if a full or partial surrender is made before the end of the surrender charge period.

### **Mutual**

A company owned by its members which is not listed on the stock market. A member of a mutual company can vote at its Annual General Meeting.

## N

### **Net Promoter Score**

An index used to measure the willingness of customers to recommend a company's products or services to others.

### **Net worth**

The excess of assets over liabilities on the EEV basis of reporting, where assets exclude PVIF and the pension scheme surplus.

### **New business contribution**

The expected present value on the EEV basis of reporting of all cash flows arising from new business.

### **New business margin**

The new business contribution as a percentage of the present value of new business premiums.

**O****Open-ended investment company (OEIC)**

Investment funds which pool together investors' money and invest this in a broad range of shares and other assets. They are similar to unit trusts.

**Operating assumptions**

Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. The impact of variances in these assumptions is included within operating profits under EEV.

**Operating experience variances**

The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

**Operating profit (IFRS basis)**

The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds. It is similar to EEV operating profit other than a few methodology and valuation differences. For example, IFRS recognises the amortisation of certain intangibles whereas EEV does not, IFRS does not recognise the embedded value of our asset management business but EEV does, additional provisions are recognised in EEV.

**Own Funds**

The excess of assets over Technical Provisions, as measured by the PRA's regulatory reporting requirements under Solvency II.

**Own Risk and Solvency Assessment (ORSA)**

The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period, and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

**P****Parent company**

The Royal London Mutual Insurance Society Limited.

**Part VII transfers**

Transfer of insurance business from one insurer to another insurer in accordance with Part VII of the Financial Services and Markets Act 2000.

**Participating**

Contracts which are with-profits in type.

**Payback period**

The period required for the after-tax cash flows expected to arise on new business to be equal to the capital invested to support the writing of the business.

**Pension**

A means of providing income in retirement for an individual and possibly his/her dependants. Our pension products include Personal and Group Pensions, stakeholder pensions and income drawdown.

**Pension date**

The date at which income can be taken from a pension either through a cash lump sum or investment in an annuity.

**Pension freedoms**

The pension legislation introduced in Budget 2014 that has become known as 'Freedom and choice' introduced new ways by which pension savings can be accessed. Now, members of a defined contribution (DC) pension scheme have increased flexibility in the options available to them when taking their pension benefits.

**Personal Pension**

A pension plan for an individual policyholder.

**Phoenix Life Assurance Limited (PLAL)**

Phoenix Life Assurance Limited. PLAL's assets and liabilities were transferred into Royal London Group with effect from 29 December 2008.

**Present value of in-force business (PVIF)**

The present value of the projected future profits after tax arising from the business in-force at the valuation date.

**Present value of new business premiums (PVNBP)**

The PVNBP is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year.

**Principles and Practices of Financial Management (PPFM)**

A document detailing how we manage our with-profits funds. We have a separate PPFM for each with-profits fund.

**ProfitShare**

ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

**Protection**

A policy providing a cash sum or income on the death or critical illness of the life assured.

**Prudential Regulation Authority (PRA)**

Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

**R****Rating agencies**

A rating agency (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and indicate the likelihood of default.

**Regular premium**

A series of payments for an insurance contract, typically monthly or annually.

**Regular Supervisory Report (RSR)**

A report required under the Solvency II directive. This is a private report to the PRA and is not disclosed publicly. Life insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

**Retail Price Index (RPI)**

A measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

**Risk-free rate**

The theoretical rate of return of an investment with no risk of financial loss.

**Royal London 360°**

Royal London business unit responsible for international business. This business was disposed of during 2013.

**Royal London Asset Management (RLAM)**

Royal London business unit responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds for FTSE 250 companies, local authorities, universities, charities and individuals.

**Royal London**

The Royal London Mutual Insurance Society Limited and its subsidiaries.

**Royal London Group**

The Royal London Mutual Insurance Society Limited and its subsidiaries.

## Glossary continued

### **Royal London Ireland**

Rebranded from Caledonian Life in 2014, the Royal London business unit providing protection products in the Republic of Ireland through intermediaries.

### **Royal London Open Fund**

The part of the Royal London Fund into which all of the Group's new pensions and insurance business is written.

### **Royal London Platform Services (trading as Ascentric)**

Royal London's independent wrap platform services which trades as Ascentric, providing investment administration and consolidation services to long-term investors and financial advisers through its online wrap service.

### **Royal London Long-Term Fund**

The long-term business fund of Royal London, comprising the Royal London Open Fund and a number of closed sub-funds from businesses acquired in the past.

## S

### **Sales**

Sales represent PVNBP for life and pensions business.

### **Senior Insurance Managers Regime**

A range of policy changes introduced by the FCA and PRA on 7 March 2016 that aim to increase individual accountability within the insurance sector.

### **Single premium**

A single payment for an insurance contract.

### **Solvency II**

A European Union directive which became fully applicable to European insurers and reinsurers on 1 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

### **Solvency Capital Requirement (SCR)**

The amount of capital that the PRA requires a UK Life insurer to hold, which is calculated using the European Union Solvency requirements, also known as Solvency II. This can be calculated using the Standard Formula or the Internal Model methods. We are seeking approval of the Royal London Internal Model in 2019. Until this approval has been confirmed we will continue to use the Standard Formula.

### **Solvency and Financial Condition Report (SFCR)**

A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

### **Standard formula**

A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

### **Stochastic techniques**

Valuation techniques that allow for the potential future variability in assumptions by the running of multiple possible scenarios.

### **Sub-ordinated debt**

In the event of bankruptcy, dissolution or winding-up, the payments arising from this debt rank after the claims of other creditors.

### **Surplus**

The excess of Own Funds over the Solvency Capital Requirement.

## T

### **Three lines of defence model**

The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision making, risk and control to achieve effective governance, risk management and assurance.

## U

### **UK Corporate Governance Code (the Code)**

This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

### **Unallocated divisible surplus**

The amount of surplus which has not been allocated to policyholders at the balance sheet date.

### **Uncovered business**

Business not valued according to EEV principles for Royal London. This includes our wrap platform and cash mandates within our asset management business.

### **Unit-linked policy**

A policy for which the premiums buy units in a chosen investment fund.

### **Unit trust**

A collective investment which invests in a range of assets such as equities, fixed interest investments and cash. A unit trust might be a general fund or specialise in a particular type of asset, for example property, or in a particular geographical area, for example South East Asia.

### **Unitised with-profits policy**

A policy for which the premiums buy units in a with-profits fund.

## V

### **Value of in-force business (VIF)**

See definition of 'Present value of in-force business (PVIF)'.

## W

### **Wealth division**

Our fund manager, Royal London Asset Management (RLAM), and Royal London Platform Services (RLPS).

### **With-profits policy**

A policy which participates in the profits of a with-profits fund. This participation may be in the form of one or more of a cash bonus, an annual bonus or a bonus paid on the exit of the policy.

### **Women in Finance charter**

This is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this Charter are pledging to be the best businesses in the sector. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms.

### **Wrap platform**

A trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account, rather than as separate holdings.

### **Wrap provider**

An investment company, such as Ascentric, that offers investors the opportunity to consolidate their different investments under a single administrative account.

## 2018 financial calendar

Date	Event
29 March 2018	Financial results for 2017 Conference call on financial results for 2017
13 June 2018	Annual General Meeting
16 August 2018	Interim financial results 2018 Conference call on interim financial results for 2018
13 November 2018	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2018	RL Finance Bonds No 2 plc subordinated debt interest payment date

## Registered office

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