HITTING THE RIGHT NOTES

Strategic Report with Supplementary Information 2016
Royal London is the largest mutual life insurance and pensions company in the UK

We enjoyed a highly successful 2016 with record levels of sales and increased profits across our business. Royal London also announced plans to share our profits with an additional 700,000 customers.

Some key numbers

£321m
EEV profit before tax, ProfitShare and a change in basis for Solvency II

£143m
IFRS total transfer to unallocated divisible surplus before change in basis for Solvency II

£114m
ProfitShare allocation for 2016 after tax

28%
Increase in our life and pensions new business on the previous year, calculated on the present value of new business premiums basis

£650m
Since 2007 we have allocated £650m to our qualifying with-profits policyholders, ensuring that they benefit from our strong performance

£8.7bn
We wrote £8.7bn of new life and pensions business in 2016, calculated on the present value of new business premiums (PVNBP), an increase of 28% on the previous year

£100bn
We are the largest life and pensions mutual in the UK, with £100bn funds under management
**Performance at a glance**

**EEV operating profit before tax and exceptional items**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>£228m</td>
<td>£196m</td>
<td>£220m</td>
<td>£244m</td>
<td>£282m</td>
</tr>
</tbody>
</table>

**ProfitShare (after tax)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>£88m</td>
<td>£81m</td>
<td>£60m</td>
<td>£70m</td>
<td>£114m</td>
</tr>
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</table>

**Royal London with-profits performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>8.6%</td>
<td>9.0%</td>
<td>10.6%</td>
<td>4.1%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>7.8%</td>
<td>10.9%</td>
<td>11.1%</td>
<td>4.1%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

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Our approach to business is based on achieving long-term value for our members. We achieve this by growing our business in the pensions, protection and wealth management markets in the United Kingdom and Ireland and also by managing our assets to deliver long-term growth and stability of income.

How we manage and grow our customers’ and members’ investments

- **Intermediary**
  Distribution through IFAs of most of our pensions and protection products

- **Consumer**
  Tailored products for consumers not served by intermediaries

- **Third-party investors**
  Organisations rely on our expertise to manage their funds

- **Wealth**
  Managing Royal London assets and those of third-party organisations

- **Investment**
  To improve our service to customers, we invest in systems and training

- **Members**
  Profits not invested back into the business are invested in financial markets after allocation to qualifying with-profits and eligible unit-linked policyholders

- **Cash flow**

- **Reinvestment**
We are becoming a much bigger and more established presence in the markets in which we operate. The resulting growth in our revenues has allowed us to maintain a strong capital position in a volatile world, and to invest heavily in new technology platforms that will enable your business to remain agile and competitive in future decades.

Our strategic goals are:

- To become the most trusted and recommended provider of life insurance and investment products in the eyes of our customers.
- To raise consumer awareness of Royal London and grow new business through our Intermediary, Consumer and Wealth divisions.

How we are achieving our strategic goals

**Building trust**

We work to ensure that all our products and services are clearly explained, that they represent quality and value, and that we continue to provide excellent customer service.

As part of this we have extended ProfitShare to a wider range of customers and members, starting with those who have unit-linked pension policies. This change should not disadvantage qualifying with-profits policyholders, as we expect it to result in a larger and more successful Royal London that will in time produce more profit for sharing.

**Raising awareness**

We continue to build awareness of the Royal London brand with consumers, having now brought almost all of our businesses under a single brand name. We continue to offer products directly to consumers, alongside our intermediated offering. A national advertising and sponsorship campaign supports our ambition in these areas.

**Delivering value and service**

To continue to improve our service and product development we must invest in the underlying technology. This enables us to streamline our operations to ensure we deliver good value for money. We continue to be recognised through industry awards for our services and products across the Group’s offerings.
We drove our business forward in the face of difficult economic conditions and regulatory pressure, which helped us deliver a strong performance and maintain the customer service levels we’re renowned for.
Your Group has had another productive year, with strong financial results and some significant strategic progress. Although economic, market and regulatory conditions have not been easy to navigate, Royal London has maintained its reputation for customer service and a long-term commitment to its members.

The financial results can be summarised in headline terms: European Embedded Value (EEV) operating profit up by 16% to £282m, the Present Value of New Business Premiums (PVNBP) up by 28% to £8,686m, RLAM’s funds under management reaching £100bn for the first time, and the Group’s capital position staying strong. Both protection and pensions enjoyed record new business volumes, as well as winning a number of awards for innovative products and customer service. For our members, these encouraging results have allowed the Board to propose an increase in total ProfitShare, from £70m in 2015 to £114m in 2016. You will find full details of our financial performance later in this report.

These achievements need to be seen in the context of a programme of heavy capital investment in many parts of the Group. For the past five years the Group has been working to improve its IT systems, and our work is still far from over. In total, since 2014 the Board has approved or is in the process of considering transformation projects worth around £500m. This is a large amount of money; but if we are to provide the kind of reliable and rapid service that our customers expect, such spending is essential.

Indeed, some of that spending is obligatory. The whole insurance industry has switched to a new set of capital rules in 2016 (called Solvency II). Our finance and IT staff have been busy ensuring that Royal London’s systems and procedures are fully compliant with these rules in good time for the deadline set for us by the Prudential Regulation Authority (PRA). We will be seeking approval from the PRA to use our Internal Model under Solvency II from 2019. Solvency II is just one example of how external legislation and regulation set an agenda that we must follow. In recent years, Royal London has been affected by pension freedoms, auto-enrolment for workplace pensions, a cap on the charges that companies levy on pension policies, and other more detailed changes that do not attract attention but are still time-consuming to implement. It is no surprise that financial services are being reformed, and there will be more changes to come, no doubt.

Of course, the external pressures on Royal London have not all come from regulation. Markets too have presented their own challenges. They were volatile in the aftermath of the UK referendum on European Union (EU) membership (Brexit) in June and again after the US presidential election in November. Moreover, the long period of unprecedentedly low interest rates has produced financial strains for most insurance companies, because of the long-term nature of our liabilities. Pressures like these have required Royal London to be more than usually agile and careful in the way it protects your policies and your money.

Some of our changes, though, have come from within. The most visible has undoubtedly been the promotion of the Royal London brand. We are now in our third year of this rebranding, and in general, progress has continued to be excellent. At last your Group has a clear identity, one that stands for the proven virtues of customer service, reliability and value for money.

We have completed our third year as sponsor of one-day cricket at many different levels, from school competitions right up to England’s home internationals. The sponsorship has been a great success in promoting the brand. It has helped to make Royal London’s name and pelican logo a familiar sight at cricket grounds and on TV sets all around the country, making the brand much better known than it once was.

Some of those benefits have been obvious internally. We know from our staff survey that people at all levels in the Group take pride in working for Royal London. They have been more than usually agile this past year. On behalf of the Board, I’d like to thank all our staff for their efforts.

At the Annual General Meeting (AGM) we will be saying goodbye to Duncan Ferguson, who is retiring after seven years on the Board. As well as chairing the With-Profits Committee, he has been the Senior Independent Director. We thank him for all he has done for the Group, and wish him well.

£114m
ProfitShare for our members, up from £70m in 2015
GROUP CHIEF EXECUTIVE'S STATEMENT

We kept pace with our growth targets in 2016, while our ability to deliver top-quality products and service means we're increasingly being recommended to others, putting us in pole position to attract new business in the year ahead.
We made excellent progress at Royal London in 2016, performing well despite the backdrop of a turbulent year in politics and markets.

Sales for life and pensions, on a Present Value of New Business Premiums (PVNBP) basis, grew by 28% in 2016, the third successive year of significant sales growth. Funds under management grew to £100bn, which is 18% higher than the previous year. This enabled us to deliver a 16% increase in EEV operating profit to £282m (2015: £244m) while also making record levels of investment for the future. We have been pursuing our current strategy for more than four years and over this period our funds under management have increased by 109% and our life and pensions PVNBP sales by 175%.

It is clear from this sustained track record of growth that our strategy is working: we are delivering high-quality products and service and, as a result, our customers and their financial advisers are increasingly recommending us to others. Our continued success will depend on maintaining this momentum, and it was with this in mind that we made the conscious decision to invest in developing our capabilities.

We are becoming a much bigger and more established presence in the markets in which we operate. We are now a top-three new business player in many of our key markets. The resulting growth in our revenues has allowed us to maintain a strong capital position in a volatile world, and to invest heavily in new technology platforms that will enable your business to remain agile and competitive in future decades.

Royal London’s EEV operating profit has also showed pleasing growth despite operating in a low interest rate regime, which tends to depress the profitability of insurance products. For members, our performance has translated into a 63% increase in ProfitShare for 2016 to £114m. This will enable us to allocate a healthy ProfitShare to our with-profits members (a 1.4% addition to asset share) and to honour our commitment to commence ProfitShare allocations to our pension members, the first of which will be equivalent to 0.18% of the value of their pensions on 1 April, providing a useful offset to annual management charges which typically range between 0.5% and 0.75% on our pension products. ProfitShare will be added to the value of your savings in April.

The UK referendum on European Union (EU) membership (Brexit), and the subsequent vote to leave, created a huge amount of economic uncertainty during the year. This was further increased by the result of the US presidential election. Our sales and the behaviour of our customers remained relatively robust, but the wider policy response to the Brexit vote has had a significant effect on the business. Already low interest rates were reduced even further, reflecting the Bank of England’s concern about the possibility of an economic shock in the wake of the leave vote.

We all know that low interest rates hurt savers by making it hard to generate interest income from investments. What is less well known is that low interest rates also have a detrimental effect on the profitability of insurance and pensions companies such as Royal London, by reducing both the value of our balance sheet and the profitability of some of our products. During these times the healthy growth in the operating profits of your business help to offset any decline in value arising from economic market movements.

Our EEV profit before tax, ProfitShare and a one-off item relating to changes from the implementation of Solvency II, rose by 16%. A strong trading performance and rising stock markets offset the negative impact of lower interest rates. Over the longer term, we believe interest rates will begin to rise again, although the result of the Bank of England’s policy response to the Brexit vote has been to push this recovery in interest rates further into the future.

Membership and ProfitShare

Royal London now has over one million members, and numbers continue to increase rapidly as employees who join workplace pension schemes become members of our Group, alongside self-employed customers buying our personal pensions and people utilising our drawdown product to manage their retirement income.
During the year we increased our efforts to communicate with members digitally wherever possible. If you register your email address with us and keep an eye on the Members section of the Royal London website, you will receive regular updates on how your Group is performing. You will also find member offers and useful information to help you manage your finances more effectively and get the most out of your Royal London products.

The Royal London Charitable Foundation is another way in which we support our members to be a force for good in their communities. The Foundation focuses on supporting charitable organisations that benefit local communities. We intend to raise both its profile and its support of member nominated causes in the coming year.

This year, more than 700,000 members with unit-linked pension policies will receive their first ProfitShare allocation. We are delighted to see this expansion of the ProfitShare come to fruition. As we explained last year, existing with-profits members will not be disadvantaged by this expansion. The level of our profits available for distribution has been increased and with-profit members will benefit from an enhanced annual bonus.

Remember that although each year’s ProfitShare may not seem a large amount for each member, you also benefit from any investment growth on these additions to your savings each year. So the cumulative effect of annual ProfitShare allocations and any investment growth has the potential to make a meaningful difference to your final pension pot or the value of your savings. The allocation of a ProfitShare each year is at the discretion of the Board. Whether a ProfitShare allocation is made, and how much is distributed to members, will depend on the Board’s view on matters such as the financial performance of Royal London, our capital position and the risks and volatility in financial markets.

Pensions and life assurance
For several years now we have been successful and active participants in the workplace pension scheme roll-out, which involves workers being automatically enrolled in a workplace pension scheme. In 2016 we brought another 190,000 people into workplace schemes. By the end of 2017, auto-enrolment will be in its final stages, so we expect the rate of growth to slow. However, our reputation for offering a high-quality, cost-effective service means we are winning business from employers wanting to move their existing schemes when they have experienced poor service from their current provider.

There can be no doubt that the early stages of the auto-enrolment initiative for workplace pensions has been successful, with millions of people now members of pension schemes who simply did not have a pension previously. Currently the minimum contribution levels for employees and employers are low, but these will ratchet up to a 3% minimum employer contribution and a 5% employee contribution in future years. Unfortunately, this is around half the level that people need to save to secure a comfortable retirement income and so we are lobbying government to start to put in place the legislation that will support further contribution increases in the future. We advocate the introduction of a simple approach whereby a small proportion of each annual pay rise is diverted into workplace pensions unless the employee chooses to opt out.

The freedoms in pension regulations brought into effect in 2015 helped generate a good performance in our personal pension and drawdown sales. Sales of personal pensions and drawdown were strong, increasing by 17% to £3,778m. Drawdown, which gives people greater control over the amount of income they receive each year from their pension pot, has been extremely successful. Our proposition is one of the industry’s best-regarded products, and it continued to attract strong interest in 2016.

Consumer
There was strong growth in the Consumer business in 2016, with sales on a PVNBP basis up by 82% to £301m (2015: £165m). This new business reported a profit for the first time in 2016. Our prepaid Funerals Plans, offered through Co-operative Funeralcare and Ecclesiastical Insurance, performed particularly well, and we see further scope for growth in this area.

Our Over 50s Life Cover and Life Insurance products both continued to perform well, with sales up 96% and 51% respectively. We entered the Over 50s market to bring customers better value for money and fairer products than those offered by the established players. Customers have rewarded our efforts by propelling us in short order to a top three position in this market.

In addition, we have secured a major new partnership with Post Office Money. We have become the sole provider of life insurance products to be sold through Post Office outlets and online in 2017.

Royal London Asset Management
In a year in which many of our competitors saw net outflows of funds, Royal London Asset Management (RLAM) showed strong growth with net inflows of £2,321m. Gross asset inflows increased by 114% to £6,741m (2015: £3,146m) and funds under management increased to £100bn (2015: £85bn), a new Group record. Members investing in the RLAM managed pension and with-profit funds enjoyed strong absolute returns with the Royal London with-profits fund returning 13.8% compared to 4.1% in 2015.

In March 2016, RLAM launched a range of six Global Multi Asset Portfolios, aimed at achieving attractive returns above inflation over the medium to long term. This is the latest example of our strategy to widen the RLAM product range, so that we can bring competitively priced and innovative fund offerings to a wider range of institutional and wholesale investors. Again, our growth is underpinned by our strategy of continually innovating to bring better value to customers.
Over the last three years we have been undergoing an enormous change at Royal London. In the past we chose to operate under a wide variety of company brands and, as a result, we were a well-kept secret rather than a widely known name in the financial services industry. Once we decided to focus all our business areas on a strategy of constantly improving the value for money and quality of our products and services, it made sense to operate under a single Royal London brand that might over time become a hallmark for quality and value in our industry. We were inspired by the success other mutuals and partnerships such as Nationwide, Waitrose and John Lewis have achieved in their markets.

You may have seen Royal London advertisements on television or in the cinema throughout the year, or a campaign in partnership with The Telegraph, which encouraged the public to identify the quirky side of Britain. As ever, we emphasised Royal London’s quintessential Britishness and the Group’s important values, such as stability and mutuality. Those efforts are producing pleasing results and over the last three years awareness of Royal London among UK adults has increased significantly to 57% of the population. Of course, we still have further to go until we are as well known as some of our competitors.

Those efforts are producing pleasing results and over the last three years awareness of Royal London among UK adults has increased significantly to 57% of the population. Of course, we still have further to go until we are as well known as some of our competitors. Future advertising will start to focus on the various ways that Royal London is different from its competitors, with ProfitShare providing the first example of this approach.

In 2016, for the first time ever we won all three of the big industry awards in our sector, an achievement that makes us very proud. We were named Company of the Year in the following awards:

- Money Marketing Financial Services Awards, which recognise product quality;
- Financial Adviser Online Service Awards, which recognise digital capability; and
- Financial Adviser Service Awards, which recognise customer service.

These awards result from the votes cast by the impartial financial advisers who advise members of the public and regularly experience the products and service provided by all of the major life and pension companies. It is very pleasing to win such a strong set of endorsements.

Our strong sales performance meant we were able to invest during 2016 in a whole range of areas that will benefit both the business and our customers in the future. We are investing in tools for customers and financial advisers to help our customers make the best possible decisions about their money. In 2016, we introduced better tools for advisers to guide their drawdown customers on what they can safely take out of their pension pot without threatening their future financial security. We see this type of investment as critical to helping us achieve our aim of being the company that customers and advisers recommend.

We completed the task of bringing our two protection businesses, Scottish Provident and Bright Grey, under one roof as a single operation under the Royal London brand. Combining the two businesses gave them a renewed sense of energy and purpose, and market share increased during the year driven by our enhanced digital service, expanded product cover and competitive pricing. Royal London is now one of the four top protection companies selling via intermediaries in the UK.

Royal London Platform Services (RLPS), which trades under the Ascentric brand, is our wrap platform that enables advisers to manage clients’ long-term savings, utilising a wide range of product structures and investment solutions. RLPS is making significant progress with its programme to further enhance its service and replace its core technology. During 2017 we will start the process of moving all customers over to the new platform. This new platform and enhanced service will give us a strong starting point for future growth.

*Source: YouGov Brand Index
We are developing ambitious plans to
grow our market share among the more
affluent customers who tend to utilise
wrap platforms. As ever, this growth
will be driven by our focus on constantly
improving quality and value for our
customers, which is inspired by our
customer owned status.

During 2016 we also began the process
of building a new platform for our
pensions business. This will be a
five-year process that will give us
a far superior, digitally enhanced,
operations capability in the future.
Aside from making us a more efficient
and cost-effective operator, the new
platform will enable us to offer a wider
choice of products to our customers,
including ISAs.

Doing more for customers
We worked hard to enhance service
to customers during the year. We
made faster claims payments in our
protection business and by the end of
2016, 86% of our smaller bereavement
claims were paid in less than five days.
Our new online service application
for Life Insurance is industry leading
and very well received, having made
the notoriously complicated process of
applying for life insurance simpler and
more transparent.

We launched a new series of consumer
guides to key financial topics, with a
guide to how to get the best value from
the State Pension. Our work was well
received by financial journalists and
over 70,000 copies of our guide have
already been downloaded from our
website. Watch out for further guides
in this series.

We also seek to help build the UK
public’s financial capability through
innovative partnerships with the
financial media. For instance, our
Director of Policy and External
Communications is former UK pensions
minister Sir Steve Webb, and Steve
acts as the ‘pensions agony aunt’ for the
Daily Mail’s This Is Money website.

If you have investments with Royal
London, whether in a pension or a
with-profits policy, then some of your
money will likely be invested in British
companies. In 2016, we continued to
be one of the most proactive fund
managers when it comes to challenging
the management teams of companies
whose governance standards fall short.
We led campaigns to put pressure on
companies like Sports Direct to put
in place high-quality governance. We
believe it is part of our role to be vigilant
on your behalf by ensuring companies are
well run if we are to invest your money
in them and we will continue to act
as an engaged and responsible investor.

Looking forward
Your business enters 2017 with stronger
products, better service, a more visible
brand and enhanced market positions.
Royal London has built pleasing growth
momentum through our strategy of
offering high-quality products and
services at competitive prices. The
wider political and economic situation
remains very uncertain but we are
confident that our strategy will enable
us to continue to grow and develop your
business in a manner that benefits our
members and customers, and indeed all
of our stakeholders.
### Performance description

#### Profitability

<table>
<thead>
<tr>
<th>2016 result</th>
<th>Historic performance</th>
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<td><strong>£551m</strong></td>
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<td>+16%</td>
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#### Profitability

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#### New business

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<td><strong>£8,686m</strong></td>
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#### Funds

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<td><strong>£100bn</strong></td>
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<td>+18%</td>
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#### Capital

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<td><strong>232%</strong></td>
<td><strong>226%</strong></td>
</tr>
<tr>
<td>+3%</td>
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1. 2014 includes an exceptional item being the £61m charge relating to the pensions charge cap.
2. 2013 includes £150m one-off gain arising on the acquisition of the Co-operative life, pensions and asset management businesses.
3. 2013 results exclude Royal London 360°, which was disposed of during 2013.
4. 2016 result is before the change in basis for Solvency II of £182m.
5. 2013 IFRS results include £125m one-off gain arising on the acquisition of the Co-operative life, pensions and asset management businesses.
6. 2016 IFRS result is before the impact of the change in basis for Solvency II of £165m.
7. 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.
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. 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:

- 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 2016, 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 2016, we continued to strengthen our approach to risk management by enhancing the design of the risk management system and processes, alongside the implementation of new risk management software that is used by all areas of the Group to manage all the elements of the risk management system onto one platform.

The Board reviewed the effectiveness of the Group’s Risk Management System and Internal Control System during the year ended 31 December 2016. This took into account matters arising up to the date of approval of this 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 specialist functions that undertake monitoring, challenge and policy setting, such as the Group’s independent Risk and Compliance function. 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
Risk management and internal control continued

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 appetites 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.

Liability
We will maintain sufficient liquidity to pay our liabilities as they fall due, even in extreme but plausible circumstances. Maintaining enough liquid assets even in these circumstances is a key target for the Group’s sustainability.

Performance
We will target stable, quality earnings and attractive growth. 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 or 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.

Solvency II
The European Union (EU)-wide Solvency II regime, which is intended to strengthen the integration of risk and capital management and to harmonise the capital requirements across EU insurers, was implemented from 1 January 2016.

The regime allows insurers to use a standard formula or an Internal Model and 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. A 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.

**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 of areas within the risk management system.

- **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.

- **Solvency II Steering Committee**
  - The role of the committee is to provide leadership and direction to the Solvency II programme to ensure successful delivery. This includes reporting and escalation to the Group Executive Committee as appropriate and ensuring compliance with other business-as-usual processes and committees.

- **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.

- **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 have evolved due to the events and developments in 2016. Progress has also been made on a number of activities to manage and reduce certain risks.

The economy and Royal London's key markets

<table>
<thead>
<tr>
<th>Principal risk and uncertainty</th>
<th>Risk mitigation and management</th>
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<tr>
<td>The economic environment continues to be uncertain</td>
<td>Using 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. 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 off-set adverse risk.</td>
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<tr>
<td>Low or negative interest rates continue to have a significant impact on the insurance sector. 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.</td>
<td></td>
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<tr>
<td>A change in economic trends and consumer behaviours can affect performance 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. Changing socio-economic trends (customers wanting to deal direct, transactions through mobile applications, data security etc.) present opportunities and challenges to our business model.</td>
<td>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. 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.</td>
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</table>
Principal risks and uncertainties continued

Changing political and regulatory environment
Solvency II implementation and the referendum outcome in favour of the UK leaving the European Union (EU) are the key developments reflected in the political and regulatory environment principal risks and uncertainties.

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<tr>
<td>The referendum vote in favour of the UK leaving the EU creates uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation</td>
<td>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 Ireland business and any potential implications with regard to Scotland’s independence.</td>
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<tr>
<td>The impact on 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.</td>
<td>Risks related to the market will be mitigated through our normal market risk monitoring and capital management activity.</td>
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<td>Uncertainty over the nature and timing of any negotiations with the EU leads to a lack of clarity over future regulation and legislation for the insurance and investment markets.</td>
<td>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.</td>
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<td><em>Uncertainty over the Solvency II Internal Model Application Process (IMAP)</em>&lt;br&gt; We intend to use a Solvency II Internal Model, subject to approval of an Internal Model application.&lt;br&gt; 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.&lt;br&gt; 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.&lt;br&gt; 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.</td>
<td>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.</td>
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<td><em>Changes in the legislative and regulatory landscape may alter the design and marketing of propositions</em>&lt;br&gt; 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.</td>
<td>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.</td>
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<td><em>Changes to financial services markets may arise from the political environment</em>&lt;br&gt; 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 charge cap on workplace pensions, and a focus on asset management fees.</td>
<td>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. To support this we undertake regular monitoring of our performance, and the political and environmental landscape.</td>
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Royal London Group
Strategic Report with Supplementary Information 2016
### Principal risks and uncertainties continued

#### Maintaining our financial strength

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<tr>
<td>An increase in our funding commitments for defined benefit pension schemes may impact on our financial position</td>
<td>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. The main Group defined benefit scheme closed to future accrual from 31 March 2016. This has reduced the current funding commitment to that scheme.</td>
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<tr>
<td>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 state funds’ investment strategies. Any adverse movements in these factors could increase future funding costs and could impact our financial position.</td>
<td>We seek to manage exposure to any one counterparty or third party. We actively monitor and report against limits in respect of investments. Contracts with third parties and suppliers are governed by strict service level agreements, which are monitored and discussed at regular account management meetings. The Capital Management Committee reviews large exposures that approach or exceed risk appetite and review the actions being taken to manage the exposures.</td>
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#### 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.

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<tr>
<td>Organisational capabilities may be impaired by the high level of change across the Group. 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. 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. This includes, for example, the ongoing financial and actuarial system enhancement programmes, which if not delivered effectively could give rise to a material financial reporting error.</td>
<td>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 under way and planned for the future. 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. Additionally, the risk of financial reporting errors arising during and after the financial and actuarial enhancement programmes 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.</td>
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## Principal risks and uncertainties continued

### Material outsourcers and supplier relationships

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<th>Principal risk and uncertainty</th>
<th>Risk mitigation and management</th>
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| **Outsourced services may not meet regulatory or service requirements**  
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. | 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.  
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. |

### Legacy products

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<th>Principal risk and uncertainty</th>
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| **Legacy remediation**  
We have a number of legacy products in which policyholders are still invested.  
While the 2016 Financial Conduct Authority (FCA) findings for the Group did not present significant issues, there is a risk that further work may be identified and required (externally or by the Group) to ensure appropriate outcomes for our customers. | Significant focus was placed on managing this risk in 2016, including addressing feedback from the FCA, and a robust framework for managing scope, progress and oversight was implemented. Good progress against plans has been made throughout the year.  
Positive work has been undertaken in product and proposition review and in clearly identifying and structuring our approach to dealing with a range of remedial actions for our legacy books.  
Whilst legacy remediation is still an evolving risk, the actions taken have ensured that the scale of the risk has reduced.|

### Removed principal risk and uncertainty since prior report

The principal risk on brand has been removed as the transition to our single brand has been completed.

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| **Brand transition**  
In moving to a single strong brand we are aware there is an inherent risk of diluting or damaging established strong reputations and customer relationships. | Significant progress has been achieved under the transition plan into the new single brand. We have governance and processes in place that ensure we maintain existing strengths and relationships with our customers.  
Metrics are in place to monitor brands across the business. A quarterly brand tracking survey measures consumer awareness and sentiment.  
Regular adviser surveys are undertaken to keep track of brand and proposition awareness, as well as the likelihood of recommending us. |
Longer-Term Viability Statement

Assessment of prospects
The context for the assessment
Our business model and strategy are integral to understanding the Group’s prospects, and details can be found on pages 2 and 3. The nature of the Group’s business model is long term; indeed we were founded over 150 years ago; and the Board’s strategy is subject to the ongoing monitoring and development described below.

The Group’s current strategy has been in place for several years and our strategic goals, detailed on page 3, remain 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, whilst 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. The scenarios can be summarised as follows:

- **Base scenario** – The UK and Eurozone economies are impacted by the decision to leave the EU. Global growth remains below its pre-2008 average;
- **Adverse scenario** – The impact of the decision to leave the EU is severe in both the UK and the remaining EU, and the world economy is weaker than the base scenario with slowdown in global growth including the US and China; and
- **Favourable scenario** – The economic recovery is strong, with growth that is faster than expected. Sterling recovers ground and the Bank of England begins to withdraw monetary stimulus in 2017.

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

Whilst 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 2021.

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; and the latest business plans, which include in-depth analysis of its risk profile, liquidity, profit and capital projections, cover the period to December 2021.

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 or a significant medical science advance; and
- stressing of the business plan for adverse scenarios impacting profitability, liquidity and/or solvency, including:
  - adverse regulatory and legislative developments;
  - adverse distribution developments affecting the Group’s market share;
  - technological advances allowing more competitors to enter markets and changing the basis of product pricing; and
  - changes to the requirements of customers impacting the relevance of the Group’s product set.

Each above scenario is designed to be severe but plausible, and take full account of the availability and likely effectiveness of the potential mitigating actions management could take to avoid or reduce the impact in the circumstances. In considering the likely 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, which have been described on this page, 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 2021.

Going concern
The directors also considered it appropriate to prepare the financial statements on a going concern basis, as explained on page 44 in the Corporate Governance section of the Annual Report and Accounts.
Our three main business divisions all enjoyed another strong year. We further enhanced our reputation for high-quality products and service, while continuing to raise consumer awareness of key financial issues.
Our aim is to help as many people as possible afford impartial advice. We do this by designing our products and services to support advisers in delivering risk-tailored solutions for their clients in a cost-effective way.

**Intermediary**
Our relationships with financial advisers strengthened over the year, and we aim to stand out in the market as champions of impartial advice.

To find out more, turn to p22.

**Consumer**
We design products to be as simple as possible, in part so that they are easier for customers to understand but also to make the process of buying them less complicated.

To find out more, turn to p24.

**Wealth**
We launched new products and worked with our Intermediary division to evolve and improve the investments we manage for the pensions business.

To find out more, turn to p26.

**Our corporate responsibility**
In April 2016 we set up a financial capability team to look at ways to help customers manage their money better, and to improve their ability to handle periods of financial difficulty.

To find out more, turn to p28.
**It was another excellent year for our Intermediary business,** which won a lot of new business whilst playing a leading role in auto-enrolment for workplace pensions.

The Intermediary business had another highly successful year in 2016, defined by our focus on service, product excellence and commitment to financial advisers. Last year was the first in which our pension and protection products both operated under the Royal London brand, signifying the combined benefit to customers of our specialist propositions underpinned by the financial strength and mutual culture of Royal London.

New business growth was strong in both Pensions and Protection, although the dynamics of the two markets remain very different.

In workplace pensions, auto-enrolment continues to be the dominant theme, with Royal London playing a leading role. Activity in the personal pension market continues to build momentum as customers increasingly seek to take advantage of the new pension freedoms, allowing them to better meet their retirement needs. In Protection, although the broader market is growing slowly, we became a force to be reckoned with after the re-launch of our Protection Menu proposition combining the best of Bright Grey and Scottish Provident with much stronger focus on our online underwriting, quotation and application adviser extranet. We have confidence in and provide commitment to the intermediated protection market that sets us apart from other providers.

Our relationships with financial advisers strengthened over the year. We aim to stand out in the market as champions of impartial financial advice. Our aim is to help as many people as possible to benefit from impartial advice. We do this by designing our products and services to support advisers in delivering risk-tailored solutions for their clients in a cost-effective way. Although we do deal with customers directly through our Consumer division, we do not target those using a financial adviser and have made strong commitments to respect financial advisers’ relationships: Royal London will not give regulated financial advice; cross or upsell to their clients; and will always direct clients to their adviser when there is a need for advice. During the year, we held a series of adviser seminars setting out our commitment to them and how we see the emerging regulatory and investment environment for them and their clients.

We held roadshows to give financial advisers access to our investment expertise and ensure they are kept up to date on the regulatory environment.

**Group pensions**

The year could have proved a very challenging one as we moved from auto-enrolling larger employers to smaller employers. Some of our competitors backed off from the complexity of dealing with high numbers of smaller employers. We rose to the challenge and increased our market share as employers recognised the value of our implementation service and supporting technology. We supported 7,492 employers through auto-enrolment in 2016, up from 5,117 the previous year. Approximately 50% of new schemes involve an employer fee to pay for the enhanced level of service we offer. By the end of auto-enrolment in 2018 our ambition is to have over 20,000 workplace pension schemes with employers serious about providing their employees with a high-quality scheme. By retaining our full service model we believe the quality of our schemes will prove more robust in the future than those competitors pushing self-service technology and with no adviser in place.

Over the course of the next 18 months, auto-enrolment will start to tail off and the nature of the market will change. A secondary market is already emerging, with dissatisfied employers seeking alternative, better-quality solutions. This will continue to grow and our intention is that our strong service commitment will underpin our ability to benefit from this next phase of activity.

**Personal Pensions**

As the baby-boom generation continues to approach retirement and many UK pension funds reach maturity, the demand for good-quality financial products and advice has grown. This demographic shift, combined with the greater choice customers now have to access their pension savings, introduced by the 2015 pension freedoms, have stimulated high levels of activity. Sales of Personal Pensions (including drawdown) rose by 17% to £3,778m (2015: £3,227m) on a PVNBP basis.

We increased the flexibility of our drawdown proposition and enhanced our governed portfolios to provide the versatility that advisers need to tailor cost-effective solutions to the specific needs of each client. Our Personal Pension with its integrated drawdown capability is highly regarded, winning several awards.

Low interest rates and volatile financial markets meant that investment decisions were often difficult and complex. Royal London played a significant role in giving advisers and their clients support to manage their retirement money safely and prudently. In 2016 we launched our Annuity Bureau, providing information and help to existing customers on reaching retirement on the options available to them and, on their instruction, seeking the best annuity deal from across the market.

We also introduced a drawdown governance service for advisers, helping them monitor their portfolio of clients in retirement and highlighting cases where the level of income being taken is unsustainable and may require a client-specific review.
Protection
Recovery in the performance of our protection business began in 2015 and momentum continued to build throughout 2016. This restore phase of our strategy involved ensuring our products were at the top of their class, underpinned by customer and adviser service that is high quality and constantly improving to align with the distinct segments of the intermediated protection market.

We introduced a new extranet, an online underwriting, quotation and application service for advisers, designed to make the application process as straightforward and intuitive as possible. This has been very well received and has driven new business growth. Competitors have noted our success and launched similar products, but we are continuing to improve the user experience and remain confident we will stay ahead of the pack.

During the year we have made significant improvements to our critical illness and Income Protection risk covers. We focus on providing ‘cover where it matters’ so that advisers can be confident that our proposition is only focused on the needs of customers. At the heart of our proposition is Helping Hand, designed to help customers through difficult times of family illness. This is backed up by an accepted claims ratio of 93% and improved service, with a 20% increase in the proportion of claims settled within eight weeks, compared to 2015.

The next step for protection is to grow our business. Consumers remain seriously under-insured and our ambition is to help intermediaries grow the market by improving the quality and relevance of our products, and removing much of the complexity and burden typically involved in taking out protection products.

For example, we have long been concerned that fierce price competition has meant most providers have focused on selling protection to healthy people. Customers with medical conditions who need cover can find it hard to access suitable products. In 2016 we developed a product specifically aimed at diabetics and expect to begin trialling the product in early 2017. It is priced on the basis of the risk each customer presents through a simple blood sugar test; premiums can reduce for customers who improve the test reading in future years, typically achieved through sticking to a healthy lifestyle.

We have also been working on ways to simplify the process of buying life cover alongside a mortgage application. House purchase is a key lifestage moment for customers and yet the proportion of customers taking life and critical illness protection remains stubbornly low. We are developing analytics capability to use the data supplied as part of the mortgage application process to provide a streamlined process and competitive price for buying life cover. This is another example of our commitment to develop the protection market in 2017 and beyond.
It hasn’t taken our Consumer division long to establish itself as a leading player in its chosen markets. The division not only delivered a very successful trading year, but also created distribution partnerships with other like-minded businesses that should lead to further growth.

In only its second full year of operations, our Consumer division has now become firmly established as a success in its field. Sales, on a PNVBP basis, grew by 82% to £301m (31 December 2015: £165m) as the quality of our products and service became recognised in the market. We are also creating distribution partnerships with other like-minded businesses so our products can reach a broader audience.

Our Consumer division caters for customers who deal with us directly rather than through a financial adviser. We have recently re-entered the direct to consumer market by investing in our Consumer division, because we believe we can offer a compelling proposition.

In 2016 we confirmed this belief by delivering a very successful year. Our market share grew strongly in both the Over 50s Life Cover and the Level Term Assurance products, reaching 15% for the Over 50s product (2015: 10%).

Our products were specifically designed to meet the needs of our target customers and include features that are unique to Royal London. Protected pay-out, for example, ensures that customers who stop paying into a life policy do not lose everything they have paid in, as happens with most insurers. We offer premium flexibility, which allows customers to suspend or change payments if circumstances require it, without facing draconian penalties.

We also designed the products to be as simple as possible, in part so that they are easier for customers to understand but also to make the process of buying them less complicated. More than 20% of sales across all products were made by customers using mobile phones or tablets.

We won more awards for the quality of our products. At the Customer Experience Awards in 2016, Royal London Consumer division won:

- best life insurance provider;
- best business transformation; and
- runner-up for best product innovation.

We also retained Defaqto five-star ratings for both our Over 50s Life Cover and Level Term Assurance products, which provide a valuable third-party endorsement of their quality.

We continued to advertise regularly on television to support the products and increase recognition of the Royal London brand.

Our funeral plan business had an extremely successful year. Our partnership with Co-operative Funeral Services continues to be highly productive, and in the first quarter of 2016, we signed a new partnership agreement with Ecclesiastical Insurance. The Ecclesiastical partnership has thrived and achieved expected sales targets for the year.

Towards the end of 2016, we were selected to become the sole provider to the Post Office for our Over 50s Life Cover and life insurance products, working with Post Office Money Services, its financial services subsidiary.

This is another exciting new partnership opportunity for the Group and enables us to offer our products to the Post Office’s 17 million customer visits per week through its 11,500 outlets and its online presence. We expect this will be a significant contributor to the Consumer division in driving volumes of sales in 2017. We anticipate creating further partnerships with other businesses that would allow us to bring our products to a wider audience.

Existing customers

The Consumer division is also home to our pensions customers who do not deal with us through a financial adviser. The pension freedoms created in recent years have given these customers a greater choice and flexibility in how they deal with their finances in retirement. We have worked with RLAM, our asset management business, to ensure we have the right products in place to enable our customers to take advantage of the new regime.

We saw good uptake of our Retirement Account, Retirement ISA and Annuity Bureau, all offering different ways of managing money in retirement.

Existing customers

The Consumer division is also home to our pensions customers who do not deal with us through a financial adviser. The pension freedoms created in recent years have given these customers a greater choice and flexibility in how they deal with their finances in retirement. We have worked with RLAM, our asset management business, to ensure we have the right products in place to enable our customers to take advantage of the new regime.

We saw good uptake of our Retirement Account, Retirement ISA and Annuity Bureau, all offering different ways of managing money in retirement.
Pump up the volume

Our Consumer division continued its rapid rise, firmly establishing itself as a major player in its market.

We designed the products to be as simple as possible, in part so that they are easier for customers to understand but also to make the process of buying them less complicated.

11,500

The number of Post Office outlets through which we’re offering our products as part of our new partnership.
**Wealth**

Politicake and economic uncertainty failed to slow down our Wealth division, which performed strongly in 2016 while growing our assets under management.

The Wealth division produced strong results in 2016, both for the business and for our customers, despite the uncertainty seen in both markets and investors as a result of the Brexit vote and the unexpected victory by Donald Trump. In a year when net sales across the industry were at their weakest for almost a decade, we continued to see strong inflows, helping our assets under management in reaching the £100bn (31 December 2015: £85bn) mark for the first time.

Royal London Wealth is made up of two businesses. RLAM manages investments for external investors, members and customers of Royal London. Royal London Platform Services (RLPS), which trades as Ascentric, is a wrap platform – a consolidation service for financial advisers that allows them to manage their clients’ long-term savings and investments through a single website.

**RLAM**

In 2016 RLAM saw net new external client inflows of funds of £2.3bn (31 December 2015: £0.5bn) while many of our competitors suffered significant net outflows. This success was broad-based, with a wide range of customers trusting us with their investments across all of the key asset classes that we operate in.

We launched new products, including a range of global multi-asset portfolios, and worked with the Intermediary division to evolve and improve the investments we manage for the pensions business.

We also updated our cash management services to better meet the needs of clients such as universities and charities. Changes to underlying cash markets and regulations meant that we needed to make these changes to meet client needs.

**External sales**

RLAM services two key external markets – institutional and wholesale. Institutional investors are those such as pension funds, insurance companies, local authorities, charities and universities, while the wholesale market consists of wealth managers, stock brokers and IFAs.

Institutional sales have been very strong in 2016. Many pension funds are changing their investment mix and we have an excellent proposition in specific types of bond funds that many have been increasing exposure to. Interest from the wholesale market has also been keen. The addition of the new multi-asset funds is starting to gain attention, while our corporate bond and cash funds have both attracted large inflows in 2016.

**Investment backdrop**

The UK referendum on EU membership in June last year, and the US presidential election, dominated the investment environment.

In the lead up to the referendum, financial markets were relatively subdued. Markets had expected a ‘Remain’ victory, and the ‘Leave’ vote therefore came as a surprise. This immediately led to a jump in volatility across equity, bond and currency markets. The Bank of England’s response was to cut interest rates from an already low base and to launch another round of quantitative easing. This was the opposite of what we and others had expected the year to bring, as UK growth had been looking reasonable and employment had continued to increase.

The Brexit vote also led to a sharp fall in the value of the pound. This fall provided the impetus for a sharp rise in the FTSE 100 index. Many of the largest publicly quoted companies in Britain make a large proportion of their profits abroad, and therefore the falling pound boosted their results. Companies in the FTSE 250 tend to make more of their profits in the UK, and hence lagged the increase seen in the FTSE 100.

Property, which has been a strong performer over recent years, had a volatile year. Volumes were muted ahead of the referendum, and property funds slumped badly in the immediate aftermath of the vote as there were concerns that overseas investors would be less inclined to invest in the UK once it was outside the EU. Property markets can struggle with liquidity at times of stress – it is harder to sell an office block than shares in a company – and many of our competitors had to suspend trading in their funds as investors wanted to pull money out. The structure and process we have for our own funds meant we did not have to apply such restrictions. Property markets have since recovered as the weaker pound has brought foreign buyers back to the UK seeking bargains.

**Returns for Royal London policyholders**

Together, Royal London policyholders are our single largest client, and delivering good returns to them is the most important role we have. The Royal London with-profits fund (the Royal London Long Term Fund) grew by 13.8% in 2016, up from 4.1% the previous year. This compared with a return of 14.8% from the benchmark.

**Corporate Governance**

RLAM purchases shares in many companies on behalf of our customers. We continue to work with these companies to promote higher standards of corporate governance. We believe good governance translates into a better-run company, protects the welfare of the employees and ultimately generates better shareholder returns – benefiting our clients and members.

In 2016, we voted on 11,576 resolutions at 703 companies, the vast majority of which were UK listed companies. Overall we voted ‘For’ 94% of the proposals, ‘Against’ 5% and ‘Abstained’ on 1%. By far the category we most regularly vote against management is on remuneration. For remuneration votes, we voted ‘For’ 69%, ‘Against’ 23% and ‘Abstained’ on 8%. We wrote to every company held in our actively managed funds to explain our reasons for voting against the proposal.
Over the course of the year we spoke to 134 companies on issues such as executive pay, succession planning, workforce, culture, climate change, 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. In fact, transparency is a key part of what we do. We publish details of all Company votes on the RLAM website, along with details of our policies and a regular newsletter.

We apply these governance principles to all of the shares we hold on behalf of clients and members. For those wanting an even higher standard of engagement, we offer a range of sustainable funds, which invest only in companies that exceed our high Corporate Governance threshold and also provide either a service or product that is of benefit to society, or show industry leadership in their environmental or social policies. For investors wanting to avoid certain industries altogether, we offer ethical funds that do not invest in sectors such as armaments and tobacco. The team managing these funds is vastly experienced and we are seeing growing interest in the performance they have generated as much as the principles they invest by.

**RLPS (Ascentric)**

RLPS is Royal London’s wrap platform, and trades under the Ascentric brand to underline its independent approach. RLPS’s online service enables financial advisers to manage their clients’ long-term savings directly by selecting the appropriate investments. Assets under administration growth continued in 2016, rising 22% to £12.3bn (2015: £10.1bn) and nearly 5,000 new client accounts were opened. Operating in an increasingly competitive marketplace, RLPS maintained its market share.

Over the course of 2016, RLPS has focused on enhancing its proposition with significant developments taking place to both the platform and the service that supports it. Advisers benefited from extra efficiencies embedded within RLPS’s market leading model portfolio function, as well as the launch of the Income Forecaster tool – the first of its kind – that allows advisers to forecast the income generated from a portfolio and visually demonstrate this to clients. By the end of the year, both advisers and their clients were also starting to benefit from RLPS’s Service Excellence Programme, which was established to re-engineer operational processes around the needs of the customer, with the aim of making them both more efficient and user friendly.

The strength of RLPS’s investment proposition is a core part of its ‘DNA’. Turbulent market conditions after the UK referendum on EU membership and US presidential election provided ample opportunity to showcase the difference it can make for clients. Its unique in-house dealing capability means RLPS can negotiate the best prices for clients’ transactions – perhaps best demonstrated in the week after the Brexit vote, when RLPS managed to save its clients over £100,000 on market prices.

Work is ongoing to develop our back office technology with a new state-of-the-art system. We experienced a few delays and incurred additional spend against the original budget during 2016 developing this system. We made good progress in the latter part of 2016, ensuring the project was back on track with full support of the Board, are aiming to complete in 2018.

Platforms such as RLPS remain a growth area in the asset management industry, and are continuing to take overall market share within the long-term savings market. RLPS is well positioned to continue benefiting from this change.

**2016 AWARDS**

**FINANCIAL ADVISER 5* SERVICE AWARDS**

**WINNER**
Company of the year
Investments

**MONEYWISE FUND AWARDS**

**WINNER**
UK Equity Income – RL UK Equity Income Fund
Mixed Investment 40-80%
Shares – RL Sustainable World Trust
Ethical/SoCially Conscious – RL Sustainable World Trust

**INVESTORS CHRONICLE TOP 100 FUNDS**

**WINNER**
RL Sterling Extra Yield Bond Fund
RL Ethical Bond Fund

**£12.3bn**

The amount of RLPS assets under administration as at 31 December 2016, an increase of 22% from 2015.
Our corporate responsibility

At Royal London it’s not just about doing business, but doing it the right way, whether it involves operating responsibly or helping consumers gain a better understanding of important financial matters. From publishing the first in a series of ‘Good with your money’ guides, to developing a life cover product for people with diabetes, we worked hard in 2016 to deliver the best possible outcomes for our customers and the communities in which we work.

Supporting our customers
Raising financial awareness and capability
In 2016 we continued to raise consumer awareness of key financial issues. A new series of policy papers covered a wide range of topics, from the shortfalls faced by people saving for retirement to the financial risks faced by renters who lose their income through unemployment or sickness. We also published the first in a series of ‘Good with your money’ guides covering how to top up your state pension. Building on our work in the previous year we published the third Royal London National Funeral Cost Index, this year focusing on the plight of people who go into debt simply to pay for a funeral, and our second Pensions Through the Ages campaign highlighting savings ‘moments of truth’ for 35-44 year olds to help them save more for their retirement.

We are committed to helping our customers become financially secure and make the most of their money. In April 2016, we set up a financial capability team to look at ways to help customers manage their money better both day to day and through significant life events, and to improve their ability to handle periods of financial difficulty. We actively support and contribute to the UK Financial Capability Strategy headed up by the Money Advice Service.

Sir Steve Webb, Royal London’s Director of Policy and External Communications, is a member of the Financial Capability Board.

Meeting customer needs
In 2016 we developed a life cover product for people with diabetes who often find access to life cover either unaffordable or limited. We expect to begin trialling the product in early 2017. There is a recognised need for a competitive product linked to the effective management of their chronic illness, where policyholders have control over their premiums through lifestyle choices.

We also tested our literature on consumers and advisers, to ensure that we maximise both transparency and understanding within our customer communications.

We are committed to helping customers buy the right product for their needs and making it easier for advisers to sell.

We have improved our Helping Hand feature on our protection plans to incorporate access to more services for customers to use, for example, help for carers and help at home. Key to the Helping Hand proposition is being provided with access to a customer’s own personal nurse adviser who will create a care plan for them to detail the help that can be provided and whether access to services is appropriate and relevant.

We will be launching annual plan statements for protection customers this year to improve customer experience and engagement. This will remind customers of the importance and value of their cover.

Understanding our customers
At Royal London we want to deliver the best possible customer outcomes and experience. To achieve this, in 2015 we identified what matters most to our customers and communicated this to everyone in Royal London in our Customer Value Statements (CVS) model.

In 2016, we focused on ensuring everyone in Royal London understands how to use the CVS model to deliver the best customer outcomes and experience. Through our Customer Voice Measurement Programme, we started to measure how our customers think we’re performing against the model and shared their feedback with the business. In addition, we implemented new initiatives needed to deliver what matters most to our customers.

We improved customer participation with a 52.7% increase in the numbers of customers leaving feedback on their experience with Royal London. In addition to the increase in volumes we continued to experience an improvement in our Net Promoter Score. We also saw an increase in scores from staff on how customer-focused we are in Royal London. Our customer centricity scores increased by 6% during the last 12 months.

We received a number of awards for the work we’re doing to deliver the best customer outcomes and experience, both within financial services and across all industries and a 3-star (exceptional) Investor in Customers accreditation.

Our asset management business
RLAM is one of the UK’s leading asset managers, exceeding £100bn of funds under management for the first time during 2016. Being a mutual means responsible investment of these assets is very important to us.

We have continued to integrate RLAM’s responsible investment policy, overseen by our Responsible Investment Team who bring with them in-depth knowledge of environmental, social and governance (ESG) matters. The team works directly with fund managers to address these concerns through engagement and voting. We have also continued to integrate ESG issues into our fixed income and property teams.

RLAM remains a signatory to the Principles for Responsible Investment (PRI). We fully support the requirements under the Financial Reporting Council’s Stewardship Code, maintaining a high level of disclosure and transparency in our stewardship responsibilities. RLAM is also a member of the 30% Club, working to promote the importance of diversity both in the boardroom and throughout the companies we hold.

Our quarterly report Responsibility Matters, keeps our clients and members up to date with our engagement and voting activities along with our views
Our corporate responsibility continued

and insight into specific sectors or issues. Our sustainable funds continue to perform and RLAM’s Sustainable World Trust was named the UK’s cleanest fund by non-profit organisation As You Sow.

Supporting our people

We care for the health and well-being of our employees and through our Employee Assistance Programme we offer 24-hour, confidential support covering a range of issues, whether home or work-related.

We have initiated a new focus on sharing learning experience called ‘Sharing your Learning’, encouraging all of our people to share their expertise and experiences with colleagues across Royal London.

We have supported our leaders in understanding their strengths and those of team members so that we can harness what each individual uniquely brings to working in Royal London – ‘your difference is our strength’. One of our development solutions this year, Ideathon, allowed a small group of leaders to work collaboratively with other organisations to provide solutions to a business challenge posed by a charity.

In 2016, we had 2,288 delegates through our internal training programmes and 363 students progressed qualifications in 2016, completing 530 modules or papers between them.

Engagement with our employees is important, and we seek to gain their feedback through our annual employee opinion survey in which more than four out of five of our employees participated.

In July 2016 we launched the new employee recognition scheme, ‘In The Spirit’, built on recognising our Group values in action. It offers colleagues and managers the opportunity to recognise the contributions and achievements of their committed peers. In 2016 we had 1,478 acts of recognition across the Group.

We have recruited a diversity and inclusion specialist and the Board has approved our new strategy and direction of travel. As part of this work, we have signed up to the HM Treasury Women in Finance Charter. We have set ourselves a target of increasing our senior female leadership from 33% to 40% by the end of 2020.

In addition, our Modern Slavery statement can be viewed on our Corporate Responsibility webpage.

Making a difference in our communities

In 2016, our people chose a theme to frame our community work which is ‘to support people with a chronic or long-term condition’. This aligns to our business as a life and pensions provider.

We enable our people to share their skills with charities by giving up to two days annually to volunteer in their local communities. We have committed to working with ‘The Silver Line’, befriending older people to reduce loneliness and isolation in 2017. In addition, we match our people’s fundraising efforts up to £250 per person annually and up to £1,000 for teams. In 2016 we donated £100,000 to charity.

2016 was the second year of our grassroots cricket competition, ‘The Gilbert Cup’, for under 11 year olds. In addition, during 2016, we continued our support of the Professional Cricketers’ Association (PCA) Benevolent Fund which has enabled more help to be given to those who need it.

It was also the second year of the Royal London and Royal Parks Foundation partnership, designed to help conserve the presence of the pelicans, London’s most regal birds. We also continued our partnership with the Royal Zoological Society of Scotland (RZSS) as the proud sponsor of the ‘Pelican Walkthrough’ that is in operation at RZSS Edinburgh Zoo.

Our environment

In 2016 we prepared our first Group-wide Sustainability Statement. More information is available on our Corporate Responsibility webpages. Our main environmental impact areas are the use of energy and carbon dioxide (CO2) emissions, the generation of waste and the use of water. However, all of our practices aim to result in minimal or zero environmental impact.

www.royallondon.com/about/corporate-responsibility
Our ability to generate new business in 2016 was out of this world. This helped us to significantly increase our EEV and IFRS operating profits – an achievement we’re particularly proud of in a year of great economic uncertainty.
Royal London performed incredibly well during 2016. Our new business generation was outstanding, and operating profit rose strongly. During the year we also made significant investment in the business to position ourselves for future growth. Looking through all of this, 2016 is one of our strongest years in recent times.

We achieved this while remaining true to our commitment to always put our members’ and customers’ interests first.

We continued to be a leader in the provision of workplace pension schemes, enabling thousands of people to become members of a scheme for the first time. We were active participants in helping customers and advisers navigate the pension freedoms introduced in 2015, and we gained further momentum in protection insurance. RLAM, our asset management company, attracted new funds, and funds under management exceeded a record £100bn during the year.

All this was achieved against a background of profound economic and market uncertainty and very low interest rates.

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 page 208 of the Annual Report and Accounts will help explain some of the terminology.

Financial summary
Profit from sales of our new life and pensions business rose by 63% to £223m during 2016. Operating profit before tax grew by 16% to £282m. This is calculated using the European Embedded Value (EEV) method, which we believe is still the most meaningful basis on which to manage our business, although this year we have sought to align where possible our Embedded Value methodology to our new regulatory basis, Solvency II.

EEV profit before tax, ProfitShare and change in basis for Solvency II was £321m, compared with £277m in 2015. This includes £16m of costs relating to investments in the business to ensure our future success and a £21m one-off gain relating to the closure of the Royal London Group Pension Scheme (RLGPS) to future accrual from 31 March 2016.

The pre-tax result was affected by low interest rates, in particular the Royal London Group Pension Scheme saw a decrease in its funding level of £118m (before £21m gain recognised in operating profit), and a one-off charge relating to Solvency II, which is explained in detail on page 98 of the Annual Report and Accounts, also had a significant impact on our pre-tax result.

The IFRS transfer to unallocated divisible surplus, before change in basis for Solvency II, for the year ended 31 December 2016 was £143m (2015: £175m). Similar to EEV, our IFRS result benefits from the strong trading performance of the Group and is also impacted by the low interest rate environment.

Even using the more stringent capital measurements of Solvency II, our capital position remains very strong. Our solvency coverage ratio on a Solvency II basis for the Royal London Open Fund is 209% (1 January 2016: 239%) and 155% (1 January 2016: 169%) for the Total Company1.

ProfitShare rose by 63% to £114m (£120m gross of tax). As our Chairman and Group Chief Executive discuss in their statements on pages 4 and 6 respectively, this year more than 700,000 additional members will receive a ProfitShare allocation.

Key developments
Investment in the business was a key focus in 2016. We recognised one-off costs of £16m (2015: £21m) that will be invested in people, systems and capacity to ensure we can take advantage of opportunities in the future.

1 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.
We transformed our systems, successfully launching some of them while others are still a work in progress. A number of our new financial applications are now in use and we continue to make good progress on developing the remaining technology to meet the accelerated reporting demands of the Solvency II regime.

We are also making good progress on the development of other systems across the Group: in particular with the back office system for our platform business and new system and target operating model for our pensions business, which we believe will deliver better outcomes and experiences for our customers as well as delivering a new digital proposition and the ability to deliver the administration of our existing book of policies more cost effectively.

We are also working 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 £18m of savings for 2017. This has been achieved through a variety of initiatives, from the deployment of continuous improvement end-to-end process reviews, to organisational redesign opportunities, and by introducing a more structured and consistent approach to cost centre management. During 2017 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.

Solvency II and changes in accounting policy
The industry and the regulator have been working on Solvency II, the new insurance regulatory regime, for a number of years. On 1 January 2016, Solvency II came into effect and we dealt with the required changes effectively. We also succeeded in meeting all the necessary requirements of the regime. We are on track to meet the new annual reporting requirements, with narrative reporting due for submission in May 2017.

Initially, Royal London is using the Standard Formula for calculating solvency capital under Solvency II. However, we are preparing an Internal Model that we plan to seek to adopt formally in 2019. We already use the Internal Model for the purposes of monitoring our capital and decision making across the Group.

We have made a number of changes to the basis used to produce EEV results as a result of Solvency II. There is no impact of moving to Solvency II reporting on prior reporting periods. The change has been treated as a change in estimate that has been recognised in the 2016 result of moving to Solvency II. There is no impact on the basis used to produce EEV results as a result of Solvency II. There is no impact of moving to Solvency II reporting on prior reporting periods. The change has been treated as a change in estimate that has been recognised in the 2016 result with no restatement of prior periods. The main changes involve using a swap curve to discount cash flows rather than a gilt rate curve used previously, and a change in methodology to reserve for possible reinsurer default. The total impact was a one-off charge of £182m on the Group’s EEV pre-tax profit and some presentational changes as set out on page 197 of the Annual Report and Accounts.

New business results
Sales of new business on a PVNBP basis were extremely strong in 2016, increasing by 56% to £15,427m. All three business areas delivered impressive performances while also maintaining control of costs.

Intermediary
Pensions saw a 27% rise in sales to £7,738m. We remained a significant player in the provision of workplace pensions and auto-enrolment. We maintained margins despite dealing with smaller employers and schemes with fewer employees, in part by introducing an employer fee. Intermediary protection built on the positive momentum started in 2015, with new business sales up 29% to £647m.

Consumer
Sales grew by 82% to £301m in our Consumer division, driven by sales of pre-paid funeral plans and Over 50s Life Cover. Partnerships have become an important way of driving further sales, with the Co-operative FuneralCare and Ecclesiastical both now offering our Funeral Plan. A partnership with Post Office Money to sell our products through its outlets was signed in early 2017 and we expect it will increase our sales volumes significantly. We are delighted with the progress made by Consumer during the year.

Wealth
RLAM saw net inflows of £2,321m (2015: £532m) during the year and total funds rose above £100bn for the first time in Q3 2016 and remained at £100bn at 31 December 2016 (2015:

<table>
<thead>
<tr>
<th>New business results</th>
<th>New business contribution</th>
<th>PVNBP</th>
<th>New business margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 £m</td>
<td>2015 £m</td>
<td>2016 £m</td>
<td>2015 £m</td>
</tr>
<tr>
<td>Intermediary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions Protection</td>
<td>170.6</td>
<td>107.9</td>
<td>7,738</td>
</tr>
<tr>
<td>Consumer</td>
<td>4.3</td>
<td>(14.6)</td>
<td>301</td>
</tr>
<tr>
<td>Life and pensions business</td>
<td>217.7</td>
<td>135.6</td>
<td>8,686</td>
</tr>
<tr>
<td>Wealth</td>
<td>37.7</td>
<td>22.2</td>
<td>6,741</td>
</tr>
<tr>
<td>Total</td>
<td>255.4</td>
<td>157.8</td>
<td>15,427</td>
</tr>
</tbody>
</table>

1 New business contribution in the table above has been grossed up for tax at 20% (2015: 20%). We have done this to help compare our results with the results of shareholder-owned life insurance companies, which typically pay tax at 20% (2015: 20%).
£85bn). The UK referendum on EU membership and subsequent decision to leave the EU created considerable volatility in investment markets, with interest rates remaining lower for longer than expected. While this made investment decisions difficult, it also created opportunities, and institutional investors increased funds coming to us, particularly in the fixed interest area. The Ascentric wrap platform maintained market share and increased assets under management by 22% to £12.3bn.

Financial review

EEV operating profit before tax and exceptional items*

*All results exclude Royal London 360° which was disposed of during 2013.

£282m

£196m

£220m

£244m

£282m


£3,160m £3,464m £4,826m £6,774m £8,686m

EEV operating profit before tax rose by 16% to £282m (2015: £244m), mainly driven by the new business sales and changes to our underlying assumptions mainly regarding consumer behaviour. Profit contribution from new business was £223m, up 63% from the previous year. For the first time this year, the new business contribution was discounted using a rate derived from the swap curve. In previous years a gilt yield derived discount rate was used. Margins held up well at 1.7% (2015: 1.6%) benefiting from our increased sales despite the challenging economic environment.

Profits from managing our existing book of business increased by £5m to £185m. This mainly consists of £131m (2015: £103m) of return on our net assets that we expected at the start of the year and a positive £50m (2015: £74m) impact on profit from changing our operating assumptions. We changed our assumptions to reflect our expectation of lower future costs driven by our effective cost management strategies and our expectation that we will see a positive impact from our focus on improving policyholders’ experience of dealing with Royal London. These positive changes have been offset by provisions of £111m for future investment in the business including a significant provision for developing our Pensions platform.

Profit from uncovered business has moved from a profit into a loss of £44m. This is

A partnership with the Post Office to sell our products through its outlets was signed in early 2017 and will increase volumes significantly.
mainly due to small operating profits on our uncovered business offset by significant cost being incurred in 2016 relating to the development of new back office software in RLPS (Ascentric). This included an impairment charge of £44m.

Other items remain broadly consistent with 2015 and include £57m (2015: £40m) of provisions relating to the cost of servicing historic remediation and regulatory developments. These negative items are offset by the £21m one-off gain from the closure of the Royal London Group Pension Scheme (RLGPS) to future accrual.

If these provisions and investments are stripped out, the EEV operating profit for the year would have been £318m (2015: £284m), showing impressive growth of 12%, demonstrating the strength of the operating performance.

EEV profit before tax, ProfitShare and change in basis for Solvency II

On this basis EEV profit was £321m (2015: £277m). The increase on the previous year is due to our strong operating performance, despite the low interest rate environment. The low interest rate environment had an adverse impact on the RLGPS, the funding level of which decreased by £118m (before the curtailment gain of £21m recognised in operating profit; 2015: increase of £23m) during the year due to the decrease in the rate used to discount the scheme liabilities.

Low interest rates have also resulted in an adverse change of £192m to the economic assumptions we use (2015: positive £32m), which has been more than offset from investment returns being better than we expected at the start of the year by £395m (2015: £21m).

The introduction of Solvency II during the year resulted in a £182m one-off charge to our embedded value during the year. This charge has led to an EEV profit before tax of £19m for the year (2015: £203m).

IFRS results

Alongside EEV, Royal London also reports its results under the 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 204 and 205 of the Annual Report and Accounts that contribute to the differences in respective results. As a mutual, the transfer to the unallocated divisible surplus (UDS) is a key measure in determining the level of profits available for us to share with our members.

Transfer to UDS

Our total transfer to UDS before the change in basis for Solvency II was £143m (2015: £175m), a decrease of 18%, reflecting the strong performance of the business offset by the decrease in the RLGPS surplus as seen in EEV profit. Including the impact of the change in basis to Solvency II, the total deduction from UDS was £22m (2015: transfer to the unallocated divisible surplus of £175m).

Our 2016 operating profit (IFRS basis) was £281m (2015: £252m). 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 deduction from transfer to UDS. The most notable items are:

- the change in basis for Solvency II of £165m, which is slightly lower than the impact on an EEV basis described on page 32;
- investment return variances and assumption changes of £373m 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; and
- tax charge of £249m, the majority of our tax charge represents policyholder tax which has increased significantly due to the increase in the market value of assets, particularly bonds and gilts.

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

<table>
<thead>
<tr>
<th></th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit (on IFRS basis)</td>
<td>281</td>
<td>252</td>
</tr>
<tr>
<td>Adjusting for the following items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment return variances and economic assumption changes</td>
<td>373</td>
<td>15</td>
</tr>
<tr>
<td>Pension schemes costs recognised in profit</td>
<td>(3)</td>
<td>(10)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(47)</td>
<td>(44)</td>
</tr>
<tr>
<td>ProfitShare</td>
<td>(114)</td>
<td>(70)</td>
</tr>
<tr>
<td>Change in basis for Solvency II</td>
<td>(165)</td>
<td>-</td>
</tr>
<tr>
<td>IFRS profit before tax</td>
<td>325</td>
<td>143</td>
</tr>
<tr>
<td>Tax charge</td>
<td>249</td>
<td>18</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>98</td>
<td>(50)</td>
</tr>
<tr>
<td>Total (deduction from)/transfer to unallocated divisible surplus</td>
<td>(22)</td>
<td>175</td>
</tr>
</tbody>
</table>
Group Finance Director’s review continued

IFRS balance sheet
Our balance sheet remains robust. Our total investment portfolio, including investment property, grew by 22% to £79.8bn, a new record for Royal London. Our financial investment portfolio remains well balanced across a number of financial instruments, with the majority (77%) in equity securities and fixed income assets.

Staff pension scheme
As we announced in the last year, the RLGPS was closed to future accrual of benefits in March 2016, 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. The closure resulted in a one-off gain of £21m that is recognised in our operating profit.

The RLGPS was negatively affected by the low interest rate environment. A significant decrease in corporate bond yields used to discount its liabilities, partially offset by a strong investment performance and lower than expected inflation, resulted in the scheme ending the year with a deficit of £26m (2015: £71m surplus).

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 2016 was £131m (2015: £106m surplus).

We continue to work closely with the Trustee Board to assess options for reducing the schemes’ exposure to market volatility.

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 an excess surplus of £1.9bn and a capital cover ratio of 209% at 31 December 2016 (1 January 2016: 239%). The Closed Funds are also well capitalised with an excess surplus of £2.6bn and a capital cover ratio of 254%. The average capital cover ratio for Royal London is 232%, including surplus in the closed funds.

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 this Closed Funds’ surplus is treated as a liability.

The investor view cover ratio has increased from 226% to 232% in 2016. This has arisen largely as a result of an improvement in the closed funds. The improvement in the closed funds is not recognised in the regulatory view.

The 31 December 2016 figures assume a capital add-on agreed with the PRA that became effective on 1 January 2016. On 7 March 2017, we agreed a new add-on with the PRA, mainly as a result of the lower risk-free curve applicable at 31 December 2016. The Investor and Regulatory capital ratios on the new add-on were 208% and 150% respectively.

<table>
<thead>
<tr>
<th>Solvency II capital position on a Standard Formula basis</th>
<th>Royal London Open Funds (£bn)</th>
<th>Royal London Closed Funds (£bn)</th>
<th>Total Company (Investor View) (£bn)</th>
<th>Closed Funds Restriction</th>
<th>Total Company (Regulatory View) (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>2.8</td>
<td>4.3</td>
<td>7.1</td>
<td>-</td>
<td>7.1</td>
</tr>
<tr>
<td>Tier 2</td>
<td>0.8</td>
<td>-</td>
<td>0.8</td>
<td>-</td>
<td>0.8</td>
</tr>
<tr>
<td>Total Own Funds</td>
<td>3.6</td>
<td>4.3</td>
<td>7.9</td>
<td>-</td>
<td>7.9</td>
</tr>
<tr>
<td>Closed Funds restriction</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2.6)</td>
<td>(2.6)</td>
</tr>
<tr>
<td>Adjusted Own Funds (A)</td>
<td>3.6</td>
<td>4.3</td>
<td>7.9</td>
<td>(2.6)</td>
<td>5.3</td>
</tr>
<tr>
<td>Solvency Capital Requirement (B)</td>
<td>1.7</td>
<td>1.7</td>
<td>3.4</td>
<td>-</td>
<td>3.4</td>
</tr>
<tr>
<td>Surplus</td>
<td>1.9</td>
<td>2.6</td>
<td>4.5</td>
<td>(2.6)</td>
<td>1.9</td>
</tr>
<tr>
<td>Capital cover ratio (A/B)</td>
<td>209%</td>
<td>254%</td>
<td>232%</td>
<td>n/a</td>
<td>155%</td>
</tr>
<tr>
<td>1 January 2016 Capital cover ratio (A/B)</td>
<td>239%</td>
<td>213%</td>
<td>226%</td>
<td>n/a</td>
<td>169%</td>
</tr>
</tbody>
</table>

1. The 31 December 2016 figures are estimated and have not been subject to an external audit opinion.
2. The 1 January 2016 ratios are taken from data in Royal London’s opening Solvency II balance sheet submission to the PRA in May 2016.
3. The 31 December 2016 figures assume the Transitional Measures on Technical Provisions (TMTP) have not been recalculated at year-end 2016.
Further detail on our capital can be seen in note 42 to the IFRS Financial Statements on pages 190 to 192 of the Annual Report and Accounts.

**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.

Following the referendum vote in favour of the UK leaving the European Union and the change in the outlook of the UK’s Aa1 government bond rating to negative from stable in June 2016, Moody’s took ratings action on a number of UK life insurers, including Royal London. In June, Moody’s reduced its outlook for Royal London from stable to negative, citing fears that the UK economy would suffer in the medium-term. However, in August 2016, Standard & Poor’s went on to reaffirm Royal London’s counterparty credit rating of A, with a stable outlook.

**Returning value to our members and policyholders**
Our with-profits policyholders saw good returns in 2016 from:

- positive investment returns on their policies, helped by rising stock markets despite volatile financial markets and low interest rates;
- the payouts that were made to maturing policies during the year, which compare well with our industry; and
- ProfitShare of £114m, up from £70m in 2015.

In addition we made our first allocation of ProfitShare to more than 700,000 unit-linked members.

**Investment returns**
Investment returns for Royal London policyholders were strong in absolute terms, boosted by a positive performance in the FTSE 100 index for the first time in several years.

Political events, in particular the UK referendum on EU membership and the US Presidential election, created significant volatility and uncertainty in financial markets during the year. In both cases the outcome was not what the financial markets had expected. The full significance of the vote to exit the EU and the new Trump administration will not become clear until 2017 and beyond.

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.

During the year our investments backing the asset shares of the Royal London Open Fund, our largest fund, achieved a return of 13.8%, an improvement on the 2015 return of 4.1%. Although good in absolute terms, the result did not exceed the benchmark. This reflects the fact that our investment strategies at
the beginning of 2016 were predicated on rising interest rates and a slow performance for the FTSE 100. The vote to exit the EU meant that investment markets took a very different course.

The second chart illustrates the performance of the different types of investment in asset classes that underpin the fund. During 2016, performance was slightly behind benchmark across equities and gilts, but ahead in property, private equity and UK Corporate Bonds.

**Unit-linked investment returns**
The Governed Portfolios range delivered extremely strong absolute gains over the course of 2016. However, the range was behind benchmark by an average of 1.02%. All of the Governed Portfolios have outperformed their benchmark over five years and since launch to the end of December 2016. Over a cumulative five-year performance period the portfolios have outperformed benchmark by 3.54% on average.

**With-profits policyholder bonuses**
Interest rates reached historic lows following the results of the UK referendum on EU membership in 2016. The outlook for future investment returns is uncertain. Despite this, in 2016 we have been able to maintain our annual bonus rates at the same level as 2015.

Strong investment returns over 2016, as sterling weakened against major global currencies, means we can increase payouts for most of our traditional with-profits customers who receive a payout in 2017. One of the main features of with-profits policies is smoothing. We have held back some of the particularly strong investment returns in 2016 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 of 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**
We expanded the reach of ProfitShare last year. This allowed the vast majority of our unit-linked pension customers to share in Royal London’s success. We committed to look after the interests of our existing with-profits customers while we expanded ProfitShare.

Last year we allocated £70m in ProfitShare to our existing with-profits customers. This allowed us to enhance their return for 2015 by 1.4%. This year we have been able to maintain that enhancement at 1.4%, even after a turbulent year of local and global political events.

This year we have increased the total ProfitShare award from £70m to £114m. This increase has allowed us to enhance the unit-holdings of eligible unit-linked pension customers by 0.18%. This is in line with our initial expectations of awards at one eighth of the rate for our existing with-profits policyholders. Qualifying Royal London with-profits policies will see a corresponding 0.18% increase in their annual bonus allocation too.

We hope to award a similar level of ProfitShare next year and our business plan supports that. However, the current uncertainty in financial markets may affect the amount of profits we are able to earn and share with our customers. Rest assured that, whatever happens in 2017, we will do all we can to maintain your ProfitShare at an attractive level.

**Tax**
Tax remained a hot topic in 2016, with many companies and individuals criticised for excessive tax avoidance. Our approach remains to be as transparent as possible about our tax affairs and to manage them in accordance with our tax strategy.

**Tax strategy**
We strive to pay a fair amount of tax, striking a balance between all our stakeholders and ensuring that our policyholders are all 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.
Group Finance Director’s review continued

Keep a look out for our detailed tax strategy document which will be published on our website later in the year.

How Royal London is taxed
We’re 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 relating to policies and is largely driven by market movements. This tax is paid directly to HMRC 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 Government’s strategy of incentivising saving for retirement. The tax is paid directly by the pension policyholder when they receive their pension.

The majority of our business is based in the UK and therefore most of the tax we pay relates to UK taxes. In 2016 the total UK tax contribution of the Group was £458m (2015: £444m) and a summary chart of the total contribution of the Group for 2016 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. In 2016 taxes of £166m (2015: £139m) were borne by the Group and the Group collected £292m (2015: £305m) of taxes on behalf of the UK Government.

Conclusion
Royal London showed once again that it is a robust business that can produce impressive new business sales and profitability. Our strategy to become the most trusted and recommended provider of life insurance and investment products in the eyes of our customers is starting to come to fruition. This focus is driving sales as customers and financial advisers recognise the quality of our offering.

The push to provide workplace pension schemes to British companies will start to slow in 2017, but we still see many opportunities to grow our business and we are investing to ensure we can make the most of them. We remain optimistic about the prospects, both for Royal London and its members.

Tim Harris
Group Finance Director

Forward-looking statements
This Strategic report contains forward-looking statements with respect to certain of Royal London’s 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 which 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 2016 Strategic report, from pages 1 to 38, was approved by the Board of Directors on 29 March 2017.

By order of the Board

Fergus Speight
Company Secretary
For and on behalf of Royal London Management Services Limited
29 March 2017
An eye for detail

In 2016 we paid very close attention to making sure we delivered outstanding performance to all our members and customers.
Being a mutual allows us to take longer-term decisions that better serve the interests of all our members, and we always welcome it when members challenge our directors to improve what we do.
Board of Directors

Rupert Pennant-Rea
Chairman

Appointed: 13 December 2012.
Skills, competencies and experience:
Rupert was appointed Chairman after the AGM in 2013. He has extensive financial services industry 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), member of Remuneration Committee and attends all other committees.
External appointments:

Phil Loney
Group Chief Executive

Appointed: 1 October 2011.
Skills, competencies 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.
External appointments:
Association of British Insurers (Senior Independent Director).

Tim Harris
Group Finance Director

Appointed: 19 May 2014.
Skills, competencies and experience:
Prior to joining Royal London, Tim was 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, 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 also sits on the PRA Practitioners Committee.

Jon Macdonald
Chief Risk Officer

Appointed: 14 December 2012.
Skills, competencies 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, PricewaterhouseCoopers LLP, 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.
Sally Bridgeland  
Independent Non-Executive Director  
Appointed: 14 January 2015.  
Skills, competencies 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 Non-Executive Director of LPP Ltd and Impax Asset Management Group plc.  
Committee memberships: Investment Committee (Chair), Nomination and Remuneration Committees.  
External appointments: Independent trustee for Lloyds Banking Group Pension Trustee Limited and NEST Corporation and a member of the Trust Investment Committee at innovation charity Nesta.  

Tracey Graham  
Independent Non-Executive Director  
Appointed: 10 March 2013.  
Skills, competencies 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, Ibstock plc and Acal plc.

Ian Dilks  
Independent Non-Executive Director  
Appointed: 14 November 2014.  
Skills, competencies 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. At PricewaterhouseCoopers LLP he had responsibility for the public policy and regulatory affairs of the global network.  
Committee memberships: Nomination, Investment and Audit Committees.  
External appointments: NHS Litigation Authority (Chairman); Expert Adviser, House of Commons Treasury Committee.

Andrew Palmer  
Independent Non-Executive Director  
Appointed: 1 April 2011.  
Skills, competencies 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) and sits on the Board Risk and Nomination Committees.  
Subsidiary appointment: Royal London Asset Management Limited (Chair).  

David Weymouth  
Independent Non-Executive Director  
Appointed: 1 July 2012.  
Skills, competencies and experience: David’s 27-year career at Barclays encompassed a wide variety of leadership roles, including operations, technology and risk, and most recently global chief information officer. He subsequently consulted to a number of blue chip and government organisations. He was on the Executive Committee of RSA Insurance Group plc and was group chief risk officer, until his retirement in May 2015.  
Committee memberships: Board Risk Committee (Chair), Nomination and Audit Committees.  
External appointments: Chairman of Mizuho International Holdings plc, non-executive director of Bank of Ireland (UK) plc and Fidelity International Holdings (UK) plc.

Duncan Ferguson  
Senior Independent Director  
Appointed: 1 April 2010.  
Skills, competencies and experience: Duncan was Senior Partner of Bacon & Woodrow, then B&W Deloitte, from 1994 to 2003, and a non-executive director of Henderson Group until December 2013. Duncan was a non-executive director of Halifax from 1994 until it merged with Bank of Scotland in 2001 and then of HBOS Financial Services until 2007. He was president of the Institute of Actuaries from 1996 to 1998.  
Committee memberships: With-Profits Committee (Chair), Nomination, Board Risk and Audit Committees.
2016 Directors’ remuneration report

Annual statement from the Remuneration Committee Chair

Dear Member,

On behalf of the Board I am pleased to present a summary of the Remuneration Committee report for 2016. The full report, including a description of the activities of the Remuneration Committee in 2016, is available online within the Annual Report and Accounts at www.royallondon.com/about/annual-reports/2016-annual-reports.

This year the summary remuneration report is split into three parts:

- the Directors’ remuneration policy, which sets out how the Group intends to remunerate its directors over the period 2017 to 2019. The policy was last voted on by members at the 2014 AGM. This year, the Remuneration Committee (the ‘Committee’) reviewed the policy to ensure it remains aligned to Royal London’s aims. The review concluded that the policy continues to remain fit for purpose, albeit this year the Committee has recommended a few changes. The revised policy will be put to a members’ vote at the June 2017 AGM;

- the 2016 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’ vote at the 2017 AGM. Details can be found on pages 46 to 48 of this report;

- the Directors’ proposed remuneration for 2017. Previously this section was part of the 2015 annual report on remuneration, however for this year it has been separated out to improve transparency on how the proposed policy will impact remuneration in 2017 and going forward.

The Committee believes the three aims of the remuneration policy as published in our 2015 annual report continue to be relevant. However, it has added an additional aim relating to fairness. The four aims are therefore as follows:

- to help align executives’ interests with those of our members and policyholders;

- to support the delivery of the Group’s strategy whilst 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 that they enhance members’ understanding of how our remuneration strategy supports the Group’s strategy and members’ interests. We have also made some changes this year to the layout of the report to improve readability.

Remuneration policy review in 2016

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 working with the Prudential Regulation Authority (PRA) to comply with the remuneration requirements of Solvency II.

Within this context during 2016, the Committee conducted an independent review of our remuneration policy with the following three key objectives:

- maximising alignment with our members and customers, reflecting our mutual status;

- ensuring regulatory compliance of our remuneration policy; and

- simplifying the remuneration structure, to improve understanding for our people and members.

The review of the policy concluded that most of the existing policy remained fit for purpose. The overall structure of the reward package for senior executives will continue to be a salary, a Short-Term Incentive Plan (STIP) linked to the achievement of the annual business plan, a Long-Term Incentive Scheme (LTIS) linked to the achievement of the three-year business plan and market-related pension and benefits provision.

However, the Committee elected to make a limited number of changes to the policy to strengthen alignment to the three key objectives of the review and ultimately the aims of the policy. The main changes to the policy include increasing the deferral of the STIP to 40% (from 33%) for three years (from two years) for all participants subject to deferral and simplifying the structure of the LTIS and the way we operate EEV unit holding requirements, whilst retaining the requirement for executives to continue holding deferred awards when they leave.

The intention is for this revised policy to apply for three years until the 2020 AGM. Further details on these changes are included on page 77 of the Annual Report and Accounts...
The Committee also elected to make some changes to the implementation of the policy for 2017 onwards, these include combining the two profit measures in the LTIS to a single measure of profit and ensuring that all elements of the LTIS have a meaningful weighting of at least 10%.

The Committee is also looking to introduce shadow risk-adjusted profit measures in the STIP and LTIS in response to Solvency II. This will help broaden the risk data points available to the Committee for consideration.

Finally, during 2016 the Group became a signatory of the Women in Finance Charter and set ourselves a target of increasing our female management population at RL1 (or equivalent), which is the most senior grade in the Group and includes the most senior or technical roles in the Group, from 33% to 40% by the end of 2020, the achievement of this target is a key objective for all of our executives until 2020.

Remuneration in 2016

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 69 to 71. I am pleased to report that the Group has made excellent progress during 2016, performing well despite the backdrop of a turbulent year in politics and markets. Royal London’s EEV operating profit has continued to grow despite the low interest rate regime and our performance has translated into an increase in the ProfitShare for 2016 and commencing an extended ProfitShare allocation to our pension members. The Committee has sought input from the board Audit Committee regarding the quality of earnings and from the BRC regarding the Group’s performance in terms of risk measurement.

As a result, the Committee agreed a final award under the 2016 STIP of 98% of maximum for the Group Chief Executive, 90.5% for the Group Finance Director and 67.9% for Chief Risk Officer. This corresponds to a final scorecard result of 155% out of 200% and takes into account personal performance which for the executive directors ranged from Good to Strong. As the Committee believe the scorecard result accurately reflects the overall Group performance during 2016, they did not feel it necessary to exercise discretion.

The 2014 LTIS paid out at 69% of maximum which resulted in awards of 104%, 104% and 69% of salary – which is subject to further EEV unit price changes – for the Group Chief Executive, Group Finance Director and Chief Risk Officer respectively.

Remuneration in 2017

The Committee determined to increase the salaries of the Group Chief Executive, Group Finance Director and Chief Risk Officer by an average of 3.1%, effective from 1 April 2017 which is in line with increases for other Group employees with the same performance ratings.

The Executive Directors will be eligible for 2017 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.

Conclusion

The Group has been pursuing its current strategy for more than four years, and over that period, Funds Under Management have increased by 109% and our life and pensions PVNBP sales by 175%. Sales in 2016 grew by 28%, the third successive year of growth. In 2016 the Group delivered a 16% increase in EEV operating profit to £282m.

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.

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

Tracey Graham
Chair of the Remuneration Committee
Directors’ remuneration policy

The policy applicable for 2014-2016 was voted on and approved by 92% of members at the 2014 AGM. It can be found in the 2013 Annual Report and Accounts available at 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:

<table>
<thead>
<tr>
<th>Align executives’ interests with those of our members and customers</th>
<th>Performance-related incentive arrangements will be designed to align the interests of executives with those of members and customers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support delivery of the Group’s strategy whilst ensuring adherence to the Group’s risk appetite</td>
<td>Performance-related incentive arrangements will be designed to reinforce the achievement of the Group’s strategy. 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. 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. 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.</td>
</tr>
<tr>
<td>Ensure remuneration is competitive for our markets to help the Group attract and retain talent</td>
<td>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.</td>
</tr>
<tr>
<td>To ensure fair outcomes for our people, members and policyholders</td>
<td>Remuneration policy is consistent across Royal London, although remuneration levels differ and not all employees participate in the LTIS.</td>
</tr>
</tbody>
</table>
Summary of the key features of the remuneration policy and how it was implemented for 2016

<table>
<thead>
<tr>
<th>Key features of the policy</th>
<th>2016 Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewed annually considering:</td>
<td></td>
</tr>
<tr>
<td>- Role and responsibilities</td>
<td></td>
</tr>
<tr>
<td>- Benchmarking of comparator groups</td>
<td></td>
</tr>
<tr>
<td>- Individual performance</td>
<td></td>
</tr>
<tr>
<td>- Group performance</td>
<td></td>
</tr>
<tr>
<td>- Broader employee population</td>
<td></td>
</tr>
<tr>
<td>Performance is assessed against a balanced scorecard of one-year measures, with vesting outcomes subject to a discretionary override by the Committee.</td>
<td></td>
</tr>
<tr>
<td>Maximum STIP opportunity of up to 150% of salary. Target STIP opportunity of up to 75% of salary.</td>
<td></td>
</tr>
<tr>
<td>Payment of at least one-third of any amount earned under the STIP is deferred for three years and is adjusted for the change in the value of the Group to its members over the period.</td>
<td></td>
</tr>
<tr>
<td>Vesting of awards is based on performance over three years against the Group's key long-term performance measures released as follows:</td>
<td></td>
</tr>
<tr>
<td>- 50% is exercisable after three years;</td>
<td></td>
</tr>
<tr>
<td>- 25% is exercisable after four years; and</td>
<td></td>
</tr>
<tr>
<td>- 25% is exercisable after five years from the date of grant.</td>
<td></td>
</tr>
<tr>
<td>Vesting outcomes are subject to a discretionary override by the Committee.</td>
<td></td>
</tr>
<tr>
<td>The maximum potential opportunity is 187.5% of salary. No award is payable for delivering an 'on plan' level of performance.</td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Until 31 March 2016, we also operated a Defined Benefit Scheme. This is now closed to future accrual.</td>
<td></td>
</tr>
<tr>
<td>Benefits varies by individual and level.</td>
<td></td>
</tr>
</tbody>
</table>

| 2016 Directors’ summary remuneration report continued |

Support the recruitment, retention and motivation of talented people

Focus on the in-year results that need to be achieved to meet Royal London’s objectives

Align executives with the long-term interests of members

Employee well-being & long-term financial stability

Salary | Car allowance | Cash STIP | Deferred STIP | LTIS | Pension & benefits

Fixed pay | Short-term variable pay | Long-term variable pay | Pension & benefits


Salary increases were 3.1%

Short-term performance measures are:
- Financial performance – 45%
- Best customer propositions – 20%
- Our people – 10%
- Assurance – 15%
- Building the future – 10%

Long-term performance measures are:
- Operating profit – 50%
- Investment performance – 25%
- Customer experience – 10%
- Quality of proposition – 10%
- Strategic progress – 5%

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.

Until 31 March 2016, we also operated a Defined Benefit Scheme. This is now closed to future accrual.

Benefits varies by individual and level.
What our executive directors received in 2016

Our executive directors received the following remuneration in 2016, in line with the remuneration policy that was approved by members at the 2016 AGM.

<table>
<thead>
<tr>
<th></th>
<th>Phil Loney 2016 (£000)</th>
<th>Phil Loney 2015 (£000)</th>
<th>Tim Harris 2016 (£000)</th>
<th>Tim Harris 2015 (£000)</th>
<th>Jon Macdonald 2016 (£000)</th>
<th>Jon Macdonald 2015 (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>716</td>
<td>651</td>
<td>428</td>
<td>417</td>
<td>305</td>
<td>299</td>
</tr>
<tr>
<td>Benefits</td>
<td>60</td>
<td>69</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Pension supplement</td>
<td>179</td>
<td>163</td>
<td>84</td>
<td>83</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Pension benefits</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>41</td>
<td>29</td>
</tr>
<tr>
<td>TOTAL</td>
<td>955</td>
<td>883</td>
<td>529</td>
<td>515</td>
<td>365</td>
<td>356</td>
</tr>
<tr>
<td>STIP</td>
<td>1,085</td>
<td>984</td>
<td>468</td>
<td>462</td>
<td>250</td>
<td>267</td>
</tr>
<tr>
<td>TOTAL remuneration</td>
<td>2,040</td>
<td>1,867</td>
<td>997</td>
<td>977</td>
<td>615</td>
<td>623</td>
</tr>
<tr>
<td>Long-term vesting</td>
<td>993</td>
<td>1,269</td>
<td>278</td>
<td>-</td>
<td>307</td>
<td>265</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>3,033</td>
<td>3,136</td>
<td>1,275</td>
<td>977</td>
<td>922</td>
<td>888</td>
</tr>
</tbody>
</table>

Salaries are shown gross of any Salary Sacrifice element and the pension benefits for Jon Macdonald and Phil Loney 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 and Tim Harris invested part of their supplements into the Group’s Defined Contribution Plan. Benefits include life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car). Phil Loney receives a transport and overnight expenses allowance to fund travel between his home and place of work, it is currently £46,000 per annum and is reviewed in April each year to ensure it has been set at the correct level. 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).

2016 STIP performance was assessed against the following measures:

<table>
<thead>
<tr>
<th>Measure and weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>45%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Best customer propositions</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our people</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assurance</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building the future</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Actual performance
2016 Directors’ summary remuneration report continued

The performance measures and outcomes for the 2014 RLAM LTIP were as follows:

<table>
<thead>
<tr>
<th>Measure and weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment performance</td>
<td>70%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue growth</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Actual performance

The performance measures and estimated outcomes for the 2014 LTIS are as follows:

<table>
<thead>
<tr>
<th>Measure and weighting</th>
<th>Threshold</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing business performance</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>New business performance</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Profit from target growth areas</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Customer services measure</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Investment performance*</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Quality of proposition</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Actual performance

*In 2016 investment performance was below threshold level and therefore did not contribute to the vesting percentage of the LTIS.

How we will reward our executive directors in 2017

The following table sets out the annual salaries payable to each executive director from 1 April 2017.

<table>
<thead>
<tr>
<th></th>
<th>2017 (£000)</th>
<th>2016 (£000)</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Harris</td>
<td>443</td>
<td>431</td>
<td>2.8</td>
</tr>
<tr>
<td>Phil Loney</td>
<td>755</td>
<td>736</td>
<td>2.6</td>
</tr>
<tr>
<td>Jon Macdonald</td>
<td>318</td>
<td>306</td>
<td>3.9</td>
</tr>
</tbody>
</table>

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.
Outstanding executive directors’ incentive schemes award and Royal London unit holding requirement

To further align the interests of executive directors with those of our members and customers, executive directors are required to hold Royal London units, as shown below.

<table>
<thead>
<tr>
<th>Holding requirement (£000)</th>
<th>Value of units held at 31 Dec 2016 (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Harris</td>
<td>647</td>
</tr>
<tr>
<td>Phil Loney</td>
<td>1,472</td>
</tr>
<tr>
<td>Jon Macdonald</td>
<td>306</td>
</tr>
</tbody>
</table>

Key terms of our Non-executive directors contracts

<table>
<thead>
<tr>
<th>Duration of contract</th>
<th>Group CEO</th>
<th>Other executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Continuous term to retirement age.</td>
<td></td>
</tr>
<tr>
<td>Notice period</td>
<td>By the Company</td>
<td>12 months</td>
</tr>
<tr>
<td></td>
<td>By the executive director</td>
<td>12 months Up to 12 months</td>
</tr>
<tr>
<td>Pay in lieu of notice</td>
<td>Salary and contractual benefits are payable if employment is terminated by the Group (for reasons other than misconduct).</td>
<td>N/A</td>
</tr>
<tr>
<td>Other</td>
<td>Company reimburses reasonable travel and overnight expenses in connection with work-related travel to and from home to place of work.</td>
<td>N/A</td>
</tr>
</tbody>
</table>
2016 Directors’ summary remuneration report continued

Non-executive directors remuneration in 2016 – audited
The non-executive directors received the following remuneration:

<table>
<thead>
<tr>
<th>Non-executive director</th>
<th>Annual fee (£000)</th>
<th>Committee chairmanship fee (£000)</th>
<th>Additional fee (£000)</th>
<th>Total (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sally Bridgeland</td>
<td>65</td>
<td>15</td>
<td>2</td>
<td>82</td>
</tr>
<tr>
<td>Ian Dilks</td>
<td>65</td>
<td>-</td>
<td>2</td>
<td>67</td>
</tr>
<tr>
<td>Duncan Ferguson</td>
<td>65</td>
<td>33</td>
<td>7</td>
<td>105</td>
</tr>
<tr>
<td>Tracey Graham</td>
<td>65</td>
<td>20</td>
<td>27</td>
<td>112</td>
</tr>
<tr>
<td>Andrew Palmer</td>
<td>245</td>
<td>20</td>
<td>37</td>
<td>122</td>
</tr>
<tr>
<td>Rupert Pennant-Rea</td>
<td>65</td>
<td>22</td>
<td>7</td>
<td>94</td>
</tr>
<tr>
<td>David Weymouth</td>
<td>65</td>
<td>22</td>
<td>11</td>
<td>89</td>
</tr>
</tbody>
</table>

Non-executive directors do not receive any taxable benefits.

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. As a result, from June 2016, non-executive directors were not paid any additional per diem rate payments for additional time commitments beyond their contract. Instead, the annual base fees, were increased from £58,100 to £69,100 to account for the additional workload.

In line with ensuring the appropriate governance and Board oversight of subsidiary companies, from 1 September 2016 Andrew Palmer was appointed Chairman of RLAM and Tracey Graham was appointed Chairman of Investment Funds Direct Limited (IFDL). Therefore, from 1 September 2016 Andrew receives additional fees of £90,000 per annum (£30,000 received in 2016) and Tracey £65,000 per annum (£21,667 received in 2016) to reflect the additional accountability and time commitment for chairing these respective subsidiary Boards, the amounts received in 2016 have been included as Additional Fees in the table above. The annual fees for these two roles were independently benchmarked.

How we will pay our Non-executive director fees for 2017
The annual base fee for non-executive directors from January 2017 is £71,200. Additional fees are payable for Committee chairmanship as follows:

- Board Risk Committee: £22,000
- Investment Committee: £15,000
- With-Profits Committee: £20,000
- Audit Committee: £20,000
- Remuneration Committee: £20,000
- Chairman of RLAM: £90,000
- Chairman of IFDL: £65,000

The annual fee for the Group Chairman is £260,000 and the annual fee for the Senior Independent Director is £13,500.

By order of the Board

Tracey Graham
Chairman of the Remuneration Committee
Auditors’ report

Independent auditors’ statement to the members of the Royal London Mutual Insurance Society Limited

We have examined the supplementary financial information included within the Strategic Report with Supplementary Information for the year ended 31 December 2016, which comprises the Summarised consolidated income statement: EEV for the year ended 31 December 2016; the Summarised consolidated balance sheet: EEV for the year ended 31 December 2016; the Summarised consolidated statement of comprehensive income: IFRS for the year ended 31 December 2016; and the Summarised consolidated balance sheet: IFRS for the year ended 31 December 2016.

Respective responsibilities of the directors and the auditors
The directors are responsible for preparing the Strategic Report with Supplementary Information, in accordance with the Companies Act 2006, which includes information extracted from the full annual financial statements and the auditable part of the Directors’ remuneration report of The Royal London Mutual Insurance Society Limited for the year ended 31 December 2016.

Our responsibility is to report to you our opinion on the consistency of the summary financial information, included within the Strategic Report with Supplementary Information, with those full annual financial statements and the auditable part of the Directors’ remuneration report.

This statement, including the opinion, has been prepared for and only for the Group’s members as a body 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 statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion
Our examination involved agreeing the balances disclosed in the summary financial information to the full annual financial statements. Our audit report on the Group’s full annual financial statements and the auditable part of the Directors’ remuneration report describes the basis of our opinion on those financial statements and the auditable part of that report.

Opinion
In our opinion the supplementary financial information is consistent with the full annual financial statements and the auditable part of the Directors’ remuneration report of The Royal London Mutual Insurance Society Limited for the year ended 31 December 2016.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 March 2017

Notes:
The supplementary financial information are published on the website of the Royal London Group, www.royallondongroup.co.uk. 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 information since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of supplementary financial information may differ from legislation in other jurisdictions.
### Summarised consolidated income statement: EEV

<table>
<thead>
<tr>
<th>Operating activities</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution from new business</td>
<td>223</td>
<td>137</td>
</tr>
<tr>
<td>Profit from existing business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Expected return</td>
<td>90</td>
<td>76</td>
</tr>
<tr>
<td>- Experience variances</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>- Operating assumption changes</td>
<td>50</td>
<td>74</td>
</tr>
<tr>
<td>Expected return on opening net worth</td>
<td>41</td>
<td>27</td>
</tr>
<tr>
<td>(Loss)/Profit on uncovered business</td>
<td>(44)</td>
<td>7</td>
</tr>
<tr>
<td>Strategic development costs and other items</td>
<td>(82)</td>
<td>(80)</td>
</tr>
<tr>
<td><strong>Total operating profit before tax</strong></td>
<td>282</td>
<td>244</td>
</tr>
<tr>
<td>Economic experience variances</td>
<td>395</td>
<td>21</td>
</tr>
<tr>
<td>Economic assumption changes</td>
<td>(192)</td>
<td>32</td>
</tr>
<tr>
<td>Movement in RLGPS pension scheme surplus</td>
<td>(118)</td>
<td>23</td>
</tr>
<tr>
<td>Financing costs</td>
<td>(46)</td>
<td>(43)</td>
</tr>
<tr>
<td><strong>EEV profit before tax, ProfitShare and change in basis for Solvency II</strong></td>
<td>321</td>
<td>277</td>
</tr>
<tr>
<td>ProfitShare</td>
<td>(120)</td>
<td>(74)</td>
</tr>
<tr>
<td>Change in basis for Solvency II</td>
<td>(182)</td>
<td>-</td>
</tr>
<tr>
<td><strong>EEV profit before tax</strong></td>
<td>19</td>
<td>203</td>
</tr>
<tr>
<td>Attributed tax charge</td>
<td>(40)</td>
<td>(22)</td>
</tr>
<tr>
<td><strong>Total EEV (loss)/profit after tax</strong></td>
<td>(21)</td>
<td>181</td>
</tr>
</tbody>
</table>

### Summarised consolidated balance sheet: EEV

<table>
<thead>
<tr>
<th>Net worth</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of in-force business</td>
<td>2,065</td>
<td>2,034</td>
</tr>
<tr>
<td>Pension scheme surplus (RLGPS)</td>
<td>(26)</td>
<td>71</td>
</tr>
<tr>
<td><strong>Total Embedded Value</strong></td>
<td>3,146</td>
<td>3,167</td>
</tr>
</tbody>
</table>
### Summarised consolidated statement of comprehensive income: IFRS

<table>
<thead>
<tr>
<th></th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross earned premiums</td>
<td>1,291</td>
<td>1,194</td>
</tr>
<tr>
<td>Premiums ceded to reinsurers</td>
<td>(730)</td>
<td>(400)</td>
</tr>
<tr>
<td><strong>Net earned premiums</strong></td>
<td>561</td>
<td>794</td>
</tr>
<tr>
<td>Investment return</td>
<td>10,864</td>
<td>2,122</td>
</tr>
<tr>
<td>Other revenues</td>
<td>330</td>
<td>299</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>11,755</td>
<td>3,215</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total policyholder benefits and claims</td>
<td>10,015</td>
<td>2,176</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,368</td>
<td>852</td>
</tr>
<tr>
<td>Finance costs</td>
<td>47</td>
<td>44</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>11,430</td>
<td>3,072</td>
</tr>
<tr>
<td>Result before tax and before transfer to unallocated divisible surplus</td>
<td>325</td>
<td>143</td>
</tr>
<tr>
<td>Tax charge</td>
<td>249</td>
<td>18</td>
</tr>
<tr>
<td>Transfer to the unallocated divisible surplus</td>
<td>76</td>
<td>125</td>
</tr>
<tr>
<td><strong>Result for the year</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other comprehensive income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurements of defined benefit pension schemes</td>
<td>(98)</td>
<td>50</td>
</tr>
<tr>
<td>(Deduction from)/transfer to the unallocated divisible surplus</td>
<td>(98)</td>
<td>50</td>
</tr>
<tr>
<td><strong>Other comprehensive income for the period, net of tax</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Summarised consolidated balance sheet: IFRS

<table>
<thead>
<tr>
<th></th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>51</td>
<td>42</td>
</tr>
<tr>
<td>Investment property</td>
<td>5,297</td>
<td>5,036</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>683</td>
<td>832</td>
</tr>
<tr>
<td>Reinsurers' share of insurance contract liabilities</td>
<td>5,907</td>
<td>5,052</td>
</tr>
<tr>
<td>Pension scheme asset</td>
<td>131</td>
<td>177</td>
</tr>
<tr>
<td>Current tax asset</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Financial investments</td>
<td>74,479</td>
<td>60,129</td>
</tr>
<tr>
<td>Other assets</td>
<td>788</td>
<td>546</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3,292</td>
<td>2,823</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>90,631</td>
<td>74,656</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unallocated divisible surplus</td>
<td>3,292</td>
<td>3,314</td>
</tr>
<tr>
<td>Insurance and investment contract liabilities (excluding UDS)</td>
<td>72,835</td>
<td>61,697</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>744</td>
<td>743</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>13,760</td>
<td>8,902</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>90,631</td>
<td>74,656</td>
</tr>
</tbody>
</table>
Notice of Annual General Meeting

Notice is hereby given that the 2017 Annual General Meeting of The Royal London Mutual Insurance Society Limited (the Company) will be held at 11.00am on Wednesday 14 June 2017, at Clothworkers' Hall, Dunster Court, Mincing Lane, London EC3R 7AH for the transaction of the following business:

To consider and, if thought fit, pass 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 2016.

2. To approve the Directors' remuneration policy.

3. To approve the Annual report on remuneration for the year ended 31 December 2016.

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 Ian Dilks as a director of the Company.

8. To reappoint Tracey Graham as a director of the Company.

9. To reappoint Tim Harris as a director of the Company.

10. To reappoint Phil Loney as a director of the Company.

11. To reappoint Jon Macdonald as a director of the Company.

12. To reappoint Andrew Palmer as a director of the Company.

13. To reappoint Rupert Pennant-Rea as a director of the Company.

14. 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
29 March 2017

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 2016
Following changes introduced by the Companies Act 2006 (the Act), the Group 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 (AGM).

Resolution 2 and 3
Directors’ remuneration policy and Annual report on remuneration
Following amendments to the Act, which became effective from 1 October 2013, new requirements were introduced to the content of the Directors’ remuneration report and the approval of the report. As Royal London is not a listed company it does not have to, and in some ways cannot, comply with the requirements of the Act. However, the directors believe that the disclosure aids members’ understanding and sets the level for good governance and so have voluntarily complied with the legislation where appropriate.

The Act now requires the following in the Directors’ remuneration report:

- an annual statement by the Chairman of the Remuneration Committee;
- an annual report describing the implementation of the Group’s remuneration policy (the Annual report on remuneration) during the year under review; and
- a remuneration policy report describing the Group’s remuneration policy (Directors’ remuneration policy).

The Act requires a listed company to include at the AGM a resolution to approve the Directors’ remuneration policy and is subject to a vote of members at least every three years.

The Remuneration Committee will take into the account the members’ vote when setting future policy.

Resolution 3 seeks approval for the Annual report on remuneration.

Resolution 4 and 5
Appointment and remuneration of auditors
At every general meeting at which accounts are presented to members, the Group is required to appoint auditors to serve from the end of the meeting until the next general meeting.

PricewaterhouseCoopers LLP are the Group’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.

Resolution 6 to 14
Reappointment of directors
In accordance with The Association of Financial Mutuals’ Annotated UK Corporate Governance Code and to increase accountability, all directors will retire at each AGM and stand for reappointment. Accordingly, all of your directors are retiring and offering themselves for reappointment at this AGM. The Board considers that each of the directors offering themselves for re-election brings a wealth of valuable experience to the Board, enhancing its skill and knowledge base and should be reappointed. Biographical details of all directors are included on pages 42 and 43 of the Annual Report and Accounts.

Note: The terms and conditions of appointment of non-executive directors are available for inspection at the Group’s registered office at 55 Gracechurch Street, London EC3V 0RL during business hours on any weekday (except public holidays) and will be available for inspection at the AGM.
### Date Event

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
</table>
| 30 March 2017      | Financial results for 2016  
                     Conference call on financial results for 2016 |
| 14 June 2017       | Annual General Meeting                                               |
| 17 August 2017     | Interim financial results 2017                                       
                     Conference call on interim financial results for 2017 |
| 13 November 2017   | RL Finance Bonds No 3 plc subordinated debt interest payment date   |
| 30 November 2017   | RL Finance Bonds No 2 plc subordinated debt interest payment date   |

### Registered office

The Royal London Mutual Insurance Society Limited  
55 Gracechurch Street  
London  
EC3V 0RL

Registered in England and Wales  
Private company limited by guarantee  
Registered Number: 99064  
www.royallondon.com

### Contact offices

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Trimbridge House  
Trim Street  
Bath  
BA1 1HB

**Edinburgh**  
57 Henderson Row  
Edinburgh  
EH3 5DL

**Edinburgh**  
1 Thistle Street  
Edinburgh  
EH2 1DG

**Glasgow**  
301 St Vincent Street  
Glasgow  
G2 5PB

**Wilmslow**  
Royal London House  
Alderley Road  
Wilmslow  
Cheshire  
SK9 1PF

**Republic of Ireland**  
47 St Stephen’s Green  
Dublin 2  
Ireland

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