



## **Press Release**

**29 March 2018**

### **ROYAL LONDON REPORTS STRONG NEW BUSINESS AND PROFIT GROWTH AS CEO CALLS FOR FIVE YEAR MORATORIUM ON CHANGES TO PENSIONS TAX RELIEF**

#### **Trading and financial highlights**

- New life and pensions business (PVNBP basis)<sup>1</sup> up by 38% to £12,002m (2016: £8,686m);
- Funds under management<sup>2</sup> up by 14% to £114bn (31 December 2016: £100bn);
- European Embedded Value (EEV) operating profit before tax up by 17% to £329m (2016: £282m);
- ProfitShare (after tax) distribution to eligible members rises to £142m (2016: £114m);
- Overall new business margins remained broadly in line with the prior period at 1.8% (2016: 1.9%<sup>4</sup>);
- IFRS transfer to the unallocated divisible surplus (before other comprehensive income) increase of £111m to £352m (2016: before change in estimate for Solvency II and other comprehensive income £241m); and
- Solvency II Standard Formula basis Investor View<sup>3</sup> solvency surplus of £5.5bn (31 December 2016: £4.5bn) and a capital cover ratio of 235% (31 December 2016: 232%) before closed fund restrictions.

#### **New business review**

##### **Intermediary business**

- Individual Pensions including Drawdown new business sales<sup>1</sup> were up by 68% to £6,339m (2016: £3,778m). Customers continued to take advantage of the pension freedoms, creating greater demand for our award-winning investment solutions and income drawdown product.
- Group Pensions new business sales<sup>1</sup> were up by 12% to £4,346m (2016: £3,872m). In 2017 we were one of the leading providers of insurance-based new auto-enrolment pension schemes. Following the completion of the initial auto-enrolment staging programme in the UK we expect lower sales of workplace pensions in 2018 due to the reduced market size. Our focus will be on supporting our existing customers through the planned increases in employer and employee pension contribution rates.

royallondon.com

- Intermediary Protection new business sales<sup>1</sup> increased by 25% to £807m (2016: £647m). We have become one of the leading providers in the intermediated retail life assurance market, growing our market share since rebranding as Royal London in 2015. We have achieved this through a market-leading and customer-centric proposition and by continuously improving our service for customers and advisers. Our focus has been on making it easier for customers to buy insurance and making the products more accessible to groups of customers who have historically been underserved by the insurance industry. It has also been an outstanding year for our Intermediary Protection business in Ireland; in November 2017 our successful service transformation won first place for service excellence in the 2017 Brokers (Adviser) Ireland Excellence Awards for the first time.

### **Consumer business**

- Consumer new business sales<sup>1</sup> were up by 36% to £408m (2016: £301m). Growth in our Consumer division came from increasing our brand visibility and offering great value products, which we believe provide better outcomes than those offered by our competitors. We are now one of the largest players in the Over 50s protection market and the only product provider awarded a five star rating by Fairer Finance.
- This was the first year of our partnership with the Post Office and we have been delighted with its success with over 14,000 policies sold during 2017. Our partnerships with Co-operative Funeral Services and Ecclesiastical Insurance continued to flourish. We also reached agreement in December 2017 to form a new partnership with CYBG plc, owner of Clydesdale Bank and Yorkshire Bank, to offer over 50s life cover to their customers. In 2018 we will launch our own-branded Funeral Plan, which will expand the range of products we offer directly to customers to meet funeral planning needs.

### **Wealth**

- **Royal London Asset Management (RLAM)** continued to perform well, attracting external gross inflows of £10.4bn (2016: £6.7bn) arising from both Institutional and Wholesale markets. Institutional clients such as pension schemes and local authorities, and Wholesale clients such as wealth managers and IFAs, continued to buy our fixed income and cash funds. Our Sustainable range has also gained popularity. Funds under management<sup>2</sup> increased to £114bn (31 December 2016: £100bn), with market conditions more stable in 2017 compared with 2016.
- We also made good progress in building the business. We recruited a highly-regarded global equity team, launching two new global equity funds in 2017. We completed one of the largest ever launches of a UK property fund in October 2017, with a portfolio of £2.7bn, as well as launching a multi asset credit fund for institutional investors.

- The **Ascentric** wrap platform saw gross inflows increase 22% to £2.8bn (2016: £2.3bn). A new, industry-leading charging structure helped to deliver record inflows into the business in 2017. The new pricing makes it easier for advisers and their clients to understand total costs. Assets under administration<sup>5</sup> increased by 17% to £14.4bn (31 December 2016: £12.3bn).

## Review of financial performance

### **EEV operating profit**

Royal London has once again performed strongly, increasing EEV operating profit before tax by 17% to £329m (2016: £282m). Profit contribution from new business was £292m in 2017, up 31% from the previous year reflecting the quality of the new business we are writing. Profits from managing our existing book of business (including expected return on opening net worth) increased by £93m to £278m. This mainly consists of experience variances of £37m (2016: £4m), an overall positive £111m (2016: £50m) impact on profit from changing our operating assumptions, mainly relating to changing our longevity and expense assumptions. Strategic development costs and other items increased to £208m (2016: £82m) as we invested in our business while there was an impairment to intangible assets of £31m (2016: £44m). The impairment charge of £31m related to the development of new back office software in Ascentric and the expected increase in costs relating to the sophistication of the new system and complying with MiFID II regulations.

### **IFRS transfer to unallocated divisible surplus**

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus. The IFRS transfer to the unallocated divisible surplus (before other comprehensive income) for the year ended 31 December 2017 was £352m (2016: £76m). The 2016 results included a charge for a change in estimate for Solvency II of £165m. The 2016 IFRS transfer to the unallocated divisible surplus before this charge was £241m. Our IFRS result benefits from the strong trading performance of the Group and continues to be affected by the low interest rate environment.

### **Capital**

Our capital position remains strong and our Solvency II Standard Formula basis Investor View<sup>3</sup> solvency surplus was £5.5bn (31 December 2016: £4.5bn) with a capital cover ratio of 235% (31 December 2016: 232%). The Regulatory View solvency surplus was £2.4bn (31 December 2016: £1.9bn) with a capital cover ratio of 159% (31 December 2016: 155%).

The 31 December 2016 Solvency II<sup>6</sup> solvency surplus and capital cover ratios are as presented in Royal London's 2016 Annual Report and Accounts. These figures were estimates and final figures were disclosed in the Solvency and Financial Condition Report (SFCR) for the year ended 31 December 2016; being a capital cover ratio of 227% and £4.4bn solvency surplus (Investor View), and a capital cover ratio of 153% and £1.8bn solvency surplus (Regulatory View).

## **ProfitShare**

Over recent years we have expanded the reach of ProfitShare to include thousands more of our members, and in 2017 another 200,000 new members qualified to receive ProfitShare. In 2017 1.2m people received ProfitShare, compared with 1m in 2016. As a result of maintaining the level of ProfitShare across our increased membership base, the total amount paid in ProfitShare has increased to £142m in 2017 (2016: £114m).

**Phil Loney, Group Chief Executive of Royal London, said:**

*“In a year full of political and economic uncertainty which impacted market volatility and consumer spending, we achieved a 17% increase in EEV operating profit before tax, largely due to strong sales growth across our businesses. This growth reflects our well established strategy of continually improving the quality of products and service offered to our customers, demonstrating our customer-owned business model.*

*“As a member-owned business our customers are at the heart of everything we do. Royal London members and qualifying customers have received almost a billion pound boost to their policies since 2007 – three quarters of a billion coming from sharing our profits and the remainder from cumulative investment returns on these profits. This is a real demonstration of how we make a meaningful difference to our customers.*

*“Our 2017 ProfitShare of £142m was supported by a record year for new business backed by strong investment performance, despite a backdrop of continued political upheaval. Royal London’s funds under management increased to £114bn with a record breaking year for gross sales for our asset management business. A new, unique all-in charging structure drove strong new sales for Ascentric, our platform business.*

*“We also saw strong sales of workplace and individual pensions while Royal London’s drawdown proposition served us well during a time when low interest rates made this type of product the retirement vehicle of choice. The completion of the initial stages of the UK wide auto-enrolment project means that the size of the workplace pension new business market will reduce in 2018 and we expect our own workplace pension sales to fall accordingly. In 2018 our primary focus will be on supporting our current workplace pension customers through the planned increases in employer and employee contribution levels, whilst continuing to offer a quality workplace pensions solution for those employers dissatisfied with their current pension provider.*

*“Our Protection businesses continued to go from strength to strength across the board. Our innovative work simplifying the underwriting journey on streamlined mortgages, was referred to as a “game-changer” and advisers praised our pioneering work on diabetes cover. Royal London Ireland had an outstanding year, exceeding prior year and growing market share to over 16%. Royal London’s consumer business is now one of the top sellers of Over 50s life cover. We believe this growth was driven by the recognition that our product is fairer and better value compared to our competitors. Royal London is the only provider to be awarded a 5\* rating for Over 50s cover by the consumer group Fairer Finance.*

*“We have continued to be recognised for excellent customer service across all of our businesses, offering consistently high quality service to customers and the advisers who work on their behalf. Our net promoter score, measuring how likely consumers are to recommend us to friends and family, continued to increase in 2017 and financial advisers have recognised all of Royal London’s businesses as 5 star service providers.*

*“The backdrop to much of our business is the political agenda for longer term saving. The pensions landscape has seen revolutionary and largely positive changes, but more can be done to deliver real consumer benefits. Auto-enrolment has enabled millions of people to contribute to a private pension for the first time, but the Government’s 8% combined contribution target is only a starting point and contributions need to be increased further over time. The Government also needs to widen the net to bring in self-employed people.*

*“However, there is one area where we need stability. Pensions tax relief has been subject to no less than six cuts in the last seven years and we are asking the Government to commit to a five year moratorium on further changes. This would help to support consumer confidence in pensions just at the time that employer and employee contribution rates are set to increase as part of the auto-enrolment project.*

*“We continue to work closely with Government on the development of the Pensions Dashboard, a potential game-changer for consumers. Government should drive the initiative forward, making it compulsory for all schemes and pension providers to supply data that will inform consumer choice.”*

For further information please contact:

Mona Patel  
[Mona.patel@royallondon.com](mailto:Mona.patel@royallondon.com)

0203 272 5133  
07919 171964

**Editor's notes:**

Royal London is the largest mutual life, pensions and investment company in the UK, with funds under management of £114 billion, 8.8 million policies in force and 3,637 employees. Figures quoted are as at 31 December 2017.

1) Present value of new business premiums (PVNBP) is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the year. The rate used to discount the cash flows in the reported results has been derived from the swap curve.

2) Funds under management represent the total of assets managed or administered by the Group on behalf of Institutional and Wholesale clients, and on behalf of the Group. It excludes assets administered through our platform business. 3) We have presented a Total Company ('Investor View'), which comprises the Royal London Open Fund, into which all new business is written, and seven closed ring-fenced funds from previous acquisition activity. The Investor View includes the surplus from the closed funds. Total Company ('Regulatory View') includes a restriction of £3.1bn (31 December 2016: £2.6bn) as a deduction from total Own Funds of £9.6bn (31 December 2016: £7.9bn), because excess capital in the closed funds is ultimately for the benefit of those closed fund policyholders. Therefore closed funds report a zero surplus, with Total Company surplus equal to the Open Fund surplus. After the £3.1bn restriction, the Total Company ('Regulatory View') reported a capital cover ratio of 159% at 31 December 2017 (31 December 2016: 155%).

4) The 2016 total margin has been updated to exclude cash mandates.

5) Assets under administration represent the total assets administered on behalf of individual customers and Institutional clients through our platform business. It includes those assets for which the Group provides investment management services, as well as those that the Group administers when the customer has selected an external third-party investment manager.

6) Solvency II basis of preparation:

The Solvency II position has been prepared in accordance with the Solvency II Directive which came into effect on 1 January 2016 for all insurance entities operating in Europe. Initially we are using the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. However, we are preparing an Internal Model that we plan to seek approval to adopt in 2019. We already use an internal capital model for the purposes of monitoring our capital and decision making across the Group. Royal London received approval for the use of both the Transitional Measure on Technical Provisions (TMTP) and the Volatility Adjustment. Permission to recalculate TMTP was received from the Prudential Regulation Authority (PRA) in December 2017. The TMTP stated is estimated and unaudited. The final position will be reported in the SFCR on 4 May 2018.

7) Source: Milliman Q3 2017 Temperature Gauge results.

8) Financial calendar:

29 March 2018	Financial results for 2017 and conference call*
4 May 2018	2017 Solvency and Financial Condition Report published on our website
13 June 2018	Annual General Meeting
16 August 2018	Interim financial results
13 November 2018	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2018	RL Finance Bonds No 2 plc subordinated debt interest payment date

\* Royal London will hold an investor conference call to present its 2017 financial results on Thursday 29 March 2018 at 09:00. Interested parties can register at: <https://cosspreg.btc.com/prereg/key.process?key=P37B46J36>

9) Forward-looking statements:

This document may contain 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 Royal London's control. These include, among others, 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, 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 forth in Royal London's forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements.

## CONTENTS

### In this section

	Page
1 New business review	8
2 Review of financial performance	
- Consolidated income statement – EEV basis for the year ended 31 December 2017	9
- Consolidated balance sheet – EEV basis as at 31 December 2017	10
- EEV operating profit	10
- EEV profit before tax, ProfitShare and change in estimate for Solvency II	11
- EEV balance sheet	12
- IFRS consolidated statement of comprehensive income for the year ended 31 December 2017	13
- IFRS consolidated balance sheet as at 31 December 2017	15
- IFRS results	16
- IFRS balance sheet	16
- Investment performance	16
- Solvency II capital position on a Standard Formula basis	17
- Movement analysis of capital position	18
- Sensitivities on the capital cover ratio and solvency surplus	19
3 Other matters	
- UK decision to leave the EU	20
- Ratings agencies	20
Appendix 1: EEV basis of preparation	21
Appendix 2: IFRS basis of preparation	22
Appendix 3: Reconciliation of the IFRS unallocated divisible surplus to EEV	23

## 1. New business review Intermediary

	PVNBP		New business contribution <sup>1</sup>		New business margin	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	%	%
Intermediary						
Pensions	<b>10,787</b>	7,738	<b>241.6</b>	170.6	<b>2.2</b>	2.2
Protection	<b>807</b>	647	<b>49.8</b>	42.8	<b>6.2</b>	6.6

## Consumer

	PVNBP		New business contribution <sup>1</sup>		New business margin	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	%	%
Consumer	<b>408</b>	301	<b>(5.3)</b>	4.3	<b>(1.3)</b>	1.4

## Wealth

	PVNBP <sup>2</sup>		New business contribution <sup>1</sup>		New business margin	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	%	%
RLAM <sup>3</sup>	<b>6,906</b>	5,065	<b>46.8</b>	37.7	<b>0.7</b>	0.7

	2017 £m	2016 £m	Change %
<b>RLAM</b>			
Gross and net flows (including cash mandates) <sup>4</sup>			
Inflows	<b>10,396</b>	6,741	54
Outflows	<b>(7,594)</b>	(4,420)	(72)
Net	<b>2,802</b>	2,321	21

	2017 £m	2016 £m	Change %
<b>Ascentric</b>			
Gross inflows	<b>2,796</b>	2,264	23

### Notes on the new business review

- The new business contribution in the tables above has been grossed up for tax at 19% (2016: 20%). We have done this to help compare our results with the results of shareholder-owned life insurance companies which typically pay tax at 19% (2016: 20%). The EEV Consolidated income statement has been grossed up at the applicable tax rates. Overall new business margin of 1.8% (2016: 1.9%) combines Intermediary, Consumer and Wealth and is based on exact figures.
- PVNBP for Wealth relates to gross sales inflows in the period, excluding external cash mandates which are treated as uncovered business and not valued on an EEV basis. The 2016 comparative has been updated to exclude cash mandates.
- The 2016 margin has been updated to exclude cash mandates.
- Excludes Channel Islands cash mandates.



## 2. Review of financial performance

### Consolidated income statement – EEV basis for the year ended 31 December 2017

	2017 £m	2016 £m
<b>Operating activities</b>		
Contribution from new business	<b>292</b>	223
Profit from existing business		
– Expected return	<b>104</b>	90
– Operating experience variances	<b>37</b>	4
– Operating assumption changes	<b>111</b>	50
Expected return on opening net worth	<b>26</b>	41
Loss on uncovered business	<b>(33)</b>	(44)
Strategic development costs and other items	<b>(208)</b>	(82)
<b>Total operating profit before tax</b>	<b>329</b>	282
Economic experience variances	<b>159</b>	395
Economic assumption changes	<b>79</b>	(192)
Movement in Royal London Group Pension Scheme	<b>73</b>	(118)
Financing costs	<b>(46)</b>	(46)
<b>EEV profit before tax, ProfitShare and change in estimate for Solvency II</b>	<b>594</b>	321
ProfitShare	<b>(150)</b>	(120)
Change in estimate for Solvency II	-	(182)
<b>EEV profit before tax</b>	<b>444</b>	19
Attributed tax charge	<b>(30)</b>	(40)
<b>Total EEV profit/(loss) after tax</b>	<b>414</b>	(21)

**Consolidated balance sheet - EEV basis as at 31 December 2017**

	<b>2017</b>	2016
	<b>£m</b>	£m
<b>Assets</b>		
Assets held in closed funds	<b>37,056</b>	37,033
Assets backing non-participating liabilities	<b>39,726</b>	29,882
Reinsurance assets	<b>5,384</b>	8,442
Assets backing participating liabilities and net worth	<b>9,090</b>	8,759
Value of in-force business	<b>2,544</b>	2,065
Royal London Group Pension Scheme surplus	<b>47</b>	-
<b>Total</b>	<b>93,847</b>	86,181
<b>Liabilities</b>		
Liabilities in closed funds	<b>37,056</b>	37,033
Non-participating liabilities	<b>39,726</b>	29,882
Reinsured liabilities	<b>5,384</b>	8,442
Participating liabilities	<b>6,526</b>	6,129
Current liabilities	<b>1,595</b>	1,523
Royal London Group Pension Scheme deficit	-	26
<b>Total</b>	<b>90,287</b>	83,035
<b>Embedded Value</b>		
Net worth	<b>969</b>	1,107
Value of in-force business	<b>2,544</b>	2,065
Royal London Group Pension Scheme surplus/(deficit)	<b>47</b>	(26)
<b>Total</b>	<b>3,560</b>	3,146

**EEV operating profit**

The Group achieved an EEV operating profit before tax of £329m, an increase of 17% (2016: £282m) which was driven by new business sales, changes to our operating assumptions, and included a one-off £30m benefit arising from release of a counterparty default reserve following a change to our agreement with BlackRock. This was partially offset by higher strategic development costs and other items and an impairment of an intangible asset.

Profit contribution from new business was £292m, up 31% from the previous year (2016: £223m). The overall new business margins remained broadly in line with the prior period at 1.8% (2016: 1.9%), the margins for new pensions business remained at 2.2% (2016: 2.2%) and the RLAM margins remained at 0.7% (2016: 0.7%). Protection and Consumer business saw a decrease in margins. The Protection margins dropped due to pressure from the competitive market. The negative new business contribution for Consumer was due to the business still being relatively new. Although Consumer has grown significantly we have been impacted by the low yield economic environment, where we are putting mitigating actions in place through our

product redesign, and continuing to scale our business model. With a growing share in our key chosen market segments we expect to make further enhancements to profitability metrics during 2018 from our new range of life assurance and funeral plan products.

Profits from managing existing business increased by £93m to £278m (2016: £185m). This mainly consists of a £33m increase in experience variances and an increase of £61m (122%) from changing our operating assumptions. The key change in assumptions is an update to longevity assumptions, reflecting latest forecasts that future life expectancy will not improve by as much as previously predicted. Other demographic assumptions have been updated in line with our latest experience. These changes resulted in an overall increase in our EEV operating profit, particularly in our Protection business, partly offset by the impact of updating our persistency assumptions on Group Pensions business. We also changed our assumptions to reflect our expectation of lower future unit costs following the successful growth in new business sales.

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

Strategic development costs and other items increased to £208m (2016: £82m), which related primarily to providing for future change such as IFRS 17 and MiFID II and upgrading of our premises. Other items include provisions relating to the costs of servicing historic remediation and expected costs associated with setting up a new legal entity in Ireland to mitigate any uncertainty from the UK leaving the European Union (EU). We also continued to make further provision for developing our Pensions platform, a change which we believe will enable us to deliver a market leading digital proposition and deliver better outcomes and experiences for our customers. These costs are offset by a one-off £30m benefit from a restructure of our arrangement with BlackRock resulting in the release of a counterparty default reserve.

## **EEV profit before tax, ProfitShare and change in estimate for Solvency II**

EEV profit before tax, ProfitShare and change in estimate for Solvency II was £594m (2016: £321m). The increase on the previous year is due to our strong operating performance, investment return being better than expected at the start of the year and positive changes to economic assumptions, and the Royal London Group Pension Scheme (RLGPS) moving from a deficit to a surplus. The RLGPS which is now closed to future accrual, benefited from improved economic conditions and saw an increase in its IAS 19 funding level of £73m in 2017 (2016: decrease of £118m). The 2016 EEV profit before tax and ProfitShare is stated before an

accounting charge of £182m arising on the alignment of our EEV methodology to Solvency II requirements (refer to Appendix 1 for further information).

### **EEV balance sheet**

During the first half of 2017 the reinsurance agreement with BlackRock was changed to move our investment with BlackRock Life Limited to investments in other BlackRock funds. This change resulted in a £2.6bn reclassification on the EEV balance sheet; a reduction in 'Reinsurance assets' with a corresponding increase in 'Assets backing non-participating liabilities' and aligned impacts on the liability side of the balance sheet.

**IFRS consolidated statement of comprehensive income for the year ended 31 December 2017**

	2017 £m	2016 £m
<b>Revenues</b>		
Gross earned premiums	1,239	1,291
Premiums ceded to reinsurers	(265)	(730)
Net earned premiums	974	561
Fee income from investment and fund management contracts	297	254
Investment return	6,031	10,864
Other operating income	64	76
<b>Total revenues</b>	<b>7,366</b>	<b>11,755</b>
<b>Policyholder benefits and claims</b>		
Claims paid, before reinsurance	2,665	2,703
Reinsurance recoveries	(519)	(507)
Claims paid, after reinsurance	2,146	2,196
(Decrease)/increase in insurance contract liabilities, before reinsurance	(114)	4,545
Reinsurance ceded	581	(548)
Increase in insurance contract liabilities, after reinsurance	467	3,997
Increase in non-participating value of in-force business	(271)	(317)
Increase in investment contract liabilities	3,215	3,974
<b>Total policyholder benefits and claims before change in estimate for Solvency II</b>	<b>5,557</b>	<b>9,850</b>
Change in estimate for Solvency II	-	165
<b>Total policyholder benefits and claims</b>	<b>5,557</b>	<b>10,015</b>
<b>Operating expenses</b>		
Administrative expenses	561	561
Investment management expenses	321	266
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	92	120
Investment return attributable to external unit holders	192	308
Other operating expenses	141	113
<b>Total operating expenses</b>	<b>1,307</b>	<b>1,368</b>
<b>Finance costs</b>	<b>47</b>	<b>47</b>
<b>Result before tax and before transfer to unallocated divisible surplus</b>	<b>455</b>	<b>325</b>
<b>Tax charge</b>	<b>103</b>	<b>249</b>
<b>Transfer to the unallocated divisible surplus</b>	<b>352</b>	<b>76</b>
<b>Result for the period</b>	<b>-</b>	<b>-</b>

**IFRS consolidated statement of comprehensive income for the year ended 31 December 2017 (continued)**

	<b>2017</b>	2016
	<b>£m</b>	£m
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of defined benefit pension schemes	<b>82</b>	(98)
Transfer to/(deduction from) the unallocated divisible surplus	<b>82</b>	(98)
<b>Other comprehensive income for the period net of tax</b>	-	-
<b>Total comprehensive income for the period</b>	-	-

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus. Accordingly, there is no profit or loss for the period shown in the statement of total comprehensive income.

**IFRS consolidated balance sheet as at 31 December 2017**

<b>ASSETS</b>	<b>2017</b>	2016
	<b>£m</b>	£m
Property, plant and equipment	<b>53</b>	51
Investment property	<b>6,103</b>	5,297
Intangible assets	<b>606</b>	683
Reinsurers' share of insurance contract liabilities	<b>5,326</b>	5,907
Pension scheme asset	<b>186</b>	131
Current tax asset	<b>5</b>	3
Financial investments	<b>83,328</b>	74,479
Trade and other receivables	<b>651</b>	788
Cash and cash equivalents	<b>3,061</b>	3,292
<b>Total assets</b>	<b>99,319</b>	90,631
<b>LIABILITIES</b>		
Participating insurance contract liabilities	<b>33,154</b>	32,709
Participating investment contract liabilities	<b>2,214</b>	2,154
Unallocated divisible surplus	<b>3,726</b>	3,292
Non-participating value of in-force business	<b>(1,488)</b>	(1,217)
	<b>37,606</b>	36,938
Non-participating insurance contract liabilities	<b>7,301</b>	7,860
Non-participating investment contract liabilities	<b>38,847</b>	31,329
	<b>46,148</b>	39,189
Subordinated liabilities	<b>745</b>	744
Payables and other financial liabilities	<b>7,225</b>	7,448
Provisions	<b>282</b>	279
Other liabilities	<b>271</b>	279
Liability to external unit holders	<b>6,785</b>	5,502
Pension scheme liability	<b>-</b>	26
Deferred tax liability	<b>222</b>	226
Current tax liability	<b>35</b>	-
<b>Total liabilities</b>	<b>99,319</b>	90,631

## **IFRS results**

The IFRS transfer to the unallocated divisible surplus for the year ended 31 December 2017, before other comprehensive income, was £352m (2016: £76m including the impact of the change in estimate for Solvency II of £165m). Similar to EEV, our IFRS result benefits from the strong trading performance of the Group and better than expected investment returns. Other comprehensive income included the positive movement in the Group's pension schemes of £82m (2016: charge of £98m), with RLGPS moving from a deficit to a surplus. Including other comprehensive income, the total transfer to the unallocated divisible surplus for the year ended 31 December 2017 was £434m (2016: deduction from unallocated divisible surplus of £22m).

Consistent with previous periods and as set out in Appendix 3, there are some differences between the EEV and IFRS results which include the value of our asset management and service company subsidiaries (2017: IFRS result higher by £5m (2016: IFRS result higher by £12m)) and an increase in the fair value of our subordinated debt (2017: IFRS result higher by £82m (2016: IFRS result higher by £27m)). These items were offset slightly by the amortisation of certain intangibles recognised in IFRS and not EEV (2017: IFRS result lower by £11m (2016: IFRS result lower by £30m)).

## **IFRS balance sheet**

Our balance sheet remains robust. Our total investment portfolio, including investment property, was £79.8bn in 2016 and increased by 12% to £89.4bn in 2017. Our financial investment portfolio continues to be well balanced across a number of financial instruments, with the majority 84% in equity securities and debt and fixed income securities.

## **Investment performance**

We measure our investment returns against benchmarks that we have constructed from market indices weighted to reflect the asset mix of each sub-fund. At 31 December 2017 the investments backing the asset shares of the Open Fund achieved a return of 9.5% (2016: 13.8%) against a benchmark of 9.0% (2016: 14.8%). Investment returns for Royal London policyholders were strong, both in absolute terms and in relation to benchmarks. Performance was boosted by buoyant stock markets, which reached new highs during the year, and continued positive performance from UK and overseas equities, corporate bonds and property. However returns on government bonds fell behind the significant returns seen in 2016 as yields remained relatively stable in 2017.



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

Our capital position remains strong, reflecting the strength of our underlying business and effective capital management strategies. The Investor View capital cover ratio for Royal London is 235% including surplus in the closed funds (31 December 2016: 232%<sup>3</sup>). The increase in the surplus and capital cover ratios between 31 December 2016 and 31 December 2017 is due to an increase in Own Funds driven by strong operational performance and positive changes to the risk margin and TMTP, offset by an increase in the Solvency Capital Requirement mainly due to strong new business sales.

We use the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. Royal London received approval for the use of both the TMTP and the Volatility Adjustment. We are developing an Internal Model that we plan to seek approval to adopt in 2019. We already use an internal capital model for the purposes of monitoring our capital and decision making across the Group.

In common with many in the industry, we present two cover ratios. An 'Investor View' for analysts and investors in our subordinated debt, which does not restrict the surplus in the closed funds, and a 'Regulatory View' where the closed funds' surplus is treated as a liability.

<b>31 December 2017</b>	<b>Royal London Open Fund</b>	<b>Royal London Closed Funds</b>	<b>Total Company (Investor View)</b>	<b>Closed Fund Restriction</b>	<b>Total Company (Regulatory View)</b>
<b>£bn</b>					
Own Funds:					
Tier 1	3.4	5.3	8.7	-	8.7
Tier 2	0.9	-	0.9	-	0.9
Total Own Funds	4.3	5.3	9.6	-	9.6
Closed funds restriction	-	-	-	(3.1)	(3.1)
Adjusted Own Funds (A)	4.3	5.3	9.6	(3.1)	6.5
Solvency Capital Requirement (B)	1.9	2.2	4.1	-	4.1
Surplus	2.4	3.1	5.5	(3.1)	2.4
Capital cover ratio <sup>2</sup> (A/B) – 31 December 2017	226%	243%	235%	n/a	159%
Capital cover ratio <sup>3</sup> (A/B) – 31 December 2016	209%	254%	232%	n/a	155%

Notes

1. The 31 December 2017 figures are estimated and are unaudited. The final figures will be presented in the 2017 SFCR to be published on our website on 4 May 2018.
2. Figures presented in the table are rounded, and the capital cover ratio is calculated based on exact figures.
3. The 31 December 2016 Solvency II surplus and capital cover ratios are as presented in Royal London's 2016 Annual Report and Accounts. These figures were estimates and final figures were disclosed in the SFCR in May 2017; being a capital cover ratio of 227% and £4.4bn surplus (Investor View), and capital cover ratio of 153% and £1.8bn surplus (Regulatory View) before post balance sheet events.

The Open Fund had an excess surplus of £2.4bn at 31 December 2017 (31 December 2016: £1.9bn) and a capital cover ratio of 226% at 31 December 2017 (31 December 2016: 209%). The closed funds are also well capitalised with a surplus of £3.1bn at 31 December 2017 (31 December 2016: £2.6bn) and a capital cover ratio of 243% (31 December 2016: 254%). The Regulatory View capital cover ratio, which does not recognise surplus in the closed funds, was 159% at 31 December 2017 (31 December 2016: 155%).

The majority (79%) (31 December 2016: 78%) of total Own Funds within the Royal London Open Fund is made up of Tier 1 capital, with subordinated debt valued at £0.9bn (31 December 2016: £0.8bn) classified as Tier 2 capital. Own Funds within the closed funds are entirely Tier 1 capital.

**Movement analysis of capital position**

The following table sets out an analysis of movement in the Investor View solvency surplus and capital cover ratio between 2016 and 2017:

	<b>Solvency Surplus (Investor View) (£bn)</b>	<b>Capital Cover Ratio (Investor View) (%)</b>
<b>31 December 2016 (published in the 2016 Annual Report and Accounts (ARA))</b>	<b>4.5</b>	<b>232</b>
Estimation difference between 2016 ARA and 2016 SFCR	(0.1)	(5)
<b>31 December 2016 (published in the 2016 SFCR)</b>	<b>4.4</b>	<b>227</b>
Adjustments to opening 2017 solvency position <sup>1</sup>	(0.5)	(25)
<b>1 January 2017 (published in the 2016 SFCR)</b>	<b>3.9</b>	<b>202</b>
Operating assumption changes and experience variances	(0.0)	(6)
Economic assumption changes and experience variances	0.5	13
ProfitShare	(0.1)	(3)
Recalculation of TMTP at 31 December 2017 (estimated and unaudited)	1.3	32
Other variances	(0.1)	(3)
<b>31 December 2017 (estimated)</b>	<b>5.5</b>	<b>235</b>

1. Post balance sheet events disclosed in the 2016 SFCR included the first reduction in the TMTP applicable on 1 January 2017 and a capital add-on agreed with the PRA on 7 March 2017, which increased as a result of a fall in the risk free rate. The table assumes the capital add-on was applied at the same time as the step down in TMTP.

The solvency surplus has increased to £5.5bn at 31 December 2017 (31 December 2016: £4.5bn), and the capital cover ratio (Investor View) has increased to 235% at 31 December 2017 (31 December 2016: 232%) primarily as a result of:

- A recalculation of the TMTP which reflects a significant reduction in the risk free rate since the TMTP was last recalculated at 31 December 2015; and
- Positive economic experience driven by positive investment returns, particularly equities.

Royal London has received approval from the PRA to recalculate the TMTP at 31 December 2017; the position set out reflects the latest available estimate which is unaudited. The final capital position at 31 December 2017 will be set out in the SFCR in May 2018.

### Sensitivities on the capital cover ratio and solvency surplus

The capital cover ratio is sensitive to changes in economic and demographic assumptions. The following table sets out various sensitivities of the capital cover ratio based on different possible scenarios:

Scenario	Solvency Surplus (Regulatory View) (£m)	Solvency Surplus (Investor View) (£m)
<b>SII Solvency Surplus - 31 December 2017</b>	<b>2,401</b>	5,540
25% decrease in all equity investments	<b>(41)</b>	30
25% decrease in property prices (commercial and residential)	<b>(69)</b>	(37)
100bps rise in interest rate (parallel shift) <sup>1</sup>	<b>124</b>	(602)
100bps fall in interest rate (parallel shift) <sup>1, 6</sup>	<b>(255)</b>	3
50bps increase in government bond yields <sup>2</sup>	<b>(93)</b>	(285)
100bps widening in credit spreads (all ratings)	<b>157</b>	150
20% of assets downgrading to the next credit quality rating <sup>3</sup>	<b>(3)</b>	(11)
50bps increase in inflation <sup>4</sup>	<b>(38)</b>	14
25% fall in GBP exchange rates (against all other currencies) <sup>5</sup>	<b>(19)</b>	38

#### Notes:

1. Interest rate sensitivities assume government bond yields and the European Insurance and Occupational Pensions Authority (EIOPA) risk free rate move by the same amount. Interest rates are allowed to be negative.
2. The government bond yield sensitivity assumes risk free rates and other yields remain constant.
3. The asset credit downgrade sensitivity applies to the liabilities only and not asset values. The calibration of the Fundamental Spreads by sector, rating and term is assumed to be unchanged.
4. Inflation change is calculated as real interest rates less nominal interest rates.
5. This sensitivity assumes an increase to the value of assets held in currencies other than GBP by 33% in GBP terms.
6. The results of this stress assume that additional management actions are implemented to ensure that the direction of the lapse risk in the Solvency II Standard Formula remains unchanged.

Sensitivities presented in the table are consistent with the PRA's SS7/17: Solvency II: Data collection of market risk sensitivities, which is available at <https://www.bankofengland.co.uk/prd/Documents/publications/ss/2017/ss717.pdf>.

### **3. Other matters**

#### **UK decision to leave the EU**

We have considered the impact of the UK's decision to leave the EU and are confident that there will be no significant impact to the operations or the capital strength of the Group. The Group maintains a very strong capital position.

We are in the process of establishing a subsidiary in the Republic of Ireland to enable our existing business there to continue to trade after the UK leaves the EU. This mitigates any uncertainty for Royal London from the UK leaving the EU. We will continue to monitor the implications of the UK leaving the EU, but expect we will trade as normal. We continue to work on behalf of our customers to provide them with stability and the best possible long-term returns.

#### **Ratings agencies**

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

In July 2017, Standard and Poor's reaffirmed Royal London's counterparty credit rating of A, with a stable outlook.

## **Appendix 1 - EEV basis of preparation**

The EEV results presented in this document have been prepared in accordance with the European Embedded Value Principles (the EEV Principles) and the EEV Basis for Conclusions issued in April 2016 by the CFO Forum. They provide supplementary information for the year ended 31 December 2017 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union.

The EEV methodology applied is consistent with the methodology set out in the Group's Annual Report and Accounts for the year ended 31 December 2017.

The EEV Principles were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles accordingly. The reported embedded value provides an estimate of Royal London's value to its members.

### **Change in estimate for Solvency II**

The introduction of Solvency II during 2016 resulted in a change in estimate used to produce the EEV balance sheet to more closely align with the methodology used for Solvency II. The main changes were to use a swap curve to discount cash flows compared to a gilt curve used previously, a change in the methodology to reserve for reinsurer default, and consequential changes to the methodology for calculating the value of in-force business (VIF). The effect of these adjustments was recognised in 2016 with no restatement of prior periods as the adjustments were treated as a change in estimate. The total impact on 2016 was a reduction in the VIF of £346m and an increase in the net worth of £164m, resulting in a net reduction in the Group's embedded value of £182m.

### **EEV operating profit**

The definition of EEV operating profit follows the same principles as IFRS operating profit, with the exception of those items which are recognised under IFRS but are excluded from EEV as they cannot be recognised for regulatory purposes. Most notably, IFRS operating profit includes amortisation and impairment of intangibles whereas in EEV reporting, goodwill and other intangible assets (other than VIF) are excluded because they are not permitted to be recognised for regulatory purposes.

## **Appendix 2 - IFRS basis of preparation**

The financial statements of the Group and the Parent company ('the financial statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union. The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by IFRS. The accounting policies are reviewed for appropriateness each year. These policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

**Appendix 3 - Reconciliation of the IFRS unallocated divisible surplus to EEV**

	2017	2016
	£m	£m
<b>IFRS unallocated divisible surplus</b>	<b>3,726</b>	3,292
Valuation differences between IFRS and EEV		
- Goodwill and intangible assets	<b>(239)</b>	(250)
- Deferred tax valuation differences	<b>(6)</b>	(2)
- Subordinated debt at market value	<b>(134)</b>	(52)
- Subsidiaries valuation differences	<b>(2)</b>	(8)
Add items only included on an embedded value basis		
- Valuation of asset management and service subsidiaries	<b>126</b>	137
Other valuation differences	<b>89</b>	29
<b>EEV</b>	<b>3,560</b>	3,146

**Reconciliation of the IFRS transfer to/(deduction from) unallocated divisible surplus to EEV profit/(loss) for the period**

	2017	2016
	£m	£m
<b>IFRS transfer to/(deduction from) unallocated divisible surplus</b>	<b>434</b>	(22)
Amortisation of intangible assets	<b>11</b>	30
Differences in valuation of subsidiaries	<b>(5)</b>	(12)
Change in fair value of subordinated debt	<b>(82)</b>	(27)
Movement in valuation differences for deferred tax assets	<b>(4)</b>	(1)
Other movements in valuation bases	<b>60</b>	11
<b>EEV profit/(loss) for the period</b>	<b>414</b>	(21)