OUR SHARED TOMORROW

Annual Report and Accounts for the year ended 31 December 2018

The Royal London Mutual Insurance Society Limited
Registered Number 99064

WE ARE ROYAL LONDON

Founded in a London coffee shop in 1861, we've been helping people to help themselves ever since.
We're committed to delivering the best value for our customers and members.

Our vision

We aim to become the most trusted and recommended provider in our chosen markets by creating the best customer and member outcomes and experiences

Our purpose

We're a member-owned business, so everything we do is about improving the lives of our customers, members and wider society in the areas where we have expertise

Our culture and values

Our culture defines how we do things at Royal London. Our values are woven into how we work together and how we develop our people

We're empowered
Our people have the confidence and authority to act – everyone has a voice

We collaborate
Working together, we help develop our people's expertise

We're trustworthy
People can approach us any time – we pride ourselves on mutual trust and respect

We achieve
Our customers and members receive the best service from a committed team

Our stakeholders

We actively engage with all our stakeholders, who influence everything we do

- Our customers and members
- Our people
- Society, government and regulators
- Independent financial advisers and intermediaries

As the UK's largest mutual life insurance, pensions and investment company, we can take a different perspective: rewarding our members and customers, and being a force for good in society.

Our highlights

Financial performance

£396m

EEV operating profit before tax (2017: £329m)

£150m

ProfitShare after tax[1] (2017: £142m)

202%

Solvency II capital ratio[2] (2017: 228%)

£114bn

Funds under management (2017: £114bn)

Non-financial performance

81%

Employee engagement survey response (2017: 80%)

1.4m

Total number of members (2017: 1.2m)

£455,000

Foundation grants and Community donations in 2018 (2017: £299,000)

What's inside

08

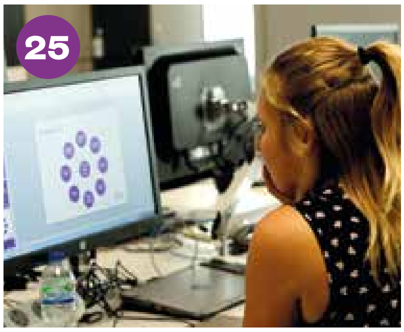
Building financial resilience

Taking on the long-term savings crisis

Strengthening responsible business

Creating social return
Throughout this year's Annual Report & Accounts you will find these three logos repeated on a regular basis. They'll tell you more about the way we work for your benefit.

Mellor Country House
This local charity based in the north west is just one recipient of a Royal London Foundation grant in 2018. Discover their amazing work and how you helped.



Insight into Work
Find out more about the different ways you can gain work experience at Royal London, via a scheme which is open to all our members and their direct families.

Other sections

1 For an explanation of ProfitShare, see Glossary on page 199.
2 The Solvency II capital ratio is the total Own Funds of the Royal London Open Fund and Royal London Closed Funds divided by the Solvency Capital Requirement. It is before the restriction of the surplus in the Closed Funds. We call this the 'investor view'.

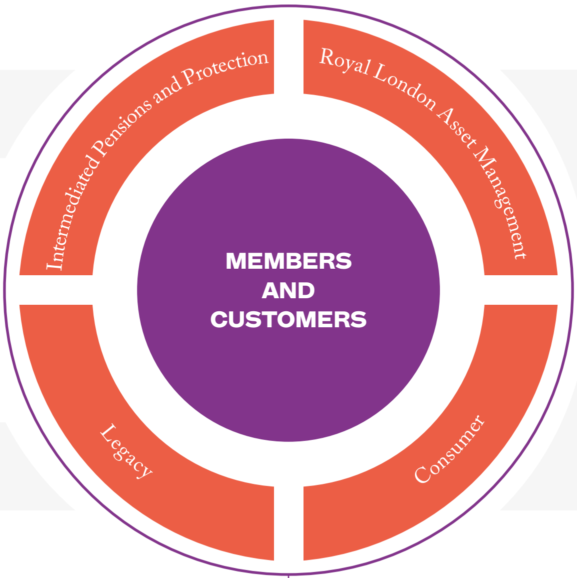
What we do

Our business model is central to driving our strategy, which delivers both social and economic value. We make effective use of our resources and relationships to create long-term and sustainable value for all our stakeholders.

At the heart of Royal London are our members and customers.

INPUTS → **OUTPUTS**

- People
- Service
- Investment
- Innovation



Social value

- Raising awareness of relevant issues to our policyholders
- Helping to secure financial futures
- Financial education
- Responsible investment

Economic value

- Profit growth
- Capital management
- Asset share and investment returns
- ProfitShare

OUR DIVISIONS

Intermediated Pensions and Protection
We work with independent financial advisers and intermediaries to bring our protection and pension products, such as our Diabetes product, to their clients in the UK and Republic of Ireland.

Consumer
Non-advised direct to consumer protection and savings products, such as Over 50s life cover.

Royal London Asset Management (RLAM)
RLAM manages £114bn in funds for Royal London's policyholders and external clients.

Legacy
The Legacy division manages Royal London's operations that are closed to new business, including our closed life funds.

ABOUT OUR INPUTS

Our inputs are our resources and relationships that are critical for our long-term and sustainable success. They feed into all four divisions of Royal London.

People

Our 3,898 people are critical to delivering our vision. As members, as well as employees, it's vital that they're engaged and believe in Royal London to build its future.

81%

The overall Group response rate to our latest employee engagement survey (2017: 80%)

more on p19

Service

We're proud of our outstanding service reputation, and always aim to respond to and exceed changing customer and adviser needs.

+60.4

The percentage of customers who would recommend Royal London products/services to others in 2018 (2017: +58.8)

more on p24

Investment

To continue our success, we put resources into improving and developing our core capabilities, as well as our people.

£300m+

The amount invested in 2018 in improving and developing technology and change products (2017:£180m)

more on p13

Innovation

We innovate to build new products and services, along with continuing to enhance existing products that offer added value to customers and members, and protect their interests over the long term.

23%

Over 50s life assurance 2018 market share (2017: 20%)

more on p29

ABOUT OUR OUTPUTS

Our outputs are the values we create as a business, which benefit all our stakeholder groups: members, customers, suppliers, our people, government, society and advisers.

Social value

Royal London aims to have a positive and growing impact on society. We work hard to help our one million plus customers and members save for a successful later life, and to protect their families from life's storms and setbacks.

As a major UK investor, we work with the companies we invest in to encourage them to manage in a responsible manner, for example by focusing on their environmental footprint and developing their own positive social impact.

123

Companies engaged on key issues arising in 2018

Economic value

Our ability to make a meaningful social impact is dependent on us remaining a successful business, with the resources to invest in areas and issues that are key to our customers, members and society.

Effective capital management strategies ensure we have a strong capital base to safeguard our financial commitments to our customers and members, to fund future profitable growth and to deliver stability of income.

£3,739m

Total Embedded Value (2017: £3,560m)

Our structure and products

We operate in the pensions, protection and wealth management markets. We partner with advisers and their clients, and directly with our members and customers to deliver long-term growth and income.

INTERMEDIARY

Our Intermediary division distributes long-term savings and protection products via financial advisers to their clients.

Long-term savings and protection

Individual pensions
An individual pension is a tax-efficient way of saving for retirement.

Workplace pensions
A workplace pension is a type of pension that is set up by an employer, who will also contribute.

At retirement
Our income drawdown product, Income Release, provides flexible access to retirement savings from age 55.

2,305,000
total policies (2017: 2,068,428)

Life cover
Our Life cover provides tailored protection for a customer, or their loved ones, if they die or become terminally ill.

55%
of Child cover flexibility utilised

Critical Illness
Our Critical Illness cover pays out a lump sum or monthly income if a customer is diagnosed with a critical illness or total permanent disability, covered by their plan.

Income Protection
Our Income Protection plans can help customers get an income if they're off work because of illness, injury or a terminal illness.

ROYAL LONDON

CONSUMER

We sell insurance and protection products directly to consumers who can't access or don't want financial advice.

23%
over 50s market share

Over 50s
A guaranteed acceptance life insurance policy that covers the whole of the customer's life and pays a lump sum when death occurs.

383,427
total policies (2017: 269,063)

Term
A life insurance and serious illness policy that pays a lump sum if death or a specified serious illness occurs during the term.

Funeral plans
A whole-of-life insurance policy that pays for a range of pre-determined funeral services, delivered through a network of independent funeral directors.

RLAM

Royal London Asset Management (RLAM) manages assets under management of £114bn for Royal London members and customers, and for external customers.

24
awards won over 2018

- We manage the investments in with-profits and unit-linked funds, life and pension policies of Royal London.
- We manage the investments in external pension funds, local authorities, charities, wealth managers and Independent Financial Advisers (IFAs).
- We exercise high quality stewardship over thousands of companies on behalf of our customers and are committed to being a responsible investor.

£114bn
assets under management (2017: £114bn)

Our fund range
We offer a wide range of investment options, including but not limited to:

Sustainable funds
- Covers investment in healthcare, technology, infrastructure, climate change and urban regeneration among others.

Monthly income bonds
- One of our new products launched in 2019.
- The fund invests in other RLAM bond funds, with a monthly income paid to investors.

Global equity funds
- Aim is to deliver long-term capital growth in the UK.
- Invest predominantly in a concentrated portfolio of global equities.

Global Multi-Asset Portfolio
- Comprised of a number of actively managed, diversified multi-asset funds.
- Covers a broad range of asset types, designed to offer investors diversified exposure in line with their investment objectives and appetite for risk.

LEGACY

The Legacy division aims to generate good value for our six million long-standing customers through efficient operational and capital management.

- **4.4m Protection and Life policies,** comprising term assurance, endowments and whole-of-life plans. These are either unit-linked or with-profit policies.
- **1.3m Pension policies.** These are insurance or investment contracts in which the policyholder purchases units with premiums which are invested into funds. As with the life policies, the plans' benefit depends on whether they are unit-linked or with-profits.

1.2m
improved annual statements for customers

- **0.4m other policies,** including annuities (where policyholders receive fixed or variable contribution in order to receive a future lump sum and/or a future income stream until death) and ISA/Unit Trusts (ISAs represent a tax-efficient way for a customer to save and invest their money).

6,046,216
total policies (2017: 6,459,426)

Strategy in action: Mustard Seed Autism Trust

Thanks to a Royal London grant in 2018, one local autism charity has been able to fund the specialist teaching and training that is an essential part of providing first-rate care.

Mustard Seed offers a free professional service to families with children on the autistic spectrum. Its mission is 'To equip children, empower parents and educate society'.

The charity's team of professional staff and trained volunteers provide practical support, through a range of therapies and activities, for children with communication, motor co-ordination, sensory and emotional difficulties.

Based in Farnborough, Mustard Seed works with families within a 10-mile radius, who are based in Surrey or Hampshire. This catchment region includes some of the UK's most deprived areas in the country. A reduction in local NHS community children's services coupled with a shortfall of statutory services for children with autism, means that there is a real need for Mustard Seed's support.

The charity employs both group and 1:1 work with the affected children, and also works with parents and siblings.

"We help children by providing occupational therapy, which can help motor skills and sensory processing difficulties," explains Sarah Clements, project co-ordinator at Mustard Seed. "We offer family support too, including an Empowering Parents course to give our parents greater confidence in managing their child's daily needs and understanding their behaviours. Our courses include anxiety management and Friendship Zone, helping children to interact and communicate positively, as well as building coping strategies to lead a fulfilling daily life," adds Sarah.

The Royal London Foundation grant went towards funding for specialist teaching and training. "We are incredibly grateful for this grant which has enabled us to provide a service to even more local families," says Sarah.

Mustard Seed helps children by providing occupational therapy, which can help motor skills and sensory processing difficulties. We offer family support too, to give our parents greater confidence in managing their child's daily needs.

Find out more at **royallondon.com/members**

BEING A FORCE FOR GOOD

Royal London exists to provide services to its members and customers. As a mutual, all members are our customers.

Kevin Parry OBE
Chairman

This Annual Report is different from its predecessors. Our members have told us they are interested in not just our financial performance, but in the kind of company Royal London is – who works here, what they do and what benefits we bring to society. So we have tried to make this year's report a little more lively and say more about these issues. That said, every Annual Report has to contain financial detail and satisfy the requirements of the Corporate Governance Code, so it includes a full set of our audited financial statements as well as reports on the work of the Board and its committees.

In that spirit, the past year was indeed one of improvement. The Group achieved record profits, with EEV operating profit of £396m, up 20% on the previous year. New business sales saw a reduction on the 2017 levels at £11,308m (2017: £12,002m). Our asset management business, Royal London Asset Management, won 24 industry awards over the year, at both firm and fund level.

Our pensions business has continued to benefit from the many opportunities arising from the 2015 Pensions Freedoms, as well as further gains from auto-enrolment.

Royal London, in common with all financial services businesses, is affected by changes in legislation and regulation. We always seek to be responsible and compliant, embracing the protections for customers that come from high quality regulation.

Opportunities afforded by technology are substantial and we continue to invest heavily in IT infrastructure and systems in order to serve better our members and customers. The revamping of the electronic platform for financial advisers to serve clients' investment needs in our Ascentric business is in its final stages. The replacement of our pensions systems to serve customers and financial intermediaries is ongoing.

The Group is well capitalised. We are dependent on the generation of profits to maintain a secure and prudently capitalised business and reward membership, based on our profitability. As a mutual, our members receive a share of our profits – ProfitShare – which in 2018 will be £150m, up 6% on 2017. This will result in an uplift of 1.4% to the value of eligible with-profits policies and 0.18% to the value of unit-linked policies.

I joined Royal London on 1 January 2019. My predecessor, Rupert Pennant-Rea, stepped down as Chairman at the end of 2018 and on behalf of the Board, I would like to thank him for guiding Royal London for the last five years – years that have been some of the most successful in our history. I wish him all the best for the future.

There are other Board changes to report. Olivia Dickson stood down in December 2018 and we thank her for her time at Royal London. Phil Loney, Group Chief Executive, will be leaving later this year. My highest priority is to appoint his successor; the process of selection is underway.

It is already apparent to me that there is a high level of commitment to our customers and members that comes from our people. We are conscious that we don't always achieve the high standards we set ourselves and there is always more we can do to improve services and offerings. Our people are committed to meeting the needs of all our customers and I would like to thank them all for a great team effort over the last year.

Our strategy

We are committed to doing more than making profits. We want to create social return for our members and customers, and wider community. Our strategic priorities drive our social impacts.

OUR STRATEGIC PRIORITIES

Financial capability and support
Building financial capability and confidence so people can access the right products and support

Propositions and investments
Purposeful and accessible propositions and investment solutions for customers, advisers and our people

Partnerships
Collaborating internally and externally with critical partners to increase the impact we can make on society

Campaigning and lobbying
Promoting good governance, identifying inequality and lobbying for change where we have most impact

OUR SOCIAL IMPACTS

Building financial resilience

Taking on the long-term savings crisis

Strengthening responsible business

Throughout this report, we've used these icons to make our social impacts easier to find

SOCIAL IMPACT IN DETAIL

Social impact is an embedded part of our strategic journey. It helps us to deliver change both in and out of Royal London, and to give back to the society we serve.

Building financial resilience

The challenge

Few people have adequate protection against long-term illness and death, with ramifications for them, their families and broader society.

more on p14

How we can help

Our products provide the foundations to meet the unexpected. We develop funeral plans and life insurance products that are affordable, accessible and reliable.

We strive to raise awareness and improve outcomes, and support and educate advisers on giving customers the best advice.

How we're doing

- Helping Hand: tailored and personal support provided beyond financial payout, for all customers with a protection plan.
- Vulnerable customers' support: giving customers with additional support needs targeted help.
- Specialist cover: eg Diabetes Life Cover for those with type 1 and type 2 diabetes.

Taking on the long-term savings crisis

The challenge

People need to take responsibility for their own retirement and can't rely on employers and the government to do this. Yet nearly a third of self-employed people have no financial plans for retirement other than the state pension.

more on p14

How we can help

We support people to secure their long-term financial future through our pension products. We support advisers and provide responsible investment advice and expert asset management.

Our ProfitShare scheme provides our members with a share of our profits.

We campaign to fix faults in the tax and national insurance systems, and state benefits.

How we're doing

- Supporting over 1.5m pension customers and members to save for their retirement.
- Helping customers and members understand their pension: we've introduced new statements to make it easier for customers and members to understand their long-term savings.
- Boosting investment return though our ProfitShare – £942m allocated since inception in 2007.

Strengthening responsible business

The challenge

Public trust in business is low and companies need to demonstrate they are acting responsibly, and that they are actively engaged to create positive change.

more on p15

How we can help

We're a responsible investor, using our investments to better society, while campaigning for good corporate governance.

We use our voice to champion financial improvement: we lobby the Government for changes and to raise consumer awareness on key financial issues; we're involved with our local communities to strengthen society and leverage our investments for a better future.

How we're doing

- Corporate Governance: engaged with 123 companies on 168 topics on key issues in 2018.
- Supporting Royal London people directly through our People Commitments and activities.
- Policy papers: produced 11 in 2018, including topics such as 'simplifying pension benefits – is it time for the Pensions Pound?', which outlines the potential for radical standardisation of pensions, exploring the advantages and barriers, published on our website: royallondon.com/media/policy-papers

Key performance indicators (KPIs)

We monitor and challenge our financial performance to test and assess the health and progress of our business, and use measures that are aligned with our strategic deliverables.

Collectively, these key performance indicators (KPIs) ensure we're building economic and social value for all our stakeholders for the long term. They keep us focused on our ability to deliver improved customer services and satisfaction, increased market share and fair investment returns, as well as new business growth and profitability.

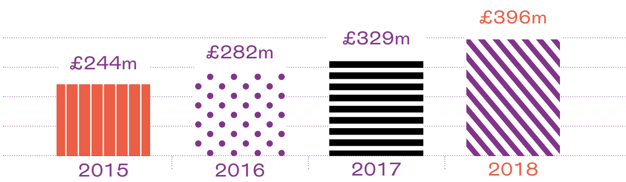
All but one of the KPIs we use are alternative performance measures (APMs), which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). We believe these APMs provide customers with important additional information on our business. The terms are described in our glossary on pages 199 to 202.

Royal London reports externally on the EEV basis. This is the economic basis on which the business is managed, alongside our Solvency II internal capital model for capital purposes. Our EEV methodology is aligned with our regulatory basis, Solvency II, as much as possible. A reconciliation between our EEV profit and IFRS transfer to unallocated divisible surplus is provided on page 197.

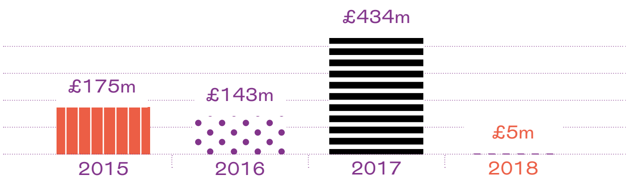
OUR PERFORMANCE

Profitability

EEV operating profit before tax[1]

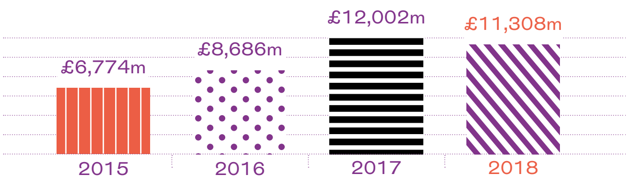


IFRS result (total transfer to unallocated divisible surplus)[2]



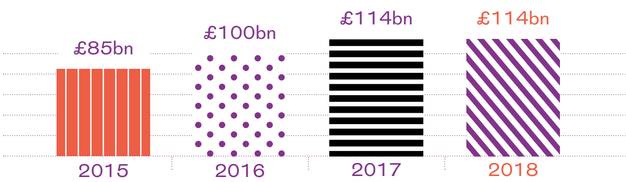
New business

Present value of new life and pensions business premiums



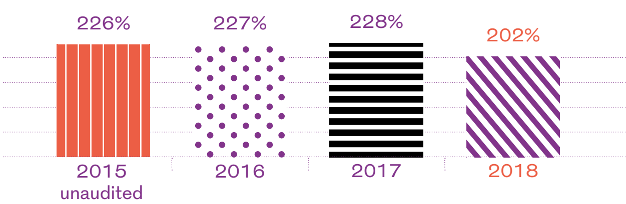
Funds

Funds under management[3]



Capital

Solvency II capital cover ratio[4]



1 2016 EEV profitability is before the change in basis for Solvency II of £182m, which arose through further alignment between our regulatory and statutory basis.
2 2016 IFRS result is before the impact of the change in basis for Solvency II of £165m.
3 2017 FUM includes amounts held in RLAM C.I. Limited, which was sold in 2018. At point of sale, the FUM in RLAM C.I. Limited was £2.0bn.
4 The Solvency II capital cover ratio is the total Own Funds of the Royal London Open Fund and Royal London Closed Funds divided by the Solvency Capital Requirement. It is before the restriction of the surplus in the Closed Funds. We call this the 'investor view'. The comparative figures have been restated in line with the final regulatory returns which were presented in the 2017 SFCR. The regulatory view can be found in note 41 of the IFRS financial statements.

MAKING A DIFFERENCE

Our leading position means we have a duty to make a real social impact. As a successful business we work hard to help people and to influence lives in a positive manner.

Phil Loney
Group Chief Executive

In December 2018 I announced that I will stand down as Group Chief Executive later in 2019. I would also like to take this opportunity to thank Rupert Pennant-Rea for his work and dedication to Royal London, and to wish him well in his next ventures. I'd like to welcome Kevin Parry who is Rupert's successor. Kevin joined Royal London in January 2019.

I am particularly proud of the fact that we are a member-owned business which puts our customers first and shares our profits with them. We have also transformed from a collection of different brands into one strong brand.

It has been an incredible privilege to lead Royal London over this period and to work with so many dedicated and professional colleagues, and I wish them all continued success in the years to come.

Royal London is an organisation with more than just profits at its heart. A social conscience has been key to our ethos since founders Joseph Degge and Henry Ridge met in a London coffee shop in 1861 to end the indignity of people facing the prospect of a pauper's grave.

The modest Friendly Society they created has grown far beyond their wildest expectations. Royal London is the UK's largest mutual life insurance, pensions and investment company. It is still owned by the general public. Therefore, everything we do is about trying to improve the lives of our customers, members and wider society in the areas where we have expertise.

We're inclusive and mindful of the social and environmental impact of our activities, and our commitment to this is led by our strategy, which puts our consumers first and focuses on driving more value for them.

Over the past year we've actively set out to make the most positive social impact possible, as explained on page 9. From now on we will report back to you on how we are contributing to society and our progress in those areas, as well as how we are doing financially.

Financial strength is key

Our ability to make a meaningful social impact is completely dependent on us remaining a successful business. The fact that we make profits is vital, for several reasons:

Firstly, profits are our source of capital. This allows investment in the business for the benefit of our members and increases economies of scale. Making a fair profit in our chosen markets means we'll be here for the long term.

Secondly, we can share those profits with our eligible members through ProfitShare, increasing their savings and enabling a better retirement.

And thirdly, profits enable us to invest in areas and issues that are valuable to our members and customers in a range of ways, such as helping them understand the complex world of finance and manage their money better, or campaigning to fix gaps in the state pension and welfare system, which many people rely on to complement their own savings and insurance.

Another year of growth

Royal London performed well in 2018, despite volatile markets, offering customers well-designed products and services that offer exceptional value for money. Our EEV operating profit rose by 20% to £396m during the year. In 2012 we adopted a new strategy of improving outcomes and value for our customers by continually developing our products, service, investment returns and financial education, and sharing our profits with a wider group of members.

I'm pleased that this customer-orientated strategy is succeeding – Royal London's core operating profits have doubled over the past five years. Royal London has become a widely known brand, and our growing market share enables us to have a positive competitive influence, which in turn helps to raise standards in the markets where we operate.

The introduction of workplace pension schemes nationwide has created a surge in workplace pensions sales, but this cooled in 2018 as the auto-enrolment roll-out was completed. Last year, we signalled that the markets in which we operate would return to more sustainable levels of growth in 2018. We measure our life and pension sales on a Present Value of New Business Premiums, or PVNBP basis. Total life and pension sales saw a reduction on the 2017 levels at £11,308m (2017: £12,002m). Strong sales of individual pensions and drawdown offset the anticipated slowdown in workplace pensions as a greater number of customers and advisers selected Royal London as the pension provider of choice.

In 2018 our Protection business also grew well, with sales up 5% to £847m, helped by new products such as our ground-breaking diabetes life cover, which makes it easier for people with diabetes to secure life assurance and

Profits enable us to invest in areas and issues that are valuable to our members and customers in a range of ways.

£396m

EEV operating profit rose by 20% to £396m during the year.

Strengthening responsible business

We are using our investments to better our society, which forms a core part of our strategy, and ensures companies are actively engaged to create positive change.

rewards them with lower premiums for better management of their condition.

Our Consumer division, now in its fourth full year, has grown in scale and continues to introduce new and improved products aimed at tackling areas poorly served by our industry. The business has moved closer to profitability and we see exciting opportunities for further growth ahead through partnerships with like-minded partners including Co-Operative Funeral Services, Ecclesiastical Insurance, Post Office Money Services and CYBG plc.

Royal London Asset Management (RLAM), which manages funds for our members and other customers, continues to deliver excellent investment returns and attracted external net inflows of £4,100m (2017: £2,802m).

We've created a new division, Legacy, to look after the interests of millions of our long-standing customers, most of whom don't have a relationship with an independent financial adviser. Loyal existing customers are as important to us as new customers. Through greater efficiency and better capital management, Legacy will deliver better returns to these customers and increased value to Royal London. This new division made a positive start during 2018.

Since the Pensions Freedoms legislation in 2015, which gave pension holders more flexibility in how they wanted to use their retirement savings, an extraordinary amount of work has gone on across the Group to ensure we can offer our policyholders and members the benefits of these changes. In particular, we have focused on what we can do to support those with Guaranteed Annuity Rates (GARs).

We have increased the quality of information we provide to policyholders with GARs. This ensures that they appreciate how valuable they are and can choose a retirement option that best suits their individual circumstances.

In 2018, we've completed a lengthy Scheme of Arrangement process to help some of our legacy Scottish Life policyholders by giving them the option to exchange the significant benefit of their GAR for a substantial and immediate uplift to their retirement savings. This required us to gain approval from customers and the High Court, with further oversight provided by an independent actuary.

Customers received the offer in July 2018. Around 15% of plan holders chose to opt out of the Scheme and retain their GAR. Of those who voted, 98% voted for the scheme. It was sanctioned by the High Court in November 2018 and uplifts totalling £467m were applied to just over 27,000 plans on 7 December 2018.

Membership and ProfitShare

Royal London membership rose to 1.4m during 2018 (2017: 1.2m). We also increased ProfitShare pay out by 6% to £150m.

To each individual member, a single year's ProfitShare may not seem a large amount, but the combined effect of multiple payments over the years, plus the investment growth of that money, can make a meaningful difference to the value of every member's savings. Since starting to share profits with our members in 2007, we've added £942m to the value of our members' savings.

Building financial resilience
We tailor our products to help all customers meet life's unexpected challenges; covering funeral plans and life insurance among others.

ProfitShare distribution each year is at the Board's discretion. The decision depends on factors such as the financial performance of the Group, our capital position, the risks and volatility of the financial markets and the outlook for Royal London for the year ahead.

Our people

One of the ways Royal London is different from most companies is that nearly all our employees are also members through our employee pension scheme. Through membership, they share in the success of the business with ProfitShare, as well as from their salaries and bonuses. Our 3,898 people are one of the key constituencies to benefit from our social impact. We're working to ensure our people have strong financial competence and that they're saving enough for the future. Our workplace pension scheme, which offers double matching contribution from Royal London up to a maximum of 14%, is far more generous than most schemes. We also offer generous life insurance cover through our employee benefit packages.

Taking on the long-term savings crisis
Our ProfitShare scheme boosts investment results for all our members, providing them with a share of our profits each year.

Looking after our people also helps us to be commercially successful. There's lots of evidence to show that people who are engaged and believe in the company they work for, deliver better service and innovation. That feeds through to an improved financial performance over time.

Investing for the future

We have invested over £300m in 2018 in improving and developing technology and change projects across Royal London. This enables us to improve our products and services so we can continue to be successful in the future. It also helps to keep our costs down so our products remain good value for money. If we can reduce our costs by becoming more slick and efficient over time, this reduces the impact of our charges on the size of a pension pot and so boosts retirement savings.

Making a social impact

The social issues where Royal London can make a real difference are already part of our thinking, and you will see from the examples below that we have already begun delivering change.

Building financial resilience

Avoiding financial hardship was one of the founding aims of Royal London. Although Victorian workhouses are long gone, financial hardship is still with us. Too few people have protection in place to safeguard their families should a death or serious illness occur.

Funeral poverty, which Royal London was founded to tackle, remains a significant problem. People without funeral provision pass on the costs to their relatives, often resulting in debts. State provision is meagre in these cases. Through partnerships with Co-Operative Funeral Services, Ecclesiastical and CYBG plc, owner of Clydesdale Bank and Yorkshire Bank, we offer market-leading plans to ensure funerals don't become a debt burden.

We regularly publish the Royal London Funeral Cost Index to highlight the growing cost of funerals in the UK and are pleased that the Competition and Markets Authority is now investigating the funeral sector. Over the past year, we've worked with both the UK and Scottish governments to highlight the need for a more generous Funeral Expenses Payment for the poorest members of our society.

As one of the UK's leading providers of life insurance, our role is to ensure products are available, people can afford to buy them and that products pay out when they expect. We specifically target gaps in the market, such as providing critical illness coverage for children. We support and educate financial advisers, so they can give customers the best advice on how to protect themselves financially.

All of our protection plans sold through financial advisers come with Helping Hand, a comprehensive service for customers that provides additional support beyond financial payout. Customers can contact a dedicated nurse to talk through their situation and agree a personal plan to help them through emotional and practical issues.

We've also tackled the problem of complex mortgage life cover applications, to simplify the underwriting journey and make it easy to buy protection as part of the mortgage sale.

Taking on the long-term savings crisis

We're no longer living in the world where your employer and the government provide for retirement. In the new world, you are primarily responsible for providing for a comfortable retirement, your employer contributes and the government provides a basic state pension as an underpin.

In the wider community, a crisis is looming unless people recognise and act on the new reality. For example, nearly a third of self-employed people have no financial plans for retirement other than the state pension. People in their 30s and 40s face the double hit of missing out on the old final salary pension schemes, and frequently had no workplace scheme during crucial early working years. Women receive on average £85 a week less retirement income than men – a gap that has trebled over the past decade, as noted by the Department for Work & Pensions.

We're working hard to ensure people get great, market-leading pensions. With the roll-out of auto-enrolment complete, every employer in the country now has a workplace pension scheme. We have 610,000 customers who are members of those schemes.

We are also helping more people maximise their state pension rights through our lobbying work. We've contributed to a more than five-fold increase in the number of people paying voluntary national insurance contributions to boost their state pension.

Our task is to ensure these customers are saving enough to have a successful retirement and to help them to understand the financial world, to be able to make good choices about their savings. Changes made to the Child Benefit system in 2013 mean that if either parent earns over £60,000, the tax bill wipes out the benefit of claiming, so many parents choose not to bother claiming. But in doing so they miss out on pension credits. We raised a petition on the parliament website to ask the government to contact parents who are missing out, as well as increase their three-month backdating limit. The petition is open until May 2019, please support this cause at petition.parliament.uk/petitions/231761

By acting in the long-term best interests of our customers, members and communities, we strengthen society and ensure a better future for all.

Building financial resilience
We ensure that our products are affordable, accessible and reliable, so all our members can benefit from them.

Taking on the long-term savings crisis
We campaign to fix faults in the tax and national insurance systems, supporting people to achieve a successful long-term financial future.

Strengthening responsible business
Trust in UK and overseas businesses is low, with only 43% saying they trust businesses, as reflected in the Edelman Trust Barometer 2018 findings, reflecting the scepticism still held by the public and the thought that businesses provide the product offered and no more. Many people don't believe that organisations and those in authority care about the same things they do, even when they have a direct stake through their role as employees, consumers and investors. There is a real need for companies to act responsibly and to take a long-term view by playing an active role in society as a force for positive social change. Investors have the opportunity to invest responsibly and interact with companies for social improvement.

Royal London manages over £114bn on behalf of its customers. As an investor with a responsible focus, we engage the power of our investments to transform society. We actively engage with companies, using our voice to champion good governance and lead on topics that make our world a better place. We also support great work in our local communities, with volunteering and grants to member-nominated local causes. By acting in the long-term best interests of our customers, members and communities, we strengthen society and ensure a better future for all.

To date, we have invested £3bn in social housing and continue to support green infrastructure projects, investing in bonds issued by the social housing sector. We're an inclusive employer and have set ourselves targets for increasing the number of women in senior roles. We advocate for diversity in the many companies in which we invest. If Royal London feels that a meaningful focus on diversity is not evident, we will vote against the company or abstain, depending on the circumstances. During 2018, we voted this way on over 100 reappointments.

If the level of board diversity is particularly low, there is no demonstrable progress and/or no targets in place, or executive pay is not aligned with our interests as long-term shareholders, we will escalate the vote to an against. In 2018 we opposed pay at 28% of company AGMs including at Persimmon, Metro Bank and Royal Mail.

Our sustainable funds, which invest in companies with a positive benefit to society, are supporting the transition to a cleaner world. They invest in companies such as Orsted, the largest developer of turbines in the world, and Aptiv, a leading provider of software to electric vehicle manufacturers.

Responsible with your money
Responsible investing is an important issue. In 2018, we ensured that anyone who has a pension with us can invest their funds in our award-winning Sustainable range.

We engage with companies for our members on key issues including corporate pay, succession planning, environmental concerns, employees' rights and diversity.

We're active members of the 30% Club Investor Group and have co-signed letters requesting company meetings to discuss gender imbalances.

Responsible investing
In 2018 there was significant and growing interest from our clients about our approach to responsible investing. There is a growing sentiment amongst regulators and the wider public, which increases the expectation placed on asset managers to ensure businesses behave responsibly and ethically. We have always been committed to being a good steward of our clients' assets. We engage with management to ensure companies have good environmental and social protections, and encourage them to have good governance.

- We took a high-profile position on key issues, such as criticising the proposed stock market listing of Saudi Aramco, which would have breached Stock Exchange rules. Aramco abandoned its plan in 2018.

- We took a rigorous approach to voting on remuneration, and supported only 69% of pay proposals. In 2018, we were active opponents of the excessive executive pay package at Persimmon, the house builder.

Looking ahead
Royal London has come a long way since our strategy was launched in 2012. We're making investments that will sustain our progress and enable us to give more back to the society we serve. We expect to continue growing, albeit at a slower rate, and to make a broader social impact in our key areas.

We're a leader in most of our chosen markets and this enables us to be a force for good, ensuring our marketplace focuses on doing better by its customers.

Strengthening responsible business
We use our position to campaign for good corporate governance, lobbying for corporate changes so our investments meet our criteria.

Our active engagement

We have engaged with 123 different companies over the past year on the following topics:

Topic	No. of interactions
Remuneration	62
Energy and sustainability	38
Corporate governance	20
AGM vote	14
People	7
Diversity and culture	6
Strategy and succession planning	5
Reputational risks	3
Other	13
Total	**168**

Strategy in action: Mellor Country House

This wonderful small charity provides a countryside break for inner-city families and individuals from deprived areas in and around Manchester.

Mellor Country House provides low-cost, self-catering short breaks for families, groups, carers and individuals from the most deprived areas of the inner cities of Greater Manchester, Salford and Stockport.

Visitors are referred by social services and stay for a week or a weekend. Approximately half of the visitors are children who would otherwise never get a break or the chance to see the countryside.

From the freedom of the gardens and the wider countryside, to educational services, including, for older children, interview techniques, job applications and CV writing, not to mention the opportunity to learn social skills, budgeting, and family welfare, Mellor Country House offers its guests the opportunity to escape everyday life and learn relevant social skills. It is run by a small group of eight volunteers and just one employee, who serves as the house manager.

"We cannot fix their problems for them, as many of their problems such as alcohol addiction, depression and isolation are long term and not an easy fix," says Margaret Powell, chairperson of Mellor Country House. "What we can do is make them feel welcome and safe in a lovely environment, which contributes hugely to their well-being and self-worth."

The Royal London Foundation's grant was used to help replace a flat roof in dire need of repair and to replace a cooker, which gets a huge amount of use with over 700 visitors each year.

We make the children feel welcome and safe in a lovely environment which contributes hugely to their wellbeing and self-worth.

Find out more at **royallondon.com/members**

ALL IN IT TOGETHER

We actively engage with all our stakeholders, who influence everything we do, to create long-term and sustainable value.

Supporting our members and customers

Giving back to our members, who own Royal London, and our customers is essential. Without them, we simply wouldn't be here.

Our 1.4m members are an incredibly diverse group, from across the UK and Ireland. By supporting our members, we can have a significant impact in making our society a better place, where our members can retire knowing their finances are secure and that they are insured against life's nasty surprises.

We help our members in a variety of ways aside from our products and services, whether by donating to causes that are important to their local communities, helping them or their families to get experience of the workplace or by offering insight and information. When we do well, our eligible policyholders share in that success through our ProfitShare scheme. ProfitShare rose by 6% to £150m for the year, bringing the total ProfitShare distribution to £942m since 2007.

Communication

The number of members voting at our AGM in June 2018 was double that of the previous year. We continue to encourage members to use their vote.

Our quarterly members' email is now seen by almost 400,000 members and provides articles to build financial know-how and details of our campaigns. All of our articles can be viewed at royallondon.com/members

Involvement

The **Royal London Foundation** enables members to nominate a local good cause to receive funding. This goes towards their core costs and supports them to be financially resilient. In 2018, 139 nominations were received (2017: 58) and we paid out to nearly twice as many good causes as we did in 2017. Total spending increased to £350,000, up from £185,000 the previous year. Due to the success of the Foundation in 2018, we have reviewed our strategy to ensure we continue to meet the needs of local organisations. We now offer continuation grants, which allow local good causes which have previously benefited to access further funding opportunities.

Our **Insight into Work** scheme, which enables members and their families to gain work experience at Royal London, saw a big uplift in interest in its second year of operation. There are two programmes – a two-week voluntary scheme and a four-week paid work experience. It is aimed at anyone considering a career change or returning to the workforce after a career break, as well as school and university leavers. In 2018 we received 36 applications, up from 10 in 2017. You can hear about the experiences of some of them by going to: royallondon.com/members

£350,000

We increased spending on the Royal London Foundation in 2018 to £350,000.

Support for charities and students

One of the community charity programmes which benefited from The Royal London Foundation's financial support in 2018 was Proud & Loud Arts (left), a disability-led theatre company based in Manchester and Salford. We also experienced significant interest in our two work experience schemes (below).

Empowering our people

Engaging and inspiring our people is vital to our success. So we work hard to empower and to support them in everything we do.

Looking after our own people is a critical first step in making a positive contribution to society. We're committed to putting our customers and members at the heart of everything we do. Practical actions, rather than soft words, are the best way to demonstrate that commitment.

Caring for our people isn't just a matter of social conscience, it also makes commercial sense. A motivated and diverse workforce produces significantly better results than one that feels undervalued.

Our annual roadshows are open to every employee and are designed to help them better understand our business, our strategy and what we're doing for our customers and members. The roadshow is also dedicated to our people – understanding their concerns and dealing with the issues that are affecting them.

By listening to employee feedback, including our Employee Opinion Survey, we've identified key themes and have created commitments to tackle those issues.

We are proud that Royal London is in the top 10 employers in the UK on Glassdoor, a recruitment website which hosts vacancies and also reviews from employees.

In 2018 we made commitments based on five themes:

- **Reward:** We've addressed concerns that in some cases we weren't paying the market rate and invested an additional £4.5m on pay and rewards to ensure we meet this commitment. We've become more open and transparent on pay and conditions, and carried out an education process to help people understand our processes and the reasoning behind them. We're a Living Wage Foundation employer, which means we pay a voluntary higher rate of base pay to ensure we meet the basic cost of living to any employees who would otherwise only receive the government's minimum wage. This also applies to catering, security and cleaning staff who deliver service on our premises, but are not Royal London employees.

- **Leadership:** Being a good leader requires investment, and our leaders now undertake five training modules, which provide a comprehensive grounding in people leadership – focusing on the skills needed to lead effectively. Only after completing all five modules do they become accredited leaders. Mastery modules are also available – motivating and inspiring our people to do their best.

- **Career:** We are addressing the concern that external candidates were more likely to be successful when applying for a vacancy than an internal candidate. We've improved information so that our people are more aware of opportunities throughout the organisation, for example, company-wide monthly live vacancy emails, and we've introduced career taster sessions.

- **Wellbeing:** Physical, mental and emotional wellbeing is a key focus. Phil Loney, our Group Chief Executive, signed the Time to Change pledge in October 2018, a growing social movement working to change the way we all think about and act on mental health problems. We've also started a pilot of Global Challenge to increase physical activity in our workforce.

  We've begun a mental health awareness programme: we appointed 70 volunteer mental health first aiders from around Royal London and are training managers in identifying mental health issues in their people. We've improved our maternity leave provision, increasing full-paid maternity leave from nine weeks to 26 weeks. We've also doubled paternity leave from two weeks to four, and provision for carers' leave from five days to 10 days.

- **Inclusion:** We recognise that having an inclusive workplace gives all our employees the chance to shine and contribute in their own way. In 2018, we focused on improving inclusion in two key areas: women and disability.

  - We're signatories to the Women In Finance charter, and met our year-end target and remain on track to have women make up 40% of our most senior grade employees by the end of 2020, which is a stepping stone towards achieving our ultimate target of 50% female representation in senior roles. In March

> *Physical, mental and emotional wellbeing is a key focus for Royal London.*

2018, we launched our own Women's Network, with the aim of helping to inspire women to aim higher, to learn more and to achieve more. The network now has local groups that regularly meet to provide coaching and mentoring to each other.

- During 2018, we became a Disability Confident Committed employer. This is part of a Government-backed scheme created by disability charities, disabled people and employers, which aims to give employers the skills and confidence to recruit, retain and develop disabled employees. We're on target to become a Disability Confident Employer, the next step up the ladder, by summer 2019.
- We are working with Mencap and Ambitious about Autism to develop work experience and employment opportunities for people with learning difficulties.
- Royal London is a Core Member of the Employer's Network for Equality & Inclusion (ENEI), a leading employer network promoting equality and inclusion in the workplace, whose role is to influence government, business and trade unions, campaigning for real practical change. We also sit on the Executive Steering Committee.

We're an equal opportunities employer and ensure a fair and consistent approach to recruitment and in all areas of employment policy. In particular, we are committed to ensuring our recruitment processes are accessible to applicants with disabilities. We continue to work to provide support to any of our employees who become disabled while working for Royal London, providing reasonable adjustments and adaptations to the working environment wherever practical.

Strengthening responsible business
We support Royal London people directly through our activities, and are committed to being a responsible employer.

10,970
Number of people we have supported in the community in 2018

Supporting society

Through charitable and community engagement, and by encouraging volunteering, we work hard towards ensuring a fairer, more equitable society for all, both financially and socially.

A successful business delivers benefits to wider society, not just its owners and employees. We work for a better society through traditional means, such as helping causes through our Foundation. We also push to keep business operating fairly, and invest in areas that benefit society as a whole.

Royal London Foundation

The Royal London Foundation, discussed in more detail on page 18, helps to support the communities our members live in. The increase in funding to the Royal London Foundation to £350,000 demonstrates its success. We're reviewing our strategy in 2019 to ensure it continues to meet the needs of local organisations and our members.

Our community engagement

The Royal London Community programme, launched in 2017, aims to support people with a chronic or long-term condition. Our six charity partners, chosen by our people, together with the Royal London Foundation, focus on supporting small, local organisations to ensure the impact of our activity supports the needs of local communities.

During the year, our people put significant efforts into raising money for charity, and we have a match donation scheme to support them. In total, we and our people donated £105,000 to charity.

We are proud our people were awarded The Payroll Giving Bronze Award this year by Charities Aid Foundation for generating sustainable income sources for UK Charities through Payroll Giving.

Volunteering

We give all our people two days volunteering a year. In partnership with Business in the Community, we undertook 76 team challenges, which supported 10,970 people and we shared our skills with school children at 20 schools. We have volunteering partnerships with The Silver Line supporting older people as telephone friends, and a partnership in London with East London Business Alliance (ELBA) running in-house workshops with young people. Our people volunteered for over 5,500 hours during the year, up from 3,281 in 2017.

In 2018, we supported Business in the Community to develop their Outdoor Education workshop, to provide children with a memorable opportunity to learn in different environments. The workshop is led by environmental education specialists with volunteer support. In 2018, we ran five Outdoor Education workshops with 270 students.

Environment

During the year, we reduced our CO_2 emissions by 495 tonnes, from 3,395 in 2017 to 2,900 in 2018, and we are committed to improving this further. We've reviewed our environmental impacts across our offices and procured energy from green sources. We're on course to achieve our objective of making minimal environmental impact.

In 2018, work began on building an extension to our new offices in Alderley Edge, Cheshire. It has been designed to deliver a positive impact for our people, the local community and the environment. It is also targeted to achieve a minimum Building Research Establishment Environmental Assessment Method 'Very Good' rating (an industry-recognised standard).

We've committed to removing paper coffee cups and plastic water cups from our offices, and will be selling subsidised 'keep' cups in our canteens, with a portion of all sales going to our charity partners. Where a paper coffee cup is required, we'll be charging a small donation to go to our charity partners. None of the waste in our offices goes to landfill.

Within our existing buildings, environmental initiatives include:

- upgrading lighting to ensure we only light spaces when occupied;
- upgrading toilet facilities in our Edinburgh office to make them more water-efficient;
- assessing consumables across our catering contracts to reduce waste;
- a new cleaning system to use ionized water to clean offices; and
- in our London office we've partnered with bio-bean, an award-winning clean technology company who recycle our coffee grounds into a range of biofuels and biochemicals. Our people are also recycling used coffee beans in their own compost bins.

Respect for human rights

In line with our policy on modern slavery, we continue to take all steps to ensure that neither modern slavery nor human trafficking is taking place within our businesses or supply chain.

> *We've committed to removing plastic and paper cups from our offices. None of the waste in our offices goes to landfill.*

Raising money for local communities
Charity fundraising initiatives in 2018 included a Christmas jumper day in our London office (left) and two Group Customer Services Rectification teams in Wilmslow joining forces to help protect green spaces in nearby Broomwood (below).

Campaigning for change

We're not afraid to push for financial change. We believe it's our role to campaign on behalf of our members, customers and wider society. After all, if we don't do it, who will?

Government and regulators

Few of us have the time or the inclination to closely look at the myriad of rules and regulations that affect our savings. At Royal London we believe it's our job to do that on your behalf: to look closely at the system and to push for change either to improve it or to fix glitches that might be damaging people's finances.

We engage with government, from ministers and select committees to individual MPs, to ensure regulation gets the scrutiny it needs, to issue warnings about upcoming problems and to propose new ways of ensuring people can save for their future needs. We also maintain close relationships with our regulators. We're supportive of the difficult job they do, but we're prepared to be critical if they are in danger of getting it wrong.

Pension transfers

We've worked with the Financial Ombudsman on pensions transfers, to ensure there is greater clarity on how advisers need to operate and how they'll be judged by the Ombudsman. Our aim is to enable financial advisers to operate with confidence, while rogue elements can be identified and dealt with.

Working jointly with pensions lawyers, we've published guidance for company pension trustees to help ensure they give the right information and guidance for pension scheme members who are considering transferring out of their company pension scheme. We insist that members transferring out of these schemes to Royal London receive advice from an appropriately authorised financial adviser.

For everyone

We are campaigning for an industry-led pensions dashboard, which would enable everyone to see all their pensions in a single place. As a company this might cost us money to implement, but we are campaigning for it nonetheless because we believe that it will make the pensions system better and that it is an essential requirement for the pensions world in which we now live.

Auto-enrolment means every job creates a new pension pot, and people no longer stay in a job for life. Many of our customers have fragmented pensions, and they need an easy way to keep track of their retirement provision. In December 2018, the Government published a paper entitled 'Working together for the consumer', which outlined their plans. We continue to have concerns around the details of those plans and will campaign further to ensure what is delivered is right for customers.

For families

In November 2018, we began a petition to help stop parents ending up with reduced state pensions, due to changes in Child Benefit rules made in 2013. With the introduction of the High Income Child Benefit Tax Charge in January 2013, if one parent in a family receiving child benefit earns more than £50,000 a year, the higher earner is sent a tax bill. If they earn £60,000 or more, the tax bill wipes out the value of the child benefit that's being paid to the family.

As a result, many parents choose not to bother claiming child benefit, not realising that this could mean missing out on valuable National Insurance credits towards their state pension. Claims will only be backdated by three months, meaning that a parent may still lose out on years of credits towards their pension. Our petition aims to highlight this issue and calls for a relaxation of time limits on claims, and for the Government to contact all women who are potentially affected. It is still open and currently has over 13,000 signatures. We will update you on our progress this year.

The benefits system recognises co-habiting couples when it comes to taking away benefits, but not when giving them. We've campaigned to end this unfairness by changing the benefits system.

We've continued to raise awareness of grandparents missing out on pension credits because they're looking after their grandchildren, instead of working elsewhere. Parents who have gone back to work can pass on entitlement to pension credits, but they need to be aware of the issue first.

For those worst off

In pension schemes that we administer, we include people earning below the tax threshold when reclaiming tax relief. Not all providers are doing this, so some of the lowest earners are missing out. We're part of a group of pension providers pushing for this to be rectified, and we've asked the Government

> *We've continued to raise awareness of grandparents missing out on pension credits because they're looking after their grandchildren instead of working elsewhere.*

Taking on the long-term savings crisis
We work to help customers and members understand their pension, and develop new initiatives to make it easier to access pensions information.

to help. The Treasury is now looking for possible solutions.

Changes to the benefits system have affected the way mortgage payments are covered during a period of unemployment and those who had received weekly payments to help pay their mortgage while unemployed now have to take out a second mortgage from the Government to cover their payments. Our research showed almost no-one had signed up. We've campaigned for change, and the Government has extended the deadline.

Our spending diary, available through the Royal London website, helps people to become mindful of what they are spending money on.

Our latest National Funeral Cost Index shows that people are taking on record levels of debt to pay for funerals. In 2018, we increased our government lobbying for changes to the benefit system, ensuring costs which consumers consider to be essential or necessary are met. We've also contributed to the Competition & Markets Authority (CMA) and HM Treasury reviews, which aim to improve consumer protection and competition.

We're campaigning for an industry-led Pensions Dashboard because it will make the pensions system better.

Building financial resilience
We help customers with additional support needs by developing tailored life insurance products and providing extra benefits, including helplines.

Working in partnership with advisers

We're focused on working together with all our advisers to ensure our customers remain on track to achieve the right outcome.

Our intermediary division designs long-term savings and protection products, and services that help our customers to build financial resilience into their lives, protecting their families and establishing a comfortable retirement.

Why advice matters

As a result of auto-enrolment, millions of people are now saving into a pension for the first time. Royal London needs to make sure these customers understand the need to contribute the right amount to their pension, in line with their personal circumstances. At the same time, a generation of disengaged customers is reaching retirement with a complex range of options. Our first challenge is engagement, and the second is the availability of advice at a price customers can afford.

Royal London aims to meet these challenges by creating the opportunity for individual advice and encouraging a lifetime relationship between the adviser and the customer. As a customer's circumstances change, advisers can offer different solutions that meet their clients' changing needs. This allows advisers to regularly engage with their clients and, ultimately, to achieve good outcomes.

Commitment

We're committed to the intermediary channel. We have a deep understanding of advisers' businesses and a commitment to help their business models evolve and adapt. We believe in the valuable role that advisers bring to customers.

Impartial advice is critical to achieving good customer outcomes, but it must be more affordable and more accessible to more people. We design our products to align with the advice process and support the business processes of advisers. We will stimulate and support a sustainable advice model that maximises the number of customers who get access to advice and supports those who don't.

Value
Our strategy with intermediaries is to create sustained differentiation through our commitment to delivering value-for-money products and services. We support financial advisers in the delivery of excellent service for the mutual benefit of their clients, who are also our customers. Our business model maintains the integrity of the adviser relationship and supports their conversations with the customer at every stage of their life.

The more value we can create, which customers can recognise and appreciate, the more opportunity there is for advisers to be remunerated for the services that they provide and we support.

Our adviser commitments

We have no plans to offer regulated financial advice
We believe financial advice is best delivered with impartiality and a complete understanding of the customer's needs. We believe that good-quality, impartial advice provided by advisers, and strong competition between product providers, is the right recipe for a healthy market.

Whenever an advised client needs advice, we'll point them towards the adviser
But we won't leave customers without support and we'll always be guided to take action in their long-term interests. This includes encouraging them to take independent advice at every appropriate opportunity.

We won't cross-sell or upsell to our advised client
But we have a duty of care to our plan holders and we will communicate with them on matters that affect them.

Support
We provide a range of support services for advisers. Our Customer Services teams provide case management support to advisers that ensures a smooth and efficient on-boarding service for new customers, as well as providing a five-star service to advisers in the ongoing maintenance of existing policies.

Advisers value the quality of business and technical support that we provide, which is designed to support their expert conversations with their clients (our customers and members) and to manage cost and risk out of their businesses.

We have a dedicated technical team providing pensions support to advisers. This is through our Technical Central website and now via other channels, including webinars and podcasts.

Our Business Development team provides pensions, protection, tax and trusts support to advisers through nationwide events and seminars.

Communicating
Our principal method of communication with advisers is via our sales consultants, who operate both face-to-face and telephone-based panels of adviser firms. These panel relationships are the bedrock of our commitment to advisers. As many of our competitors have withdrawn or significantly cut back this level of support, we continue to provide this service across the length and breadth of the country.

Our Marketing teams communicate with advisers using a number of channels, including digital and social media. There has been exponential growth in the scale of adviser participation at virtual events, including webinars. Our monthly adviser newsletter, which carries news features on technical, market, regulatory and product content, is received by over 19,000 advisers.

How does Royal London work with intermediaries to understand what customers really want?
We have a strong feedback loop from advisers via relationships with our sales consultants. We take part in syndicated adviser research studies, which provide us with an in-depth understanding and feedback from advisers on their changing needs and what their clients want.

By testing all our principal adviser and customer experience developments with advisers before they are launched, we ensure our products are meeting people's needs.

In our Protection business we operate an adviser panel that gives customers access to advisers to discuss any aspect of our product development and service. This immediate feedback is hugely helpful in ensuring we can deliver new products and services to market, quickly and effectively.

By testing all our principal adviser and customer experience developments with advisers before they are launched, we ensure our products are meeting people's needs.

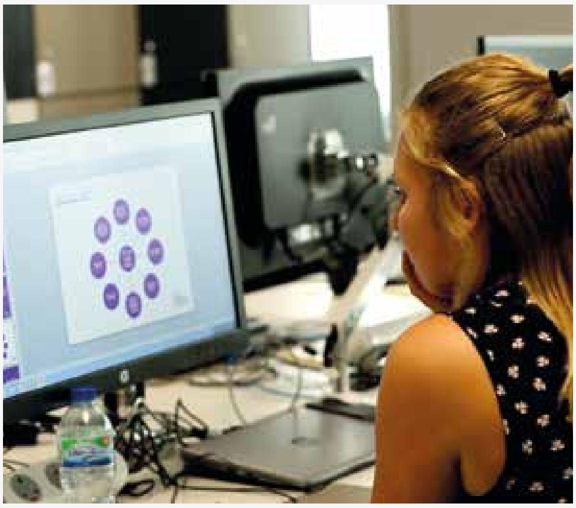
19,000

The number of advisers who receive our monthly newsletter.

Taking on the long-term savings crisis
We support advisers, to help them provide responsible and expert investment advice that will help people take responsibility for their financial futures.

Strategy in action: creating more work experience opportunities for members

Our Insight into Work programme, open to all members and their immediate families, give you a taste of what it's like to work for us. You never know – you might even stay!



From school leavers to graduates, from people looking to make a career change or returning to work after a break, our Insight into Work programme is open to all our members and their direct families.

We believe work experience is not only great for those who come and spend time working with us, but it's also good for us as a business. It's part of our talent strategy to help us share working experiences with people in our communities, support diversity in our business and help us find people who want to work with us in future.

Neeka is one of our Insight into Work graduates and she now works full-time at Royal London with Data Capture and Rectification. We're delighted to have her on board.

"My first experience at Royal London was as a work experience candidate for one month. I was greeted by a lovely team who helped me with anything I needed. The month flew by – I really enjoyed it and learnt so many new things. I was involved in scanning policies onto the computer and inputting addresses.

"The Royal London culture was welcoming and open. I liked the fact that employee wellbeing was a top priority. I would definitely recommend the work placement for anyone that wants to gain valuable experience and have the opportunity to explore whether a career in insurance might be right for them."

After her one-month placement, Neeka applied for a position in Group Operations and is now working at Royal London in a permanent role.

"My role is project-focused, gathering up-to-date addresses for policyholders who we have lost touch with. This means that we can attempt to re-engage with them, or their dependants, and advise them on a policy they hold with Royal London. It's a very rewarding job."

In 2018, we had a total of 23 four-week work taster placements, 10 two-week work-shadowing placements and five school work experience placements across IT, Investment, Customer Services and our Legal team.

"We believe work experience is not only great for those who come and spend time working with us, but also good for us as a business."

Find out more at **royallondon.com/members**

BUILDING ON RECORD PERFORMANCE

Another year of profitable growth, despite challenging market conditions and the end of auto-enrolment roll-out.

Tim Harris
Deputy Group Chief Executive
& Group Finance Director

Royal London achieved another strong performance in 2018, despite challenging market conditions and the end of the auto-enrolment roll-out. Life and Pensions new business sales remained strong at £11,308m (2017: £12,002m), driven by Individual Pension and Protection sales offsetting the expected reduction in workplace pension sales, which reduced by 28% against 2017, as expected. Group European Embedded Value (EEV) operating profit increased 20%, improving significantly upon our already impressive 2017 performance. Funds under management in RLAM remained steady, with increased net inflows in 2018 offset by falls in market values towards the end of the year.

Delivering strong financial results and a positive impact on society are our primary aims. These returns are shared with our members, who own the business. When Royal London does well, so do our members. As well as generating value for our members through investment returns, bonuses and ProfitShare, Royal London also plays an active role in shaping the future of the industry.

We continue to invest in the business for the benefit of our members, to ensure we keep ahead of the fast-changing regulatory landscape and to position us to take advantage of ongoing change in our markets.

Throughout this review, I'll explain the main factors that drove our financial performance during 2018. Given the complex nature of accounting and regulation in our industry, it's not always easy to make these explanations simple, but our aim is always to be as clear as possible. A glossary of financial jargon starting on page 199 will help to explain some of the terminology used.

Financial summary

Royal London reports externally on the EEV basis. This is the economic basis on which the business is managed, alongside our Solvency II internal capital model, for capital purposes. Our EEV methodology is aligned with our regulatory basis, Solvency II, as much as possible.

Our EEV operating profit before tax increased by 20% to £396m during 2018 (2017: £329m), with the 2017 operating profit including a £30m one-off benefit from a restructure of an arrangement with BlackRock. Excluding this from the 2017 comparative, our EEV operating profit before tax increased by £97m, or 32%.

EEV profit before tax and ProfitShare was £351m, compared with £594m in 2017, driven by strong new business sales with a reduced cost base, offset by negative investment returns, which were positive in 2017.

During 2018, RLAM saw total net inflows of £7.7bn (comprising net internal inflows of £3.6bn from the Society's pension business and net external inflows of £4.1bn arising through institutional and wholesale markets). The total funds under management was reduced by the sale of RLAM C.I. Limited, which resulted in a net outflow of £2bn, along with difficult trading conditions in the last quarter of 2018. The internal and external flows for 2018 are detailed on page 33. The combined impact of this was funds under management remained steady at £114bn (2017: £114bn).

£7.7bn

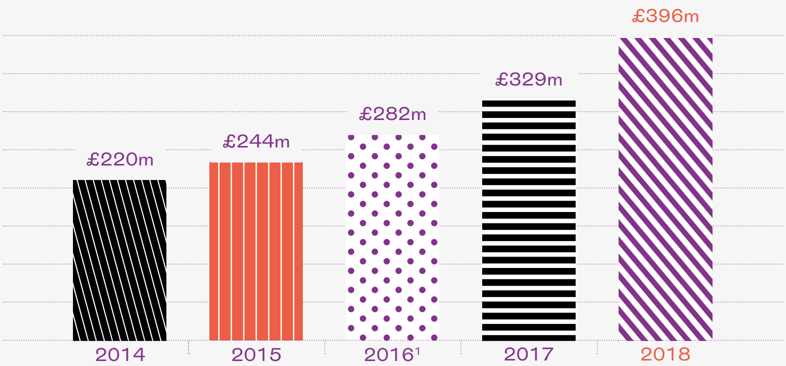
Total net inflows at RLAM during 2018.

The IFRS transfer to unallocated divisible surplus (UDS) after other comprehensive income for the year ended 31 December 2018 was £5m (2017: £434m), as seen on page 32. The result was affected by the continuation of a low interest rate environment and negative market returns experienced in 2018. This is demonstrated with IFRS investment returns reducing from a gain of £6,031m in 2017 to a loss of £2,679m in 2018.

> *Group EEV operating profit increased 20%, improving significantly upon our impressive 2017 performance.*

Our capital position under Solvency II (SII) remained strong. Our total SII Investor View capital cover ratio at 31 December 2018 was 202% (2017: 228%) for the Parent company, representing a Solvency surplus of £4.6bn (2017: £5.4bn). This is discussed further in the Solvency II capital position on a Standard Formula basis section on page 33.

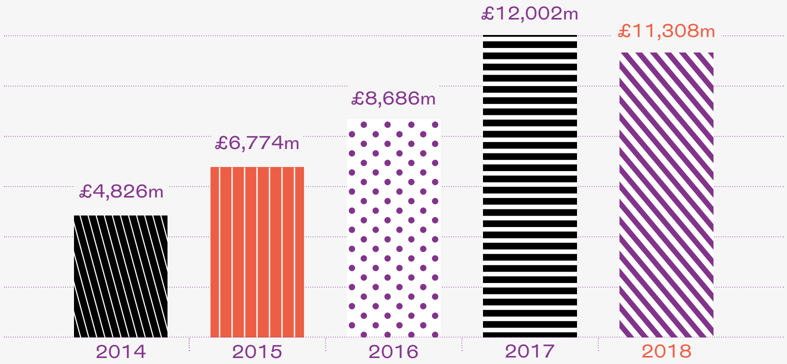
Operating profit growth



1 2016 EEV profitability is before the change in basis for Solvency II of £182m, which arose through further alignment between our regulatory and statutory basis.

ProfitShare increased by 6% to £150m (£158m gross of tax), bringing the total ProfitShare distribution to £942m since 2007 (previously known as mutual dividend).

New business sales (PVNBP)[1]



1 Present value of new business premium (PVNBP) is the total of single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expected to receive of the new contracts sold in the year.

New business results

Sales of new business on a PVNBP basis remained strong. Overall, sales were 6% lower than 2017 at £11,308m (see table below). Increases in Individual Pension and Life Assurance new business largely offset the expected reduction in workplace pension sales as auto-enrolment staging came to an end. Margins on Life & Pensions business improved to 2.5% (2017: 2.3%).

Intermediary

Our Intermediary business continued to perform well in 2018 and managed transitioning markets well. Total new business sales for this division decreased by 6% to £10,889m (2017: £11,593m).

Workplace pensions

The workplace pension market changed dramatically in 2018 with the end of the auto-enrolment roll-out. Total workplace pension new business sales reduced from £4,345m to £3,131m, a decrease of 28%. The previous growth in this area was driven by our success in winning a large number of new schemes. While new workplace scheme sales have reduced, as expected, the secondary market is continuing to develop. As we come to terms with this new normal post auto-enrolment environment, it is increasingly important to build a higher level of understanding, intimacy and engagement with employers and members of workplace schemes. In 2018, we have made improvements to the communications our pension scheme members receive: there is a new annual statement for all pension customers (both workplace and individual), which reinforces the benefits of pension savings in a clear and engaging style.

Individual pensions

Individual pension sales continued to perform well in 2018, increasing from £6,339m in 2017 to £6,818m in 2018. The original intention of the pensions freedoms was to enable flexible

NBC, PVNBP and margin

	New business contribution[2]		PVNBP		New business margin	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 %**	2017 %
Intermediary:						
Pension	**239.1**	241.6	**10,042**	10,787	**2.4**	2.2
Protection[1]	**45.1**	43.0	**847**	807	**5.3**	5.3
Consumer	**(3.3)**	(5.3)	**419**	408	**(0.8)**	(1.3)
Life and pension business	**280.9**	279.3	**11,308**	12,002	**2.5**	2.3
RLAM[3]	**61.2**	46.8	**7,300**	6,906	**0.8**	0.7
Total	**342.1**	326.1	**18,608**	18,908	**1.8**	1.7

1 The 2017 new business contribution and new business margin for Intermediary Protection have been restated to reflect revised cost allocation.
2 The new business contribution in the table above has been grossed up for tax at 19% (2017: 19%). We have done this to help compare our results with the results of shareholder-owned life insurance companies, which typically pay tax at 19% (2017: 19%). The EEV Consolidated Income Statement has been grossed up at the applicable tax rates.
3 PVNBP for RLAM 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.

retirement plans based on individual needs, and this is starting to play out. Transfers from defined benefit schemes boosted sales as low interest rates and healthy transfer values prompted people to switch to personal schemes with greater flexibility. As well as the new annual statements mentioned earlier, we have also introduced a new suite of 'at retirement' documents that are specifically designed to help members target action and help them make key decisions in the five years leading up to their retirement.

Protection
Sales of new business increased year-on-year, up by £40m to £847m, continuing the trend of sales growth, despite a sustained period of flat markets. We've worked to revitalise the market by improving access to products, challenging industry practice and improving customer outcomes. One example of this is our diabetes product, launched in June 2018. Diabetics have often been excluded from life insurance cover due to high premiums. Our tailored product rewards good control of diabetes with premium reductions of up to 40%.

We also added child coverage as an option to our Critical Illness Cover in 2018, giving customers peace of mind against the financial effects should their child become ill. Our streamlined mortgage protection service, which uses technology to make applications simpler, continued to advance in its first year.

It has been another outstanding year for our Protection business in Ireland, with new business sales exceeding the previous year by 18%. The total achieved for 2018 was £112m (2017: £95m) included in the Protection total sales.

Consumer
Total new business sales were slightly ahead of last year at £419m (2017: £408m). We are one of the principal providers of high-quality, value-for-money products in markets poorly served by established providers.

Our Over 50s life product is now one of the leading propositions, with 23% market share (2017: 20%). Sales of our Over 50s life product grew by 20% during the year and we welcomed over 35,000 new customers to Royal London (2017: over 10,000).

We also launched a new simplified life insurance proposition, Easy Life, offering one type of cover, with simplified acceptance, streamlining the process by enabling sales through the Post Office.

Partnerships
The partnership we launched in 2017 with the Post Office performed well in its first full year. The Post Office distributes to its

We've worked to revitalise the market by improving access to products, challenging industry practice and improving customer outcomes.

£419m
The value of Consumer new business sales in 2018.

Royal London industry awards 2018

FT ADVISER SERVICE AWARDS
WINNER
- Company of the Year

FIVE STARS[1]
- Investment
- Life & Pension

MONEY MARKETING AWARDS
WINNER
- Company of the Year

LIPPER 2018 FUND AWARDS
WINNER
- Overall Group

GLOBAL INVESTOR 2018 AWARDS
WINNER
- ESG Manager of the Year

FINANCIAL NEWS ASSET MANAGEMENT AWARDS EUROPE
WINNER
- Asset Manager of the Year (Mid Size)

FT PIPA AWARDS 2018
WINNER
- Fixed Income Manager of the Year

BROKERS IRELAND EXCELLENCE AWARDS
WINNER
- Service Excellence

ASSOCIATION OF EXPERT MORTGAGE ADVISORS AWARDS
WINNER
- Mortgage Protection Provider of the Year

ADOBE EXPERIENCE BUSINESS EXCELLENCE AWARDS
WINNER
- Excellence in Omni-Channel Orchestration

1 Awards for service, including new business processing, product support and personal contact.

customers guaranteed whole-of-life and term insurance policies provided by Royal London. The partnership has broadened our distribution, giving many more consumers access to our products.

Our collaboration with CYBG plc, owner of Clydesdale Bank and Yorkshire Bank, was announced towards the end of 2017 and was successfully rolled out across branches of both banks during 2018.

The launch of our own new direct-to-consumer, Royal London-branded funeral plan product in 2018 has been well received in the market, securing a five-star rating from Fairer Finance. Our partnerships with Ecclesiastical Insurance, Co-operative Funeral Services and 11 other independent co-operatives continued to flourish in 2018. We are now one of the market leaders in providing business-to-business funeral plans.

Combined, these partnerships have contributed £316m in new business sales during 2018 (2017: £318m).

RLAM

RLAM delivered another year of strong performance, generating record external net inflows of £4.1bn and maintaining funds under management of £114bn, despite volatile market conditions. Our reputation in fixed income helped us to win new mandates, as our experienced team and proven track record continued to find favour with customers.

The market backdrop for 2018 has been unpredictable, with the prospect of a no-deal Brexit and its economic implications leading to increased uncertainty. 2018 started with global growth at a solid pace. However, the downturn of global markets in the last quarter of 2018 provides signs that growth has peaked. This is likely to be part of a gentle cooling as the business cycle matures and policy support fades in several major economies.

Responsible investing

Our award-winning Sustainable fund range continued to attract flows from both wholesale and institutional clients, with total assets in the five funds increasing by 23% in 2018. This fund covers investment in a wide range of areas, including healthcare, technology, infrastructure, social and economic development of emerging markets, urban regeneration and climate change among others. In 2018 we won our first segregated sustainable mandate from an institutional client. Anyone who holds a pension with us can move all or part of their money into our sustainable funds.

We continue to integrate environmental, social and governance (ESG) issues into our investment decision making, for example in our Global Equity funds and Investment Grade Credit strategies. We anticipate building on this further in 2019.

Increasing demand

Flows into the Global Multi-Asset Portfolios (GMAPs) range have also increased in 2018, resulting in funds under management of £11.5bn at 31 December 2018, due to a growing awareness and understanding of this range among independent financial advisers.

£11.5bn
GMAP, total funds under management at 31 December 2018.

In our institutional business, which serves clients such as pension schemes and local authorities, there has been continued demand for our Fixed Income and Cash strategies, including a High Yield mandate for an international client. We have also had mandate wins in global equities and the successful launch of our new Multi-Asset Strategies (MAST) Fund.

RLAM continues to win a broad range of industry awards at firm and fund level, accumulating 24 awards over the year. These included the prestigious Financial News European Asset Management award for Asset Manager of the Year – Mid Size in October 2018, as shown on page 29.

New products launched in 2018 include a Monthly Income Bond Fund, which invests in other RLAM bond funds, with a monthly income paid to investors. We also launched a Sterling Liquidity Fund for more efficient cash management.

EEV result

EEV operating profit

EEV operating profit before tax rose by 20% to £396m (2017: £329m), mainly driven by continued strong new business contribution and lower costs, predominantly from the reduction in strategic development costs and other items.

Profit contribution from new business was £301m, an increase of 3% on the previous year (2017: £292m). Individual Pension new business increased as a result of a higher number of defined benefit transfers when compared with 2017. Offsetting this was the expected fall in workplace pension new business sales following the end of the auto-enrolment roll-out. Higher new business volumes, driven by higher net inflows into the business in 2018, increased RLAM new business contribution from £46.8m in 2017 to £61.2m in 2018.

"Our award-winning Sustainable fund range continued to attract flows from both wholesale and institutional clients, with total assets in the five funds increasing by 23% in 2018.

We increased the overall underlying margins to 1.8% from 1.7% in 2017. The margin in intermediary pensions has increased in the year to 2.4% from 2.2% in 2017, despite the significant changes experienced in the market. The protection margin remained consistent with 2017 at 5.3%. Consumer margin has improved from (1.3)% to (0.8)% in 2018. Our Consumer business was launched four years ago and continues to make good progress towards achieving the critical scale required for profitable trading. The RLAM margin has increased from 0.7% to 0.8%, through record gross inflows increasing at a greater rate than the cost base of the business.

Profit from managing existing business decreased by £24m to £228m (2017: £252m). Current year profit was driven by positive demographic assumption changes due to a reduction in unit costs, through increased policy volumes, and updated future expense inflation assumptions. These positive assumption changes were offset by updated mortality and morbidity assumptions, with Intermediary Protection adversely impacted by the update. Expected return was higher through strong pensions new business sales and RLAM fund performance.

Our expected return on net worth decreased to £17m (2017: £26m) as a result of a higher equity holding in 2017 along with strong pension new business sales and positive net inflows from RLAM. The £39m loss on uncovered business (2017: £33m) mainly comprises an impairment of £28m relating to the new Ascentric platform (2017: £31m).

Strategic development costs and other items decreased to £111m (2017: £208m, including a one-off £30m benefit arising from the restructure of an arrangement with BlackRock). Excluding this, strategic development costs and other items reduced by £127m. This demonstrates our change costs reducing as we make progress in transforming the business.

Since the start of our transformation programme in 2014 we've invested over £800m in our people, systems and capacity to ensure we can take advantage of continued change and regulation in our markets. Our main strategic development cost relates to a long-term project, which will continue over the next few years, implementing our new pension platform (#thinkbeyond project) and IT systems across the Group. This project will enable us to deliver a market-leading digital proposition, and better outcomes and experiences for our customers.

During 2018, we reached a number of milestones in our transformation programme. These included the continued acceleration of the reporting deadlines under the Solvency II regime. In addition, Royal London is currently in the pre-application phase of its Internal Model application and is looking to apply to formally use an Internal Model in March 2019; the anticipation is that our application will be approved before the end of 2019.

EEV profit before tax and ProfitShare

EEV profit before tax and ProfitShare decreased in 2018 to £351m (2017: £594m). Our strong operating performance was offset by lower than expected returns on investments. In addition to the market volatility experienced in 2018, the continuing low interest rate environment remains a source of pressure on our longer-term business.

The Royal London Group Pension Scheme (RLGPS), which closed to future accrual in 2016, continues to have a surplus that increased by £27m to £74m at 31 December 2018 (2017: increase of £73m) due in part to changes in assumptions. The increase in the discount rate resulted in an actuarial gain of £128m in the period, which was partially offset by a loss of £95m due to lower returns on assets, along with the inclusion of the Guaranteed Minimum Pension (GMP) equalisation impact of £20m. The £20m adjustment reflects the costs to cover higher future payments for affected members plus interest and arrears following the Lloyd's Banking Group High Court ruling in October 2018.

IFRS results

Alongside our EEV supplementary reporting, Royal London also reports its results under International Financial Reporting Standards (IFRS). The key differences are outlined in the EEV supplementary information; refer to notes (i) and (j).

Transfer to UDS

As a mutual, the transfer to the UDS is a key measure of accumulation of funds available for us to share, at our discretion, with eligible customers and members. Our total transfer to UDS was £5m (2017: £434m). The decrease from 2017 was a result of negative investment returns, with an unrealised loss of £2,679m recorded in 2018 against a gain of £6,031m in 2017. This was driven primarily by equity market losses as a result of continued political and economic uncertainty impacting global stock markets and monetary policy. This also drove the IFRS result before tax and before deduction from the UDS down to £111m (2017: transfer to the UDS of £455m).

"Since the start of our transformation programme in 2014, we've invested over £800m in our people, systems and capacity to ensure we can take advantage of continued change and regulation in our markets.

£74m
Amount of surplus in the RLGPS.

Markets proved as unpredictable as politics in 2018, with initial strong growth in both the UK and US followed by sharp falls in the last quarter of 2018. Given this unpredictability, we did not take any major asset allocation positions during the year.

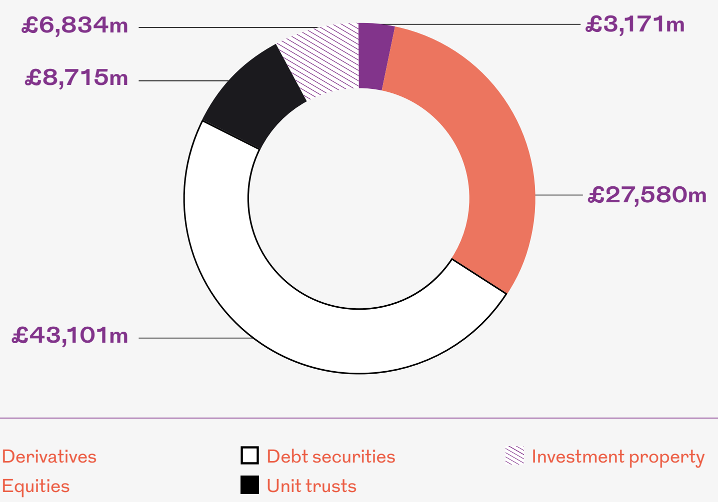
The 'IFRS reconciliation table' shows the movement in the transfer to unallocated divisible surplus. The main changes arose through:

- investment return variances and assumption changes of (£204m) (2017: £352m), which represents the impact of the movement in the market value of assets offset by the movement in economic experience and assumptions used in calculating actuarial liabilities;
- ProfitShare of £150m (2017: £142m), reflecting the amount allocated to qualifying embers in 2018, consistent with the treatment under EEV; and
- a tax credit of £63m (2017: charge of £103m). The majority of our tax represents policyholder tax. The unrealised losses on financial investments in the year have resulted in a decrease in the value of our deferred tax liability. This has subsequently resulted in a tax credit. Unrealised gains were recognised in 2017, leading to a tax charge in that year.

IFRS reconciliation table

	2018 £m	2017 £m
Operating profit (on an IFRS basis)	318	296
Adjusting for the following items: Investment return variances and economic assumption changes	(204)	352
Pension scheme costs recognised in profit	(27)	(4)
Finance costs	(48)	(47)
ProfitShare	(150)	(142)
IFRS result before tax and before (deduction from) / transfer to unallocated divisible surplus	(111)	455
Tax credit / (charge)	63	(103)
Other comprehensive income	53	82
Total transfer to unallocated divisible surplus	5	434

Financial investments



IFRS operating profit before tax

IFRS operating profit before tax is stated before the impact of short term economic volatility and ProfitShare, among other items. Our 2018 IFRS operating profit before tax was £315m (2017: £296m), an increase on prior year. IFRS operating profit increased following the continued strong new business sales outlined in the EEV financial review section.

IFRS balance sheet

Investment portfolio

Our balance sheet remains robust and well diversified. Our total investment portfolio, including investment property, reduced slightly to £89,401m (2017: £89,431m) with property purchases arising from the net inflow of funds in the year offsetting the declining market returns. Our financial investment portfolio remains well diversified across a number of financial instruments, with the majority invested in equity securities and fixed income assets, as summarised in the pie chart above right.

Pension scheme

The Group operates three defined benefit pension schemes. The combined surplus on the three schemes increased by £27m to £213m at 31 December 2018 (31 December 2017: surplus of £186m). The largest scheme is the Royal London Group Pension Scheme (RLGPS) which closed to new entrants on 1 September 2005 and to future accrual of benefits on 31 March 2016.

The surplus on the RLGPS pension scheme increased from £47m to £74m through positive changes to financial assumptions, offset partially by lower than expected returns on plan assets.

The two remaining schemes operate for former Royal Liver employees. The combined Royal Liver schemes' surplus as at 31 December 2018 was £139m (2017: £139m surplus).

Net flows

Net flows of £7,652m (2017: £6,316m) include internal net inflows of £3,552m (2017: £3,514m) and external net inflows of £4,100m (2017: £2,802m). Higher net inflows were driven by increased Individual Pension sales, with external net inflows increasing due to RLAM's success in winning a number of large new mandates during the year (see table, right).

Internal and external flows

	Gross flows		Net inflows	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Internal flow	**8,879**	8,456	**3,552**	3,514
External flow	**12,317**	10,396	**4,100**	2,802
Total	**21,196**	18,852	**7,652**	6,316

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 give peace of mind to 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.

Estimated Solvency II capital position on a Standard Formula Basis

Our estimated capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. The Parent company had an Investor view solvency surplus of £4,552m (2017: £5,380m) and an Investor view capital cover ratio of 202% (2017: 228%).

Our estimated solvency surplus was adversely impacted by difficult market conditions during 2018, but we have been able to continue to invest in transforming the business and deliver ProfitShare, while maintaining a strong capital position. The diagram on page 34 sets out a movement analysis of the investor view solvency surplus between 31 December 2017 and 31 December 2018.

The investor view solvency surplus has decreased to £4,552m at 31 December 2018 (31 December 2017: £5,380m) primarily from the following sources:

- adverse economic experience, driven by difficult investment market conditions, particularly in Q4 2018; and
- financing costs, specifically the payment of interest on our subordinated debt, partially offset by:
  - positive demographic assumption changes; and
  - capital benefit from the run-off of existing business.

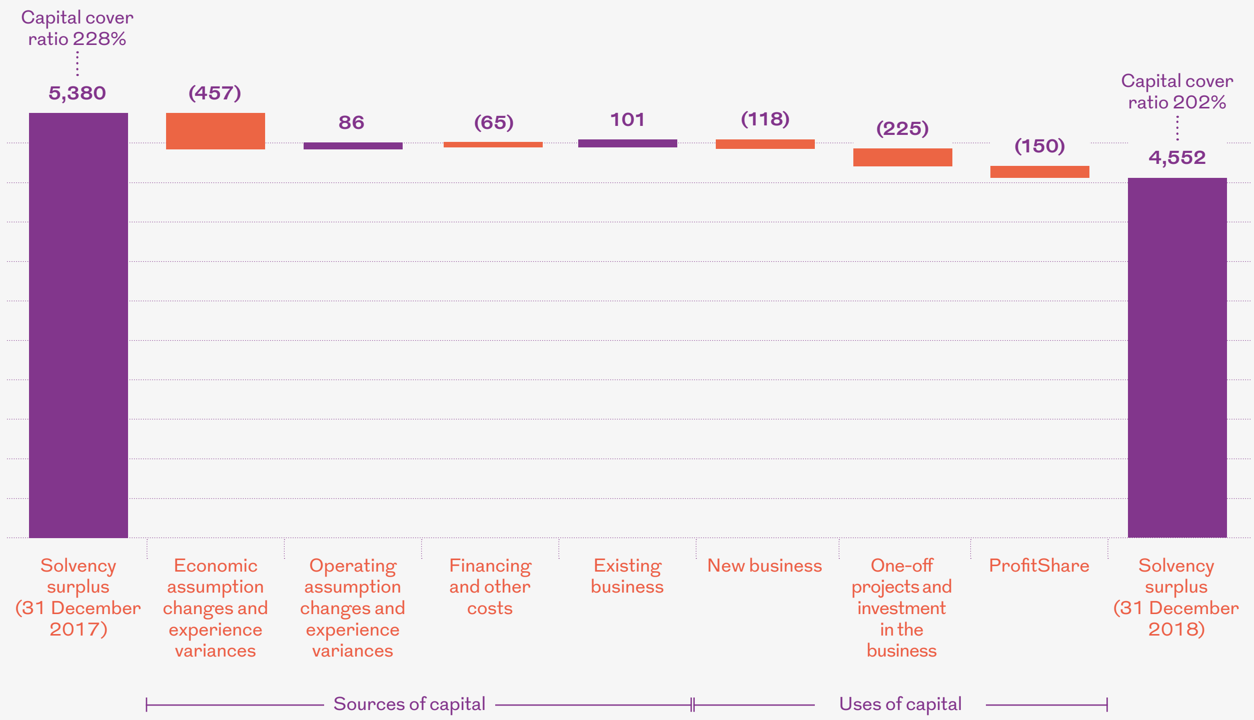
➔

Solvency II capital position

	Investor View	
	31 December 2018[1] £m	31 December 2017[2] £m
Own Funds:		
Tier 1	**8,205**	8,693
Tier 2	**806**	883
Total Adjusted Own Funds (A)	**9,011**	9,576
Solvency Capital Requirement (B)	**4,459**	4,196
Solvency surplus (A–B) – 31 December 2018	**4,552**	5,380
Capital cover ratio (A/B)[3]	**202%**	228%

1 The 31 December 2018 figures are estimated and are unaudited. The final figures will be presented in the 2018 Royal London Mutual Insurance Society (RLMIS) SFCR to be published on our website on 18 April 2019, which can be found at royallondon.com/about-us/corporate-information/corporate-governance/regulatory-returnsand-publications/
2 The 31 December 2017 figures have been restated in line with the final regulatory returns which were presented in the 2017 SFCR in May 2018.
3 Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.

Movement in investor view solvency surplus (£m)



Our remaining capital position is strong, and as a result we have been able to use available capital (whilst still meeting target solvency levels) to:

- write significant new business during 2018, which had a strain on capital;
- progress with one-off projects and investment in the business, including the ongoing transformation of our pensions business (#thinkbeyond) and the Guaranteed Annuity Rate (GAR) Compromise Scheme, allowed certain policyholders to exchange guarantees for a cash uplift in order to more effectively manage the run-off of the Scottish Life (SL) fund and resulted in a one-off decrease in the capital position; and
- deliver a record 2018 ProfitShare, following membership growth in 2018.

The 2018 Royal London Mutual Insurance Society (RLMIS) SFCR is expected to be published on 18 April 2019 and will contain further information about our solvency and capital position. A copy will be published on our website: royallondon.com/about-us/corporate-information/corporate-governance/regulatory-returns-and-publications/

In common with the rest of the industry, we present two cover ratios: an investor view for analysts and investors in our subordinated debt (which does not restrict the surplus in the closed funds), and a regulatory view where the closed funds' surplus is treated as a liability. The regulatory view is disclosed in note 41 of the IFRS financial statements.

Impact of post-balance sheet events on our capital position

Royal London Insurance Designated Activity Company (RLI DAC) was authorised to write new life assurance business in the Republic of Ireland by the Central Bank of Ireland (CBI) with effect from 1 January 2019.

Certain technical provisions and related assets and liabilities were transferred from the Parent company to RLI DAC by way of a transfer made under Part VII of the Financial Services and Markets Act 2000 (the 'Part VII transfer'). The Part VII transfer allows Royal London to continue to service existing policyholders whose policies had been previously written in the EU. Specifically, this results in the creation of two new closed funds within RLI DAC, relating to contracts previously written by RLMIS in the Republic of Ireland and Germany.

Following High Court approval, the Part VII transfer took place on 7 February 2019, and was effective for accounting purposes on 1 January 2019. As this occurred after the balance sheet date, the Annual Report and Accounts have not been adjusted to reflect the transfer.

The IFRS impact of the Part VII transfer on the Parent company is disclosed in note 42 of the IFRS Financial Statements.

Rating agencies

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

In July 2018, Standard & Poor's reaffirmed Royal London's counterparty credit rating of A, with a stable outlook. The Moody's insurance financial strength rating of A2 with a stable outlook remains unchanged.

Returning value to our members and policyholders

Our with-profits policyholders weathered the investment uncertainties better than most in 2018. In 2018, our with-profits policyholders benefited from:

- a defensive approach to investment, limiting the negative impacts from the Brexit uncertainty; and
- pay-outs made to maturing policies during the year that increased on average in the year and compare well with our industry.

Investment returns

Global equity markets experienced increased volatility in 2018, driven by continued political and economic uncertainty, as well as talk of trade wars. Initial gains on both the UK and US equity markets were eroded by market losses in the last quarter of the year.

Our investment performance is measured both in absolute terms and against benchmarks looking at different asset returns, 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.

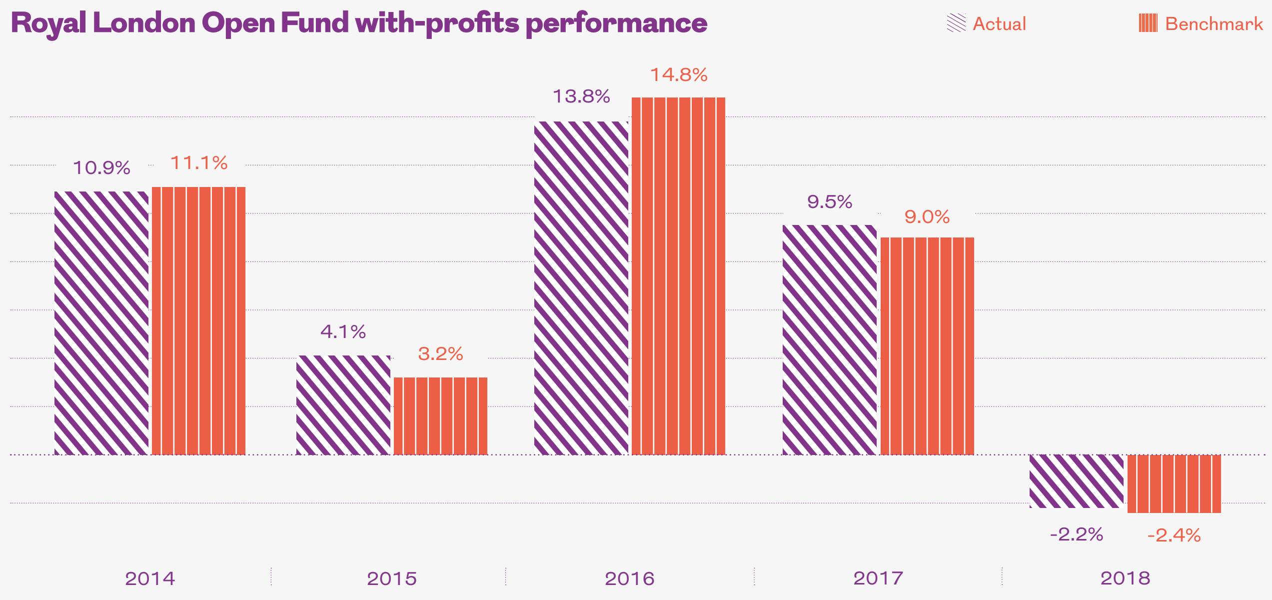
During the year, our investments backing the asset shares of the Royal London Open Fund, our largest fund, generated a return of -2.2% against a benchmark of -2.4% (2017: return of 9.5%, against a benchmark of 9.0%). This performance was across a number of asset classes underpinning the fund. The performance by asset class is shown on page 36. Returns on key asset classes such as equities and bonds were negative following positive returns in 2017; albeit still out-performing benchmark returns in 2018.

Unit-linked investment returns

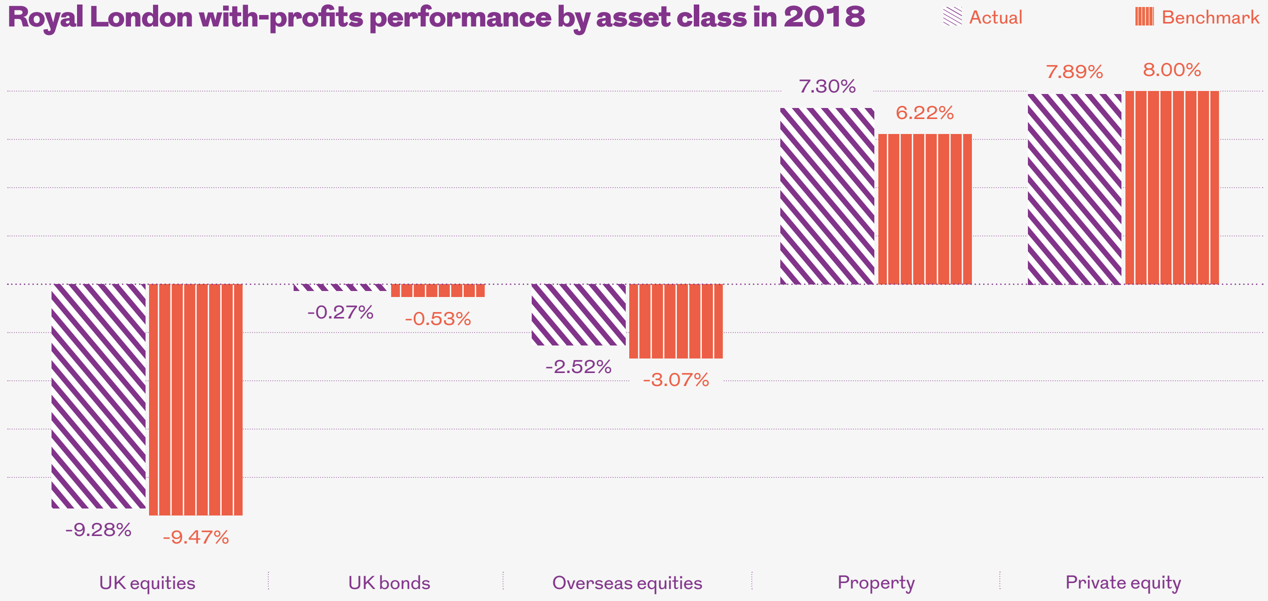
The Governed Portfolios delivered between -1.74% and -6.06% throughout 2018.

Rating agencies are one way of providing an independent assessment of Royal London and its financial position. In July 2018, Standard & Poor's reaffirmed Royal London's counterparty credit rating of A, with a stable outlook.

Royal London Open Fund with-profits performance



Royal London with-profits performance by asset class in 2018



With the exception of one out of the nine portfolios held, these returns are slightly below benchmark.

With-profits policyholder bonuses

Interest rates remained low during 2018, with only a 0.25% rate rise to 0.75% in August. We expect global markets to remain volatile in the near future as, amongst other things, the impact of Brexit and the ongoing US-China relations becomes clearer. Despite this, we have been able to maintain our annual bonus rates at the same level as 2017.

ProfitShare

We allocate a discretionary part of the Group's profits annually to eligible with-profits and unit-linked pension policies. ProfitShare for 2018 was £150m, representing an increase of £8m on last year (2017: £142m).

Tax

We take our responsibilities as a tax payer seriously and manage our tax affairs in accordance with our tax strategy.

Tax strategy

We strive to pay the right amount of tax, at the right time, and a fair amount, striking a balance between all our stakeholders and ensuring that our customers are being treated fairly. We are open and transparent in our approach to taxation at all times and behave responsibly and proactively in our dealings with relevant tax authorities.

How Royal London is taxed

We are subject to various taxes, including corporate taxes, employment taxes on salaries and indirect taxes such as VAT. The corporation tax that the Group pays is a proxy for policyholder tax liabilities, paid on behalf of certain life assurance policyholders.

For these life policies, tax is charged on taxable income, less expenses, and is largely driven by market movements. This tax is paid directly to HMRC by the Group as corporation tax on behalf of policyholders.

For pension policies, returns to the policyholder accumulate without incurring a similar corporation tax charge. This is part of the UK Government's strategy of incentivising saving for retirement. Tax is paid directly by the pension policyholder when they receive their pension.

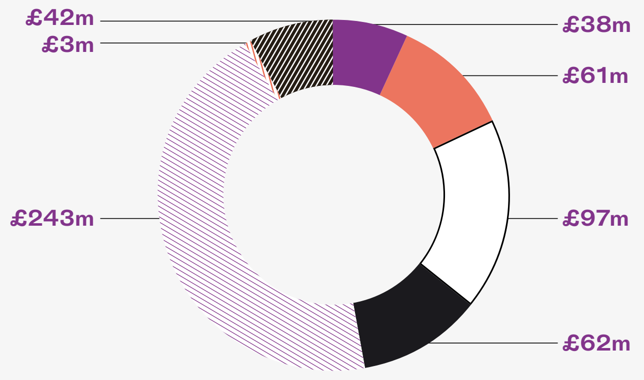
In 2018, the total tax contribution of the Group was £546m (2017: £496m), as shown in the summary chart on the following page.

The Group's total tax contribution is made up of the taxes borne and collected in the period. Taxes borne are the taxes incurred by the Group, in the period, that impact on our results. Taxes collected are those administered by the Group on behalf of the Government and collected from others for onward payment to HMRC and other tax authorities. In 2018, taxes of £225m (2017:

£150m

Amount of ProfitShare allocated to eligible policyholders in 2018.

Amount of tax paid by Royal London



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

£185m) were borne by the Group and the Group collected £321m (2017: £311m) of taxes on behalf of the tax authorities.

Summary and outlook

Our industry has experienced significant change, coupled with an uncertain political and economic environment, and a sustained low interest rate environment. Yet Royal London has continued to demonstrate that it is a robust business that can produce strong new business sales and profitability.

Our vision to become the most trusted and recommended provider of life insurance and investment products in the eyes of our customers is coming to fruition. We are able to make a positive impact in the communities in which we operate, through the way we do business, the products we offer and our campaigning and charitable activities. This is driving sales, as our customers and financial advisers recognise the quality of our offering.

Royal London has continued to demonstrate that it is a robust business that can produce strong new business sales and profitability.

Tim Harris
Deputy Group Chief Executive & Group Finance Director

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

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

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

Taken together these elements are designed to:

- facilitate the effective and efficient operation of the Group by enabling us to respond appropriately to significant strategic, business, operational, financial, regulatory and other risks that could impact upon the delivery of our objectives;
- promote a clear understanding of the risks faced to allow the Group to balance risk, capital and return effectively, enhancing our decision-making capacity;
- promote the preparation of reliable published financial statements and selected financial data; and
- facilitate compliance with applicable laws, regulations and internal policies.

We have a formal governance structure of committees to manage risk, reporting to the Board, and accountability has been further strengthened through implementation of the Senior Managers & Certification Regime (SMCR) in 2018 and 2019. 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 2018, and on an ongoing basis, 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), was and continues to be 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 2018, we have implemented measures including a framework to be compliant with the new European General Data Protection Regulation. We have also continued to deliver our programme of activities to further strengthen our internal control system, standards and processes. This has supported further progress on our risk and control maturity across the Group. Our programme will continue to focus on an enhanced control approach and education in 2019 that will build on business capabilities as part of a sustainable model.

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

Three lines of defence

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

In practice, executive management has been delegated the day-to-day responsibility for establishing and implementing appropriate systems and controls, and for managing the risks which impact upon their respective areas of responsibility. Business unit managers identify, assess and record material risks, including information on their likelihood and severity, and the mitigating controls or actions planned.

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

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

Group risk appetite framework

Our risk appetite framework consists of three components:

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

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

Capital

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

Liquidity

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

Performance

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

Insurance risk

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

Operational

We will 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 will 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 will seek to have good relationships with our regulators and also with law enforcers.

Group risk policies

Our risk policies are the high-level standards and requirements that determine the way in which risks are to be managed and controlled. The Board ensures that policies are regularly reviewed to reflect the changing commercial and regulatory environment, as well as the Group's organisational structure.

Anti-corruption and anti-bribery

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

Solvency II

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

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 41 to 44, with the actions taken to manage and mitigate them.

The Group's risk governance structures

RISK RESPONSIBILITIES OF THE BOARD

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

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

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

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.

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.

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

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

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 will evolve due to ongoing events and developments in 2019. We have continued to progress with a number of activities to manage and reduce certain risks.

The economy and Royal London's key markets

We have added our competitor risk as part of the principal risks and uncertainties for 2018, with competitive pressure observed in the markets in which Royal London operates.

Principal risk and uncertainty	Risk mitigation and management
The economic environment continues to be uncertain Like other insurance groups, our business is subject to inherent risks arising from general and sector-specific economic conditions in the markets in which we operate, particularly in the UK, where our earnings are predominantly generated. 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.	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 with our business strategy and/or risk preferences. Mitigation is also undertaken by hedging to off-set adverse risk.
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.	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.
Competitor risk Competitive pressure exists within our industry. We recognise that this is a risk that could have an adverse impact on our ability to compete successfully in our chosen markets. Our continued success depends on our ability to sustain growth, while managing economies of scale and continued strong financial discipline.	Our current corporate strategy has been successful to date and we feel that our ability to differentiate via value for money in our chosen markets remains our most appropriate mitigant to this risk. We are well placed to continue to offer value supported by our mutuality, customer centricity and service excellence. As a mutual with strong existing customer propositions we believe we have a unique ability to deliver a value-for-money strategy.

Changing political and regulatory environment

The uncertainties relating to the impact of the UK leaving the EU is the key development reflected in the political and regulatory environment's principal risks and uncertainties.

Principal risk and uncertainty	Risk mitigation and management
The arrangements for the UK's exit from the EU continue to create uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation The impact on financial markets is likely to be a marked rise in uncertainty resulting in a further impact on economic confidence, sterling, the UK credit rating, with consequences for interest rates, inflation, investment returns and the level of future flows into pension products. Uncertainty over the outcome of negotiations with the EU and the transition leads to a lack of clarity over future regulation and legislation for the insurance and investment markets.	The proposed UK's exit from the EU is not expected to have a materially detrimental impact on Royal London's strategy and business due to our focus on the UK. However, we recognise the potential impact on our business in Ireland and any potential implications with regard to Scotland's possible independence. We completed the Part VII transfers to a new Irish subsidiary in February 2019, with an effective date of 1 January 2019, to protect and enhance our existing market position in Ireland. Risks related to financial markets will be mitigated through our normal market risk monitoring and capital management activity. 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. We will continue to maintain a watching brief on developments relating to the UK's exit as they occur, particularly in relation to regulation and legislation, and will prepare appropriate responses.
Uncertainty over the Solvency II Internal Model Application Process (IMAP) We intend to use a Solvency II Internal Model, subject to approval of an Internal Model application to the PRA. 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.	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. Our ongoing engagement with the PRA aims to identify any design issues to be addressed in advance of the application and increases the likelihood of a successful outcome in the Internal Model being approved.
Changes in the legislative and regulatory landscape may alter the design and marketing of propositions 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 thematic, industry-wide reviews from the regulators may have a significant impact on the Group.	Meeting the expectations of customers, members and our regulators is at the forefront of everything we do. To that end, we engage actively with regulators on an ongoing basis. We continue to monitor the impact of developments and, where necessary, enhance our processes to meet any new requirements. Our conduct risk framework is in place, together with an associated proposition development and review process, designed with the aim of achieving fair outcomes and experiences for our customers. We continue to be represented on industry bodies, including Association of British Insurers (ABI) senior committees.
Changes to financial services markets may arise from the political environment 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 rules on workplace pensions, and a focus on the time value of money.	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. We monitor regularly developments and potential outcomes, such as further recommendations from the asset management market study and the pensions dashboard. We also undertake scenario testing of external factors that could detrimentally impact our business model, such as the potential changes to the regulations in relation to pension transfers that have been considered as part of our business model analysis. In addition, we undertake a role in lobbying on political and legislative issues in the best interest of our customers.

Maintaining our financial strength

In 2018, our financial risks remain stable, sustained with regular mitigation and monitoring activities.

Principal risk and uncertainty	Risk mitigation and management
An increase in our funding commitments for defined benefit pension schemes may impact on our financial position Our main risks in managing our defined benefit pension schemes arise from their exposure to inflation, interest rates and longevity, and from risks associated with the funds' investment strategies. Any adverse movements in these factors could increase future funding costs and could impact our financial position.	Overall, the schemes are reasonably well funded; this has remained stable and will continue to be monitored in the normal course of business, working with the Trustee Boards to assess opportunities to reduce volatility and risk. The Royal London Group Pension Scheme (RLGPS), the main Group defined benefit scheme, closed to future accrual from 31 March 2016, reducing the current funding commitment to that scheme.
We are exposed to the risk of failure or default of one or more of our counterparties As part of our business, we invest in debt securities and other assets in order to meet our obligations to policyholders. As a result of this activity, exposures can arise to issuers of debt and other financial instruments. Our day-to-day activities also mean we have exposures to banking, insurance and reinsurance counterparties as well as third-party providers of IT and administration services.	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.
If our assumptions are subsequently proven to be wrong, then adjustments may impact on our financial position Our business involves the underwriting of risks where the ultimate liability is dependent on long-term trends in factors such as mortality, lapse rates, interest rates and counterparty defaults. We take a prudent approach when calculating capital requirements. However, extreme movements can take place. Such events could arise from, for example, medical science advances and movements in financial markets or in the broader economic environment and customer behaviours. It would be necessary to review assumptions if this were to happen, potentially impacting our financial position.	We use our experience to assess and set prices for known risks, and to ensure that reserves are appropriate. The calculation of reserves is underpinned by stress and scenario testing which assesses the appropriateness of key assumptions to a combination of extreme events, including financial and economic conditions, investment performance and product-specific matters. Additionally, in the event that actual claims experience is less favourable than envisaged, our reinsurance arrangements may provide significant mitigation.

Core processes and organisational delivery

As our change programmes have progressed in 2018, we continue to maintain oversight and manage our change risk.

Principal risk and uncertainty	Risk mitigation and management
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. Two of our largest programmes will significantly enhance the IT infrastructure supporting the current and future propositions in our chosen markets. There is a risk that the continued growth plans and changes to our operational systems and processes, combined with the significant amount of external change in markets, regulation and legislation, result in possible future inefficient or ineffective organisational delivery, with consequential operational loss and/or reputational damage.	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. Our most significant strategic transformation and change programmes, covering our core pensions administration system and a new Wrap platform in Royal London Platform Services (RLPS) being implemented, have quality assurance processes built into our internal management and governance. These are also subject to independent oversight by our Group Internal Audit (GIA) and Group Risk & Compliance (GR&C) functions. Additionally, the risk of financial reporting errors arising during and after the actuarial enhancement programme is mitigated by thorough testing of the systems before, during and after implementation, and ongoing control monitoring through the control framework for financial reporting data.

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

Material outsourcers and supplier relationships

We continue to maintain our policy and framework for appropriate governance and oversight of our material outsourcer and supplier arrangements.

Principal risk and uncertainty	Risk mitigation and management
Outsourced services may not meet 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 customer obligations following the failure of, or a significant degradation in, service received from a material outsourcer or service provider, which could result in major disruption to our operations.	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 bringing 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

We have made progress to reduce the risk on legacy products in 2018 that will be maintained with dedicated legacy and remediation functions in place, to ensure these continue to be managed and monitored for our long-standing customers.

Principal risk and uncertainty	Risk mitigation and management
Legacy remediation We have a large number of legacy products in which policyholders are still invested. There is a risk of historic remediation being required within these books, as there are a large number of legacy systems and propositions involved, and these were often manual and/or complex processes, which can lead to historic issues being found.	Significant focus has been placed on managing this risk, including delivering activities related to our proposition reviews, long-standing customer thematic review programme and remediation programme. In 2018, we reviewed the majority of propositions within the legacy book with any remaining lower-risk propositions to be completed in 2019. All propositions will continue on a regular review schedule. We now have dedicated legacy and remediation functions in place to ensure our legacy products continue to be managed and monitored for our long-standing customers.

Longer-term viability statement

Assessment of prospects

The context for the assessment

We were founded more than 150 years ago and our business model is focused on achieving long-term value for our members. Our business model and strategy are integral in discerning the Group's prospects. Our risk appetite framework is fundamental to our continued viability, which is subject to the ongoing monitoring and development described below.

The principal risks and uncertainties that the Group is exposed to underpin this strategic planning process and are outlined in further detail on pages 41 to 44.

The Group's strategy, outlined previously, has been in place for several years and remains at the centre of everything we do. The Board continues to take a prudent approach to the development of the Group's strategy, which focuses on delivering good value for money to our customers, remaining competitive and growing our market share, while meeting the expectation of regulators and other stakeholders.

Decisions relating to major new projects and investments, for example, developing our IT infrastructure, are made with a prudent 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 and to lower our operating cost base, while at the same time responding to regulatory changes.

The assessment process

The Group's prospects are assessed primarily through its strategic and medium-term planning processes, which are led by the Group Chief Executive and involve all major functions and business units. The Board fully participates in this process and undertakes a robust review and challenge of the strategy and assumptions, in particular through the use of stress and scenario testing, as well as receiving regular updates from relevant functions and committees. There are a number of scenarios tested that are updated annually, with the current scenarios being summarised in the table on the following page.

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

While the directors have no reason to believe that the Group will not be viable over a longer period, the period over which the directors consider it possible to form a reasonable expectation as to the Group's longer-term viability is the five-year period up to December 2023.

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

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 chance of adverse impact from financial markets, counter-party failure or a significant medical science advance; and
- stress testing the business plan as part of the Group's Own Risk and Solvency Assessment (ORSA) process for adverse scenarios impacting profitability, liquidity and/or solvency, including:
  - margin compression from competitors;
  - vertical integration amongst competitors leading to 'lock out' from some of our markets;
  - adverse regulatory or legislation changes affecting the Group's products or distribution;
  - technological advances allowing more competitors to enter markets and adversely impacting product pricing; and
  - cyber-attack on the Group's systems and data.

Each scenario is designed to be severe but plausible, and take account of the availability and likely effectiveness of potential mitigating actions which management could take to avoid or reduce the impact. In considering the effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, discussed on pages 38 and 39, are taken into account.

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

Viability statement

Based on their robust assessment of the principal risks and uncertainties facing the Group, and the stress testing-based assessment of the Group's prospects described above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023.

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

Scenarios

Base scenario	› UK economic growth weakens ahead of Brexit, while global growth remains below its pre-crisis average. Inflationary pressures are well-managed. › An EU Free Trade Agreement is signed, which includes the gradual introduction of a new immigration system for EU migrants after the implementation period.
Adverse scenario	› Global economy worse than base scenario with the US in recession and weakened UK economic growth. › EU negotiations break down, including UK passporting rights ceasing, tariffs payable on imports and exports, unemployment rising and weak sterling. › Interest rates in advanced economies approach zero or are zero, or move into negative territory, as deflation risk rises. UK quantitative easing resumes and the Bank rate is cut to zero.
Favourable scenario	› Brexit impact is limited, with a UK-EU trade deal agreed quickly. › Sterling strengthens, which eases inflation and real wage pressure. › Stronger global economy, leading to more rapid recovery than base scenario. The cost of debt begins to rise, putting pressure on highly leveraged households, employment growth and improved real incomes help offset this.

Forward-looking statements

This strategic report contains forward-looking statements with respect to certain Royal London plans, our goals and expectations relating to our 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. Such future events and consequences 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 2018 Strategic report, from pages 2 to 46, was approved by the Board of Directors on 20 March 2019.

By order of the Board

Fergus Speight

Fergus Speight
Company Secretary
For and on behalf of
Royal London Management Services Limited
20 March 2019

HOW WE'RE RUN

The Board and management take our corporate governance responsibilities very seriously. Here we detail the work of our various Committees, and how that work benefits our members.

Our leadership

Kevin Parry OBE Chairman

Appointed: 19 March 2019.

Skills and experience: Kevin has deep financial services experience as an executive and non-executive director embracing life insurance, banking and asset management. He is Chairman of Intermediate Capital Group plc and audit committee chairman of Nationwide Building Society. He was formally the CFO of Schroders plc and a managing partner at KPMG.

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

External appointments: Intermediate Capital Group plc (Chairman), Nationwide Building Society (Director and Audit Committee Chairman), Daily Mail and General Trust plc (Director and Audit Committee), Royal National Children's SpringBoard Foundation (Trustee).

Phil Loney Group Chief Executive

Appointed: 1 October 2011.

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

Committee memberships: Disclosure Committee (Chair).

External appointments: Association of British Insurers (ABI) (Deputy Chair), Trustee of Tearfund.

Tim Harris Deputy Group Chief Executive & Group Finance Director

Appointed: 19 May 2014.

Skills and experience: Tim joined Royal London as the Group Finance Director and in January 2018 his role changed to Deputy Group Chief Executive & Group Finance Director. Prior to joining Royal London, Tim was Group Chief Finance Officer for Torus Insurance and held a number of senior executive positions at Aviva Plc, latterly as Deputy Group Chief Financial Officer, and served on the boards of Aviva Ireland and Aviva France. He was also a Partner in the Global Capital Markets practice at PricewaterhouseCoopers LLP (PwC). Tim is a Fellow of the Institute of Chartered Accountants (ICAEW) and a Chartered Insurance Practitioner, and serves on the Insurance Committee of the Financial Services faculty of the ICAEW.

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

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

Jon Macdonald Chief Risk Officer

Appointed: 14 December 2012.

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

Committee memberships: Disclosure, Independent Governance and Investment Committees.

Andrew Palmer Independent Non-Executive Director and Senior Independent Director

Appointed: 1 April 2011.

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

Committee memberships: Audit Committee (Chair), Board Risk and Nomination Committees. Appointed on an interim basis to the Remuneration Committee on 9 January 2019.

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

External appointments: Trustee and Honorary Treasurer, Cancer Research UK. Member of Financial Reporting Review Panel of the Financial Reporting Council. Chairman of The Royal School of Needlework.

Sally Bridgeland Independent Non-Executive Director

Appointed: 14 January 2015.

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

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

External appointments: : Independent trustee for Lloyds Banking Group Pension Trustee Limited, Nuclear Liabilities Fund Limited, The Royal Air Force Central Fund and NEST Corporation. Sally is a member of the Trust Investment Committee at innovation charity Nesta, and a Non-Executive Director of Impax Asset Management Group plc and Local Pensions Partnership Limited. Honorary Group Captain with 601 (County of London) Squadron RAuxAF.

Ian Dilks Independent Non-Executive Director

Appointed: 14 November 2014.

Skills and experience: Ian spent his entire career at PricewaterhouseCoopers LLP, joining the firm (which was then Coopers & Lybrand) in 1974, becoming a Partner in 1986. He rose to become a member of the Global Financial Services leadership team and global insurance leader. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network. Former Expert Adviser, House of Commons Treasury Committee.

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

External appointments: Chair NHS Resolution (formerly NHS Litigation Authority).

Tracey Graham Independent Non-Executive Director

Appointed: 10 March 2013.

Skills and experience: Tracey was Chief Executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that, she was President of Sequoia Voting Systems and Customer Services Director at AXA, and held a number of senior positions at HSBC.

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

Subsidiary appointment: Investment Funds Direct Limited (Chair).

External appointments: Non-executive director of Link Scheme Ltd and Chair of the Link Consumer Council. Senior independent director of Ibstock plc and non-executive director of DiscoverIE plc.

David Weymouth Independent Non-Executive Director

Appointed: 1 July 2012.

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

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

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

Fergus Speight General Counsel and Company Secretary

Appointed: 13 April 2011.

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

Directors' report for the year ended 31 December 2018

The directors present their report for the year ended 31 December 2018 for The Royal London Mutual Insurance Society Limited (Registered Number 99064). The Directors' report should be read together with the Strategic report and the Corporate Governance statement, which are referenced in this Directors' report.

The Corporate Governance statement on pages 52 to 56 sets out the Company's governance framework and reports on compliance with the UK Corporate Governance Code 2016: An Annotated Version for Mutual Insurers (the 'Code') published in September 2016, and includes information about any principal risks and uncertainties associated with the business. The Code is published by the Association of Financial Mutuals with the permission of the Financial Reporting Council, and is a revised version of the UK Corporate Governance Code published in April 2016. Following the publication of the revised UK Corporate Governance Code in June 2018, we are reviewing any changes that we may want to make to enhance our Corporate Governance framework. The review will also have regard to the Association of Financial Mutuals Corporate Governance Code, published in January 2019. During this period of change, the Board remains focused on the principles of good governance: accountability, transparency, probity and a focus on the sustainable success of an entity over the longer term. The Board's practices are appropriate and offer the necessary levels of protection for our members, in line with the directors' statutory duties under S.172 of the Companies Act 2006.

Principal activities

The Group comprises The Royal London Mutual Insurance Society Limited and its subsidiaries. The Group is structured into a number of divisions as set out in the Strategic report. The principal activity of the Group is the transaction of long-term insurance business covering life and pensions. A list of the Group's subsidiaries is set out in note 22.

Going concern accounting basis

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

Dividend

The Company is limited by guarantee without share capital and therefore no dividend is payable.

Annual General Meeting

The AGM of the Company will be held at 11am on Wednesday, 5 June 2019 at the St Pancras Renaissance Hotel, Euston Road, London NW1 2AR. The Notice convening the meeting, together with guidance on the AGM, is sent to all members.

Directors

In accordance with the Code, all continuing directors retire and offer themselves for reappointment each year. The details of the executive directors' service contracts are set out in the Directors' remuneration report on pages 76 to 85. None of the directors has, or had, an interest in the equity shares of any Group undertaking.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Company and Group financial statements in accordance with IFRS, as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a fair, balanced and understandable view of the state of affairs of the Company and the Group, and of the profit or loss and cashflow of the Group for that period. In preparing those financial statements, the directors are required to:

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

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

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

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

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

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, cashflows and profit of the Group;

- the Strategic Report on pages 1 to 46 includes a fair review of the development;
- a description of the principal risks and uncertainties that the Group faces, together with details of the Group's risk governance structure are provided on pages 40 to 44; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members to assess the Group's position, performance, business model, prospects and strategy.

Directors' indemnities

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

Directors and their interests

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

Persons with significant control

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

Financial instruments

The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments, and information on the risk exposures arising from those instruments, are set out in note 21 to the financial statements.

Political donations

No political donations were made in 2018 or 2017.

Significant agreements

The Company has contractual and other arrangements with numerous third parties in support of its business activities. However, there are no arrangements in place which are deemed by the directors to be essential to our business.

Auditors

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

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

During 2016, the European Union (EU) Audit Directive and Regulation came into effect, and as a result the Group must rotate auditors by no later than 2023 (effective for the year ending 31 December 2024). Further details on this year's review can be found in the report of the Audit Committee on pages 57 to 60.

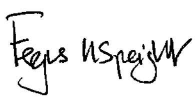
Strategic report

Additional information which is incorporated by reference into this Directors' report, including information required in accordance with the Companies Act 2006, can be found as follows:

Non-financial information statement and other information	Location in the Strategic Report
Risk management and internal control, including anti-corruption and anti-bribery matters	The Group's risk governance structures, pages 38 and 39
Principal risks and uncertainties	Principal risks and uncertainties, pages 41 to 44
Longer-term viability statement	Longer-term viability statement, pages 45 and 46
Business model, future developments of the Group and performance	Our Business model on page 2, Group Chief Executive's statement on pages 12 to 15, Group Finance Director's statement on pages 27 to 37
Employees and employment policies	Empowering our people on pages 20 and 21
Financial risk management, objectives and policies	Group Finance Director's statement on pages 27 to 37
Sustainability and environmental matters	Pages 1 to 46
Stakeholder engagement, including social matters and respect for human rights	Supporting Society on pages 22 and 23
Description of non-financial KPIs	Structure and Products on pages 1 and 4, Our Strategy on page 9 and Our Stakeholders on page 18

The Board considers this Annual Report taken as a whole to be fair, balanced and understandable. It provides the necessary information for members and investors to assess the Group's position, performance, business model and strategy.

By order of the Board of The Royal London Mutual Insurance Society Limited (Registered Number 99064).



Fergus Speight
General Counsel and Company Secretary
For and on behalf of Royal London Management Services Limited
20 March 2019.

Corporate governance statement

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

In this report, the term 'period under review' means the period from 1 January 2018 to the date of this report.

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

As previously referenced on pages 50 and 51, the Board believes that its practices are consistent with each of the principles of the Code, and offer the right degree of protection for our members.

Members

As a mutual, the Group has no shareholders and is owned by its members. This means that the focus of the Group is to provide long-term benefit to those members. The Board uses the AGM to communicate with members and to encourage their participation. Details of the 2018 AGM can be found on page 198. In addition, we send quarterly newsletters and have a dedicated members' area on our website to encourage further participation and seek members' views on matters that are important to them. We use this information to tailor our member communications. Further information on our interaction and focus on members is outlined within the Strategic Report, Members and customers section on page 18.

Leadership

The Board

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

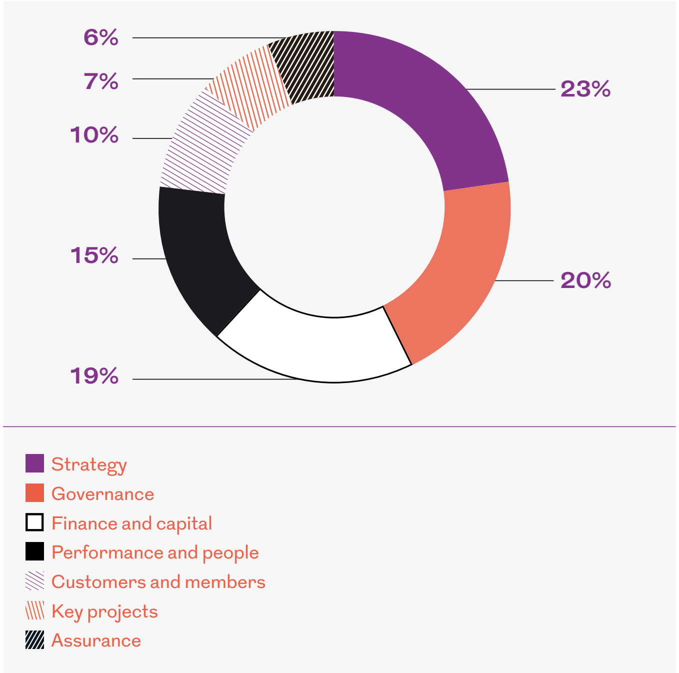
Role

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

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

Board activity and areas of focus

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



The Board has certain matters reserved for its consideration and delegates certain matters to the Group Chief Executive. There is a clear allocation of responsibilities among executive directors and senior managers, in order that the business of the Group can be effectively managed and reported. We provide a summary of these responsibilities on our website: royallondon.com/about-us/corporate-information/corporate-governance/articles-and-terms-of-reference

As part of an ongoing initiative to promote better engagement with employees, the Board and certain committees met on 16 and 17 April 2018 in Edinburgh, where over 1,300 employees are based, and on 17 and 18 September 2018 in Wilmslow, where over 1,400 employees are based. Board dinners are arranged to coincide with these meetings to give employees an opportunity to meet the directors informally. The Board also held five strategy sessions throughout the year, including 'deep-dives' into particular areas of the business.

Main activities of the Board during 2018

The Board	
Finance and capital	• Received regular updates on the financial position of the Group • Reviewed and approved the half year results, and annual report and accounts, including the financial statements and related documents • Reviewed and approved the Medium Term Plan (MTP) and Own Risk and Solvency Assessment (ORSA) • Received regular reports from the Chief Actuary on the capital position of the with-profits funds • Reviewed and approved the Capital Management Plan and Framework and the Capital Risk Limits • Reviewed and approved the PRA Capital Add-on to the Standard Formula Capital and the assessment of the appropriateness of the Standard Formula • Reviewed and approved the level of bonus each fund should make • Reviewed and approved the going concern statement • Reviewed and approved PRA correspondence/letters • Reviewed and approved the Annual Solvency II reporting, including the Solvency and Financial Condition Report (SFCR), Regular Supervisory Report (RSR) and some of the Quantitative Reporting Templates (QRTs) during the year, with the remainder being reviewed by the Disclosure Committee
Assurance	• Received regular updates on the key risks facing the business • Reviewed and approved reports, policies and validations on Solvency II and the Internal Model Application • Received quarterly updates on Conduct Risk matters • Considered reports on cyber crime and IT security, including the results of a cyber attack exercise • Undertook an annual review and approved changes to the Risk Appetite Framework • Reviewed and approved the Group Recovery and Resolution Plans
Customers and members	• Received regular updates on the management of the with-profits funds • Received updates on Group Brand • Received updates on and approved changes to the Customer Value Scorecard • Received updates on Customer Value Statements
Strategy	• Held a dedicated strategy meeting in October to consider the overall strategy of the group which included deep-dive sessions to review and approve the strategies of RLAM, Royal London Legacy and Strategic Operational Efficiencies • Received reports on the Royal London Legacy Business strategy • Received reports on Royal London Ireland strategy review • Received reports on Royal London's IT strategy and change capabilities • Received regular updates on Royal London's Strategic Scorecard performance • Received regular updates on Royal London's Estate Strategy
Performance	• Received regular updates and detailed quarterly reports on the performance of the individual business areas • Received a report from the Chief Risk Officer (CRO) at each meeting on the key risks in the business • Set the annual Scorecard and Strategic Scorecard Metrics
Key projects	• Received regular updates and reviewed and approved funding requests for Royal London's #thinkbeyond project • Approved an offer to certain Guaranteed Annuity Rate customers that was taken up by the vast majority and implemented in December • Oversaw Royal London's contingency plans for the UK's exit from the European Union • Reviewed and approved an agreement relating to the new Wilmslow premises, and received updates on the Edinburgh refurbishment
Governance	• Considered the re-election of directors at Royal London's AGM • An annual review of the non-executive directors' fees is undertaken by the Executive Directors of the Board • Oversaw the implementation of actions identified as part of the 2017 internal Board Effectiveness Review • Reviewed and assessed the impact of the new Corporate Governance Code • The Annual Board evaluation
People	• Received regular updates on the results of the Employee Engagement survey and monitored the implementation of actions identified to address areas identified for improvement • Reviewed the Whistleblowing Report • Received updates on the People Strategy

Separation of responsibilities

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

No one individual has unfettered powers of decision making. All directors should have access to the advice and services of the Company Secretary, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the Company Secretary should be a matter for the whole Board.

Composition, balance and length of tenure

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

Board composition	Total	Male	Female
Chairman	1	1	-
Executive	3	3	-
Non-executive	5	3	2

The Board is aware that its gender diversity is lower than last year following Olivia Dickson stepping down on 31 December 2018. This will be addressed in 2019.

Length of tenure (years)	1 – 3	3 – 5	>5
Chairman	1	-	-
Executive	-	1	2
Non-executive	-	2	3

Membership of the Board's committees is set out in this statement. Andrew Palmer's appointment as Senior Independent Director was approved on 14 May 2018. The Board considers that Andrew continues to be independent following his appointment as Senior Independent Director. He has been a director on the Board for over seven years, and chairs Royal London Asset Management Limited, he continues to demonstrate independence of thought and judgement, and acts with an independent character.

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

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

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

Board and committee effectiveness

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

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

Induction and development

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

The induction and development plans continue to be evolved and further enhancements will continue to be introduced throughout 2019.

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

- an introduction to the Group, its business areas and functions;
- market information and details of the Group's products;
- business strategy and model, how Royal London operates with Independent Financial Advisers (IFAs), and customers;
- risk management and internal controls, and financial management and reporting;
- governance oversight and controls;
- remuneration policy;
- regulatory framework and requirements; and
- mutuality (including ProfitShare accounts).

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

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

- Solvency II Internal Model, and in particular key expert judgements, and the Internal Model Application Process;
- Group strategy;
- industry, markets and products;
- key projects;
- social impact; and
- UK Corporate Governance Code.

Succession and diversity

The Board is committed to ensuring a diverse pool of candidates is considered for any vacancies that may arise and that they are filled by the most qualified candidates based on merit, having regard to the benefits of diversity. More information on the Group's approach to diversity can be found within Responsible Investing, within the Group Chief Executive's statement on pages 11 to 15 and in the Nomination Committee report on pages 61 and 62. The Board also publishes its Board Diversity Policy on our website: royallondon.com/careers/inclusion-and-diversity

Role as an institutional investor

The Group, through RLAM, firmly believes in the use of best practices by the companies in which it invests and its approach is set out in both the Group Chief Executive and Group Finance Director's statements on pages 12 to 15 and 27 to 37.

Attendance of Board and Board Committee meetings

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

Total number of scheduled meetings in 2018	Total
Board	10
Audit Committee	9
Board Risk Committee	12
Investment Committee	6
Nomination Committee	13[1]
Remuneration Committee	10
With-Profits Committee	6
Independent Governance Committee	5
Disclosure Committee	7

1 Six of which were with independent non-executive directors only.

A number of ad hoc meetings are held to deal with matters arising between scheduled meetings, typically relating to projects, Solvency II or other regulatory matters.

Our stakeholders

We are conscious of the societal impact of Royal London and we regularly engage with our key stakeholders, which is outlined in further detail on pages 18 to 25.

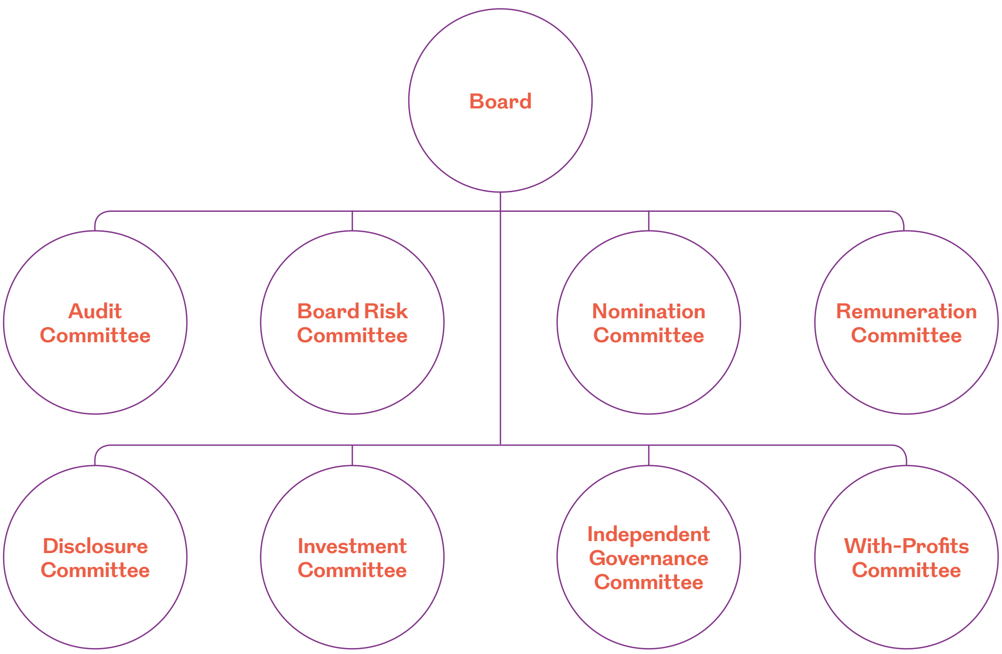
Attendance

Member	Board	Audit Committee	Board Risk Committee	Investment Committee	Nomination Committee	Remuneration Committee	With-Profits Committee	Independent Governance Committee	Disclosure Committee
Sally Bridgeland	10	–	–	–	13	10	6	–	–
Olivia Dickson	9	–	–	6	12	10	–	–	–
Ian Dilks	10	9	–	6	13	–	–	–	–
Tracey Graham	10	–	12	–	13	10	–	–	–
Tim Harris	9	–	–	6	–	–	5	–	7
Phil Loney	10	–	–	–	–	–	–	–	7
Jon Macdonald	10	–	–	4	–	–	–	3	5
Andrew Palmer	10	9	12	–	13	–	–	–	–
Rupert Pennant-Rea	10	–	–	–	7	–	–	–	–
David Weymouth	10	9	12	–	13	–	–	–	–

1 The table shows attendance for those Committees where the individual is a member.
2 Non-executive directors may also attend Committees where they are not a member.
3 Non-executive directors attend meetings of the Board Risk Committee.

Board Committees
The Board has established a number of committees as set out in the organisational chart below. There is also a Board Recovery Plan Committee that is a formal committee of the Board, which will only meet if required to recover capital and liquidity stability in stressed scenarios, in order to protect policyholders.

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



Report of the Audit Committee

Andrew Palmer
Chair of the Audit Committee

As Chair of the Audit Committee (the Committee) I am pleased to present the Committee's report for the year-ended 31 December 2018.

Committee membership

The membership of the Committee, as set out in the table below, is comprised solely of independent non-executive directors. The Chairman, Kevin Parry, attends meetings of the Committee, but is not a member of the Committee. The qualifications and experience of each member of the Committee are included in their biographies on pages 48 and 49.

Member	Position	Date of Committee appointment
Andrew Palmer	Non-executive	2011
Ian Dilks	Non-executive	2014
David Weymouth	Non-executive	2012

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

The Audit Committee held nine meetings during 2018, with one of the meetings (November 2018) being a joint Board Risk Committee and Audit Committee. This was held to review and approve the 2018 combined assurance plan of the Group Internal Audit and Group Risk and Compliance functions. The joint meeting ensures that the two Committees continue to operate effectively together on areas of adjacent responsibility and where either of the Committees is required to collaborate on, or assume responsibility for, a review conducted by the other. Attendance at the meetings of the Committee during 2018 is outlined in the Corporate governance statement on pages 52 to 56.

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

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

Key responsibilities, purpose and role

The Committee's main responsibilities include:

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

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

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

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

Areas of focus during the year

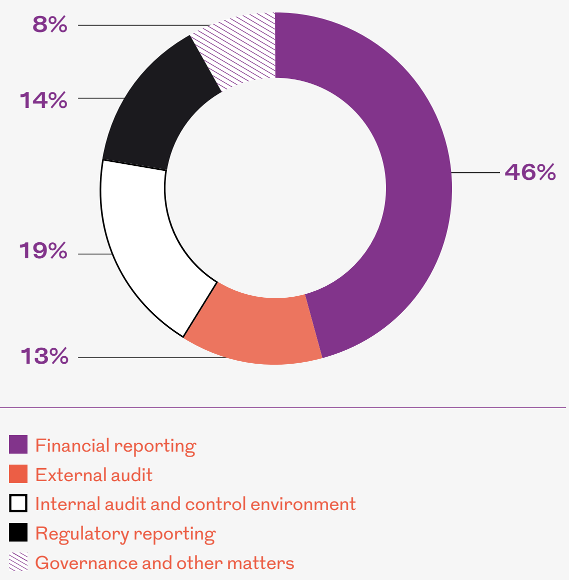
The Committee has a number of standing agenda items that it considers each year affecting the Group's financial statements and policies, financial risks, internal control matters, regulatory reporting and external audit. In addition, each year the Committee focuses on a number of operational matters. Some of the items the Committee spent time on during 2018 were:

- review, and recommendation for approval to the Board, of the Group's financial statements, results announcements and annual Solvency II regulatory reporting;
- review and approval, of accounting policies and judgements in the Group's financial and regulatory reporting;

- assessment of the going concern assumption and the Longer-term viability statement;
- updates from Group Finance and the Group's Valuation Oversight Committee on governance and monitoring of investment risk and, in particular, difficult-to-value investments and valuation uncertainty;
- updates from management on the effectiveness of the Group's control environment, including progress on embedding the Financial Reporting and Data Controls Framework (FRDCF) across the Group;
- findings from Group Internal Audit reports and how high-priority findings are being followed up by management;
- updates to the Group Internal Audit charter and annual plan;
- updates on work completed by the external auditor;
- monitoring external auditor independence and objectivity, including review of non-audit services, auditor effectiveness and audit tender and reappointment;
- annual review of the Audit Committee's terms of reference;
- annual review of the Group Reporting and Disclosure policy;
- assessment of the Solvency II Group Reporting Methodology; and
- accounting for transactions including Project Talisker (our scheme of arrangement process to help some of our legacy Scottish Life Fund policyholders outlined on page 13) and Project Pelican (the set-up of our registered Irish insurance subsidiary, RLI DAC, outlined on page 34).

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2018.



Significant matters considered by the Audit Committee

The table below highlights some significant matters considered by the Committee during the year ended 31 December 2018 and the actions taken.

Significant matters considered by the Committee	How the matter was addressed by the Committee
Key accounting issues and judgements	The Committee considered and challenged significant accounting and actuarial judgements and estimates that the Committee members believe could be material to the Group financial statements and Solvency II reporting. It also reviewed and recommended to the Board the proposed approach for key accounting and actuarial judgements and assumptions. Judgements considered relating to 2018 reporting included reserving for insurance contracts, pension scheme valuations in accordance with IAS 19, impairment of goodwill and intangible assets, provisions, valuation of subsidiaries, valuation of complex investments, capitalisation of an intangible asset relating to IT programmes. Solvency II judgements focused on the valuation of own funds and the requirement for Group reporting methodology.
Long-term business liability valuations – methodology and assumption recommendations	The Committee considered the actuarial assumptions for the year ended 31 December 2018 for Solvency II reporting, including mortality, persistency and expense assumptions. The Committee also reviewed and challenged the Group's long-term business liability valuations as at 31 December 2017 and accepted the Valuation Report of the Actuarial Function Holder, for the year ended 31 December 2017, including the impact of changes to reserving assumptions and methodology. The main assumption changes for year-end 2017 were longevity, persistency assumptions on pension business and unit cost assumptions; the most material being longevity assumption improvements, following internal experience analysis and obtaining external opinions. The proposed assumption changes (including longevity) were challenged and debated by the Committee, who concluded that based on the evidence provided it was appropriate to use the assumptions (including the CMI 2016 longevity model) in the 2017 long-term business liability valuations. The Committee also noted the controls driving the setting of future per policy unit cost assumptions, for the purposes of calculating 2018 year end long-term actuarial provisions and the governance arrangements in place, along with the impact of Project Talisker and Project Pelican.

Significant matters considered by the Committee	How the matter was addressed by the Committee
Financial reporting	During 2018, the Committee reviewed and recommended to the Board for approval the results announcement of the Group's 2017 financial results, the 2017 Annual Report and Accounts and the 2018 interim results announcement. This included assessing the appropriateness of the going concern assumption and the Longer-term viability statement. The Committee ensured the financial statements were fair, balanced and understandable before recommending them to the Board for approval. The Committee also reviewed the draft 2018 Annual Report and Accounts, which included the process by which the Longer-term viability statement is made and the Group accounting policies. Particular focus had been placed on understanding the governance and control processes in place which ensure the integrity of the financial information provided by the Finance function.
Annual Solvency II regulatory reporting	The Committee reviewed the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR) summary of changes report for the year ended 31 December 2017, and recommended them to the Board for approval. The Committee also reviewed management proposals for the SFCR and RSR summary of changes report for the year ended 31 December 2018. The Committee considered and approved management proposals for the revised capital add-on agreed with the PRA.
Internal control and external audit	The Committee considered regular reports from the external auditor and Group Internal Audit (GIA) on the effectiveness of the Group's control environment, including that provided by the outsourced service provider Capita. The Committee also considered updates on the embedding of FRDCF across the Group, including assessment of outstanding control deficiencies and progress of projects such as the rationalisation of key controls and spreadsheet usage. Additionally, the Committee reviewed external audit and GIA plans, and approved the revised GIA strategy. An effectiveness review of GIA was conducted during 2017 by an external party, which reported favourably on its ongoing performance. Progress against the 2017 recommendations made was monitored during 2018. Regular reports from the external auditor were reviewed by the Committee throughout 2018, which included monitoring audit firm independence and the level of non-audit fees, and reviewing the findings raised during audits and management's responses to those findings. The Committee also considered the annual assessment of timing of the external audit tender.
Other matters	During 2018, the Committee reviewed and approved updates to the Group Reporting and Disclosure Policy, and updated its terms of reference which was subsequently submitted to and approved by the Board. The Committee also reviewed reports on accounting and regulatory developments, including the Group's ongoing considerations in respect of IFRS 17, corporate governance updates focused on financial reporting; and the impact of the revised UK Corporate Governance Code.

External audit

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

Auditor independence and non-audit services policy

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

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

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

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

Audit and non-audit fees and services

In 2018, the Group paid PwC £5m (2017: £4.6m) for audit, audit-related and other assurance services, including £0.5m (2017: £0.9m) of Solvency II audit fees. In addition, PwC was paid £0.7m (2017: £0.3m) for other non-audit services, resulting in total fees to PwC of £5.7m (2017: £4.9m). The ratio of non-audit fees to audit and audit-related assurance fees is 16% (2017: 9%). Further details are provided in note 9 of the financial statements.

The external auditor is not engaged to carry out any non-audit work in respect of which it might, in the future, be required to express an audit opinion on.

Effectiveness of the external auditor

To assess the effectiveness of the external auditor, the Committee conducts an annual review of the external auditor through completion of a questionnaire by senior management across the Group and members of the Group's finance community. The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by Group Internal Audit. The results of the questionnaire were evaluated by the Committee, which concluded that PwC continued to perform a high-quality audit, and provided an effective and independent challenge to management.

Audit Quality Review Team Report (AQRT)

In addition, during the year, the Financial Reporting Council's (FRC) AQRT reviewed PwC's audit of the Group's 2017 financial statements as part of their annual inspection of audit firms. The Committee received and reviewed the final report from the FRC which indicated that there were no significant areas of concern. The Committee, using its own judgement and taking into account management views and its own interactions with PwC, was satisfied with the external audit process and that the independence of the external auditor was in no way compromised.

External audit tender

The external audit was last put out to competitive tender in 2000, when the present auditor PwC was appointed. The Committee considers the need to re-tender the external audit on an annual basis and considered it in June 2018, concluding that there was nothing in the performance of the auditor which required such a tender and it was not appropriate to tender the external audit contract for the 2019 year end. Subject to the continued effective performance of PwC, the Committee will review the position again in 2019 in relation to the 2020 year end.

The Committee acknowledges the provisions contained in the Code in respect of audit tendering, along with European and UK legislation on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end (effective for the year ending 31 December 2024), and thereafter the external audit contract will be put out to tender at least every 10 years.

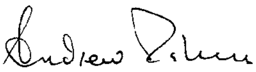
Audit Committee effectiveness

An exercise to review the effectiveness of all Board committees, including the Audit Committee, is conducted annually by the Board, and led by the Chairman. This is in order to ensure each committee has fulfilled its duties under its terms of reference during the year and fully discharged its role and responsibilities.

The Board's 2018 committee effectiveness review is outlined in the Corporate governance statement on page 54. The Board confirmed its satisfaction with the performance of the Audit Committee.

Andrew Palmer
Chair of the Audit Committee
20 March 2019

Report of the Nomination Committee



Andrew Palmer
Nomination Committee

As Senior Independent Director and a member of the Nomination Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2018.

Committee membership

The membership of the Committee in 2018, as set out below, is comprised solely of independent non-executive directors.

Member	Position	Date of Committee appointment
Kevin Parry[1]	Non-executive	2019
Rupert Pennant-Rea[2]	Non-executive	2012
Sally Bridgeland	Non-executive	2015
Olivia Dickson[3]	Non-executive	2017
Ian Dilks	Non-executive	2014
Tracey Graham	Non-executive	2012
Andrew Palmer	Non-executive	2011
David Weymouth	Non-executive	2012

1 Kevin Parry was appointed as Chairman of the Nomination Committee with effect from 1 January 2019.
2 Rupert Pennant-Rea resigned as Chairman of RLMIS and the Nomination Committee with effect from 31 December 2018.
3 Olivia Dickson resigned as a director of RLMIS and member of the Nomination Committee with effect from 31 December 2018.

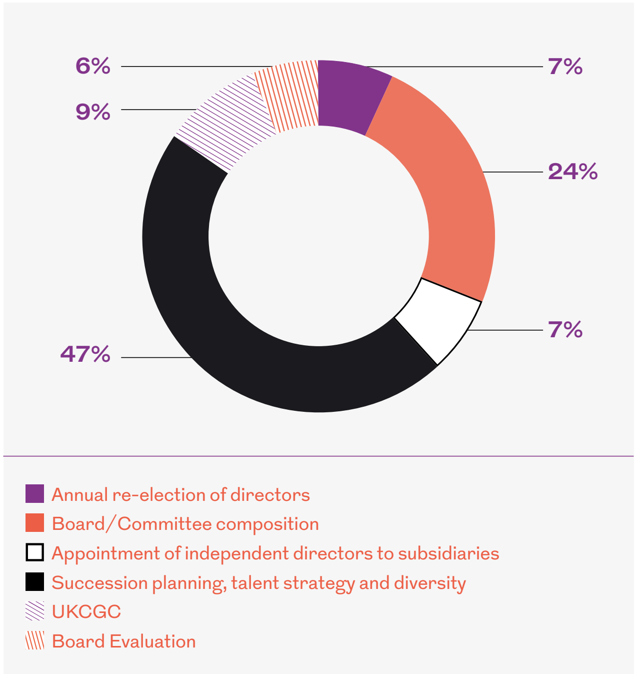
Key responsibilities, purpose and role

The responsibilities of the Nomination Committee include:

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

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2018.



Significant matters considered by the Nomination Committee

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

Significant matters considered by the Committee	How the matter was addressed by the Committee
Annual reappointment of directors	The Committee considered the reappointment of the Group's directors. When reviewing the composition of the Board, the Committee considered the balance of skills, knowledge, expertise and diversity. It also looked at the independence and performance of the directors, and considered the Board's future needs. The Committee judged that the non-executive directors (NEDs) continued to perform well and remained independent, and were free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. All directors have been recommended for re-election at the 2019 AGM.
Board and Committee Composition	As part of the annual Board evaluation, the Committee considered the composition of the Board and its Committees to ensure that the Board and its Committees remain effective. The Committee also developed skills, tenure and diversity matrices for the Board to support its consideration of the composition of the Board and its Committees and to ensure that the directors possess the desired skills and experience to perform their duties effectively.
Appointment of independent directors to regulated subsidiaries	To meet the requirements of the Asset Management Market Study, two of Royal London's regulated subsidiaries will need to appoint independent Non-Executive Directors to their Boards. The Committee has overseen the approach to the recruitment and will make the final recommendations to the Boards for approval.
Board and Executive leadership and succession planning	There were a number of announced changes to the Board during 2018: › In November 2018, Jon Macdonald announced his decision to retire as Group Risk Director and from financial services in April 2019. When looking for a successor, the Nomination Committee undertook a rigorous search process, led by an external recruitment specialist, considering internal and external candidates. Given our Talent Strategy, the Board decided to appoint an internal candidate, James McCourt, to take on the CRO duties in his role as Group Risk Director (subject to regulatory approval). The CRO role will no longer be a Board-level position, but he will be in attendance at Board meetings. › As announced in December 2018, it is expected that our Group Chief Executive Officer, Phil Loney, will be stepping down by the end of 2019 after more than seven years' service. Since joining Royal London in 2011, Phil has overseen 154% growth in assets under management, from £46bn to £114bn for year end 2018, transforming the scale of Royal London Group. Phil wants to concentrate on his longstanding charitable interests in the international development sector and in supporting people with learning difficulties. The Nomination Committee will lead a rigorous search for his successor in 2019. › In December 2018, Rupert Pennant-Rea announced his departure as Chairman of the Board after over five years of service to Royal London. During the course of 2018, the independent non-executive directors met frequently in the absence of the Chairman and the Committee played a vital role in overseeing plans for the succession of this key role, ensuring a robust and extensive search process. The Board selected Kevin Parry OBE as the Group's Chairman who joined on 1 January 2019 and was appointed on 19 March 2019. As part of the Group's Talent Strategy, the Committee considered a number of other leadership and succession matters throughout 2018, including: › the appointment of Tim Harris as Deputy Group Chief Executive and Group Finance Director; › the respective appointments of Peter Dorward as Chair and Paul Gallagher as employee member of the Independent Governance Committee; and › the composition of the Board of the Group's new Irish subsidiary board and its committees. Royal London values and promotes inclusion, recognising that difference is a strength. In 2018 the Committee was tasked with considering and approving the Board Diversity Policy, ensuring that the Board is a diverse and inclusive team which provides a range of perspectives, insights and the challenge needed to support good decision-making.
UK Corporate Governance Code (UKCGC)	Although, as a mutual, Royal London is not required to comply with the UKCGC, the Group is committed to being transparent with its members. In 2018, the Committee was tasked with considering the gap analysis performed on Royal London's compliance with the new UKCGC and agreeing actions to be taken to enhance Royal London's governance arrangements.
Board Evaluation	The Board evaluates its performance each year, conducting external evaluations every three years. In 2018, the Committee agreed the 2018 internal evaluation of the Board and Board Committees' Effectiveness. In 2019, the Committee will review the outcomes of the 2018 effectiveness review, agree any actions and monitor these going forward.

Andrew Palmer
Senior Independent Director
20 March 2019

Report of the Board Risk Committee

David Weymouth
Chair of the Board Risk Committee

As Chair of the Board Risk Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2018.

Committee membership

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

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

Member	Position	Date of Committee appointment
David Weymouth	Non-executive	2012
Tracey Graham	Non-executive	2017
Andrew Palmer	Non-executive	2011

Key responsibilities, purpose and role

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

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

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

One joint Board Risk and Audit Committee meeting was held in 2018. This was to jointly review and approve the 2019 combined assurance plan of the Group Internal Audit and Risk and Compliance functions.

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

The Committee also spent a considerable proportion of its time on the Solvency II programme, in particular reviewing and challenging the components of its proposed Internal Model. As well as receiving regular updates from the Chief Risk Officer on the Internal Model approval process, the Committee held special meetings in 2018 to review, scrutinise and challenge the key expert judgements made and limitations of the Internal Model

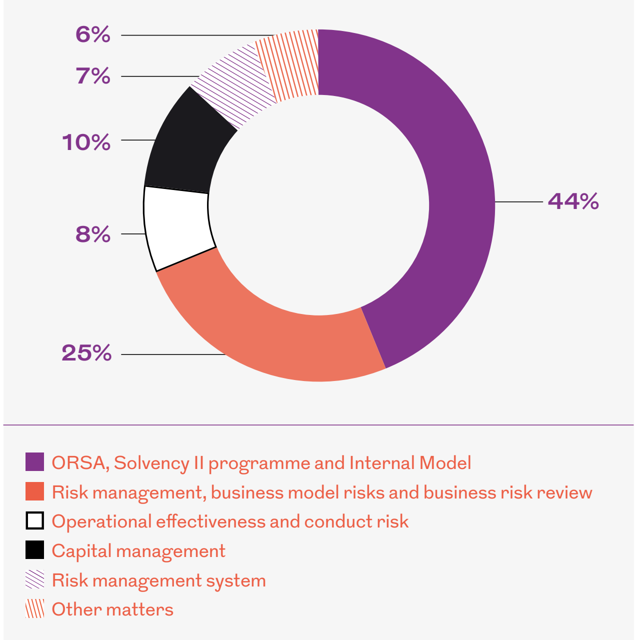
Significant matters considered by the Board Risk Committee

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

Significant matters considered by the Committee	How the matter was addressed by the Committee
Solvency II programme and Internal Model	In 2018, the Group submitted its pre-application to the Prudential Regulation Authority to implement an 'Internal Model' to calculate its Solvency Capital Requirement under Solvency II. The Committee reviewed and challenged the components of the pre-application, after receiving the views of the Internal Model Validation team and received regular reporting on its progress. The Board as a whole has approved a framework for embedding the Internal Model in the Group, which includes use of the Internal Model in key decision-making and in risk management. The Committee was also responsible for ensuring that the Board had sufficient understanding of the Internal Model. Throughout 2018, all Board members received training sessions and knowledge materials on the Internal Model. Board members who were not Committee members were also invited to attend all Committee meetings during 2018 to oversee the governance of the Internal Model pre-application.
ORSA	The Committee was responsible for advising and making recommendations to the Board on the Group's ORSA, the recommendations in the ORSA and the ORSA process.
Risk reviews	During 2018, the Committee conducted several deep dive reviews into the risk management of the Technology and Change function, Royal London Platform Services, Group Operations and the Group's use of derivatives.
Capital management	The Committee reviewed the Group's capital management plan, which set out actions to be progressed over the short, medium and longer term to improve and protect the Group's capital position.
Significant projects	The Committee was responsible for risk oversight in respect of a number of material transactions and projects undertaken by the Group in 2018.
Group policies and Committee terms of reference	During 2018, the Committee reviewed and approved updates to a number of policies within the Group Policy Framework (including the Group's Data Policy and Risk Management Policy), and proposed updates to its terms of reference (which were subsequently submitted to and approved by the Board).

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2018.



David Weymouth
Chair of the Board Risk Committee
20 March 2019

Report of the Investment Committee

Ian Dilks
Chair of the Investment Committee

As Chair of the Investment Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2018.

Committee membership

The membership of the Committee, as set out in the table below, is comprised of both executive and non-executive directors and independent members. The Group's Investment Office Director, RLAM's CEO and RLAM's Chief Investment Officer, and the Investment Office Director attend meetings of the Committee, but are not members of the Committee.

Member	Position	Date of Committee appointment
Ian Dilks	Non-executive	2014
Olivia Dickson[1]	Non-executive	2017
Tim Harris	Executive	2014
Jon Macdonald	Executive	2013
Julius Pursaill	Independent	2014

1 Olivia Dickson resigned as a director of Royal London Group and member of the Investment Committee with effect from 31 December 2018.

Key responsibilities, purpose and role

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

Philosophy, strategy and investment

- reviewing the investment principles which are approved by the Board as appropriate (the 'Investment Philosophy');
- reviewing the executive's assessment of investment strategies deployed using the Group's investment assets against Investment Philosophy, risk appetite and customers' needs, and approving changes where these are aligned to the Investment Philosophy, risk appetite and customers' needs;
- reviewing proposals from the executive for recommendation to the Board on the suitability of new investment classes (or sub-classes) for the Group's investment assets by considering them in the context of the Investment Philosophy, investment strategy and against the investment risk framework and risk appetite, approving changes where these are aligned to the investment risk framework and risk appetite; and
- reviewing and approving matters (such as property transactions) above executives' delegated authorities and within current Committee parameters.

Investment risk framework

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

Oversight and governance

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

The Group's Investment Office, which is part of the Group's Finance function, provides the Committee with significant support to help it discharge its responsibilities. The Investment Office makes recommendations regarding the investment risk framework, Investment Philosophy and strategy, oversees strategic asset allocation reviews linked to agreed risk appetites and investment constraints, monitors how agreed strategy has been implemented, reviews new fund launches and asset classes, and oversees the investment performance and operational effectiveness of asset managers. It produces quarterly reports and information for the Committee to enable it to fulfil its duties.

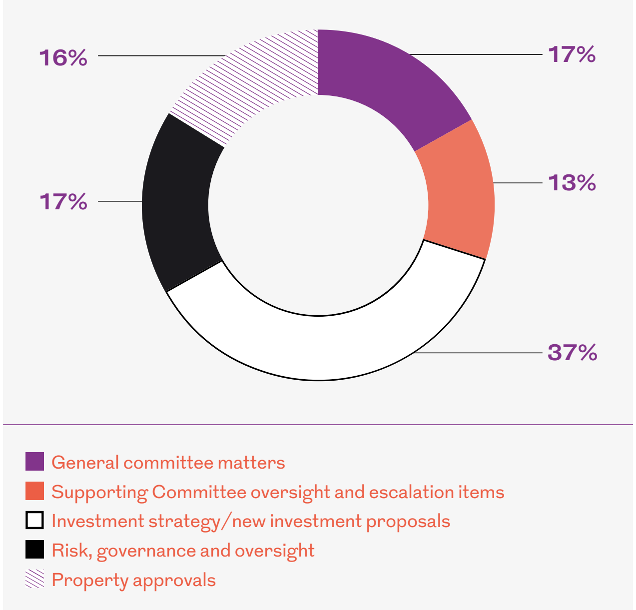
Significant matters considered by the Investment Committee

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

Significant matters considered by the Committee	How the matter was addressed by the Committee
Investment strategy	The Committee supported the Board in setting the investment strategy.
Investment Philosophy and investment risk framework	The Committee reviewed the statement of Investment Philosophy, investment beliefs and the investment risk framework to aid management, the Committee and Board in their investment decision-making process.
Responsible investment	The Committee reviewed the Group's current approach to responsible investment, and supported the development of a responsible investment framework for the Group. The Group's Board approved a proposal to develop the Group's responsible investment framework in December 2018.
Strategic Asset Allocation Framework	The Committee reviewed and approved the Strategic Asset Allocation Framework. A 'test phase' of the framework was carried out in the second half of 2018 and the Committee approved a project plan to implement the framework in full by mid-2020.
The UK's exit from the EU	The Committee considered and approved the Group, and RLAM's, strategic investment decisions in respect to the UK's proposed departure from the EU.
Asset management performance	The Committee reviewed its asset managers' performance and suitability to manage the Group's investment mandates, including review of quarterly market and economic data, assessment of investment performance across all funds and the review of the asset managers' investment management agreements. The Committee regularly receives reports from the Investment Performance Committee which undertakes regular reviews of the investment performance across the Group.
Other matters	The Committee reviewed and approved, subject to internal compliance procedures, transactions above delegated authorities, including four real estate transactions. The Committee reviewed and approved updates to its terms of reference (which were subsequently submitted to the Board for approval).

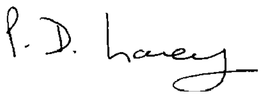
Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2018.



Ian Dilks
Chair of the Investment Committee
20 March 2019

Report of the Disclosure Committee



Phil Loney
Chair of the Disclosure Committee

As Chair of the Disclosure Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2018.

Committee membership

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

Member	Position	Date of Committee appointment
Phil Loney	Executive	2016
Tim Harris	Executive	2016
Jon Macdonald	Executive	2016

Key responsibilities, purpose and role

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

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

In carrying out its duties, the Committee:

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

Areas of focus during the year

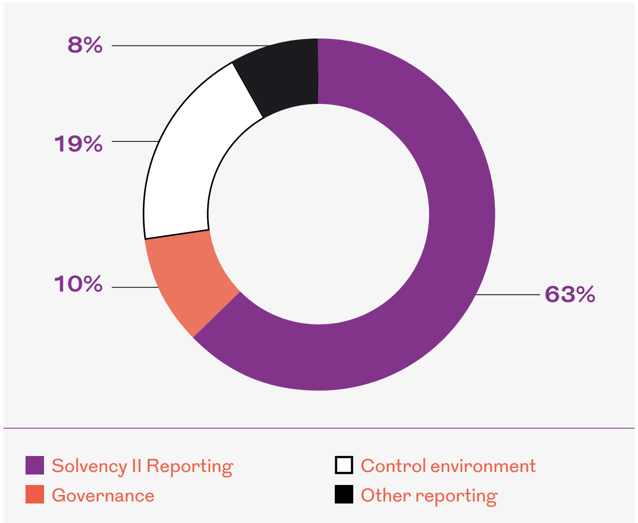
The Committee met seven times during 2018, primarily to review the integrity of the Group's quarterly Solvency II regulatory reporting and the effectiveness and appropriateness of the control environment in place.

The Company had been invited to participate in the 2018 European Insurance and Occupational Pensions Authority (EIOPA) stress test exercise in May 2018 and the Committee reviewed the results and approved submission to the PRA.

The Company reviewed and approved half yearly submissions for prescribed market risk sensitivities to the Solvency II balance sheet as required by the PRA, by challenging the governance around the numbers included.

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2018.



Phil Loney
Chair of the Disclosure Committee
20 March 2019

Report of the With-Profits Committee

Sally Bridgeland
Chair of the With-Profits Committee

As Chair of the With-Profits Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2018.

Committee membership

The membership of the Committee is set out in the table below. The membership of the Committee has not changed during the year. However, Nick Dumbreck stepped down from the Committee when his tenure expired on 31 December 2018. I would like to thank Nick for his contributions to the Committee since 2015. Carl Dowthwaite replaced Nick Dumbreck as an independent member of the Committee from 1 January 2019. Carl is a fellow of the Institute and Faculty of Actuaries, with strong with-profits experience gained in both non-executive and senior executive roles. The Committee also continues to be well served by Brian Murray in the With-Profits Actuary role.

Member	Position	Date of Committee appointment or appointment as a member
Sally Bridgeland	Non-executive	2017
Nick Dumbreck	Independent	2015 (retired 31 December 2018)
Jim Gallagher	Independent	2012
Tim Harris	Executive	2014
Bridget Rosewell	Independent	2015

Key responsibilities, purpose and role

The Committee's main responsibilities include:

- considering the interests of all policyholders in the Royal London Group who are entitled to share in the profits of the Group and exercise independent judgement in advising the Board on how to allocate profits to them fairly;
- assessing compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);
- assessing investment performance reports and providing clear advice regarding the way in which with-profits funds are invested and managed;
- assessing whether the interests of with-profits policyholders, and the respective interests of different groups of with-profits policyholders, are fairly reflected in the management of the funds and PPFM; and
- providing independent opinion and oversight on a range of matters that affect with-profits policyholders.

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

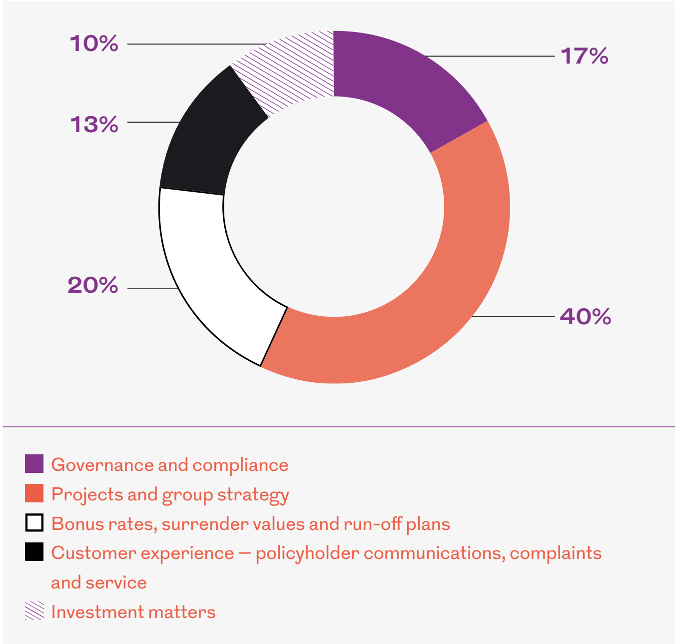
Significant matters considered by the With-Profits Committee

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

Significant matters considered by the Committee	How the matter was addressed by the Committee
Group strategy	The Committee focused on the interaction of Group strategy with the interests of with-profits policyholders.
Bonus rates and surrender values	The Committee considered and provided recommendations to the Board on the ProfitShare and bonus rates to be declared in respect of 2018, and awarded in 2019.
Policyholder communications, complaints and service	The Committee considered reports on the quality of the service provided to with-profits policyholders, having regard to complaints and other measures.
Capital management and run-off plans	The Committee considered opportunities to simplify and improve the management of existing business, and assessed reporting on the financial and capital management of the with-profits funds, including revisions to run-off plans.
Projects	The Committee's input and sign off were sought on two significant projects during the year: 1. The GAR compromise offer made to policyholders in the Scottish Life Fund; and 2. Royal London's response to Brexit, including the transfer of the Irish legacy business to a new regulated Irish subsidiary (RLI DAC).
Investments	During the period, the Committee reviewed the investment performance and investment strategy of the various with-profits funds.

Allocation of agenda time

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



Sally Bridgeland
Chair of the With-Profits Committee
20 March 2019

Report of the Independent Governance Committee

Peter Dorward
Chair of the Independent Governance Committee

Committee membership

As Chair of the Independent Governance Committee (the 'Committee') appointed during the year, I am pleased to present the Committee's report for year ended 31 December 2018. The membership of the Committee, as set out in the table below, comprises three independent members and two company members. Phil Green stood down as Chairman of the Committee in June 2018. I would like to thank Phil for his contribution and leadership since the Committee was first established in 2015. I would also like to thank Isobel Langton for her service to the Committee. Isobel stood down as a company member and was replaced by Paul Gallagher (Life and Pensions Risk Director for Royal London) in September 2018.

Member	Position	Date of Committee appointment or appointment as a member
Phil Green	Independent	2015 (resigned June 2018)
Peter Dorward	Independent	2015 (became Chair in June 2018)
Myles Edwards	Independent	2016
David Gulland	Independent	2015
Isobel Langton	Company member	2015 (resigned June 2018)
Jon Macdonald	Company member	2015
Paul Gallagher	Company member	2018 (joined in September 2018)

Key responsibilities, purpose and role

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

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

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

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

- the Committee's opinion on the value for money delivered by relevant schemes, particularly against those items listed in the FCA Rules;
- how the Committee has considered relevant policyholders' interests;
- any concerns raised by the Committee with the Board and the response received to those concerns;
- whether the membership of the Committee has sufficient expertise, experience and independence to act in relevant policyholders' interests;
- the name of each independent member of the Committee and confirmation that the Committee considers these members to be independent; and
- the arrangements put in place by the Group to ensure that the views of relevant policyholders are directly represented to the Committee.

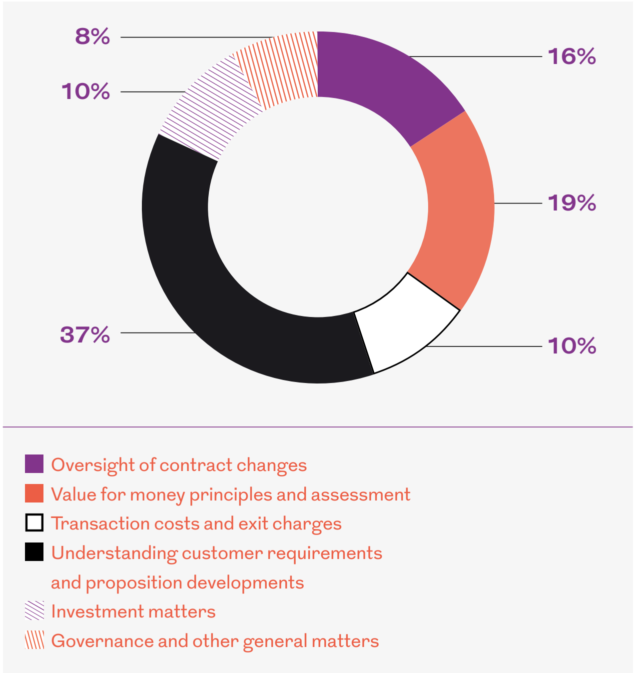
Significant matters considered by the Independent Governance Committee

The Committee has focused its activities on the following:

- reviewing and understanding customer requirements, researching all aspects of customer engagement, including complaints and service;
- reviewing the principles with which to assess the value for money delivered by all of Royal London's relevant workplace pension contracts, to ensure they remain appropriate;
- reviewing and monitoring transaction costs;
- ongoing assessment of Royal London's relevant workplace pension contracts (including legacy contracts) against those principles; and
- monitoring proposition developments.

Allocation of agenda time

The Committee met five times during 2018. The chart below provides an illustration of the approximate percentage of time spent by the Committee on various matters during the year.



Peter Dorward
Chair of the Independent Governance Committee
20 March 2019

Annual statement from the Remuneration Committee Chair

Tracey Graham
Chair of the Remuneration Committee

Dear member,

On behalf of the Board I am pleased to present the Remuneration Committee report for 2018.

I would firstly like to thank members for voting at the 2018 AGM and securing both the advisory vote on our remuneration report and the binding vote on our remuneration policy.

We received a 95.98% vote in favour of our remuneration policy following the introduction of a threshold target for vesting under the Long-Term Incentive Scheme (LTIS). We are not proposing to make any changes to our remuneration policy this year.

To make this report as concise as possible, a summary of our approved policy and how it will be implemented in 2019 is set out on page 74.

Performance in 2018

As discussed in detail on pages 27 to 37 of this annual report, the year ended 31 December 2018 was a record year for Royal London. EEV operating profit before tax reached a record high of £396m, representing an increase of 20% on 2017. New business sales remained strong following the end of auto-enrolment roll-out, and RLAM generated record external net inflows of £4.1bn. We continue to share this success with the members of Royal London, with a 2018 Profit Share distribution of £150m, representing an increase of 6% on 2017.

Incentive outcomes for 2018

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 77 to 78. I am pleased to report that the Group has made strong progress during 2018, performing well despite another turbulent year in politics and markets. Royal London's operating profit has continued to grow despite this environment and performance has translated into an increase in total ProfitShare for 2018. The Committee has sought input and sign-off from the Audit Committee regarding the quality of the Group's earnings, and assurance from the Board Risk Committee that the Group's performance has been achieved within its stated Risk Appetite.

As a result, the Committee agreed a final award under the 2018 Short-Term Incentive Plan (STIP) of 114% of salary (out of a possible maximum of 150%) for the Group Chief Executive, 112% (out of 150%) for the Deputy Group Chief Executive & Group Finance Director and 68% (out of 120%) the Chief Risk Officer, and takes into account personal performance. This corresponds to a final scorecard result of 127.5% out of 200% and reflects the strong financial performance and progress against measures ensuring we deliver against our ambition to build the best customer experience and outcomes for our customers.

The indicative three-year LTIS result for awards granted in 2016 is 77% (out of a possible 125%) reflecting strong financial performance over the last three years, strengthening our market share and delivering on strategic projects. This results in awards of 116% of salary for the Group Chief Executive (out of 187.5%), 116% of salary for the Deputy Group Chief Executive & Group Finance Director (out of 187.5%) and 77% of salary for the Chief Risk Officer (out of 125%).

Consideration of the wider workforce

2018 People Commitments

We value the contribution of every colleague at Royal London and we recognise that our people make a difference to our customers and members; it's important that we treat them fairly and ensure they feel valued. At our Employee Roadshows in 2018, the Group made five People Commitments to enhance the employee experience; you can read about these on pages 19 to 20 of the Strategic Report. Of particular note has been our commitment to invest to ensure we fairly reward our people and improve our family friendly policies.

One of our other commitments was our approach to being a more inclusive employer and there are two areas that are of significance to the Committee: Gender Pay Gap Reporting and the Women in Finance Charter which are covered below.

Gender Pay Gap Reporting

Under the Gender Pay Gap Reporting regulations we are now required to report data at 5 April 2018 for each employing entity where we have more than 250 people. Within the Group, we have two employing entities, both with more than 250 employees – Royal London Mutual Insurance Society (RLMIS) and Investment Funds Direct Limited (IFDL or Ascentric). We reported our gender pay gap on 14 March 2019.

I am pleased that we are starting to close the gap between men's and women's pay, with our median hourly pay gap now standing at 26% (compared to 29% in 2017), however we still have some way to go to close the gap completely. We understand the drivers of this gap, the main one being that there is a lower representation of women in senior, high-paying roles.

Women in Finance Charter

In 2016, we became a signatory of the Women in Finance Charter, which is focused on increasing the proportion of women in senior management roles. Since introducing this Charter we have seen the proportion of women in our most senior grade (RL1) increase from 32.6% in 2016 to 35.6% at the end of 2018. The Group is working hard to achieve our stated target of 40% by the end of 2020.

We are also a member of the Employers Network for Equality and Inclusion, which is the UK's leading promoter of equality and inclusion in the workplace. In June 2018, we signed up to the Disability Confident scheme and appointed the Diversity and Inclusion Manager to help us achieve our aim of becoming a Disability Confident Employer in 2019.

Board Changes

Non-Executive Directors

Kevin Parry OBE joined the Board on 1 January 2019 to succeed Rupert Pennant-Rea as Chairman of the Board and was appointed Chairman on 19 March 2019 following PRA and FCA approval. The Board would like to thank Rupert for his contribution over the years and his support during the transition.

Olivia Dickson resigned from the Board as a NED and member of the Remuneration Committee on 31 December 2018. I would like to take this opportunity to thank Olivia for her contribution to the Committees and we wish her well for the future.

On 9 January 2019 Andrew Palmer was appointed on an interim basis to the Remuneration Committee. I would like to warmly welcome Andrew back to the Committee.

Chief Executive Officer departure

After careful consideration by the Committee, Good Leaver status will apply to Phil Loney's incentive awards until he steps down, subject to ongoing performance. The remuneration details will be published on our website at a later point in time or following his departure and also in our 2019 Directors' Remuneration Report (DRR). Any payments made will be in line with our approved remuneration policy.

Chief Risk Officer

Further to the announcement on page 62 that Jon MacDonald is leaving Royal London the Committee has agreed that Good Leaver status will apply to Jon Macdonald's incentives awards, reflecting his contribution to the Group. The remuneration details will be published on our website at a later point in time or following his departure and also in our 2019 DRR. Any payments made will be in line with our approved remuneration policy.

Remuneration for 2019

The Committee carefully considered the salaries of the executive directors, as part of that consideration they reviewed independent benchmarking data and the performance of both the individuals and the Group as a whole as well as the pay review arrangements which apply to all employees of Royal London. As a result, the Committee determined that the increases for Phil Loney and Tim Harris should be in line with the approach for all our people and awarded increases of 2.6% and 2.5% respectively. As Jon Macdonald is stepping down shortly after any new salary would become effective, the Committee did not consider it was necessary to award a salary increase.

The independent benchmarking data provided to the Committee also confirmed that the levels of LTIS and STIP awards provided in 2018 remained appropriate. As a result the Committee elected to continue the same awards levels in 2019. However, as Jon Macdonald is scheduled to leave early in the performance period for both the LTIS and STIP no awards have been made and as Phil Loney is due to step down early in the 2019 LTIS performance period he will not receive an award, but will remain eligible for the STIP while he remains employed by Royal London.

Looking forward

During 2019, the Committee will continue to review the reward arrangements which are applicable to Executive Directors. In particular, the review will consider the upcoming remuneration implications following the introduction of the new UK Corporate Governance Code (the "Code") and the impact resulting from changes in accounting standards. We will also be looking to see greater alignment in the Talent and Reward Strategies. This work will start in 2019, which is not expected to complete until after the appointment of the new CEO.

UK Corporate Governance Code

Although, as a mutual, we are not required to comply with the "Code", the Group is committed to being transparent with its members. The remuneration disclosures, where appropriate, continue to be prepared with reference to the listed company reporting requirements.

A key focus for the Remuneration Committee over the next year will be considering the application of the new UK Corporate Governance Code, coming into effect from 1 January 2019. In particular, we will review and report back in our 2019 DRR on our approach with respect to:

- how executive directors' pension arrangements align with those of our employees;
- whether the current deferral within our STIP and LTIS satisfies the provisions for post-cessation holding requirements (our current policy ensures that any executive director who is treated as a Good Leaver is required to retain their deferral and LTIS post departure. We will set out our post-cessation holding requirement policy in the 2019 DRR);
- whether the Committee has sufficient discretion and recovery provisions;
- the methodology and timing for disclosing the ratio of CEO to average employee pay; and
- how the Committee considers the remuneration of the wider workforce.

We want to achieve all of this in the context of being a responsible employer who has a clear social purpose, making mutuality meaningful for our people, members and customers.

Our Directors' Remuneration Report will be subject to an advisory vote at the AGM on 5 June 2019. We look forward to receiving your support.

Tracey Graham
Chair of the Remuneration Committee
20 March 2019

Summary of Directors' remuneration policy

The following table summarises our remuneration policy for executive directors, and how the policy will be implemented in 2019. The policy was approved by 95.98% of members at the AGM on 13 June 2018 and there is no change to the policy for 2019.

Full details of the approved policy can be found within our 2017 DRR on the Company website at the following link:
royallondon.com/siteassets/site-docs/about-us/annual-reports/rl_ara_2017_250618.pdf

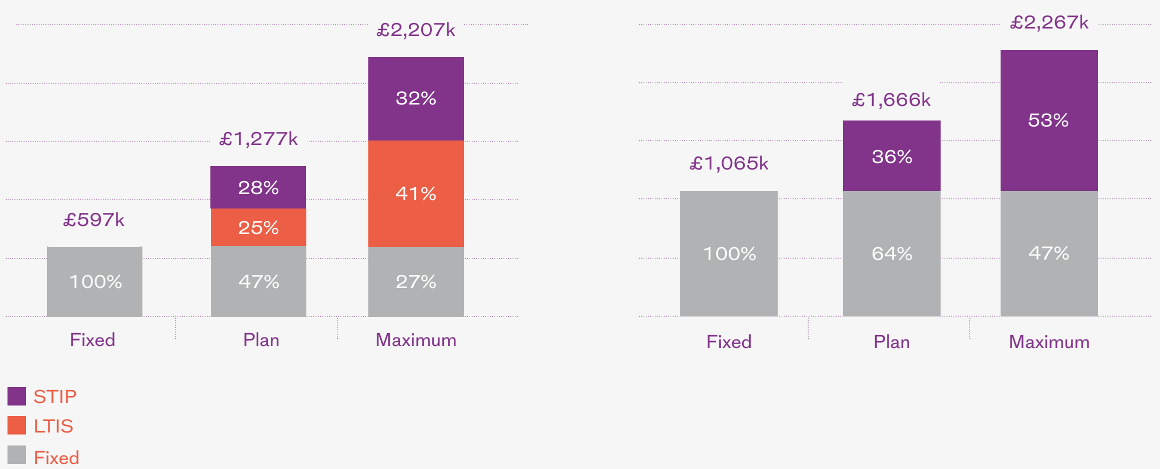
Element of remuneration	Key features of the policy	Implementation for 2019
Base salary To support recruitment and retention of talented people.	› Reviewed annually. › No maximum salary or % salary increase, but typically in line with those for the Group's broader employee population.	› Phil Loney (CEO): £801.5k › Tim Harris (CFO): £477k › Jon Macdonald (CRO): £326k
Pension To support the recruitment and retention of our people.	› The maximum pension contribution is 25% of salary. › Executive directors can receive a cash allowance in lieu of pension or they may elect to pay all or part of their allowance into their pension plan.	No change from 2018, although we will keep this under review, given the new UK Corporate Governance Code.
Benefits To support the recruitment and retention of our people.	› Include life insurance, private medical insurance, medical screening, a discretionary living-away-from-home allowance and either a company car or a cash allowance in lieu of a car. › Executive directors may participate in the Group's flexible benefits scheme and may be eligible to receive relocation support based on the requirements of their role, as determined by the Group.	No change from 2018.
Short-Term Incentive Plan (STIP) To focus participants on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy.	› Maximum opportunity is 150% of salary. › Performance assessed using a scorecard of one-year financial and strategic measures, and individual performance ratings. › Payment of 40% of any amount earned is deferred for up to three years.	No change from 2018. › The STIP opportunity will be 75% for target performance. › See page 77 for details of performance measures and targets.
Long-Term Incentive Scheme (LTIS) To align executives with the long-term interests of members and customers.	› Maximum award granted is 150% of salary, which may be subject to a discretionary adjustment by the Committee of up to 125% or down to zero, based on a basket of performance measures, to create a maximum vesting award of 187.5% of salary. › Performance assessed using a balanced scorecard of three-year performance measures, which may include strategic milestones and performance relative to peers. › Payment of 50% is after three years, 25% is payable after four years, and 25% is payable five years from the date of grant.	No change from 2018. › The LTIS opportunity will be 20% for threshold performance, 45% for target performance and 100% for maximum performance. › See page 78 for details of performance measures and targets.
Unit holding requirement To reinforce the principles underlying the Group's remuneration policy and align the interests of executives with those of members. Full explanation is detailed on page 77 of the 2017 ARA, found in the link above.	The holding requirement as a percentage of base salary is as follows: › Group Chief Executive Officer: 200% › Deputy Group Chief Executive and Group Finance Director: 150% › Chief Risk Officer: 100%	No change from 2018.

2019 pay scenario charts

The charts below illustrate the potential pay opportunities available for each executive director[1] for 2019, based on different performance scenarios.

Scenario	Salary, pension and benefits	STIP outcome (% of max)	LTIS outcome (% of max)
Fixed	Received in line with contractual entitlement.	0	0
On plan performance (achieves targets)		50	36
Maximum performance (significantly exceeds targets)		100	100

Actual variable pay outcomes can vary between 0% and 100% of maximum, depending on actual performance delivered.



1 Jon Macdonald does not have a 2019 pay scenario chart as he will be stepping down at the end of Q1 2019.
2 Phil Loney is not entitled to an LTIS grant in 2019, following his resignation in 2018.

2018 Annual report of remuneration

This section of the Directors' remuneration report sets out details of remuneration paid to executive and non-executive directors during the financial year ended 31 December 2018 ("FY2018").

Executive directors

Single figure for total remuneration (audited)

	Phil Loney		Tim Harris		Jon Macdonald	
	2018	2017	**2018**	2017	**2018**	2017
Fixed pay (£000)						
Salary[1]	**775**	750	**460**	440	**324**	315
Benefits[2]	**63**	65	**25**	17	**15**	15
Pension supplement[3]	**194**	188	**92**	88	**49**	43
Pension benefits[4]	-	-	-	-	-	4
Sub-total	**1,032**	1,003	**577**	545	**388**	377
Performance pay (£000)						
STIP[5]	**893**	934	**523**	409	**223**	193
LTIS[6]	**1,171**	1,271	**754**	619	**358**	391
Sub-total	**2,064**	2,205	**1,277**	1,028	**581**	584
Total	**3,096**	3,208	**1,854**	1,573	**969**	961

1 Salaries are shown gross of any salary sacrifice element.
2 Benefits include life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car). Phil Loney and Tim Harris receive a transport and overnight expenses allowance to fund travel between their home and additional work locations. It is currently £46,000 and £10,000 per annum respectively and is reviewed in April each year to ensure it has been set at the correct level. No travel expenses are reimbursed for travel to their primary work locations.
3 Jon Macdonald, Phil Loney and Tim Harris received cash supplements in lieu of pension of 15%, 25% and 20% respectively. Jon Macdonald invested part of his supplement into the Group's Defined Contribution Plan.
4 Pension benefits for Jon Macdonald do not include employee contributions made by salary sacrifice.
5 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.
6 The LTIS 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).

2018 STIP outcome (audited)

The maximum STIP opportunity levels and resulting overall STIP outcomes for each executive director in respect of 2018 are shown in the table below.

The overall STIP outcome for 2018 was determined by assessing the Group's performance over the year against a scorecard of financial and non-financial measures and the personal performance rating of the individual for that year.

	Max award (% of salary)	Outcome (% of salary)[1]
Phil Loney	150	114
Tim Harris	150	112
Jon Macdonald	120	68

1 Based on 31 December 2018 salary.

The scorecard for 2018 was set at the start of year and consisted of threshold, target and maximum targets for each measure, which was grouped into five categories. The categories for the 2018 STIP and resulting performance outcomes against each category are detailed below.

Measure and weighting	Threshold 0%	Target 100%	Maximum 200%	Contribution to scheme
Financials – 45% › Risk-adjusted profit metric (new business) › Existing business profit) › 2018 operational efficiency				68%
Best customer propositions – 15% › Process-based net promoter score › Customer complaints › With-Profit funds › Governed portfolio › Total PVNBP › Net new external assets under administration				21%
Our people – 15% › CEO assessment				11%
Assurance – 10% › Risk and control infrastructure enhancements › Conduct risk › Financial risk management				12%
Building the future – 15% › IMAP › Project accelerator › #thinkbeyond				16%

Overall, the 2018 scorecard result was 127.5% out of maximum of 200%. This result, combined with personal performance ratings of strong, strong and good, meant that STIP awards of 114%, 112% and 68% of salary were paid out to the Group Chief Executive, Deputy Group Chief Executive & Group Finance Director and Chief Risk Officer. The Committee is committed to disclosing as much information as is commercially possible. Detail of the 2018 financial measures and values will be disclosed in the 2019 report.

LTIS vesting in 2018 (audited)

The following table details the percentage of long-term incentive awards granted in 2016, which vested at 31 December 2018.

	Initial award (% of salary)	Vesting (% of salary)
Phil Loney	150	116
Tim Harris	150	116
Jon Macdonald	100	77

The performance measures and estimated outcomes for the 2016 LTIS are as shown below.

Measure and weighting	Threshold 0%	Maximum 100%	Contribution to scheme
Financials – 50% › Group new business profit › Group existing business operating profit			50%
Customer service – 10% › Assessed judgement, including net promoter score, external service awards and complaints levels			7%
Quality of proposition – 10% › Group market share taking into consideration profitability and return rates; and RLAM FUM targets			5%
Investment performance – 25% › Three-year performance v benchmark of With-Profit funds, Governed portfolio and RL GPS funds			4%
Strategic progress – 5% › Longer-term strategic capability targets over five years; and brand awareness			2%

The 2016 LTIS result was then subject to a Capital Strength Multiplier of 112.5%, creating the overall result of 77%.

The table below shows the proportion of the 2016 LTIS award that is estimated to vest (which is subject to further EEV unit price changes) as a result of Royal London's performance against the measures.

	Actual vesting (% of salary)	Maximum vesting (% of salary)
Group Chief Executive	116	187.5
Deputy Group Chief Executive & Group Finance Director	116	187.5
Chief Risk Officer	77	125.0

In line with our policy, 50% of the award will vest immediately, with 25% vesting after one year and the remaining 25% after two years.

In publishing the relative STIP and LTIS performance outcomes to thresholds, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the plans, while protecting the commercial sensitivity of the underlying metrics.

Exercise of discretion by the Committee

Having considered the outcome of both the 2018 STIP and 2016 LTIS scorecards, and the overall performance of the Group, the Committee believes that the result delivered by the scorecards fairly reflects strong performance and is within the risk appetite of the Group. The Committee did not see a need to exercise any further discretion on this occasion, on the payouts/vesting of these awards.

Retrospective disclosure of financial targets for previous STIP and LTIS awards

For additional context, for the incentive awards paid in 2017 (2016 STIP and 2014–2016 LTIS) and 2018 (2017 STIP and 2015–2017 LTIS), the tables which follow disclose the threshold and maximum targets set for financial measures, alongside the actual financial performance achieved. For awards paid in 2017, this fulfils last year's commitment to disclose this information on a retrospective basis. For awards paid in 2018, we have disclosed this information earlier than it would otherwise have been as the financial targets are now no longer considered commercially sensitive. In our 2019 report, we intend to disclose similar information for awards paid in 2019 only.

2016 STIP (paid in 2017)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
New business contribution	£91.0	£123.2	£223.3
Existing business profit	£101.7	£137.6	£139.9
2017 operational efficiency	£5.0	£17.5	£20.0

2017 STIP (paid in 2018)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
New business contribution	£172.6	£233.5	£288.8
Existing business profit	£114.5	£154.9	£125.2
2018 operational efficiency	£23.0	£38.0	£35.2

2014 LTIS (paid in 2017)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Group EEV profit from existing business	£48.7	£77.9	£129.3
Group new business profit	£234.9	£281.9	£445.0
Profit from target growth areas	£166.0	£182.6	£351.1

2015 LTIS (paid in 2018)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Group EEV profit from existing business	£328.4	£361.2	£400.1
Group new business profit	£326.9	£392.2	£652.0
Profit from target growth areas	£250.1	£275.1	£350.3

All STIP and LTIS award outcomes are also reviewed by Group Internal Audit before they are finalised.

LTIS awards granted in 2018 (audited)

In 2018, the Committee granted the following LTIS awards:

	Scheme	Type of interest awarded	Awards granted (% of salary)	Face value (£000)	Minimum value at vesting (£)[1]	End of performance period
Phil Loney	2018 LTIS	EEV Units	150	1,132.5	0	31 December 2020
Tim Harris	2018 LTIS	EEV Units	150	664.5	0	

Jon Macdonald was not awarded an LTIS in 2018 following his resignation.
1 The vesting of these awards will be dependent on performance measures and may be subject to a discretionary adjustment by the Committee of up to 125% or down to zero, based on a basket of performance measures.

The Committee is committed to disclosing as much as is commercially possible on the financial measures in the 2020 report when the 2018 award vests.

Outstanding awards under incentive schemes (audited)

The table overleaf provides details of outstanding awards under incentive schemes, including deferred STIP and other deferred bonus awards. In order to show a complete picture of remuneration that has been awarded to date, it includes estimated figures in respect of plans which have not reached their third anniversary or date of exercise.

	Value of non-exercisable awards		Exercisable awards	Total awards
	Awards subject to time (£000)	Awards subject to time and performance (£000)		
Phil Loney	1,990	1,799	1,760	5,548
Tim Harris	1,106	1,054	1,026	3,187
Jon Macdonald	528	316	509	1,352

Units held by executive directors (audited)

The table below sets out the value of units held by executive directors as at 31 December 2018 and their individual holding requirements. Holding requirements cease on the individual's leaving date, but all awards subject to deferral remain.

	Holding requirement (£000)	Value of units held at 31 December 2018 (£000)
Phil Loney	1,563	3,392
Tim Harris	698	1,923
Jon Macdonald	326	947

Payments to past executive directors (audited)

There were no payments made to past executive directors in the year ending 31 December 2018.

Payments for loss of office (audited)

No payments or money or other assets were made for loss of office in the year ending 31 December 2018.

Group Chief Executive's single remuneration figure growth

For ease of comparison, an aggregate of pay to the director undertaking the role of CEO in each year is included.

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO 'single figure' of total remuneration (£000)										
Mike Yardley	1,385	2,343	4,420	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Phil Loney	n/a	n/a	1,403	1,703	2,614	2,859	3,136	3,033	3,208	**3,096**
Total	1,385	2,343	5,823	1,703	2,614	2,859	3,136	3,033	3,208	**3,096**
STIP paid against maximum opportunity (%)										
Mike Yardley	82%	94%	92%	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Phil Loney	n/a	n/a	93%	85%	93%	95%	100%	98%	82%	**76%**
LTIS vesting against maximum opportunity (%)										
Mike Yardley	No maximum award limit. Value at vesting included in total single figure stated above.			n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Phil Loney	n/a	n/a	n/a	n/a	71%	39%	37%	55%	88%	**62%**

Group Chief Executive remuneration compared with other employees

	% change in base salary (2018 v 2017)[1]	Change in STIP as % of salary	% change in total remuneration (2018 v 2017)[1]
Group Chief Executive	3.33	(4.20)	(3.49)
All employees	8.22	0.34	9.24
All employees rated strong or exceptional	9.40	1.97	12.75

1 For Group Chief Executive, the figure includes salary, benefits, pensions, and incentives (see single figure table).

The salary increase received by the Group Chief Executive from 1 April 2018 resulted in an increase in pay received during 2018 compared with pay received during 2017 of 3.33%, which reflects internal and external market relativities and his strong performance during 2018. In comparison, average salary increases for other Royal London employees and those rated Strong or Exceptional were 8.22% and 9.40% respectively, which included promotional increases. All salary increases are determined using the same criteria, which link the percentage increase to individual performance rating and position within the market range.

Group Chief Executive pay ratio

Companies are required to comply with the new pay ratio regulations for performance years starting on or after 1 January 2019. However, as the regulations and methodologies have now been finalised, Royal London has decided to calculate and share the ratios earlier than required for this 2018 performance year, as well as providing 2017 as a prior year comparative.

The table below details the current Group Chief Executive Officer's latest single total figure of remuneration to the median (i.e. 50th percentile), 25th percentile and 75th percentile full-time equivalent (FTE) remuneration of the company's UK employees. Representative employees were identified at each of the percentiles using the latest gender pay gap information (method B), which is produced in April each year. This approach has been used as it creates greater alignment between the CEO pay ratio and gender pay gap reporting disclosures.

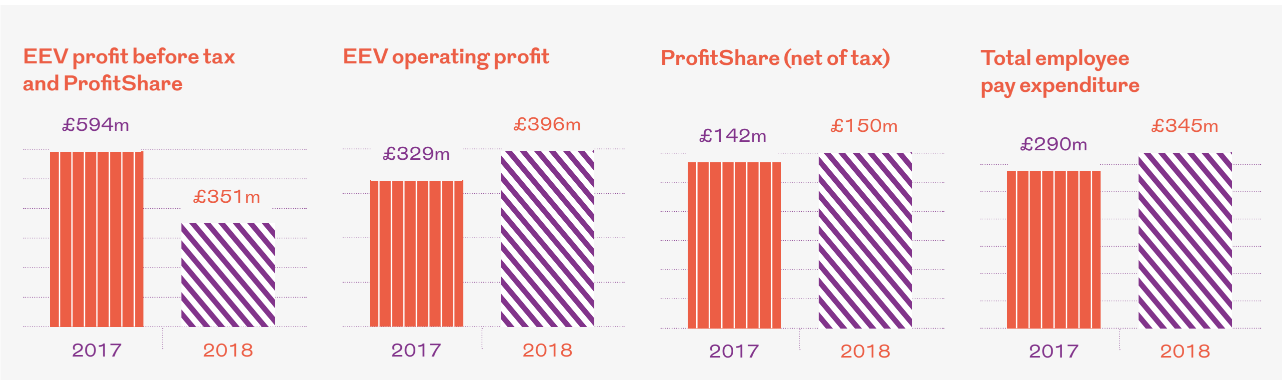
Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017	B	125:1	71:1	50:1
2018	B	117:1	73:1	44:1

In 2018, the total remuneration (FTE) figures for the representative employees identified at 25th, 50th and 75th percentiles were £26,360, £42,158 and £71,033. The salary component for the representative employees identified at these percentiles were £22,202, £35,403 and £55,782 respectively. The elements used in calculating the full-time equivalent (FTE) remuneration consists of:

- **Salaries** – gross of any salary sacrifice elements.
- **Benefits** – includes life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car) and any transport allowances received to fund travel between home and additional work locations.
- **Pension benefits** – includes any employer contributions and any cash supplements paid by the company in lieu of pension.
- **Bonus** – includes both the following aspects:
  - Short-Term Incentive Plan (STIP) values include the full value awarded for the performance year, including amounts due to be deferred, subject to continued service requirements and any other performance conditions; and
  - Long-Term Incentive Scheme (LTIS) values are based on the estimated value of awards exercisable at the reporting date, 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).

Distribution statement

The illustration below shows the increase in EEV profit before tax and ProfitShare; EEV operating profit; ProfitShare; and total employee pay expenditure in 2018.



Non-executive directors

Single figure for total remuneration (audited)

	Annual fees (£000)		Committee chairmanship fee (£000)		Fees for additional responsibilities (£000)		Total (£000)	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Sally Bridgeland	**73**	71	**20**	18	**-**	-	**93**	89
Olivia Dickson[1]	**92[2]**	39	**-**	-	**-**	-	**92**	39
Ian Dilks	**73**	71	**16**	8	**-**	-	**89**	79
Tracey Graham	**73**	71	**20**	20	**67**	65	**160**	156
Andrew Palmer	**73**	71	**22**	28	**106**	90	**202**	189
Rupert Pennant-Rea[1]	**268**	260	**-**	-	**-**	-	**268**	260
David Weymouth	**73**	71	**22**	22	**-**	-	**95**	93

1 Stepped down from the Board with effect from 31 December 2018.
2 Fee incorporates payment to March 2019.

The continued focus of regulation in the financial services industry had led to increased accountability for all Board Committees as part of their core role. Following the annual benchmarking activity, the annual base fees were increased from £71,200 to £73,335 from 1 April 2018.

In 2018, Andrew Palmer was paid additional fees of £13,500 for performing the role of Senior Independent Director. In line with ensuring the appropriate governance and Board oversight of subsidiary companies, Andrew Palmer was appointed Chairman of RLAM Limited on 8 October 2016 and Tracey Graham was appointed Chairman of Investment Funds Direct Limited (IFDL) on 16 September 2016. The amounts received in 2018 to reflect the additional accountability and time commitment for chairing these respective subsidiary Boards and for performing the role of Senior Independent Director are included in the table above under 'Fees for additional responsibilities'.

Letters of appointment

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

1 Stepped down from the Board with effect from 31 December 2018.

Remuneration Committee meetings in 2018

The Remuneration Committee met nine times in 2018. In addition, a Joint Board Risk and Remuneration Committee meeting was held in March 2018. The purpose of the meeting was to review the discretion applied to the incentive schemes within the Group, to ensure incentive scheme performance awards and conditions are within risk appetite and to review the appropriateness of the remuneration of controlled function holders. During 2018, the members of the Committee were as follows:

- Tracey Graham (Chair);
- Olivia Dickson (stepped down on 31 December 2018) ; and
- Sally Bridgeland.

Advisers to the Committee

During the year the Committee received support from external advisers on specific matters.

Until 31 January 2018, Kepler (a brand of Mercer) was engaged by the Committee to provide it with remuneration consultancy services. Fees charged by Kepler in the year ending 31 December 2018 were £6,060. The Committee was satisfied as to the independence of the advice provided by Kepler.

Following a review of remuneration advisers in late 2017, which consisted of a full competitive tender process, Deloitte LLP (Deloitte) was appointed by the Committee as independent adviser to the Committee with effect from 1 February 2018. Deloitte is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at: **remunerationconsultantsgroup.com**

During the year Deloitte also provided services to the Company and the Committee is satisfied that the provision of these services did not impair Deloitte's ability to advise the Committee independently. The Committee is satisfied that Deloitte remains independent of the Company and that the advice provided is impartial and objective. Their total fees for the provision of remuneration services to the Committee since appointment to 31 December 2018 were £137,650.

Activities of the Remuneration Committee during 2018

The table below sets out the principal activities of the Committee during 2018.

Area	Activity
Salary review	As part of the annual salary review, the Committee compared salaries to the competitive market for each role, and adjusted salaries taking into consideration the current market pay positioning, and the performance of the executives and scope of their roles.
Incentive scheme targets	The Committee agreed the targets for the 2018 STIP, the 2018 LTIS and the 2018 RLAM LTIP.
Incentive scheme outcomes	The Committee reviewed STIP, LTIS and RLAM LTIP outcomes for 2018 in the context of overall Group performance and risk appetite. The sales incentive plan was also reviewed in 2018.
Incentive scheme measures	The Committee kept the performance conditions in the Group's STIP and LTIS under review to ensure that they continued to align with the Group's overall purpose and strategy, which includes maximising value for the Group's members and customers as described on pages 2 and 3.
Incentive scheme for 2019	The Committee had discussions in respect of the schemes to be implemented in FY2019.
Joint risk and remuneration meeting	The Committee held a joint meeting with the Board Risk Committee to jointly consider any required risk adjustments to variable pay outcomes. There was a separate risk assessment of variable to fixed pay awards for RLG code staff.
Regulatory considerations	The Committee ensured the Group complies with all prevailing regulations and regulatory changes, for example, Solvency II including Remuneration Policy Statement submission and the new MiFID II requirements.
Corporate citizenship	The Committee produced Gender Pay Gap reporting for 2018 and reviewed targets for the Women in Finance initiative.
Executive directors' remuneration proposal	The Committee reviewed and agreed the remuneration of the Group's executive directors, taking into account market benchmarking data and business performance.
Chairman's fee proposal	The Committee reviewed and agreed the Chairman of the Group's fees for 2018 and 2019. The Chairman was not part of this discussion.
RLAM remuneration policy	The Committee continued its review of its approach to RLAM remuneration policy, and reviewed all RLAM STIP and LTIP schemes as part of an annual reward cycle and in the context of the FCA requirements.
Annual review of Terms of Reference	The key responsibilities of the Committee are set out in its terms of reference, which are reviewed annually and made available to members on the Group's website. An effectiveness review was undertaken by the Group during Q4 2018 and found that the Committee had fulfilled its duties under its terms of reference during the year.
Governance	The Committee reviewed and agreed the approach to delegated authority, to simplify the levels of approval required as part changes to employee remuneration.
Other allowances	The Group reimburses travel and overnight expenses in connection with work-related travel to and from home to place of work. The Committee reviewed the allowances in place for executive directors.
UK Corporate Governance Code	The Committee reviewed the new requirements under the new Code during 2018 and is considering how best to comply with the changes, given our mutual status.

Members' views on remuneration matters

At the AGM on 13 June 2018, members passed the annual advisory vote on the annual report on remuneration and the binding vote on the Remuneration Policy. The voting results were as follows.

Resolution	Votes for (and percentage of votes cast)	Votes against (and percentage of votes cast)	Shares on which votes were withheld
Annual report on remuneration	35,801 (97.56%)	935 (2.44%)	503
Remuneration policy	35,050 (95.98%)	1,536 (4.02%)	643

Policy implementation for 2019

The following sections set out the proposed remuneration for executive and non-executive directors for 2019 in line with the policy, including details of salary increases and short- and long-term incentive awards.

Executive directors' remuneration

Salaries

The salaries for the executive directors have been reviewed by the Committee. The following table sets out the annual salaries payable to each executive director from 1 April 2019.

	2019 (£000)	2018 (£000)	% difference
Phil Loney	802	782	2.6
Tim Harris	477	465	2.5

Jon Macdonald will not be awarded a STIP grant in 2019 following his resignation in 2018.

Pension and benefits

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

Pension benefits for existing and new directors are provided through the Defined Contribution Plan, or they will receive a payment in lieu of pension for 2019. This is in line with the approach taken in 2018.

STIP opportunities for 2019

No changes have been made to Phil Loney's or Tim Harris' maximum STIP opportunities for 2019.

	Maximum (as % of salary)
Phil Loney	150
Tim Harris	150

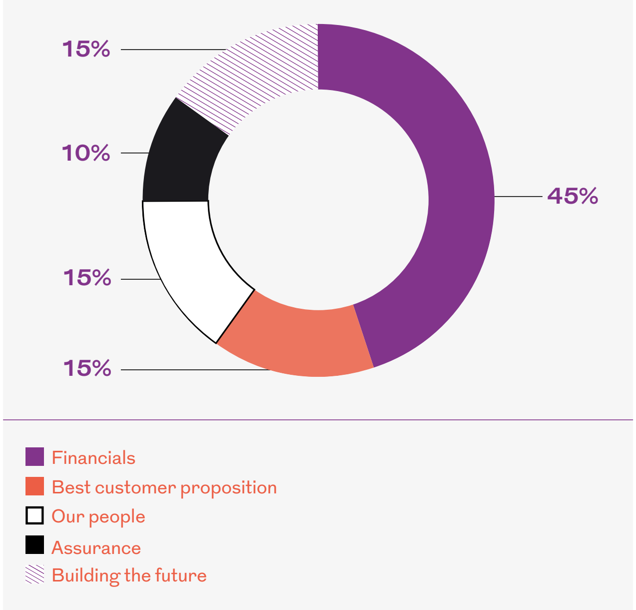
Jon Macdonald will not be awarded a STIP grant in 2019 following his resignation in 2018.

Performance measure selection and approach to target setting: 2019 STIP

The focus remains on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy, and the Committee will continue to focus on the most relevant metrics.

Performance will continue to be assessed against a scorecard covering five areas of performance and will also take into account the personal performance rating for the individual executive director.

For 2019 the measures and weights are as follows:



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

Payment of 40% of any amount earned under the STIP is deferred for up to three years. The deferred award is converted into Royal London Group European Embedded Value (EEV) units. These EEV units vest (are converted back into cash and paid) in three equal tranches.

Malus may be applied to unvested awards at the discretion of the Committee for reasons such as, but not limited to, gross misconduct, material financial restatement or behaviour that could lead to significant reputational damage. Our rules give us the ability to apply clawback if appropriate.

Actual targets set for each measure will be disclosed in the directors' remuneration report for 2020, unless the Committee considers them too commercially sensitive to disclose.

LTIS opportunities for 2019

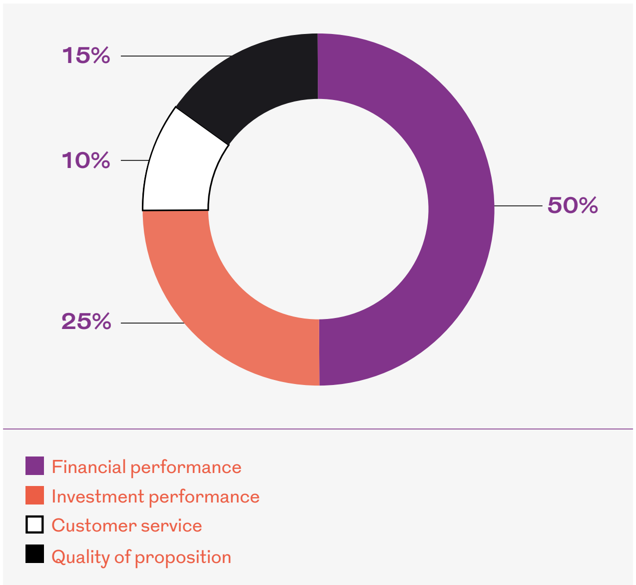
LTIS opportunities are also expected to remain unchanged from 2018. The following awards will be granted to executive directors.

	Face value (as % of salary)	% vesting for plan performance	End of performance period
Tim Harris	150	45	31 December 2021

Phil Loney and Jon Macdonald are not entitled to an LTIS grant in 2019, following their resignations in 2018.

Performance measure selection and approach to target setting: 2019 LTIS

The aim of the LTIS continues to be the alignment of executives with the long-term interests of members and customers. The performance measures for 2019 LTIS are anticipated to be as described in the chart.



The 2019 LTIS award may also be subject to discretionary adjustment by the Committee, based on a basket of measures which include, but are not limited to, strategic milestones and performance relative to peers.

Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2021, unless the Committee considers them too commercially sensitive to disclose.

Non-executive directors

The annual base fee for non-executive directors from April 2019 is £75,500. Additional fees are payable for Committee chairmanship as follows:

Board Risk Committee: £22,000

Investment Committee: £16,000

With-Profits Committee: £20,000

Audit Committee: £22,000

Remuneration Committee: £22,000

Chair of RLAM: £92,700

Chair of IFDL: £66,950

The annual fee for the new Group Chairman is £310,000 and the annual fee for the senior independent director is £13,500.

The Annual Remuneration Report was approved by the Board and signed on its behalf.

Tracey Graham
Chair of the Remuneration Committee

Report on the audit of the financial statements

In our opinion, The Royal London Mutual Insurance Society Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's result and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and parent company balance sheets as at 31 December 2018; the group consolidated statement of comprehensive income, the group and parent company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality	› Overall group materiality: £90 million (2017: £90 million), equivalent to 2.4% of Unallocated Divisible Surplus (UDS). › Overall parent company materiality: £85 million (2017: £85 million), equivalent to 2.1% of UDS.
Audit scope	› A component was deemed to be individually financially significant and in-scope if it contained more than 10% of the total group insurance or investment contract liabilities. A component was also deemed to be financially significant and in-scope if it contained significant balances relating to one of the areas of audit focus. For the one financially significant component identified, which was the parent company, a full scope audit was performed. › Additional balances from other components were selected to ensure sufficient coverage across all material financial statement line items. For the balances identified from these components, specified procedures were performed. › Our audit scope allowed us to test 100% of the transfer to UDS and 99.2% of the total asset balance. › Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.
Key audit matters identified	› Valuation of insurance contract liabilities, non-participating value of in-force business and acquired present value of in-force business – persistency assumptions (group and parent). › Valuation of insurance contract liabilities – longevity assumptions (group and parent). › Valuation of insurance contract liabilities – expense assumptions (group and parent). › Pension scheme liability valuation (group and parent). › Valuation of complex investments (group and parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and parent and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements of the group and parent. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements of the group and parent such as the Companies Act 2006, the Prudential Regulation Authority's regulations, the UK tax legislation and equivalent local laws and regulations applicable to significant component teams. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate revenue and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of life insurance contract liabilities, non-participating value of in-force business and acquired present value of in-force business.

The group engagement team shared this risk assessment with the component auditor referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and component auditors included:

- discussions with the Board, management, internal audit, senior management involved in Risk and Compliance functions and the group and parent's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- evaluation and testing of management's internal controls designed to prevent and detect irregularities, in particular their controls around disclosure of related parties and associated transactions and risk-based monitoring of customer processes;
- reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Group Board, Board Risk Committee, the Investment Committee and the With-Profits Committee;
- reviewing data regarding policyholder complaints, the group and parent's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- procedures relating to the valuation of life insurance contract liabilities, non-participating value of in-force business and acquired present value of in-force business described in the related key audit matters below;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- designing audit procedures to incorporate unpredictability including around the nature, timing or extent of our testing of expenses and journals.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities, non-participating value of in-force business and acquired present value of in-force business – persistency assumptions Persistency impacts the value of the group insurance contract liabilities, non-participating value of in-force business and intangible assets. Insurance contract liabilities total £37.5bn (2017: £40.5bn) and non-participating value of in-force business total £1.6bn (2017: £1.5bn) across the group as at 31 December 2018. See notes 25 and 26 to the financial statements for more information. The group financial statements include intangible assets relating to management's estimate of the Acquired Present Value of In-Force Business (PVIF), which total £54m (2017: £81m) across the group as at 31 December 2018. See note 17 to the financial statements for more information. When valuing the future cash flows of insurance and investment contracts, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. Persistency rates determine this and thus are a key assumption when valuing the insurance contract liabilities and non-participating value of in-force business. The group has material non-participating value of in-force business, being the value of the projected future profits arising from the income from servicing policies. The group also has material intangible assets, in particular the Acquired PVIF, being the value of insurance contracts at the date of acquisition of those contracts. We focused on persistency because this is a significant assumption for these calculations. Persistency assumptions are driven by past experience (the experience investigations), and assumptions about future changes to policyholder behaviour which are difficult to predict and therefore there is judgement applied when setting an appropriate basis. Persistency can be impacted by a range of factors, including changes to regulation for products sold, such as the April 2015 pensions freedoms and, more recently, mandatory increases in employee contributions in auto-enrolment pension schemes. We focused on whether management had made appropriate assumptions against this background. This is a key audit matter for both the group and parent company.	We tested management's controls over: › the accuracy of the data used in the experience investigation to ensure it is consistent with the data used in previous valuations; › the calculation of historical persistency (the experience investigations); › the evidence of review and challenge, ensuring adequate sign off and reasons for changing assumptions; and › the input of assumptions into the valuation models. With respect to the experience investigations, we assessed: › the methodology of the experience analysis process, including methodology changes since prior year; › the calculations performed in the experience analysis; and the assumption and experience analysis reports produced by management; › any judgements applied, including prudent margins, understanding the impact and rationale for the application, comparing with our expectations; › past events in the data when considering the past experience observed and whether these are representative of the likely future experience; › the impact of the additional experience data obtained following pensions freedoms regulatory changes; › using our understanding of the expected impact of regulatory changes, we tested management's assumptions by analysing the experience for lines of business that may be affected by changing policyholder behaviours as a result of these regulatory changes, in particular due to the increase in auto-enrolment statutory contribution rates in April 2018. We considered the impact that auto-enrolment on Group Pensions business has on the rate of paid-up policies and the possible impact that further statutory future increases to minimum contributions planned for April 2019 may have on the rate of paid-up policies and the resulting judgements applied to set appropriate long-term assumptions; and › using our in-house industry benchmarking data we compared the methodology used by management to derive the persistency assumptions with those adopted by other insurers. This is an inherently subjective area. Based on the results of our testing, we concluded that the assumptions used were appropriately supported based on the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – longevity assumptions Longevity impacts the value of the group insurance contract liabilities and is an inherently subjective assumption. Insurance contract liabilities total £37.5bn (2017: £40.5bn) across the group as at 31 December 2018. See note 25 to the financial statements for more information. Longevity assumptions are important for the modelling of annuity obligations as they estimate the duration over which annuity income will be paid to policyholders; the longer this duration, the higher the associated insurance contract liabilities for those policies. The group's annuity portfolio liabilities are sensitive to longevity assumptions due to the high proportion of pension contracts with guaranteed annuity rate options. Assumptions are required for the base mortality (the choice and percentage of the standard table used) as well as the rate at which mortality rates will improve in the future. Setting the assumed future rate of mortality improvements is more subjective and requires management to apply its judgement. Management updated their longevity assumptions, including updating their mortality improvement assumptions, taking into account the latest information released in the Institute and Faculty of Actuaries' Continuous Mortality Investigation (CMI) model, CMI_2017. Longevity is difficult to predict given the long-term nature of the assumptions and its correlation with many factors, such as healthcare spending, medical advances, political and legislative changes, which leads to a high level of uncertainty. Further, the group are consistent with the majority of peers in using population data to set their assumptions. Therefore judgement is required to adjust this to an appropriate basis for the group's portfolios. We focused on the key judgements made by management in setting the longevity assumptions and whether the assumptions are appropriate against this background. Given the sensitivity of the insurance contract liabilities to longevity assumptions and the significant changes in population longevity in recent years, it was considered a key audit matter for both the group and parent company.	We performed testing over the process and appropriateness of the judgements made in deriving the base mortality by: › reviewing management's processes and controls for inputting and manipulating the policyholder data used in deriving the assumptions; › challenging management over the appropriateness of the risk factors selected to derive mortality assumptions for various groups of policyholders and the methodology used to allocate policyholders to these various groups; › testing the credibility and sufficiency of data used to determine mortality rates and the approach taken when there was a paucity of data; and › using our in-house industry benchmarking data we compared the assumptions and methodology used by management to derive the longevity assumptions with those adopted by other insurers. We performed testing over the appropriateness of the judgements made in deriving the mortality improvements by: › obtaining evidence to support management's justification for the CMI model used in assumption setting and substantively investigating the CMI model outputs; › challenging the evidence presented by management to support the setting of the long term rate assumption and the setting of the smoothing parameter assumption; › performing controls and substantive testing over the input of assumptions in the valuation models; and › testing the impacts resulting from the longevity assumptions updates. This is an inherently subjective area. Based on the results of our testing, we concluded that the assumptions used were appropriately supported based on the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – expense assumptions The group financial statements include liabilities for the estimated future expenses that would be incurred by continuing to maintain the existing policies over their duration. These expense liabilities are included within the insurance contract liabilities of £37.5bn (2017: £40.5bn). See note 28 to the financial statements for more information. The expense assumptions are calculated using an Activity Based Costing (ABC) model. The significant assumptions and judgements in this model are the overall recurring costs, together with the cost allocations between products. Products have different expected durations and therefore the allocation of costs impacts the total insurance liability. The model creates a maintenance unit cost for each policy which, along with expense inflation assumptions, the number of policies and their expected duration, is used to estimate the future expenses which will be incurred and to calculate an appropriate liability for these expenses. The most significant area of risk with expense assumptions lies in the methodology used to categorise expenses between one-off, acquisition and maintenance, of which only the last is used in the expense calculation. Any change in methodology applied could have a significant impact on the quantum of the expense liabilities. This is a key audit matter for both the group and parent company.	We obtained evidence over key inputs and assumptions as follows: › we tested the completeness of the expenses used in the calculation of the expense liabilities through reconciling the total expenses recorded within the accounting records of the group to the total expenses input into the ABC model; › we tested the total number of policies used in setting expense assumptions, which are required for calculating the unit cost for each policy, by corroborating these to data extracts from the policy systems. The data within the policy systems has also been tested; › we assessed significant judgements made in setting the assumptions such as the split between acquisition and maintenance costs, the one-off project costs, and the allocation of costs to different products. This was performed by agreeing a sample of costs to supporting evidence, and tracing the allocation of each cost within the sample through the model, to verify that the final allocation was appropriate; › we recalculated the per-policy expense across a sample of policies and products; › we have reviewed the Cost Allocations Group Committee (CAGC) and the Technical Review Committee (TRC) minutes. The CAGC review the ABC model output (unit cost/expense allocation) to identify and challenge any new/amended significant cost allocations and significant change in cost base. The CAGC approve the output prior to submission for ultimate approval to TRC; and › we compared the resulting expense assumptions to the expenses incurred over the prior twelve months, along with any known expected increases/decreases, in order to satisfy ourselves that the assumptions were sufficient in aggregate based on this trend analysis. We found no material issues as a result of the testing performed.
Pension scheme liability valuation The Royal London Group Pension Scheme has a surplus of £74m (2017: net surplus £47m), comprising assets of £2,531m (2017: £2,688m) and liabilities of £2,457m (2017: £2,641m). The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in assumptions about inflation, discount rates, and mortality can have a material impact on the calculation of the liability and can be affected by a range of factors. We have focused on whether management has applied the appropriate assumptions given the current economic environment. This is a key audit matter for both the group and parent company.	We tested the reliability of the pension scheme input data used to determine the pension scheme valuation by: › testing the completeness and accuracy of the scheme data used by the actuary to calculate the pension liability by agreeing a sample of member records back to source documentation. We evaluated management's assumptions in relation to the valuation of the liabilities in the pension plan as follows: › we assessed, using PwC valuation experts, the appropriateness of the discount rate, Retail Price Index/Consumer Price Index (inflation) spread and life expectancy of both pensioners and non-pensioners to identify whether they were consistent with prior years and within a tolerable range. The tolerable range was estimated using an internally developed range of acceptable assumptions for valuing pension liabilities based on our view of various economic indicators. We found no material issues as a result of the testing performed.

Key audit matter	How our audit addressed the key audit matter
Valuation of complex investments The group holds investments in property, private equity funds and hedge funds with a total value of £4,699m (2017: £3,973m). We focused on this area because the valuations of these investments are material, complex and include estimates and significant judgement due to limited or no observable market prices. The valuation of investment property is determined by management's valuation experts and assessed by management. The valuation of investments in private equity and hedge funds are determined by the underlying fund manager on a periodic basis and assessed by management. This is a key audit matter for both the group and parent company.	We performed testing for directly held property as follows: › we obtained valuation reports from management's valuation experts and assessed their independence and competency; › we assessed the assumptions and methodology used by management's valuation experts by using internal PwC valuation experts to check these were appropriate. We found the assumptions were supported by the audit evidence obtained; and › we agreed a sample of inputs used by management's valuation experts to source documentation. We found that the inputs and assumptions used to value the investment property were supported by audit evidence obtained and in line with industry practice. We performed detailed testing for private equity and hedge funds as follows: › we tested transactions since the date of the latest available fund valuation where the valuation used by management was not coterminous with the balance sheet date; › we confirmed the latest available fund valuation to statements provided by underlying fund managers or administrators; › we performed look back procedures which compare the unaudited net asset statements used in the prior year valuation with the respective year end audited Financial Statements or Valuation Statements; and › we considered the fund managers' bases of valuation for these funds and assessed the appropriateness of the valuation methods used. We found that, based on the testing performed, the valuations were supported by the evidence obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

A component was deemed to be financially significant and in scope if it contained more than 10% of the total group insurance or investment contract liabilities. A component was also deemed to be financially significant and in-scope if they contained balances relating to one of the areas of audit focus. For the one component identified being the parent company a full scope audit was performed.

Additional balances from components were selected to ensure sufficient coverage across all material financial statement line items. For the balances identified from these components, specified procedures were performed. Our audit scope allowed us to test 100% of the transfer to UDS and 99.2% of the total asset balance.

Overall, we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£90m (2017: £90m).	£85m (2017: £85m).
How we determined it	2.4% of Unallocated Divisible Surplus (UDS).	2.1% of Unallocated Divisible Surplus (UDS).
Rationale for benchmark applied	We believe that UDS is the most applicable measure to use as we regard this as the primary measure used by members of the Society since this represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.	We believe that UDS is the most applicable measure to use as we regard this as the primary measure used by members of the Society since this represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.7m and £85m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4.25m (group audit) (2017: £4.25m) and £4.25m (parent company audit) (2017: £4.25m), as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom conditionally may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and, in common with other companies, it is difficult to evaluate all of the potential implications on the company's business, clients, suppliers and the wider economy, in general terms.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report	In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06) In light of the knowledge and understanding of the group and parent company and their environment, obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report or Directors' Report. (CA06)
The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group	As a result of the directors' reporting on how they have applied the UK Corporate Governance Code – An Annotated version for mutual insurers (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding: › the directors' confirmation on pages 45 to 46 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; › the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; and › the directors' explanation on pages 45 to 46 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We have nothing to report in respect of this responsibility.
Other Code Provisions	As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion: › the statement given by the directors, on page 50, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit; › the section of the Annual Report on page 57 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; and › the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, by the Association of Financial Mutuals, for review by the auditors. We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 50, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 1 December 2000 to audit the financial statements for the year ended 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 December 2000 to 31 December 2018.

Other voluntary reporting

Going concern

The directors have requested that we review the statement on page 50 in relation to going concern as if the parent company were a premium listed company. We have nothing to report, having performed our review.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

The directors have requested that we perform a review of the directors' statements on pages 50 and 51 that they have carried out a robust assessment of the principal risks facing the group and in relation to the longer-term viability of the group, as if the parent company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. We have nothing to report, having performed this review.

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the parent company were a premium listed company. There is a requirement for the auditors of premium listed companies to report if the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Thomas Robb
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, London
20 March 2019

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Notes	Group 2018 £m	Group 2017 £m
Revenues			
Gross earned premiums	3 (a)	**1,171**	1,239
Premiums ceded to reinsurers		**(180)**	(265)
Net earned premiums		**991**	974
Fee income from investment and fund management contracts	4	**327**	297
Investment return	5	**(2,679)**	6,031
Other operating income	6	**58**	64
Total revenues		**(1,303)**	7,366
Policyholder benefits and claims			
Claims paid, before reinsurance	7 (a)	**(2,721)**	(2,665)
Reinsurance recoveries	7 (a)	**506**	519
Claims paid, after reinsurance		**(2,215)**	(2,146)
Decrease in insurance contract liabilities, before reinsurance		**2,918**	114
Reinsurance ceded		**(256)**	(581)
Decrease/(increase) in insurance contract liabilities, after reinsurance		**2,662**	(467)
Increase in non-participating value of in-force business		**137**	271
Decrease/(increase) in investment contract liabilities		**1,558**	(3,215)
Total policyholder benefits and claims		**2,142**	(5,557)
Operating expenses			
Administrative expenses	8, 9	**(588)**	(561)
Investment management expenses	11	**(361)**	(321)
Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets	17	**(62)**	(92)
Investment return attributable to external unit holders	34	**285**	(192)
Other operating expenses	12	**(176)**	(141)
Total operating expenses		**(902)**	(1,307)
Finance costs	13	**(48)**	(47)
Result before tax and before (deduction from)/transfer to the unallocated divisible surplus		**(111)**	455
Tax credit/(charge)	14 (a)	**63**	(103)
(Deduction from)/transfer to the unallocated divisible surplus	29	**(48)**	352
Result for the year		**-**	-
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	19 (b)	**53**	82
Transfer to the unallocated divisible surplus	29	**53**	82
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**-**	-

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

Balance sheets

as at 31 December 2018

	Notes	Group 2018 £m	Group 2017 £m	Parent company 2018 £m	Parent company 2017 £m
ASSETS					
Property, plant and equipment	15	**75**	53	**-**	-
Investment property	16	**6,834**	6,103	**4,073**	3,404
Intangible assets					
Goodwill	17	**229**	232	**229**	232
Acquired PVIF on insurance contracts	17	**54**	81	**54**	81
Other intangible assets	17	**101**	31	**99**	30
Total intangible assets		**384**	344	**382**	343
Deferred acquisition costs on investment contracts	18	**304**	262	**304**	262
Reinsurers' share of insurance contract liabilities	25	**5,070**	5,326	**5,070**	5,326
Pension scheme asset	19	**213**	186	**213**	186
Current tax asset		**37**	5	**45**	2
Financial investments	21	**82,567**	83,328	**44,555**	47,925
Investments in Group entities	22	**-**	-	**35,474**	33,182
Trade and other receivables	23	**895**	651	**587**	439
Cash and cash equivalents	24	**2,881**	3,061	**1,205**	1,262
Total assets		**99,260**	99,319	**91,908**	92,331
LIABILITIES					
Participating insurance contract liabilities	25	**30,628**	33,154	**30,628**	33,234
Participating investment contract liabilities	27	**2,061**	2,214	**2,061**	2,214
Unallocated divisible surplus	29	**3,813**	3,726	**4,075**	3,855
Non-participating value of in-force business	26	**(1,625)**	(1,488)	**(1,625)**	(1,488)
		34,877	37,606	**35,139**	37,815
Non-participating insurance contract liabilities	25	**6,909**	7,301	**6,909**	7,301
Non-participating investment contract liabilities	27	**42,652**	38,847	**42,652**	38,847
		49,561	46,148	**49,561**	46,148
Subordinated liabilities	30	**745**	745	**745**	745
Payables and other financial liabilities	31	**5,968**	7,225	**5,898**	6,930
Provisions	32	**294**	282	**266**	268
Other liabilities	33	**261**	271	**152**	157
Liability to external unit holders	34	**7,428**	6,785	**-**	-
Deferred tax liability	35	**125**	222	**145**	233
Current tax liability		**1**	35	**2**	35
Total liabilities		**99,260**	99,319	**91,908**	92,331

The Parent company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a parent company statement of comprehensive income. The Parent company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or deduction from the unallocated divisible surplus.

The financial statements on pages 95 to 183 were approved by the Board of Directors and signed on its behalf on 20 March 2019.

Tim Harris

Tim Harris
Deputy Group Chief Executive & Group Finance Director
Registered number: 99064 (England & Wales)
The Royal London Mutual Insurance Society Limited
55 Gracechurch Street, London, EC3V 0RL

Statements of cash flows

for the year ended 31 December 2018

	Notes	Group 2018 £m	Group 2017 £m	Parent company 2018 £m	Parent company 2017 £m
Cash flows from operating activities					
Transfer to the unallocated divisible surplus		**5**	434	**140**	487
Adjustments for non-cash items	39 (a)	**6,434**	4,185	**5,336**	6,512
Adjustments for non-operating items	39 (b)	**49**	47	**(3)**	(48)
Acquisition of investment property		**(723)**	(820)	**(523)**	(832)
Net acquisition of financial investments		**(4,983)**	(5,438)	**(3,535)**	(6,718)
Proceeds from disposal of investment property		**186**	355	**137**	309
Changes in operating receivables		**(244)**	137	**(148)**	143
Changes in operating payables		**(1,248)**	(207)	**(1,033)**	(358)
Change in liability to external unit holders		**643**	1,283	**-**	-
Net cash flows from operating activities before tax		**119**	(24)	**371**	(505)
Tax paid		**(103)**	(74)	**(67)**	(32)
Net cash flows from operating activities		**16**	(98)	**304**	(537)
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(39)**	(8)	**-**	-
Acquisition of intangibles		**(105)**	(53)	**(78)**	(22)
Acquisition of Group entities	39 (d)	**-**	-	**(295)**	-
Proceeds from disposal of Group entities	39 (d)	**4**	-	**4**	-
Dividends received from Group entities		**-**	-	**56**	38
Net cash flows from investing activities		**(140)**	(61)	**(313)**	16
Cash flows from financing activities					
Interest paid		**(48)**	(47)	**(48)**	(47)
Net cash flows from financing activities		**(48)**	(47)	**(48)**	(47)
Net decrease in cash and cash equivalents		**(172)**	(206)	**(57)**	(568)
Cash and cash equivalents at 1 January		**3,005**	3,211	**1,217**	1,785
Cash and cash equivalents at 31 December	24	**2,833**	3,005	**1,160**	1,217

An integral part of the operations of the Group is the management of a portfolio of investment assets. Cash flows relating to the purchase and sale of these assets have been treated as operating cash flows for the purposes of the statements of cash flows. In the Parent company, Open Ended Investment Companies (OEICs) and other investment funds that are classified for financial reporting purposes as subsidiaries are also part of this operating portfolio of investment assets and hence cash flows in relation to these assets are also classified as operating cash flows for the Parent company statement of cash flows.

Notes to the financial statements
for the year ended 31 December 2018

1. Accounting policies

(a) Basis of preparation

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

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

New and amended standards adopted by the Group

The following new and amended standards have been adopted for the first time in these financial statements.

- IFRS 15, 'Revenue from contracts with customers', which replaced IAS 18 with effect from 1 January 2018. Adoption of the Standard has resulted in a change in the way the Group measures the 'Deferred acquisition costs on investment contracts' asset recognised in respect of future commission payable on relevant non-participating investment contracts. The Group has adopted the modified retrospective approach allowed by IFRS 15, whereby the cumulative effect of implementation is recognised in the opening balance as at 1 January 2018. Consequently the impact of the change has been to increase the opening balance of the 'Deferred acquisition costs on investment contracts' asset and the unallocated divisible surplus by £82m. As permitted by the modified retrospective approach the comparatives for the year ended 31 December 2017 have not been restated.
- Annual Improvements to IFRS 2014-2016 Cycle: IFRS 1, 'First-time adoption of International Financial Reporting Standards' and IAS 28, 'Investments in Associates and Joint Ventures', which have not had a material impact on the Group.
- Amendments to IAS 40, 'Transfers of investment property' – this amendment was a clarification only and has not affected the Group.

New and amended standards not yet effective

The following new and amended standards, which have been issued but are not yet effective, have not been applied in these financial statements. The Group's assessment of the impact of these new standards is set out below.

- IFRS 9, 'Financial Instruments', final version issued in July 2014. This standard covers the classification and measurement of financial instruments, impairment and hedge accounting.
  - The number of classifications for financial assets is reduced to three: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification of the Group's financial assets and liabilities is not expected to change as a result of implementing IFRS 9.
  - The IFRS 9 impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under IAS 39. It applies to financial assets held at amortised cost and will therefore only apply to the Group's trade and lease receivables and to intercompany balances between the Parent company and its subsidiaries. It is not expected to have a material impact on the Group. All other financial assets will continue to be held at FVTPL.
  - The Group does not hedge account so this section of IFRS 9 is not relevant.

  Although effective from 2018, the Group has deferred implementation of IFRS 9 in accordance with the amendment to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. Using the December 2015 balance sheets, as required, it has been determined that both the Group and the Parent company meet the criteria for applying the temporary exemption:
  - neither has previously adopted any version of IFRS 9;
  - both the Group and Parent company's activities are predominately connected with insurance, as evidenced by the fact that the carrying amount of liabilities within the scope of IFRS 4 is significant when compared to the carrying amount of total liabilities; and
  - the percentage of the Group and Parent company's liabilities connected with insurance exceeds 90% of total liabilities. Included within those liabilities 'connected with insurance', as permitted by the Standard are: £24,982m of non-participating investment contract liabilities, £745m of subordinated debt and £2,804m of payables arising under reinsurance contracts.
- IFRS 16, 'Leases', issued in January 2016 and effective 1 January 2019. This standard replaces IAS 17 and will result in almost all leases being recognised on the balance sheet by lessees as the distinction between operating and finance leases is removed. Under the new standard, a 'right-of-use asset' and a financial liability to pay rentals are recognised.

The standard will primarily affect the Group's accounting for operating leases. At 31 December 2018, the Group has total non-cancellable operating lease commitments of £31m (note 37). The impact of applying this new standard is not expected to be material. Based on a review of the Group's existing operating leases, the Group expects to recognise right-of-use assets of approximately £24m and lease liabilities of £26m on 1 January 2019. Overall net assets will be £2m lower.

1. Accounting policies (continued)

(a) Basis of preparation (continued)

- IFRIC 23, 'Uncertainty over Income tax treatment', was issued in June 2017 and is effective from 1 January 2019. It provides clarification on the recognition and measurement requirements of IAS 12 when there is some uncertainty over the acceptance by taxation authorities of certain tax treatments. The impact of applying this new IFRIC is not expected to be material.
- IFRS 17, 'Insurance contracts', issued in May 2017 and effective from 1 January 2021, although the IASB has tentatively agreed to defer implementation until 2022. The Group is continuing to assess the impact of the standard and its implications for the Group as a mutual.

There are no other standards or interpretations that have been issued but are not yet effective that would be expected to have a material impact on the Group.

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Parent company (RLMIS) and its subsidiaries.

Subsidiaries are those entities (including OEICs and other investment funds) over which the Group has control. The Group controls an entity when it has power over it, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group considers all relevant facts and circumstances when determining whether control exists and makes a re-assessment whenever those facts and circumstances change. Profits or losses of subsidiaries sold or acquired during the period are included in the consolidated results up to the date that control ceases or from the date of gaining control.

The Group applies the purchase method in accounting for business combinations. The cost of business combinations comprises the fair value of the consideration paid and of the liabilities incurred or assumed. For acquisitions completed prior to 2010, the cost of business combinations also included any directly related expenses. For subsequent acquisitions, all acquisition costs are expensed as incurred. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

The excess of the cost of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the business combination is less than the fair value of identifiable net assets acquired, the difference is recognised immediately in the statement of comprehensive income.

The Group has chosen to apply predecessor accounting to transactions whereby the trade and assets of a Group entity or the entity itself are transferred to another entity within the Group, known as common control business combinations. The effect of predecessor accounting is that the assets and liabilities recognised by the acquiring entity in such a transaction are those used previously in the Group consolidated accounts.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group. Intra-group transactions, balances and unrealised gains and losses on intra-group transactions are eliminated.

The Group invests in investment funds, which themselves invest mainly in equities, bonds, property and cash and cash equivalents. Some of these funds are managed by Group companies and therefore in addition to investment income from its holding in the funds, the Group also receives management fees from external unit holders. Where the Group's holding is greater than 50% it is presumed that it is exposed to variable returns from the fund and can use its power to influence those returns; in such cases the fund is consolidated. Conversely, where the Group's holding is less than 20% it is not considered to have significant influence over the fund and the fund is accounted for within financial investments at fair value. Holdings between 20% and 50% are assessed to determine whether the Group is deemed to have control; judgement is made around the concept of power and the factors taken into account include:

- the Group's level of combined interest in the fund (from investment income and management fees); and
- any rights held by other parties and the nature of those rights.

Where the funds are consolidated, the interests of the other parties are included within liabilities and are presented as 'Liability to external unit holders'. Holdings of investment funds of between 20% and 50%, which are not consolidated, are treated as associates.

The Group also invests in certain private equity funds and property unit trusts, which are managed by external third-party administrators. The structure of each fund, the terms of the partnership agreement and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the fund/unit trust should be consolidated.

Associates are entities over which the Group has significant influence but not control or joint control, generally accompanying an ownership interest of between 20% and 50%. The Group's investments in associates are all investment funds and have been accounted for as financial assets held at fair value through profit or loss as permitted by IAS 28, 'Investments in Associates and Joint Ventures'.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. A joint arrangement is accounted for as a joint operation when the Group, along with the other parties that have joint control, has rights to the assets and obligations for the liabilities relating to the arrangement. The Group's share of jointly controlled assets, related liabilities, income and expenses are reported with the equivalent items in the financial statements on a line-by-line basis.

(c) Classification of contracts

The Group classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant proportion of the total contractual payments; and

1. Accounting policies (continued)

(c) Classification of contracts (continued)

- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
  - the performance of a specified pool of contracts, or a specified type of contract, or
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as 'with-profits' or as 'participating' contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with-profits (participating) investment mediums at the same time. Certain hybrid contracts that are classified as investment contracts are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue. Hybrid contracts that contain significant insurance risk are classified as insurance contracts.

(d) Revenue

(i) Premiums

Premiums received and reinsurance premiums paid relate to insurance and non-hybrid participating investment contracts. They are accounted for when due for payment except for recurring single premiums and premiums in respect of unit-linked business, which are accounted for when the related liabilities are created.

(ii) Fee income from investment and fund management contracts

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees relating to the provision of future services, are deferred and recognised in the statement of comprehensive income over the anticipated period in which the services will be provided. Such deferred fee income is shown as a liability in the balance sheet.

(iii) Investment return

Investment return comprises the investment income and fair value gains and losses derived from assets held at fair value through profit or loss, rental income and fair value gains and losses derived from investment property and interest income derived from cash and cash equivalents.

Investment income derived from assets held at fair value through profit or loss includes dividends and interest income. Dividends are recorded on the date on which the shares are declared ex-dividend. Dividends are recorded gross, with the related withholding tax included within the tax expense as foreign tax. Interest income is recognised on an accruals basis. Rental income from investment property, net of any lease incentives received or paid, is recognised on a straight-line basis over the term of the lease.

(iv) Commission income

The Group acts as an introducer for certain third-party insurers. Commission income and profit commission received on the underwriting results of those insurers is recognised in the statement of comprehensive income as the related services are provided.

(e) Claims

Claims paid and reinsurance recoveries relate to insurance and non-hybrid participating investment contracts. For non-linked policies, maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the related contract liabilities. Death claims and all other non-linked claims are accounted for when accepted. For linked policies, claims are accounted for on cancellation of the associated units.

Claims payable include related claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

(f) Tax expense

Tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The following temporary differences are not provided for:

- the initial recognition of goodwill not deductible for tax purposes; and
- temporary differences arising on investments in subsidiaries where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(g) Property, plant and equipment

Owner-occupied land and buildings are carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, and is based on market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in profit or loss, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income.

Other plant and equipment consisting of computer equipment, office equipment and vehicles are stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure directly attributable to the acquisition of the asset.

Subsequent costs are included in an asset's carrying value only to the extent that it is probable that there will be future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

1. Accounting policies (continued)

(g) Property, plant and equipment (continued)

Owner-occupied land and buildings are not depreciated. Depreciation on other items of property, plant and equipment is charged to the statement of comprehensive income and is calculated so as to reduce the value of the assets to their estimated residual values on a straight-line basis over the estimated useful lives of the assets concerned, which range from three to eight years.

The residual values and estimated useful lives are reviewed annually. Where an asset's carrying amount exceeds its recoverable amount the carrying amount is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

(h) Goodwill

Goodwill arising on the acquisition of subsidiaries is stated at cost less accumulated impairment costs. Goodwill is not amortised, but is tested for impairment annually, or more frequently if circumstances indicate that it might be impaired. Any gain or loss on subsequent disposal of a subsidiary will include any attributable goodwill remaining.

(i) Acquired PVIF

The present value of acquired in-force business (PVIF) arises on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary. It represents the net present value of the expected pre-tax cash flows of the contracts which existed at the date of acquisition and is amortised over the remaining lifetime of those contracts. The amortisation is recognised in the statement of comprehensive income and is calculated on a systematic basis to reflect the pattern of emergence of profits from the acquired contracts. Amortisation is stated net of any unwind of the discount rate.

(j) Other intangible assets

Other intangible assets include distribution channel relationships, computer software and deferred incremental acquisition costs directly related to the costs of acquiring new unit trust business. They are carried at cost less accumulated amortisation and impairment losses and are amortised on a straight line basis over their useful lives, which range from three to ten years.

The useful lives are determined by considering relevant factors such as the remaining term of agreements, the normal lives of related products and the competitive position.

(k) Deferred acquisition costs

Deferrable acquisition costs for non-participating and hybrid participating investment contracts are recognised as an intangible asset, provided those costs are considered to be recoverable. Deferrable costs are restricted to the incremental costs incurred on the acquisition of new contracts. This includes both initial commission and an amount representing the present value of future commission payable to third parties. All other acquisition costs are expensed as incurred.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

(l) Reinsurance

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Reinsurance assets represent short-term payments due from reinsurers and longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the underlying insurance contracts. Reinsurance liabilities represent premiums payable for reinsurance.

(m) Investments

(i) Investment property

Investment property is property held for rental, capital growth or both, excluding that occupied by the Group or the Parent company. Investment property includes freehold and leasehold land and buildings.

Investment property is initially measured at cost. For freehold property, cost comprises the fair value of the consideration paid plus the associated transaction costs. For leasehold property, the cost is the lower of the fair value of the property and the present value of the minimum lease payments at the inception of the lease.

All investment property is subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

The carrying value of investment property differs from market value as it takes into account debtors arising from lease incentives which are shown separately within 'Trade and other receivables'.

(ii) Financial investments

All investment transactions are recognised at trade date.

All financial investments are classified upon initial recognition as held at fair value through profit or loss (FVTPL). The Group does not classify any financial investments as 'available for sale' or as 'held to maturity'. The FVTPL category has two sub-categories: financial assets held for trading and those designated as FVTPL. All derivative instruments are classified as held for trading as required by IAS 39, 'Financial Instruments: Recognition and Measurement'. All other financial investments are classified as designated as FVTPL. Financial assets that are designated as FVTPL are:

- financial assets held in the internal linked funds of the Group backing unit-linked insurance and investment contract liabilities. The designation of these assets at FVTPL eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- financial assets managed and whose performance is evaluated on a fair value basis.

Financial assets classified as FVTPL, including derivatives classified as held for trading, are initially recognised at the fair value of the consideration paid. They are subsequently measured at fair value with any resultant gain or loss recognised in the statement of comprehensive income.

1. Accounting policies (continued)

(m) Investments (continued)

(ii) Financial investments (continued)

Fair value for quoted investments in an active market is the bid price, which management believe is representative of fair value. For investments in unit trusts, OEICs and other pooled funds (including those classified as investments in Group entities) it is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. If the market for a quoted financial investment is not active or the investment is unquoted, the fair value is determined by using valuation techniques. For these investments, the fair value is established by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques include the use of recent arm's length transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs from independent sources and relying as little as possible on entity specific inputs.

(iii) Investments in Group entities

Investments in Group entities within the Parent company financial statements are designated as FVTPL. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined using the same valuation techniques as are used for unquoted investments, as described above.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest method.

(o) Finance leases

(i) Group acting as lessor

Leases under which substantially all the risks and rewards of ownership are transferred by the lessor are classified as finance leases.

The Group leases certain freehold buildings to third parties by way of finance lease. No amount is recognised for these buildings within investment property. Instead an asset is recognised within trade and other receivables that represents the Group's net receivable from finance leases. This asset is initially stated at an amount equal to the present value of the minimum lease rentals receivable at the inception of the lease.

As lease rentals are received, these are split between an interest element, calculated on an effective interest basis, which is credited to the statement of comprehensive income and a capital element, which reduces the finance lease receivable.

(ii) Group acting as lessee

Leases under which substantially all the risks and rewards of ownership are assumed by the lessee are classified as finance leases.

Leasehold investment property is accounted for as a finance lease. At the commencement of the lease an asset is recognised within investment property at an amount equal to the lower of the fair value of the property and the present value of the minimum lease payments. An equal liability is established to represent the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability.

(p) Operating lease payments

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments under operating leases, net of lease incentives received, are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

(q) Impairment

Goodwill is tested for impairment annually. The carrying amounts of other intangible assets, deferred acquisition costs, property, plant and equipment and financial assets (other than those at FVTPL) are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable.

The value of acquired PVIF is assessed annually for impairment and any impairment is recognised in full in the statement of comprehensive income in the year it is identified.

For other non-financial assets, an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

For financial assets (other than those at FVTPL) an impairment loss is recognised if the present value of the estimated future cash flows arising from the asset is lower than the asset's carrying value. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised in the statement of comprehensive income.

An impairment loss in respect of goodwill is never reversed. In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. For financial assets (other than those at FVTPL) an impairment loss is reversed if there is a decrease in the impairment that can be related objectively to an event occurring after the impairment was recognised. An impairment loss is reversed only to the extent that after the reversal, the asset's carrying amount is no greater than the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) De-recognition and offset of financial assets and financial liabilities

A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or where they have been transferred and the Group has also transferred substantially all of the risks and rewards of ownership.

A financial liability is de-recognised when the obligation specified in the contract is discharged or cancelled or expires.

All derivatives are accounted for on a contract-by-contract basis and are not offset in the balance sheet.

1. Accounting policies (continued)

(s) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents in the statement of cash flows are stated net of bank overdrafts.

(t) Insurance contracts and participating investment contracts

Under IFRS 4, 'Insurance Contracts', insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS. A change to those accounting policies is permitted if it makes the financial statements more relevant and no less reliable, or more reliable and no less relevant. Following the introduction of Solvency II on 1 January 2016, the Group made a change to the way that the 'non-participating value of in-force business' is presented to more closely align with Solvency II.

The estimation techniques and assumptions used are periodically reviewed, with any changes in estimates reflected in the consolidated statement of comprehensive income as they occur.

Participating insurance and participating investment contracts

For participating insurance and participating investment contracts, the liabilities are determined in accordance with the measurement requirements of the former UK GAAP standard FRS 27, 'Life Assurance', which was adopted on transition to IFRS. Under FRS 27, the participating liabilities are measured using the PRA's realistic balance sheet regime. That regime was replaced by Solvency II with effect from 1 January 2016. However the Group is continuing to apply the realistic basis, including any waivers or guidance from the PRA that were in force on transition to Solvency II, because it is the measurement basis established on transition to IFRS. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic basis.

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Parent company's Principles and Practices of Financial Management.

For the closed funds, any excess of the IFRS value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-Fund, the United Friendly OB Sub-Fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) Fund.

The present value of future profits on non-participating investment contracts, the value of future transfers from the Group's 90:10 with-profits funds and the value of administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds are accounted for as part of the calculation of the realistic value of participating contract liabilities. The value of administration and asset management arrangements can be allocated to participating policies and so the participating liabilities are shown net of this item. The future profits on non-participating investment contracts and the value of future transfers cannot be allocated to particular participating liabilities and so are shown as a separate negative liability on the face of the balance sheet, the 'non-participating value of in-force business'.

Non-participating insurance contracts

For non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts. The cash flows are determined on a best estimate basis plus an allowance for risk, which is made by including margins within the assumptions used.

Liability adequacy test

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

Claims outstanding

The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date.

(u) Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host contract and they meet the definition of a derivative.

(v) Unallocated divisible surplus

The nature of benefits for participating contracts is such that the allocation of surpluses between participating policyholders is uncertain. The amount not allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus.

(w) Non-participating investment contracts

All the non-participating investment contracts issued by the Group are unit-linked. The financial liabilities for these contracts are designated at inception as at fair value through profit or loss. This classification has been used because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date.

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

1. Accounting policies (continued)

(x) Premiums received and claims paid on investment contracts

For non-participating investment and certain hybrid participating investment contracts the amounts received as premiums are not included in the statement of comprehensive income but are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet.

Amounts repaid as claims on non-participating investment and certain hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as a deduction from investment contract liabilities.

(y) Subordinated debt

Liabilities for subordinated debt are recognised initially at the fair value of the proceeds received, net of any discount and less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost. The transaction costs and discount are amortised over the period to the earliest possible redemption date on an effective interest rate basis.

The amortisation charge is included in the statement of comprehensive income within finance costs. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value. Interest costs are expensed as they are incurred.

(z) Payables and other financial liabilities

(i) Reinsurance arrangement

The Group has a financial liability in respect of a reinsurance arrangement and holds an unquoted debt security which has cash flows exactly matching those of the reinsurance liability. Consequently both the debt security and the reinsurance liability are designated at FVTPL in order to avoid an accounting mismatch.

Movements in the fair value of the liability are recognised in the statement of comprehensive income within premiums ceded to reinsurers. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within investment return.

(ii) Other financial liabilities

All other payables and financial liabilities are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently measurement is at amortised cost using the effective interest method.

(aa) Provisions, contingent liabilities and contingent assets

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future losses. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if:

- there is a possible obligation as a result of a past event; or
- there is a present obligation as a result of a past event, but a liability is not recognised either because a payment is not probable or the amount cannot be reliably estimated.

Contingent assets are disclosed when an inflow of economic benefit is considered probable.

(bb) Pension costs

The Group operates three defined benefit schemes and a number of defined contribution arrangements.

(i) Defined benefit schemes

The defined benefit schemes provide benefits based on pensionable pay. The assets of the schemes are held in separate Trustee administered funds. The position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The pension scheme asset recognised in the balance sheet is the excess that is recoverable of the fair value of the plan assets in a scheme over the present value of that scheme's liabilities. Deficits in the value of a scheme's assets over its scheme liabilities are recognised in the balance sheet as a pension scheme liability. 'Current service cost' and the 'Net interest on the net defined benefit asset' are included within 'Administrative expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Administrative expenses'. Remeasurements are charged or credited to the unallocated divisible surplus in other comprehensive income in the period in which they arise.

(ii) Defined contribution arrangements

The Group operates a number of defined contribution arrangements for employees. The Group pays contractual contributions in respect of these arrangements, which are recognised as an expense when they are due.

(cc) Foreign currency translation

The primary economic environment in which the Group and the Parent company operate is the United Kingdom. Hence the functional currency of the Group and the Parent company is pounds sterling. Assets and liabilities denominated in foreign currencies are expressed in sterling at the exchange rate ruling on the balance sheet date. Revenue transactions for foreign operations are translated at average rates of exchange for the year.

For all other operations, revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at the rates of exchange ruling at the time of the respective transactions. Exchange differences arising from the translation of foreign operations are included within the statement of comprehensive income within other operating income or other operating expenses as appropriate. Any other exchange differences are dealt with in the statement of comprehensive income under the same heading as the underlying transactions are reported.

(dd) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Board of Directors.

1. Accounting policies (continued)

(ee) Use of judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. In selecting accounting policies where IFRS permits a choice of policy, the directors have applied judgement in determining the most appropriate policy as follows:

- measurement model for certain assets. IFRS allows a choice of measurement model for financial assets, investment property, property, plant and equipment and, in the Parent company balance sheet, investments in Group entities. This is typically a choice between a cost and a fair value model. The Group and Parent company have applied a fair value model to all these assets, with the exception of trade and other receivables and computers, office equipment and vehicles. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;
- measurement model for non-participating investment contracts. As set out in note 1 (w) these liabilities have been valued at fair value in order to match their valuation to the related assets;
- valuation of financial assets in illiquid markets. The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique as described in note 1(m);
- the classification of contracts as insurance or investment on initial recognition, which requires an assessment of whether significant insurance risk has been transferred to the Group; and
- the determination of whether the Group has control over an entity. This decision requires the consideration of a number of factors. As set out in note 1(b) these include the Group's ownership interest, any other rights it has over the entity and the rights of third parties.

The preparation of financial statements also requires the use of estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant to the following:

- the valuation of the Group's financial assets and liabilities - the fair value measurement note (note 20) explains the assumptions used in the valuation, particularly in respect of level 3 assets and liabilities. The impact on the Group's result of changes in these assumptions to reasonably possible alternative assumptions is also illustrated;
- impairment of acquired VIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Goodwill and other acquired intangible assets are recognised and tested for impairment using the present value of future cash flows expected to arise from the asset. Significant estimates include forecast cash flows and discount rates. Further information is provided in note 17;
- insurance and investment contracts – the key assumptions used in calculating the year-end insurance and investment contract liabilities are described in note 28. This note also presents the effects of changes in these assumptions from the previous year;
- provisions, contingent liabilities and contingent assets – the Group evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimate of the expenditure required to settle the obligation. Further information is shown in notes 32 and 36. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits; and
- pension schemes – note 19 sets out the major assumptions used to calculate the pension scheme asset/liability and the sensitivity of the schemes' liabilities to changes in key assumptions.

In addition to the above, the sensitivity of the Group and Parent company's assets and insurance contract liabilities to insurance risk and market risk is analysed in note 40.

2. Segmental information

The segmental disclosures required under IFRS are based on operating segments that reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally.

In 2018 the Group updated its structure for internal reporting. This restructure has resulted in the the creation of two new operating segments, Legacy, which was previously reported within the Consumer reporting segment, and Royal London Asset Management (RLAM) which was previously reported within Wealth. The other component previously included in the Wealth division was Ascentric, which is now classified within Other items. The 2017 comparatives have been restated following this internal restructure. The activities of each operating segment are described below.

Intermediary

- Pensions
  Royal London provides pensions and other retirement products to individuals and to employer pension schemes in the UK.
- Protection
  Protection companies comprises UK Protection and Royal London Ireland. UK Protection provides protection products to individuals in the UK. Royal London Ireland provides protection products to individuals in the Republic of Ireland.

Consumer

Consumer administers the Group's direct to customer business, selling insurance and protection products directly to consumers who can't access or don't want financial advice.

RLAM

RLAM provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities and charities, as well as individuals.

Legacy

The Legacy segment comprises the operations of the Group which are closed to new business.

Other items

This segment comprises mainly centrally held items, such as Group functions and includes Ascentric, the Group's wrap platform.

(a) Segmental EEV operating profit

The profit measure used by the Group Board of Directors to monitor performance is European Embedded Value (EEV) operating profit before tax. Further detail on the EEV results is given within the EEV section on pages 184 to 197. The EEV operating profit by operating segment is shown in the following table, together with a reconciliation of the total EEV operating profit before tax to the IFRS result before tax. The 2017 comparatives have been restated following the restructure of internal reporting. Revenues by segment are not given as this information is not provided to the Group Board of Directors and consequently there is no reconciliation of reportable segments' revenues to the Group's revenue.

	Group	
	2018 £m	2017 Restated £m
Intermediary		
› Pensions	388	363
› Protection	5	54
Consumer	25	(8)
RLAM	105	76
Legacy	80	82
Other items	(207)	(238)
EEV operating profit before tax	396	329
Amortisation of intangibles	(7)	(11)
Valuation differences between EEV and IFRS	(71)	(22)
Economic assumption changes and investment return variances	(204)	352
Pension schemes' costs recognised in profit	(27)	(4)
Financing costs	(48)	(47)
ProfitShare	(150)	(142)
IFRS result before tax and before (deduction from)/transfer to the unallocated divisible surplus	(111)	455

2. Segmental information (continued)

(a) Segmental EEV operating profit (continued)

Other items include strategic development costs relating to long-term projects, including implementation of our new pension platform and IT systems across the Group, and an impairment charge of £28m (2017: £31m) arising within Ascentric. Refer to supplementary EEV reporting on pages 184 to 197 for further detail.

(b) Geographical analysis

The table below presents IFRS revenues split by the geographic region in which the underlying business was written.

	Group – 2018			Group – 2017		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Revenues						
Net earned premiums	940	51	991	928	46	974
Fee income from investment and fund management contracts	327	-	327	297	-	297
Investment return	(2,694)	15	(2,679)	5,973	58	6,031
Other operating income	24	34	58	64	-	64
Total revenues	(1,403)	100	(1,303)	7,262	104	7,366

(c) Major customers

The directors consider the Group and Parent company's external customers to be the individual policyholders. As such, the Group and Parent company are not reliant on any individual customer.

3. Premiums

(a) Gross earned premiums

	Group	
	2018 £m	2017 £m
Regular premiums		
› Insurance contracts	813	802
› Participating investment contracts	18	21
	831	823
Single premiums		
› Insurance contracts	337	415
› Participating investment contracts	3	1
	340	416
	1,171	1,239

(b) Premiums received on investment contracts

As set out in note 1(x) the Group does not account for the amounts received as premiums in relation to non-participating and certain hybrid participating investment contracts as premium income in the statement of comprehensive income. These amounts are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet. The amounts received by the Group during the year were £8,842m (2017: £8,652m) in respect of non-participating contracts and £15m (2017: £12m) in respect of hybrid participating contracts.

4. Fee income from investment and fund management contracts

	Group 2018 £m	Group 2017 £m
Investment contract fees receivable		
› Annual management charges applied to linked funds	168	141
› Policy administration fees	8	9
› Bid/offer spread and other charges	2	5
	178	155
Fund management fees receivable	129	120
	307	275
Change in deferred fee income	20	22
	327	297

5. Investment return

	Group 2018 £m	Group 2017 £m
Investment income from financial investments held at fair value through profit or loss	2,419	2,188
Fair value (losses)/gains from financial investments held at fair value through profit or loss	(5,532)	3,147
Rental income from investment property	314	255
Fair value gains from investment property	195	318
Interest income from cash and cash equivalents	45	21
Net foreign exchange (loss)/gain	(120)	102
	(2,679)	6,031

The fair value (losses)/gains from financial investments held at fair value through profit or loss (FVTPL) and the fair value gains from investment property include both the net fair value gain and loss on the revaluation of assets held at the balance sheet date and the gains and losses realised on assets disposed of during the year. The significant movement in the year was driven primarily by equity market losses as a result of continued political and economic uncertainty impacting global stock markets and monetary policy.

The fair value (losses)/gains from financial investments held at FVTPL include a loss of £122m (2017: loss of £34m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 31).

Included within fair value (losses)/gains from financial investments held at FVTPL are fair value losses of £86m (2017: gains of £79m) arising on financial investments classified as held for trading.

6. Other operating income

	Group 2018 £m	Group 2017 £m
Commission income	11	12
Foreign currency translation	3	4
Other	44	48
	58	64

Other operating income mainly comprises income earned by Ascentric through the administration of assets on its wrap platform.

7. Claims

(a) Claims paid

	Group 2018 £m	Group 2017 £m
Claims paid, before reinsurance		
› Insurance contracts	**2,567**	2,475
› Participating investment contracts	**154**	190
	2,721	2,665
Reinsurance recoveries		
› Insurance contracts	**(506)**	(519)
Claims paid, after reinsurance		
› Insurance contracts	**2,061**	1,956
› Participating investment contracts	**154**	190
	2,215	2,146

(b) Claims on investment contracts

As set out in note 1(x) the Group does not account for the amounts paid out as claims in relation to non-participating and certain hybrid participating investment contracts as a claim expense in the statement of comprehensive income. These amounts are accounted for as deposits repaid and are deducted from the value of investment contract liabilities in the balance sheet. The amounts repaid by the Group during the year totalled £3,430m (2017: £4,097m) in respect of non-participating investment contracts and £39m (2017: £50m) in respect of hybrid participating investment contracts.

8. Administrative expenses by type

	Group 2018 £m	Group 2017 £m
Acquisition costs		
› Expenses	**163**	149
› Commission	**125**	146
Movement in deferred acquisition costs on investment contracts (note 18)	**40**	39
	328	334
Maintenance costs		
› Operational expenses	**166**	156
› Renewal commission	**32**	32
› Movement in provision for future commission (note 32)	**(14)**	(4)
› Pension scheme cost (note 19)	**27**	4
	211	188
Other administrative expenses, including long-term incentive plans	**49**	39
	588	561

9. Administrative expenses by nature

	Group 2018 £m	Group 2017 £m
Staff costs	**216**	192
Movement in deferred acquisition costs on investment contracts (note 18)	**40**	39
Acquisition commission	**125**	146
Renewal commission	**32**	32
Depreciation of property, plant and equipment (note 15)	**12**	7
Information systems, maintenance and rent	**43**	26
Property costs	**19**	12
Regulatory, professional and administration fees	**104**	93
Movement in provision for future commission (note 32)	**(14)**	(4)
Other expenses	**11**	18
	588	561

Auditors' remuneration, net of VAT

	Group 2018 £000	Group 2017 £000
Fees payable to PwC for the audit of the Parent company and consolidated financial statements	**2,758**	2,675
Fees payable to PwC for other services:		
› Audit of the company's subsidiaries	**820**	680
› Audit related assurance services	**1,227**	1,138
› Tax compliance services	**48**	-
› Other assurance services	**167**	150
› Other non-audit services	**710**	287
	5,730	4,930

The appointment of auditors to the Group's pension schemes and the fees paid in respect of those audits are agreed by the Trustee of the scheme who acts independently from the management of the Group.

Fees in respect of the Royal London Group Pension Scheme – Audit	**51**	41
Fees in respect of the Royal Liver Assurance Superannuation Fund – Audit	**15**	14
Fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI) – Audit	**14**	14
Fees in respect of Royal London Ireland Pension Plan – Audit	**6**	5
	86	74

10. Staff costs

(a) Analysis of staff costs

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Wages and salaries	**274**	247	**258**	234
Social security contributions	**23**	20	**22**	19
Other pension costs – defined contribution arrangements	**19**	17	**19**	17
Other pension costs – defined benefit schemes (note 19)	**27**	4	**27**	4
Termination benefits	**2**	2	**2**	2
	345	290	**328**	276
	Number	Number	**Number**	Number
The average number of persons (including executive directors) employed by the Group during the year was:				
Sales and sales support	**481**	424	**438**	381
Administration	**4,437**	3,828	**4,117**	3,514
	4,918	4,252	**4,555**	3,895

The total staff costs of £345m (2017: £290m) are included within the statement of comprehensive income within administration expenses (2018: £216m, 2017: £192m), within investment management expenses (2018: £51m, 2017: £42m) and within other operating expenses (2018: £78m, 2017: £56m). The Parent company pays its employees via a subsidiary company. Wages and salaries include contractor costs.

(b) Directors' emoluments

	Group	
	2018 £m	2017 £m
Total emoluments	**6**	6
Long-term incentives vesting in the year	**2**	2

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 72 to 85. The information included therein, together with the table above, encompasses that required by the Companies Act 2006.

(c) Key management compensation payable

Compensation payable to key management, including executive directors, is shown in the table below. The number of key management for the year, including executive and non-executive directors, was 36 for the Group and 29 for the Parent company (2017: 31 for the Group and 24 for the Parent company).

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Salaries, short-term incentive plans and other benefits	**18**	20	**13**	14
Change in amounts payable under long-term incentive plans	**9**	7	**7**	4
	27	27	**20**	18

The Group's policy for determining key management remuneration, including executive directors, is for total remuneration to be at the median of the UK financial services market. Bonus plans are designed to encourage and reward increases in the value of the business for the benefit of members, while maintaining awards and conditions within risk appetite, through the use of short and long term incentive schemes. The total amount receivable by key management, including executive directors, under long-term incentive plans was £7m as at 31 December 2018 (2017: £7m). The amount of long-term incentive plans exercised by key management during the year was £9m (2017: £7m).

11. Investment management expenses

	Group 2018 £m	Group 2017 £m
Property expenses	**41**	47
Other transaction costs	**28**	29
Costs of in-house investment management operations – staff costs	**51**	42
Costs of in-house investment management operations – other	**61**	50
Distributions to external unit holders from consolidated funds	**125**	88
Other	**55**	65
	361	321

12. Other operating expenses

	Group 2018 £m	Group 2017 £m
Operating interest payable	**2**	2
Provisions	**43**	26
Foreign currency translation	**-**	1
Other project costs – staff costs	**78**	56
Other project costs – other	**53**	56
	176	141

13. Finance costs

	Group 2018 £m	Group 2017 £m
Finance costs comprise interest payable arising from:		
› Subordinated liabilities	**47**	46
› Other	**1**	1
	48	47

14. Tax (credit)/charge

(a) Tax (credit)/charge in the statement of comprehensive income

	Group 2018 £m	Group 2017 £m
Tax has been provided as follows:		
UK and ROI corporation tax (credit)/charge		
› Current year	(4)	77
› Adjustments in respect of prior periods	(3)	(2)
	(7)	75
Foreign tax partially relieved against UK corporation tax	41	32
Deferred tax (note 35)	(97)	(4)
	(63)	103

(b) Reconciliation of the effective tax rate

Tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the Group as follows.

	Group 2018 £m	Group 2017 £m
Result before tax and before (deduction from)/transfer to the unallocated divisible surplus	(111)	455
Tax calculated at the applicable tax rate[1]	(21)	91
Factors affecting tax charge:		
Accounting profit not subject to policyholder tax	2	(97)
Items taxed on a different basis	(107)	66
Items disallowed in tax computation	16	23
Group consolidation adjustments	5	(5)
Foreign tax partially relieved against UK corporation tax	42	25
Tax (credit)/charge for the year	(63)	103

1 Corporation tax in the statement of comprehensive income has been calculated at a rate of 20% (2017: 20%) on the taxable profits in respect of insurance business of the long-term fund and the taxable profits of the OEICs and at 19% (2017: 19.25%) on the taxable profits of the subsidiaries of the long-term fund.

The Finance Act 2016 reduced the rate of corporation tax to 17% from 1 April 2020. The impact of this reduction in tax rate, which is applicable to the subsidiaries of the long-term fund is reflected in the deferred tax credit above.

The total tax and transfer to the unallocated divisible surplus is wholly attributable to policyholders.

15. Property, plant and equipment

	Group – 2018			Group – 2017		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
Cost or valuation						
At 1 January	48	31	79	48	24	72
Additions	23	14	37	-	7	7
At 31 December	71	45	116	48	31	79
Accumulated depreciation and impairment losses						
At 1 January	(10)	(16)	(26)	(12)	(9)	(21)
Depreciation charge	-	(12)	(12)	-	(7)	(7)
(Impairment losses)/reversal of impairment losses	(3)	-	(3)	2	-	2
At 31 December	(13)	(28)	(41)	(10)	(16)	(26)
Net book value						
At 1 January	38	15	53	36	15	51
At 31 December	58	17	75	38	15	53

For the purposes of the disclosure required by IAS 1, 'Presentation of Financial Statements', all property, plant and equipment held by the Group is classified as being held for more than 12 months from the balance sheet date. The Parent company did not hold any property, plant and equipment at the balance sheet date or at the previous balance sheet date.

Owner-occupied land and buildings shown above are held on a freehold basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows.

	Group	
	2018 £m	2017 £m
Cost	61	38
Accumulated depreciation and impairment losses	(13)	(10)
Net book value	48	28

16. Investment property

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Fair value				
At 1 January	6,103	5,297	3,404	5,290
Additions				
› Capitalised expenditure on existing properties	115	99	112	99
› Acquisition of new properties	608	675	623	661
Disposals	(167)	(134)	(131)	(66)
Transfer to Investment in Group Entities	-	-	-	(2,679)
Net gain from fair value adjustments	175	165	65	99
Foreign exchange gains	-	1	-	-
At 31 December	6,834	6,103	4,073	3,404
Rental income from investment property	314	255	181	219
Direct operating expenses arising from investment property	41	47	20	34

16. Investment property (continued)

For the purposes of the disclosure required by IAS 1, the amount of investment property at the balance sheet date that is classified as being held for more than 12 months is £6,768m for the Group (2017: £6,018m) and £4,036m for the Parent company (2017: £3,354m).

In 2017 the Parent company transferred £2,679m of investment properties into the Royal London UK Real Estate Fund, a subsidiary of the Group.

The fair value of investment property above includes £720m (2017: £601m) for the Group and £443m (2017: £311m) for the Parent company held under finance leases.

The total direct expenses above relating to properties that did not generate income are £7m (2017: £7m) for the Group and £2m (2017: £7m) for the Parent company.

Investment property is revalued to fair value annually with an effective date of 31 December. The fair values are determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The principal valuers used were CBRE Limited, Cushman & Wakefield, and Knight Frank LLP. Fair value is determined using market and income approaches (note 20 (b)). In estimating the fair value of properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The net gain from fair value adjustments shown above represents the net fair value gain on the revaluation of properties held at the balance sheet date and does not include gains or losses realised on properties disposed of during the year.

Investment properties are leased to third parties under operating leases. Under the terms of certain leases, the company is required to repair and maintain the related properties. At the balance sheet date the future minimum lease payments receivable under non-cancellable leases are shown in the following table. For the purposes of this table, the minimum lease period has been taken as the period to the first possible date that the lease can be terminated by the lessee.

These total future minimum lease payments receivable can be analysed as follows.

	Group		Parent company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Not later than one year	**274**	255	**162**	142
Later than one year and not later than five years	**838**	780	**519**	462
Later than five years	**1,493**	1,521	**536**	564
	2,605	2,556	**1,217**	1,168

	Group		Parent company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Freehold	**2,269**	2,218	**1,138**	1,087
Leasehold	**336**	338	**79**	81
	2,605	2,556	**1,217**	1,168

17. Goodwill, Acquired PVIF and Other Intangible assets

The following tables show the movements in the intangible assets of the Group. The Parent company is not presented as it is not materially different to the Group.

	Group – 2018			
	Goodwill £m	Acquired PVIF on insurance contracts £m	Other intangible assets £m	Total £m
Cost				
At 1 January	250	1,013	314	1,577
Additions	-	-	105	105
At 31 December	250	1,013	419	1,682
Accumulated amortisation, impairment losses and disposals				
At 1 January	(18)	(932)	(283)	(1,233)
Amortisation charge	-	(22)	(7)	(29)
Impairment losses	-	(5)	(28)	(33)
Disposals	(3)	-	-	(3)
At 31 December	(21)	(959)	(318)	(1,298)
Net book value				
At 1 January	232	81	31	344
At 31 December	229	54	101	384

Included within other intangible assets are software assets of £101m (2017: £22m). The net book value of intangible assets at 31 December 2018 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) is shown below.

Within 12 months	-	9	2	11
In more than 12 months	229	45	99	373
	229	54	101	384

	Group – 2017				
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Other intangible assets £m	Total £m
Cost					
At 1 January	250	421	1,013	260	1,944
Additions	-	-	-	54	54
At 31 December	250	421	1,013	314	1,998
Accumulated amortisation, impairment losses and disposals					
At 1 January	(18)	(406)	(897)	(241)	(1,562)
Amortisation charge	-	(15)	(25)	(11)	(51)
Impairment losses	-	-	(10)	(31)	(41)
At 31 December	(18)	(421)	(932)	(283)	(1,654)
Net book value					
At 1 January	232	15	116	19	382
At 31 December	232	-	81	31	344

17. Goodwill, Acquired PVIF and Other Intangible assets (continued)

The net book value of intangible assets at 31 December 2017 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) is shown below:

	Group – 2017				
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Other intangible assets £m	Total £m
Within 12 months	-	-	23	8	31
In more than 12 months	232	-	58	23	313
	232	-	81	31	344

(a) Goodwill

Goodwill is the only intangible asset that has an indefinite useful life. The carrying value of £229m comprises £119m (2017: £119m) relating to the acquisition of the former Resolution businesses and assets in 2008 and £110m (2017: £110m) in respect of the acquisition of Scottish Life in 2001. Following the sale of Royal London Asset Management C.I. Limited during the year, the related goodwill of £3m has been disposed of.

Goodwill is tested for impairment annually. The impairment test involves comparing the carrying value of the goodwill to its recoverable amount on a cash-generating unit basis. The recoverable amount of the goodwill has been determined using a value-in-use calculation. This is determined as the present value of the expected profits arising from the future new business written by the relevant business unit. The key assumptions used for the value-in-use calculations are as follows:

- expected profits from future new business are based on the medium-term plan approved by the Board of Directors, which covers a five-year period, and as such reflects the best estimate of future profits based on both historical experience and expected growth rates of around 3%. Some of the assumptions that underlie the budgeted expected profits include customer numbers, premium rate and fee income changes, claims inflation and commission rates;
- growth rates – cash flows beyond that period have been assumed to grow at a steady rate of 1% per annum (2017: 1% per annum); and
- discount rates – the cash flows have been discounted using a risk-adjusted discount rate of 6% (2017: 7%).

For all goodwill items held on the Group and Parent company Balance Sheets as at 31 December 2018 the recoverable amount exceeds the carrying amount of the goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the goodwill to exceed its recoverable amount.

(b) Acquired PVIF on investment contracts

The balance was fully written down during 2017 with no balance remaining in 2018.

(c) Other intangible assets

Other intangible assets include software assets. The software assets are not in use at the year end date, hence no amortisation has been charged. An impairment review has been performed in the year. The impairment loss in the Group of £28m (2017: £31m) is the amount by which the carrying value of certain software within the 'Other Items' segment exceeds its recoverable amount. It is reported within the 'Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets' line of the Consolidated statement of comprehensive income. The software is in the process of being developed and the recoverable amount has been estimated using a value in use calculation based on the latest Board approved business plans and using a discount rate of 6%.

18. Deferred Acquisition Costs (DAC) on investment contracts

	Group and Parent Company 2018 £m
Carrying amount at 1 January before impact of adopting IFRS 15	**262**
Impact of adopting IFRS 15	**82**
Carrying amount at 1 January after impact of adopting IFRS 15	**344**
Additions	**4**
Amortisation	**(44)**
Carrying amount at 31 December	**304**
Expected amortisation	
Within 12 months	42
In more than 12 months	262
Carrying amount at 31 December	304

Following the Group and Parent's adoption of IFRS 15 the carrying value of the DAC asset was increased by £82m at 1 January 2018. For further information refer to note 1(a).

Included within the DAC on investment contract balance is an amount of £149m (2017: £163m) relating to anticipated future commission amounts. For further information refer to note 32.

	Group 2017 £m	Parent company 2017 £m
Carrying amount at 1 January	301	300
Additions	2	2
Amortisation	(41)	(40)
Other movements	-	-
Carrying amount at 31 December	262	262
Expected amortisation		
Within 12 months	38	38
In more than 12 months	224	224
Carrying amount at 31 December	262	262

The Group has adopted IFRS 15 using the modified retrospective approach. The increase in the deferred acquisition costs on investment contract balance arising through the adoption of this standard has been recognised at the date of initial application (1 January 2018), as such there is no impact on the prior year.

19. Pension schemes

Defined contribution arrangements

The Group provides pension benefits for its employees in order to support recruitment, retention and motivation of talented people.

All employees are eligible to join either the Royal London Group Personal Pension (RLGPP), the Ascentric Group Personal Pension Plan (AGPPP) or the Royal London Ireland Pension Plan (RLIPP) according to their employment. The RLGPP, the AGPPP and the RLIPP are all defined contribution arrangements.

These defined contribution arrangements are benchmarked to ensure that the reward package overall is competitive. Where possible under local regulation, employees are auto-enrolled and the Group sees a correspondingly high take-up across employees. The Group pays contributions in respect of these arrangements and these contributions are recognised as an expense as the related employee services are provided. The expense recognised in 2018 is £19m (2017: £17m) and is reported within staff costs (note 10(a)).

Defined benefit schemes

In addition to the above arrangements, the Group operates three legacy funded defined benefit schemes, which are established under separate trusts. The assets of the schemes are held in separate Trustee-administered funds and the funding position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The ability of the defined benefit pension schemes to meet the projected pension payments is maintained through investments and, where applicable, contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions.

The largest defined benefit scheme is the Royal London Group Pension Scheme ('RLGPS'). RLGPS was closed to new entrants on 1 September 2005 and to future accrual of benefits on 31 March 2016.

As a result of the Royal Liver acquisition on 1 July 2011, the Group took responsibility for two further defined benefit pension schemes: the Royal Liver Assurance Limited Superannuation Fund ('Royal Liver UK') and the Royal Liver Assurance Limited (ROI) Superannuation Fund ('Royal Liver ROI'). Royal Liver employees in these schemes stopped earning additional defined benefit pensions on 30 June 2011.

In addition, the Group also operates a small, legacy unfunded unapproved arrangement for certain executives who joined before 1 September 2005, which provides mirroring of the RLGPS accrual benefits, provided by RLGPS above. This has £13m (2017: £13m) of liabilities, for which a provision is held in the Group's balance sheet.

The Group has agreed a funding framework with the RLGPS Trustee, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent triennial valuation dated 31 December 2016, RLGPS had a funding level of 98%. In line with the provisions of the funding framework, the Company and the Trustee agreed that expected investment returns in excess of the prudent assumptions made would be sufficient to eliminate this shortfall.

Consequently, as the Scheme is closed to future accrual, the only contributions payable are, if RLGPS has insufficient surplus, in respect of costs of any augmentations including the award of discretionary pension increases.

The Royal Liver schemes are supported in the first instance by the Royal Liver Assurance fund. Only in the event of that fund having insufficient assets to meet the needs of the Royal Liver schemes would the Royal London Open Fund be required to provide support. This structure is supported via guarantees from the Parent company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2015. As these schemes are closed to future accrual, no contributions are currently payable.

Following the Lloyd's Banking Group High Court ruling in October 2018, allowance for Guaranteed Minimum Pension (GMP) equalisation resulted in a negative impact of £20m in the year. The £20m adjustment reflects the costs to cover higher future payments for affected members plus interest and arrears.

19. Pension schemes (continued)

(a) Amounts recognised in the balance sheet

The amounts recognised in the balance sheet for the Group and Parent company are shown below:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Fair value of plan assets	**3,125**	3,306	**2,531**	2,688	**361**	379	**233**	239
Pension scheme obligation	**(2,912)**	(3,120)	**(2,457)**	(2,641)	**(269)**	(288)	**(186)**	(191)
Net Pension scheme asset	**213**	186	**74**	47	**92**	91	**47**	48

No contributions were made to the schemes in the year to 31 December 2018.

In accordance with paragraph 64 of IAS 19, 'Employee Benefits' the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes, where applicable.

19. Pension schemes (continued)

(b) Reconciliation of pension scheme asset

The movement in the net pension scheme asset during the year can be analysed as follows.

Total	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m	Net pension scheme asset £m	Net pension Scheme Liability £m
At 1 January 2017	(3,118)	3,223	105	131	(26)
RLGPS (net liability at 31 December 2016 to net asset at 31 December 2017)	-	-	-	(26)	26
Costs recognised in result for the year:					
Administration costs	-	(4)	(4)	(4)	-
Interest (expense)/income	(79)	82	3	3	-
Past service cost	(3)	-	(3)	(3)	-
	(82)	78	(4)	(4)	-
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest income	-	137	137	137	-
Changes in financial assumptions	(59)	-	(59)	(59)	-
Experience gains	4	-	4	4	-
	(55)	137	82	82	-
Other movements:					
Exchange differences	(7)	9	2	2	-
Employer contributions	-	1	1	1	-
Benefit payments	142	(142)	-	-	-
At 31 December 2017	(3,120)	3,306	186	186	-
Costs recognised in result for the year:					
Administration costs	-	(4)	(4)	(4)	-
Interest (expense)/income	(74)	80	6	6	-
Past service cost	(29)	-	(29)	(29)	-
	(103)	76	(27)	(27)	-
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest income/(expense)	-	(112)	(112)	(112)	-
Changes in demographic assumptions	15	-	15	15	-
Changes in financial assumptions	127	-	127	127	-
Experience gains	23	-	23	23	-
	165	(112)	53	53	-
Other movements:					
Exchange differences	(1)	2	1	1	-
Benefit payments	147	(147)	-	-	-
At 31 December 2018	**(2,912)**	**3,125**	**213**	**213**	**-**

19. Pension schemes (continued)

(c) Analysis of plan assets

	Total					
	2018			2017		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	**281**	**-**	**281**	269	-	269
High-yield bonds	**108**	**-**	**108**	111	-	111
Index-linked bonds	**848**	**-**	**848**	863	-	863
Corporate bonds	**851**	**11**	**862**	915	6	921
Desposits with credit institutions	**-**	**(6)**	**(6)**	-	-	-
Debt instrument investment funds	**-**	**157**	**157**	14	156	170
Equities	**407**	**-**	**407**	454	-	454
Equity investment funds	**47**	**84**	**131**	86	88	174
Diversified growth collective investment scheme	**-**	**8**	**8**	-	13	13
Property investment funds	**223**	**55**	**278**	230	-	230
Derivative instruments:						
Foreign exchange forwards	**-**	**(1)**	**(1)**	-	-	-
Interest rate and inflation swaps	**-**	**(1)**	**(1)**	-	(3)	(3)
Total return swaps	**153**	**(149)**	**4**	(1)	7	6
Cash and other receivables	**-**	**49**	**49**	-	98	98
Fair value of plan assets	**2,918**	**207**	**3,125**	2,941	365	3,306

The RLGPS IAS 19 plan assets include a total of £517m (2017 £521m) investment in Group managed funds.

(d) Risks

All three schemes are exposed to differing levels of interest rate, inflation, credit and market risk. The Group has agreed with the Trustee Boards of each pension scheme that, where appropriate, each scheme's risks will be managed in line with the Group's risk appetite. In particular, the schemes' investment strategies are designed to minimise interest rate, inflation and market risk exposure where this is cost and capital effective.

The schemes have active liability-driven investment strategies using a combination of corporate and sovereign debt and derivative instruments such as interest rate and inflation swaps. Approximately 60% of RLGPS assets and 90% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk. During the year the Trustee of the RLGPS increased the hedge ratio to around 95% of interest rate and inflation exposure on the technical provisions through the use of various derivative instruments.

The schemes' exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. within RLGPS by allocations to property and to high-yield debt). Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection.

The schemes, and therefore the Group, are also exposed to longevity risk.

Further information on the schemes' risk management strategies can be found in the schemes' annual reports and accounts which are available on the Group's website.

19. Pension schemes (continued)

(e) Assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme asset for both the Group and the Parent company are shown below.

	2018		2017	
	UK %	ROI %	UK %	ROI %
Discount rate	2.8	1.8	2.5	1.8
Price inflation (RPI)	3.3	N/A	3.2	N/A
Price inflation (CPI)	2.2	1.7*	2.1	1.8*

* Figures shown are Irish CPI used for increasing deferred pensions between leaving and retirement. Pension increases for ROI pensions in payment are based on UK CPI.

The most significant non-financial assumption is the assumed rate of mortality. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a scheme member aged 60 (non-pensioner is assumed to be 45 now). A weighted average is shown for the UK schemes.

	Group and Parent company					
	2018			2017		
	RLGPS	RL UK	RL ROI	RLGPS	RL UK	ROI
Pensioner						
Male	27	26	26	27	27	26
Female	29	28	29	27	29	29
Non-pensioner						
Male	28	27	28	28	28	28
Female	30	29	30	29	30	30

The sensitivity of the defined benefit obligations to changes in the principal assumptions is shown in the table below.

	Increase in defined benefit obligation	
	2018 £m	2017 £m
100 basis point decrease in discount rates	551	639
5% proportionate decrease in mortality	45	51
100 basis point increase in price inflation (RPI & CPI)	326	381

This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognised within the balance sheet.

The information provided above shows the sensitivity of the schemes' liabilities to changes in the key assumptions. Due to the asset-liability matching strategies, the impact of changes in discount rates and inflation will also impact the schemes' asset values, thereby mitigating the effect of such changes on the Group.

(f) Maturity profile

The weighted average duration of the defined benefit obligation is 20 years (2017: 19 years).

20. Fair value assets and liabilities

(a) Fair value hierarchy

Assets and liabilities held at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The position assigned to the asset or liability in the fair value hierarchy has to be determined by the lowest level of any input to its valuation that is considered to be significant to the valuation of the asset or liability in its entirety. The hierarchy only reflects the methodology used to derive the asset's or liability's fair value. The three levels of the hierarchy are as follows:

Level 1 – Quoted prices in active markets

Inputs to level 1 fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and at sufficient volumes to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices included within level 1 that are observable

Inputs to level 2 fair values are those other than quoted prices included within level 1, which are observable for the asset or liability, either directly as prices or indirectly, i.e. derived from prices. Level 2 inputs include:

- quoted prices for identical assets in markets that are not active;
- quoted prices for similar assets in active markets; and
- inputs to valuation models that are observable for the asset. For example, interest rates and yield curves observable at commonly quoted intervals, volatilities and swap rates.

Level 3 – Inputs not based on observable data

Inputs to level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs are typically used where observable inputs are not available.

The Group and Parent company's assets and liabilities classified into the three levels of the fair value hierarchy are shown in the following tables. The majority of the Group and Parent company's assets and liabilities measured at fair value are based on quoted prices in active markets or observable market data. Of the total Group assets and liabilities measured at fair value, 8.8% (2017: 7.8%) of assets and 0.3% (2017: 0.3%) of liabilities are recorded as Level 3. At Parent company level, 10.3% (2017: 8.8%) of assets and 0.3% (2017: 0.4%) of liabilities are recorded as Level 3.

20. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Group – 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
› Quoted	27,140	23	2	27,165
› Unquoted	-	-	416	416
Debt and fixed income securities				
› Government bonds	13,368	1,600	-	14,968
› Other quoted	24	19,841	-	19,865
› Loans secured by policies	-	-	3	3
› Deposits with credit institutions	-	-	-	5,280
› Other unquoted	-	2,914	69	2,983
Other investments				
› Unit trusts and other pooled investments	8,332	-	384	8,716
Total financial investments designated as FVTPL	48,864	24,378	874	79,396
Financial investments classified as held for trading				
Derivative assets	-	3,171	-	3,171
Total financial investments	48,864	27,549	874	82,567
Other assets held at fair value				
Owner-occupied land and buildings (note 15)	-	-	58	58
Investment property (note 16)	-	-	6,834	6,834
Future commission included in investment contract DAC (note 18)	-	-	149	149
Total assets at fair value	48,864	27,549	7,915	89,608
Liabilities held at fair value				
Non-participating investment contract liabilities (note 27)	-	(42,652)	-	(42,652)
Reinsurance liability (note 31)	-	(2,753)	-	(2,753)
Derivative liabilities (note 31)	-	(1,408)	-	(1,408)
Provision for future commission (note 32)	-	-	(149)	(149)
Liability to external unit holders (note 34b)	(7,428)	-	-	(7,428)
Total liabilities at fair value	(7,428)	(46,813)	(149)	(54,390)

Included in the figures for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £196m (2017: £175m).

Included in the figure for unquoted debt securities above is £2,753m (2017: £2,957m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 31).

Included in the figures for deposits with credit institutions is £544m (2017: £1,160m) of reverse repurchase deposits.

20. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Group – 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
› Quoted	28,474	48	7	28,529
› Unquoted	4	-	437	441
Debt and fixed income securities				
› Government bonds	13,116	2,328	-	15,444
› Other quoted	9	17,391	2	17,402
› Loans secured by policies	-	-	4	4
› Deposits with credit institutions	-	-	-	5,126
› Other unquoted	-	3,134	32	3,166
Other investments				
› Unit trusts and other pooled investments	8,569	-	385	8,954
Total financial investments designated as FVTPL	50,172	22,901	867	79,066
Financial investments classified as held for trading				
Derivative assets	-	4,262	-	4,262
Total financial investments	50,172	27,163	867	83,328
Other assets held at fair value				
Owner-occupied land and buildings (note 15)	-	-	38	38
Investment property (note 16)	-	-	6,103	6,103
Total assets at fair value	50,172	27,163	7,008	89,469
Liabilities held at fair value				
Non-participating investment contract liabilities (note 26)	-	(38,847)	-	(38,847)
Reinsurance liability (note 31)	-	(2,957)	-	(2,957)
Derivative liabilities (note 31)	-	(1,511)	-	(1,511)
Provision for future commission (note 32)	-	-	(163)	(163)
Liability to external unit holders (note 34b)	(6,785)	-	-	(6,785)
Total liabilities at fair value	(6,785)	(43,315)	(163)	(50,263)

20. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Parent – 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
› Quoted	6,908	2	2	6,912
› Unquoted	-	-	413	413
Debt and fixed income securities				
› Government bonds	10,938	1,102	-	12,040
› Other quoted	2	10,085	-	10,087
› Loans secured by policies	-	-	3	3
› Deposits with credit institutions	-	-	-	906
› Other unquoted	-	2,914	67	2,981
Other investments				
› Unit trusts and other pooled investments	7,795	-	247	8,042
Total financial investments designated as FVTPL	25,643	14,103	732	41,384
Financial investments classified as held for trading				
Derivative assets	-	3,171	-	3,171
Total financial investments	25,643	17,274	732	44,555
Other assets held at fair value				
Investment property (note 16)	-	-	4,073	4,073
Investments in Group entities (note 22)	30,722	1,001	3,751	35,474
Future commission included in investment contract DAC (note 18)	-	-	149	149
Total assets at fair value	56,365	18,275	8,705	84,251
Liabilities held at fair value				
Non-participating investment contract liabilities (note 27)	-	(42,652)	-	(42,652)
Reinsurance liability (note 31)	-	(2,753)	-	(2,753)
Derivative liabilities (note 31)	-	(1,390)	-	(1,390)
Provision for future commission (note 32)	-	-	(149)	(149)
Total liabilities at fair value	-	(46,795)	(149)	(46,944)

Included in the figures for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £175m (2017: £173m).

Included in the figure for unquoted debt securities above is £2,753m (2017: £2,957m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 31).

Included in the figures for deposits with credit institutions is £544m (2017: £1,160m) of reverse repurchase deposits.

20. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Parent – 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
› Quoted	8,205	3	2	8,210
› Unquoted	-	-	388	388
Debt and fixed income securities				
› Government bonds	10,787	1,190	-	11,977
› Other quoted	9	9,820	2	9,831
› Loans secured by policies	-	-	4	4
› Deposits with credit institutions	-	-	-	1,545
› Other unquoted	-	3,133	30	3,163
Other investments				
› Unit trusts and other pooled investments	8,278	-	269	8,547
Total financial investments designated as FVTPL	27,279	14,146	695	43,665
Financial investments classified as held for trading				
Derivative assets	-	4,260	-	4,260
Total financial investments	27,279	18,406	695	47,925
Other assets held at fair value				
Investment property (note 16)	-	-	3,404	3,404
Investments in Group entities	29,865	-	3,317	33,182
Total assets at fair value	57,144	18,406	7,416	84,511
Liabilities held at fair value				
Non-participating investment contract liabilities (note 27)	-	(38,847)	-	(38,847)
Reinsurance liability (note 31)	-	(2,957)	-	(2,957)
Derivative liabilities (note 31)	-	(1,510)	-	(1,510)
Provision for future commission (note 32)	-	-	(163)	(163)
Total liabilities at fair value	-	(43,314)	(163)	(43,477)

20. Fair value assets and liabilities (continued)

(b) Fair value of the Group and Parent company's assets and liabilities that are measured at fair value on a recurring basis

The assets and liabilities outlined in the fair value hierarchy above are measured at fair value on a recurring basis. The following table gives information about the valuation techniques and inputs used to develop those measurements.

Asset/liability	Valuation techniques and key inputs
Equity securities – quoted	Quoted prices in active market Quoted prices, insufficient activity to confirm active market Quoted prices, shares delisted or pending corporate actions
Equity securities - unquoted	Fair value is derived using observable market prices Unquoted Private equity and Property funds are valued at NAV
Debt and fixed income securities – Government bonds	FTSE Russell Trade Web
Debt and fixed income securities – other quoted	Third party quoted prices Quoted prices in an active market Mark to model
Debt and fixed income securities – loans secured by policy	Carrying value
Debt and fixed income securities – other unquoted	Third party prices Mark to model
Other investments – unit trusts and other pooled investments – Quoted	Quoted prices in active market Quoted prices, insufficient activity to confirm active market
Other investments – unit trusts and other pooled investments – Unquoted	NAV
Derivative assets and liabilities	Mark to model technique using market inputs. Market inputs vary by derivative type and include: › market swap rates (interest rate swaps, total return swaps and inflation swaps); › forward swap rates and interest rate volatility (interest rate swaptions); and › foreign exchange rates (currency forwards).
Owner-occupied land and buildings (Group only)	Income capitalisation & market comparison
Investment property	Income capitalisation & market comparison
Investment in Group entities – shares	Net present value of future projected cash flows, PE multiple and NAV/Carrying value
Investment in Group entities – loans	Carrying value
Investment in Group entities – investment funds	Quoted prices in an active market Quoted prices (insufficient activity to confirm active market) NAV provided by external fund manager
Future commission included in investment contract DAC	Present value of future projected cash flows
Non-participating investment contract liability	Determined by the fair value of the net assets of the underlying unitised investment fund
Reinsurance liability	Discounted cash flows are used to derive the fair value
Provision for future commission	Present value of future projected cash flows
Liability to external unit holders	Quoted prices in an active market

There are no fair value measurements in the balance sheet on a non-recurring basis.

20. Fair value assets and liabilities (continued)

(c) Fair value of the Group and Parent company's assets and liabilities that are not measured at fair value on a recurring basis (but the fair values are disclosed)

		Group and Parent company			
		2018		2017	
Asset/liability	Valuation techniques and key inputs	Fair value £m	Fair value hierarchy level	Fair value £m	Fair value hierarchy level
Subordinated liabilities	Quoted market price.	**806**	**2**	883	2

(d) Level 3 assets and liabilities

For the majority of level 3 investments, the Group and Parent company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and Parent company review the appropriateness of these valuations on the following basis:

- for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market; and
- corporate bonds are predominantly valued using single broker indicative quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements.

The fair value measurements for level 3 investments are reviewed by the RLAM Valuation Oversight Committee and the Group Valuation Oversight Committee, which has delegated committee authority from the Audit Committee. The Audit Committee review and make the recommendation to the Group Board to approve the valuation of investment assets at the half year and year end for inclusion in the financial statements. The Group Valuation Oversight Committee is responsible for agreeing the valuation basis for any investment assets or liabilities where a market price is not readily available, as well as agreeing any changes to the valuation principles applicable to all investment assets and liabilities.

Changes in the assumptions used to calculate the level 3 valuations to reasonably possible alternative assumptions would have the following impact on the Royal London Group IFRS result before tax for the year. Only changes in assets held by the Royal London Open Fund would impact the Group's IFRS result for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below:

- for level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2018 would result in a £6m increase or decrease in result before tax or total assets or liabilities; and
- for level 3 corporate bonds, increasing assumed yields at 31 December 2018 by 100bps would result in a decrease in result before tax and the fair value of the corporate bonds of £1m. Decreasing assumed yields at 31 December 2018 by 100bps would result in an increase in result after tax and the fair value of the corporate bonds of £1m.

20. Fair value assets and liabilities (continued)

(d) Level 3 assets and liabilities (continued)

Information about fair value measurements using significant unobservable inputs.

Asset/liability	Valuation technique	Unobservable input	Range (weighted average)
Owner-occupied property and investment property	Income capitalisation	Equivalent yield	4.9%-8.5% (5.1%)
		Estimated rental value per square foot	£13.06-£21.00 (£13.77)
	Market comparison	Price per acre	£2,695,000
Equity securities – unquoted – private equity and property funds	Adjusted net asset value	Adjustment to net asset value	n/a
Debt and fixed income securities	Single broker quotes	Unadjusted single broker quotes	n/a
Loans secured by policies	Carrying value	Adjustment to carrying value	n/a
Unit trusts and other pooled Investments	Adjusted net asset value	Adjustment to net asset value	n/a
Investments in Group entities – shares	Net present value of future projected cash flows and PE multiple	RLUM	
		Fees (bps) p.a.	19.5
		Expenses (bps) p.a.	10.7
		Investment return (%) p.a.	1.5
		Surrender rate (%) p.a.	15
		Funds under management end 2018 (£m)	3,548
		Tax	At enacted rates of corporation tax
		RLAM	
		PE multiple	15
Investments in Group entities – Loans	Carrying value	Carrying value	n/a
Provision for future commission	Present value of future projected cash flows	Future based renewal commission rated (%) p.a.	0.00%-0.52%
		Investment return (%) p.a.	0.56%
		Surrender rate (%) p.a.	1.1%-4.8%
		Value of underlying funds at end 2018 (£m)	3,803

The Group and Parent company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period. £2m in the Group and the Parent company has been transferred from level 2 to level 1 as a quoted price in an active market was available as at 31 December 2018 (2017: £7m in the Group and £1m in the Parent company). In addition, £7m in the Group (2017: £10m) and £7m in the Parent company (2017: £2m) was transferred from level 1 to level 2, as although quoted prices were available at 31 December 2018, there was insufficient trading activity to evidence that the market was active at that date. Transfers in and out of Level 3 are disclosed in the tables overleaf.

20. Fair value assets and liabilities (continued)

(d) Level 3 assets and liabilities (continued)

Movement during the year in the level 3 assets and liabilities.

	Group – 2018				
	Financial investments £m	Owner-occupied property £m	Investment property £m	Future commission included in investment contract DAC £m	Total £m
At 1 January	**867**	**38**	**6,103**	**-**	**7,008**
Purchases	**103**	**23**	**723**	**-**	**849**
Sales	**(138)**	**-**	**(167)**	**-**	**(305)**
Net (losses) and gains recognised in statement of comprehensive income	**21**	**(3)**	**175**	**-**	**193**
Transfers into level 3	**21**	**-**	**-**	**149**	**170**
At 31 December	**874**	**58**	**6,834**	**149**	**7,915**
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	**(23)**	**(4)**	**220**	**(14)**	**179**

The movement during the year on the provision for future commission liability held within level 3 is outlined within note 32.

	Group – 2017			
	Financial investments £m	Owner-occupied property £m	Investment property £m	Total £m
At 1 January	861	36	5,297	6,194
Purchases	216	-	774	990
Sales	(166)	-	(134)	(300)
Net (losses) and gains recognised in statement of comprehensive income	(56)	2	166	112
Transfers into level 3	12	-	-	12
At 31 December	867	38	6,103	7,008
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(72)	2	166	96

20. Fair value assets and liabilities (continued)

(d) Level 3 assets and liabilities (continued)

	Parent company – 2018				
	Financial investments £m	Investment property £m	Investments in Group entities £m	Future commission included in investment contract DAC £m	Total £m
At 1 January	695	3,404	3,317	-	7,416
Purchases	146	735	361	-	1,242
Sales	(129)	(131)	(163)	-	(423)
Net (losses) and gains recognised in statement of comprehensive income	1	65	144	-	210
Transfers into Level 3	19	-	92	149	260
At 31 December	732	4,073	3,751	149	8,705
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(23)	115	144	(14)	222

The movement during the year on the provision for future commission liability held within level 3 is outlined within note 32.

	Parent company – 2017			
	Financial investments £m	Investment property £m	Investments in Group entities £m	Total £m
At 1 January	755	5,290	451	6,496
Purchases	150	760	-	910
Sales	(164)	(66)	(3)	(233)
Transfers into investment in Group entities (note 16)	-	(2,679)	2,679	-
Net (losses) and gains recognised in statement of comprehensive income	(58)	99	115	156
Transfers into Level 3	12	-	75	87
At 31 December	695	3,404	3,317	7,416
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(72)	75	115	118

The 'Net gains and (losses) recognised in statement of comprehensive income' shown above are included within 'Investment return'. The Group and Parent company's policy is to recognise transfers into and out of level 3 at the end of the reporting period.

21. Financial investments

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Financial investments held at fair value through profit or loss (FVTPL)				
› Classified as held for trading	3,171	4,262	3,171	4,260
› Designated as FVTPL	79,396	79,066	41,384	43,665
	82,567	83,328	44,555	47,925

For the purposes of the disclosure required by IAS 1, it has been assumed that financial investments will be realised in order to settle the claims expected to arise during the 12 months following the balance sheet date. On this basis, the amount of financial investments at the balance sheet date that are classified as being held for more than 12 months is £77,404m for the Group (2017: £78,143m) and £39,392m for the Parent company (2017: £42,734m).

21. Financial investments (continued)

The Parent company includes within its investment portfolio a significant holding in OEICs and other investment funds managed by subsidiary companies. Those funds over which the Parent company has control are classified as subsidiaries ('consolidated funds'). The Parent company's investment in these consolidated funds is shown in Note 22 and is not included in the Parent company figures. On consolidation, the underlying investments of the consolidated funds are included within the appropriate investment line in the balance sheet and are therefore included in the Group figures shown below.

(a) Derivative financial instruments

The Group and Parent company utilise derivative instruments to hedge market risk (see note 40 (b)), for efficient portfolio management and for the matching of liabilities to policyholders. Derivatives are either 'exchange-traded' (regulated by an exchange), which have a quoted market price, or 'over-the-counter' (individually negotiated between the parties to the contract), which are unquoted.

The Group is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other financial investments. To mitigate this risk, a portion of the fair value of the derivatives held by the Group at any point in time is matched by collateral and cash margin received from the counterparty to the transaction. Cash margin is collateral in the form of cash. Initial cash margin is exchanged at the outset of the contract. Variation margin is exchanged during the life of the contract in response to changes in the value of the derivative. The remaining credit risk is managed within the Group's risk management framework, which is discussed further in note 40(c).

The Group and Parent company utilise the following derivatives:

Options and warrants

Options are contracts under which the seller grants the buyer the right, but not the obligation, to buy or to sell a specific amount of a financial instrument at a pre-determined price, at or by a set date, or during a set period. The Group uses equity options to manage its exposure to fluctuations in equity markets and to back certain products which include a guaranteed investment return based on equity values. Warrants give the holder the right to purchase a particular equity at a specified price.

Futures

A futures contract is an agreement to buy or sell a given quantity of a financial instrument, at a specified future date at a pre-determined price. The Group uses futures to manage its exposure to fluctuations in equity markets.

Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

Swaptions

Swaptions are options to enter into an interest rate swap at a future date, and are used to limit exposure to fluctuations in interest rates over the long term.

Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are principally used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

Currency forwards

A currency forward is a contract to exchange an agreed amount of currency at a specified exchange rate and on a specified date. The Group uses currency forwards to reduce exposure to movements in exchange rates.

Inflation swaps

An inflation swap is a contract under which there is an exchange of cash flows in order to transfer inflation risk. One party pays a fixed rate while the other party pays a floating rate that is linked to an inflation index.

21. Financial investments (continued)

(a) Derivative financial instruments (continued)

Fair value of derivative instruments held

	Group					
	2018			2017		
	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Equity options and warrants	423	52	-	553	65	(14)
Interest rate swaps	34,396	2,892	(1,368)	30,307	3,972	(1,482)
Interest rate swaptions	6,681	182	-	7,139	196	-
Total return swaps	793	16	-	987	-	(12)
Inflation swaps	664	24	-	664	19	(1)
Currency forwards	2,439	5	(40)	1,211	10	(2)
Total derivative assets/(liabilities)		3,171	(1,408)		4,262	(1,511)

	Parent company					
	2018			2017		
	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Equity options and warrants	422	52	-	553	65	(14)
Interest rate swaps	33,995	2,893	(1,368)	30,307	3,972	(1,482)
Interest rate swaptions	6,681	182	-	7,139	196	-
Total return swaps	793	16	-	987	-	(12)
Inflation swaps	664	24	-	664	19	(1)
Currency forwards	2,015	4	(22)	796	8	(1)
Total derivative assets/(liabilities)		3,171	(1,390)		4,260	(1,510)

In addition to the above, the Group and Parent company make use of futures contracts. At 31 December 2018, the Group and Parent company had entered into equity futures trades giving exposure to equities with a notional value of Group £3,238m (2017: £1,938m) and Parent company £2,807m (2017: £447m). The equity futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

The Group paid initial cash margin of £162m (2017: £35m) and Parent company £137m (2017: £18m) in respect of these trades, which is included within 'trade and other receivables'.

The net variation margin payable by the Group was £18m at 31 December 2018 (2017: £1m) and Parent company £17m (2017: £1m), being the amount due for the movement on the last business day of 2018, which was settled on the first business day in 2019. Variation margin receivable is included within 'trade and other receivables' and variation margin payable is included within 'payables and other financial liabilities'.

(b) Collateral and other arrangements

(i) Stock loan agreements

The Group and Parent company have entered into a number of stock lending transactions that transfer legal title to third parties, but not the exposure to the income and market value movements arising from those assets. As a result, the Group and Parent company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and Parent company balance sheets. There are no restrictions arising from the transfers.

The assets transferred under these agreements are secured by the receipt of collateral. The level of collateral held is monitored regularly and adjusted as necessary to manage exposure to credit risk.

The collateral received was in the form of UK, US, Japanese and European Government bonds and quoted equities. There were no borrower defaults in the year (2017: none).

21. Financial investments (continued)

(b) Collateral and other arrangements (continued)

(i) Stock loan agreements (continued)

The following table shows the assets within the Group and Parent company balance sheets that have been transferred under stock loan agreements and the related collateral received.

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Stock loan agreements				
› Listed equities	**2,601**	2,595	**977**	919
› Corporate bonds	**251**	84	**222**	64
› Government bonds	**1,211**	1,557	**1,015**	1,390
	4,063	4,236	**2,214**	2,373
Collateral received	**4,309**	4,446	**2,347**	2,470

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £650m for both the Group and the Parent company (2017: £877m). The collateral received was in the form of UK Gilts. It may be sold or re-pledged in the absence of default. No collateral was sold or re-pledged in the year (2017: £nil) and there were no defaults in the year (2017: none).

Cash margin received was £1,214m (2017: £1,943m) for both the Group and the Parent company. Cash margin received is included within 'cash and cash equivalents', with an offsetting liability included within 'payables and other financial liabilities'.

The market value of derivatives in respect of which collateral and cash margin were received was £1,877m for both the Group and the Parent company (2017: £2,814m).

Collateral of £2,761m was received for both the Group and the Parent company (2017: £2,961m) in respect of an unlisted debt security. The collateral received was in the form of UK Government bonds, other fixed income debt securities, floating rate notes and cash.

The market value of the debt security in respect of which the collateral was received was £2,753m (2017: £2,957m).

(iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £3m for both the Group and the Parent company (2017: £18m). The collateral pledged was in the form of UK Gilts. It may be sold or re-pledged in the absence of default.

Cash margin pledged in respect of derivatives was £81m (2017: £77m) for both the Group and Parent company. A corresponding asset is included within 'trade and other receivables'.

The market value of derivatives in respect of which collateral and cash margin were pledged was £79m for both the Group and the Parent company (2017: £68m).

In addition, the Group and Parent company pledged £656m of initial margin (2017: £968m) in respect of derivatives. This was pledged in the form of UK gilts.

The Group and Parent company have entered into reverse repurchase transactions with a cash value of £544m (2017: £1,160m). The value of the UK gilts associated with these deposits at 31 December 2018 was £546m (2017: £1,167m). Collateral in the form of UK gilts of £7m (2017: £5m) was pledged in respect of those transactions.

21. Financial investments (continued)

(c) Sovereign debt exposures

Included within the Group and Parent company's government bonds are the following exposures to sovereign debt shown by country.

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
UK	**13,368**	13,116	**10,938**	10,787
Germany	**127**	157	**101**	128
France	**178**	189	**156**	169
Belgium	**46**	53	**42**	50
Other Europe	**205**	255	**155**	210
USA	**223**	237	**60**	57
Japan	**92**	124	**11**	26
Rest of World	**34**	47	**26**	34
Total	**14,272**	14,178	**11,489**	11,461

Group exposure to the sovereign debt of Italy and Spain was less than 1% of total sovereign debt exposure (2017: less than 1%). The Group had no exposure to the sovereign debt of Greece, Portugal, Argentina or Turkey.

22. Investments in Group entities

The Parent company's investments in Group entities comprise:

	Parent company	
	2018 £m	2017 £m
Shares	**673**	491
Loans	**29**	13
OEICs and other investment funds	**34,772**	32,678
	35,474	33,182

Investments in Group entities are carried in the balance sheet at fair value. For the purposes of the disclosure required by IAS 1, all of the investments in Group entities held at the balance sheet date are classified as being held for more than 12 months.

The OEICs and other investment funds represent the Parent company's investment in funds which are managed by subsidiaries of the Group and over which the Group has control.

The Group's wholly owned subsidiary, Royal London Asset Management C.I. Limited (RLAM C.I.), was sold on 31 October 2018. The cash consideration received was £3.6m giving rise to a loss on sale of £1.4m. The disclosure of IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations' has not been applied to RLAM C.I. as it is not material to the Group.

During the year the Group set up an Irish insurance subsidiary, Royal London Insurance Designated Activity Company (RLI DAC). The company was incorporated on 11 July 2018 with regulatory permissions effective from 1 January 2019. It is 100% owned by RLMIS.

The Group also set up Royal London (UK) Holdings Limited (RLUKHL) which was incorporated in England and Wales on 4 June 2018 to act as an intermediate holding company within the RL Group. It is 100% owned by RLMIS and is the immediate parent company of RLUM Limited.

22. Investments in Group entities (continued)

(a) Subsidiaries

The Parent company has the following subsidiaries with a registered office of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted by a letter which corresponds to the addresses listed in the table on page 141. All subsidiary undertakings are included in the consolidation.

Name	% holding 2018	% holding 2017	Nature of business	Registered Office
Operational subsidiaries:				
Royal London Asset Management Limited	100.0	100.0	Investment management	-
Royal London Asset Management Bond Funds plc	99.0	99.0	Investment management	A
Royal London Insurance Designated Activity Company	100.0	100.0	Regulated Insurance provider	C
Royal London Unit Trust Managers Limited	100.0	100.0	Unit trust management	-
RL Marketing (CIS) Limited	100.0	100.0	ISA management	-
Royal London Savings Limited	100.0	100.0	ISA management	-
RL Finance Bonds No.2 plc	100.0	100.0	Finance company	-
RL Finance Bonds No.3 plc	100.0	100.0	Finance company	-
RLUM Limited	100.0	100.0	Unit trust management	-
Royal London Management Services Limited	100.0	100.0	Service company	-
Hornby Road Investments Limited[1]	100.0	100.0	Property company	-
Cambridge Research Park Limited[2]	100.0	N/A	Property company	G
Cambridge Research Park Management Company Limited[2]	69.0	N/A	Property company	H
RLPPF Kings Norton Limited[2]	100.0	N/A	Property company	I
Wrap IFA Services Limited[1]	100.0	100.0	Holding company	-
Investment Funds Direct Group Limited	100.0	100.0	Holding company	B
Investment Funds Direct Holdings Limited	100.0	100.0	Holding company	B
Investment Funds Direct Limited	100.0	100.0	Wrap platform management	B
RL Corporate Pension Services Limited[1]	100.0	100.0	Pensions administration & consultancy services	-
Royal London Marketing Limited	100.0	100.0	Intermediary	-
Royal London (UK) Holdings Limited[1]	100.0	100.0	Holding company	-
Nominee companies:				
Fundsdirect Isa Nominees Limited	100.0	100.0	Nominee company	B
Fundsdirect Nominees Limited	100.0	100.0	Nominee company	B
IFDL Personal Pensions Limited	100.0	100.0	Nominee company	B
RL Marketing ISA Nominees Limited	100.0	100.0	Nominee company	-
RLAM (Nominees) Limited	100.0	100.0	Nominee company	-
RLS Nominees Limited	100.0	100.0	Nominee company	-
Trustee companies:				
R.L. Pensions Trustees Limited	100.0	100.0	Trustee company	-
R.L.M. Staff Pension Trust Limited	100.0	100.0	Trustee company	-
RL Pension Trustees (ROI) Limited	100.0	100.0	Trustee company	C
RLGPS Trustee Limited	100.0	100.0	Trustee company	-
Royal Liver Pension Trustee Services Limited	100.0	100.0	Trustee company	-
Royal Liver Trustee Services Ireland Limited	100.0	100.0	Trustee company	C
Royal Liver Trustees Limited	100.0	100.0	Trustee company	-
Royal London Trustee Services Limited	100.0	100.0	Trustee company	-

22. Investments in Group entities (continued)

(a) Subsidiaries (continued)

Name	% holding 2018	% holding 2017	Nature of business	Registered Office
Unit trusts, OEICs and other investment funds reported as subsidiaries under IFRS:				
The Royal London UK Mid Cap Growth Fund	75.9	72.0	OEIC	-
The Royal London UK Opportunities Fund	98.7	98.5	OEIC	-
The Royal London European Opportunities Fund	99.9	99.9	OEIC	-
The Royal London Japan Tracker Fund	95.0	95.4	OEIC	-
The Royal London FTSE 350 Tracker Fund	95.7	95.3	OEIC	-
The Royal London US Tracker Fund	98.2	94.5	OEIC	-
The Royal London All Share Tracker Fund	63.7	65.7	OEIC	-
The Royal London Index Linked Fund	59.9	68.4	OEIC	-
The Royal London UK Growth Fund	94.5	94.0	OEIC	-
The Royal London European Growth Fund	94.1	93.2	OEIC	-
The Royal London Growth Fund	56.1	80.1	OEIC	-
The Royal London UK Equity Fund	93.8	93.8	OEIC	-
The Royal London Asia Pacific ex Japan Tracker Fund	96.5	96.1	OEIC	-
The Royal London UK Smaller Companies Fund	98.1	98.0	OEIC	-
The Royal London Cash Plus Fund	60.1	66.8	OEIC	-
The Royal London Enhanced Cash Plus Fund	52.1	57.0	OEIC	-
The Royal London Investment Grade Short Duration Credit Fund[2]	N/A	33.0	OEIC	-
The Royal London Global Bond Opportunities Fund	80.9	99.8	OEIC	A
The Royal London European Corporate Bond Fund	98.3	99.6	OEIC	-
The Royal London Europe ex UK Tracker Fund	96.9	97.8	OEIC	-
The Royal London International Government Bonds Fund	94.1	93.8	OEIC	-
The Royal London Short Duration Gilt Fund	32.4	45.7	OEIC	-
The Royal London Short Duration Global High Yield Fund	40.7	39.4	OEIC	A
The Royal London Global High Yield Bond Fund	95.7	97.0	OEIC	A
The Royal London Short-term Money Market Fund	73.9	75.9	OEIC	-
The Royal London Absolute Return Government Bond Fund	81.1	90.8	OEIC	A
The Royal London Conservative Fund	97.3	98.4	OEIC	-
The Royal London Balanced Fund	51.7	71.5	OEIC	-
The Royal London Adventurous Fund	60.7	62.2	OEIC	-
The Royal London Dynamic Fund	96.8	98.1	OEIC	-
The Royal London Defensive Fund	72.2	64.9	OEIC	-
The Royal London Emerging Markets Equity Tracker Fund	96.4	96.3	OEIC	-
The Royal London Global Equity Diversified Fund	100.0	100.0	OEIC	-
The Royal London Global Equity Select Fund	99.2	100.0	OEIC	-
The Royal London UK Real Estate Fund	100.0	100.0	OEIC	-
The Royal London UK Government Bond Fund	52.7	38.3	OEIC	-
The Royal London Multi Asset Credit Fund	72.6	64.2	OEIC	-
The Royal London Duration Hedged Credit Fund[2]	41.6	N/A	OEIC	-
The Royal London Sterling Liquidity Fund[2]	99.9	N/A	OEIC	-
The Royal London Monthly Income Bond Fund[2]	99.9	N/A	OEIC	-
The Royal London Multi Asset Strategies Fund[2]	50.0	N/A	OEIC	-
The Royal London Sustainable Managed Income Trust	63.9	66.3	Unit trust	-
The Royal London Sustainable Managed Growth Trust[2]	N/A	44.5	Unit trust	-
The Royal London US Growth Trust	59.7	58.1	Unit trust	-
The Royal London European Growth Trust	37.9	38.2	Unit trust	-
The Royal London Corporate Bond Monthly Fund[2]	N/A	36.2	Unit trust	-
The Royal London Property Trust	100.0	100.0	Property trust	-
Vision Park Management Limited	86.0	86.0	Property trust	F

22. Investments in Group entities (continued)

(a) Subsidiaries (continued)

Name	% holding 2018	% holding 2017	Nature of business	Registered Office
Non-trading companies:				
Brightgrey Limited	**100.0**	100.0	Non-trading	-
Canterbury Life Assurance Company Limited	**100.0**	100.0	Non-trading	-
Capitol Way Commercial No 1 Limited	**100.0**	100.0	Non-trading	-
Capitol Way Commercial No 2 Limited	**100.0**	100.0	Non-trading	-
Capitol Way Estate Management Limited	**100.0**	100.0	Non-trading	-
Capitol Way Estate No 1 Limited	**100.0**	100.0	Non-trading	-
Capitol Way Estate No 2 Limited	**100.0**	100.0	Non-trading	-
Investment Sciences Limited	**100.0**	100.0	Non-trading	-
Leyburn Developments Limited	**100.0**	100.0	Non-trading	-
Nodessa File (One) Limited[3]	**100.0**	100.0	Non-trading	E
Nodessa File (Two) Limited[3]	**100.0**	100.0	Non-trading	E
RL Finance Bonds plc	**100.0**	100.0	Non-trading	-
RL Schedule 2C Holdings Limited	**100.0**	100.0	Non-trading	-
R.A.Securities Limited	**100.0**	100.0	Non-trading	-
Refuge Assurance Limited	**100.0**	100.0	Non-trading	-
Refuge Investments Limited	**100.0**	100.0	Non-trading	-
Refuge Life Assurance Consultants Limited	**100.0**	100.0	Non-trading	-
Refuge Portfolio Managers Limited	**100.0**	100.0	Non-trading	-
RL LA Limited	**100.0**	100.0	Non-trading	D
RL NPB Services Limited	**100.0**	100.0	Non-trading	-
RLM Finance Bonds Plc	**100.0**	100.0	Non-trading	-
RLM Finance Plc[1]	**100.0**	100.0	Non-trading	-
Royal Liver (IFA Holdings) Plc	**100.0**	100.0	Non-trading	-
Royal Liver Asset Managers Limited	**100.0**	100.0	Non-trading	-
Royal London 360 Holdings Limited	**100.0**	100.0	Non-trading	D
Royal London Asset Management (CIS) Limited[3]	**100.0**	100.0	Non-trading	-
Royal London (CIS) Limited	**100.0**	100.0	Non-trading	-
Royal London Homebuy Limited	**100.0**	100.0	Non-trading	-
Royal London Pooled Pensions Company Limited	**100.0**	100.0	Non-trading	D
S.L. (Davenport Green) Limited[1]	**100.0**	100.0	Non-trading	D
Scottish Life (Coventry) Property Limited	**100.0**	100.0	Non-trading	D
The Scottish Life Assurance Company	**100.0**	100.0	Non-trading	D
Southpoint General Partner Limited[3]	**50.0**	50.0	Non-trading	E
United Assurance Group Limited	**100.0**	100.0	Non-trading	-
United Friendly Group Limited	**100.0**	100.0	Non-trading	-
United Friendly Insurance Limited	**100.0**	100.0	Non-trading	-
United Friendly Life Assurance Limited	**100.0**	100.0	Non-trading	-
United Friendly Staff Pension Fund Limited	**100.0**	100.0	Non-trading	-

1 The following UK subsidiaries will take advantage of the audit exemption by virtue of section 479A of the Companies Act 2006 for the year ended 31 December 2018: Hornby Road Investments Limited, Wrap IFA Services Limited, RL Corporate Pension Services Limited, Royal London UK Holdings Limited , RLM Finance Plc and S.L. (Davenport Green) Limited.

2 Cambridge Research Park Limited, Cambridge Research Park Management Company Limited and RLPPF Kings Norton Limited have been acquired in 2018. They were not included as subsidiaries in 2017. The Royal London Investment Grade Short Duration Credit Fund, The Royal London Sustainable Managed Growth Trust, The Royal London Corporate Bond Monthly Fund and have been reclassified from a subsidiary to an associate in 2018. The Royal London Duration Hedged Credit Fund, The Royal London Sterling Liquidity Fund, The Royal London Monthly Income Bond Fund and The Royal London Multi Asset Strategies Fund have been reclassified from an associate to a subsidiary in 2018.

3 The following subsidiaries were liquidated in January 2019: Southpoint General Partner Limited; Nodessa File (One) Limited and Nodessa File (Two) Limited. Royal London Asset Management (CIS) Limited was dissolved in January 2019.

22. Investments in Group entities

(a) Subsidiaries (continued)

The Parent company subsidiaries and associates which have a registered office other than 55 Gracechurch Street, London EC3V 0RL, United Kingdom, are noted below by letter.

Reference	Registered address
A	70 Sir John Rogerson's Quay, Dublin 2, Ireland
B	Trimbridge House, Trim House, Trim Street, Bath, BA1 1HB, United Kingdom
C	47/48 St Stephen's Green, Dublin 2, Ireland
D	St Andrew House, 1 Thistle Street, Edinburgh, EH2 1DG, United Kingdom
E	KPMG LLP, 8 Princes Parade, Liverpool, L3 1QH, United Kingdom
F	Bidwell House, Trumpington Road, Cambridge, CB2 9LD, United Kingdom
G	First Names House, Victoria Road, Douglas, Isle of Man, IM2 4DF
H	27-28 Clement's Lane, London, England, EC4N 7AE
I	1 Waverley Place, Union Street, St Helier, Jersey, Channel Islands, JE1 1SG, United Kingdom
J	PO Box 650, 1st Floor Royal Chambers, St Julian's Avenue, St Peters Port, Guernsey, Channel Islands, GY1 3JX, United Kingdom
K	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
L	9 West 57th Street, Suite 4200, New York, 10019, United States
M	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom
N	8-9 Well Court, London, EC4M 9DN, United Kingdom
O	PO Box 282, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3RH

22. Investments in Group entities (continued)

(b) Interests in associates

All of the Group's associates are investment funds accounted for as financial assets held at fair value through profit or loss and are all incorporated in England with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom. At 31 December 2018, the following funds have been recognised as associates.

Name of investment fund	Group's % holding 2018	Group's % holding 2017
Royal London UK Growth Trust	24.3	25.2
Royal London Corporate Bond Monthly Fund[1]	23.7	N/A
Royal London Investment Grade Short Duration Credit Fund[1]	23.7	N/A
Royal London Sustainable Managed Growth Trust[1]	20.8	N/A
Royal London Property Fund	22.8	22.7
Royal London Global Index Linked Fund	24.8	27.9
Royal London Duration Hedged Credit Fund[1]	N/A	32.8
Royal London Short Duration Global Index Linked Fund[1]	N/A	30.2
Royal London UK Growth with Income Trust[1]	N/A	21.0
Royal London Sterling Credit Fund	26.8	28.7

1 Royal London Corporate Bond Monthly Fund, Royal London Investment Grade Short Duration Credit Fund and Royal London Sustainable Managed Growth Trust have been reclassified from subsidiary to associate in 2018. Royal London Duration Hedged Credit Fund has been reclassified from associate to subsidiary in 2018. Royal London Short Duration Global Index Linked Fund and Royal London UK Growth with Income Trust have been reclassified from associate to investment in 2018.

Summarised financial information for associates:

(i) Summarised balance sheet

	2018							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London Sustainable Managed Growth Trust	Royal London Investment Grade Short Duration Credit Fund	Royal London Corporate Bond Monthly Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Current assets								
Cash and cash equivalents	12	27	1	3	10	1	3	57
Other current assets	3	7	2	3	11	4	50	80
Total current assets	15	34	3	6	21	5	53	137
Current liabilities								
Financial liabilities	2	7	1	-	-	-	2	12
Other current liabilities	-	1	2	-	3	-	16	22
Total current liabilities	2	8	3	-	3	-	18	34
Non-current assets	1,001	382	227	198	843	257	1,763	4,671
Total net assets	1,014	408	227	204	861	262	1,798	4,774

22. Investments in Group entities (continued)

(b) Interests in associates (continued)

(i) Summarised balance sheet (continued)

	2017							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Growth with Income Trust	Royal London Short Duration Global Index Linked	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Current assets								
Cash and cash equivalents	16	30	4	9	2	14	20	95
Other current assets	2	7	2	3	3	2	30	49
Total current assets	18	37	6	12	5	16	50	144
Current liabilities								
Financial liabilities	2	6	1	1	-	21	1	32
Other current liabilities	-	1	1	-	1	-	13	16
Total current liabilities	2	7	2	1	1	21	14	48
Non-current assets	1,212	366	227	369	287	195	1,592	4,248
Total net assets	1,228	396	231	380	291	190	1,628	4,344

(ii) Summarised statement of comprehensive income

	2018							
	Royal London UK Growth Trust	**Royal London Property Fund**	**Royal London Global Index Linked Fund**	**Royal London Sustainable Managed Growth Trust**	**Royal London Investment Grade Short Duration Credit Fund**	**Royal London Corporate Bond Monthly**	**Royal London Sterling Credit Fund**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Investment income	**39**	**-**	**2**	**5**	**26**	**16**	**75**	**163**
Net (losses)/gains on investments	**(147)**	**13**	**(5)**	**(7)**	**(25)**	**(18)**	**(97)**	**(286)**
Other expense	**(38)**	**-**	**(5)**	**(5)**	**(17)**	**(16)**	**(66)**	**(147)**
Net (expense)/income	**(146)**	**13**	**(8)**	**(7)**	**(16)**	**(18)**	**(88)**	**(270)**

	2017							
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Growth with Income Trust	Royal London Short Duration Global Index Linked Fund	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Investment income	37	-	2	18	2	8	59	126
Net gains on investments	140	13	4	17	1	4	39	218
Other expense	(39)	(1)	(2)	(23)	(1)	(6)	(51)	(123)
Net income	138	12	4	12	2	6	47	221

22. Investments in Group entities (continued)

(c) Interests in other significant holdings

The Group also invests in the following private equity funds, which represent an ownership interest of greater than 20%. These are all managed by external administrators and the Group has no involvement in the management, operation or decision making of the funds. As such, the presumption that significant influence exists is overcome and these investments have not been recognised as associates, but have been treated as investment funds within financial investments. The registered addresses of the private equity funds are included in the table on page 141.

Name	% holding 2018	% holding 2017	Registered Office[1]
SPL ARL Private Finance	**99.4**	99.4	J
WP Global Mezzanine Private Equity	**100.0**	100.0	K
Core Alpha Private Equity Partners	**29.9**	29.9	K
KKR CIS Global Investor L.P.	**100.0**	100.0	L
Enterprise Ventures Growth Ltd	**45.2**	45.2	M
RJD Private Equity Fund III 'A' L.P.	**31.9**	21.3	N
Rising Star Growth Fund II	**21.8**	21.8	M
Cubera RL Nordic PE LP	**100.0**	N/A	O

1 The table of registered offices is on page 141.

(d) Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group's interests in structured entities are comprised of investments in a range of investment vehicles, principally pooled investment funds and unquoted equity securities, managed both internally and externally, and some investments in asset-backed securities.

(i) Consolidated structured entities

Where it has been determined that the Group has control over a structured entity it has been consolidated. The Group has not provided, nor has any intention of providing, financial or other support to any consolidated structured entity.

(ii) Unconsolidated structured entities

The Group also invests in unconsolidated structured entities. The Group has not provided financial or other support to any unconsolidated structured entity. While not planning to provide financial support, the Group will meet future capital calls if required.

The following table shows the carrying value of the Group's holdings in unconsolidated structured entities, all of which are reported within 'financial investments'.

	2018 £m	2017 £m
Debt and fixed income securities		
Asset-backed securities	**1,665**	1,609
Unquoted equity securities		
Private equity funds	**168**	180
Land investment pools	**245**	255
Unit trusts and other pooled investments		
Investment in associates	**1,088**	1,231
Unit trusts	**730**	830
OEICs	**4,044**	4,361
Venture capital offshore funds	**266**	297
Other investment funds	**2,007**	2,091
Total	**10,213**	10,854

The Group's maximum exposure to loss from those investments that are not managed by Group companies is the carrying value of the investment on the Group balance sheet.

22. Investments in Group entities (continued)

(d) Interests in structured entities (continued)

(iii) Other interests in unconsolidated structured entities

The Group also has interests in structured entities through management fees received on those investments that the Group manages. The Group's maximum exposure to loss from these investments is the carrying value on the Group balance sheet and future management fees. The Group's holdings in these investments are included in the table on the previous page.

The table below shows those assets under management in which the Group does not have a holding and the management fees earned during the year.

	2018		2017	
Investment funds	Assets under administration £m	Management fees £m	Assets under administration £m	Management fees £m
OEICs	**11,161**	**38**	12,881	33
Unit trusts	**3,371**	**13**	3,275	11
Total	**14,532**	**51**	16,156	44

(e) Interests in joint operations

The Group has an interest in a joint operation giving rise to a 7.5% (2017: 7.5%) beneficial ownership interest in a property, the Bluewater Shopping Centre, Kent. The arrangement entitles the Group to 7.5% (2017: 7.5%) of the net rental income of the property.

23. Trade and other receivables

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts due from customers	**127**	62	**32**	29
Receivables arising under reinsurance contracts	**31**	29	**31**	29
Investment income receivable	**169**	180	**108**	96
Amounts due from brokers	**372**	214	**294**	163
Finance lease receivables	**4**	4	**4**	4
Amounts due from other Group entities	**-**	-	**22**	24
Prepayments and accrued income	**28**	32	**1**	2
Other receivables	**164**	130	**95**	92
	895	651	**587**	439
Expected to be recovered within 12 months	**891**	647	**583**	435
Expected to be recovered in more than 12 months	**4**	4	**4**	4
	895	651	**587**	439

Trade and other receivables are carried in the balance sheet at amortised cost, which approximates to fair value.

23. Trade and other receivables (continued)

Finance lease receivables

The Group and the Parent company have leased to third parties a number of properties under long-term leases, which are classified as finance leases. The average term of the finance leases entered into is 55 years.

	Group and Parent company	
	2018 £m	2017 £m
Receivables under finance leases – minimum lease receipts		
Later than one year and not later than five years	2	2
Later than five years	10	10
	12	12
Less: future charges	(8)	(8)
Present value of receivables under finance leases	4	4
Present value of receivables under finance leases		
Later than one year and not later than five years	2	2
Later than five years	2	2
	4	4

24. Cash and cash equivalents

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Bank balances	1,961	2,113	688	881
Short-term bank deposits	905	943	502	376
Short-dated debt	15	5	15	5
	2,881	3,061	1,205	1,262

The cash and cash equivalents for the purposes of the statements of cash flows are as follows.

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Cash and cash equivalents	2,881	3,061	1,205	1,262
Bank overdrafts (note 31)	(48)	(56)	(45)	(45)
Cash and cash equivalents in the statements of cash flows	2,833	3,005	1,160	1,217

25. Insurance contract liabilities and reinsurance assets

	Group 2018 £m	Group 2017 £m	Parent company 2018 £m	Parent company 2017 £m
Gross				
Total participating insurance contract liabilities	**30,628**	33,154	**30,628**	33,234
Total non-participating insurance contract liabilities	**6,909**	7,301	**6,909**	7,301
Total insurance contract liabilities	**37,537**	40,455	**37,537**	40,535
Reinsurers' share of insurance contract liabilities				
Total participating insurance contract liabilities	**(1,277)**	(1,440)	**(1,277)**	(1,440)
Total non-participating insurance contract liabilities	**(3,793)**	(3,886)	**(3,793)**	(3,886)
Total reinsurers' share of insurance contract liabilities	**(5,070)**	(5,326)	**(5,070)**	(5,326)
Net of reinsurance				
Total participating insurance contract liabilities	**29,351**	31,714	**29,351**	31,794
Total non-participating insurance contract liabilities	**3,116**	3,415	**3,116**	3,415
Total insurance contract liabilities, net of reinsurance	**32,467**	35,129	**32,467**	35,209

(a) Movement analysis

The movement in long-term insurance contract liabilities and reinsurance assets in the year is shown in the following tables.

Group – 2018	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	33,154	7,301	(1,440)	(3,886)	31,714	3,415
Expected changes during the year	(2,318)	(335)	179	186	(2,139)	(149)
Expected closing position	30,836	6,966	(1,261)	(3,700)	29,575	3,266
New business	190	(14)	-	(124)	190	(138)
Experience variations						
Demographic	582	36	(56)	(3)	526	33
Economic	(529)	(66)	-	-	(529)	(66)
	53	(30)	(56)	(3)	(3)	(33)
Changes in assumptions						
Demographic	18	59	11	(55)	29	4
Expense	(29)	29	-	-	(29)	29
Economic	(562)	(70)	30	31	(532)	(39)
Management actions	171	68	-	-	171	68
Methodology	(59)	(42)	1	24	(58)	(18)
	(461)	44	42	-	(419)	44
Other movements						
Claims outstanding	-	(18)	-	1	-	(17)
Other	10	(39)	(2)	33	8	(6)
	10	(57)	(2)	34	8	(23)
At 31 December	30,628	6,909	(1,277)	(3,793)	29,351	3,116

25. Insurance contract liabilities and reinsurance assets (continued)

(a) Movement analysis (continued)

	Group 2017					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	32,709	7,860	(1,668)	(4,239)	31,041	3,621
Expected changes during the year	(2,284)	(328)	173	172	(2,111)	(156)
Expected closing position	30,425	7,532	(1,495)	(4,067)	28,930	3,465
New business	246	2	-	(121)	246	(119)
Experience variations						
Demographic	544	71	(35)	(4)	509	67
Economic	1,701	157	4	(2)	1,705	155
	2,245	228	(31)	(6)	2,214	222
Changes in assumptions						
Demographic	(102)	(455)	84	319	(18)	(136)
Expense	18	10	-	(3)	18	7
Economic	215	(38)	14	4	229	(34)
Management actions	78	-	-	-	78	-
Methodology	33	(14)	(2)	(24)	31	(38)
	242	(497)	96	296	338	(201)
Other movements						
Claims outstanding	-	28	-	(2)	-	26
Other	(4)	8	(10)	14	(14)	22
	(4)	36	(10)	12	(14)	48
At 31 December	33,154	7,301	(1,440)	(3,886)	31,714	3,415

25. Insurance contract liabilities and reinsurance assets (continued)

(a) Movement analysis (continued)

	Parent company – 2018					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	33,234	7,301	(1,440)	(3,886)	31,794	3,415
Expected changes during the year	(2,318)	(335)	179	186	(2,139)	(149)
Expected closing position	30,916	6,966	(1,261)	(3,700)	29,655	3,266
New business	190	(14)	-	(124)	190	(138)
Experience variations						
Demographic	582	36	(56)	(3)	526	33
Economic	(529)	(66)	-	-	(529)	(66)
	53	(30)	(56)	(3)	(3)	(33)
Changes in assumptions						
Demographic	18	59	11	(55)	29	4
Expense	(29)	29	-	-	(29)	29
Economic	(562)	(70)	30	31	(532)	(39)
Management actions	91	68	-	-	91	68
Methodology	(59)	(42)	1	24	(58)	(18)
	(541)	44	42	-	(499)	44
Other movements						
Claims outstanding	-	(18)	-	1	-	(17)
Other	10	(39)	(2)	33	8	(6)
	10	(57)	(2)	34	8	(23)
At 31 December	30,628	6,909	(1,277)	(3,793)	29,351	3,116

25. Insurance contract liabilities and reinsurance assets (continued)

(a) Movement analysis (continued)

	Parent company 2017					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	32,765	7,860	(1,668)	(4,239)	31,097	3,621
Expected changes during the year	(2,284)	(328)	173	172	(2,111)	(156)
Expected closing position	30,481	7,532	(1,495)	(4,067)	28,986	3,465
New business	246	2	-	(121)	246	(119)
Experience variations						
Demographic	544	71	(35)	(4)	509	67
Economic	1,701	157	4	(2)	1,705	155
	2,245	228	(31)	(6)	2,214	222
Changes in assumptions						
Demographic	(102)	(455)	84	319	(18)	(136)
Expense	18	10	-	(3)	18	7
Economic	215	(38)	14	4	229	(34)
Management actions	102	-	-	-	102	-
Methodology	33	(14)	(2)	(24)	31	(38)
	266	(497)	96	296	362	(201)
Other movements						
Claims outstanding	-	28	-	(2)	-	26
Other	(4)	8	(10)	14	(14)	22
	(4)	36	(10)	12	(14)	48
At 31 December	33,234	7,301	(1,440)	(3,886)	31,794	3,415

For the purposes of the disclosure required by IAS 1, the amount of insurance contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £34,376m for the Group (2017: £37,460m) and £34,376m for the Parent company (2017: £37,533m).

The amount of the reinsurers' share of insurance liabilities classified as due to be recovered in more than 12 months from the balance sheet date is £4,608m (2017: £4,932m) for the Group and Parent company.

The amounts presented above for the Parent company represent the liabilities of the open and closed sub-funds.

26. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
At 1 January				
Non-participating value of in-force business included within participating contract liabilities	1,488	1,217	1,488	1,217
Acquired PVIF	81	131	81	123
Adjusted deferred acquisition costs arising on investment contracts	181	209	181	209
Deferred fee income on investment contracts	(128)	(150)	(128)	(150)
Total value of in-force business at 1 January	1,622	1,407	1,622	1,399
Expected changes during the year	(91)	(139)	(91)	(132)
Expected closing position	1,531	1,268	1,531	1,267
New business	246	261	246	261
Experience variations				
Demographic	(16)	24	(16)	24
Economic	(76)	99	(76)	99
	(92)	123	(92)	123
Changes in assumptions				
Demographic	6	(38)	6	(38)
Expense	86	54	86	54
Economic	16	3	16	3
Management actions	(61)	(52)	(61)	(52)
Methodology	(7)	7	(7)	7
	40	(26)	40	(26)
Other movements	-	(4)	-	(3)
	1,725	1,622	1,725	1,622
At 31 December				
Non-participating value of in-force business included within participating contract liabilities	1,625	1,488	1,625	1,488
Acquired PVIF	54	81	54	81
Adjusted deferred acquisition costs arising on investment contracts	155	181	155	181
Deferred fee income on investment contracts	(109)	(128)	(109)	(128)
Total value of in-force business at 31 December	1,725	1,622	1,725	1,622

26. Non-participating value of in-force business (continued)

The adjusted deferred acquisition costs arising on investment contracts shown on the previous page are equal to the deferred acquisition costs arising on investment contracts shown in note 18 less the element of those deferred acquisition costs that relates to future commission.

The deferred fee income on investment contracts shown on the previous page is equal to the deferred fee income shown in note 33.

For the purposes of the disclosure required by IAS 1, the amount of the Group and Parent company balance of £1,625m (2017: £1,488m) of non-participating value of in-force business classified as due to be recovered in more than 12 months from the balance sheet date is £1,556m (2017: £1,402m).

27. Investment contract liabilities

The movement in investment contract liabilities in the year is shown in the tables below.

	Group			
	2018		2017	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	2,214	38,847	2,154	31,329
Expected changes during the year	(124)	(2,065)	(157)	(2,261)
Expected closing position	2,090	36,782	1,997	29,068
New business	13	7,344	21	7,473
Experience variations				
Demographic	58	236	22	(282)
Economic	(61)	(1,748)	138	2,599
	(3)	(1,512)	160	2,317
Changes in assumptions				
Demographic	4	-	40	-
Expense	(20)	-	4	-
Economic	(14)	-	1	-
Management actions	(18)	-	3	-
Methodology	2	-	(1)	(5)
	(46)	-	47	(5)
Other movements	7	38	(11)	(6)
At 31 December	2,061	42,652	2,214	38,847

27. Investment contract liabilities (continued)

	Parent company			
	2018		2017	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	2,214	38,847	2,154	31,329
Expected changes during the year	(124)	(2,065)	(157)	(2,261)
Expected closing position	2,090	36,782	1,997	29,068
New business	13	7,344	21	7,473
Experience variations				
Demographic	58	236	22	(282)
Economic	(61)	(1,748)	138	2,599
	(3)	(1,512)	160	2,317
Changes in assumptions				
Demographic	4	-	40	-
Expense	(20)	-	4	-
Economic	(14)	-	1	-
Management actions	(18)	-	3	-
Methodology	2	-	(1)	(5)
	(46)	-	47	(5)
Other movements	7	38	(11)	(6)
At 31 December	2,061	42,652	2,214	38,847

The participating investment contract liabilities include a discretionary element, determined by management from time to time, with regard to the returns earned on investments in the relevant with-profits fund. These liabilities have been calculated on a basis consistent with the valuation of insurance contracts. It is not considered practicable to provide a fair value for these liabilities.

For the purposes of the disclosure required by IAS 1, the amount of investment contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £42,250m (2017: £38,872m) for the Group and Parent company.

The amounts presented above represent the liabilities of the open and closed sub-funds.

28. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions

(a) Assumptions

The assumptions used to determine insurance and investment contract liabilities are set by the Board of Directors based on advice given by the Group Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used can be summarised as follows.

(i) Demographic

Mortality and morbidity

Mortality and morbidity risks are inherent in most lines of business. For protection business an increase in mortality and morbidity rates leads to increased claim levels and hence an increase in liabilities. For annuity business the risk is that policyholders live longer than expected. Reinsurance arrangements have been put in place to mitigate mortality and morbidity risks.

The rates of mortality and morbidity are set in line with recent company experience, where it is available in sufficient volume to provide reliable results. Where company experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured.

A margin is included to provide for potential adverse variations in experience. The margins are typically 2% for mortality risks, 4.8% for morbidity risks with reviewable premiums and 8.9% for morbidity business with guaranteed premiums.

The principal mortality assumptions are shown in the following table.

28. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Mortality and morbidity (continued)

Class of business	2018 mortality	2017 mortality
Ordinary long-term assurances		
Royal London Mutual and Ex-United Assurance Group non-linked	**85.68% AMC00 and 111.18% AFC00**	85.68% AMC00 and 111.18% AFC00
RL Pensions	**56.10% AMC00 and 91.80% AFC00**	56.10% AMC00 and 91.80% AFC00
Ex-Royal Liver	**106.08% AMC00 and 111.18% AFC00**	106.08% AMC00 and 111.18% AFC00
RL Legacy non-linked term assurances (level benefits)		
› male non-smokers	**83.64% TMN00 sel**	83.64% TMN00 sel
› male smokers	**83.64% TMS00 sel**	83.64% TMS00 sel
› female non-smokers	**83.64% TFN00 sel**	83.64% TFN00 sel
› female smokers	**83.64% TFS00 sel**	83.64% TFS00 sel
RL UK Protection term assurances (level benefits)		
› male non-smokers	**78.54% TMNL08 sel**	53.04% TMN00 sel
› male smokers	**59.16% TMSL08 sel**	59.16% TMS00 sel
› female non-smokers	**92.82% TFNL08 sel**	68.34% TFN00 sel
› female smokers	**116.28% TFSL08 sel**	84.66% TFS00 sel
RL Ireland Protection term assurances (level benefits)		
› male non-smokers	**60.18% TMN00 sel**	54.06% TMN00 sel
› male smokers	**75.48% TMS00 sel**	72.42% TMS00 sel
› female non-smokers	**68.34% TFN00 sel**	68.34% TFN00 sel
› female smokers	**54.06% TFS00 sel**	85.68% TFS00 sel
RL (CIS)		
› traditional with-profits, whole life	**66.30% AMC00**	66.30% AMC00
› traditional with-profits, endowment	**63.24% AMC00**	63.24% AMC00
› accumulating with-profits bond	**96.90% AMC00**	96.90% AMC00
Pensions – deferred annuities in deferment		
Ex-Refuge Assurance OB non-linked	**78.40% PPMD00 and 80.36%PPFD00**	78.40% PPMD00 and 80.36% PPFD00
RL Pensions – individual	**68.60% AMC00 and 71.54% AFC00**	68.60% AMC00 and 71.54% AFC00
RL Pensions – group	**59.78% AMC00 and 50.96% AFC00**	59.78% AMC00 and 50.96% AFC00
Pensions – immediate annuities and deferred annuities in payment		
Royal London Mutual and Ex-United	**95.06% PML08 CMI (2017) 1.5%** pa[1]	95.06% PML08 CMI (2016) 1.5% pa[2]
Assurance Group	**90.16% PFL08 CMI (2017) 1.5%** pa[1]	90.16% PFL08 CMI (2016) 1.5% pa[2]
RL Pensions (excluding opt-outs from	**94.08% PML08 CMI (2017) 1.5%** pa[1]	87.22% PML08 CMI (2016) 1.5% pa[2]
compromise scheme)	**90.16% PFL08 CMI (2017) 1.5%** pa[1]	82.32% PFL08 CMI (2016) 1.5% pa[2]
RL Pensions (opt-outs from	**81.34% PML08 CMI (2017) 1.5%** pa[1]	87.22% PML08 CMI (2016) 1.5% pa[2]
compromise scheme)	**78.40% PFL08 CMI (2017) 1.5%** pa[1]	82.32% PFL08 CMI (2016) 1.5% pa[2]
RL (CIS) immediate annuities in payment		
› Personal pensions	**106.82% PML08 CMI (2017) 1.5%** pa[1]	106.82% PML08 CMI (2016) 1.5% pa[2]
	98.00% PFL08 CMI (2017) 1.5% pa[1]	98.00% PFL08 CMI (2016) 1.5% pa[2]
› Section 226 retirement annuity	**100.94% PML08 CMI (2017) 1.5%** pa[1]	100.94% PML08 CMI (2016) 1.5% pa[2]
	93.10% PFL08 CMI (2017) 1.5% pa[1]	93.10% PFL08 CMI (2016) 1.5% pa[2]
RL (CIS) deferred annuities in payment		
› Personal pensions	**100.94% PML08 CMI (2017) 1.5%** pa[1]	100.94% PML08 CMI (2016) 1.5% pa[2]
	97.02% PFL08 CMI (2017) 1.5% pa[1]	97.02% PFL08 CMI (2016) 1.5% pa[2]
› Section 226 retirement annuity	**98.00% PML08 CMI (2017) 1.5%** pa[1]	98.00% PML08 CMI (2016) 1.5% pa[2]
	94.08% PFL08 CMI (2017) 1.5% pa[1]	94.08% PFL08 CMI (2016) 1.5% pa[2]

28. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Mortality and morbidity (continued)

Class of business	2018 mortality	2017 mortality
Industrial assurance		
Royal London Mutual	**60.18% ELT16 (males)**	60.18% ELT16 (males)
Ex-United Assurance Group	**74.46% ELT16 (males)**	74.46% ELT16 (males)
Ex-Royal Liver	**61.20% ELT16 (males)**	61.20% ELT16 (males)
RL (CIS)		
› endowment	**76.50% ELT16 (males)**	76.50% ELT16 (males)
› whole life	**66.30% ELT16 (males)**	66.30% ELT16 (males)

1 The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2017 CMI model mortality improvements and a percentage per annum long-term improvement rate.
2 The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2016 CMI model mortality improvements and a percentage per annum long-term improvement rate.

Persistency

Persistency is the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry.

The rates of persistency are set in line with recent company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience. The rates vary by product line, sales channel, duration in force and for some products by fund size.

A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A margin is included to provide for potential adverse variations in experience. The margin is typically 2%. For RL (CIS) and Royal Liver business covered by rate cards, margins of 0.7% and nil% are applied during the guaranteed period of the respective rate card.

Expense inflation assumptions are generaly set relative to the domestic measure of inflation for the country in which the business is derived unless the business is subject to a rate card agreement that specifies the inflation assumption to apply. UK inflation is based on the UK Retail Prices Index (UK RPI) and Republic of Ireland (RoI) inflation is based on the RoI Consumer Prices Index (RoI CPI)

These inflation assumptions, which vary by duration, are set by fitting a curve to market implied inflation based on Sterling-denominated inflation linked swaps for UK RPI and Euro-denominated inflation linked swaps for RoI CPI.

Expenses for open books of business are assumed to inflate in line with the change in UK RPI plus 0.5% (2017: UK RPI +1%) for UK business and RoI CPI plus 0.5% (2017: +1.0%) for Irish business.

Higher rates of expense inflation are assumed for closed books of business:

- For RL (CIS) business, the costs arising under the rate card are assumed to increase in line with the change in the UK RPI +0.5% (2017: UK RPI +0.6%), while the actual expenses incurred from servicing this business are assumed to increase in line with the change in the UK RPI +0.5% for post vesting GAO business and UK RPI +2.5% for other business (2017: UK RPI +0.8%).
- For Liver fund business, the costs arising under the rate card to December 2021 are assumed to increase in line with the change in RoI CPI +1% for ex-Caledonian business and UK RPI +0.5% for other business. The actual expenses incurred from servicing Liver fund business are assumed to increase at UK RPI +4% for UK business and RoI CPI +4% for Irish business.
- For other closed books, the assumptions are UK RPI +2% for PLAL business (2017: UK RPI +1%) and UK RPI +4% for legacy business within the Royal London Long-Term Fund (2017: UK RPI +1%).

28. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(ii) Expenses (continued)

The principal expense assumptions are shown in the following table.

	2018			2017		
Class of business	Per policy £	Premium %	Reserve %	Per policy £	Premium %	Reserve %
Ordinary long-term						
RL OB WP life	20.02	-	0.086	11.73	5.10	0.090
RL OB AWP pensions	15.81	-	0.086	11.76	5.10	0.090
Ex-RA OB WP pre 1998	19.57	-	0.083	12.54	4.08	0.078
Ex-RA OB WP pre 1998 pensions	14.17	-	0.083	9.59	4.08	0.078
Ex-UF OB WP DWP pensions	14.04	-	0.083	-	-	0.140
Ex-Scottish Provident business	26.47	-	0.061	24.63	-	0.061
Ex-Bright Grey	15.47	-	0.061	15.41	-	0.061
RL Consumer protection business	12.42	-	0.061	15.95	-	0.061
RL Ireland Protection	36.27[1]	-	0.061	38.12[1]	-	0.061
RL (CIS)						
OB Investments						
› premium paying	22.88	-	0.190	22.34	-	0.190
› single premium/paid up	19.69	-	0.190	19.24	-	0.190
OB Protection						
› premium paying	21.11	-	0.190	20.60	-	0.190
› single premium/paid up	18.55	-	0.190	18.11	-	0.190
› OB annuities in payment	19.07	-	0.190	18.62	-	0.190
Pensions – deferred annuities						
Ex-Scottish Life – Individual RP	37.70	-	0.059	36.94	-	0.054
Ex-Scottish Life – Group RP	25.93	-	0.059	26.93	-	0.054
RL (CIS)						
› premium paying	20.43	-	0.190	19.99	-	0.190
› paid up	17.59	-	0.190	17.22	-	0.190
Industrial assurance						
Royal London Mutual	12.95	-	0.086	11.34	5.10	0.090
Ex-Refuge Assurance	12.66	-	0.061	10.49	2.55	0.061
Ex-Royal Liver	11.64	-	0.260	11.29	-	0.260
Ex-United Friendly	12.66	-	0.083	10.11	2.55	0.080
RL (CIS)						
› premium paying	14.58	-	0.190	14.23	-	0.190
› paid up	12.47	-	0.190	12.18	-	0.190

1 RL Ireland Protection is quoted in Euros.

28. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Economic

- Non-participating liabilities

  The non-participating liabilities have been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to a risk-free rate from the forward swap curve adjusted for risk of default. A reduction in interest rates will increase the liabilities.

- Participating liabilities

  The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market consistency by:

  - deriving the underlying risk-free rate from the forward swap curve adjusted for risk of default; and
  - calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist.

- Non-participating value of in-force business

The non-participating value of in-force business has been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to risk-free yields.

29. Unallocated divisible surplus

The movement in the unallocated divisible surplus (UDS) during the year is shown in the table below.

	Group		Parent company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
At 1 January	**3,726**	3,292	**3,855**	3,368
Opening adjustment on adoption of IFRS 15	**82**	-	**82**	-
At 1 January after opening adjustment	**3,808**	3,292	**3,937**	3,368
(Deduction from)/transfer to the statement of comprehensive income	**(48)**	352	**85**	405
Transfer from other comprehensive income	**53**	82	**53**	82
At 31 December	**3,813**	3,726	**4,075**	3,855

The UDS represents a surplus for which the allocation between participating policyholders has yet to be determined. Therefore, for the purposes of the disclosure required by IAS 1, the whole of the UDS at the balance sheet date has been classified as a balance that will be settled after more than 12 months. The increase in the opening UDS at 1 January is due to an increase of £82m in the value of deferred acquisition costs on investment contracts, due to the Group and Parent company applying IFRS 15 using the modified retrospective approach as outlined in note 1(a).

The closing balance on the UDS for both the Group and Parent company includes amounts attributable to the Royal London fund only. The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) With-Profits funds.

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30. Subordinated liabilities

	Group and Parent company			
			Effective interest rate	
	2018 £m	2017 £m	2018 %	2017 %
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	**396**	396	6.20	6.20
Guaranteed Subordinated Notes due 2028	**349**	349	6.20	6.20
	745	745		

All of the balance shown above is expected to be settled more than 12 months after the balance sheet date.

Subordinated liabilities are carried in the balance sheet at amortised cost. Their fair value at 31 December 2018 was £806m (2017: £883m).

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043
On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Parent company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all of the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023, the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

Guaranteed Subordinated Notes due 2028
On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly owned subsidiary of the Parent company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

31. Payables and other financial liabilities

	Group		Parent company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Amounts due to customers	**196**	205	**193**	204
Payables arising under reinsurance contracts	**2,796**	2,991	**2,796**	2,991
Amounts due to brokers	**83**	325	**34**	107
Finance lease obligations	**14**	22	**4**	11
Cash collateral	**1,214**	1,943	**1,214**	1,943
Derivative liabilities (note 21a)	**1,408**	1,511	**1,390**	1,510
Amounts due to other Group entities	**-**	-	**151**	45
Bank overdrafts (note 24)	**48**	56	**45**	45
Other payables	**209**	172	**71**	74
	5,968	7,225	**5,898**	6,930
Expected to be settled within 12 months	**1,908**	1,979	**1,894**	1,915
Expected to be settled in more than 12 months	**4,060**	5,246	**4,004**	5,015
	5,968	7,225	**5,898**	6,930

The payables arising under reinsurance contracts include a financial liability of £2,753m (2017: £2,957m) which is valued at fair value through profit or loss. The liability is owed to a major reinsurer under a reinsurance agreement to reinsure a proportion of the Group's obligations in respect of deferred annuities and annuities in payment of the RL (CIS) with-profits fund. Under the reinsurance agreement, the RL (CIS) with-profits fund is contracted to pay premiums in accordance with a schedule of payments covering a period up to 2066. At inception of the contract, which was before RL (CIS) was acquired by the Group, it recognised its premium obligation in full within the statement of comprehensive income by a charge representing the net present value of the contracted payments. The Group and Parent company continue to recognise a financial liability to the extent that the premium has yet to fall due for payment. At inception of the contract, RL (CIS) also purchased a debt security, cash flows from which will fund the discharge of the financial liability as amounts fall due for payment. The movement in the fair value of the liability in the year was a loss of £122m (2017: loss of £34m) which is included in premiums ceded to reinsurers.

The reinsurance liability and the derivative liabilities are stated at fair value. All the remaining payables and other financial liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

(a) Finance lease obligations

Leased investment property is accounted for as if it had been acquired under a finance lease. At the commencement of the lease a liability is established to represent the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability. The average term of finance leases entered into is 147 years for the Group (2017: 150 years) and 149 years for the Parent company (2017: 149 years). The interest rate inherent in the leases is fixed at the start of the lease.

31. Payables and other financial liabilities (continued)

(a) Finance lease obligations (continued)

	Group 2018 £m	Group 2017 £m	Parent company 2018 £m	Parent company 2017 £m
Obligations under finance leases – minimum lease payments:				
Not later than one year	1	1	-	1
Later than one year and not later than five years	3	5	2	3
Later than five years	181	216	89	118
	185	222	91	122
Less: future charges	(171)	(200)	(87)	(111)
Present value of obligations under finance leases	14	22	4	11
Present value of obligations under finance leases:				
Not later than one year	1	1	-	1
Later than one year and not later than five years	3	4	1	3
Later than five years	10	17	3	7
	14	22	4	11

(b) Cash collateral

	Group 2018 £m	Group 2017 £m	Parent company 2018 £m	Parent company 2017 £m
Cash collateral – contractual maturity analysis:				
Not later than one year	3	-	3	-
Later than one year and not later than five years	18	4	18	4
Later than five years	1,193	1,939	1,193	1,939
	1,214	1,943	1,214	1,943

32. Provisions

	Group 2018 £m	Group 2017 £m	Parent company 2018 £m	Parent company 2017 £m
Provision for future commission	149	163	149	163
Other provisions	145	119	117	105
	294	282	266	268
Expected to be settled within 12 months	92	41	76	31
Expected to be settled in more than 12 months	202	241	190	237
	294	282	266	268

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force.

Other provisions comprise amounts in respect of the long-term incentive plan, regulatory projects and rectification programmes.

32. Provisions (continued)

The movement in provisions during the year is shown in the following table.

	Group		Parent company	
	Provision for future commission £m	Other provisions £m	Provision for future commission £m	Other provisions £m
At 1 January 2018	163	119	163	105
Additional provisions	7	53	7	31
Experience variations	(1)	-	(1)	-
Utilised during the year	(21)	(27)	(21)	(19)
Unwind of the discount rate	1	-	1	-
At 31 December 2018	149	145	149	117

33. Other liabilities

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred fee income	109	129	109	128
Accrued expenses	86	85	-	-
Other	66	57	43	29
	261	271	152	157
Expected to be settled within 12 months	171	163	62	49
Expected to be settled in more than 12 months	90	108	90	108
	261	271	152	157

Deferred fee income is front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

Other liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

34. Balances in respect of external unit holders

(a) Investment return attributable to external unit holders

The investment return attributable to external unit holders represents the portion of the investment return included within the Group statement of comprehensive income that relates to the consolidated funds that are owned by third parties.

(b) Liability to external unit holders

The liability to external unit holders represents the portion of the consolidated funds included within the Group balance sheet but which is owned by third parties. The balance is stated at fair value being the quoted bid price of the relevant fund on the last day of the accounting period on which investments in such funds could be redeemed.

For the purposes of the disclosure required by IAS 1, none of the balance (2017: none) is classified as being expected to be settled in more than 12 months from the balance sheet date.

35. Deferred tax

(a) Net deferred tax balance

The tables below show the movement in the net deferred tax balance in the year. The deferred tax assets and liabilities are considered to be non-current.

	Group - 2018		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	**(24)**	**5**	**(19)**
Revaluation of investments	**251**	**(95)**	**156**
Defined benefit pension schemes	**7**	**1**	**8**
Other short-term timing differences	**(12)**	**(8)**	**(20)**
Net deferred tax liability	**222**	**(97)**	**125**

The 2017 table below has been represented to separately disclose the deferred tax balances and movements relating to defined benefit pension schemes.

	Group - 2017		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(30)	6	(24)
Excess of management expenses carried forward	(1)	1	-
Revaluation of investments	258	(7)	251
Defined benefit pension schemes	4	3	7
Other short-term timing differences	(5)	(7)	(12)
Net deferred tax liability	226	(4)	222

	Parent - 2018		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	**(24)**	**5**	**(19)**
Revaluation of investments	**250**	**(94)**	**156**
Defined benefit pension schemes	**7**	**1**	**8**
Net deferred tax liability	**233**	**(88)**	**145**

The 2017 table below has been represented to separately disclose the deferred tax balances and movements relating to defined benefit pension schemes.

	Parent - 2017		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(30)	6	(24)
Excess of management expenses carried forward	(1)	1	-
Revaluation of investments	244	6	250
Defined benefit pension schemes	4	3	7
Other short-term timing differences	(1)	1	-
Net deferred tax liability	216	17	233

35. Deferred tax (continued)

(a) Net deferred tax balance (continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset as they all meet the criteria above.

(b) Unrecognised deferred tax balances

(i) Unrecognised deferred tax assets

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £1m (2017: £2m), of which £1m (2017: £1m) related to the Parent company. These unused losses and allowances can be carried forward and utilised as long as the company in which they arose is active or trading.

(ii) Unrecognised deferred tax liabilities

Deferred tax liabilities arising from gains on subsidiary holdings have not been recognised by the Parent company as it controls the timing of any sale of a subsidiary and the repatriation of any dividend and it is not probable that a sale or repatriation will happen in the foreseeable future as the Group's intention is that these investments will be held to provide long term returns. The potential tax liability arising is less than £1m (2017: less than £1m).

There are no other unrecognised deferred tax assets or liabilities within the Group.

36. Contingent liabilities

Regulatory reviews

During the year, the Group and Parent company continued to address issues from past inappropriate selling practices and other regulatory matters. The directors consider that they have made prudent provision for any liabilities arising across the Group and, as and when the circumstances calling for such provision arise, that the Group and Parent company have adequate reserves to meet all reasonably foreseeable eventualities.

37. Commitments

(a) Capital expenditure

The Group and Parent company have the following commitments to make capital purchases as at the balance sheet date.

	Group and Parent company	
	2018 £m	2017 £m
Investment property	**111**	29

(b) Investments in private equity funds

The Group and Parent company have a portfolio of investments in private equity funds. The structure of these funds is such that the commitment is drawn down during the life of the fund to make investments and to pay approved costs of the fund. The total amount committed but undrawn at the balance sheet date for the Group and Parent company is £321m (2017: £178m).

(c) Operating lease commitments

Operating lease payments represent rentals payable by the Group for land and buildings. The total future minimum lease payments due under these arrangements, net of any related sub-lease receipts, are shown in the following table.

	Group		Parent company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Total future minimum lease payments under non-cancellable leases:				
Not later than one year	**5**	5	**4**	4
Later than one year and not later than five years	**17**	13	**15**	10
Later than five years	**9**	3	**8**	3
	31	21	**27**	17
Less: total future minimum sub-lease payments under non-cancellable sub-leases expected to be received	**-**	(2)	**-**	(2)
	31	19	**27**	15

38. Related party transactions

The Parent company is the ultimate parent undertaking of the Group. The Group and Parent company carried out the following transactions with related parties.

(a) Related party transactions of the Group

Transactions between Group entities are eliminated on consolidation. The following are those transactions carried out by Group entities with those related parties that are outside the Group.

(i) Subsidiaries' transactions with OEICs and other investment funds

The Group markets a portfolio of OEICs and other investment funds. A number of these funds are classified as subsidiaries for the purposes of financial reporting and hence are included within the Group. For those funds not consolidated within the Group the transactions during the year were as follows.

	2018 £m	2017 £m
Management fees earned during the year	87	77

There were no amounts outstanding between the Group and the funds at the year end (2017: £nil). The total value of units held by the Parent company at 31 December 2018 in the funds that are not consolidated into the Group was £1,896m (2017: £1,752m). The acquisition and sale of units in the funds during the year were as follows.

	2018 £m	2017 £m
Acquisition of funds	905	413
Proceeds from sale of funds	597	414

(b) Related party transactions of the Parent company

(i) Administration and investment management services provided by subsidiaries

Subsidiary companies perform the administration and investment management activities of the Parent company. The Parent company is charged fees for these services under management services agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer.

The following table summarises the fees and recharges incurred by the Parent company during the year.

	Parent company	
	2018 £m	2017 £m
Administration fees	290	264
Investment management fees	40	38
	330	302

The subsidiaries of the Parent company are shown in note 22. Transactions between the Parent company and its subsidiaries and other related party transactions of the Parent company are shown below.

(ii) Financing transactions undertaken with subsidiaries

The Parent company has provided loans to subsidiaries.

As set out in note 30, two subsidiaries have issued subordinated liabilities, lending the proceeds to the Parent company on the same terms as the original debt issue.

The following table summarises the interest income and expense incurred by the Parent company during the year in relation to these transactions.

	Parent company	
	2018 £m	2017 £m
Interest expense on subordinated liabilities	47	46

38. Related party transactions (continued)

(b) Related party transactions of the Parent company (continued)

(iii) Other income received from subsidiaries

	Parent company 2018 £m	Parent company 2017 £m
OEIC management fee rebates	**87**	88
OEIC distributions	**713**	471
Other dividends receivable from subsidiaries	**56**	38
Rental income	**3**	3
	859	600

The OEIC management fee rebates relate to the investment in Group OEICs made by certain unit-linked funds of the Parent company. The Parent company deducts an investment management fee from the unit-linked fund. The authorised corporate director of the OEICs, which is a subsidiary of the Parent company, deducts an investment management fee from the OEIC in which the unit-linked fund has invested. In order to avoid the unit-linked fund bearing both these investment management fees, the subsidiary company rebates the portion of its charge relating to the internal holding of OEICs to the unit-linked fund.

OEIC distributions are those received from OEICs that are classified as subsidiaries for financial reporting purposes.

(iv) Outstanding balances with Group entities at the year end

At the year end, the following balances were outstanding with Group entities in relation to the transactions above.

	Parent company 2018 £m	Parent company 2017 £m
Amounts due from Group entities	**22**	24
Loans to Group entities	**29**	13
	51	37
Subordinated liabilities	**(745)**	(745)
Amounts due to Group entities	**(151)**	(45)
	(896)	(790)

The amounts due to and from Group entities are due on demand and are not secured.

(v) Other transactions of the Parent company with related parties

As part of its portfolio of investment assets, the Parent company has holdings in OEICs and other funds, managed by subsidiaries.

The Parent company's acquisitions and sales of these funds during the year are shown below.

	Parent company 2018 £m	Parent company 2017 £m
Acquisition of funds	**9,584**	12,781
Proceeds from sale of funds	**5,194**	4,433

(vi) Transactions with key management personnel

No director had transactions or arrangements with the Group that require disclosure, other than those given in the Directors' remuneration report. Key management remuneration is disclosed in note 10(c).

39. Additional cash flow information

(a) Adjustments for non-cash items

Adjustments in the statements of cash flows for non-cash items comprise the following:

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Tax (credit)/charge	(63)	103	(96)	82
Depreciation of property, plant and equipment	12	7	-	-
Impairment/(reversal of impairments) on property, plant and equipment	3	(2)	-	-
Fair value gain on investment property	(195)	(341)	(70)	(245)
Amortisation and impairment charges on acquired PVIF, goodwill and other intangible assets	62	92	35	52
Change in deferred acquisition costs	40	39	40	38
Change in reinsurers' share of insurance liabilities	256	581	256	581
Change in net pension scheme asset	(27)	(81)	(27)	(81)
Fair value loss/(gain) on financial investments	5,532	(3,147)	4,672	(3,575)
Net foreign exchange loss/(gain) on financial investments	120	(102)	33	(27)
Change in participating insurance contract liabilities	(2,526)	445	(2,606)	469
Change in participating investment contract liabilities	(153)	60	(153)	60
Change in non-participating value of in-force business	(137)	(271)	(137)	(271)
Change in non-participating insurance contract liabilities	(392)	(559)	(392)	(559)
Change in non-participating investment contract liabilities	3,805	7,518	3,805	7,518
Change in provisions	12	3	(2)	-
Non-cash transfer of investments	15	(200)	15	2,457
Other non-cash items	70	40	(37)	13
	6,434	4,185	5,336	6,512

Non-cash transfers of investments of £15m related to assets transferred out to external clients (2017: £200m transfer in). Also included in this line in the Parent company in 2017 was an amount of £2,657m in relation to the transfer of investment properties to the property fund set up in 2017.

39. Additional cash flow information (continued)

(b) Adjustments for non-operating items

Adjustments in the statements of cash flows for non-operating items comprise the following:

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Fair value loss on investments in Group entities	1	-	5	(57)
Dividends received from subsidiaries	-	-	(56)	(38)
Finance costs	48	47	48	47
	49	47	(3)	(48)

The fair value loss/(gain) on investments in Group entities and the dividends received from subsidiaries shown above exclude amounts in relation to OEICs and other funds treated as subsidiaries for financial reporting purposes.

(c) Dividends and interest

Interest and dividend receipts and payments included in the statements of cash flows are as follows.

	Group		Parent company	
	2018 £m	2017 £m	2018 £m	2017 £m
Dividends received:				
› Operating cash flows (including Group OEICs)	1,218	1,144	911	736
› Investing cash flows	-	-	56	38
	1,218	1,144	967	774
Interest received:				
› Operating cash flows	1,225	1,096	851	828
Interest paid:				
› Operating cash flows	2	2	2	2
› Financing cash flows	48	47	48	47
	50	49	50	49

(d) Acquisition and disposal of Group entities

The Parent company's operating portfolio of investment assets includes OEICs and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows for the Parent company statement of cash flows. The amount included within 'Net acquisition of financial investments' relating to the acquisition and disposal of such funds was a net acquisition of £4,390m (2017: £8,348m).

The figures for the acquisition and disposal of Group entities in the statements of cash flows can be analysed as follows:

- the £295m acquisition of Group entities in the Parent company relates to the acquisition of two property subsidiaries (£212m) and capital injections (£83m), primarily to Wrap IFA Services Ltd and the new Irish subsidiary (RLI DAC); and
- the £4m proceeds from the disposal of Group entities in both the Parent company and the Group relates to the sale of the RLAM Channel Islands subsidiaries.

39. Additional cash flow information (continued)

(e) Changes arising from movements in debt and other borrowing

Group	Opening balance as at 1 January 2018 £m	Cash flows £m	Non-cash movements £m	Closing balance as at 31 December 2018 £m
Liabilities				
Subordinated debt	745	-	-	745
Finance lease obligations	22	-	(8)	14
Total liabilities from financing activities	767	-	(8)	759

Parent	Opening balance as at 1 January 2018 £m	Cash flows £m	Non-cash movements £m	Closing balance as at 31 December 2018 £m
Liabilities				
Subordinated debt	745	-	-	745
Finance lease obligations	11	-	(7)	4
Total liabilities from financing activities	756	-	(7)	749

40. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences which define the types of risk the Group views as being desirable, neutral towards or undesirable and which form a core part of the Group's risk management system and control techniques. The Group seeks to manage its exposures to risk through its risk management system ensuring that the residual risk exposures are within acceptable tolerances agreed by the Board. The risk management system established within the Group is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Group is well capitalised. The strategic report section of this Annual Report and Accounts includes a summary of the Group's risk management and internal controls approach.

The key control techniques for the major categories of risk exposure are summarised in the following sections.

(a) Insurance risk

Insurance risk arises within the Group from the inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities.

The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future experience, in particular mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks can be summarised as follows:

- mortality – the risk that policyholders die sooner than expected. Mortality risk only applies to liabilities which increase under these circumstances;
- morbidity – the risk that policyholders make morbidity related claims more frequently or for a longer period of time than expected;
- persistency – the risk that the rate of policy lapses, terminations, renewals, partial withdrawals and surrenders, or the number of policies converting to paid-up status, is different from that expected, resulting in an increase in liabilities;
- longevity – the risk that policyholders live longer than expected resulting in higher payments under annuity or similar obligations and so an increase in liabilities.
- expense – the risk that the expense associated with investing in assets, or of administering pensions, insurance or reinsurance contracts held within the Group is higher than expected; and
- option take-up – the risk that the take-up rate of options, in particular guaranteed annuity options, provided to policyholders is different from expected, resulting in an increase in benefit payments and therefore liabilities.

In addition, it is necessary for the Group to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include the allocation of investments between asset classes, the setting of with-profits policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms.

40. Risk management (continued)

(a) Insurance risk (continued)

Insurance risk is largely mitigated, monitored and managed by the various business units/divisions within the Group. Risk relating to the Group's final salary pension schemes is managed separately by a specialist area in the Group, supported by external advisers.

Insurance risks are managed through the following mechanisms:

- the use of the Group insurance risk policy to provide Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks;
- regular monitoring of actual exposures compared to agreed limits to ensure that the insurance risk accepted remains within risk appetite;
- members of the Group's Technical Review Committee are responsible for reviewing and approving all key demographic and expense assumption changes;
- the use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Group's exposure to large single claims and catastrophes and to alleviate the impact of new business strain;
- the diversification of business over several classes of insurance and over large numbers of individual risks to reduce variability in loss experience; and
- control over product development and pricing: members of the Product Pricing Approval Committee are responsible for assessing the pricing of new products and the repricing of existing products manufactured by the Group.

These techniques are supported by the use of actuarial models to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used to determine appropriate assumptions for those models.

The primary responsibility for ongoing oversight and effectiveness of the management of insurance risk falls to the Insurance Risk Committee. The Committee also considers the Group's reinsurance coverage.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Group's Insurance Risk Policy for an annual review of the policy by the policy content owner. The policy provides Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks. The policy content owner makes sure that the policy is implemented appropriately within the Group. The Insurance Risk Committee is responsible for maintaining and reviewing the policy on an annual basis.

Concentration risk

The Group and Parent company write a diverse mix of business across a diverse customer base. The most material concentration of insurance risk relates to persistency risk in respect of unit-linked pension business. As the Group has written substantially all of its business in the UK, results are also sensitive to demographic and economic changes arising in the UK. The Group seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits (including limits on individual lives).

The Group's diverse portfolio of business helps mitigate concentration risk across sectors (pensions, protection, intermediated, direct), but there is some concentration risk within sectors. In particular, there is a risk associated with legislative changes affecting pension business, which could result in a marked worsening in persistency, however, although the Group's portfolio of employer-sponsored pension schemes includes some large schemes there are no schemes that represent an excessive percentage of the relevant portfolio. Due to the nature of the UK market, another potential area of concentration is the reliance of the Group on new business from key Independent Financial Adviser (IFA) networks but this is not considered to be material.

Sensitivity analysis

The following tables present the sensitivity of insurance and investment contract liabilities to the insurance risks set out above. Sensitivities are only shown in one direction as an equal and opposite movement in the variable for the majority of business would have an equal and opposite impact on the value of insurance and investment contract liabilities.

- Mortality and morbidity
  5% proportionate decrease in base mortality and morbidity rates. This sensitivity demonstrates the effect of a decrease in the rate of deaths and serious illness.

  The impact of such a change on the contract liabilities varies depending on the type of business written. For life assurance business a decrease in mortality rates will typically decrease the liabilities as there will be fewer payouts for early death. However, for those policies which contain a guaranteed annuity option the policy liability may increase as its value depends in part on the length of time over which the guaranteed rate will be paid. Likewise, for annuity business a decrease in mortality rates will increase the liability as the average period over which annuity payments have to be made will be extended.

40. Risk management (continued)

(a) Insurance risk (continued)

- Persistency
  10% proportionate decrease in lapse rates. This sensitivity reflects a single, downward movement in lapse rates. This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in force.
- Expenses
  10% decrease in maintenance expenses – the ongoing cost of administering contracts. This sensitivity is applied to the projected level of expenses. There is no change to the assumed rate of future expense inflation. A reduction in expenses will reduce the value of the liabilities for most classes of business. For some unit-linked contracts where future charges cover expenses, however, the liability may be unaffected.

The tables demonstrate the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, the assumptions may be interdependent. It should also be noted that the impact on the liabilities from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

	Group							
	2018				2017			
		Impact of change in variable				Impact of change in variable		
	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m
Long-term insurance contract liabilities, gross of reinsurance								
Participating insurance contracts	30,628	14	-	(17)	33,154	21	2	(23)
Non-participating insurance contracts								
› Unit-linked	1,449	(24)	(5)	(3)	1,743	(11)	(4)	(4)
› Non-profit, other than annuities	665	(182)	29	(47)	556	(170)	25	(40)
› Non-profit annuities	4,474	91	-	(7)	4,663	95	-	(7)
› Claims outstanding	321	-	-	-	339	-	-	-
	6,909	(115)	24	(57)	7,301	(86)	21	(51)
	37,537	(101)	24	(74)	40,455	(65)	23	(74)
Long-term insurance contract liabilities, net of reinsurance								
Participating insurance contracts	29,351	(10)	-	(17)	31,714	(7)	2	(23)
Non-participating insurance contracts								
› Unit-linked	1,472	(14)	(5)	(3)	1,743	(1)	(4)	(4)
› Non-profit, other than annuities	357	(15)	15	(47)	379	(16)	14	(40)
› Non-profit annuities	1,074	19	-	(7)	1,063	21	-	(7)
› Claims outstanding	213	-	-	-	230	-	-	-
	3,116	(10)	10	(57)	3,415	4	10	(51)
	32,467	(20)	10	(74)	35,129	(3)	12	(74)
Non-participating value of in-force business	(1,625)	(2)	(257)	(94)	(1,488)	(2)	(228)	(86)
Investment contract liabilities								
Participating investment contracts	2,061	(8)	(1)	7	2,214	(15)	(4)	1
Non-participating investment contracts	42,652	-	-	-	38,847	-	-	-
	44,713	(8)	(1)	7	41,061	(15)	(4)	1

The Parent company has a similar insurance risk profile to that shown for the Group above, and therefore it has not been analysed separately.

40. Risk management (continued)

(b) Market risk

Market risk arises from the possibility that the fair value or cash flows of the Group's assets and liabilities change as a result of movements in interest rates, foreign currency exchange rates and other market prices. Market risk arises for the Group in particular where the impact of a market change impacts differently on the value of assets from the effect on liabilities.

The Group manages market risk within the risk management system outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Investment Strategy Committee and Capital Management Committee provide regular monitoring of these processes.

The Group is not materially exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements constrain the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk and currency risk.

(i) Equity risk and property risk

Equity risk and property risk are the risks that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices of equities or investment properties, other than those arising from interest rate or currency risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is delegated to the Group's asset management subsidiary with monitoring procedures in place.

The investment management agreement in place between the Parent company and its asset management company specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular asset category or specific investment. The Investment Strategy Committee and Capital Management Committee along with the Group's Investment Committee monitor the actual asset allocation and performance against benchmark. The Group hedges some of its equity risk arising from investment guarantees and unit-linked charges using equity derivatives.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi).

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Parent company uses interest rate swaps to provide interest rate sensitivity matching.

A sensitivity analysis to interest rate risk is included in section (vi).

(iii) Inflation risk

Inflation risk is the risk that inflation results in the value of the Group's liabilities increasing by more than the value of its assets. It arises principally in the Group's defined benefit pension scheme, where higher inflation would result in higher increases in deferred pensions and would be expected to be associated with higher increases in pensions in payment.

The Group mitigates some inflation risk by the use of inflation swap derivatives.

40. Risk management (continued)

(b) Market risk (continued)

(iv) Credit spread risk

Credit spread risk is the risk that the difference between the yields on non-sovereign investment bonds and the yields on interest rate swaps increase from current levels, causing the value of the Group's holdings of non-sovereign bonds to reduce by more than the value of the associated liabilities.

The Group manages its exposures to spread risks through its hedging strategy and regular review of its hedging arrangements.

(v) Currency risk

Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change as a result of a change in foreign exchange rates. As the Group operates principally in the UK its assets and liabilities are mainly denominated in sterling. For investment assets, the Group's investment management policies and procedures allow for a small exposure to overseas markets, via both equities and fixed interest securities. The resulting currency risk is managed by the use of exposure limits and authorisation controls operated within the Group's risk management system.

The following tables demonstrate the extent to which the assets and liabilities of the Group and the Parent company are exposed to currency risk. Linked assets are not subject to currency risk as this risk is borne by the customers concerned. A sensitivity analysis of the Group and Parent company's exposure to currency risk is included in section (vi).

	Group		Parent company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Non-linked assets denominated in GBP	**51,581**	55,124	**43,926**	48,170
Non-linked assets denominated in non-GBP	**3,555**	3,605	**3,858**	3,571
	55,136	58,729	**47,784**	51,741
Linked assets not subject to currency risk	**44,124**	40,590	**44,124**	40,590
	99,260	99,319	**91,908**	92,331
Non-linked liabilities denominated in GBP	**54,289**	57,665	**46,937**	50,677
Non-linked liabilities denominated in non-GBP	**847**	1,064	**847**	1,064
	55,136	58,729	**47,784**	51,741
Linked liabilities not subject to currency risk	**44,124**	40,590	**44,124**	40,590
	99,260	99,319	**91,908**	92,331

At 31 December 2018, the Group and Parent company held currency forwards with a sterling notional value of £254m (2017: Group and Parent company £352m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

(vi) Market risk sensitivity analysis

The following table shows the impact on the unallocated divisible surplus (before tax) from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

Interest rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities increases when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

Currency rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and liabilities denominated in that currency. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the unallocated divisible surplus.

40. Risk management (continued)

(b) Market risk (continued)

(vi) Market risk sensitivity analysis (continued)

Equity/property capital values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. Consequently, the unallocated divisible surplus will be reduced by a fall in asset values.

	Group		Parent company	
Impact before tax on the UDS	2018 £m	2017 £m	2018 £m	2017 £m
Interest rates +100bp	(45)	(31)	(45)	(31)
Interest rates -100bp	44	42	44	42
10% increase in non-GBP exchange rate	(178)	(108)	(178)	(108)
10% decrease in non-GBP exchange rate	178	106	178	106
Equity/property prices +10%	247	221	247	221
Equity/property prices -10%	(253)	(233)	(253)	(233)

Limitations of sensitivity analysis

The table above demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks.

The Group's assets and liabilities are actively managed. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment market conditions change, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to with-profits policyholders and taking other protective action.

It should also be noted that the impact on the unallocated divisible surplus from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

(c) Credit risk

Credit risk is defined as the risk of loss if a counterparty fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Group's exposure to credit risk arises principally from its investment portfolio, from its holdings in bonds, derivatives and cash in particular and from reinsurance arrangements. The credit risk policy sets out various high level requirements relating to the identification, measurement, modelling, management, monitoring, reporting and documentation of credit risk. The policy is supported by a guidance document that indicates 'what good looks like' and provides examples of evidence that can support compliance with the policy requirements. A separate derivatives risk management policy sets out other specific requirements relating to legal, collateral, and valuation arrangements. Where possible, significant counterparty exposures, particularly in respect of stock lending and derivatives, are mitigated by the use of collateral.

A comprehensive system of limits is in place in order to control exposure to credit risk. While ratings provided by external agencies such as Standard & Poor's and Moody's and expert investment advice are taken into account when setting limits to individual counterparties, there are separate limits for exposures in respect of cash and deposits and for corporate bond and sovereign debt exposures, expressed as percentages of the fund's total assets. The one exception is exposure to the UK government – investment in government debt is a key part of the Group's investment and asset liability management strategies and it has been decided that no limit should be set. If the UK's credit standing were to deteriorate significantly, however, this decision would need to be reviewed.

40. Risk management (continued)

(c) Credit risk (continued)

Exposures to individual counterparties are monitored against the agreed limits by the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Investment Strategy Committee. For bond holdings, exposures are also monitored by industry sector and by credit rating.

The Group is also exposed to credit risk in respect of its reinsurance arrangements. The credit exposures for reinsurance contracts are monitored by the Group's Capital Management and Insurance Risk Committees as part of the overall credit risk policy.

The following tables show the assets of the Group that are subject to credit risk and a reconciliation to the balance sheet carrying values. The credit risk in respect of linked assets is borne by the holders of the contracts concerned, except where investment is made in the funds of other life companies via reinsurance contracts. The Parent company has a similar credit risk profile to that shown for the Group and therefore it has not been analysed separately.

	Group					
	2018			2017		
	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m
Financial investments						
› Debt and fixed income securities	**20,677**	**58,719**	**79,396**	19,159	21,983	41,142
› Derivatives	**3,171**	**-**	**3,171**	4,260	2	4,262
Cash and cash equivalents	**1,248**	**1,633**	**2,881**	1,202	1,859	3,061
Reinsurers' share of insurance liabilities	**5,070**	**-**	**5,070**	5,326	-	5,326
Trade and other receivables	**415**	**480**	**895**	308	343	651
	30,581	**60,832**	**91,413**	30,255	24,187	54,442

The following tables show an analysis of the credit quality of those assets that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. AAA is the highest rating possible for assets exposed to credit risk.

The credit ratings in respect of derivative financial investments are those of the counterparties to the derivative contracts. The debt and fixed income securities which have not been rated by an external agency are subject to internal analysis to provide an internal rating, the average of which at 31 December 2018 was A (2017: BBB+).

The internal rating process used by the Group is to assess credit risk within the context of the bond issuer's financial position, the bond's covenants and structure and the likely recovery should default occur. Three major sectors that are significant issuers of sterling denominated unrated bonds, namely social housing, investment trusts and property, are each asset rich. For these sectors, documented specific credit analysis is undertaken, which assesses the individual risks of bonds in the sector and relates the risk of loss to that implied by the rating bands of the rating agencies. The internal ratings produced are compared for consistency with formally rated, broadly equivalent stocks in the same sector and for consistency with the market pricing of the underlying bond. For stocks in other sectors, the background of the issuer and the bond characteristics are assessed within a framework similar, where possible, to credit rating agency methodology.

40. Risk management (continued)

(c) Credit risk (continued)

In order to minimise its exposure to credit risk, the Group and Parent company invest primarily in higher graded assets, rated BBB or above. The Group and Parent company also make use of collateral arrangements in respect of their derivative exposures and stock lending activity, wherever possible. Further details of the collateral held are shown in note 21(b).

	Group 2018							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
› Debt and fixed income securities	736	14,091	2,101	2,566	304	2	877	20,677
› Derivatives	-	1	3,133	37	-	-	-	3,171
Cash and cash equivalents	6	998	395	1	(152)	-	-	1,248
Reinsurers' share of insurance liabilities	-	5,046	12	-	-	-	12	5,070
Trade and other receivables	-	-	-	-	-	-	415	415
	742	20,136	5,641	2,604	152	2	1,304	30,581

	Group 2017							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
› Debt and fixed income securities	677	11,447	3,156	2,752	319	-	808	19,159
› Derivatives	-	-	4,217	43	-	-	-	4,260
Cash and cash equivalents	5	-	-	1,197	-	-	-	1,202
Reinsurers' share of insurance liabilities	-	4,499	838	-	-	-	(11)	5,326
Trade and other receivables	-	-	-	-	-	-	308	308
	682	15,946	8,211	3,992	319	-	1,105	30,255

40. Risk management (continued)

(c) Credit risk (continued)

The following tables show the financial assets that are exposed to credit risk, analysing them between those that are neither past due nor impaired, those that are past due (by age band) but are not considered to be impaired and those that have been impaired.

	Group 2018						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
› Debt and fixed income securities	20,677	-	-	-	-	-	20,677
› Derivatives	3,171	-	-	-	-	-	3,171
Cash and cash equivalents	1,248	-	-	-	-	-	1,248
Reinsurers' share of insurance liabilities	5,070	-	-	-	-	-	5,070
Trade and other receivables	415	-	-	-	-	-	415
	30, 581	-	-	-	-	-	30, 581

	Group 2017						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
› Debt and fixed income securities	19,159	-	-	-	-	-	19,159
› Derivatives	4,260	-	-	-	-	-	4,260
Reinsurers' share of insurance liabilities	5,325	-	-	-	1	-	5,326
Trade and other receivables	294	14	-	-	-	-	308
	29,038	14	-	-	1	-	29,053

No collateral was held against assets that are past due or impaired (2017: £nil). There were no material financial assets that would have been past due or impaired had the terms of the instrument not been renegotiated.

40. Risk management (continued)

(d) Liquidity risk

The Group defines liquidity risk as the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group has limited exposure to liquidity risk due primarily to its financial strength and availability of liquid assets. However, the Group recognises that extreme liquidity issues could have a serious impact on the Group. The Group believes that its liquidity risk is managed effectively and that the Group has good capabilities in this area within its Group functions and its investment management subsidiary.

The Group's liquidity management process includes:

- maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term;
- holding sufficient assets in investments that are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- setting minimum amounts of cash balances in each of its long-term funds. These are set by reference to recent and expected cash outflows and include a margin above reasonably expected amounts in order to reduce risk;
- maintaining a contingency funding plan that covers the framework to enable ongoing monitoring of the Group's capacity to meet its short and medium-term liabilities. It also includes a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios;
- appropriate matching of the maturities of assets and liabilities. The Group's market risk policy covers asset liability management to ensure the duration of liabilities is matched by assets;
- a liquidity risk limit framework; and
- reporting of liquidity exposures to the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Investment Strategy Committee.

These processes are regularly reviewed and updated to ensure their continued effectiveness.

The Group's exposure to liquidity risk arises from insurance and investment contracts and the use of derivatives. The following tables show a maturity analysis for the Group's insurance and investment contract liabilities. As permitted by IFRS 4, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the non-participating investment contracts has been shown on the same basis for consistency. Had the analysis for these liabilities been presented on the basis of the earliest contractual maturity date (as required by IFRS 7) then the whole balance would have been included in the '0–5 years' column, as customers can exercise surrender options at their discretion. In such a scenario the liability may be reduced by the application of surrender penalties (if applicable). The tables also show a maturity analysis for the Group's derivative liabilities and the reinsurance liability held at FVTPL presented on a contractual cash flow basis.

The longer-term matching of assets and liabilities is covered within market risk, note 40 (b). As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Group considers the residual liquidity risk arising from its activities to be immaterial. Therefore, an analysis of the Group's asset cash flows by contractual maturity is not considered necessary to evaluate the nature and extent of the Group's liquidity risk. The Parent company has a similar liquidity risk profile to that of the Group and therefore it has not been analysed separately.

40. Risk management (continued)

(d) Liquidity risk (continued)

	Group 2018						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(30,628)	(11,211)	(9,479)	(7,774)	(3,600)	(1,875)	(33,939)
Participating investment contract liabilities	(2,061)	(631)	(565)	(492)	(357)	(347)	(2,392)
Non-participating insurance contract liabilities	(6,909)	(2,063)	(1,802)	(1,513)	(1,146)	(1,607)	(8,131)
Non-participating investment contract liabilities	(42,652)	(11,576)	(11,102)	(8,394)	(6,253)	(10,892)	(48,217)
	(82,250)	(25,481)	(22,948)	(18,173)	(11,356)	(14,721)	(92,679)
Derivative liabilities	(1,408)	(376)	(373)	(342)	(306)	(308)	(1,705)
Reinsurance liability	(2,753)	(496)	(595)	(606)	(545)	(1,267)	(3,509)

	Group 2017						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(33,154)	(11,204)	(9,582)	(8,946)	(4,647)	(2,202)	(36,581)
Participating investment contract liabilities	(2,214)	(638)	(533)	(468)	(306)	(417)	(2,362)
Non-participating insurance contract liabilities	(7,301)	(2,052)	(1,799)	(1,559)	(1,104)	(1,371)	(7,885)
Non-participating investment contract liabilities	(38,847)	(10,347)	(9,811)	(8,070)	(5,930)	(9,235)	(43,393)
	(81,516)	(24,241)	(21,725)	(19,043)	(11,987)	(13,225)	(90,221)
Derivative liabilities	(1,511)	(438)	(430)	(403)	(372)	(449)	(2,092)
Reinsurance liability	(2,957)	(478)	(594)	(629)	(582)	(1,444)	(3,728)

(e) Pension schemes

The Group maintains three defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and regular contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions. Management of the assets of the pension schemes is the responsibility of each scheme's Trustees, who also appoint the Scheme Actuaries to perform triennial valuations to assess the level of funding required to meet the scheme's liabilities. The schemes' main exposures are to equity, interest rate, inflation and longevity risk. For further information on pension scheme assets and liabilities, see note 19. The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and are used in discussions with the Trustees, through whom any risk management activity must be conducted.

40. Risk management (continued)

(f) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, human resources, change management, tax, legal, fraud and compliance. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes and systems under their control.

Details of risks on inherent (before controls) and residual (after controls) bases are maintained on risk registers, with each part of the business being responsible for identifying, assessing, managing and reporting on its operational risks and for implementing and maintaining controls in accordance with the Group's operational risk methodology. In performing these assessments, account is taken of the Group's risk appetite with greater significance being placed on those risks that fall outside these parameters. This is used as a basis for review and challenge by senior management, Risk Committees and the Board of Directors. Management attention is focused upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weakness is identified. In addition, the Group conducts a series of operational risk scenarios. These scenarios allow the Group to consider how effective controls would be should an extreme event occur and to make improvements where necessary. The scenarios also provide data that is used to calculate the capital held by the Group for operational risk. Within the Group's management of operational risks significant consideration is given to conduct risk and the risk of unfair outcomes to our customers and members.

(g) Emerging risk

All insurers may be impacted by risks that are potentially significant but are currently only just beginning to emerge. The Group has defined emerging risks as being newly developing or changing risks which are difficult to quantify or may be uncertain and which could have a major impact on an organisation. Typically the drivers for these risks are technological, economic, environmental or geo-political. The Group's Emerging Risk Forum comprises members from across the Group who identify and assess emerging risks and possible mitigating actions. Information about emerging risks is provided to senior management and the Board, and is used to inform decision making.

(h) Risk governance

An independent Risk and Compliance function provides challenge to the business on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place and any actions being progressed. In many parts of the Group, governance and risk teams are embedded within business units supporting the process. The independent function provides advice and guidance on the impact of regulatory change and undertakes risk-based compliance monitoring reviews to assess the quality of business processes and controls, reporting the results of its findings to management and to the Board monthly.

(i) Stress and scenario testing

The Group conducts a range of sensitivity analysis and stress and scenario testing activity in order to help it understand its risk profile and assess and manage its risks. This is a key element of the Group's risk management system, as well as being a regulatory requirement.

Stress and scenario testing in various forms is carried out on a regular basis as part of business as usual and in response to specific regulatory initiatives and can involve either:

- straightforward stress tests/sensitivity analysis: analyses of the sensitivity of financial and operational metrics and the risk profile to discrete changes in market values or demographic experience; or
- scenarios that involve a combination of changes in economic parameters or that concentrate on specific operational, non-market and/or market risks.

The following outputs are produced as part of business as usual and include results from one or both of the tests described above:

- Group Performance Reviews, produced monthly;
- Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- Capital Management Plan, produced bi-annually;
- Reports on the capital requirements of the Parent company, produced annually;
- Internal Capital Adequacy Assessment Process (ICAAP) results for regulated non-insurance firms (where applicable), produced annually; and
- Medium-Term Plans, produced annually.

The stress testing performed includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

40. Risk management (continued)

(i) Stress and scenario testing (continued)

Operational risk stresses and scenarios are completed to calculate the capital required for this risk. The stresses allow an assessment of the extreme impacts arising from a given risk by way of assessment of the frequency of occurrence and the distribution of the value of impacts. A top-down approach is used for determining the Parent company's capital requirements which involves the analysis of single, but potentially catastrophic, events/risks which cover all risks used for modelling the capital requirement.

Various broad-based scenarios and reverse stress tests have been considered in the Group over the year, as well as business model analysis activity. These scenarios provide a top-down analysis of events that would affect the Group in a significant way. These events could be in relation to issues such as the markets in which the Group operates, financial strength, long-term strategy and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

41. Capital management

(a) Capital management policies and objectives

The Group's capital management objectives are:

- to protect the Group's financial strength, providing security to policyholders;
- to ensure that the Group's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board; and
- to comply with SII's capital requirements.

The Group's capital position is monitored on a regular basis and reviewed formally by the Capital Management Committee. The Group's capital requirements are forecast on a regular basis and those forecasts are compared against the available capital. Potential investments are measured against the Group's required minimum internal rate of return taking into account the risk associated with the investment.

(b) Regulatory Capital

(i) Regulatory capital framework

From 1 January 2016, the Parent company has been required to maintain and report its capital position under SII. RLI DAC was authorised to write new life insurance business in the Republic of Ireland by the Central Bank of Ireland with effect from 1 January 2019. This results in Royal London becoming an insurance Group under the SII rules and consequently regulatory capital will be reported in 2019 at a Group and Parent company level.

Under SII, the Parent company is required to hold sufficient capital to withstand adverse outcomes from its key risks, e.g. that equity markets fall. This 'Solvency Capital Requirement' (SCR) is calibrated so that it is broadly equal to the adverse experience likely to occur once in every 200 years.

The Parent company is calculating and reporting this SCR using the 'Standard Formula' specified within the SII rules. In addition to the Standard Formula SCR, the PRA has issued the Parent company with a 'capital add-on' increasing the SCR capital requirement. This 'capital add-on' takes into account risks that are not appropriately captured by the Standard Formula and is agreed with the PRA for each reporting period.

The Parent company has a strong capital position, and has complied with all capital requirements throughout 2018 and 2017.

As well as calculating and reporting the Standard Formula SCR, the Group and Parent company manages capital at a fund level using an internal capital model because it believes this is more appropriate for its business than the Standard Formula. The Group and Parent company's risk appetite is to hold an additional amount of capital on top of this internal required capital, to act as a 'buffer' and avoid breaching the regulatory capital requirement. The current position and the target level of capital are expressed as a capital cover ratio, this being the amount of available capital as a proportion of the internal capital requirement.

We are seeking approval from the PRA to use an Internal Model rather than the Standard Formula to calculate our capital requirements for regulatory purposes in 2019.

41. Capital management (continued)

(b) Regulatory Capital (continued)

(ii) Regulatory capital position

The table below sets out the Parent company's available own funds, solvency capital requirement, solvency surplus and capital cover ratio on a Regulatory View basis[1].

	Parent company	
	Regulatory View 2018[2,3] (£m)	Regulatory View 2017[3,4] (£m)
All 2018 figures are estimated		
Available own funds (A)[5]	**6,415**	6,565
Solvency capital requirement (SCR) (B)	**4,459**	4,195
Solvency surplus	**1,956**	2,370
Capital cover ratio (A/B)	**144%**	156%

1 In common with the rest of the Industry, we present two views in our capital position: 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 in excess of the SCR is excluded from total available own funds and treated as a liability, which is known as the ring-fenced fund restriction. The Regulatory View is disclosed in the table above and the Investor View is disclosed in the Group Finance Director's review on page 33.
2 31 December 2018 figures are estimated. The final figures will be presented in the 2018 RLMIS SFCR, which will be published on our website by 18 April 2019.
3 Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.
4 The 31 December 2017 figures have been restated in line with the final regulatory returns which were presented in the 2017 SFCR in May 2018. Estimated solvency surplus and capital cover ratios were presented in the 2017 Annual Report and Accounts, being available own funds of £6,501m, SCR of £4,100m, solvency surplus of £2,401m and capital cover ratio of 159% (Regulatory View).
5 Available own funds reflect the ring-fenced fund restriction (see footnote 1 above).

The decrease in the Regulatory View solvency surplus and capital cover ratio between 31 December 2017 and 31 December 2018 primarily relates to:

- significant new business sales, which had a strain on capital over and above the capital benefit from the run-off of existing business;
- adverse economic experience driven by difficult investment market conditions, particularly in Q4 2018;
- the allocation of ProfitShare; and
- one-off projects and investment in the business, including the ongoing transformation of our pensions business (#thinkbeyond) and the acquisition of RLUM, a subsidiary previously owned by the RL(CIS) fund; partially offset by
- positive demographic assumption changes in 2018.

41. Capital management (continued)

(b) Regulatory Capital (continued)

(iii) Reconciliation of Parent company IFRS UDS to regulatory capital available own funds

The SII available own funds are determined by aggregating the assets and liabilities of the Parent company recognised and measured on a SII basis. A reconciliation of the Parent company's UDS attributable to members on an IFRS basis to estimated SII available own funds is set out in the table below.

	2018[1] (£m)	2017[1] (£m)
IFRS Unallocated divisible surplus	4,075	3,855
Adjustments to a SII basis:		
› Adjustment to the value of technical provisions and reinsurance assets[2]	982	1,235
› Goodwill, other intangible assets and deferred acquisition costs[3]	(686)	(605)
› Other valuation differences[4]	(34)	(58)
› Inclusion of closed funds surplus classified as an IFRS liability[5]	3,867	4,265
Excess of assets over liabilities in SII balance sheet	8,204	8,692
› Subordinated liabilities[6]	806	883
› Ring-fenced fund adjustment[7]	(2,595)	(3,010)
SII available own funds – estimate	6,415	6,565

1 31 December 2018 figures are estimated. The final figures will be presented in the 2018 RLMIS SFCR to be published on our website by 18 April 2019. 31 December 2017 comparative figures are restated in line with the final regulatory returns which were presented in the 2017 SFCR in May 2018. Estimated SII available own funds of £6,501m were presented in the 2017 Annual Report and Accounts.
2 The adjustment to the value of technical provisions and reinsurance assets results from the recalculation of these balances using SII requirements. This includes the removal of the margins of prudence included in the IFRS values (so that assumptions are all best estimate), the inclusion of the SII risk margin, the use of the SII yield curve including the volatility adjustment for appropriate lines of business, the adoption of SII contract boundary definitions (mainly affecting unit-linked business) and also any benefit from the SII transitional provisions.
3 Goodwill, other intangible assets and deferred acquisition costs are recognised in the IFRS balance. Under the SII valuation rules, these assets are valued at nil.
4 Other valuation differences relate principally to the value of participations, renewal commission and subordinated liabilities. In the IFRS balance sheet participations are valued at fair value, and for SII the valuation equates to the value of net assets on a SII basis. Renewal commission is recognised in the IFRS balance sheet but not on a SII basis. Subordinated liabilities are held at amortised cost for IFRS and at fair value for SII.
5 For IFRS any excess of assets over liabilities within the closed funds is included within liabilities so the unallocated divisible surplus includes amounts relating to the Royal London Open Fund only. For SII, the excess within the closed funds is included within total available own funds, but only up to the value of the capital requirement (SCR) of the closed funds.
6 Subordinated liabilities in the form of the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 notes) and the Guaranteed Subordinated Notes due 2028 (the 2028 Notes) are included within available own funds on a SII basis, whereas IFRS treats subordinated debt as a liability.
7 The ring-fenced fund adjustment is where the closed funds' surplus in excess of the SCR is excluded from total available own funds and treated as a liability.

42. Post balance sheet events

(a) Royal London Insurance Designated Activity Company (RLI DAC)

On 7 February 2019, certain insurance and investment contracts amounting to £810m together with related assets and liabilities were transferred from the Parent company to its wholly-owned subsidiary company, RLI DAC, by way of a transfer made under Part VII of the Financial Services and Markets Act 2000. The transfer had an effective date of 1 January 2019. As this occurred after the balance sheet date, the numbers reported in these financial statements have not been adjusted to reflect the transfer. The contracts transferred were:

- the protection contracts written in the Republic of Ireland by the Parent company since 1 July 2011.
- the 'Liver contracts', being the insurance and investment contracts in the Royal Liver Assurance Fund which were originally written in the Republic of Ireland by:
  - Royal Liver Assurance Limited, Caledonian Life and Irish Life Assurance plc, transferred to the Parent company on 1 July 2011 by way of a scheme of transfer under section 86 of the Friendly Societies Act 1992; and
  - GRE Life Ireland Limited, transferred to the Parent company on 1 July 2012 by way of a scheme of transfer under the Assurance Act 1909 and European Communities (Life Assurance) Framework Regulations 1994.
- the German bonds contracts previously written by the Parent company.

The transfer resulted in no gain or loss in either the Parent company or RLI DAC.

As the Part VII transfer was between Group entities (the Parent company and RLI DAC), there was no impact on the Group balance sheet or the consolidated statement of comprehensive income.

Immediately after the Part VII transfer, internal reassurance agreements were effected to reinsure the Liver and German bonds contracts back to the Parent company, thereby maintaining the same economic position for these policyholders as if the Part VII transfer had not taken place.

European Embedded Value supplementary information

Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information

The directors of Royal London have chosen to prepare supplementary information in accordance with the European Embedded Value Principles (the EEV Principles) issued in April 2016 by the CFO Forum. When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles. The directors have chosen not to adopt the Market Consistent Embedded Value Principles issued by the CFO Forum in April 2016.

In preparing the EEV supplementary information, the directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data and then applied them consistently;
- made estimates that are reasonable and consistent; and
- determined the basis on which business that is not covered business has been included in the supplementary information.

Independent auditors' report to the directors of The Royal London Mutual Insurance Society Limited on the European Embedded Value supplementary information ('the supplementary financial statements')

Report on the audit of the supplementary financial statements

Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's supplementary financial statements for the year ended 31 December 2018 have been properly prepared, in all material respects, in accordance with the European Embedded Value ('EEV') basis set out in Note (a) – Basis of preparation.

We have audited the EEV supplementary information of The Royal London Mutual Insurance Society Limited ('the Company') for the year ended 31 December 2018 which comprise the Consolidated income statement – EEV Basis, Consolidated balance sheet – EEV Basis and the related notes ('the supplementary financial statements') which have been prepared in accordance with the EEV basis set out in Note (a) – Basis of preparation and which should be read in conjunction with the Group's financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'), including ISA (UK) 800, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the supplementary financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the supplementary financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the supplementary financial statements, which is not modified, we draw attention to Note (a) to the supplementary financial statements, which describes the Basis of preparation. The supplementary financial statements are prepared to assist the Company in applying the financial reporting provisions set out in Note (a). As a result, the supplementary financial statements may not be suitable for another purpose.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the supplementary financial statements is not appropriate; or
- the directors have not disclosed in the supplementary financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the supplementary financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and, in common with other companies, it is difficult to evaluate all of the potential implications on the company's business, clients, suppliers and the wider economy, in general terms.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the supplementary financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the supplementary financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the supplementary financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the supplementary financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the supplementary financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the supplementary financial statements and the audit

Responsibilities of the directors for the supplementary financial statements

As explained more fully in the Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information, the directors are responsible for the preparation of supplementary financial statements in accordance with the EEV basis set out in Note (a) – Basis of preparation. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of supplementary financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the supplementary financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the supplementary financial statements

Our objectives are to obtain reasonable assurance about whether the supplementary financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these supplementary financial statements.

A further description of our responsibilities for the audit of the supplementary financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our engagement letter dated 20 August 2018 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London

20 March 2019

Consolidated income statement – EEV basis

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Operating activities			
Contribution from new business	(g) (i)	301	292
Profit from existing business	(g) (ii)		
› Expected return		122	104
› Experience variances		16	37
› Operating assumption changes		90	111
Expected return on opening net worth	(g) (iii)	17	26
Loss on uncovered business	(g) (iv)	(39)	(33)
Strategic development costs and other items	(g) (v)	(111)	(208)
Total operating profit before tax		396	329
Economic experience variances	(g) (vi)	(111)	159
Economic assumption changes	(g) (vii)	86	79
Movement in Royal London Group Pension Scheme	(g) (viii)	27	73
Financing costs	(g) (ix)	(47)	(46)
EEV profit before tax and ProfitShare		351	594
ProfitShare	(g) (x)	(158)	(150)
EEV profit before tax		193	444
Attributed tax charge	(g) (xi)	(14)	(30)
Total EEV profit after tax		179	414

Consolidated balance sheet – EEV basis

as at 31 December 2018

	2018 £m	2017 Restated £m
Assets		
Assets held in closed funds	**33,289**	37,056
Assets backing non-participating liabilities	**43,514**	39,726
Reinsurance assets	**5,088**	5,384
Assets backing participating liabilities and net worth	**9,112**	9,315
Value of in-force business	**2,726**	2,544
Pension scheme surplus (RLGPS)	**74**	47
Total	**93,803**	94,072
Liabilities		
Liabilities in closed funds	**33,289**	37,056
Non-participating liabilities	**43,514**	39,726
Reinsured liabilities	**5,088**	5,384
Participating liabilities	**6,284**	6,526
Other liabilities	**1,889**	1,820
Total	**90,064**	90,512
Embedded Value		
Net worth	**939**	969
Value of in-force business	**2,726**	2,544
Pension scheme surplus (RLGPS)	**74**	47
Total	**3,739**	3,560

Value of in-force business – EEV basis

as at 31 December 2018

	2018 £m	2017 £m
Value of in-force business before allowance for burn-through and capital costs	**2,753**	2,580
Burn-through cost	**(2)**	(3)
Cost of capital	**(25)**	(33)
Value of in-force business	**2,726**	2,544

(a) Basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the EEV Basis for Conclusions issued in April 2016 by the CFO Forum. They provide supplementary information for the year ended 31 December 2018 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 Principles were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles accordingly. The reported embedded value provides an estimate of Royal London's value to its members.

EEV 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, EEV operating profit includes the revaluation of VIF arising on the asset management and service subsidiaries, and IFRS operating profit includes accounting amounts such as amortisation of goodwill and intangible assets which are excluded under EEV as they are not permitted to be recognised for regulatory purposes.

(b) EEV methodology

(i) Overview

The EEV basis of reporting is designed to recognise the economic value of a new policy at the point it is written. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

For the purposes of EEV reporting, the Group has adopted a market-consistent methodology. Within a market-consistent framework, assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.

(ii) Covered business

The EEV Principles require an insurance company to distinguish between covered and uncovered business according to whether the business is valued on EEV Principles. The covered business, which represents the vast majority of the Group's total business, incorporates:

- life and pensions business defined as long-term business by UK and overseas regulators; and
- asset management business; both that derived from the life and pensions business and that arising from external clients (note: cash mandates are treated as uncovered business).

(iii) Embedded value

The reported embedded value provides an estimate of the value of the covered business, including future cash flows expected from the existing business but excluding any value that may be generated from future new business. For covered business, it comprises the sum of the net worth calculated on an EEV basis and the value of in-force business. For uncovered business, it comprises the IFRS net assets.

The net worth is the market-consistent value of the net assets (excluding the value of in-force business and pension scheme surplus over and above those required to manage the business in line with the published Principles and Practices of Financial Management (PPFM). It is based on the working capital, consistent with the previous realistic regime, in those funds within the Group that are open to new business and allows for the value of the subordinated debt.

The value of in-force business is the expected future profits from the existing business at the valuation date, on a realistic basis allowing for risk, adjusted for the cost of holding the required capital. The RLGPS is discussed in section g (viii).

(b) EEV methodology (continued)

(iv) Allowance for risk

The allowance for risk is a key feature of the EEV Principles. The table below summarises how each item of risk has been allowed for.

Type of risk	EEV methodology
Market-related risks	Allowed for explicitly in the EEV calculations
Non-market risks which are symmetrical in terms of the impact on EEV	Allowed for within the estimates of future operating experience
Non-market risks which are asymmetrical in terms of the impact on EEV	Allowed for in the calculation of VIF and financial options by way of an additional margin in the estimates of future operating experience

Market risk

The approach adopted to calculate the Market-Consistent Embedded Value combines deterministic and stochastic techniques. Deterministic techniques have been used to value 'non-option cash flows'; that is cash flows whose values vary linearly with market movements. Stochastic techniques have been used to value cash flows with an asymmetric effect on profit, such as investment guarantees on with-profits products.

In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate and a bond cash flow is valued using a bond risk discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate. In practice, it is not necessary to discount each cash flow at a different rate. For cash flows that are either independent or move linearly with the market, a method known as the 'certainty equivalent approach' will achieve the same results. Under this method all assets are assumed to earn the risk-free rate of return and all cash flows are discounted using the risk-free rate. This approach has been adopted to value the 'non-option cash flows' within a deterministic model.

Non-market risk

In general, the allowance for non-market risk is covered by the margin incorporated into the Group's estimates of future operating experience assumptions. The methodology used to determine the appropriate allowance for non-market risk is based on the analyses undertaken as part of the calculation of the Group's internal capital requirements.

(c) Cost of capital

The EEV Principles require capital allocated to the covered business to be split between required capital, the future distributions of which are restricted, and free surplus. We have defined the amount of required capital to be that necessary to meet the Group's internal assessment of capital requirements.

The EEV VIF includes a deduction for the frictional cost of holding the required capital. Frictional costs, being the tangible costs of holding capital, have been allowed for on a market-consistent basis. These consist of the total taxation and investment expenses incurred on the required capital over the period it is anticipated to be required. They reflect the cost to a member of having an asset held within a mutual insurance company, rather than investing in the asset directly.

No allowance has been made for any agency costs. These represent the potential markdown to value that members might apply because they do not have direct control over their capital. Any adjustment would be subjective and different members will have their own views of what adjustment, if any, should be made.

(d) Burn-through cost
Under adverse conditions, the funds that remain open to new business may be required to make good any deficits that arise in the closed funds. The time value cost of this potential liability, known as the burn-through cost, is modelled stochastically, as it will only occur in adverse scenarios.

The burn-through cost is calculated as the average value of the capital support required in a large number of market-consistent scenarios. Allowance has been made under the different scenarios for management actions, such as altered investment strategy, consistent with the Principles and Practices of Financial Management (PPFM).

The stochastic models used to calculate this liability have been calibrated to market conditions at the valuation date. In addition, due to its asymmetric nature, an additional margin has been incorporated into the operating assumptions.

(e) Expenses
The EEV Guidance requires companies to perform an active review of expense assumptions, and include an appropriate allowance for corporate costs and service company costs.

Corporate costs
Corporate costs are those costs incurred at a corporate level that are not directly attributable to the covered businesses. To the extent that future corporate costs have not been anticipated within the EEV they are accounted for as they arise.

Service company costs
An in-house administration service company, which receives a fee in respect of each policy it administers, is responsible for the administration of the majority of the Group's policies. A similar arrangement exists for asset management services, although the fee is applied as a percentage of assets. The VIF of the life and pensions business has been calculated using the service company (including asset management) fees.

Costs within the in-house administration service company have been classified as either ongoing (including an element of development expenditure) or non-recurring costs. Non-recurring costs have not been anticipated within the EEV and instead are accounted for as they arise. The profits expected to arise from life and pensions business within the administration service company from activities related to the maintenance of existing business and within RLAM in respect of investment management services have been capitalised within the EEV. These calculations result in the recognition of further value of in-force business. £6m (2017: £5m) is recognised in respect of the administration service company and £130m (2017: £121m) is recognised in respect of RLAM's investment management services.

No allowance has been made for future productivity gains.

(f) New business
New covered business includes:

- premiums from the sale of new contracts (including any contractual future increments on new contracts);
- non-contractual increments (both regular and single premium) on existing policies; and
- premiums relating to new entrants in group pension schemes.

(g) Analysis of EEV profit

(i) Contribution from new business

The contribution from new business is calculated using economic assumptions at the start of the period. It is shown after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as total single premium sales received in the year plus the discounted value, at point of sale, of regular premiums expected to be received over the term of the new contracts. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate the new business contribution, so the components of the new business margin are on a consistent basis.

The new business contribution in the table below represents the new business contribution grossed up for tax at 19% (2017: 19%). This is to aid comparability with proprietary companies which typically pay tax at the main corporation tax rate of 19% (2017: 19%).

The new business margin represents the ratio of the new business contribution to PVNBP.

2018	PVNBP £m	New business contribution[2] £m	New business margin %
Intermediary			
Pensions	10,042	239.1	2.4
Protection	847	45.1	5.3
Consumer	419	(3.3)	(0.8)
Total life and pensions business	**11,308**	**280.9**	**2.5**
RLAM[3]	7,300	61.2	0.8
Total	**18,608**	**342.1**	**1.8**

2017	PVNBP £m	New business contribution[2] £m	New business margin %
Intermediary			
Pensions	10,787	241.6	2.2
Protection[1]	807	43.0	5.3
Consumer	408	(5.3)	(1.3)
Total life and pensions business	12,002	279.3	2.3
RLAM[3]	6,906	46.8	0.7
Total	18,908	326.1	1.7

1 The 2017 new business contribution and new business margin for Intermediary Protection have been restated to reflect revised cost allocation.
2 The new business contribution in the tables above has been grossed up for tax at 19% (2017: 19%). We have done this to help compare our results with the results of shareholder-owned life insurance companies which typically pay tax at 19% (2017: 19%). The EEV Consolidated Income Statement has been grossed up at the applicable tax rates.
3 PVNBP for RLAM 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.

Pension volumes have decreased by 7% from 2017, driven by the anticipated change in the workplace pensions market with the end of auto-enrolment roll-out. The previous growth in this area was driven by our success in winning a large number of new schemes. While new workplace scheme sales have reduced, as expected, the market is finding a new dynamic in the secondary market. Individual pension sales were exceptionally strong in 2018. Despite this large level of change, margins have increased in the year to 2.4% from 2.2% in 2017, primarily due to strong transfers within Individual Pensions.

Protection comprises Royal London Intermediary Protection and Royal London Ireland. Overall, volumes have increased by 5% and the margin remained consistent with 2017 at 5.3%.

Consumer volumes have increased by 3%. Sales of the Over 50s Life product grew by 20% during the year and margin has improved in the year, from (1.3%) to (0.8%). Our Consumer business was launched four years ago and continues to make good progress towards achieving the critical scale required for profitable trading.

RLAM's new business volumes and margin increased on 2017. PVNBP for RLAM 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.

(g) Analysis of EEV profit (continued)

(ii) Profit from existing business

Profit from existing business comprises:

- the expected return on the value of in-force business at the start of the period;
- profits and losses caused by differences between actual experience for the period and that assumed in the embedded value calculations at the start of the period; plus
- the impact of any changes in the assumptions regarding future operating experience.

The expected return reflects the opening risk-free rate which is 1.5% (2017: 1.5%).

The assumption change impact consists of a material change to expense assumptions. Expense assumptions were updated to reflect our expectation of lower future costs, particularly in our pensions business. Expense inflation assumptions were also updated to reflect lower expected future inflation of expenses in open books, offset by higher expense inflation expected in closed books of business where fixed costs run off more slowly.

Longevity assumption changes were less material than in 2017. A negative impact was obtained from the update of mortality, morbidity and persistency assumptions to reflect recent experience.

(iii) Expected return on opening net worth

The expected return on opening net worth represents the expected investment return on the net worth over the period.

(iv) Loss on uncovered business

Loss on uncovered business has been valued on an IFRS basis, as used in the primary financial statements with the exception of goodwill which is not recognised in the EEV balance sheet. A breakdown of the loss reported on uncovered business is shown in the table below.

	2018 £m	2017 £m
General insurance commissions	1	1
Annuity and other commissions	6	5
Ascentric	(47)	(42)
Royal London Asset Management (cash mandates)	1	3
Total	(39)	(33)

The loss in Ascentric in both 2018 and 2017 is mainly as a result of an impairment loss on the costs associated with developing the new back-office systems.

(v) Strategic development costs and other items

Strategic development costs represent investments that we believe are important for our future competitiveness and we expect will deliver good returns in the future.

Other items represent a combination of:

- corporate costs and other development costs, which are typically investments made to improve future EEV profits (for example, by reducing ongoing expense levels or increasing new business volumes); and
- other non-recurring items. As an example, this would include the impact of any changes in the way the business is modelled and improvements to valuation techniques.

A breakdown of these items is shown in the table below.

	2018 £m	2017 £m
Strategic development costs	(105)	(23)
Corporate and other development costs	(82)	(222)
Modelling and other changes	76	5
Restructure of reinsured unit linked funds	-	32
Total	(111)	(208)

(g) Analysis of EEV profit (continued)

(v) Strategic development costs and other items (continued)

In 2018:

- The 'strategic development costs' include development of our Pensions platform and brand.
- The 'corporate and other development costs' include provisions that have been set up to cover the costs associated with the servicing of remediation and future development arising from regulatory change.
- The 'modelling and other changes' component reflects modelling and methodology changes. Total model changes of £35m relate to improvements in our modelling as a result of the completion our actuarial model transformation. Other changes include an increase in Funeral Bond annual management charges and acquisition of RLUM (a unit trust subsidiary previously owned by RL(CIS) Fund).

In 2017:

- The 'strategic development costs' included development of our Pensions platform and brand.
- The 'corporate and other development costs" included provisions that have been set up for providing future change such as IFRS17, MiFID II and upgrading our premises. Other items included provisions relating to the costs of servicing historic remediation and expected costs associated with setting up a new legal entity in Ireland following Brexit.
- The 'modelling and other changes' component reflects modelling and methodology changes.
- The 'restructure of reinsured unit linked funds" reflects the restructure of the £2.5bn unit linked funds previously reinsured with BlackRock Life. A profit of £32m was generated from the release of the provision for reinsurer default.

(vi) Economic experience variances

This shows the impact of actual investment returns relative to those expected. Economic experience variances have an impact on the VIF and net worth.

The economic experience variance on the VIF arises from the change in policy values in which the Group has an interest. The economic experience variance on the net worth represents the impact that investment returns, being different to those anticipated, have on:

- the value of the opening net worth;
- the value of financial options and guarantees*; and
- the value of the assets backing the financial options and guarantees*.

*Excluding those movements due solely to changes in the yield curve, which have been netted off against the movement in the value of assets caused by the shift in the yield curve.

The value of the second and third items above is generally far more significant for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profits funds is restricted typically to 10% of the distributable surplus.

For assets held within the Royal London Open Fund, private equity and property investments returned in excess of 7%, overseas bonds earned in excess of 5%, UK and overseas equities earned (9)% and (3)% respectively. Returns on UK bonds and other asset categories were fairly flat during 2018.

(vii) Economic assumption changes

Long-term economic assumptions were revised to take into account the financial conditions at the end of the period including the impact of related management actions. The effect of these changes contributed a profit of £86m (2017 a profit of £79m) to the pre-tax result. Further details of the economic basis used are provided in section (h).

(viii) Movement in Royal London Group Pension scheme

The principal scheme is the Royal London Group Pension Scheme, a final salary scheme that closed to the future accrual of benefits during 2016. On an International Accounting Standard (IAS) 19 basis, the scheme had a surplus of £74m at 31 December 2018 (December 2017: £47m).

The surpluses of the two pension schemes acquired as part of the Royal Liver transaction are part of the closed Royal Liver Sub-fund and so are not included in the EEV income statement.

(ix) Financing costs

Royal London has two tranches of subordinated debt in issue at 31 December 2018: £400m nominal issued on 29 November 2013 and £350m nominal issued on 13 November 2015, both of which carry a coupon of 6.125% per annum. There has been no change to the subordinated debt in issue over the year, with the cost of servicing the debt over the year remaining stable at £47m (2017: £46m).

(g) Analysis of EEV profit (continued)

(x) ProfitShare

In 2018, Royal London's Board exercised its discretion to allocate a proportion of the profits to certain asset shares by crediting an investment return in excess of the rate earned on the underlying assets, thereby directly increasing the value of the liabilities set aside to meet future payments to relevant policyholders. ProfitShare also benefits the vast majority of our unit-linked pension customers by enhancing their unit holdings.

The total ProfitShare for 2018 is £158m (£150m being the net of tax amount as referred to in the Chairman's statement). In 2017, the corresponding figure was £150m (£142m being the net of tax amount).

(xi) Attributed tax charge

EEV profits are calculated net of tax and then grossed up at an appropriate tax rate. In general, this will be 5% (2017: 5%), the expected long-term rate of tax payable by the Group, although subsidiary companies may be subject to different rates of tax.

(h) EEV assumptions

(i) Principal economic assumptions – deterministic

Economic assumptions are reviewed actively and are based on the prevailing market yields on risk-free assets at the valuation date. The risk-free assumptions are based on the Solvency II swap curve including the credit risk adjustment but with no allowance for the Solvency II volatility adjustment. Sample assumptions are shown in the following table.

	2018 Euro %	**2018 Sterling %**	2017 Euro %	2017 Sterling %
15-year risk-free swap forward rate	**1.83**	**1.60**	1.92	1.63
15-year retail price inflation	**1.95**	**3.65**	2.15	3.80
15-year expense inflation – open books	**2.45**	**4.15**	3.15	4.80
15-year expense inflation – closed books (up to)	**5.95**	**7.65**	3.15	4.80

Further details on the closed book expense inflation assumptions are contained in note 28(a)(ii) of the IFRS notes to the accounts.

(ii) Principal economic assumptions – stochastic

The value of financial options (including premium rate guarantees and guaranteed annuity options), smoothing costs and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation.

The economic scenarios achieve market consistency by:

- deriving the underlying risk-free rate from the forward swap curve; and
- calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist. We attempt to achieve the best possible fit, although modelling restrictions prevent this from being perfect.

The tables below show the implied volatilities used in the modelling by asset class.

	Term (years)				
2018	**5**	**10**	**15**	**20**	**30**
15-year risk-free zero coupon bonds	**8.3%**	**6.5%**	**5.1%**	**4.3%**	**5.0%**
15-year AA-rated corporate bonds	**10.2%**	**8.5%**	**7.3%**	**6.6%**	**6.8%**
Equities	**17.4%**	**17.3%**	**17.5%**	**17.9%**	**18.5%**

	Term (years)				
2017	5	10	15	20	30
15-year risk-free zero coupon bonds	8.5%	6.8%	5.6%	4.8%	5.3%
15-year AA-rated corporate bonds	10.0%	8.5%	7.4%	6.6%	6.9%
Equities	17.9%	20.2%	21.9%	23.5%	24.8%

(h) EEV assumptions (continued)

(iii) Expected returns in reporting period

For the purposes of calculating the expected returns over the period, allowance is made for a risk premium as set out in the following table.

	2018 %	2017 %
Cash	(1.00)	(1.00)
Index linked bonds	(0.50)	(0.50)
Corporate bonds	1.00	1.00
Property	3.00	3.00
UK equities	4.00	4.00
Overseas equities	4.25	4.25

All other assets are assumed to earn the risk-free rate.

(iv) Other assumptions

Demographic assumptions are regularly reviewed having regard to past, current and expected future experience, and any other relevant data. These are generally set as best estimate with an appropriate margin for adverse deviations.

(v) Sensitivity analyses

The table below shows the sensitivity of the embedded value at 31 December 2018 and the 2018 contribution from new business to changes in assumptions.

	Change in embedded value £m	Change in new business contribution £m
100 basis point reduction in risk-free rates[2]	52	(46)
10% increase in market values of equities and property[1,2]	281	-
10% proportionate decrease in lapse and paid-up rates	280	49
10% proportionate decrease in expenses	235	34
5% proportionate decrease in mortality and morbidity[2]	(12)	3
50% increase in capital requirements	(12)	(1)

1 The value of new business is assessed at the point of sale. Increases in the value of equities and property at this date have no impact on the value of new business.
2 The sensitivities in the table include the impact of stress testing the Royal London Group Pension Scheme.

(i) Reconciliation of the IFRS unallocated divisible surplus to the European Embedded Value

	2018 £m	2017 £m
IFRS unallocated divisible surplus	3,813	3,726
Valuation differences between IFRS and EEV		
› Goodwill and intangible assets	(229)	(239)
› Deferred tax valuation differences	-	(6)
› Subordinated debt at market value	(56)	(134)
› Other valuation differences	(1)	(2)
Add items only included on an embedded value basis		
› Valuation of asset management and service subsidiaries	213	126
Other valuation differences	(1)	89
European Embedded Value	3,739	3,560

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(j) Reconciliation of IFRS transfer to unallocated divisible surplus to EEV profit

	2018 £m	2017 £m
IFRS Total transfer to unallocated divisible surplus	5	434
Opening adjustment to UDS (IFRS note 18)	82	-
Amortisation and impairment of intangible assets	7	11
Differences in valuation of subsidiaries	92	(5)
Change in realistic value of subordinated debt	78	(82)
Movement in valuation differences for deferred tax assets	6	(4)
Other movements in valuation bases	(91)	60
EEV profit for the year	179	414

The opening adjustment to UDS of £82m arises through the adoption of IFRS 15 in 2018. The impact of the adoption of this accounting standard was recognised as an opening adjustment to the UDS. Refer to IFRS Note 18 for further information.

Other valuation differences of £91m largely relate to the adjustment for the renewal commission DAC. This valuation difference arose in the opening IFRS balance sheet (before the adoption of IFRS 15) where a mismatch existed between the DAC on investment contracts and the renewal commission liability.

(k) EEV Balance Sheet restatement

The 2017 EEV Balance Sheet has been restated following a reclassification of provision amounts which were previously held within 'Assets backing non-participating liabilities and net worth'. These amounts were determined to be better reflected within 'Other Liabilities' and have hence been reclassified.

The impact of the reclassification on the Balance Sheet lines impacted is presented below:

	2017 £m	Impact of Reclassification £m	2017 Restated £m
Assets backing participating liabilities and net worth	9,090	225	9,315
Total assets	**93,847**	**225**	**94,072**
Other liabilities	1,595	225	1,820
Total liabilities	**90,287**	**225**	**90,512**

There is no impact on the EEV Income Statement or Embedded Value of the Group as a result of this reclassification.

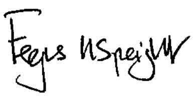
Notice of Annual General Meeting

Notice is hereby given that the 2019 Annual General Meeting of The Royal London Mutual Insurance Society Limited (the Company) will be held at 11am on Wednesday 5 June 2019, at the St. Pancras Renaissance Hotel, Euston Road, London NW1 2AR for the transaction of the following business:

To consider and, if thought fit, vote for the following resolutions as ordinary resolutions:

1. to receive and consider the Company's Annual Report and Accounts with the related auditor's report for the year ended 31 December 2018;
2. to approve the annual report on remuneration for the year ended 31 December 2018;
3. to reappoint PricewaterhouseCoopers LLP as auditors of the Company until the conclusion of the next Annual General Meeting;
4. to authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers LLP;
5. to reappoint Sally Bridgeland as a director of the Company;
6. to reappoint Ian Dilks as a director of the Company;
7. to reappoint Tracey Graham as a director of the Company;
8. to reappoint Tim Harris as a director of the Company;
9. to reappoint Phil Loney as a director of the Company;
10. to reappoint Andrew Palmer as a director of the Company;
11. to reappoint Kevin Parry as a director of the Company; and
12. 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
20 March 2019

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 2018
Following changes introduced by the Companies Act 2006 (the Act), the Company is not required to lay its accounts before a general meeting. The Board nonetheless considers it best practice to do so and will continue to present the Annual Report and Accounts to the Annual General Meeting.

Resolution 2 – Annual report on remuneration
The Act requires FTSE-listed companies to include certain content in regard to remuneration within their annual report and accounts. Although Royal London is not a FTSE-listed company, your Board has elected to comply with the standards applicable to FTSE-listed companies under the Act. Therefore, Royal London's Remuneration Committee report includes:

- a statement by the Chair of the Remuneration Committee; and
- our annual report on remuneration.

Resolution 2 seeks approval for the annual report on remuneration.

Resolutions 3 and 4 – appointment and remuneration of auditors
PricewaterhouseCoopers LLP are the Company's existing auditors and it is proposed that they be reappointed, until the next general meeting. You are asked to authorise their reappointment and to authorise the Audit Committee to determine their remuneration.

Resolutions 5 to 12 – reappointment of directors
The Board considers that each of the directors offering themselves for reappointment brings a wealth of valuable experience to the Board, enhancing its skill and knowledge base, and should be reappointed.

Note: the terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office at 55 Gracechurch Street, London EC3V 0RL during business hours on any weekday (except public holidays).

Glossary

A

Association of British Insurers (ABI)
The ABI represents the collective interests of the UK's insurance industry.

Acquired VIF
The present value of acquired in-force business arising on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary.

Acquisition costs
The costs of acquiring and processing new business, including a share of overheads.

Adviser
Someone authorised by the FCA, who is qualified by experience and examination to provide financial advice. See also Independent financial adviser in glossary.

Alternative performance measures (APM)
A financial measure of performance not defined or specified by accounting standards.

Annuity
An insurance policy that provides a regular income in exchange for a lump-sum payment.

Asset share
A policy's asset share is calculated by accumulating the premiums paid, deducting all applicable expenses and tax, and adding its share of the investment returns achieved by the with-profits fund over the policy's lifetime.

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

Auto-enrolment
A governmental law designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. The scheme also requires employers to contribute if their employees do.

B

Board
Royal London Mutual Insurance Society Board.

Burn-through cost
Under adverse conditions, the fund that remains open to new business may be required to make good any deficits that arise in the closed funds. This potential liability is known as the burn-through cost. It is modelled using stochastic techniques, as it will only occur in adverse scenarios.

C

Capital Cover Ratio
Own Funds divided by Solvency Capital Requirement.

Capital markets
Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

CFO Forum
A high-level discussion group formed and attended by the Chief Financial Officers of major European insurance companies to discuss and harmonise reporting standards.

CIS
The Co-operative Insurance Society Limited purchased by the Group on 31 July 2013. On 1 August 2013 it was renamed Royal London (CIS) Limited.

Closed funds
Our funds that are now closed to new business.

Company
The Royal London Mutual Insurance Society Limited.

Consumer division
Our business division that sells life and pensions business directly to customers.

Consumer Price Index (CPI)
A measure of changes in the price level of a basket of consumer goods and services purchased by households.

Covered business
The business covered by the EEV methodology. This includes life and pensions business defined as long-term business by UK and overseas regulators and asset management business (excluding cash management).

Critical illness cover
Cover that pays a lump sum if the insured person is diagnosed with a serious illness that meets the cover's definition.

D

Deferred acquisition costs (DAC)
The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

Deferred fee income
The method of accounting whereby up-front policy charges are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

Defined benefit scheme
A type of occupational pension scheme, where the benefits are based on the employee's salary and service.

Discounting
The process of expressing a future cash transaction, in terms of its present value, using a discount rate which reflects the time value of money.

Division
A sub-division of the Group that focuses on a specific product offering, market or function. A business unit may be a statutory entity or part of one or more separate statutory entities.

Drawdown
Drawdown is a flexible way of using your savings. With a defined contribution scheme, once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

E

Economic assumptions
Assumptions of future interest rates, investment returns, inflation and tax rates. The impact of variances in these assumptions is treated as non-operating profit or loss under EEV.

European Embedded Value (EEV)
The EEV basis of reporting attempts to recognise the true economic value added over a period and is calculated according to guidelines issued by the CFO Forum. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of the recognition is different.

EEV operating profit
The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds.

F

Fair value
The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Final salary
A defined benefit scheme that provides a pension based on salary at retirement.

Financial Conduct Authority (FCA)
An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

Financial options and guarantees
For Royal London business, 'financial options' refers principally to guaranteed annuity options. 'Guarantees' refers to with-profits business where there are guarantees that parts of the benefits will not reduce in value, or are subject to a minimum value.

Financial Reporting Council (FRC)
The Financial Reporting Council is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

FTSE 100
This is the share index of the 100 largest companies by market capitalisation, listed on the London Stock Exchange.

Funds under management (FUM)
The total of assets actively managed or administered by, or on behalf of, the Group, including funds managed on behalf of third parties. It excludes assets administered by our platform business.

G

Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

I

Independent financial adviser (IFA)
Someone authorised by the FCA, qualified by experience and examination to provide financial advice, who is not working for any single product provider company.

Individual Savings Account (ISA)
An ISA is a tax-efficient way to invest money into cash, stocks and shares up to a yearly allowance.

Intermediary division
Our business division that sells life, pensions and protection business through intermediaries, primarily independent financial advisers.

Internal Model/IMAP
The processes, systems and calculations that together allow the Group to control the risks that it faces and quantify the capital needed to support those risks under the Solvency II regime. It includes a calculation engine to quantify capital requirements, the Group's risk management framework and its system of governance. Our Internal Model is used for Internal Capital management purposes and we are seeking formal approval in 2019 to use this to calculate our Capital Requirements.

Internal rate of return (IRR)
The discount rate at which the present value of the after-tax cash flows we expect to earn over the lifetime of the business written is equal to the total capital invested to support the writing of that business.

International Financial Reporting Standards (IFRS)
Accounting standards issued by the International Accounting Standards Board (IASB) applied to these financial statements.

K

Key performance indicator (KPI)
An indicator used by a business to measure its development, performance or position.

M

Maintenance expenses
Expenses related to the servicing of the in-force book of business, including investment and termination expenses and a share of overheads.

Market-consistent basis
A basis of valuation in which assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets. An insurance contract combining savings and protection elements designed to repay the principal of a loan or mortgage.

Market Value Adjustment (MVA)
An adjustment (positive or negative) that may be applied to a policy if a full or partial surrender is made before the end of the surrender charge period.

Mutual
A company owned by its members which is not listed on the stock market. A member of a mutual company can vote at its Annual General Meeting.

N

Net Promoter Score
An index used to measure the willingness of customers to recommend a company's products or services to others.

Net worth
The excess of assets over liabilities on the EEV basis of reporting, where assets exclude PVIF and the pension scheme surplus.

New business contribution
The expected present value on the EEV basis of reporting of all cash flows arising from new business.

New business margin
The new business contribution as a percentage of the present value of new business premiums.

O

Open-ended investment company (OEIC)
Investment funds which pool together investors' money and invest this in a broad range of shares and other assets. They are similar to unit trusts.

Operating assumptions
Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. The impact of variances in these assumptions is included within operating profits under EEV.

Operating experience variances
The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

Operating profit (IFRS basis)
The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds. It is similar to EEV operating profit other than a few methodology and valuation differences. For example, IFRS recognises the amortisation of certain intangibles whereas EEV does not; IFRS does not recognise the embedded value of our asset management business but EEV does; additional provisions are recognised in EEV.

Own Funds
The excess of assets over Technical Provisions, as measured by the PRA's regulatory reporting requirements under Solvency II.

Own Risk and Solvency Assessment (ORSA)
The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period, and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

P

Parent company
The Royal London Mutual Insurance Society Limited.

Part VII transfers
Transfer of insurance business from one insurer to another insurer in accordance with Part VII of the Financial Services and Markets Act 2000.

Participating
Contracts which are with-profits in type.

Payback period
The period required for the after-tax cash flows expected to arise on new business to be equal to the capital invested to support the writing of the business.

Pension
A means of providing income in retirement for an individual and possibly his/her dependants. Our pension products include Personal and Workplace Pensions, stakeholder pensions and income drawdown.

Pension freedoms
The pension legislation introduced in Budget 2014 that has become known as 'Freedom and choice' introduced new ways by which pension savings can be accessed. Now, members of a defined contribution (DC) pension scheme have increased flexibility in the options available to them when taking their pension benefits.

Personal Pension
A pension plan for an individual policyholder.

Present value of in-force business (PVIF)
The present value of the projected future profits after tax arising from the business in-force at the valuation date.

Present value of new business premiums (PVNBP)
The PVNBP is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year.

Principles and Practices of Financial Management (PPFM)
A document detailing how we manage our with-profits funds. We have a separate PPFM for each with-profits fund.

ProfitShare
ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

Protection
A policy providing a cash sum or income on the death or critical illness of the life assured.

Prudential Regulation Authority (PRA)
Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

R

Rating agencies
A rating agency (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and indicate the likelihood of default.

Regular premium
A series of payments for an insurance contract, typically monthly or annually.

Regular Supervisory Report (RSR)
A report required under the Solvency II directive. This is a private report to the PRA and is not disclosed publicly. Life insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

Retail Price Index (RPI)
A measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

Risk-free rate
The theoretical rate of return of an investment, with no risk of financial loss.

Royal London Asset Management (RLAM)
The Royal London business unit responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds for FTSE 250 companies, local authorities, universities, charities and individuals.

Royal London
The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Group
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Royal London Ireland
Rebranded from Caledonian Life in 2014, the Royal London business unit providing protection products in the Republic of Ireland through intermediaries.

Royal London Insurance Designated Activity Company (RLI DAC)
Royal London's regulated Irish insurance subsidiary. The company was incorporated on 11 July 2018 with regulatory permissions effective from 1 January 2019. It is 100% owned by RLMIS.

Royal London Open Fund
The part of the Royal London Fund into which all of the Group's new pensions and insurance business is written.

Royal London Platform Services (trading as Ascentric)
Royal London's independent wrap platform services which trades as Ascentric, providing investment administration and consolidation services to long-term investors and financial advisers through its online wrap service.

Royal London Long-Term Fund
The long-term business fund of Royal London, comprising the Royal London Open Fund and a number of closed sub-funds from businesses acquired in the past.

S

Sales
Sales represent PVNBP for life and pensions business.

Single premium
A single payment for an insurance contract.

Solvency II
A European Union directive which became fully applicable to European insurers and reinsurers on 1 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

Solvency Capital Requirement (SCR)
The amount of capital that the PRA requires a UK Life insurer to hold, which is calculated using the European Union Solvency requirements, also known as Solvency II. This can be calculated using the Standard Formula or the Internal Model methods. We are seeking approval of the Royal London Internal Model in 2019. Until this approval has been confirmed we will continue to use the Standard Formula.

Solvency and Financial Condition Report (SFCR)
A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Standard formula
A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard Formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

Stochastic techniques
Valuation techniques that allow for the potential future variability in assumptions by running multiple possible scenarios.

Sub-ordinated debt
In the event of bankruptcy, dissolution or winding-up, the payments arising from this debt rank after the claims of other creditors.

Surplus
The excess of Own Funds over the Solvency Capital Requirement.

T

Three lines of defence model
The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision making, risk and control to achieve effective governance, risk management and assurance.

U

UK Corporate Governance Code (the Code)
This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Unallocated divisible surplus
The amount of surplus which has not been allocated to policyholders at the balance sheet date.

Uncovered business
Business not valued according to EEV principles for Royal London. This includes our wrap platform and cash mandates within our asset management business.

Unit-linked policy
A policy for which the premiums buy units in a chosen investment fund.

Unit trust
A collective investment which invests in a range of assets such as equities, fixed interest investments and cash. A unit trust might be a general fund or specialise in a particular type of asset, for example property, or in a particular geographical area, for example South East Asia.

Unitised with-profits policy
A policy for which the premiums buy units in a with-profits fund.

V

Value of in-force business (VIF)
See definition of 'Present value of in-force business (PVIF)'.

W

With-profits policy
A policy which participates in the profits of a with-profits fund. This participation may be in the form of one or more of a cash bonus, an annual bonus or a bonus paid on the exit of the policy.

Women in Finance charter
This is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this charter are pledging to be the best businesses in the sector. The charter reflects the Government's aspiration to see gender balance at all levels across financial services firms.

Wrap platform
A trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account, rather than as separate holdings.

Wrap provider
An investment company, such as Ascentric, that offers investors the opportunity to consolidate their different investments under a single administrative account.

2019 financial calendar

Date	Event
21 March 2019	Financial results for 2018 Conference call on financial results for 2018
5 June 2019	Annual General Meeting
15 August 2019	Interim financial results Conference call on interim financial results for 2019
13 November 2019	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2019	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
royallondon.com

Contact offices

Bath
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

Designed and produced by Wardour, London

royallondon.com

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