ROYAL LONDON

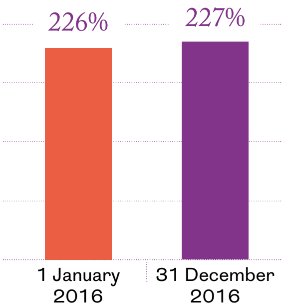
MAINTAINING
CORE STRENGTH

Solvency and Financial Condition Report

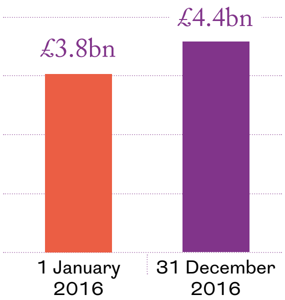
for the year ended 31 December 2016

Performance at a glance

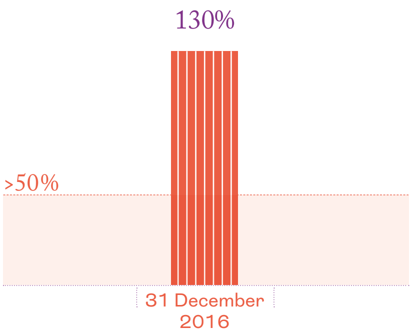
Capital cover ratio (Investor View)



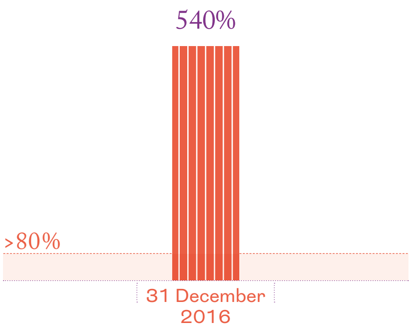
Solvency surplus (Investor View)



At least 50% of the Solvency Capital Requirement must be covered by Tier 1 Capital



Of the Minimum Capital Requirement, at least 80% must be covered by Tier 1 capital



Contents

Executive summary

What is this report?

The information in this report relates to The Royal London Mutual Insurance Society Limited (RLMIS), referred to in this report as 'Royal London' or 'the Company'. RLMIS is the parent entity of the Royal London Group, but it is the sole insurance entity in the Group and so for Solvency II purposes this is an individual or 'Solo' document which focuses on RLMIS.

Royal London has prepared this Solvency and Financial Condition Report (SFCR) to provide information on our solvency (i.e. our ability to pay liabilities – primarily current and future policyholder claims) and how we manage the financial strength of the Company.

The information in this report is from our most recent financial year, which is the year ended 31 December 2016.

Why are we publishing this report now?

Royal London is authorised by the Prudential Regulation Authority (PRA), and jointly regulated by the Financial Conduct Authority (FCA) and the PRA.

Solvency II (SII) is a European Union directive for insurance companies, containing a set of rules designed to help insurance businesses across Europe calculate their capital, assess and manage their risks and ensure that they hold sufficient capital to take account of those risks. 'Capital' is referred to in SII as 'Own Funds' (OF) and represents how much the Company has available to meet its financial obligations. In the case of Royal London the largest financial obligations are current and future pay-outs to policyholders and members.

SII was implemented on 1 January 2016 and all European insurers (including Royal London) are now formally required to report on this basis. Publishing an SFCR each year is a regulatory requirement under SII, and the year ended 31 December 2016 is the first reporting period since the new SII rules came into effect.

In addition to fulfilling our regulatory requirements, we also believe that the information in this SFCR will be of interest to Royal London's members and stakeholders. Publishing our SFCR is an opportunity for us to provide more information about our strong and stable capital position, the governance processes we have in place to mitigate risks and our effective capital management strategies.

What does this report contain?

The following is a high level description of the contents of each section in this document. Some of the information is quite technical, and the content is prescribed by regulations. The regulations are complex and some jargon is unavoidable, but we have done our best to make this understandable to everyone and a glossary is included at the back to help explain some of the terminology.

A. Business and performance

This section describes our business performance and significant events during the year, our legal structure, how we are regulated and who our auditors are.

B. System of governance

This section outlines our system of governance and risk management, and how the Company is directed and controlled. We also describe our remuneration policy and practices, and our adherence with the 'Fit and Proper Requirements' (F&P) from the FCA when appointing employees who effectively run the Company or have other key functions.

C. Risk profile

Risk can sometimes be seen as negative; however, as part of our business we are specialists at taking on enough 'good' risk which provides value, and not excessive risk that may be detrimental to members or policyholders. We call this balancing act our 'risk appetite'. This section describes our risk profile, including risk exposures, concentrations, mitigation and sensitivity. Royal London's risk profile is stable and generally changes only gradually from year to year. However, the work we do to mitigate and manage risk is enhanced and strengthened each year.

D. Valuation for solvency purposes

In this section we describe the bases and methods used for the valuation of our assets, technical provisions and other liabilities. We also provide an explanation of any major differences in the bases and methods used for the SII valuations, compared to the International Financial Reporting Standards (IFRS) basis used for the 2016 Annual Report and Accounts (ARA).

Executive summary continued

E. Capital management
Royal London has a strong and stable capital position under SII and our capital (referred to as 'Own Funds' under SII) is of a high quality. This section describes our approach to capital management, and includes information on the amount and quality of our Own Funds and the expected development of Own Funds.

We also provide more details of the capital we are required to hold, known as the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).

Directors' approval statement
This statement is required by our regulators and our Directors sign this to acknowledge their responsibilities.

Independent auditor's opinion
Our auditors PricewaterhouseCoopers LLP (PwC) have audited certain sections of this document, notably the key solvency information presented in sections D and E, and have reviewed other sections for reasonableness.

Glossary
This explains some of the unavoidable jargon and technical terms relating to SII, as well as other terms used in our business.

Quantitative Reporting Templates (QRTs)
These are the detailed forms we submit to the PRA which contain financial information prescribed by the SII regulations. The forms included in this document are the most relevant for assessing our solvency and financial condition, but additional forms are submitted to the PRA on an annual and quarterly basis.

Executive summary continued

Highlights of our SII reporting

Capital cover ratio (Investor View)

Capital cover ratio is the ratio of our capital position (Own Funds) compared to our SCR, which indicates our ability to pay all of our liabilities (including to policyholders) in a very extreme scenario (a 1 in 200 year event).

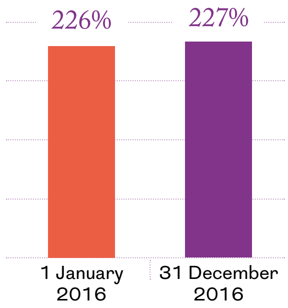
The Royal London Open Fund (Open Fund) had an excess surplus of £1.8bn (1 January 2016: £2.1bn) and a capital cover ratio of 206% at 31 December 2016 (1 January 2016: 239%). The closed funds are also well capitalised with an excess surplus of £2.6bn (1 January 2016: £1.7bn) and a capital cover ratio of 249% (1 January 2016: 213%). The Investor View capital cover ratio for the Company is 227% including surplus in the closed funds (1 January 2016: 226%).

The Open Fund is the part of the business which is open to new business. We also have a number of 'closed funds', which contain policies written previously that we no longer sell.

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

The increase in the capital cover ratio (Investor View) compared to 1 January 2016 is a result of:

- Positive demographic experience (particularly persistency and expenses);
- Positive economic experience (particularly equities); and
- Excellent new business sales.



Capital cover ratio (Investor View)

What does this tell me?

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

The capital cover ratio is a good indicator of our ability to withstand tough economic conditions, with a higher ratio indicating more available capital. The ratio should not, however, be too high, as it is important that we continue to return value to our policyholders and members.

	Royal London Open Fund (£bn)	Royal London closed funds (£bn)	Total Company (Investor View) (£bn)	Closed funds restriction (£bn)	Total Company (Regulatory View) (£bn)
Own Funds:					
Tier 1	2.8	4.3	7.1	-	7.1
Tier 2	0.8	-	0.8	-	0.8
Total Own Funds	**3.6**	**4.3**	**7.9**	**-**	**7.9**
Closed Funds restriction[1]	-	-	-	(2.6)	(2.6)
Adjusted Own Funds (A)	**3.6**	**4.3**	**7.9**	**(2.6)**	**5.3**
Solvency Capital Requirement (B)	**1.8**	**1.7**	**3.5**	**-**	**3.5**
Surplus	**1.8**	**2.6**	**4.4**	**(2.6)**	**1.8**
Capital cover ratio[2] (A/B) – 31 December 2016	**206%**	**249%**	**227%**	**n/a**	**153%**
Capital cover ratio (A/B) – 1 January 2016	**239%**	**213%**	**226%**	**n/a**	**169%**

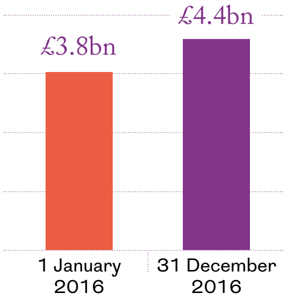
1 After Risk Margin and SCR, but including Transitional Measure on Technical Provisions.
2 Figures presented in the table are rounded, and the capital cover ratio is calculated based on exact figures.
The 31 December 2016 figures assume the Transitional Measures on Technical Provisions has not been recalculated at 31 December 2016, and assume a capital add-on agreed with the PRA that became effective on 1 January 2016. For further information refer to section E.
The 1 January 2016 ratios are taken from data in Royal London's opening SII Balance Sheet submission to the PRA in May 2016.

Executive summary continued

Solvency surplus
Solvency surplus is the amount by which our capital position (Own Funds) exceeds the SCR, which is the amount of capital needed to ultimately pay all policyholders in a very extreme scenario (a 1-in-200 year event).

The Open Fund had an excess surplus of £1.8bn (1 January 2016: £2.1bn). The closed funds are also well capitalised with an excess surplus of £2.6bn (1 January 2016: £1.7bn).

The surplus figures in the chart on the right are for the Total Company and are stated before closed fund restrictions of £2.6bn, in line with the Investor View. The surplus figure assumes the Transitional Measure on Technical Provisions has not been recalculated at 31 December 2016 and assume a capital add-on agreed with the PRA that became effective on 1 January 2016. For further information refer to section E.



Solvency surplus

Our capital position is well in excess of the Solvency Capital Requirement, meaning that even in an extreme scenario that occurs once every 200 years we would be able to settle claims and pay-outs for all of our policyholders.

What does this tell me?
Our capital position is well in excess of the Solvency Capital Requirement, meaning that even in an extreme scenario that occurs once every 200 years we would be able to settle claims and pay-outs for all of our policyholders. Along with our strong capital cover ratio above, this underlines our financial strength and ability to look after our policyholders, through unexpected future events.

Sensitivities on the capital cover ratio and solvency surplus
The Open Fund capital cover ratio is sensitive to changes in economic and demographic assumptions.

As an indication, at 31 December 2016, a change in the value of equities of 25% would impact the Investor View cover ratio by an estimated +/- 1% and a change in interest rates of 50bps would impact this cover ratio by an estimated +/- 13%.

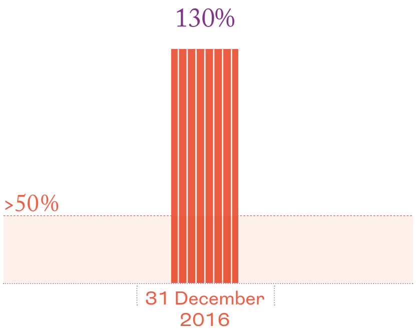
What does this tell me?
Our capital position (i.e. the capital cover ratio and solvency surplus) varies depending on economic conditions. However, even in the face of market uncertainty during 2016, our capital position remains strong and if equity values (for example the FTSE 100) dropped as much as 25%, our capital cover ratio at 31 December 2016 would reduce by 1% from 227% to 226%, still well in excess of our regulatory capital requirements.

Executive summary continued

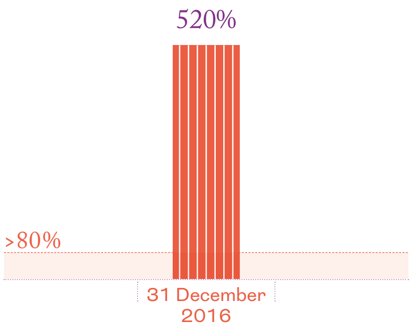
Tiers of capital
There are three tiers of capital defined by SII. The quality of capital is important, as the higher the quality the more likely it will be available in the event that it is needed, for example, to be able to pay out claims. The three tiers of capital are presented in order of highest quality (Tier 1 capital) to lowest quality (Tier 3 capital).

The SII regulations require capital to be of a sufficiently high quality, and the following rules apply:

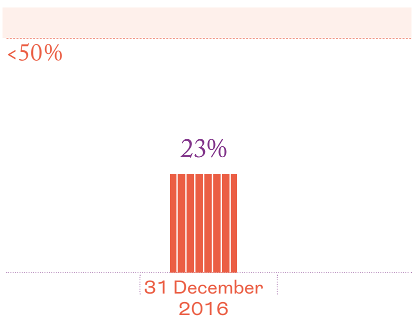
- Of the SCR, at least 50% must be covered by Tier 1 capital. The Company has complied with this and our SCR has 130% Tier 1 capital coverage.



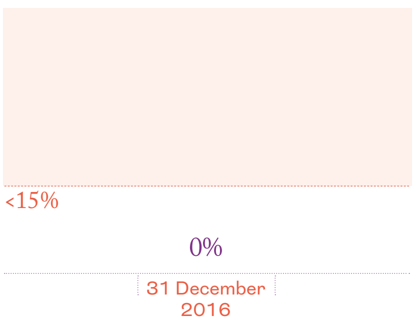
- Of the MCR, at least 80% must be covered by Tier 1 capital. The Company's MCR has 520% Tier 1 capital coverage which complies with the requirement.



- Tier 2 and 3 capital must not exceed 50% of the SCR. The Company's Tier 2 and 3 capital is only 23% of the SCR.



- Tier 3 capital must be less than 15% of the SCR. The Company does not have any Tier 3 capital and so has complied with this requirement.



> Royal London continues to be well capitalised and solvent in the new SII reporting regime.

Executive summary continued

The Company has £801m of subordinated loan notes in issue (2015: fair value of £773m) which is included within Tier 2 capital; we do not rely on the subordinated debt in order to meet our solvency requirements.

What does this tell me?
Firstly, we comfortably meet all of our regulatory requirements to hold high-quality capital.

Secondly, as you can see from the figures, we are comfortably exceeding these requirements and our capital position is not just strong, but also of an excellent quality.

Impact of Transitional Measure on Technical Provisions (TMTP)
The TMTP is included in the solvency surplus figures above, and it smooths the transition from the old Solvency I regime to the new SII regime. One key difference in the two regimes is the valuation of technical provisions, which are described in more detail in section D.

In the case of Royal London, the TMTP primarily provides benefit to the closed funds, however we are not reliant on TMTP to meet our capital requirements.

At 31 December 2016, the use of the approved TMTP contributed 37% to the Investor View cover ratio (10% on the Regulatory View).

What does this tell me?
The TMTP provides a capital benefit to the Company and is included in the figures above, however, we are able to meet our solvency capital requirement and minimum capital requirement without it.

Other key things to note

Basis of preparation
There are two key bases for measuring and reporting solvency which can be used under the SII regime: the 'Standard Formula' and the 'Internal Model'. The Internal Model takes into account individual firm-specific factors but requires approval by the regulator before being used to report under SII.

The figures disclosed in our SII reporting, including this document, are currently prepared using the Standard Formula.

We use an internal capital model for the purposes of managing our capital, and we will be seeking approval from the regulator to use an Internal Model to calculate our capital requirements for regulatory purposes in 2019.

What does this tell me?
We have prepared our 2016 SII reporting in line with the SII rules. We would like to change the way in which we calculate our capital requirements in future to be more bespoke to the Company (which is how we currently manage our capital already) and so we are seeking approval from the regulator to do so.

The European Insurance and Occupational Pensions Authority (EIOPA) has stated that the first reduction in the transitional measure will apply from 1 January 2017 (rather than 31 December 2016) and accordingly our transitional measure reflects the position at 31 December 2016 in line with the requirements, rather than the latest available at the time of signing this document.

> Not only have we met our capital requirements under the new regime, but the quality of our capital is well above the requirements of the SII rules.

Executive summary continued

The reduced transitional measure from 1 January 2017 would have a material impact on the solvency position, and accordingly we have disclosed this as a post-balance sheet event.

The 31 December 2016 figures assume a capital add-on agreed with the PRA that became effective on 1 January 2016. On 7 March 2017 a new capital add-on was agreed with the PRA, mainly as a result of the lower risk free curve applicable at 31 December 2016.

The Investor and Regulatory View capital cover ratios at 1 January 2017, based on the new capital add-on and step down in the TMTP, would have been 202% and 147% respectively, and further detail is provided at the start of section E.

Volatility adjustment (VA) and matching adjustment
The VA forms part of the calculation of technical provisions, and is made to ensure the appropriate treatment of insurance products with long-term guarantees under SII. Royal London's VA has been approved by the PRA, and is included in the figures presented. No matching adjustment has been applied.

Conclusion

Through this document we have met the regulatory requirements under SII and the information in this document has been prepared and disclosed in accordance with those requirements. We have also included some information over and above the strict requirements of SII, where we have felt it necessary or useful to provide further detail relevant to Royal London.

We have also set out the governance, risk and control structures to make sure our capital position is monitored proactively and effectively.

Royal London continues to be well capitalised and solvent in the new SII reporting regime. Not only have we met our capital requirements under the new regime, but the quality of our capital is well above the requirements of the SII rules.

Where can I find more information?

Royal London publishes information throughout the year to meet the needs of different stakeholders. That information can be found on our website at www.royallondon.com

If you are interested in finding out more about Royal London, you can, for example, also read our:

- Annual Report and Accounts;
- Press releases and results presentations;
- Principles and Practices of Financial Management (PPFM);
- Research and consultation responses;
- Articles of Association; and
- Terms of Reference for our main committees.

What do I need to do?

You don't need to do anything.

This document has been produced in accordance with regulatory requirements and is for your reference only.

However, if you have any questions about this report, please contact:

Gareth Evans
Head of Corporate Affairs
0207 506 6715
gareth.evans@royallondon.com
07919 170069

Mona Patel
Group Head of External Communications
0207 015 2525
mona.patel@royallondon.com
07919 171964

Company overview

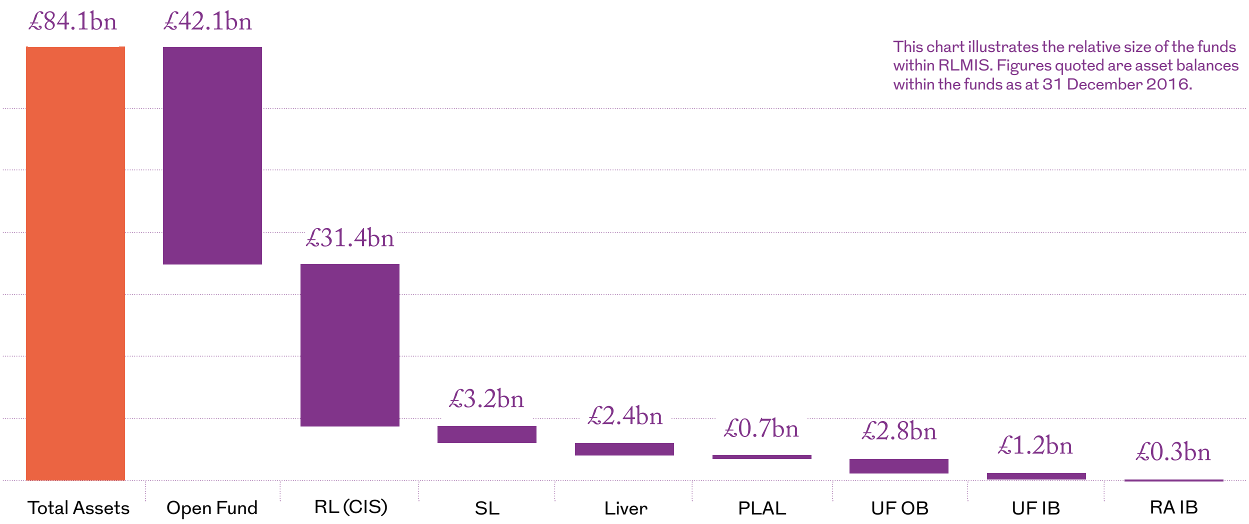
RLMIS is a company limited by guarantee, not having any share capital, and is registered in England and Wales. It was founded in 1861, initially as a friendly society, and became a mutual life insurance company in 1908. RLMIS is authorised by the PRA and jointly regulated by the FCA and the PRA.

Royal London is the largest mutual life, pensions and investment company in the UK, with funds under management of £100bn at 31 December 2016 (2015: £85bn), around 9.0m policies in force (2015: 9.1m) and 3,253 employees (2015: 2,988).

The Royal London Long-Term Fund (RL LTF) consists of the Royal London Industrial Branch and Ordinary Branch Fund (the Open Fund) and seven closed funds:

- Refuge Assurance Industrial Branch Fund (RA IB);
- United Friendly Ordinary Branch Fund (UF OB);
- United Friendly Industrial Branch Fund (UF IB);
- Scottish Life Fund (SL);
- Phoenix Life Assurance Limited With-Profits Fund (PLAL);
- Royal Liver Assurance Fund (Liver); and
- Royal London (CIS) Fund (RL (CIS)).

RLMIS – Total assets by fund



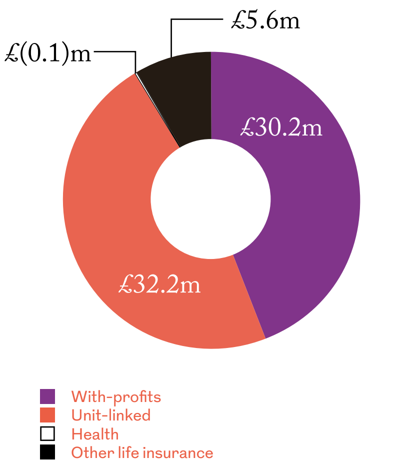
This chart illustrates the relative size of the funds within RLMIS. Figures quoted are asset balances within the funds as at 31 December 2016.

New business is only written into the Open Fund. It includes the Royal London IB and OB with-profits and non-profit business and most of the Company's unit-linked business.

The closed funds within RLMIS no longer write new business and were established on the acquisitions of the United Assurance Group (RA IB, UF IB and UF OB), Scottish Life, Phoenix Life Assurance Limited (PLAL), Royal Liver and Royal London (CIS). Royal London (CIS) is the name given to the Co-operative Insurance Society Limited following its acquisition by Royal London and subsequent Part VII transfer of its business into RLMIS. The closed funds all constitute ring-fenced funds for SII. The principles of financial management for these funds were established when they were transferred into RLMIS through transfers of long-term business and are summarised in the Principles and Practices of Financial Management (PPFM).

SII rules require an SFCR for insurance groups, if applicable, and an SFCR for Solo insurers. RLMIS owned a general insurance subsidiary during 2016, The Royal London General Insurance Company Limited (RLGI), which was in run-off, i.e. administering claims on policies previously written. On 29 December 2016 the Company sold RLGI to Randall & Quilter Investment Holdings Limited, and following the sale the PRA has confirmed that for SII purposes RLMIS is no longer a group and can submit Solo returns only. Therefore this document is a Solo SFCR rather than a Group SFCR.

RLMIS – Total technical provisions by line of business



The pie chart illustrates the type of business written by RLMIS, and the relative size (by amount of related technical provisions at 31 December 2016).

Summary of material changes over the reporting period

Performance for the year ended 31 December 2016
Financial highlights:

- New life and pensions business (PVNBP basis) up by 28% to £8,686m (2015: £6,774m);
- Funds under management up by 18% to £100bn (31 December 2015: £85bn);
- European Embedded Value (EEV) operating profit before tax up by 16% to £282m (2015: £244m);
- IFRS transfer to the unallocated divisible surplus (before change in basis for SII and other comprehensive income) increase of £116m to £241m (2015: £125m);
- Margin for new life and pensions business of 2.5% (2015: 2.0%);
- ProfitShare (after tax) up by 63% to £114m (2015: £70m); and
- SII Standard Formula basis Investor View surplus of £4.4bn (1 January 2016: £3.8bn) and a capital cover ratio of 227% (1 January 2016: 226%) before closed fund restrictions.

Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. The Open Fund had an excess surplus of £1.8bn (1 January 2016: £2.1bn) and a capital cover ratio of 206% at 31 December 2016 (1 January 2016: 239%).

The majority (78%) of total OF within the Open Fund is made up of Tier 1 capital, with subordinated debt valued at £0.8bn classified as Tier 2 capital. OF within the closed funds are entirely Tier 1 capital.

Changes to the system of governance
Section B sets out detail on the system of governance in place at Royal London. Key highlights and changes during 2016 were as follows:

- The Disclosure Committee was established in 2016 to review and approve material press releases concerning the performance of the Company, as well as review and approve regular reporting required to be submitted to the supervisory authorities as directed by the Board. Its membership includes the Group Chief Executive (GCE) and the Group Finance Director (GFD).
- A new risk management tool, Archer, was implemented in 2016 and is in the process of being rolled out during 2017. This has allowed us to review and enhance our Risk Management System (RMS), and will help our monitoring of risks to ensure that the achievement of our performance and objectives is not undermined by unexpected events.

£4.4bn

Solvency II Standard Formula basis Investor View surplus (1 January 2016: £3.8bn)

227%

Capital cover ratio (1 January 2016: 226%) before closed fund restrictions

Summary of material changes over the reporting period continued

Summary of the Own Risk and Solvency Assessment (ORSA)

The ORSA is a continuous cycle (see diagram below) of monitoring and assessment intended to provide the Board with a thorough understanding of the underlying risk profile and level of solvency needed to sustain the Company now and in the future.

The ORSA process aims to ensure a bottom-up view of risk. The process is run alongside the Medium-Term Plan (MTP) timelines to allow the Risk function to challenge the strategic direction fully.

The ORSA findings are summarised quarterly, with an overall annual report, although there may also be events requiring the process to be run on an ad hoc basis.

Ongoing monitoring of risk and capital positions would highlight any key changes in the underlying risk profile, which may lead to the ORSA running in its entirety or specific activities of the process being undertaken.

Further information on the ORSA is included in section B.3.2.

Summary of material changes over the reporting period continued

Changes to the Company's risk profile

The Board has carried out a robust assessment and monitors principal risks and uncertainties on a quarterly basis, with an annual review undertaken.

Our risk profile is stable and generally changes only gradually from year to year. Key changes to the risk profile during 2016 include:

	The cause of the change	Risk mitigation and management
The referendum vote in favour of the UK leaving the European Union	The referendum vote in favour of the UK leaving the European Union (EU) creates uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation. The impact on markets has been a marked rise in uncertainty resulting in a further impact on economic confidence, sterling, the UK credit rating and increased inflation. Uncertainty over the nature and timing of any negotiations with the EU leads to a lack of clarity over future regulation and legislation for the insurance and investment markets.	The UK's exit from the EU is not expected to have a materially detrimental impact on the Company's strategy and business due to it being mainly focused in the UK. However, we recognise the potential impact on our Ireland business and any potential implications with regard to Scotland's independence. Risks related to the market will be mitigated through our normal market risk monitoring and capital management activity. Given the Company's UK-focused business, it is less exposed than many of our peers to the risk of failing to access the single European market. We will maintain a watching brief on developments relating to UK exit as they occur, particularly in relation to regulation and legislation, and will prepare appropriate responses.
SII implementation	We intend to use an SII Internal Model, subject to approval of an Internal Model application. Until such time as an application is approved, we remain exposed to the risk that our capital position will be subject to capital add-ons, leading to potential reputation damage and product uncompetitiveness. While the high-level regulations and process are understood, important elements of the details around the design of our Internal Model and the application process itself are still to be agreed with the regulator. There is a risk that there is insufficient time to respond to feedback from the regulator, which increases the risk of significant re-work later in the application process or failure in achieving approval of our Internal Model application.	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. We are committed to submitting our Internal Model application. SII implementation risk is mitigated by close dialogue with the regulator on the capital add-on that has been approved, and ongoing monitoring of its appropriateness. Our ongoing engagement with the PRA, which will lead to the submission of our Internal Model application, aims to identify any design issues to be addressed in advance of the application, and increases the likelihood of a successful outcome in the Internal Model being approved.

The full principal risks and uncertainties are set out in the 2016 ARA on pages 15 to 18.

A. BUSINESS AND PERFORMANCE

Plain English introduction

In this section, we describe our business, The Royal London Mutual Insurance Society Limited, which is the UK's largest mutual life insurance and pensions company:

- We describe our legal structure;
- We explain how we are regulated and who our auditors are; and
- We also describe how the business has performed during the year, any significant factors which contributed to this performance and any significant events which have occurred.

A.1 Business

A.1.1. Name and legal form

The Royal London Mutual Insurance Society Limited was founded in 1861, initially as a friendly society, and became a mutual life insurance company in 1908. Royal London is authorised by the PRA and jointly regulated by the FCA and the PRA.

A.1.2. Supervisory authority details

The name and contact details of the supervisory authorities for financial supervision of the Company are set out in the table below:

Supervisory Authority	Details
FCA	25 The North Colonnade, Canary Wharf, London, E14 5HS +44 (0)20 7066 1000
PRA	20 Moorgate, London, EC2R 6DA +44 (0)20 7601 4444
Central Bank of Ireland*	New Wapping Street, North Wall Quay, Dublin 1 +353 1 224 6000

* In the Republic of Ireland: The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority in the UK and is regulated by the Central Bank of Ireland for conduct of business rules.

A.1.3. External auditor

Our external auditor is PricewaterhouseCoopers LLP (PwC), based at the following address:

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

A.1.4. Shareholdings

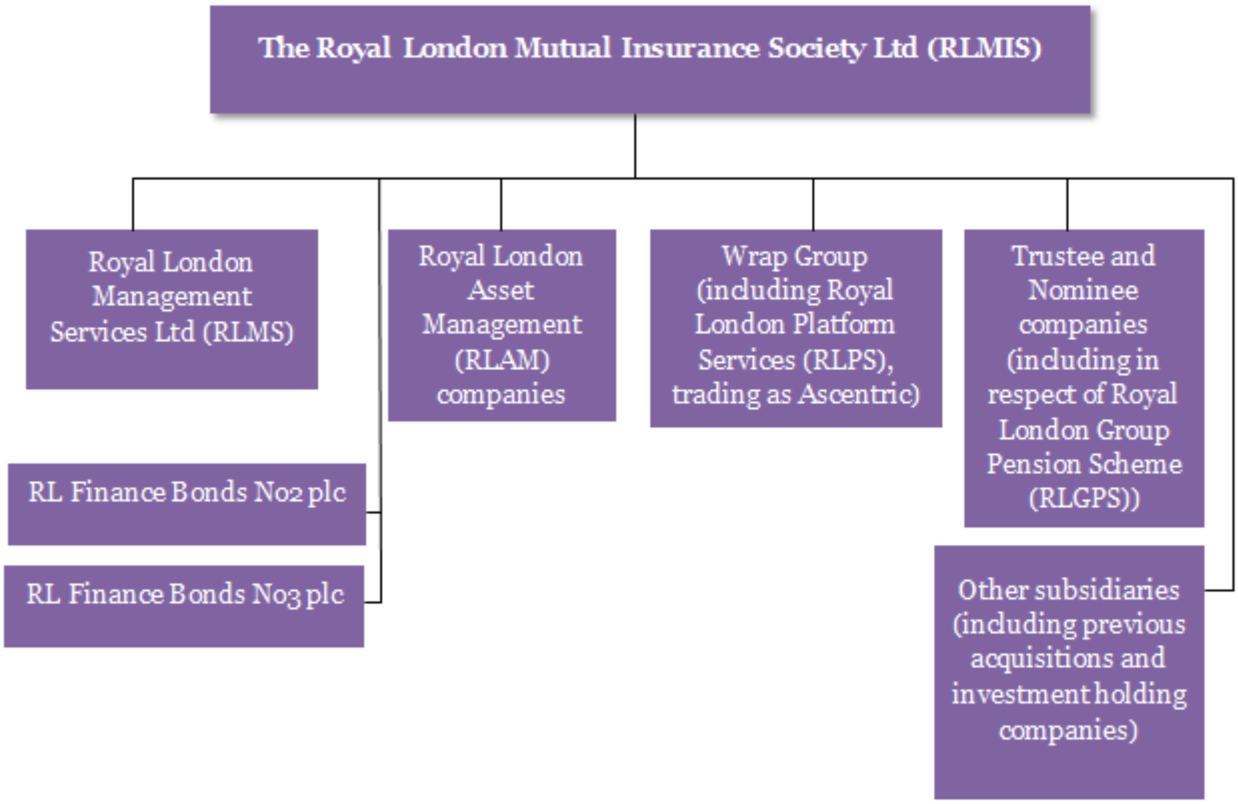
As a mutual society, the Company has no shareholders, but rather is 'owned' by its members. Membership of the Company is awarded to either policyholders taking out a qualifying policy or those policyholders who received membership retrospectively, including in 2016 via the expansion of ProfitShare. All members have equal voting rights and as at 31 December 2016 there were over 1,000,000 members.

On an annual basis the Company considers the allocation of a Royal London ProfitShare, which shares the benefits of its performance to eligible policyholders. It is calculated on the basis of the Group's European Embedded Value (EEV) operating profit and its capital strength. The amount allocated in 2016 was £114m (2015: £70m). We made our first ProfitShare allocation to more than 700,000 members with unit-linked pension policies.

A.1.5. Legal structure of the Group

The Company is the ultimate parent undertaking of the Group. A full list of its subsidiaries is included in note 21 (a) of the 2016 ARA on pages 131-134 and details of its other related undertakings are given in notes 21 (b), (c) and (d) of the 2016 ARA on pages 135-138. The Company has one branch in the Republic of Ireland.

A simplified structure chart is shown below.



A.1.6. Material lines of business and geographic areas

The Company operates in the investments, protection, retirement and savings markets, predominantly in the UK. It writes protection business in the Republic of Ireland, through its Royal London Ireland business within the Intermediary division.

The Company's businesses are organised into the following divisions: Intermediary, Consumer and Wealth. Intermediary comprises our intermediary pensions and protection businesses. The Consumer division comprises new non-advised direct product and service propositions, together with the management of all the Company's closed books. Wealth Management consists of RLAM and RLPS. RLPS also trades under the brand name Ascentric.

A.1.7. Significant events over the reporting period

Investment in the business

Investment in the business was a key focus in 2016. We recognised one-off costs of £16m (2015: £21m) that will be invested in people, systems and capacity to ensure we can take advantage of opportunities in the future. We implemented several new systems while others remain in development. A number of our new financial systems are now in use and we continue to make good progress on developing the remaining systems to meet the accelerated reporting demands of the SII regime. We are also making good progress on the development of other systems across the Company: in particular with the back office system for our platform business and a new system and target operating model for our pensions business. We believe these will deliver better outcomes and experiences for our customers as well as delivering a new digital proposition and the ability to deliver the administration of our existing book of policies more cost effectively.

Closure of RLGPS to future accrual

The RLGPS was closed to future accrual of benefits from 31 March 2016, an important step in managing our costs and capital requirements. All employees are now encouraged to join the Royal London Group Personal Pension or the Ascentric Group Personal Pension, both of which are consistent with the products we offer to our customers through our group pensions business. The closure resulted in a one-off gain of £21m in 2016.

Sale of RLGI
As noted above in the Overview section, on 29 December 2016 the Company sold RLGI to Randall & Quilter Investment Holdings Limited, and following the sale the PRA have confirmed that for SII purposes RLMIS is no longer a group and can submit Solo returns only.

Rating agencies
In August, Standard & Poor's reaffirmed Royal London's counterparty credit rating of A, with a stable outlook. Following the UK referendum to leave the EU in June 2016, Moody's reassessed its outlook on a number of UK life insurers, including Royal London. In August Moody's reduced its outlook from stable to negative, citing fears that the UK economy would suffer from the Leave vote.

A.2 Underwriting performance

A.2.1. Underwriting performance

Management monitors the performance of the businesses using EEV operating profit and this has been used to demonstrate the underwriting performance of the business. EEV is prepared in accordance with the European Embedded Value Principles issued in April 2016 by the CFO Forum.

The vast majority of the Company's business is written in the UK. Royal London Ireland writes some Protection business, but is not material in the overall context of the Company so no split of the underwriting performance by geographical area has been provided.

A split of the EEV operating profit by business unit is shown below together with a prior period comparison.

Split of operating profit/(loss) by business unit – 2016

	Total £m	Pensions £m	Intermediary UK Protection £m	RL Ireland £m	Consumer £m	Wealth £m	Other £m
Contribution from new business	**223**	144	29	7	5	38	–
Profit from existing business							
Expected return	**90**	34	7	–	30	18	1
Operating experience variances	**4**	(22)	5	(2)	17	6	–
Operating assumption changes	**50**	113	(28)	(3)	23	(17)	(38)
Expected return on opening net worth	**41**	–	–	–	–	–	41
(Loss)/profit on uncovered business	**(44)**	–	–	–	7	(1)	(50)
Strategic development costs and other items	**(82)**	(6)	9	–	8	(9)	(84)
Operating profit/(loss)	**282**	**263**	**22**	**2**	**90**	**35**	**(130)**

Split of operating profit by business unit – 2015

	Total £m	Pensions £m	Intermediary UK Protection £m	RL Ireland £m	Consumer £m	Wealth £m	Other £m
Contribution from new business	**137**	91	29	7	(12)	22	–
Profit from existing business							
Expected return	**76**	32	7	–	22	11	4
Operating experience variances	**3**	(27)	(5)	(1)	4	13	19
Operating assumption changes	**74**	10	(2)	–	28	19	19
Expected return on opening net worth	**27**	–	–	–	–	–	27
Profit on uncovered business	**7**	–	–	–	7	–	–
Strategic development costs and other items	**(80)**	6	(1)	1	(29)	(4)	(53)
Operating profit	**244**	**112**	**28**	**7**	**20**	**61**	**16**

(Loss)/profit from uncovered business represents the IFRS-basis profit/(loss) for other business not covered under the EEV rules. This includes general insurance commissions, annuity and other commissions, and the results of the Company's non-insurance subsidiaries (in particular RLAM and RLPS).

Alongside EEV, the Company also reports its results under the International Financial Reporting Standards (IFRS). Whilst the two methods broadly follow each other, there are key differences outlined in notes (i) and (j) on pages 204 and 205 of the 2016 ARA that contribute to the differences in respective results. As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus (UDS).

The IFRS transfer to the UDS for the year ended 31 December 2016 (before change in basis for Solvency II and other comprehensive income) was £241m (2015: £125m). Our IFRS result also benefits from the strong trading performance of the Company but was impacted by the low interest rate environment during 2016. Including the impact of the change in basis to Solvency II, the total deduction from UDS was £22m (2015: transfer to the unallocated divisible surplus of £175m).

Premiums, claims and expenses by SII line of business are included in S.05.01.02 in Appendix 1. We do not believe that the figures in S.05.01.02 in isolation provide an accurate reflection of the underwriting performance of the Company, as premiums, claims and expenses only form part of operating profit.

A.3 Investment performance

A.3.1. Investment income and expenses

Investment return	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Investment income from financial instruments held at fair value through profit or loss	1,617	1,528
Fair value gains/(losses) from financial instruments held at fair value through profit or loss	8,620	(164)
Rental income from investment property	260	252
Fair value (losses)/gains from investment property	(57)	430
Interest income from cash and cash equivalents	10	12
Net foreign exchange loss	(70)	(34)
Total investment return	**10,380**	**2,024**

Investment management expenses	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Property expenses	30	32
Other transaction costs	10	29
Costs of in-house investment management operations	32	33
Other	6	2
Total investment management expenses	**78**	**96**

Investment returns for the Company were strong in absolute terms, boosted by a positive performance in the FTSE 100 index for the first time in several years. Political events, in particular the UK referendum on EU membership and the US Presidential election, created significant volatility and uncertainty in financial markets during the year. In both cases the outcome was not what the financial markets had expected. The full significance of the vote to exit the EU and the new Trump administration will not become clear until later in 2017 and beyond.

The decrease in investment expenses in 2016 is primarily a result of the 2015 'other transaction costs' including a one-off charge for moving collateral arrangements to a central clearing system, which did not recur in 2016.

There were no gains or losses recognised directly in equity during the reporting period.

A.3.2. Investment in securitisations

Securitisations are where various types of contractual debt (including for example residential and commercial mortgages) are pooled together in a 'structure' and the related cash-flows are sold to third party investors, with repayments made via the structure from the principal and interest cash-flows.

Less than 0.6% of assets are held in collateralised securities, representing a very small proportion of the total assets on the balance sheet.

There are two main categories of securitisations that are defined in the SII regulations; Type 1 and Type 2 securities. Type 1 refers to less risky assets and Type 2 assets are higher risk; the difference in risk is reflected in their impact on the SCR.

Less than 15% of the small exposure to securitisations, was in 'Type 2' securities which relate to mortgage bonds and are considered to have higher risk. The remaining amount is all held in 'Type 1' securities and these are judged to be high quality.

A.4 Performance of other activities

A.4.1. Other income and expenses

EEV operating income and expenses are illustrated in section A.2.1 above. 'Strategic development costs and other items' represent a combination of:

- Corporate costs and other development costs, which are typically investments made to improve future 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:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Strategic development costs	**(16)**	(21)
Corporate and other development costs	**(117)**	(78)
Modelling and other changes	**51**	19
Total	**(82)**	(80)

A.4.2. Material leasing arrangements

The most material finance lease arrangements are in relation to leasehold investment properties which are accounted for as finance leases. The total future minimum lease payments due under these non-cancellable leases were £20m in 2016 (2015: £20m), with the amount being recognised within 'payables and other financial liabilities' in the ARA. The future minimum lease payments due under operating lease arrangements were £15m at 31 December 2016 (2015: £17m) and mainly relate to rent payable on properties used for operational activities.

A.5 Any other information

A.5.1. Other disclosures

The Company's material intra-group transactions can be summarised as follows:

- Subordinated liabilities;
- Subsidiary transactions with Open-Ended Investment Contracts (OEICs) and other investment funds;
- Administration and investment management services provided by subsidiaries;
- Loans (and related interest) provided to subsidiaries;
- Other income received from subsidiaries (primarily OEIC distributions, OEIC management fee rebates, subsidiary dividends received and rental income);
- Acquisitions and sales of holdings in OEICs and other funds; and
- Transactions with key management personnel (primarily remuneration only).

The intra-group transactions are set out in detail in note 39 of the 2016 ARA on pages 172 to 174.

B. SYSTEM OF GOVERNANCE

Plain English introduction

In this section, we describe our system of governance. This means the system through which the Company is directed and controlled. The Board of Directors (the Board) has ultimate responsibility for the financial condition of Royal London and is answerable to its owners; the members.

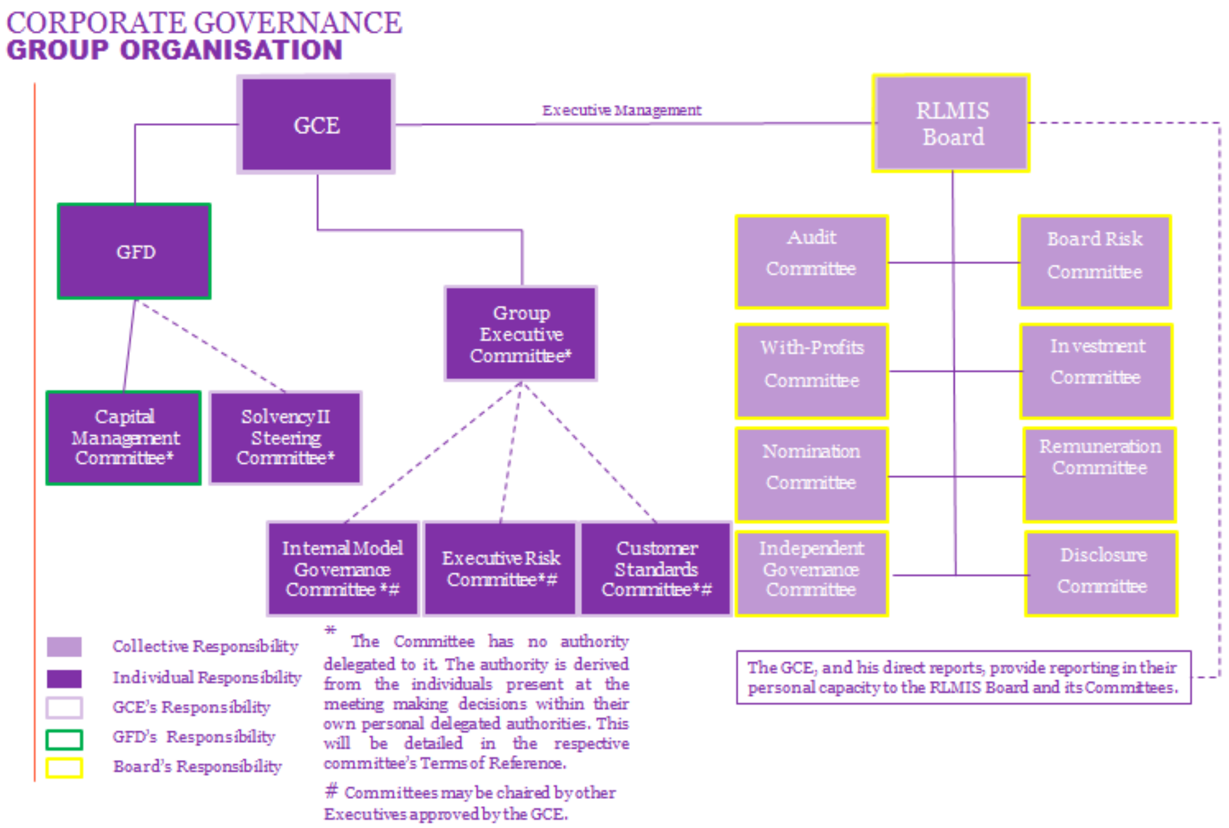
We also describe here our remuneration policy and practices and our adherence with the 'Fit and Proper Requirements', which is the standard required by the FCA when appointing employees who effectively run the company or have other key functions.

The Board is committed to high standards of corporate governance, which it believes are critical to business integrity and performance. The Board believes that implementing an effective Risk Management System (RMS) is fundamental to achieving these high standards, and we describe how this works in detail in this section of the report.

B.1 General information on the system of governance

B.1.1. Governance structure

The Company is the ultimate parent undertaking of the Group. The Company's Board is also the Group Board. The Company operates a corporate governance structure that is applied across the Group. The diagram below illustrates the corporate governance structure.



The Board

The Board's actions are subject to applicable laws, regulations and the direction of the members in general meetings. Good governance however goes beyond compliance with statutes, rules and regulations and is core to how the Company carries on its business. The Board maintains a focus on the strategic objectives of the Company, to ensure that it is appropriately managed and that it achieves these objectives.

The directors are responsible for promoting the success of the Company.
A director must act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly with members of the Company.

The Board is committed to maintaining high standards of corporate governance and believes that a sound corporate governance framework enables efficient and effective decision making with clear responsibilities, which contribute to achieving Royal London's objectives and delivering long-term value to members.

The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations are understood and met.

In carrying out these responsibilities, the Board must have regard to what is appropriate for the Company's business and reputation, the materiality of the financial and other risks inherent in the business and the relevant costs and benefits of implementing specific controls.

A description of the Board's roles and responsibilities, composition and an assessment of the Board's effectiveness, is set out on pages 46 to 51 of the Corporate Governance Statement in the 2016 ARA.

The professional biographies of all the directors can be found in the 2016 ARA on pages 42 to 43. The biographies summarise the directors' experience, qualifications and any other significant commitments outside the Company.

The GCE delegates certain responsibilities to his direct reports. The Group Executive Committee (GEC) has been put in place by the GCE to support him in the discharge of his responsibilities. A number of committees have been created to assist the GCE in his decision making or to monitor certain Company activities.

In turn the GCE direct reports may delegate this authority to their direct reports and so forth. This is detailed in their role profiles as well as being inherent in the positions which they hold within the Company.

The GCE and his direct reports may choose to form a committee to assist them in their respective decision making. The authority for these 'Executive' committees comes from the individuals themselves.

It is important to highlight that a key element of corporate governance is good risk governance. Risk governance is defined as the application of the principles of sound corporate governance to the identification, assessment, management, monitoring and reporting of risks within the defined risk appetite (which is determined by the Board).

An effective RMS has been implemented across the Company.

The RMS enables the Board to gain assurance that the risks to which the Company may be exposed are being appropriately identified and managed within risk appetite, and that risks that may present significant financial loss or damage to the Company's reputation are being minimised.

The RMS seeks to support the Company's business ambitions, enabling it to select those risks that can give sustainable returns, whilst closely managing those risks that are unrewarded, and to optimise the capital that is held so that it can deliver its strategy for the benefit of policyholders and members. The Board ensures that senior management implements risk policies, delivers the business plan within risk appetite and manages the Company's risk profile.

Key functions

The key functions, their roles and broad responsibilities are summarised below:

Key Function	Main roles and responsibilities
Risk	As the second line of defence, provides independent oversight and challenge over the identification, assessment and management of all significant risks to ensure the Company is operating within agreed risk appetite. Designs and maintains the Company's RMS, facilitating and overseeing its embedding. Supports the Board in its ownership of the Company's Internal Model including testing and validation. See section B.3 and B.4.1 for more detail.
Compliance	Oversees and monitors regulatory compliance to ensure that the business is managing its regulatory risk exposures appropriately and that controls are effective. See section B.4.2 for more detail.
Actuarial	The Actuarial function coordinates the calculation of technical provisions, provides opinions on the underwriting policy and reinsurance arrangements and contributes to the effectiveness of the RMS. See section B.6 for detail.
Internal audit	Acts as the third line of defence in assessing the adequacy and effectiveness of the risk management and internal control systems. Reviews Group Risk & Compliance (GR&C) activity to assess its capability as a second line of defence. See section B.5 for detail.

The PRA's definition of key functions extends beyond Risk, Compliance, Actuarial and Internal audit.

The system of governance also includes additional key functions that are considered of specific importance to the sound and prudent management of the Company. They are recorded on the Company's governance map, while roles and responsibilities are being defined.

Key functions may be identified as having one or more of the following characteristics:

- Essential for the Company's proper functioning, taking account of its business activities and risks;
- Is responsible for material financial risks within the Company;
- Contains a competence that is difficult to replace; and
- May pose a serious threat to the interests of the Company or policyholders if ineffective.

The Senior Insurance Managers Regime (SIMR) came into effect on 7 March 2016, which aims to strengthen individual accountability in regulated UK insurance firms. The Company is fully compliant with this regime and a governance map containing Senior Insurance Management Functions (SIMF) and Key Function Holders (KFH) has been produced and provided to the regulator.

KFHs are identified on the Company's governance map:

- KFHs are designated SIMF holders, or report directly to a SIMF holder;
- Key functions are allocated according to the nature, scale and complexity of the Company's risks and consistent with individuals' delegated authorities; and
- None of the Company's key functions are outsourced.

B.1.2. Material changes in the governance structure

The Disclosure Committee was established in 2016 to review and approve material press releases concerning the performance of the Company, as well as review and approve regular reporting required to be submitted to the supervisory authorities as directed by the Board.

B.1.3. Remuneration policy and practices

The Company implements a remuneration policy which has three main aims:

- to align employees' interests with those of its members and customers;
- to support the delivery of the Company strategy, whilst ensuring good governance; and
- to ensure remuneration is competitive to enable the Company to attract and retain talent whilst ensuring remuneration packages do not encourage the taking of undue risk.

The Company has a Remuneration Committee (Remco), made up of non-executive directors and advised by independent remuneration consultants. The Committee fully understands its obligations in respect of the appropriate balance between risk and reward and overseeing the development of the Company's remuneration policies and practices. The Remco's primary role is to ensure that the Company's pay structure is fully aligned with these aims.

Full details of the principles of the Company's remuneration policy and practices, including the pay structure and components for the Board are included in the Directors' remuneration report on pages 62 to 79 of the 2016 ARA, together with the contents of executive and non-executive director remuneration with comparatives for the prior year.

B.1.4. Transactions with shareholders and/or management

There were no material transactions between the Company and members of the Board or senior management, other than remuneration.

As a mutual, the Company has no shareholders. We return value to our members and policyholders in the following methods:

- Positive investment returns on policies;
- Pay outs made to maturing policies during the year; and
- ProfitShare.

ProfitShare is a way of sharing financial success with eligible policyholders, and is allocated by an enhancement to the asset shares and unit fund values of eligible policies. The allocation of ProfitShare each year is at the discretion of the Board. Whether a ProfitShare allocation is made, and how much is distributed to members, will depend on the Board's view on matters such as the financial performance of Royal London, its capital position and the risks and volatility in financial markets.

This year more than 700,000 members with unit-linked pension policies received their first ProfitShare allocation. Existing with-profits members will not be disadvantaged by this expansion. The level of profits available for distribution has been increased and with-profit members will benefit from an enhanced annual bonus.

Last year the Company allocated £70m in ProfitShare to existing with-profits customers which allowed their returns to be enhanced by 1.4%. This year we have been able to maintain that enhancement at 1.4%, even after a turbulent year of local and global political events. This year we have increased the total ProfitShare award by 63% from £70m to £114m. This increase allowed us to enhance the unit-holdings of eligible unit-linked pension customers by 0.18%. Qualifying Royal London with-profits policies will see a corresponding 0.18% increase in their annual bonus allocation too.

There were no other transactions with the members or management of RLMIS, other than in their capacity as policyholders during 2016.

B.2 Fit and proper requirements

B.2.1. Skills, knowledge and expertise

A Fit and Proper (F&P) policy is adopted by the Company and all of its subsidiaries to ensure functions are led by appropriately skilled people. The policy has been refreshed following implementation of the SIMR effective from 7 March 2016.

The policy sets out the approach for managing and assessing the governance arrangements, regulatory requirements and minimum standards to be adhered to within the Company.

The specific requirements within the policy in respect of skills and experience can be summarised as follows:

- Senior management must ensure that employees are aware of the procedures which must be followed for the proper discharge of their responsibilities;
- Each business division within the Company must be appropriately structured to ensure there is a collective understanding in the areas of market knowledge, business strategy and business model, system of governance, financial and actuarial analysis (where required) and the regulatory framework and requirements of that business;
- There must be an ongoing training and development programme designed and delivered for members of company boards within the Company as well as for executive management; and
- The Company must employ personnel for any role with the skills, knowledge and expertise necessary to discharge the responsibilities allocated to them. This includes an employee's ability to achieve a good standard of ethical behaviour.

B.2.2. Assessing fitness and propriety

The Company adopts appropriate systems and controls for the recruitment and ongoing assessment of any individual in the Company, in particular those performing specific controlled functions, to ensure that identified individuals meet the PRA's and FCA's F&P criteria.

The processes include assessing the required qualities, both professional competence and the propriety of the person. Professional competence, i.e. management and technical competence in the relevant areas for each role, is based on the person's experience, knowledge and professional qualifications and also whether this person has demonstrated due skill, care, diligence and compliance with relevant standards in the area he/she has worked in. Such a person should also be of good repute and the assessment includes obtaining relevant references.

At Board level, the Nomination Committee ensures there is a rigorous procedure for appointment to the Board and is responsible for evaluating the skills, knowledge and experience of the Board. The responsibilities of the Nomination Committee are set out on page 56 of the Corporate Governance statement in the 2016 ARA.

At a functional level, an appropriate recruitment process for managerial roles is adhered to within the People and Corporate Affairs' processes outlined above. The processes that operate before and during a person's employment include, but are not restricted to:

- Identity checks;
- Previous employment references;
- Criminal record checks; and
- Verification of qualifications and satisfactory personal and professional references.

In addition, the Company also carries out continuing assessment: at functional and local levels there are performance appraisal processes in place to assess the F&P requirements on an ongoing basis.

B.3 Risk management system including the Own Risk and Solvency Assessment

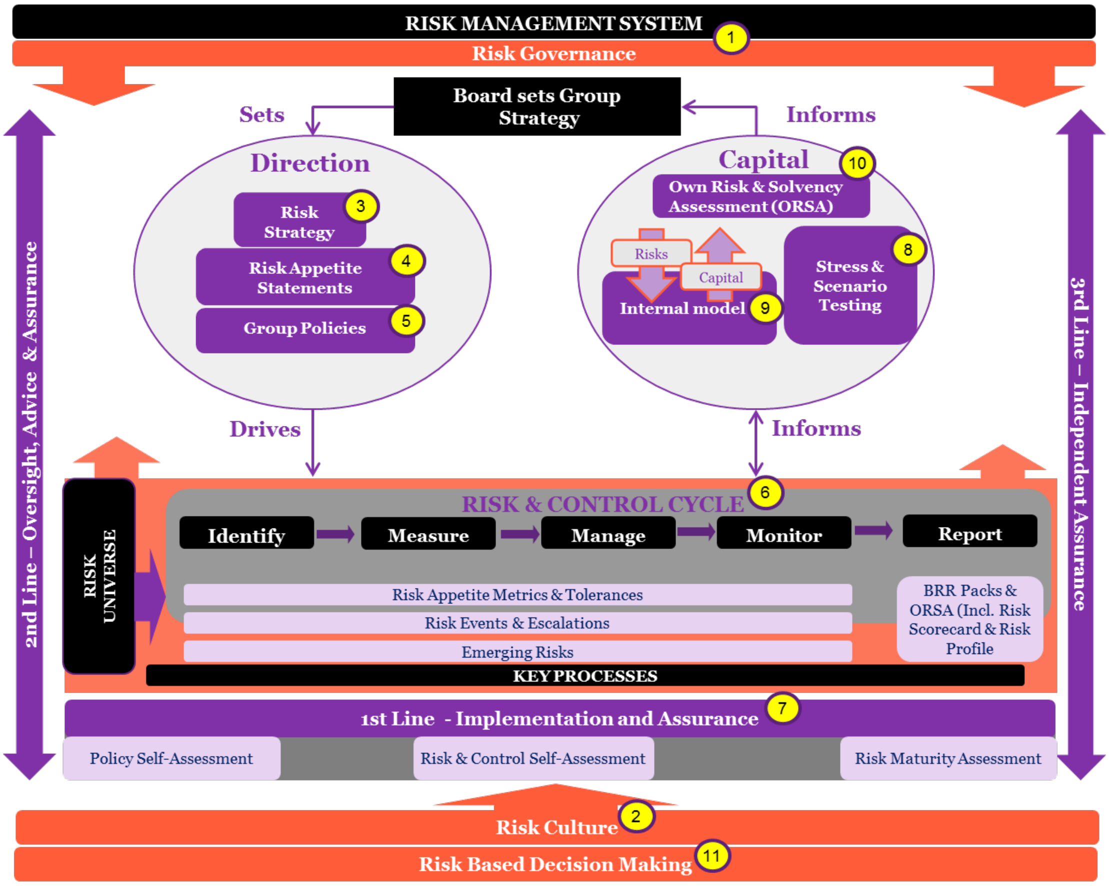
B.3.1. Risk management strategies and processes

The Board ensures that senior management implement risk policies, deliver the business plan within risk appetite and manage the Company's risk profile. This is achieved by implementing robust risk management and internal control systems. These are described in detail on pages 12 to 18 of the 2016 ARA.

The RMS enables the Board to gain assurance that the risks to which the Company may be exposed are being appropriately identified and managed within risk appetite, and that risks that may result in significant financial loss or damage to the Company's reputation are being minimised. This helps to ensure that the achievement of the Company's performance and objectives is not undermined by unexpected events.

The governance structure for risk management is based on the 'three lines of defence' model. Primary responsibility for risk management lies with the business units and specialist operational process functions. A second line of defence is provided by specialist functions that undertake monitoring, challenge and policy setting, such as the GR&C function. The third line of defence is provided by Group Internal Audit (GIA), which provides independent assurance.

The diagram below depicts, at a high level, the Company's RMS and its interaction with its capital management framework:



These RMS components and their integration into the organisational structure of the Group are further explained below.

(1) Risk governance

Risk governance is the application of sound corporate governance principles to the identification, assessment, management, monitoring and reporting of risks within the risk appetite determined by the Board.

(2) Risk culture

People at all levels of the organisation are engaged in the management of risk. This is realised through a strong 'tone from the top' which emphasises the importance of effective risk management in day-to-day activities and decision making, of making management accountable for their management of risk and the embedding of risk management in their business units.

(3) Risk strategy

The risk strategy sets out the key principles underlying how the Company approaches and manages the risks that it is or could be exposed to, in the pursuit of its business objectives. These principles, along with the Company's business strategy, help define the risk preferences. Risk preferences articulate the extent to which the Company views certain risks as being desirable or undesirable to take on and manage, or is neutral towards, thereby providing structure to the Company's decision making processes.

The risk strategy and risk preferences are used to provide direction and assistance in making key decisions relating to risk and capital management, including business planning, acquisitions, project/resource prioritisation, product design and pricing, risk management, performance management and external reporting.

(4) Risk appetite statements
The Board recognises that a well-defined risk appetite supports business decision making and business planning. It helps establish the framework for strategy setting, planning and risk management. Together with risk preferences it provides guidance to management throughout the Company on balancing risk and reward in making key decisions. The Company's risk appetite framework consists of the risk strategy, risk appetite statements, metrics and tolerances.

The Board sets and approves the risk appetite framework annually, on the recommendation of the Board Risk Committee (BRC). The Company's risk appetite framework and the high-level risk categories that the Board-approved risk appetite statements are constructed under are set out on page 13 of the 2016 ARA.

The key metrics and associated tolerances, which form the basis for risk reporting, help the Company and its business units monitor their risk profile and assess their position against risk appetite. The regular management information received by the Board and BRC includes a risk appetite dashboard setting out actual risk positions relative to the targets and limits set in the risk appetite.

(5) Group policies
Group policies set out the standards to be maintained in order to manage risk effectively. The Board ensures that policies are regularly reviewed to reflect the changing commercial and regulatory environments as well as the Company's organisational structure. The principal risks facing the Company are set out on pages 15-18 of the 2016 ARA.

The Company has established approaches for managing insurance, market, credit, liquidity, operational, conduct, strategic and medium-term plan, and emerging risks. Formal policies define the Company's approach to risk management and the minimum control standards that should be applied in managing its significant risk exposures. This is explained further in section C – Risk Profile.

(6) Risk and control cycle
a) Risk universe
A key element of effective risk management is to ensure that the business has a complete and robust understanding of the risks it faces. The risk universe is a common categorisation of risks across the Company, split into three levels with each level providing a deeper level of detail than the previous one.

b) Risk identification and assessment
The Company operates a risk identification and assessment process under which businesses regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in the Company's products as well as those that are caused by changes in the environments in which it operates.

The Company's risk identification and assessment process forms part of its broader ORSA process designed to evaluate the resilience of the Company's balance sheet to a range of market conditions and external events and to ensure that it maintains target levels of capital.

c) Key processes
The common categorisation of key processes ensures the business has a consistent understanding of the key processes that it operates. This also supports the Company in identifying key risks and controls specific to these processes and assigning them to appropriate owners.

d) Risk management and monitoring
Key Risk Indicators (KRIs) at Company and business unit level are developed to assess performance against stated risk appetite. Legal entity or business unit specific KRIs are used allowing different risk profiles to be monitored effectively. KRIs provide beneficial information to management about whether a risk has crystallised or the probability of it crystallising is decreasing or increasing. This information allows management to take early mitigating actions. A range of risk management techniques is deployed to manage and mitigate risks, thereby controlling the Company's risk exposures in line with its risk limits. These mitigating techniques are described in more detail in section C – Risk Profile.

e) Risk Management Information (MI) and reporting
The Company's MI is structured to enable all significant risk positions to be monitored. Actual risk exposures and capital positions are compared to targets/limits and those tolerances which have been established as part of the Company's risk appetite framework.

(7) Risk implementation and assurance
The Company operates a 'three lines of defence' model in line with industry standards as described on pages 12 to 13 of the 2016 ARA. This provides assurance to the Board that the RMS, together with its internal control system (see section B.4), has been designed, adhered to and maintained to the highest standard across the Company. The risk assurance process also helps to identify deficiencies or limitations which require mitigating actions and to ensure that the RMS is aligned with external best practice.

In order to demonstrate that the RMS has been designed and is operating effectively across the Company, and to identify potential improvements, a programme of independent risk assurance is in place. This includes several components that involve all three lines of defence:

- Risk policy owners are required to review the extent to which their policies have been properly embedded across the Company;
- The Risk and Control Self-Assessment (RCSA) process requires first line managers to assess their own risk management and control processes;
- Risk maturity assessments are carried out based on a number of defined criteria designed to measure how well risk management is embedded in the business. Where business units and Company functions are not currently meeting the defined criteria in full, a maturity plan with actions and deliverables is agreed to meet the Company's maturity standards;
- GR&C carries out independent reviews on the operation of the above processes, embedding activities and maturity across the Company, reviewing specific risk-related matters that are both thematic and business unit or Company function specific;
- The Chief Risk Officer (CRO) works closely with the BRC and the Board on articulating acceptable risk taking and ensuring the effective operation of the Company's risk and capital framework. GR&C provides objective advice and guidance on a range of risk matters to business managers, including matters such as product development and business transactions. GR&C also plans and carries out structured reviews of compliance with regulatory requirements; and
- GIA reviews GR&C activity to assess its capability as a second line of defence in addition to reviewing the adequacy of risk management and associated internal control activity across the Company.

(8) Stress and scenario testing
In order to understand the nature of the risks better and identify weaknesses in the management of risk, various stress and scenario tests are performed. This may involve specialist areas such as GR&C and the Actuarial function to assist in providing test scenarios and metrics. These range from simple sensitivity analysis where the impact of a change in an individual assumption is assessed, through to more complicated stress tests involving a combination of different changes to the consideration of scenarios that have more wide-ranging impacts. The scenarios can concentrate on operational risks or can consider all types of risk arising from the chosen scenario. These include reverse stress tests, which consider circumstances that could result in failure of the Company's business model. Stress testing and scenario analysis are described further in section C – Risk profile.

(9) Internal Model
The Internal Model reflects processes, systems and calculations that together allow the Company to control the risks that it faces and quantify the capital needed to support those risks. It includes a calculation engine to quantify capital requirements, the Company's risk management framework and its system of governance. Our internal capital model is already used for internal capital management purposes and we will be seeking approval from the regulator to use an Internal Model to calculate our capital requirements for regulatory purposes in 2019.

(10) ORSA
The ORSA is described in section B.3.2.

(11) Risk based decision making
The role of the ORSA in informing decision making is described in section B.3.2.

B.3.2. Own Risk and Solvency Assessment
The ORSA process is connected to the business planning process and is conducted as part of the overall governance and control system.

The ORSA process tests the business strategy, as articulated by the Company's business plan, against the agreed risk and capital appetite and limits through rigorous and business-relevant stress and scenario testing, including reverse stress tests. The results are then fed back into decision-making processes to ensure the residual risk remains within the Board's risk appetite.

The ORSA is based on a range of inputs, processes and outputs as illustrated in the diagram below.

The key findings, results and conclusions are combined to form reports to the BRC and the Board. The ORSA is reviewed and approved by the Board on an annual basis.

Consideration of any distributions i.e. to policyholders or movements in OF to be paid by the Company will have regard to the actual level of capital compared to target, which is set by reference to the requirement identified through the ORSA process.

The ORSA is governed by the ORSA policy which is reviewed annually to ensure it remains fit for purpose and complies with relevant requirements.

All elements of the ORSA were considered during the course of the year and the most recent ORSA document was submitted to the PRA in December 2016.

The stages below describe how the Company conducts its ORSA and how it is integrated into the organisational structure by engaging key people throughout the Company in assessing and challenging its key findings.

- Each key function or area provides key data required for the ORSA process. Suppliers of the inputs are required to adhere to the data policy which stipulates the data supplied must be appropriate, complete and accurate, subject to the principle of materiality as defined in the data policy;
- There are six main steps performed in order to assess the inputs and complete the ORSA. The Business divisions and Company functions complete elements of these which feed into the overall assessment. Each process needs to be documented in full, providing both a record of the process followed and supporting the drafting of the ORSA report; and
- The key findings, results and conclusions are combined to form reports to the BRC and the Board for their challenge and sign off. The report is also distributed to the various key stakeholders as shown in the diagram. In addition, the record of the ORSA process is produced to provide evidence of the process performed.

The conclusions of the ORSA report address/cover the following key themes:

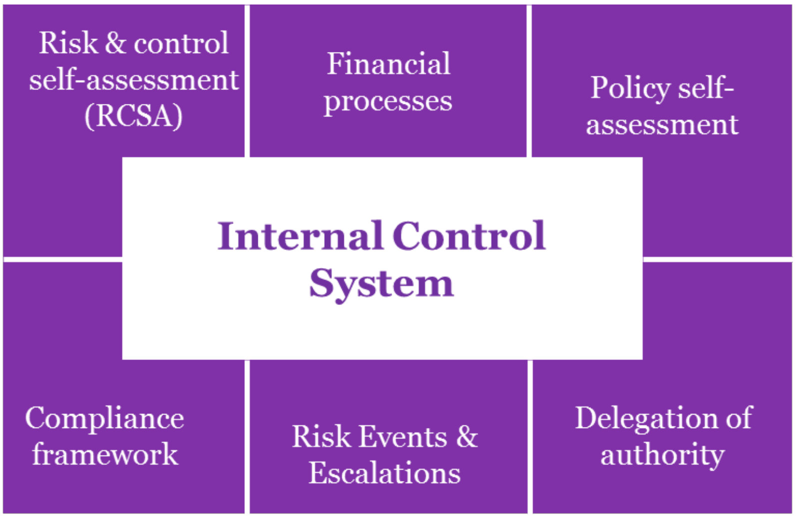
- Evaluation of the Company's risk profile taking into account emerging risks;
- Validation of the appropriateness of the risk and capital management frameworks and actions/ recommendations where improvements have been identified;
- Verification of whether the Company has operated within its risk appetite and capital requirements; and
- Inform the Board and management committees of areas where actions are required in the decision making processes.

B.4 Internal control system

B.4.1. Internal control system

The internal control system (ICS) is designed to provide reasonable assurance to the Board and Senior Management over the effectiveness and efficiency of the Company's internal control environment. The ICS supports our RMS by putting methods and processes in place to achieve effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The following diagram illustrates the key elements of the ICS:



The ICS is supported by the internal control policy and its components are explained further below:

Component	Description
Risk & Control Self-Assessment (RCSA)	RCSA is an ongoing process performed by first line business management across the Company. It provides a systematic approach for the identification and assessment of risks, contributing factors to weaknesses that could prevent achievement of process, business and Company objectives, and clear oversight of the control environment to enable the Company to operate and evidence effecte controls. In conjunction with control assurance testing and attestation, the RCSA validates processes are operating effectively, enables timely identification and addressing of any potential failure to control risk as well as potential gaps or inaccurate data in the ICS. The RCSA forms input to the annual review by the Board and Audit Committee on the effectiveness of internal controls.
Financial processes	Finance is responsible for the regular assessment of the adequacy and appropriateness of the control environment over Finance and Actuarial activities that could have an impact on the financial position of the Company. This includes internal and external financial reporting, management of payments and receipts, tax management, valuation of assets and liabilities, management of staff pension schemes and compliance with relevant regulatory standards and law. The Financial Reporting and Data Control Framework (FRDCF) provides assurance over this regular assessment. Finance activities include establishing appropriate controls over: › the production of accurate and timely financial MI, reports and the monitoring of these both within Finance and from the appropriate data sources; › the calculation, use and reporting of technical provisions and capital numbers; › the distribution of surplus; and › actuarial models including valuation models. Finance is also responsible for monitoring required and available Company-wide capital levels on both regulatory and internal bases, and the reporting on these.

Component	Description
Policy self-assessment	The policy self-assessment is performed by first line management across the Company over how well each Company policy has been embedded and their compliance with each of the policy requirements. As part of the annual assessment all business units are required to: › have action plans in place to address gaps against requirements; › provide a self-assessment rating (red, amber or green) based on prescribed criteria; and › justify the rating, supported by appropriate evidence/documentation. Executive policy owners, supported by policy content owners (subject matter experts) are responsible for reviewing and challenging the self-assessment and reporting findings to the Executive Risk Committee (ERC).
Delegation of authority	Executive management of the Company is delegated by the Board to the GCE, who may further delegate to his direct reports. Authority delegated in this way is detailed in the role profiles of the individuals, as well as being inherent in the position which they hold within the Company. The GCE and his direct reports may choose to form Executive Committees to assist them in their respective decision making. The authority for these committees comes from the individuals themselves and the committees have no executive powers delegated to them. Levels of delegation principles are set out in the Corporate Governance Manual, role profiles and monetary authority limits.
Risk events and escalations	As part of the Company's risk event process, an escalation process is in place to capture, communicate and respond to the most significant issues facing the company at any one time. These cover events where a breakdown in controls has led to significant loss, customer impact, regulatory censure and/or reputational damage. The significance of each breach and escalation is assessed in terms of the number of customers impacted and the potential or actual customer detriment. If this is a material breach then the details are notified to the appropriate regulator.
Compliance framework	The compliance framework is in place to safeguard the Company, its customers, members, reputation and assets and help the business achieve its objectives by creating a culture of compliance with regulatory requirements, and identifying and mitigating regulatory risk. See section B.4.2 for further detail on the compliance framework and function.

GR&C act as a second line of defence by providing independent oversight and challenge of the RCSA and policy self-assessment to ensure the Company is operating within agreed risk appetite. GIA performs independent assurance activity by testing and validating the internal controls and informs the Board of the effectiveness of the internal control system. The Audit Committee and BRC perform an annual joint review of the GIA and GR&C assurance plans.

B.4.3. Compliance function

The Group Compliance Function (GCF), as part of GR&C, performs a second line of defence role to oversee and monitor SII compliance. This forms part of GR&C's overall responsibilities for overseeing and monitoring the Company's compliance with all applicable laws and regulations, including our conduct responsibilities, with the first line having responsibility for implementing controls to manage and mitigate regulatory risks.

The GCF works within an agreed regulatory footprint and is the key point of liaison with all regulators. All monitoring and oversight processes, whether covering prudential or conduct regulatory requirements, follow established and consistent practices. Under SIMR, the GCF is responsible for the oversight of SII compliance and the CRO is the key function holder. In overseeing and monitoring compliance with SII requirements, including the assessment of the adequacy of measures adopted to prevent non-compliance, the GCF manage a plan of activity to ensure the Company manages its regulatory risk exposures appropriately and has effective controls in place.

B.5 Internal audit function

B.5.1. Overview

The Company operates a Group-wide GIA function. The primary role of GIA is to help the Board protect the assets, reputation and sustainability of the organisation. GIA operates as the third line in the Company's 'Three Lines of Defence' Model and assesses whether all significant risks are identified and appropriately reported by line management and GR&C to the Board and executive management. GIA also challenges management to improve the effectiveness of governance, risk management and internal controls. Its scope is unrestricted and covers the Company, its subsidiaries and all activities undertaken by and on behalf of the Company.

GIA's work is determined by an annual planning process which is driven by a risk assessment of the Company's operations, informed by the risk profile of the Company's business. Resources are prioritised to focus on the highest perceived risk whilst supporting the Company's business strategy. GIA's risk assessment and annual audit plan is discussed with the GEC and approved by the Audit Committee annually.

In developing the audit plan GIA's scope includes consideration of:

- The design and operating effectiveness of the internal governance structures and processes;
- The information presented to the Board and GEC for strategic and operational decision making;
- The setting of, and adherence to, risk appetite;
- The Company's risk and control culture;
- The risks related to poor customer outcomes, and associated conduct or reputational risk;
- Capital and liquidity risks;
- Key Company activities such as significant business process changes, the introduction of new products and services, outsourcing decisions, acquisitions and divestments;
- The outcomes achieved by the implementation of policies and processes, and whether these are in line with the Company's objectives, risk appetite and values;
- Trends and emerging issues that could impact the Company; and
- Planned assurance work in the first and second line.

GIA presents a report to the Audit Committee four times a year summarising the results and analysis of audit activity in the preceding period. GIA's reporting focusses on significant control weaknesses and any thematic issues identified across the Company. The Audit Committee oversees the work of GIA and monitors progress being made against the achievement of the annual plan. It also tracks first line management's responses to issues identified by GIA and the timeliness of their resolution.

The Company has outsourcing arrangements in place with Capita covering the administration of the former Scottish Provident protection business and for closed life and pensions business previously belonging to both the Co-operative Insurance Society and Phoenix Life Assurance Limited. Under the terms of these outsourcing agreements, the Company outsources its audit activity to Capita's internal audit function. A comprehensive governance structure is in place to ensure that GIA has oversight of the development and delivery of Capita's annual internal audit plan. This includes ongoing reporting of performance to the Audit Committee. GIA also sees and challenges audit terms of reference and draft audit reports prior to these being issued. In addition, GIA undertakes periodic audit effectiveness reviews (at least every five years) over Capita's internal audit function. The last review in 2014 resulted in a satisfactory audit opinion being given by GIA. The next review is planned for 2017.

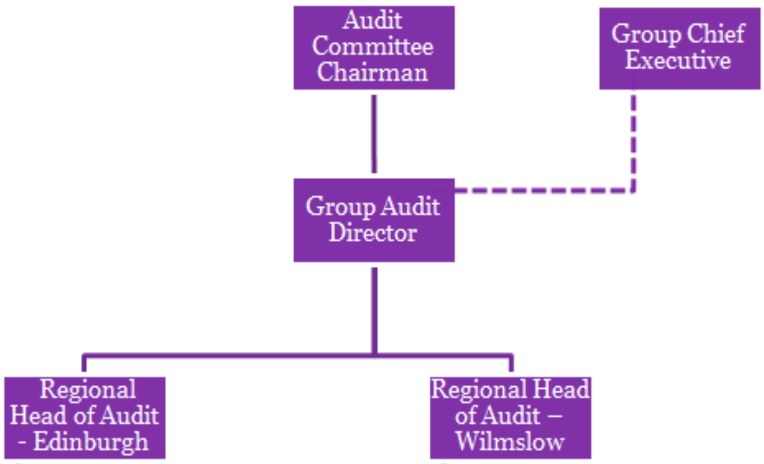
The Company also has outsourcing arrangements in place with HSBC who provide Custodian and Fund Administration Services for RLAM. HSBC acts as sole custodian for RLAM funds. A governance framework is in place within RLAM to provide oversight of these services. This includes a monthly Operational Risk Committee which is attended by GIA. The committee's responsibilities include review of risk reporting, ongoing service provision and error rates. GIA have monthly meetings with RLAM's Head of Outsourced Operations and Investment Compliance to gain an overview of HSBC activities, including review and oversight. RLAM first line risk also include HSBC within the scope of their control reviews, with reviews scheduled to take place in Q1 and Q2 2017 (GIA are on the reporting circulation list). GIA completed an RLAM HSBC Oversight audit and also reviewed controls directly within HSBC during the TCAM HSBC Integration audit in December 2014; both audits were rated as Satisfactory.

In line with the Chartered Institute of Internal Auditors' (IIA) International Standards, a review of GIA is performed by an independent third party and reported to the Audit Committee on a periodic basis. The Audit Committee oversees and approves the appointment process of the independent assessor. GIA's next external quality assessment review is planned for 2017.

GIA also liaises with the external auditors and regulators on a regular basis to ensure there is effective communication and collaboration.

B.5.2. Independence and objectivity

The following diagram illustrates GIA's organisational structure and reporting lines, where Internal Audit derives its authority from the Board through the Audit Committee:



GIA's independence and objectivity is evidenced as follows:

- The Chair of the Audit Committee sets objectives for the Group Audit Director and recommends remuneration for the Group Audit Director to the Remuneration Committee;
- The Group Audit Director communicates and interacts directly with the Audit Committee and has access to its Chair and members in between Audit Committee meetings;
- The Group Audit Director attends GEC meetings, but not in a decision-making capacity or as a member. The purpose of this is to challenge decisions taken by the GEC;
- GIA has a process for managing conflicts of interest, including internally recruited auditors, and safeguards will also be put in place to limit any impairments to independence or objectivity. This also includes managing any potential conflicts of interest where team members hold other related roles outside of the organisation; and
- The Audit Committee evaluates GIA's performance. The Group Audit Director confirms to the Audit Committee the organisational independence of the GIA team at least annually.

However, the Group Audit Director maintains a dotted reporting line to the GCE to report on the outcome of audit activity and the overall opinion on the Company's control environment, and for day-to-day administrative purposes.

Any person carrying out the internal audit function does not assume any other key functions within the Company.

B.6 Actuarial function

The Actuarial function (as defined by SII), led by the Group Chief Actuary (GCA), sits within the Finance function and the GCA reports to the GFD.

The Actuarial function is responsible for the following key tasks:

- Calculation of technical provisions (including on a SII basis);
- Expressing opinions about underwriting and reinsurance;
- Ensuring quality of the applied methods, including data quality;
- Follow-up of actual developments of best estimates by comparing with experience;
- Informing the Board on the reliability and adequacy of the above;
- Contributing to the RMS and risk management skills;
- Advising the Board on the potential implications of the Company's risk profile and the probability of both realistic insolvency and failing to meet the SCR or the regulatory Minimum Capital Requirement (MCR);
- Advising on the extent to which the investment risk taken is consistent with the Company's commitment to treat customers fairly;
- ORSA – providing input to ensure the Company continuously covers its technical provisions, including identifying risks arising from the uncertainties within calculations; and
- Overseeing the calculation of technical provisions in the cases set out in Chapter 12 of the PRA's *Technical Provisions Rulebook* (completeness, accuracy and appropriateness of data used in the calculations of technical provisions).

B.7 Outsourcing

B.7.1. Outsourcing of critical operational functions

In line with other large financial services organisations, the Company has a number of material relationships with outsourcers and service providers.

The Company's key external outsource partners include back office administration covering Life & Pensions policy administration, customer support and complaints handling, investment back office administration, IT application support and maintenance, hosting providers, actuarial modelling solution, underwriting rules engine, and transactional print and mailing services.

These outsource partners have scale and common processes, often across multiple clients, which provide several benefits for the Company, including minimising fixed costs as policies run off and improving the technology used within our administrative capability. It is also an effective use of Company resources. Whilst processing or specialist work is undertaken by these organisations, the Company remains fully responsible for the oversight, management and performance of the outsourced activity.

Specialist roles such as finance, actuarial, risk and compliance and oversight of the outsource partners are retained in-house, ensuring the Company retains full control over the core capabilities necessary to manage its business objectives effectively.

The framework for the governance and oversight of material outsourcer and supplier arrangements is set out on page 18 of the 2016 ARA.

The following is a list of the material outsourced arrangements within the Company and the jurisdiction in which the service providers of those arrangements are incorporated.

What has been outsourced	Service provider	Jurisdiction
Life and pensions policy administration and transfer agency administration for unit trust business.	Capita Life and Pensions	UK
Investment assets administration and investment accounting. Custodian for the Company's assets.	HSBC	UK
Data hosting and IT application support services.	Fujitsu	UK
Actuarial modelling solution.	Milliman	UK/US
IT application support and maintenance.	Steria	UK
IT mainframe services.	IBM	UK
Oracle software hosting.	Oracle	UK
Underwriting for Intermediary protection.	UnderwriteMe	UK
Transactional print.	MBA	UK
Managing agents for RLAM.	JLL/Capita	UK

B.7.2. Outsourcing policy

The Company has developed a Group Material Outsourcing Policy (GMOP) in relation to its outsourced activities. The policy establishes standards that the business must comply with to mitigate the risk of entering into inappropriate outsourced contracts and to implement sufficient controls to ensure risk is managed throughout the lifecycle of the arrangement. Contracts with the legal panel, reinsurance agreements and the Royal London Group Pension Scheme are governed outside of the GMOP.

The key aim is to ensure a robust and consistent framework for governing material outsourced arrangements across the Company.

The GMOP includes the requirements for the Company to assess the materiality of outsourcers in a consistent manner. Where necessary, the Group Head of Regulatory Risk and Compliance (who reports to the CRO) notifies the required regulator prior to the business entering into a material outsource arrangement.

The level of governance and oversight applied to outsource arrangements will depend on the materiality of the contract.

Contracts are assessed against the following criteria to determine the materiality level:

- criticality of service or function;
- customer impact;
- exposure to financial crime and data security risk;
- ease of repatriation or transfer to an alternative service provider;
- location;
- skills and integrity of outsource employees;
- providers' ability to make discretionary decisions and take risks on the Company's behalf;

- aggregate exposure to the service provider;
- policy/transaction volumes;
- per annum cost of contract; and
- reputation and brand impact.

Examples of material outsourcing are:

- IT functions and processes;
- systems maintenance;
- data storage;
- claims handling; and
- policy administration.

Intra-group outsourcing arrangements
There are other companies within the Royal London Group who provide services for RLMIS, and whilst they are part of the Royal London Group they are considered 'intra-group outsourcers' for RLMIS for SII purposes. The most significant of these include:

- RLAM – asset management services; and
- Royal London Management Services (RLMS) – administration services.

In the case of material intra-group outsourcing (i.e. where the service provider is a separate legal entity within the Royal London Group) the GMOP will be applied as with our other outsourcers. However, given the entities are wholly within the Company's control they therefore share aspects of the same governance and control environment as RLMIS. For the intra-group outsourcing services the Company takes full responsibility for oversight and control of the function, and the service or activity is managed in a robust manner.

B.8 Adequacy of the governance structure

The Company monitors and assesses its system of governance on an ongoing basis as described in the above sections.

There have been no significant findings in relation to the system of governance either via the RCSA or in internal audit reports during the reporting period. In addition, the Board has confirmed its compliance with the relevant provisions of the UK Corporate Governance Code 2016: An Annotated Version for Mutual Insurers (the 'Code') published in September 2016. The Code is published by the Association of Financial Mutuals with the permission of the Financial Reporting Council, and is a revised version of the UK Corporate Governance Code published in April 2016. It provides a guide to effective Board practice and is based on the principles of good governance: accountability, transparency, probity and a focus on the sustainable success of an entity over the longer term. The Board believes that its practices are consistent with each of the principles of the Code, are appropriate and offer the necessary levels of protection for our members.

B.9 Any other information

There is no other material information on the system of governance over and above that already described in the above sections.

C. RISK PROFILE

Plain English introduction

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.

In this section we describe our risk profile, including separately for each category of risk:

- Risk exposure;
- Risk concentration;
- Risk mitigation; and
- Risk sensitivity.

Royal London's risk profile is stable and generally changes only gradually from year to year. However, the work we do to mitigate and manage risk is enhanced and strengthened each year.

As a financial services provider, the Company's business is the managed acceptance of risk. The Company operates within a RMS that is applied Company-wide. The Company has a set of risk preferences which define the types of risk the Company views as being desirable, neutral towards or undesirable and which form a core part of the Company's RMS and control techniques. The RMS established within the Company is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Company is well capitalised.

The material risks faced by the Company are set out in the table below:

Underwriting risk*	Market risk	Credit risk	Liquidity risk	Operational risk	Other material risks
Section C.1	Section C.2	Section C.3	Section C.4	Section C.5	Section C.6
Mortality	Interest rate	Sovereign debt default	Short term	Conduct	Strategic
Morbidity	Corporate bond spread	Financial counterparty default	Long term	Processing	MTP
Longevity	Equity	Other counterparty default		Information security	Environmental
Persistency	Property			Material outsourcing	Emerging
Guarantees and options	Currency			Change	
Expense				Business continuity	
				Information Technology	
				Legal and regulatory	
				Financial crime	
				People	

*The Company uses the term 'insurance risk' to refer to 'underwriting risk'. This term is used throughout section C.

Stress and scenario testing – overview
The Company 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 Company's RMS, as well as being a regulatory requirement.

Stress testing is embedded in the planning process of the Company and is applied to the base case five-year MTP.

Rigorous stress testing exercises are carried out to assess the impact of a range of adverse scenarios with different probabilities and severities. These are provided as input into the ORSA and are used to inform strategic planning. This allows senior management and the Board to assess the base case plan in adverse circumstances and to adjust strategies and propose mitigating actions if the plan does not meet risk appetite in a stressed scenario.

The following types of sensitivity analysis and stress and scenario activities were carried out during 2016:

- Sensitivity analysis, stress tests or scenarios as part of business as usual activity;
- Broad-based scenarios (covering multiple events and/or a sequence of events);
- Business model analysis; and
- Reverse stress tests.

More details on each of these can be found on pages 181 to 182 of the 2016 ARA.

Prudent Person Principle
Under the Prudent Person Principle (PPP), firms are expected to understand fully the risks involved with their investments, make proper provision for them via the SCR and ensure that investment decisions are made in the best interests of policyholders. All investment risks must be properly identified, measured, monitored, managed, controlled and reported.

Investment risks are managed and overseen by the Company's Investment Office, working with the investment proposition owners and Finance. The Company invests its assets in accordance with PPP by way of a robust investment governance structure with oversight provided by the Investment Committee (IC).

The agreed investment philosophy as developed by the Investment Office and approved by the Board is used to set the Company's investment strategy. The strategy in turn is supported by Investment Management Agreements (IMA) between the Company and the asset manager, and policies covering market, credit, liquidity, derivatives, proposition development and review and conflicts of interest risk management. The Company's assets are largely but not exclusively managed by RLAM.

The investment strategy sets out the investment categories in which assets may be invested, supported by asset allocation and performance benchmarks consistent with the Company's risk appetite and asset liability matching. This balances the risks relating to the liabilities under the Company's insurance contracts against the risks inherent in its assets and the capital available. The Company has established approaches for matching assets and liabilities, including hedging. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch.

The asset allocation benchmarks 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. In addition, there are limits to the exposures of non-government bonds in terms of their external credit rating and also to the overall exposure to unrated bonds.

C.1 Underwriting risk

The Company defines underwriting risk (referred to as 'insurance risk') as 'the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities'. These risks principally arise in relation to:

- Changes in persistency, mortality, morbidity or expenses;
- Inappropriate product design, pricing or selling; and
- Erroneous interpretation of experience or assumptions.

Insurance risk within the Company arises primarily in relation to its life assurance and pension products. The Company's policy is to seek certain types of insurance risk in order to deliver good returns for its members and policyholders by exploiting its capital resources and technical skills in underwriting, pricing and managing those risks.

C.1.1. Insurance risk exposure

The Company's exposure to insurance risk and the principal components are set out on pages 176 to 179 of the 2016 ARA.

The following chart 'Analysis of insurance risk capital as at 31 December 2016' illustrates the split of the Company's insurance risk capital as at 31 December 2016 before diversification between risks.

The chart below shows that the Company has a diversified insurance risk exposure with the capital being spread over a variety of insurance sub-risks.

Material changes to the risk profile over the reporting period

The Company's insurance risk portfolio is relatively mature and the profile generally changes only gradually from year to year, with a shift from older savings products towards new protection and pensions business. This trend tends to increase persistency risk. During the reporting period there have been no new products that have a substantially different risk profile to the existing book and no material changes have been made to the Company's reinsurance strategy or its underwriting standards.

Measures used to assess the risk profile

Insurance risks are assessed and monitored using a combination of measures. For example the Company calculates its capital requirements in respect of insurance risk by looking at the sensitivity of its insurance liabilities to changes to the insurance risks faced by the Company (primarily persistency, mortality, morbidity and expenses).

The primary measures are the impacts on:

- Regulatory liabilities (e.g. those in SII annual returns);
- Regulatory capital (SII SCR);
- Realistic capital (e.g. the calculation of required capital amounts under SII, using an internal capital model);
- The profitability of new business (e.g. changes due to new business mix and volume); and
- Demographic and expense experience analyses looking at how actual experience is comparing to the assumptions used.

There have been no material changes to the measures used to assess insurance risk over the reporting period.

Management of insurance risk

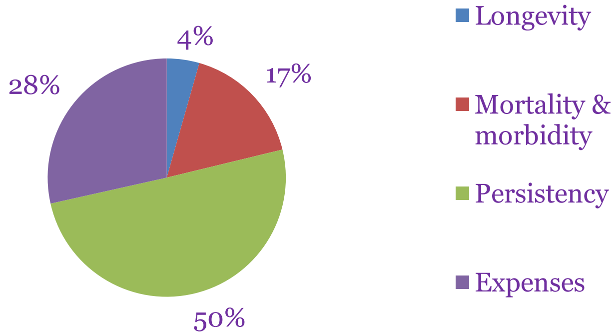
Insurance risk is largely mitigated, monitored and managed by the various business units/divisions, in particular Pensions, UK Protection, Royal London Ireland and Consumer. Risk relating to the Company's final salary pension schemes is managed separately by a specialist area in Finance, supported by external advisers. Insurance risks are managed through the following mechanisms:

- The use of the policy framework, guidelines, limits and authority levels for concluding insurance contracts, assuming insurance risks and handling insurance claims;
- Regular monitoring of actual exposures compared to agreed limits to ensure that the insurance risk accepted remains within risk appetite;
- The use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Company'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.

Further detail is set out on page 176 of the 2016 ARA.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Company's Insurance Risk Policy for an annual review of the policy by the policy owner. As the policy provides Company-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks then a review will include a review of their effectiveness. The policy owner must make sure that the policy is implemented appropriately within the Company.

Analysis of insurance risk capital as at 31 December 2016 (%)



C.1.2. Insurance risk concentrations

The Company's approach to concentration risk is outlined on page 177 of the 2016 ARA; in summary the Company seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits. Although the Company's portfolio of employer-sponsored pension schemes includes some large schemes, there are no schemes that represent an excessive percentage of the relevant portfolio.

The Company's diverse portfolio of business helps mitigate concentration risk across sectors (pensions, protection, intermediated, direct) but there is some concentration risk within sectors, for example to the extent that legislative changes affecting pensions business could result in a marked worsening in persistency. Due to the nature of the UK market, another potential area of concentration is the reliance of the Company on new business from key Independent Financial Adviser (IFA) networks, but this is not considered to be material.

C.1.3. Insurance risk mitigation techniques

The Company, in common with its competitors, uses reinsurance as a key tool in managing its exposure to insurance risk. Reinsurance is used to mitigate exposures in excess of risk appetite, to limit the Company's exposure to large single claims/catastrophes and to alleviate the impact of new business strain. The Company does not make use of Special Purpose Vehicles to mitigate insurance risk.

The Company has long relationships with all of the substantive reinsurers active in the UK and has ceded large volumes of mortality, morbidity, disability and longevity risk into the reinsurance market.

The Company monitors the effectiveness of its reinsurance arrangements via the management of:

- Counterparty risk: covering limits on exposure to reinsurance entities or groups and current and prospective reinsurers meeting minimum financial strength criteria.
- Contracts in existence: covering contractual amendments, the adherence to exiting treaties and the production of reinsurance MI. In relation to the management of existing contracts, the Company benefits from having experienced professionals who have worked for both insurers and reinsurers.
- New reinsurance transactions: covering the governance of the approval of all new reinsurance contracts, the type and rationale for entering into an arrangement whether to facilitate competitive new business pricing and/or more efficient capital usage or to extract value on existing business either through reducing reserves and/or reducing risks on the Company's balance sheet.

C.1.4. Insurance risk sensitivity

The Company routinely assesses the sensitivity of its BEL to changes in various insurance risks. The liabilities are recalculated by changing each assumption in isolation. The risks and the main assumptions are tabulated below.

Risk type	Assumption
Mortality	15% permanent increase in mortality rates
Mortality catastrophe	0.15% absolute increase in mortality rates during the next 12 months
Longevity	20% permanent reduction in mortality rates
Morbidity	35% permanent increase in morbidity rates during the next 12 months followed by a 25% permanent increase, coupled with a 20% reduction in recovery rates
Persistency including take up of Guaranteed Annuity Options (GAO)	Broadly speaking, 50% increase or reduction in exit and paid-up rates, the direction applying to each product group being according to which direction is the more onerous, coupled with an increase in GAO take-up rates
Persistency mass exit	40% of policies exit immediately (70% of group pensions business)
Expense	10% increase in future expenses coupled with a 1% p.a. increase in expense inflation

The results of the analysis show that the RL Open Fund is particularly sensitive to changes in persistency and expenses. In the closed funds the RL (CIS) Fund and the Scottish Life Fund are particularly sensitive to improvements in longevity and to reductions in persistency rates, each of which increases the adverse impact of GAOs. The RL (CIS) Fund and the Royal Liver With-Profits Fund are sensitive to increases in expenses.

C.2 Market risk

The Company defines market risk as the risk that fluctuations in values of, or income from, assets, or in interest or exchange rates, cause a divergence in the value of the Company's assets and liabilities. Where policy benefits are linked to the value of investments, the majority of this risk rests with the customer.

The Company aims to deliver good long-term investment performance, subject to an appropriate return on capital.

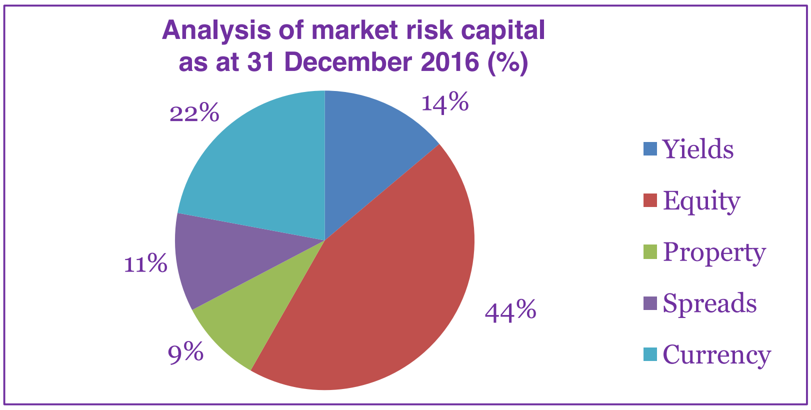
C.2.1. Market risk exposure

The Company's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, corporate bond spread risk and currency risk.

The Company's exposure to market risk and the principal components and management strategies are set out in more detail on pages 180 to 182 of the 2016 ARA.

The Company makes use of derivatives for the purposes of mitigating certain market risks, in particular for mitigating equity and interest rate risk. The Company makes very little use of derivatives for other purposes. The use of derivatives to mitigate certain market risks generates other types of market risk, for example counterparty risk, but generally reduces the overall market risk exposure in that the values of the derivatives and the associated liabilities move more consistently with each other than if other assets were held.

The chart below shows the split of investment assets, excluding those held to match unit-linked liabilities.

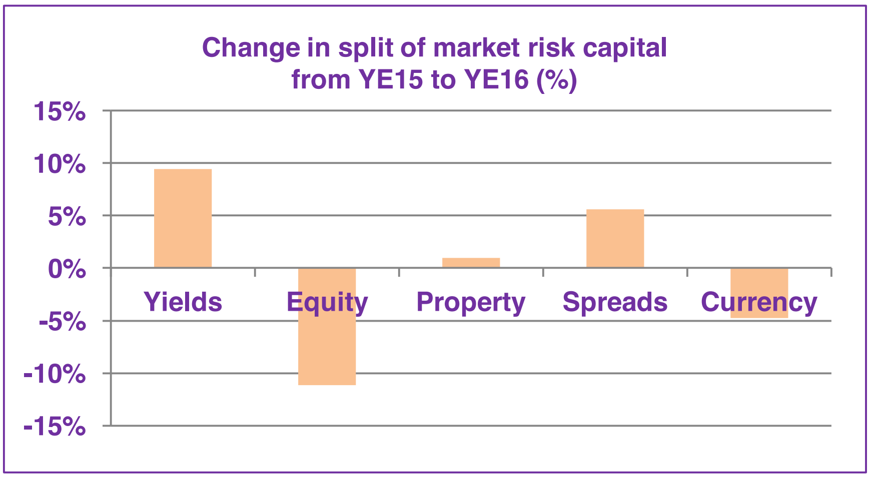


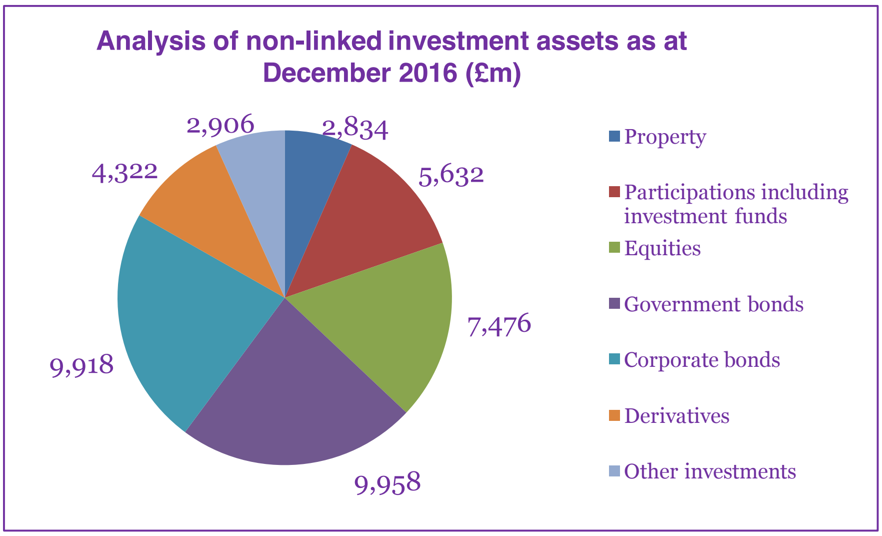
The chart above illustrates the split of the Company's market risk Standard Formula capital requirement as at 31 December 2016, for the combination of the Royal London Open Fund and the Royal London Group Pension Scheme, before diversification between risks.

Material changes to the risk profile over the reporting period

The changes in the percentage split of the capital requirement compared to those as at 1 January 2016 are shown below.

None of the changes in percentage are material. The increase in capital for interest rates was a result of the change in direction of the yield stress, mainly in the RL (CIS) fund. The equity capital requirement increased during 2016 but the equity percentage of overall market risk capital fell as a result of the increase in capital for yields. There were no material changes to the nature of the underlying risk profile.





Measures used to assess the risk profile

Market risk is assessed using several measures. The impact on Value at Risk (measuring the capital required to withstand a 1 in 200 year event) is assessed in respect of the different major types of market risk, as is the impact on the Company's excess capital. Sensitivity testing and scenario analysis are used to assess the impact on these measures of movements in equity values, interest rates and other variables in isolation and in combination.
The market risk associated with derivatives is also assessed using sensitivities to changes in the underlying economic variables, such as interest rates and interest rate volatility, as appropriate to the derivative. Value at Risk analysis over short-term periods is also used.

The average duration of the fixed interest portfolios is monitored as part of asset liability management practice.
The amount of divergence of the actual asset allocation percentages from the benchmark percentages is also used to measure market risk. Within the equity investment portfolios, market risk is assessed by reference to the divergence of actual stock weightings from the benchmark (or index) weightings. The sector profile of the UK equity portfolio is also used to assess market risk.

There were no material changes to the measures used to assess market risk during 2016.

Management of market risk
The principle techniques employed to manage market risk are the establishment of asset allocation and performance benchmarks consistent with the Company's risk appetite and asset-liability matching. The Company's management of market risk is described in more detail on page 180 of the 2016 ARA.

The investment management agreement in place between the Company and its asset management company RLAM specifies the limits for holdings in certain asset categories. The agreement also requires that asset holdings are within the regulatory limits that restrict excessive concentrations within particular asset classes.

A comprehensive system of limits is in place in order to control exposure to market risk within the equity portfolios. In particular risk appetite limits are set by reference to the amount of available capital, for the amount of capital required for different types of market risk.

The Company has a robust framework in place relating to the use of derivatives, including a derivatives risk management policy and requirements for only sufficiently knowledgeable individuals to be involved in the management of derivatives and for approval of hedging strategies at Board level. The risks associated with the use of derivatives, both before and after they are transacted, are identified and closely monitored. The policy details legal, collateral and valuation requirements.

Exposures to market risk are monitored by the Capital Management Committee (CMC) and are included in the MI prepared for the ERC and the BRC and monitored by those committees.

C.2.2. Market risk concentrations
The Company's liabilities are predominantly UK-based and a high proportion of its assets are therefore UK-based. As such, the market risk profile is heavily dependent on the state of and outlook for the UK and global economy, in particular equity and property values.

The Company has material liabilities in respect of GAOs and is therefore capable of being exposed to changes in interest rates. However, such liabilities are extensively hedged and although the exposure to interest rate risk is material, at present there is little sensitivity in the RL Open Fund to changes in interest rates.

The assets within each investment portfolio, for example in respect of equities or property, are well diversified and there is no material concentration risk arising.

C.2.3. Market risk mitigation techniques

The Company uses derivatives as a risk mitigation technique for certain types of market risk.

Risk type	Description
Equity risk and property risk	The Company hedges a small amount of equity risk arising from investment guarantees and charge growth, using options and swaps.
Interest rate risk	The Company manages interest rate risk using performance benchmarks with appropriate durations and in some instances, uses derivatives to achieve a closer cash flow match. The Company uses government securities with interest rate swap overlays to provide interest rate sensitivity hedging in the RL Open Fund, the Scottish Life Fund and the RL (CIS) Fund. In addition a combination of swaps and swaptions are used to hedge the interest rate risk in unit-linked GAOs.
Inflation risk	The Company mitigates some inflation risk in its defined benefit pension schemes and in the RL (CIS) Fund by the use of inflation swap derivatives.
Currency risk	The Royal Liver With-Profits Fund uses a programme of currency forward derivative contracts to mitigate its euro exposure.

The CMC and the BRC monitor the effectiveness of the various processes in place to manage market risk, in particular by reviewing the continuing appropriateness of the hedges that are in place and of the asset allocation benchmarks.

C.2.4. Market risk sensitivity

The Company routinely assesses the sensitivity of its BEL to changes in various market risks. The liabilities are recalculated by changing each assumption in isolation. The risks and the main assumptions are tabulated below:

Risk type	Assumption
Interest rate	Increases and reductions in sterling risk-free yields
Bond spread	Widening of credit spreads on bonds and certain securitisation products
Equity	Reductions in equity values of around 37.6% for type 1 equities and around 47.6% in type 2 equities
Property	25% reduction in property values
Currency	25% reduction in the value of euro-denominated assets

The results of the analysis show that the RL Open Fund is particularly sensitive to reductions in equity values. In the closed funds the RL (CIS) Fund and the Scottish Life Fund are particularly sensitive to increases in interest rates, and the Royal Liver With-Profits Fund is sensitive to a strengthening of sterling against the euro.

MI provided to the Board and CMC includes the sensitivity of surplus capital to changes in the FTSE 100 index and the gilt yield curve. The CMC MI also shows the sensitivity of available capital to changes of +/-10% in equity values,+5% in equity volatility, +/-0.5% p.a. in interest rate levels and +0.5% in credit spreads.

The MTP includes the impact on EEV profit of best case and worst case economic scenarios that are set by the Actuarial function (with input from the RLAM economist). This includes a combination of stresses to equity returns, gilt yields, inflation, growth, property returns and credit spreads. As expected the upside 'strong recovery' scenario would result in a significant increase to embedded value in each year, growing consecutively over the 2017–2021 horizon. The downside 'double dip' scenario would in turn show a growing consecutive decrease. The scenario results do not take into account management actions that would be taken to adjust the Company strategy and mitigate the reduction in profitability in the downside scenario.

C.3 Credit risk

The Company defines credit risk 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.

C.3.1. Credit risk exposure

The Company's exposure to credit risk, its management thereof and mitigation techniques used are set out on pages 182 to 186 of the 2016 ARA. The majority of the exposure derives from the Company's holdings of government and corporate bonds. The exposure in respect of the reinsurers' share of insurance liabilities is almost all in respect of two types of arrangement. Firstly there are several externally managed linked funds that are effected by means of reinsurance arrangements rather than direct investment in a collective investment vehicle. The credit risk exposure is borne not by customers in the relevant funds but by the Company. Secondly there are annuity reinsurance arrangements of the Company.

Material changes to the risk profile over the reporting period

During 2016 there were no material changes to the total amount of non-linked assets subject to credit risk. There were no material changes in the split of the assets by credit rating during 2016.

Measures used to assess the risk profile

Credit risks are assessed and monitored using a combination of measures. The primary measure is the gross amount of the exposure with no allowance made for any expected recoveries in the event of default. The gross amount takes into account exposure arising from different sources of credit risk, in particular from sovereign debt and corporate bonds, cash and derivatives. Exposure in respect of equity holdings is also taken into account, but not treated as credit risk, in order to help assess the overall risk to the Company of a failure of the counterparty.

The credit rating of the counterparty, based on available ratings from external rating agencies coupled with an internal view of the credit rating, is also used to assess the risks. Further due diligence of counterparties is carried out where deemed advisable in order to assess the risk with more confidence.

The Company also assesses the risk based on its capital requirements for such risk. The Company calculates its capital requirements in respect of credit risk by a combination of a separately identifiable amount held in respect of failure of a reinsurer or a derivative counterparty and an amount that represents the impact of an overall economic stress that affects bond credit spreads and other factors such as equity movements.

Management of credit risk

In order to reduce its exposure to credit risk the Company invests primarily in higher graded assets, rated BBB or above. Investment in deposits or cash is limited to counterparties with a long term rating of at least A- from Standard & Poor's or Aa3 from Moody's, except in the case of Royal London Platform Services (RLPS) where deposits of client money are subject to the Financial Services Compensation Scheme (FSCS) and may be placed with an unrated bank subject to limits approved by the Board. 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. Limits are expressed as a proportion of the relevant assets on a fund-by-fund basis with the objective of ensuring investment portfolios are well diversified.

The one exception is exposure to the UK government. Investment in government debt is a key part of the Company'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 further however, this decision would need to be reviewed.

Exposures arising in respect of cash holdings, deposits and derivatives are monitored against the agreed limits by the Credit, Counterparty and Liquidity Risk Committee (CCLRC), which reports to the CMC. The CCLRC may recommend changes to specific exposure limits to the CMC.

Credit risk exposures are included in MI prepared for and reviewed by the CMC.

Exposures arising in respect of corporate bonds and sovereign debt are monitored against risk limits by the CCLRC, which also monitors exposures by industry sector and by credit rating.

Where external ratings are not available, the Company uses an internal rating process as described on page 183 of the 2016 ARA.

C.3.2. Credit risk concentrations

The material credit risk concentrations to which the Company is exposed are as follows:

Concentration	Description
UK sovereign debt	The Company's largest exposure is to UK sovereign debt, of which it held £10,968m as at 31 December 2016 (2015: £12,916m). These fixed interest and index-linked stocks are held primarily to back its liabilities, in particular guaranteed liabilities.
Eurozone sovereign debt	The Company held £565m of sovereign debt of EU countries as at 31 December 2016 (2015: £515m), almost all of which are in the Eurozone. This was largely concentrated in the largest and highest rated countries, in particular Germany and France. Investment in lower graded countries is very limited and not material.
HSBC	HSBC acts as custodian for the Company's investment assets and certain amounts of cash deposits. The latter are subject to credit risk in the event of default by HSBC. The Company has some exposure through investment in corporate bonds issued by HSBC and it also holds a £3.1bn loan note with HSBC which is fully collateralised. The loan note is held as part of a reinsurance arrangement, the value of which is exactly matched by a financial liability to Swiss Re.
UK and European banking sector	Although the Company mitigates concentration risk by diversifying its counterparties for cash and amounts held on deposit and by investing a high proportion in Global Systemically Important Financial Institutions, the Group has a material combined exposure to the UK and European banks with which it holds cash and deposits.
Corporate bond issuers	Around 50% of the Group's holdings of UK corporate debt are represented by debt issued by the financial services sector and structured debt.
Reinsurance arrangements	The Company has large reinsurance arrangements with certain counterparties. At 31 December 2016 there was a significant exposure to BlackRock Life Limited in respect of reinsurance of a range of externally managed linked funds. The BlackRock exposure is subject to a restructuring project to change the nature from a reinsurance risk to an investment risk. There is also exposure arising from various annuity reinsurance arrangements, in respect of which the exposures are collateralised or subject to a floating charge.

The Royal Liver With-Profits Fund has a relatively high exposure to debt in the Eurozone, both direct and indirect (e.g. holdings in German and French banks). This arises from the need to invest appropriately in respect of the fund's euro-denominated liabilities. The exposure is closely monitored by the Company and exposure to lower-graded sovereign debt is extremely small.

The Company is exposed to credit risk in respect of its reinsurance arrangements. The largest reinsurance exposures borne directly by the Company are referenced above. Mortality and morbidity reinsurance exposures represent the reduction in the value of future profits from a failure of the reinsurer and claims recoverable from the reinsurer.

In each case of exposure to credit risk the risk of loss is perceived to be extremely low in view of the external ratings, supported by internal analysis.

All exposures are consistent with the Company's business model and strategy, the Company's risk appetite and limits. Minor breaches occur from time to time, which are reviewed and decisions taken as to corrective action or to accept the excess.

Any losses arising would not impact on short-term liquidity. The Company has access to a large amount of readily realisable assets and does not rely on any single counterparty to provide liquid funds. The failure of HSBC as a counterparty would, however, create major operational challenges and could cause the Company's contingency funding plan to be invoked in order to provide liquid funds at short notice.

C.3.3. Credit risk mitigation techniques

The Company mitigates certain credit risk exposures, in particular those arising through its holdings of derivatives and its largest reinsurance arrangements, through the use of collateral. The Company does not use collateral as a means of mitigating other risks.

The Company does not use derivatives for the purpose of mitigating credit risk.

C.3.4. Credit risk sensitivity

The main method that the Company uses to assess sensitivity to credit risk is scenario analysis whereby a counterparty (to which there is a large exposure) defaults on its obligations. For this purpose it is assumed that HSBC is in default and that there is no recovery of any amounts due to the Company in respect of cash held on deposit and corporate bond holdings, and that the equity investments would be worthless. The analysis shows that the Company would remain sufficiently liquid and that management actions could be taken to reduce the impact on solvency to an acceptable level. This does not consider wider operational and financial impacts on the UK or global financial system as a whole.

C.4 Liquidity risk

The Company defines liquidity risk as the risk that the Company, though 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.

C.4.1. Liquidity risk exposure

The Company has limited exposure to liquidity risk due primarily to its financial strength and availability of liquid assets. However, we recognise that extreme liquidity issues could have a serious impact on the Company.

The Company's exposure to liquidity risk is described in further detail on pages 186 to 188 of the 2016 ARA.

The longer-term matching of assets and liabilities is covered within market risk in section C.2. As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Company considers the residual liquidity risk arising from its activities to be well controlled.

Material changes to the risk profile over the reporting period

There have been no material changes to the Company's liquidity risks over the reporting period.

Measures used to assess the risk profile

The Company uses liquidity coverage ratios to measure the exposure of its long-term life funds to short-term liquidity risk. The calculation of the ratios has been changed slightly during 2016. The ratios are calculated based on three month forecast cash outflows after applying a 50% stress. Two ratios are calculated the first with cash and UK gilts as liquidity and a target of 100%. The second being a cash only ratio with a target of 33%, equivalent to one month's stressed cash outflow, with no allowance for income from premiums or investments.

The Company also assesses its long-term liquidity risk profile by considering the relationship between when assets might be able to be sold even in stressed conditions and when the liabilities in each long-term fund become due.

The Company assesses the liquidity risk within its least liquid unit-linked funds, specifically those linked to property, by measuring the proportion of the funds' assets invested in cash and deposits.

Management of liquidity risk

The Company's liquidity management process is set out on pages 186 to 188 of the 2016 ARA.

C.4.2. Liquidity risk concentrations

Generally, the Company is not exposed to material concentrations of residual liquidity risk. There is concentration of liquidity risk through the Company's reliance on mostly one bank, NatWest, to process payments to its customers, suppliers and employees. If the bank were to fail or have a major IT problem, then the Company may not be able to meet its obligations as they fall due for a period.

C.4.3. Liquidity risk mitigation techniques

The Company does not use risk mitigation techniques to transfer liquidity risk to third parties.

C.4.4. Liquidity risk sensitivity

Liquidity coverage ratios compare the assets that could be realised for cash by the end of the following business day with projected stressed gross outflow during a period of six months, with no allowance for any income from premiums or investments. The measure therefore allows for an element of sensitivity above the expected cash flows and the calculated ratios still show a liquidity position well within risk appetite for all funds.

C.4.5. Expected Profit Included in Future Premiums

The total amount of expected profit included in future premiums (EPIFP) as at 31 December 2016 was £1,150m.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events (excluding market events which are included in market risk in section C.2).

The aim of operational risk management is to manage operational risks in line with defined appetites, and to protect both policyholders and the Company whilst delivering sustainable growth. The Company's operational risk framework is the method by which operational risks are managed in terms of setting risk appetite, evaluating key exposures, measuring risk, mitigating risk, and monitoring risks on an ongoing basis, as set out in this section.

C.5.1. Operational risk exposure

The principal operational risks that the Company is exposed to are listed below. The impact arising from all operational risks could be on the Company's members, customers, people, processes and systems.

Operational risk	Description
Conduct	The risk of unfair outcomes to the end customer.
Processing	The risk associated with the Company's operational processes.
Information security	The risk associated with protecting the Company's customer and management information and information processing facilities from threats.
Outsourcing	The risk arising from outsourcing processes to third-party providers.
Change	The risk arising from the Company's change management processes and programmes.
Business continuity / Disaster recovery	The risk associated with business continuity management and disaster recovery processes and plans.
Information Technology	The risk arising from development, delivery and maintenance activity for the Company's IT infrastructure.
Legal and regulatory	The risk of a poor level of regulatory compliance and the materialising of breaches which would pose a risk to the regulators' objectives and our relationship with them.
Financial crime	The risk that the Company's customers or assets are subject to any kind of criminal conduct relating to money, data or to financial services.
People	The risk associated with the Company's processes to attract and retain capable people and provide an appropriate performance based culture.

Material changes to the risk profile over the reporting period

The most significant change to the operational risk exposure during 2016 was the conscious decision by the Company to operate a significantly larger change portfolio, increasing the exposure to risks arising from change management.

During 2016, as in the previous year, there was an increased incidence of cyber-crime reported against non-financial services and financial services firms. There were no material cyber-crime events impacting on the Company. Whilst it is not clear whether this has directly increased the Company's exposure from this type of risk the Company continues to monitor such threats and to assess the strength of controls to protecting the Company's IT infrastructure and data. The Company's Security Investment Programme to upgrade IT security started in 2015. This project continues to operate largely on track and will run to 2018. This programme will ensure the Company's IT security measures are in line with peer firms.

Measures used to assess the risk profile

Operational risk is managed within the Company's RMS, as set out in section B.3. A variety of measures are used such as: scoring of potential risks using impact and likelihood, KRI thresholds aligned to the risk appetite statements above, assessment of the effectiveness of controls and monitoring of events and losses by size.

The Company's operational risks are assessed using a risk matrix system that considers the worst case occurring for each operational risk and the likelihood of this worst case occurring within the next 12 months.

In addition to the measurement of individual risks as they arise, stress and scenario testing is used to enable the Company to get a better understanding of the significant risks that it may face under extreme conditions and the level of capital it needs to hold to protect against these risks.

The scenarios and sensitivity are described in section C.5.4.

Management of operational risk

Operational risk is mitigated, monitored and managed by all areas of the Company through the following mechanisms:

- the use of the policy framework, guidelines, limits and authority levels. Senior management has a 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 and for the allocation of responsibilities;
- regular monitoring of actual exposures compared to agreed limits to ensure that the operational risk remains within risk appetite;
- operational risk details on an inherent (before controls) and residual (after controls) basis are maintained on risk and control registers. These registers and the management information reported from them are used as a basis for review and challenge by senior management, Risk Committees and the Board; and
- the use of the RMS to inform on the effectiveness of the risk management processes:
  - RCSA and control testing by management provide a view on the effectiveness of controls;

- key risk indicators at Company and local level, with appropriate thresholds, inform the business on the position against the Company's appetite for the major categories of operational risk;
- production of management information on risk events such as losses, near misses and breaches; and
- an escalation process operates to ensure that the most significant risk events are brought quickly to the attention of senior management.

Independent oversight and assurance is performed by GR&C and GIA to assess the effectiveness of risk mitigation activity.

Further detail is set out in note 41 of the 2016 ARA.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Company's Operational Risk Policy for an annual review of the policy by the policy owner. As the policy provides Company-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks then a review will include a review of their effectiveness. The policy owner must make sure that the policy is implemented appropriately within the Company.

C.5.2. Operational risk concentrations
The primary source of concentration risk from an operational risk perspective is the Company's reliance upon its material outsourcers to provide a broad range of services to key businesses. Further detail of this is set out in section B.7.

C.5.3. Operational risk mitigation techniques
The Company makes limited use of techniques that transfer operational risk to third parties. The main technique used is to effect insurance against some risks, in particular of loss to its buildings and contents and of loss arising from legal claims against its directors and managers.

Legal agreements with outsourcers transfer some risks to the outsourcers, for example those arising from errors in servicing customers. However the outsourcing arrangements themselves generate different types of risk which would not otherwise exist.

C.5.4. Operational risk sensitivity
Operational risk stresses and scenarios are completed to calculate the operational risk capital requirement. 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. Scenarios are largely bottom up but can be top down. Top-down scenarios concern the analysis of a number of macro or corporate-level events, whereas bottom up scenarios link to risks within the risk register and refer to single, but potentially severe, events. A wide variety of operational risk scenarios are assessed providing coverage across specified risk categories. Separately, expert judgement is used to derive the degree of interdependence between different types of operational risk.

In addition to the scenarios that are carried out to support the calculation of operational risk capital, specific scenarios are carried out to consider the Company's resilience to different types of operational risk. In addition to regular scenario testing of how business continuity events would be handled, there is also consideration of operational risk when constructing broad based scenarios such as a pandemic or a major change in pensions legislation.

C.6 Other material risks
C.6.1. Other material risk exposure
The following table describes the other material risks faced by the Company.

Risk	Description
Strategic risk	Risks that arise from the firm's choice of strategy, deficient planning processes and inappropriate or misapplied decisions. This type of risk could directly impact the Company's future, its position in the market, its profitability, and its solvency or capital adequacy.
MTP risks	Risks to business plans (including budgets and resource allocations) that potentially prevent the firm from achieving its business objectives.
Environmental risk	Risks to a firm's strategic goals and/or business objectives arising from external factors (legislation, regulatory and competitive). Although an environmental factor may constitute a risk in its own right, its real relevance is in its impact on strategic plans and objectives. The Company considers environmental factors when identifying strategic and MTP risks.
Emerging risk	Newly developing or changing risks which are difficult to quantify and which may have a major impact on the Company. Typically the drivers for these risks are socio-political, technological, economic or regulatory.

Examples of the risks in the table above are contained within the principle risks and uncertainties set out in the 2016 ARA on pages 15 to 18.

Material changes to the risk profile over the reporting period
During 2016 there were no material changes to the risk profiles for strategic, MTP and emerging risks.

Measures used to assess the risk profile
Strategic, MTP and emerging risks are scored using the combination of impact and probability as described in section C.5.1.

Management of other material risks
The management of the Company's strategic, MTP and emerging risks are managed in a similar manner to all the other risk types that the Company faces which include:

- the use of the policy framework, guidelines, limits and authority levels. Senior management has a 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 and for the allocation of responsibilities;
- regular monitoring of actual exposures by accountable executives and their teams and review on an aggregated basis by the ERC and BRC; and
- risk details on an inherent (before controls) and residual (after controls) basis are maintained on risk and control registers. These registers and the management information reported from them are used as a basis for review and challenge by senior management, risk committees and the Board.

Independent oversight and assurance is performed by GR&C and GIA to assess the effectiveness of risk mitigation and management activity.

C.6.2. Other material risk concentrations
There are no risk concentrations within these categories.

C.6.3. Other material risk mitigation techniques
The Company does not use risk mitigation techniques to transfer other material risks to third parties.

C.6.4. Other material risk sensitivity
The methods and assumptions used for sensitivity analysis include the impact on profit of upside and downside commercial scenarios. These are set at a business unit level so they consider the risks that would lead to positive and negative changes to the competitive position faced by each particular business unit. These include changes in direct competition, re-pricing activity or changes to the regulatory landscape.

C.7 Any other information
There is no additional material information regarding risk profile to disclose in this section.

D. VALUATION FOR SOLVENCY PURPOSES

Plain English introduction

In this section we describe the bases and methods used for the valuation of our:

- Assets;
- Technical provisions; and
- Other liabilities.

We also provide an explanation of any major differences in the bases and methods used for the SII valuations, compared to the International Financial Reporting Standards (IFRS) basis used for the ARA.

D.1 Assets

D.1.1. Valuation bases by asset class and comparison to IFRS

The following table sets out the major asset classes as per the SII Balance sheet format for RLMIS, the SII value of assets and a brief description of the valuation basis compared to the International Financial Reporting Standards (IFRS) basis and the IFRS value as at 31 December 2016. The IFRS figures are presented in the SII Balance sheet format and therefore do not correspond to the classifications in the ARA. There are differences between SII and IFRS values for some asset classes, which are explained further in the related notes below.

SII Balance sheet class	2016 SII value £m	SII valuation basis	2016 Statutory accounts IFRS value £m	Statutory accounts IFRS valuation basis	Difference between IFRS and SII values £m	Note
Goodwill	–	Zero	232	Cost less impairment	(232)	1
Deferred acquisition costs	–	Zero	300	Cost less amortisation and impairment	(300)	1
Other intangible assets	–	Zero	142	Cost less amortisation and impairment	(142)	1
Deferred tax assets	–	IAS 12	–	IAS 12	–	
Pensions benefit surplus	131	IAS 19	131	IAS 19	–	Section D.3
Property, plant & equipment held for own use	–	N/A	–	N/A	–	
Investments (other than assets held for index-linked and unit-linked contracts)	**43,046**		**43,187**		**(141)**	**2**
Property (other than for own use)	2,834	IAS 40 revaluation model	2,834	IAS 40 revaluation model	–	
Participations:	**5,632**		**5,773**		**(141)**	**2**
› shares	288	Adjusted equity method	429	Fair value (including goodwill)	(141)	2
› investment funds	5,074	Quoted price in an active market	5,074	Quoted price in an active market	–	
› unquoted investment funds and private equity investments	252	Net Asset Value (NAV) provided by external fund manager/administrator	252	NAV provided by external fund manager/administrator	–	
› loans	18	IFRS fair value	18	Fair value	–	2
Equities:	**7,476**		**7,476**		**–**	
› listed	7,473	Quoted prices in active and inactive markets	7,473	Quoted prices in active and inactive markets	–	
› unlisted	3	NAV	3	NAV	–	

SII Balance sheet class	2016 SII value £m	SII valuation basis	2016 Statutory accounts IFRS value £m	Statutory accounts IFRS valuation basis	Difference between IFRS and SII values £m	Note
Bonds:	**19,875**		**19,875**		**–**	
› Government bonds	9,958	Debt Management Office (DMO) price or Quoted prices provided by third party pricing sources for bonds not priced by DMO	9,958	Debt Management Office (DMO) price or Quoted prices provided by third party pricing sources for bonds not priced by DMO	–	
› Corporate bonds	9,115	Quoted prices provided by third party pricing sources	9,115	Quoted prices provided by third party pricing sources	–	
› Corporate bonds	7	Mark to model technique using a gross redemption yield	7	Mark to model technique using a gross redemption yield	–	
› Structured notes	54	Quoted prices provided by third party pricing sources	54	Quoted prices provided by third party pricing sources	–	
› Collateralised securities	741	Quoted prices provided by third party pricing sources	741	Quoted prices provided by third party pricing sources	–	
Investment funds:	**821**		**821**		**–**	
› Quoted	498	Quoted prices in active and inactive markets	498	Quoted prices in active and inactive markets	–	
› Unquoted	323	NAV provided by external fund managers	323	NAV provided by external fund managers	–	
Derivatives – unquoted	4,322	IFRS fair value	4,322	Fair value, using alternative valuation methods	–	
Derivatives – quoted	–	Quoted prices	–	Quoted prices	–	
Deposits other than cash equivalents	2,086	IFRS fair value	2,086	Fair value	–	
Assets held for index-linked & unit-linked contracts	30,782	IFRS fair value	30,782	Fair value	–	3
Loans & mortgages	21	IFRS fair value	21	Fair value	–	
Reinsurance recoveries	7,983	In accordance with Articles 76 to 86 of the SII Directive	8,376	IFRS 4 basis	(393)	4
Insurance & intermediaries receivables	70	IFRS value	70	Amortised cost	–	5
Reinsurance receivables	135	IFRS value	135	Amortised cost	–	5
Receivables (trade, not insurance)	809	IFRS value	809	Amortised cost	–	5
Own shares	–	N/A	–	N/A	–	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	–	N/A	–	N/A	–	
Cash and cash equivalents	1,126	IFRS value	1,126	Fair value	–	
Other assets	3	IFRS value	3	Amortised cost	–	5
Total Assets	**84,106**		**85,314**		**(1,208)**	

Note 1 – Intangible assets
All intangible assets are valued at zero for solvency purposes.

Goodwill and deferred acquisition costs are always valued at zero under the SII valuation rules and other intangible assets can only be valued at an amount other than zero, if they could be sold separately and the Company is able to demonstrate that there is a value for the same or similar assets that has been derived from quoted prices in active markets. This is not the case for the other intangible assets recognised in the Company's IFRS statutory accounts, therefore these are valued at zero in the SII balance sheet.

Note 2 – Investments (other than assets held for unit-linked funds)
The difference of £141m in value between the SII and IFRS balance sheets relates to participations valued using the adjusted equity method. These participations are valued for IFRS using a combination of net asset value and discounted cash flow techniques. The valuations, therefore, include an element of goodwill. For the SII balance sheet these participations are valued using the adjusted equity method, which are the net assets of the participations valued on a SII basis. The valuation difference of £141m reflects the removal of the goodwill element of the IFRS valuation and valuation differences in the underlying net assets of the participations between IFRS and the SII basis, most notably the exclusion of goodwill and other intangible assets.

Note 3 – Assets held for unit-linked and index-linked contracts
The table below shows the components of assets held for unit-linked and index-linked contracts. All of these items are valued for SII purposes in the same way as the non-linked assets/other liabilities in these categories.

Assets/other liabilities	2016 SII Value £m
Property (other than for own use)	2,456
Participations – investment funds	18,340
Equities – listed	348
Equities – unlisted	53
Investment funds	2,510
Bonds – government bonds	2,597
Bonds – corporate bonds	4,158
Derivatives	–
Deposits other than cash equivalents	176
Insurance and other receivables	241
Cash and cash equivalents	151
Insurance and other payables	(248)
Total assets held for index-linked & unit-linked contracts	**30,782**

Note 4 – Reinsurance recoveries
This difference is due to the recalculation of the reinsurance recoverable balance using the SII requirements for technical provisions within Articles 76 to 86 of the SII Directive, as opposed to IFRS rules. Further information is included in section D.2.13.

Note 5 – Receivables
There is no observable market for these specific assets or any similar assets that could be regarded as a suitable basis for the valuation. The value is therefore based on an estimate of the potential cash flows with reductions made for anticipated bad debts, i.e. the settlement value. No account has been taken of the effect of discounting short-dated receivables as the effect is immaterial. This produces a value equal to the IFRS amortised cost.

D.1.2. Asset valuation methodology
The SII rules require that assets and liabilities are valued for solvency purposes at fair value, unless a specific rule requires otherwise. Fair value is essentially what we would receive if we sold an asset or what we would have to pay to settle a liability. This is equivalent to the IFRS fair value that we use for the ARA and therefore the majority of assets and liabilities are held at the same value on the IFRS and SII balance sheets.

The differences between the IFRS and SII values are shown in the tables in sections D.1.1 (for assets) and D.3 (for other liabilities). The differences relate either to:

- assets and liabilities that are not held at fair value for IFRS but are required to be held at fair value for SII, for example subordinated debt; or
- assets and liabilities for which SII requires a particular valuation approach that differs from IFRS, for example intangible assets.

Further information on the IFRS valuation bases which underpin the SII valuations can be found in the IFRS accounting policies set out in note 1 on pages 90 to 97 of the 2016 ARA. There have been no material changes affecting the valuation of assets and other liabilities in the SII balance sheet in 2016.

All investment assets are measured at fair value for SII in accordance with a fair value hierarchy (see table below), with quoted market prices in an active market being the default valuation. Active markets are determined by trading volumes, for example for equities Bloomberg is used to establish trading activity in the period around the valuation date to prove that the year-end price is derived from an active market. Similarly for Open Ended Investment Companies (OEICs) an analysis is carried out to show that the funds are all daily priced and operating in an active market.

The table below sets out the SII valuation methods used when valuing assets:

Hierarchy Level	Valuation Method
1	Quoted market price in active markets for the same assets
2	Quoted market price in active markets for similar assets
3	Alternative valuation methods
4	Adjusted equity methods (applicable for the valuation of participations)
5	IFRS equity methods (applicable for the valuation of participations)

Where quoted prices are not available, alternative valuation methods are used making maximum use of market inputs (refer to section D.1.3). This is the same fair value as is used for IFRS. Further information on how this fair value is derived and the bases and key assumptions used can be found in the 2016 ARA on pages 110 to 119.

D.1.3. Alternative valuation methods

The table below provides more details on those assets and other liabilities valued using an alternative valuation model rather than quoted market prices. This includes all assets and liabilities within levels 3 to 5 of the SII valuation hierarchy. The table shows non-linked assets and liabilities only but the same valuation techniques are applied to equivalent assets held within the Company's unit-linked funds.

Assets/Liabilities	2016 SII value £000	Valuation techniques and key inputs
Property (other than for own use)	2,834	Income capitalisation and market comparison valuation methods are used
Participations – shares	288	Adjusted equity method
Participations - loans	18	IFRS carrying value used as a proxy for fair value
Participations – unquoted investment funds and private equity investments	252	NAV provided by external fund managers/third party administrators adjusted for any cash flows occurring after the NAV date and before the reporting date
Equities – unlisted	3	NAV of the entity
Bonds – corporate bonds	7	Mark to model using a gross redemption yield
Investment funds - unquoted	323	NAV provided by external fund manager/administrator
Derivative assets – equity options	61	Mark to model using expected dividend yields and market implied volatility
Derivative assets – interest rate swaptions	200	Mark to model using forward swap rates and interest rate volatility
Derivative assets – total return swaps	16	Mark to model using market swap rates
Derivative assets – interest rate swaps	4,020	Mark to model using market swap rates
Derivative assets – currency forwards	2	Mark to model using expected foreign exchange rates
Derivative assets – inflation swaps	23	Mark to model using market swap rates
Loans & mortgages	21	IFRS carrying value used as a proxy for fair value
Liabilities		
Derivative liabilities – equity options	16	Mark to model using expected dividend yields and market implied volatility
Derivative liabilities – total return swaps	16	Mark to model using market swap rates
Derivative liabilities – interest rate swaps	1,531	Mark to model using market swap rates
Derivative liabilities – currency forwards	8	Mark to model using expected foreign exchange rates

The Company reviews the appropriateness of those valuations within levels 3 to 5 of the hierarchy as set out in the table below:

Property	The valuations are obtained from external valuers and are assessed on an individual property basis. Valuation techniques include income capitalisation and market comparison and key inputs to the valuation comprise equivalent yield, estimated rental per square foot and price per acre. The principle assumptions will differ depending on the valuation technique employed. The IAS 40 revaluation model has been adopted in the IFRS statutory accounts and is a good proxy of economic value for solvency purposes.
Private equity funds	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 any cashflows occurring between the date of valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market.
Corporate bonds	Predominantly valued using single broker unadjusted quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movement.
Investment funds	The value of investment funds, for which quoted prices are not available, are the net asset values provided by the third party fund managers.
Loans secured by policies	The IFRS carrying value is used as a proxy for the SII value.
Participations	Shares are valued using the adjusted equity method, i.e. the value of the net assets on a SII basis. The IFRS carrying value is used as a proxy for the SII value of loans.

The following table provides information on key assumptions, valuation techniques and unobservable inputs for those assets measured as levels 3 to 5 of the SII hierarchy above (equivalent to level 3 in the IFRS fair value hierarchy shown in note 16(d) of the 2016 ARA):

SII Balance sheet asset class	Valuation technique	Unobservable input	Range (weighted average)
Property (other than for own use)	Income capitalisation	Equivalent yield	4.8%-16.5% (10.9%)
		Estimated rental value per square foot	£4.27-£42.81 (£34.85)
	Market comparison	Price per acre	£655,000
Unquoted investment funds and private equity investments	Adjusted net asset value	Adjustment to net asset value	n/a
Corporate bonds	Single broker quotes	Unadjusted single broker quotes	n/a
Structured notes	Single broker quotes	Unadjusted single broker quotes	n/a
Collateralised securities	Single broker quotes	Unadjusted single broker quotes	n/a

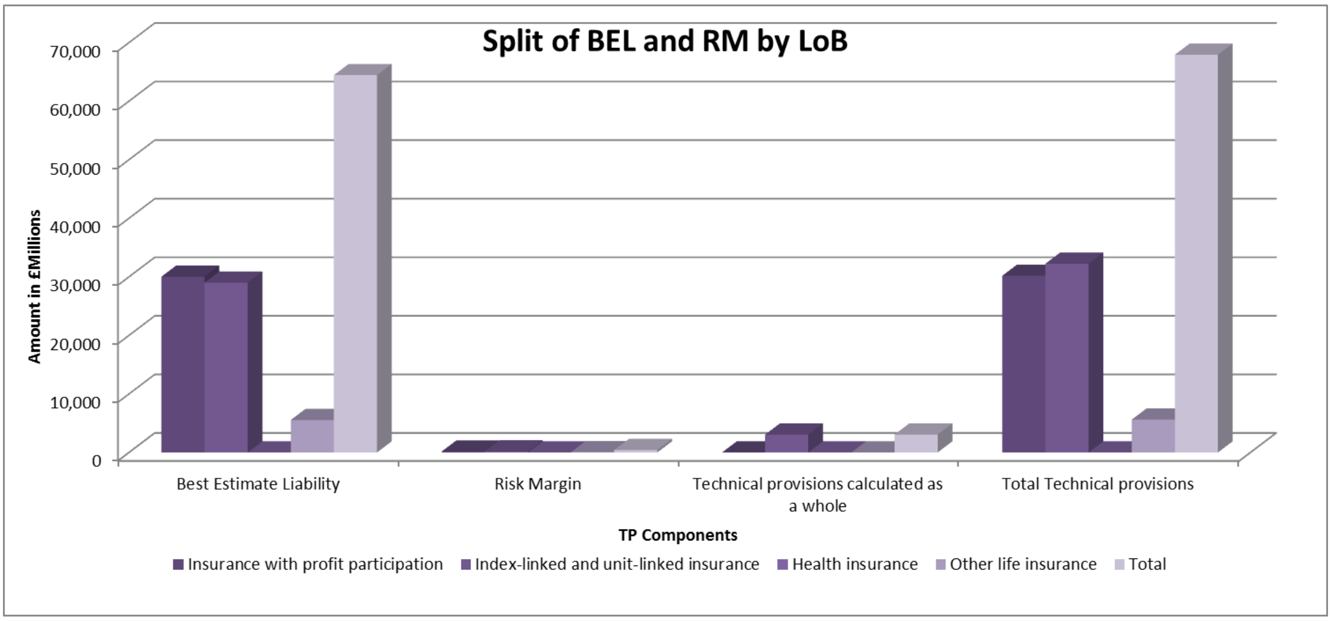
D.2 Technical provisions

D.2.1. Technical provisions by line of business

RLMIS's technical provisions at 31 December 2016 split by the SII lines of business and by component are shown below:

	31 December 2016 – £m					
				Transitional Measure on Technical Provisions (TMTP) – unaudited		
Line of Business (LoB)	Best Estimate Liability (BEL)	Risk Margin (RM)	Technical provisions calculated as a whole	BEL	RM	Total technical provisions
Insurance with-profits participation	30,022	1,039	–	(4)	(871)	30,186
Index-linked and unit-linked insurance	29,001	420	3,057	(1)	(233)	32,244
Health insurance	(125)	18	–	–	(10)	(117)
Other life insurance	5,548	208	–	(1)	(147)	5,608
Total	**64,446**	**1,685**	**3,057**	**(6)**	**(1,261)**	**67,921**

The technical provisions (after TMTP), at 31 December 2016, are further illustrated in the diagram below:



D.2.2. Overview of technical provisions valuation methods

Technical provisions are calculated as the sum of a BEL and a risk margin (RM). Technical provisions for a particular class of unit-linked pension business are calculated as a whole, rather than as a BEL and RM.

The BEL is the probability-weighted value of future cash flows required to fulfil obligations to policyholders under existing contracts, without allowance for cash flows under associated reinsurance arrangements. A negative BEL is allowed if the present value of the future cash flows is negative (i.e. future income exceeds future outflows).

The RM is an addition to the BEL to ensure that the technical provisions as a whole are equivalent to the amount that third party insurance undertakings would be expected to require in order to meet the insurance obligations. The RM is calculated as the amount of capital needed to support the SCR over the lifetime of the business at a prescribed cost of capital rate of 6% per annum.

Segmentation

The Company's life business products are segmented into the lines of business on the basis of the nature of the underlying risks as described in the SII guidance. The following table sets out how products are mapped to lines of business:

Line of business	Royal London products
Health insurance	Stand-alone critical illness
	Waiver of premium
	Income protection
	Permanent health insurance
Insurance with-profits participation	Traditional with-profits
	Deposit administration
	Unitised with-profits
	Accumulating with-profits
Index-linked and unit-linked	Property-linked
Other life insurance	Non-profit
	Accelerated critical illness
	Index-linked where the policyholder does not bear the risk
	With-profits business that has been converted or re-classified as non-profit

Unbundling across lines of business

The following types of contract are unbundled on the basis that different benefits within the same policy fall under different SII lines of business.

Main product	Components	SII line of business
Unit-linked	Unit-linked	Index-linked and unit-linked
	Unitised with-profits***	Insurance with-profits participation
	Non unit-linked rider*	Other life insurance or health business
Unitised with-profits	Unitised with-profits	Insurance with-profits participation
	Unit-linked***	Index-linked and unit-linked
	Non-profit rider	Other life insurance or health business
Conventional with-profits	Conventional with-profits	Insurance with-profits participation
	Non-profit rider	Other life insurance or health business
Conventional non-profit**	Conventional non-profit	Other life insurance or health business
	Non-profit rider	Other life insurance or health business

* It is not proposed to unbundle these where the non unit-linked riders are embedded within the contract e.g. paid for from deduction from units.
** NB. The conventional non-profit and non-profit rider component can be mapped to different lines of business.
*** Hybrid products consisting of unitised with-profits and unit-linked funds will be unbundled.

Contract boundary
The term 'contract boundary' under SII defines:

- When a policy is first included within technical provisions (inception);
- Which premiums should be included within the technical provisions calculation; and
- When the policy ends and is excluded from technical provisions (payment of final benefit or policy expiry or lapse).

Future regular premiums are included in the technical provisions calculation in the following cases:

- all conventional non-profit business;
- all with-profits policies; and
- unit-linked policies where a waiver of premium benefit is provided, or if there is a death, disability, accident or sickness benefit which is equal to or more than 101% of the unit fund or there is a cap on potential expense charges. Future premiums are excluded for unit-linked policies that do not contain these risk benefits.

The contract end boundary is determined as follows:

- For policies with no renewal dates, the end boundary is based on the contract term or retirement date selected by the policyholder. Early and late retirements are reflected based on best estimate assumptions for future experience.
- Certain contracts such as annuities, pensions with GAOs and whole of life products have no specific contract end date.
- Where there are premium review dates on business providing risk benefits and the Company does not have the option to re-underwrite at the premium review date, the end boundary is based on the contract term. Where the Company has the option to amend premiums and/or benefits to fully reflect the risks the boundary is the first review date.
- For reviewable reinsurance ceded the reinsurance contract end boundary is the same as for the underlying reinsured policies, as the reinsurers do not have a unilateral right to amend the premiums.

D.2.3. Best estimate liabilities (BEL) for with-profits insurance
For the majority of with-profits business, the BEL is calculated as the sum of:

- asset shares; and
- value of future policy related liabilities.

Asset shares are an accumulation to the valuation date of premiums paid allowing for investment returns, expenses and/or charges, and any enhancements from miscellaneous surplus. Asset shares methodology, principles and practices are set out in the PPFM. Asset shares for some products are calculated using prospective (or other methods) rather than retrospective methods, for example for some whole life policies and paid-up policies.

The value of future policy related liabilities are calculated as follows:

- The cost of providing financial guarantees (costs and other benefits not reflected in the asset share) determined using a stochastic valuation. A stochastic valuation is derived from estimating probability distributions of potential outcomes, when one or more of the variables are random.
- **Plus or less** (as applicable) the cost of smoothing pay-outs to policyholders in accordance with the smoothing rules determined using a stochastic valuation.
- **Plus** the cost of providing financial options determined using a stochastic valuation.
- **Less** the value of policy charges for providing options and guarantees from either a stochastic or deterministic valuation (dependent on business class).
- **Less** the value from other charges deducted from asset shares net of future expenses.
- For UF OB, UF IB and RA IB funds only, **less** the value of 1/9th cost of bonus transfers (this deduction is to comply with guideline 8 of the guidelines on ring-fenced funds as the transfers, being future charges from assets shares (above), would otherwise be treated as a liability).
- For RL Open Fund only, **less** the value of expense charging arrangements in respect of the SL, PLAL, Liver and RL (CIS) Funds.

BEL for index-linked and unit-linked insurance

With the exception of ex-Royal London Pooled Pensions Company Ltd (RLPPC) unit-linked pension products (for which technical provisions are calculated as a whole), the BEL for linked life insurance business is calculated from a prospective deterministic valuation, as the present value of future cash flows. Cash flows are projected based on product terms, a set of demographic assumptions and assumed returns on unit-linked funds reflecting risk-free returns and fund charges. This leads to the BEL corresponding to the probability-weighted average of future cash flows.

For linked insurance business with options and guarantees, the BEL is calculated as the present value of cash flows for an identical contract without options and guarantees plus the cost of the options and guarantees. For material options and guarantees the costs are calculated stochastically using the same methods applied to with-profits business.

BEL for health insurance and other insurance

The BEL for health insurance and other life insurance business is generally calculated from a prospective deterministic valuation, as the present value of future cash flows. Cash flows are projected based on a set of demographic assumptions and product features. This leads to the BEL corresponding to the probability-weighted average of future cash flows.

For policies with options and guarantees, the BEL also includes the cost of the options and guarantees. For material options and guarantees the costs are calculated stochastically using the same methods applied to with-profits business.

Simplified BEL calculations

The methods for calculating BEL described above are varied and simplifications are used for less material classes of business where their application would not be practical or proportionate. Simplifications used are chosen only where they are expected to produce a more prudent provision than applying the methods described above.

Data quality

There are data quality standards which set out the management approach, governance arrangements and the minimum standards used to ensure that data used for financial reporting is appropriate, complete and accurate.

The standards are part of FRDCF and assume a proportionate and risk-based approach. They are in line with the principles of SII and are also consistent with the overarching Risk Management Policy.

There are no known limitations or inaccuracies in data that materially impact the technical provisions or, where there are inaccuracies, an adequate additional provision is held.

D.2.4. Use of stochastic techniques

Stochastic methods are used to calculate the costs of options, guarantees and smoothing, i.e. part of the BEL. A market-consistent set of economic scenarios is generated and the costs valued in each scenario using a discount curve equal to the projected future risk-free curve for that scenario (net of any I-E tax).

The BEL calculation is consistent with information provided by the financial markets as a market consistent valuation is placed on the value of options and guarantees. This requires a specific set of scenarios to be produced as an input. These scenarios are produced by an economic scenario generator (ESG). The scenarios are validated against market data at the valuation date and meet certain properties to enable a market consistent value of the liabilities to be produced.

D.2.5. Risk Margin

The RM calculation assumes RLMIS's business is transferred to another insurance undertaking (reference undertaking) and represents the cost to the reference undertaking of providing capital covering its SCR over the expected lifetime of the business. The risk margin has been calculated on the basis of the Standard Formula SCR.

Residual market risk in the reference undertaking is taken as zero. This is based on the reference undertaking changing the asset mix so as to minimise market risk.

The reference undertaking's SCR does not include pension fund risk. The staff pension funds would not be transferred to the reference undertaking.

A risk driver approach is used to project the SCR under which the individual risk components of the Standard Formula SCR are projected in line with selected risk drivers. The risk drivers are selected so as to provide a true run off of each risk component.

D.2.6. Assumptions used

Demographic assumptions for future experience are set on a best estimate basis as described below:

- 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.
- 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.
- For the main classes of business, maintenance expenses are set in accordance with management service agreements and for business transferred to the 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. Expenses are assumed to inflate in line with the change in the Retail Price Index plus a margin.
- GAO take-up rates, where at retirement a customer chooses to take the pension fund as cash, rather than receive the guaranteed regular income, are also key assumptions set using expert judgement and recent experience.
- Where the BEL is calculated as the sum of an asset share (whether retrospective or prospective) and future policy-related liabilities, a projection of future annual and terminal bonuses is required for the future policy-related liabilities. The methodology for projecting future terminal bonuses is set out in the section on the BEL for with-profits insurance. The level of future annual bonus is assumed to change progressively from the most recently declared rates to a long-term assumption.

In addition, economic assumptions are used based on:

- initial curve of risk-free rates of interest by currency as defined for SII (including volatility adjustment (VA) for applicable business); and
- inflation (linked to ESG where stochastic methods are used).

D.2.7. Level of uncertainty within the technical provisions

The BEL part of technical provisions represents the mean of a probability distribution and the RM part is a cost of providing capital on non-hedgeable risk over the run off of existing business.

Uncertainties associated with the BEL arise principally from:

- risks considered in the SCR/ORSA (including market risk, credit risk and insurance risk);
- volatility in the best estimate assumptions from year to year; and
- uncertainty that assumptions experience in the recent past can be assumed to apply over the future life of the business.

Uncertainties in the RM arise from future interest rates and factors affecting the methodology assumed for the run off of SCR components.

The approach taken for complex risk structures (options, guarantees, policyholder behaviour and future management actions) and limitations and approximations in the methodology are detailed in section D.2.3. Technical provisions are most sensitive to persistency, mortality, expense and economic assumptions.

D.2.8. Comparison of technical provisions for SII purposes and IFRS

The table below shows the differences between the technical provisions under SII and IFRS.

Technical Provisions	SII value £m	IFRS value £m	Difference £m
Insurance with-profits participation	30,186	34,667	4,481
Index-linked and unit-linked insurance	32,244	32,153	(91)
Health insurance	(117)	(110)	7
Other life insurance	5,608	5,870	262
Total	**67,921**	**72,580**	**4,659**

The IFRS figures are presented in the SII Balance sheet format and therefore do not correspond to the classifications in the ARA. In particular the UDS is covered in section D.3.

The table below shows an analysis of the difference between the total technical provisions under SII and the IFRS value as at 31 December 2016.

		£m
	IFRS technical provisions	**72,580**
1.	Removal of closed fund surplus included in IFRS	(3,649)
2.	TMTP – unaudited	(1,267)
3.	Economic assumptions	(830)
4.	Margins of prudence	(518)
5.	Deferred acquisitions costs	(209)
6.	Present Value of In-Force business (PVIF)	(123)
7.	Risk Margin	1,685
8.	Deferred front end loads (DFEL)	150
9.	Contract boundaries	133
10.	Other	(31)
	SII technical provisions	**67,921**

For business classed as insurance under IFRS, the underlying discounted cash flow methodology is the same for IFRS and SII – the key differences being economic assumption (3), removal from the IFRS values of implicit margins (4) and contract boundaries (9) but inclusion of an explicit risk margin (7) and the TMTP (2). IFRS for investment business uses a fair value principle and not a discounted cash flow methodology which is different to SII (5, 6 and 8). There is a presentation difference for the surplus in closed funds (1). IFRS treats this as a liability whereas in SII it is an adjustment to OF.

D.2.9. Matching adjustment

The matching adjustment has not been applied.

D.2.10. Volatility adjustment (VA)

The PRA has authorised use of the VA. The prescribed VAs as in the table below have been applied to with-profits business, annuities in payment and GAOs on unit-linked business:

Business	VA
GBP	30bps
EUR	13bps

S.22.01.21 sets out the impact of not applying the VA.

D.2.11. Transitional risk-free interest rate term structure

The transitional on risk-free interest rate-term structure has not been applied.

D.2.12. Transitional measure on technical provisions - unaudited

The PRA has authorised use of the transitional measure on technical provisions (TMTP). The TMTP is no greater than the excess of the SII technical provisions over the ICA technical provisions as at the date of calculation of 1 January 2016.

The TMTP has been restricted to ensure that, as at the date of calculation of 1 January 2016, the Financial Resources Requirement (FRR) under SII is no lower than that under Solvency I.

The determination of the resultant TMTP is shown in the table below:

	£m
SII Best Estimate Liabilities[1]	50,785
SII Risk Margin	1,412
SII technical provisions	52,197
ICA technical provisions	50,120
Unrestricted TMTP – unaudited	**2,077**
SII FRR	60,284
Solvency I FRR	61,551
Maximum TMTP permitted	1,267
Restricted TMTP – unaudited	**1,267**

1 Net of reinsurance.

S.22.01.21 in Appendix 1 sets out the impact of not applying the TMTP.

D.2.13. Reinsurance recoveries

RLMIS uses reinsurance to reduce the insurance risks associated with the following material business:

- RL (CIS) Fund annuities in payment are reinsured in tranches with XL, Swiss Re and RGA.
- The majority of the recent pension vestings in the RL Open Fund are reinsured with Prudential. Whilst the benefit payments are 100% reinsured, some expense risk is retained. There is a charge over the assets of Prudential in the event of default.
- Protection business is reinsured with a range of reinsurers. In each case, a high proportion of the insurance risk is reinsured leaving RLMIS with a low retained benefit/risk.
- Reinsurance is also used to enable customers to invest in some unit-linked funds. The most material volumes of business with externally managed unit funds are effected through reinsurance with BlackRock.

Reinsurance is also used for some other business. These product lines are not material.

RLMIS does not use any finite reinsurance arrangements nor use any Special Purpose Vehicles to conduct its reinsurance programme.

Projection of reinsurance recoveries cash flows

Reinsurance cash flows are generally projected using the same methodology as used for the underlying reinsured product. All of the reinsurance cash flows are included, specifically:

- Reinsurance premium ceded;
- Reinsurance claim recoveries;
- Reinsurance commission payable;
- Reinsurance expenses;
- Income or outflow arising from profit share arrangements; and
- Any tax associated with these commissions/expenses.

These cash flows are discounted using the same yield curve used to derive the BEL for the same contract.

The timing of reinsurance claim recoveries is taken to be the same as for claim payments to the policyholder as it is expected, on average, to be within three months of the claim payment to the policyholder.

Reinsurer counterparty default adjustments
The amounts recoverable from each reinsurance arrangement are adjusted to allow for estimated losses due to reinsurer default. The estimated losses are calculated at each future time period as:

- the probability of default for each reinsurer at that time (based on a credit assessment of the reinsurer); multiplied by
- the expected percentage lost on default (50%); multiplied by
- the future value of expected reinsurance recoveries less payments (i.e. the value of future net income expected to be received from the reinsurer had they not defaulted).

D.3 Other liabilities

Other liabilities valuation and comparison of values used for solvency purposes and for IFRS
The following table sets out the other liabilities as per the SII Balance Sheet format, the amount and a brief description of the valuation basis compared to the IFRS basis and the IFRS amount for the reporting period. The IFRS figures are presented in the SII Balance sheet format and therefore do not correspond to the classifications in the ARA.

Explanations of the differences between the SII valuation and IFRS valuation are described in the notes below the table.

SII Balance sheet class	2016 SII value £m	SII valuation basis	2016 Statutory accounts IFRS value £m	Statutory accounts IFRS valuation basis	Difference between IFRS and SII values £m	Note
Contingent liabilities	–	Expected present value of future cash flows	–	IAS 37	–	
Provisions other than technical provisions	134	IFRS value	451	IAS 37	(317)	1
Pension scheme liability	26	IFRS value	26	IAS 19	–	2
Deferred tax liabilities	219	IFRS value	216	IAS 12	3	3
Derivatives	1,571	IFRS fair value – see assets table above	1,571	IFRS Fair value – see assets table above	–	
Debt owed to credit institutions	776	IFRS value	776	Amortised cost	–	6
Financial liabilities other than debts owed to credit institutions	15	IFRS (IAS 17 unadjusted)	15	IAS 17	–	5
Insurance and intermediaries payables	529	IFRS value	529	Amortised cost	–	6
Reinsurance payables – Swiss Re arrangement	3,069	IFRS fair value	3,069	Fair value	–	
Reinsurance payables - other	34	IFRS value	34	Amortised cost	–	6
Payables (trade, not insurance)	1,929	IFRS value	1,934	Amortised cost	(5)	6
Subordinated liabilities	801	Fair value	744	Amortised cost	57	4
Any other liabilities not elsewhere shown	–	IFRS value	–	Amortised cost	–	6
Any other liabilities not elsewhere shown – UDS	–	N/A	3,368	N/A – residual balance	(3,368)	7
Total other liabilities	9,103		12,733		(3,630)	

Note 1 – Provisions other than technical provisions
The difference is due to provisions for renewal commission, £167m and deferred fee income, £150m which are not recognised in SII. Under the SII valuation the cash flows that underpin these liabilities are included within the calculation of the best estimate liabilities and hence are effectively included within the technical provisions.

The remaining balance relates to provisions in respect of the long-term incentive plan (LTIP), past business reviews and surplus sales and administration offices. The values recognised in the SII balance sheet are the IFRS values, which are determined by discounting the expected cash flows required to settle the obligation, using the following key assumptions:

- LTIP – expected vesting value of plan;
- Past business reviews – estimates of future costs; and
- Surplus sales and administration offices – lease term, annual rent and future sub-lease receipts.

Note 2 –Pensions benefit liability
The pensions benefit deficit for solvency purposes is consistent with the IAS 19 value used for the IFRS statutory accounts. The main assumptions used in 2016 to calculate the defined benefit asset and liability under IAS 19 are set out in note 36 (e) on pages 170 to 171 of the 2016 ARA.

The assets of the pension schemes are included within the market and credit risk elements of the Company's Standard Formula SCR calculation.

Note 3 – Deferred tax
The deferred tax balances in the SII balance sheet are recognised on the same basis as under IFRS, are calculated using the balance sheet liability method and have been provided for on the basis of the expected realisation/settlement of the carrying amount of assets and liabilities. The IFRS basis for recognising deferred tax is reported in note 35 on pages 161 to 162 of the 2016 ARA. Differences in the deferred tax balances arise where balance sheet items have different carrying amounts under SII and IFRS.

Note 4 – Subordinated liabilities
Subordinated liabilities are recognised at their fair value under SII whereas in the IFRS balance sheet they are shown at amortised cost. The SII fair value is based on the quoted price. If the quoted price includes material changes in own credit rating this is removed from the SII value.

Note 5 – Leases
The balance included in 'Financial liabilities other than debts owed to credit institutions' relates to finance lease obligations in respect of property leased by the Company and is calculated as the present value of minimum lease payments in accordance with IAS 17.

This is considered a good representation of the valuation for solvency purposes and since the amounts are not material, the IFRS values have been used with no adjustment to account for market-consistent factors.

There are no material liabilities arising from operating leases. The commitment to make payments in the future under operating leases is shown in note 38 (c) on page 172 of the 2016 ARA.

Note 6 – Payables
There is no observable market for these specific liabilities or any similar liabilities that could be regarded as a suitable basis for the valuation. The value is therefore based on an estimate of the expected cash flows, i.e. the settlement value. No account has been taken of the effect of discounting short-dated payables as the effect is deemed to be immaterial.

Note 7 – Unallocated Divisible Surplus (UDS)
The UDS is the surplus within the Company's with-profits funds on an IFRS basis that has not been allocated between with-profits policyholders. For the IFRS accounts this value is included in the balance sheet as a liability. For SII the equivalent item is the excess of assets over liabilities in the RL Open Fund.

D.4 Alternative methods for valuation
The valuation principle and methodology for valuing assets and other liabilities, including where alternative methods are used in accordance with Article 10(5), is described in section D.1.3.

D.5 Any other information
There is no material information on the valuation of assets and liabilities for solvency purposes that is not already included above.

E. CAPITAL MANAGEMENT

Plain English introduction

Royal London has a strong and stable capital position under SII and our capital is of a high quality. In this section, we describe our approach to capital management.

Capital (which is broadly assets minus liabilities) absorbs a firm's losses in periods of stress and provides a buffer to increase resilience against unexpected losses. When a firm's capital is depleted, it is less likely to be able to meet policyholder claims as they fall due. In this way, the quantity of capital a firm has on the balance sheet can be used as a tool to understand the strength and solvency position of the firm. Capital is referred to as Own Funds (OF) under SII.

In this section we provide information on our OF, including:

- The objectives, policies and processes for managing our OF;
- The amount and quality of our OF; and
- Expected development of OF, including the intention to redeem items or raise additional OF.

We also provide details of our Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).

Royal London received approval for the use of the Transitional Measure on Technical Provisions ('TMTP' or 'transitional measures') and a capital add-on from the PRA.

Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. The Open Fund had an excess surplus of £1.8bn (1 January 2016: £2.1bn) and a capital cover ratio of 206% at 31 December 2016 (1 January 2016: 239%). The closed funds are also well capitalised with an excess surplus of £2.6bn (1 January 2016: £1.7bn) and a capital cover ratio of 249% (1 January 2016: 213%). The Investor View capital cover ratio for Royal London is 227% including surplus in the closed funds (1 January 2016: 226%).

The majority (78%) of total OF within the open fund is made up of Tier 1 capital, with subordinated debt valued at £0.8bn, classified as Tier 2 capital. OF within the closed funds are entirely Tier 1 capital.

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

31 December 2016 £bn	Royal London Open Fund	Royal London closed funds	Total Company (Investor View)	Closed fund restriction	Total Company (Regulatory View)
Own Funds:					
Tier 1	2.8	4.3	7.1	–	7.1
Tier 2	0.8	–	0.8	–	0.8
Total Own Funds	3.6	4.3	7.9	–	7.9
Closed funds restriction	–	–	–	(2.6)	(2.6)
Adjusted OF (A)	3.6	4.3	7.9	(2.6)	5.3
SCR (B)	1.8	1.7	3.5	–	3.5
Surplus	1.8	2.6	4.4	(2.6)	1.8
Capital cover ratio (A/B) – 31 December 2016	206%	249%	227%	n/a	153%
Capital cover ratio (A/B) – 1 January 2016	239%	213%	226%	n/a	169%

The 1 January 2016 ratios are taken from data in Royal London's opening SII Balance Sheet submission to the PRA in May 2016.

The SII position has been prepared in accordance with the SII Directive which came into effect on 1 January 2016 for insurance entities operating in Europe. We have adopted the Standard Formula approach for the purposes of measuring regulatory capital under SII. Royal London received approval for the use of the TMTP and a capital add-on from the PRA. Both the TMTP and capital add-on are included in figures throughout this section and are unaudited.

The Investor View capital cover ratio has increased over the year from 226% to 227%, largely as a result of an improvement in the closed funds. The improvement in the closed fund surplus is not recognised in the Regulatory View.

The capital cover ratio is sensitive to changes in economic and demographic assumptions. As an indication, at 31 December 2016, a change in equities of 25% would impact the Investor View cover ratio by an estimated +/- 1% and a change in interest rates of 50bps would impact this cover ratio by an estimated +/- 13%.

Post Balance Sheet Events – Transitional Measure on Technical Provisions and capital add-on

The transitional measures reduce the impact of the transition to SII and spread the capital impact over 16 years. Transitional measures decrease linearly from 100% starting 1 January 2016 to 0% starting 1 January 2032. A reduction of one-sixteenth (6.25%) is made on 1 January in each of the intervening years. For the 2016 figures reported in this document, the transitional measure has been included in line with EIOPA rules.

EIOPA has stated that the first reduction in the transitional measure will apply from 1 January 2017 (rather than 31 December 2016) and accordingly our transitional measure reflects the position at 31 December 2016 in line with the requirements, rather than the latest available at the time of approving this document.

The reduced transitional measure from 1 January 2017 would have a material impact on the solvency position, and accordingly we have disclosed this as a post balance sheet event.

The 31 December 2016 figures assume a capital add-on agreed with the PRA that became effective on 1 January 2016. On 7 March 2017 a new capital add-on was agreed with the PRA, mainly as a result of a fall in the risk free rate over the year.

The following table presents the Investor and Regulatory Views at 1 January 2017 assuming the new capital add-on (applicable 7 March 2017) was applied at the same time as the step down in the TMTP:

£bn	Royal London Open Fund	Royal London closed funds	Total Company (Investor View)	Closed fund restriction	Total Company (Regulatory View)
Own Funds:					
Tier 1	2.8	4.2	7.0	–	7.0
Tier 2	0.8	–	0.8	–	0.8
Total Own Funds	3.6	4.2	7.8	–	7.8
Closed funds restriction	–	–	–	(2.1)	(2.1)
Adjusted OF (A)	3.6	4.2	7.8	(2.1)	5.7
SCR (B)	1.8	2.1	3.9	–	3.9
Surplus	1.8	2.1	3.9	(2.1)	1.8
Capital cover ratio (A/B) – 1 January 2017 (after new capital add-on and step down in TMTP)	205%	200%	202%	n/a	147%
Capital cover ratio (A/B) – 31 December 2016	206%	249%	227%	n/a	153%

E.1 Own Funds

E.1.1. Unrestricted Capital Cover Ratio

The SII capital cover ratio (Regulatory View) restricts the capital in the closed funds to the level of the Standard Formula SCR only; this has the effect of reducing the capital cover ratio.

Without this restriction in the closed funds, the capital cover ratio (Investor View) as at 31 December 2016 would be 227%.

E.1.2. Objectives, policies and processes for managing Own Funds

The Company manages its OF within a Board-approved Capital Management Framework. This sets a target level for capital of being able to withstand between a 1-in-50 and 1-in-20 year event, and still be able to meet an internal capital requirement.

The capital position relative to the target acts as a guideline to inform distribution or determine if management actions are necessary. The amounts paid to policyholders, or management actions taken, are subject to Board discretion to allow wider business factors to be considered.

The future progression of OF, including the position against the target set out in the Capital Management Framework, is considered under a range of scenarios as part of the Board-approved medium-term plan, which covers a five-year period.

E.1.3. Amount and quality of Own Funds by tier

The structure of RLMIS's OF is shown in the following table:

		31 December 2016	
Classification of OF		£m	Tier amount as a % of total OF
Tier 1 - unrestricted	Surplus funds	7,366	
	Reconciliation reserve	(2,853)	
Total Tier 1 - unrestricted		4,513	85%
Tier 1 – restricted	Subordinated debt	–	
Tier 2	Subordinated debt	801	15%
Total available OF		**5,314**	**100%**

The main OF items and explanations of the material differences between the Company's financial statements and the excess of assets over liabilities as calculated for SII purposes are detailed further in the following sections. The Company does not have any ancillary OF.

Own funds have increased over 2016, which is primarily as a result of assumptions changes (particularly in pension persistency and expenses) and increased new business profits, partly offset by the payment of ProfitShare.

E.1.4. Surplus funds

The Company comprises the RL Open Fund and a number of closed funds arising from businesses that have been acquired in the past. They are all with-profits funds.

Surplus funds are the accumulated profits of a with-profits fund, which have not been made available for distribution to policyholders and which meet the conditions to qualify as Tier 1 OF. Consequently, any expected discretionary benefits from future estate distributions are excluded from the BEL component of technical provisions and therefore included in surplus funds.

Surplus funds have been calculated as:

- **Total assets**
- **Less:** liabilities (other than technical provisions).
- **Less:** the BEL component of technical provisions (which as above exclude any benefits from future estate distributions) and technical provisions calculated as a whole – these figures include any reduction in the BEL from TMTP.
- **Less:** (for the ex-UAG funds only): the value of future 1/9th of cost of bonus transfers from those funds to the RL Open Fund resulting from future discretionary benefits assumed in the BEL (as these transfers are excluded from the SII BEL in line with Guideline 8 of the ring-fenced fund guidelines).

Although RLMIS is a mutual and has no shareholders, under the terms of the transfer to RLMIS of the ex-UAG funds (RA IB, UF OB and UF IB) the RL Open Fund receives a profit share transfer of 1/9th of cost of bonus of those funds. These transfers are similar to shareholder transfers described in Guideline 8 and accordingly have been accounted for in line with that Guideline.

E.1.5. Reconciliation reserve

Reconciliation reserve at 31 December 2016	£m
Excess of assets over liabilities	7,083
Less: Other basic own fund items	(7,366)
Less: Restricted own fund items due to ring-fencing	(2,570)
Total	**(2,853)**

The other basic own fund items are equal to the surplus funds. The ring-fenced fund adjustment is described further below.

E.1.6. Ring-fenced funds adjustment

As noted above, RLMIS comprises the RL Open Fund and a number of closed funds. These closed funds are ring-fenced funds.

The OF of a ring-fenced fund are only available to absorb losses in that ring-fenced fund and are not (on a going concern basis) available to other parts of RLMIS. For this reason they are known as 'restricted OF'. The maximum amount of restricted OF that can be recognised in RLMIS's overall OF is the value of the ring-fenced fund's notional SCR (the notional SCR is also included in RLMIS's overall capital requirement). Any restricted OF over and above the notional SCR is deducted from RLMIS's total OF to derive the eligible OF, which are available to cover the capital requirement for the entity as a whole.

The calculation of the ring-fenced fund deduction as at 31 December 2016 is presented in the table below (figures are rounded from those presented in the QRTs):

	Notional SCR £m	OF £m	RFF deduction £m	OF eligible for undertaking £m
RL Open Fund	1,745	3,589	n/a	3,589
RLMIS closed funds	1,725	4,295	(2,570)	1,725
Total	**3,469**	**7,884**	**(2,570)**	**5,314**

There are no other deductions from or restrictions on the availability and transferability of OF.

E.1.7. Subordinated debt

The subordinated debt within OF relates to 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). Further information on these liabilities is given in note 30 on page 157 of the 2016 ARA.

The key terms and conditions of the notes in issue at 31 December 2016 are set out in the table below:

	2043 Notes	2028 Notes
Issuer	RL Finance Bonds No 2 plc with subordinated guarantee by RLMIS. The proceeds of the issue were loaned to RLMIS on the same interest, repayments and subordination terms as those applicable to the Notes.	RL Finance Bonds No 3 plc with subordinated guarantee by RLMIS. The proceeds of the issue were loaned to RLMIS on the same interest, repayments and subordination terms as those applicable to the Notes.
Subordination	In the event of winding up, the Notes are subordinated to the claims of all policyholders and other unsubordinated creditors and in priority to any issuer of junior securities.	In the event of winding up, the Notes are subordinated to the claims of all policyholders and other unsubordinated creditors and in priority to any issuer of junior securities and rank pari passu with all claims of holders of other subordinated debt.
Maturity	30 November 2043	13 November 2028
Principal	£400m	£350m
Coupon	6.125% fixed rate to the tenth anniversary of issue. Resets on 30 November 2023 and on the fifth anniversary thereafter to a rate equal to the five-year gilt rate plus 3.321% (the initial margin) plus 1%.	6.125% fixed rate

	2043 Notes	2028 Notes
Optional redemption	Yes – on 30 November 2023 and on each interest payment date thereafter. Regulatory approval/notification is required for any redemption, variation and purchase before the maturity date. Mandatory deferral of redemption when the SCR is breached or redemption would lead to an SCR breach.	No
Optional interest deferral	Yes	Yes
Mandatory interest deferral/cancellation	Mandatory deferral of interest payments when SCR breached or payment would lead to an SCR breach.	Mandatory deferral of interest payments when SCR breached or payment would lead to an SCR breach.
Special event redemptions	Redemption option in the event of certain changes in tax treatment or change in applicable law/regulation. All redemptions require prior regulatory approval and any redemption within five years of issue must be made from the proceeds of a fresh issue of the same or higher quality.	Redemption option in the event of certain changes in tax treatment or change in applicable law/regulation. All redemptions require prior regulatory approval and any redemption within five years of issue must be made from the proceeds of a fresh issue of the same or higher quality.

E.1.8. Eligible Own Funds covering the SCR and MCR by tier

The eligible amount of OF to cover the SCR and the MCR as at 31 December 2016, classified by tiers together with the solvency ratios, is set out below. The ratio of the eligible OF to SCR or MCR is calculated by dividing the total eligible OF to meet the SCR or MCR by the value of the SCR or MCR respectively.

	Total £m	Tier 1 unrestricted £m	Tier 1 restricted £m	Tier 2 £m	Tier 3 £m
Total eligible OF to meet the SCR	5,314	4,513	–	801	–
Total eligible OF to meet the MCR	4,686	4,513	–	173	–
SCR	3,469				
MCR	867				
Ratio of eligible OF to SCR	153%				
Ratio of eligible OF to MCR	540%				

E.1.9. Differences between Own Funds and net assets on a financial reporting basis

As a mutual entity RLMIS does not have equity. The Unallocated Divisible Surplus (UDS) in the IFRS financial statements represents the surplus in the RL Open Fund on an IFRS basis for which the allocation between participating policyholders has yet to be determined. The UDS is effectively the net assets of RLMIS on an IFRS basis.

The reconciliation below shows the differences between the UDS in the IFRS financial statements and the SII OF.

	Notes	31 Dec 2016 £m
UDS per IFRS financial statements		3,368
Valuation differences on assets		
Intangible assets (valued at nil for solvency purposes)	1	(674)
Participations	2	(141)
Reinsurance recoverables	3	(393)
Valuation differences on liabilities		
Technical provisions valuation (includes TMTP and add-on which are unaudited)	3	1,010
Closed fund surplus included in IFRS	4	3,649
Subordinated debt	5	(57)
Renewal commission and DFEL (valued at nil for solvency purposes)	6	317
Payables (trade, not insurance)		5
Deferred tax	7	(3)
Other		2
Excess of assets over liabilities in SII balance sheet		**7,083**
Subordinated debt		801
Ring-fenced fund adjustment (includes TMTP and add-on which are unaudited)		(2,570)
Total OF under SII		**5,314**

Notes:

1. The intangible assets total in the IFRS balance sheet comprises deferred acquisition costs, goodwill and other intangibles arising from business combinations. Under the SII valuation rules these assets are valued at nil.
2. In the IFRS balance sheet participations are valued at fair value. For SII the valuation (for those participations that are not investment funds with a quoted price) equates to the value of net assets on a SII basis. The main differences in valuation relate to goodwill and other intangibles within the IFRS valuation that cannot be included in the SII valuation.
3. The difference on the reinsurance recoverable balance and technical provisions results from the recalculation of these balances using SII requirements.
4. There is a presentation difference for the surplus in closed funds. IFRS treats this as a liability whereas in SII it is an adjustment to OF.
5. The IFRS valuation of subordinated debt is at amortised cost, whereas the SII valuation is at fair value.
6. The renewal commission creditor and deferred revenue arise from the requirements of IFRS. Under the SII valuation the cash flows that underpin these liabilities are included within the calculation of the BEL and hence are effectively included within the technical provisions.
7. The difference between the deferred tax liability recognised for IFRS purposes and that recognised under SII relates to differences in the carrying value of the underlying assets or liabilities.

E.1.10. Basic Own Funds subject to transitional arrangements

No basic OF items were subject to transitional arrangements in the year ended 31 December 2016.

E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.1. Amount of the SCR and MCR

	£m 31 December 2016
SCR	3,469
MCR	867

The SCR has increased in 2016. This is primarily due to the reduction in risk free rates over 2016 and changes to best estimate assumptions for persistency and expenses, which have increased capital requirements for insurance risks. For the strongest closed funds, management actions assumed in the SCR scenario have been removed.

The MCR remained at 25% of the SCR through 2016 and has therefore also increased in line with the increase in SCR.

The SCR and MCR have been calculated using the Standard Formula approach set out in the SII Directive. No material simplified methods or undertaking specific parameters have been used in their calculation.

The PRA have made use of the transitional arrangement for non-disclosure of the capital add-on.

E.2.2. SCR split by risk category

The appended tables (S.25.01.21) give a breakdown of the Standard Formula SCR, as at 31 December 2016, by risk module.

E.2.3. Inputs used to calculate the MCR

The appended table (S.28.01.01) sets out the information on the input used by RLMIS to calculate the MCR.

Before any cap/collar is applied, the SII MCR for RLMIS as a Solo entity has been calculated at £126m as at 31 December 2016. This calculation is derived from the liabilities and the capital at risk. The low value arises because of the large amount of future discretionary benefits associated with with-profits business.

However, SII regulations prescribe that the MCR has to fall within a range of 25% to 45% of the Standard Formula SCR. Hence, the value of the MCR to be reported to the regulator is £867m consistent with the lower limit.

E.3 Use of a duration-based equity risk sub-module in the calculation of the SCR

The duration-based equity risk sub-module in Article 170 of the Commission Delegated Regulation (EU) 2015/35 has not been applied.

E.4 Differences between the Standard Formula and any Internal Model used

This does not apply, as at 31 December 2016 RLMIS used the Standard Formula to derive its SCR.

E.5 Non-compliance with the MCR and SCR

The company has maintained OF in excess of the MCR and the SCR throughout the period.

E.6 Any other information

There is no additional material information regarding capital management to disclose in this section.

DIRECTORS' APPROVAL STATEMENT

The Royal London Mutual Insurance Society Limited ('the Company')

Approval by the Board of Directors of the Solvency and Financial Condition Report (SFCR) and Annual Quantitative Reporting Templates

Financial year ended 31 December 2016

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the Prudential Regulation Authority (PRA) rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to the Company; and
b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

Tim Harris
Group Finance Director
For and on behalf of the Board of The Royal London Mutual Insurance Society Limited
18 May 2017

INDEPENDENT AUDITOR'S OPINION

Report of the external independent auditors to the Directors of The Royal London Mutual Insurance Society Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' (pages 47 to 61) and 'Capital Management' (pages 62 to 68) sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02 and S.05.02.01;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions being:
  - The following elements of template S.12.01.02: Rows R0110 to R0130 – Amount of transitional measure on technical provisions
  - The following elements of template S.22.01.21: Column C0030 – Impact of transitional on technical provisions
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Responsibility Statement'**); and
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, supplemented by the approvals made by the PRA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

Approvals

- Approval to use the volatility adjustment in the calculation of technical provisions; and
- Approval to use the transitional measure on technical provisions.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the relevant elements of the Solvency and Financial Condition Report.

In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. 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 in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
London
18 May 2017

- The maintenance and integrity of The Royal London Mutual Insurance Society Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

GLOSSARY

A

Adviser
Someone authorised by the FCA, who is qualified by experience and examination to provide financial advice. See also Independent Financial Adviser in glossary.

Annuity
An insurance policy that provides a regular income in exchange for a lump-sum payment. Enhanced annuities are sometimes offered, which provide a higher level of income to the purchaser than normal taking into account health and lifestyle.

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.

B

Best estimate liability (BEL)
The expected (or probability weighted average) value of the present value of future cash flows for current obligations, projected over the expected life of the contract, taking into account all available market and other information.

Brexit
The UK referendum on 23 June 2016, whereby British citizens voted to leave the European Union.

Business unit
A sub-division of the Company that focusses 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.

C

Capital Cover Ratio
Own Funds divided by Solvency Capital Requirement.

Capital add-on
The PRA can apply judgement to determine additional capital requirements (add-ons) to individual firms, which are included when calculating the SCR. Their judgement takes into account a variety of considerations including capital projections, the maturity of the risk management framework and peer group comparisons.

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.

Company
The Royal London Mutual Insurance Society Limited.

Consumer division
Our business division that sells life and pensions business directly to customers.

Contract boundary
The point where the insurer can unilaterally terminate the contract, refuse to accept a premium, or amend the benefit or premium without limit.

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.

E

Economic assumptions
Assumptions of future interest rates, investment returns, inflation and tax. 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.

EIOPA
The European Insurance and Occupational Pensions Authority (EIOPA) is a European Union financial regulatory institution.

Expected profit included in future premiums (EPIFP)
Profits which result from the inclusion in technical provisions of premiums on existing (in-force) business that will be received in the future, but that have not yet been received.

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.

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 part of the benefits will not reduce in value, or are subject to a minimum value.

Financial Reporting Council
The Financial Reporting Council is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

Fit and Proper (F&P)
The standard required by the FCA when appointing those employees who effectively run the company or have other key functions, to make sure they are suitably competent and reputable.

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.

G

Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

Guaranteed Annuity Option (GAO)
These primarily arise in connection with pension business as either:

- a guaranteed income specified in the policy; or
- guaranteed terms for converting the pension fund of a policy into an income for life at the policy's pension date.

I

Industrial Branch (IB)
Life insurance where (often relatively small) premiums were originally collected at the policyholder's home.

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.

Intermediary division
Our business division that sells life and pensions business through intermediaries, primarily independent financial advisers.

Internal Model (IM)
The processes, systems and calculations that together allow the Company to control the risks that it faces and quantify the capital needed to support those risks. It includes a calculation engine to quantify capital requirements, the Company's risk management framework and its system of governance. Our internal capital model is used for internal capital management purposes and we are seeking formal approval to use an Internal Model to calculate our capital requirements for regulatory purposes from 2019.

International Financial Reporting Standards (IFRS)
Accounting standards issued by the International Accounting Standards Board (IASB).

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.

Matching adjustment
An adjustment made to the risk-free interest rate when the insurer sets aside a portfolio of assets to back a predictable portion of their liabilities.

Medium-Term Plan (MTP)
The MTP is an internal forecast and business plan, which is approved by the Board annually. This sets out Royal London's forecast and targets over a five year time horizon; the latest MTP was approved in December 2016 and covers the period 2017–2021.

Minimum Capital Requirement (MCR)
The minimum level of capital required by the PRA, below which the amount of financial resources should not fall.

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 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.

Non-profit policy
Long-term savings and insurance products other than with-profits policies.

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
Operating profit is the profit resulting from our business operations. Our primary business operations are providing life assurance and pensions, managing and administering investments and acquiring and administering closed long-term insurance funds.

Own Funds (OF)
Regulatory capital under SII. Broadly it is the excess of assets over liabilities (plus subordinated debt and less the Ring-Fenced Fund restriction), as measured by the PRA's regulatory reporting requirements under SII.

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

Part VII Insurance Business Transfer
The court process that enables groups of insurance policies to be moved between insurers, under Part VII of the Financial Services and Markets Act 2000.

Participating
Contracts which are with-profits in type.

Pension
A means of providing income in retirement for an individual and possibly his/her dependants. Our pension products include personal and group pensions, stakeholder pensions and income drawdown.

Pension date
The date at which income can be taken from a pension either through a cash lump sum or investment in an annuity.

Personal pension
A pension plan for an individual policyholder.

Pillar 1/2/3
Solvency II regulatory reporting requirements that came into force on 1 January 2016 include three 'Pillars':

- Pillar 1 covers the quantitative requirements, for example calculating the amount of capital an insurer should hold.
- Pillar 2 sets out requirements for effective governance and risk management frameworks.
- Pillar 3 focuses on disclosure, reporting and transparency requirements. Insurers must produce two key reports the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR) in addition to other specific templates.

PLAL
The business formerly written by Phoenix Life Assurance Limited. PLAL's assets and liabilities were transferred into the Company with effect from 29 December 2008.

Present value of in-force business (PVIF)
The present value of the projected future profits after tax arising from the business in-force at the valuation date.

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

Principles and Practices of Financial Management (PPFM)
A document detailing how we manage our with-profits funds.

ProfitShare
ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares or 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.

Q

Quantitative Reporting Templates (QRTs)
Forms required under Solvency II which replace PRA Returns. They disclose detailed information including on technical provisions, own funds and SCR. QRTs must follow a prescribed format.

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 and 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 Pillar III of 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.

Ring-Fenced Fund (RFF)
Royal London contains seven ring-fenced funds (RAIB, UFOB, UFIB, SL, PLAL, Liver, and RL (CIS)). The ring-fenced funds are closed to new business and were established when business from various acquisitions was transferred to Royal London. They are in run-off, with surplus to be distributed to policyholders in line with the PPFM for each fund.

Risk margin
Forms part of the calculation of the technical provisions, and represents the amount needed, should all surplus and capital be used up, to transfer all obligations to another insurer. The risk margin, like BEL, is sensitive to interest rate changes.

Risk-free rate
The theoretical rate of return of an investment with no risk of financial loss.

Risk Management Framework (RMF)
A disciplined and structured process that 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.

Risk Management System (RMS)
Provides assurance that the risks to which the Group may be exposed are being appropriately identified and managed within risk appetite, and that risks that may result in significant financial loss or damage to the Group's reputation are being minimised.

Royal London Asset Management (RLAM)
Royal London business unit responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds for FTSE 250 companies, local authorities, universities, charities and individuals.

Royal London (CIS) Limited
On 31 July 2013, the Group acquired the life assurance and asset-management business of the Co-operative Banking Group (CBG) by acquiring the entire issued share capital of the Co-operative Insurance Society Limited (CIS) and The Co-operative Asset Management Limited (TCAM). On 1 August 2013 CIS was renamed as Royal London (CIS) Limited (RL (CIS)) and TCAM was renamed Royal London Asset Management (CIS) Limited (RLAM (CIS)).

Royal London
The Royal London Mutual Insurance Society Limited.

Royal London Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Ireland (RLI)
Rebranded from Caledonian Life in 2014, the Royal London business unit providing protection products in the Republic of Ireland through intermediaries.

Royal London Open Fund
The part of the Royal London Fund into which all of the Group's new insurance business is written.

Royal London Platform Services (trading as Ascentric)
Royal London's independent wrap platform service 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 funds from businesses acquired in the past.

S

Sales
Sales represent PVNBP for life and pensions business.

Scottish Life
Royal London business unit providing pensions and retirement-planning products to the UK market and third-party administration services to external clients. Scottish Life was rebranded as Royal London during 2014.

Scottish Provident
Royal London business unit, providing protection products in the UK through intermediaries. Scottish Provident was rebranded as Royal London during 2015, when it was combined with Bright Grey.

Securitisations
Where various types of contractual debt (including for example residential and commercial mortgages) are pooled together in a 'structure' and the related cash-flows are sold to third-party investors, with repayments made via the structure from the principal and interest cash-flows.

Senior Insurance Managers Regime (SIMR)
A range of policy changes introduced by the FCA and PRA on 7 March 2016 that aim to increase individual accountability within the insurance sector. The revised list of Senior Insurance Management Functions (SIMFs) is a much more granular and role-specific list than was the case with the previous Approved Persons Regime. Solvency II requires that as part of its governance a firm identifies key function holders (KFHs) in the business and notifies the FCA and PRA.

Solo
Solo refers to The Royal London Mutual Insurance Society Limited (RLMIS). Following the sale of Royal London General Insurance (RLGI) in December 2016, the PRA confirmed that for SII purposes RLMIS is no longer a group and can submit Solo returns only.

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 II Directive
The Solvency II Directive (2009/138/EC) is a Directive in European Union law that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. This applies from 1 January 2016, and was adopted into UK national law in June 2016.

Solvency Capital Requirement (SCR)
The amount of capital that the PRA requires a UK Life insurer to hold which is calculated using Solvency II requirements. This can be calculated using the Standard Formula or the Internal Model methods.

Solvency surplus
The excess of Own Funds over the Solvency Capital Requirement.

Solvency and Financial Condition Report (SFCR)
A report required under Pillar 3 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 (SF)
A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard Formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

Stochastic techniques
Valuation techniques that allow for the potential future variability in assumptions by the running of multiple possible scenarios.

Stress testing
Valuation simulations carried out to assess the impact of a range of adverse scenarios with different probabilities and severities.

Subordinated debt
In the event of bankruptcy, dissolution or winding-up, the payments arising from this debt rank after the claims of other creditors.

T

Technical provisions
The amount the Company requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio of insurance contracts

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.

Tier (of capital)
There are three tiers of capital defined by SII. The quality of capital is important as the higher quality the more likely it will be available in the event that it is needed, for example to be able to pay out claims. Tier 1 capital primarily represents high quality capital which is generally more secure and capable of absorbing losses; Tier 2 capital is of a lower quality and Tier 3 capital is the lowest quality of capital.

Transitional Measure on Technical Provisions (TMTP)
The transitional measure smooths the transition from the previous solvency regime to the new SII regime, and spreads the capital impact over 16 years. Once approved by the PRA, this is included within the valuation of technical provisions.

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 (UDS)
The amount of surplus under the IFRS basis of accounting which has not been allocated to policyholders at the balance sheet date.

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)'.

Volatility adjustment (VA)
An adjustment made to the risk-free interest rate. It is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. It is is provided and updated by EIOPA and can differ for each major currency and country.

W

Wealth division
Our fund manager, Royal London Asset Management (RLAM), and Royal London Platform Services (RLPS).

With-profits policy
A policy which participates in the profits of a with-profits fund. This participation may be in the form of one or more of a cash bonus, an annual bonus or a bonus paid on the exit of the policy.

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.

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES

The following pages contain QRTs for RLMIS (Solo entity).

All figures are presented in thousands of pounds with the exception of ratios that are in decimal. Please note that totals may differ from the component parts due to rounding. All items disclosed are consistent with the information provided to the regulators privately.

The following QRTs are provided:

- S.02.01.02 - Balance sheet [audited]

- S.05.01.02 – Premiums, claims and expenses by line of business [unaudited]

- S.05.02.01 – Premiums, claims and expenses by country [unaudited]

- S.12.01.02 – Life and health SLT technical provisions [audited]

- S.22.01.21 – Impact of long-term guarantees and transitional measures [audited]

- S.23.01.01 – Own Funds [audited]

- S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula [audited]

- S.28.01.01 – Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity [audited]

S.02.01.02 - Balance sheet [audited]

Assets		Solvency II value £000
		C0010
Intangible assets	R0030	-
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	130,960
Property, plant & equipment held for own use	R0060	-
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	43,046,096
Property (other than for own use)	R0080	2,834,475
Holdings in related undertakings, including participations	R0090	5,632,233
Equities	R0100	7,475,506
Equities – listed	R0110	7,472,533
Equities – unlisted	R0120	2,974
Bonds	R0130	19,875,482
Government Bonds	R0140	9,957,594
Corporate Bonds	R0150	9,122,501
Structured notes	R0160	54,242
Collateralised securities	R0170	741,145
Collective Investments Undertakings	R0180	820,688
Derivatives	R0190	4,322,040
Deposits other than cash equivalents	R0200	2,085,672
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	30,782,007
Loans and mortgages	R0230	21,423
Loans on policies	R0240	4,233
Loans and mortgages to individuals	R0250	10,739
Other loans and mortgages	R0260	6,451
Reinsurance recoverables from:	R0270	7,983,322
Non-life and health similar to non-life	R0280	-
Non-life excluding health	R0290	-
Health similar to non-life	R0300	-
Life and health similar to life, excluding index-linked and unit-linked	R0310	5,454,633
Health similar to life	R0320	(16,040)
Life excluding health and index-linked and unit-linked	R0330	5,470,674
Life index-linked and unit-linked	R0340	2,528,689
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	69,699
Reinsurance receivables	R0370	134,646
Receivables (trade, not insurance)	R0380	809,035
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	1,125,907
Any other assets, not elsewhere shown	R0420	3,000
Total assets	**R0500**	**84,106,096**

Liabilities		Solvency II value £000
		C0010
Technical provisions – non-life	R0510	-
Technical provisions – non-life (excluding health)	R0520	-
TP calculated as a whole	R0530	-
Best Estimate	R0540	-
Risk margin	R0550	-
Technical provisions – health (similar to non-life)	R0560	-
TP calculated as a whole	R0570	-
Best Estimate	R0580	-
Risk margin	R0590	-
Technical provisions – life (excluding index-linked and unit-linked)	R0600	35,677,100
Technical provisions – health (similar to non-life)	R0610	(116,902)
TP calculated as a whole	R0620	-
Best Estimate	R0630	(124,757)
Risk margin	R0640	7,855
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	35,794,002
TP calculated as a whole	R0660	-
Best Estimate	R0670	35,563,934
Risk margin	R0680	230,068
Technical provisions – index-linked and unit-linked	R0690	32,243,869
TP calculated as a whole	R0700	3,056,805
Best Estimate	R0710	29,000,661
Risk margin	R0720	186,403
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	134,245
Pension benefit obligations	R0760	26,128
Deposits from reinsurers	R0770	-
Deferred tax liabilities	R0780	218,546
Derivatives	R0790	1,570,916
Debts owed to credit institutions	R0800	775,778
Financial liabilities other than debts owed to credit institutions	R0810	14,617
Insurance and intermediaries payables	R0820	529,442
Reinsurance payables	R0830	3,103,041
Payables (trade, not insurance)	R0840	1,928,752
Subordinated liabilities	R0850	801,092
Subordinated liabilities not in BOF	R0860	-
Subordinated liabilities in BOF	R0870	801,092
Any other liabilities, not elsewhere shown	R0880	2
Total liabilities	**R0900**	**77,023,530**

Excess of assets over liabilities	**R1000**	**7,082,565**

S.05.01.02 – Premiums, claims and expenses by line of business [unaudited]

		Line of Business for: life insurance obligations				Life reinsurance obligations		
£000		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0270	C0290	C0300
Premiums written								
Gross	R1410	28,363	464,220	5,617,817	705,423	-	-	**6,815,822**
Reinsurers' share	R1420	12,105	608	403,429	323,227	-	-	**739,369**
Net	R1500	16,258	463,611	5,214,388	382,196	-	-	**6,076,453**
Premiums earned								
Gross	R1510	28,363	464,220	5,617,817	705,423	-	-	**6,815,822**
Reinsurers' share	R1520	12,105	608	403,429	323,227	-	-	**739,369**
Net	R1600	16,258	463,611	5,214,388	382,196	-	-	**6,076,453**
Claims incurred								
Gross	R1610	6,325	2,180,097	3,022,539	437,902	-	-	**5,646,863**
Reinsurers' share	R1620	3,054	207,559	516,414	295,608	-	-	**1,022,635**
Net	R1700	3,271	1,972,538	2,506,125	142,294	-	-	**4,624,229**
Changes in other technical provisions								
Gross	R1710	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-
Expenses incurred	**R1900**	**3,092**	**125,590**	**188,526**	**232,790**	**-**	**-**	**549,997**
Other expenses	**R2500**							**471,476**
Total expenses	**R2600**							**1,021,473**

S.05.02.01 – Premiums, claims and expenses by country [unaudited]

Life	R1400	Home country	Top 5 countries (by amount of gross premiums written) – life obligations IE	DE				Total Top 5 and home country
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	6,757,238	58,584	-	-	-	-	6,815,822
Reinsurers' share	R1420	716,933	22,436	-	-	-	-	739,369
Net	R1500	6,040,305	36,148	-	-	-	-	6,076,453
Premiums earned								
Gross	R1510	6,757,238	58,584	-	-	-	-	6,815,822
Reinsurers' share	R1520	716,933	22,436	-	-	-	-	739,369
Net	R1600	6,040,305	36,148	-	-	-	-	6,076,453
Claims incurred								
Gross	R1610	5,476,247	161,700	8,917	-	-	-	5,646,863
Reinsurers' share	R1620	1,005,138	17,497	-	-	-	-	1,022,635
Net	R1700	4,471,109	144,203	8,917	-	-	-	4,624,229
Changes in other technical provisions								
Gross	R1710	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-
Expenses incurred	**R1900**	**521,987**	**27,392**	**618**	**-**	**-**	**-**	**549,997**
Other expenses	**R2500**							**471,476**
Total expenses	**R2600**							**1,021,473**

S.12.01.02 – Life and health SLT technical provisions [audited]

£000		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions calculated as a whole	**R0010**	-	**3,056,805**			-			-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	-	-			-			-	-
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Gross Best Estimate	R0030	30,021,585		-	29,001,354		5,547,334	551	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	1,553,539		-	2,528,689		3,908,865	8,270	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	28,468,046		-	26,472,665		1,638,469	(7,719)	-	-
Risk margin	**R0100**	**1,039,573**	**419,863**			**208,406**			-	-
Amount of the transitional on Technical Provisions										
Technical provisions calculated as a whole – unaudited	R0110	-	-						-	-
Best estimate – unaudited	R0120	(3,945)		-	(692)		(1,591)	-	-	-
Risk margin – unaudited	R0130	(871,065)	(233,461)			(146,846)			-	-
Technical provisions – total	**R0200**	**30,186,148**	**32,243,869**			**5,607,854**			-	-

S.12.01.02 – Life and health SLT technical provisions [audited] (continued)

£000		Total (Life, other than health insurance, incl Unit-linked)	Health insurance (direct business)			Health reinsurance (reinsurance accepted	Total (health, similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		
		C0150	C0160	C0170	C0180	C0200	C0210
Technical provisions calculated as a whole	**R0010**	**3,056,805**	-			-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	-	-			-	-
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Gross Best Estimate	R0030	**64,570,824**		(117,714)	(7,039)	-	**(124,752)**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	**7,999,362**		(14,037)	(2,004)	-	**(16,040)**
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	**56,571,461**		(103,677)	(5,035)	-	**(108,712)**
Risk margin	**R0100**	**1,667,843**	**17,500**			-	**17,500**
Amount of the transitional on Technical Provisions							
Technical provisions calculated as a whole – unaudited	R0110	-	-			-	-
Best estimate – unaudited	R0120	**(6,228)**		(5)	-	-	**(5)**
Risk margin – unaudited	R0130	**(1,251,372)**	(9,645)			-	**(9,645)**
Technical provisions – total	**R0200**	**68,037,872**	**(116,902)**			-	**(116,902)**

S.22.01.21 – Impact of long-term guarantees and transitional measures [audited]

£000		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions – unaudited	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	67,920,969	1,267,250	-	831,767	-
Basic own funds	R0020	5,313,686	(348,955)	-	(243,622)	-
Eligible own funds to meet Solvency Capital Requirement	R0050	5,313,686	(348,955)	-	(243,622)	-
Solvency Capital Requirement	R0090	3,469,324	25	-	(54,038)	-
Eligible own funds to meet Minimum Capital Requirement	R0100	4,686,061	(348,954)	-	(246,324)	-
Minimum Capital Requirement	R0110	867,331	6	-	(13,509)	-

S.23.01.01 – Own Funds [audited]

£000		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	-	-		-	
Share premium account related to ordinary share capital	R0030	-	-		-	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	-	-		-	
Subordinated mutual member accounts	R0050	-		-	-	-
Surplus funds	R0070	7,365,704	7,365,704			
Preference shares	R0090	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	(2,853,110)	(2,853,110)			
Subordinated liabilities	R0140	801,092		-	801,092	-
An amount equal to the value of net deferred tax assets	R0160	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	-				
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	
Total basic own funds after deductions	**R0290**	**5,313,686**	**4,512,594**	**-**	**801,092**	**-**

£000		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	-			-	
Unpaid and uncalled preference shares callable on demand	R0320	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	-			-	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-			-	-
Other ancillary own funds	R0390	-			-	-
Total ancillary own funds	**R0400**	**-**			**-**	**-**
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	5,313,686	4,512,594	-	801,092	-
Total available own funds to meet the MCR	R0510	5,313,686	4,512,594	-	801,092	
Total eligible own funds to meet the SCR	R0540	5,313,686	4,512,594	-	801,092	-
Total eligible own funds to meet the MCR	R0550	4,686,061	4,512,594	-	173,466	
SCR	**R0580**	**3,469,324**				
MCR	**R0600**	**867,331**				
Ratio of Eligible own funds to SCR	**R0620**	**153.16%**				
Ratio of Eligible own funds to MCR	**R0640**	**540.29%**				

Reconciliation reserve		**C0060**
Excess of assets over liabilities	R0700	7,082,565
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	-
Other basic own fund items	R0730	7,365,704
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	2,569,971
Reconciliation reserve	**R0760**	**(2,853,110)**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	1,150,218
EPIFP – Non-life business	R0780	-
Total EPIFP	**R0790**	**1,150,218**

S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula [audited]

£000		Gross solvency requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	6,992,710		-
Counterparty default risk	R0020	269,177		
Life underwriting risk	R0030	2,257,326	None	-
Health underwriting risk	R0040	53,202	None	-
Non-life underwriting risk	R0050	-	None	-
Diversification	R0060	(1,606,275)		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	**R0100**	**7,966,140**		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	R0130	186,135
Loss-absorbing capacity of technical provisions	R0140	(4,536,577)
Loss-absorbing capacity of deferred taxes	R0150	(146,374)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-
Solvency Capital Requirement excluding capital add-on	**R0200**	**3,469,324**
Capital add-on already set	R0210	-
Solvency Capital Requirement	**R0220**	**3,469,324**

Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	-
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,744,809
Total amount of Notional Solvency Capital Requirements for ring-fenced funds	R0420	1,724,515
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	-
Diversification effects due to RFF nSCR aggregation for article 304	R0440	-

S.28.01.01 – Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity [audited]

£000		C0010
Linear formula component for non-life insurance and reinsurance obligations		
MCR_{NL} Result	R0010	-
Linear formula component for life insurance and reinsurance obligations		C0040
MCR_{L} Result	R0200	126,024

£000		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	15,050,572	
Obligations with profit participation – future discretionary benefits	R0220	13,413,528	
Index-linked and unit-linked insurance obligations	R0230	29,528,778	
Other life (re)insurance and health (re)insurance obligations	R0240	1,531,592	
Total capital at risk for all life (re)insurance obligations	R0250		39,701,413

Overall MCR calculation		C0070
Linear MCR	R0300	126,024
SCR	R0310	3,469,324
MCR cap	R0320	1,561,196
MCR floor	R0330	867,331
Combined MCR	R0340	867,331
Absolute floor of the MCR	R0350	3,332
Minimum Capital Requirement	**R0400**	**867,331**