ROYAL LONDON

RAISING THE BAR

Annual Report and Accounts 2015

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

We enjoyed a highly successful 2015 with record levels of sales and increased profits across our business.

Royal London also announced plans to share our profits with an additional 600,000 customers.

Concentrating on our customers and members.
As a mutual we reinvest profits back into our business as we are not driven by shareholder dividend needs, which helps us improve products and services for customers and members.

9.1m

The Group has 9.1 million policies across our offerings ranging from insurance to investments, pensions and other savings products

0.8m

Royal London is a mutual with more than 0.8 million members who share in our success

£536m

Since 2007 we have allocated £536m to our qualifying with-profits policyholders, ensuring that they benefit from our strong performance

£6.8bn

We wrote £6.8bn of new life and pensions business in 2015, calculated on the present value of new business premiums (PVNBP), an increase of 40% on the previous year

Some key numbers

£277m

EEV profit before tax and ProfitShare

£175m

IFRS result after tax (total transfer to unallocated divisible surplus)

£70m

ProfitShare allocation for 2015 after tax

40%

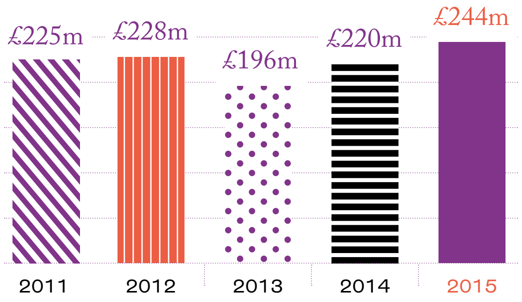
Increase in our life and pensions new business on the previous year, calculated on the present value of new business premiums basis

£84.5bn

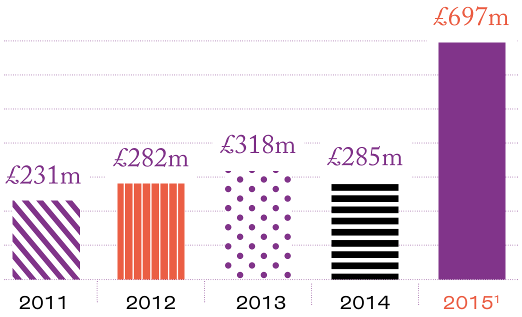
We are the largest life and pensions mutual in the UK, with £84.5bn Group funds under management

Performance at a glance

EEV operating profit before tax and exceptional items

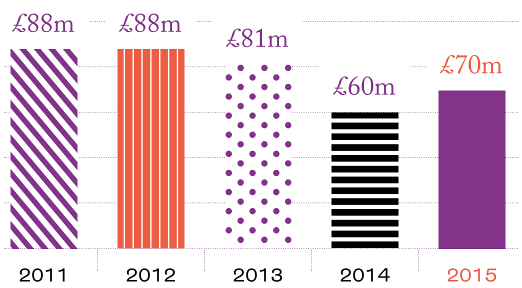


Bonuses added to with-profits policies

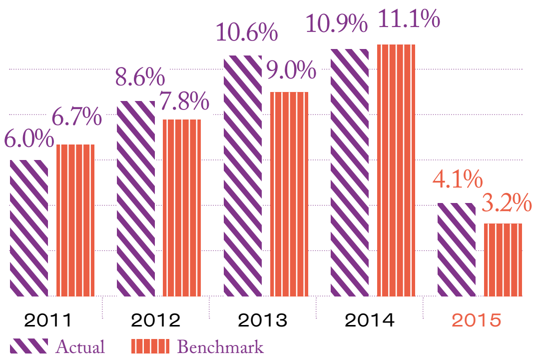


1 2015 total include bonuses within the Royal London (CIS) Sub-Fund following the Part V11 transfer in December 2014.

ProfitShare (after tax)



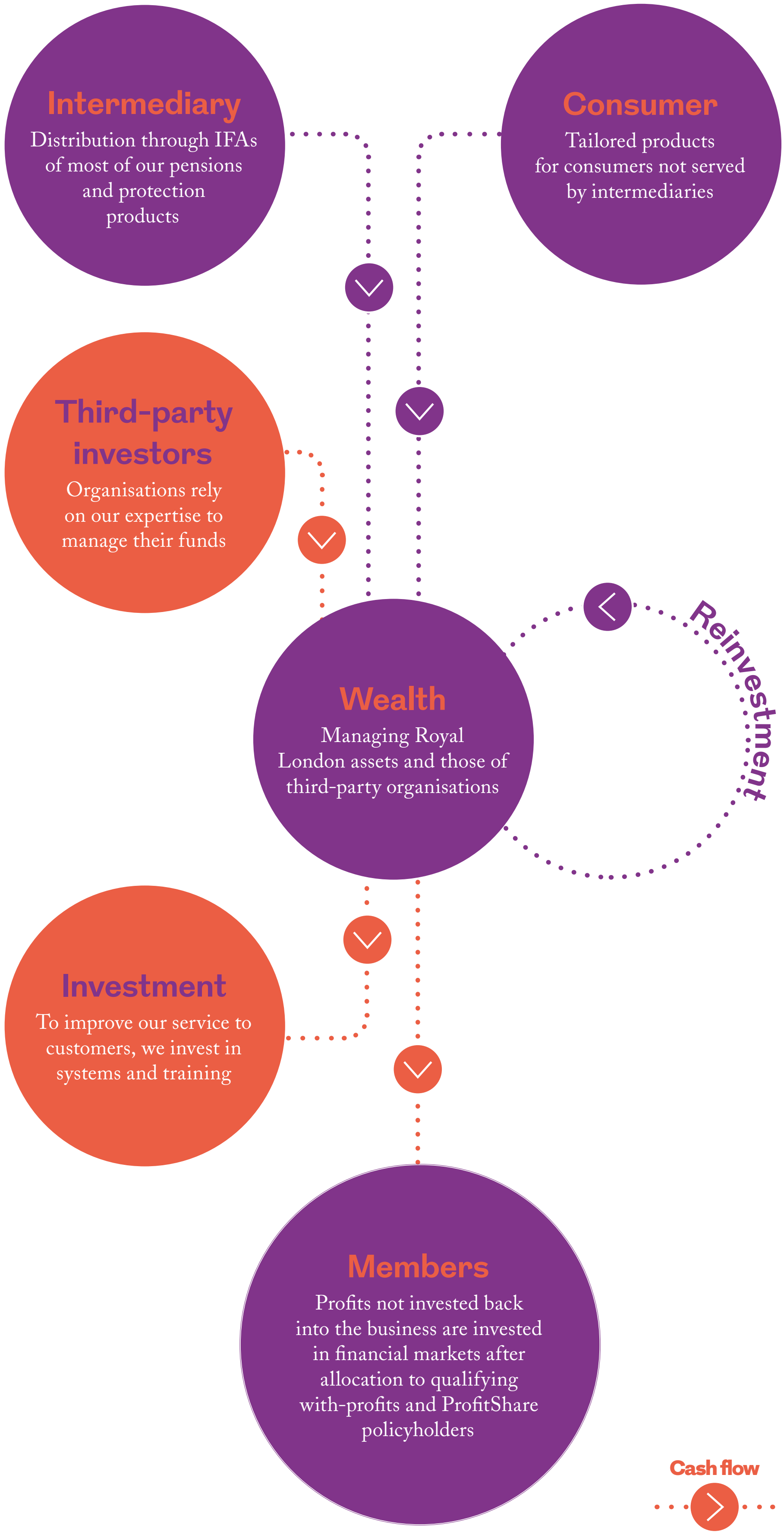
Royal London with-profits performance



Contents

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

How we manage and grow our members' investments



> In October we announced plans to bring an additional 600,000 customers into our ProfitShare plan. We are the first pension provider to launch such a scheme, and we are delighted that so many people, including thousands who belong to workplace pension schemes, will share in the success of Royal London.

Group Chief Executive's statement

Our strategic goals are:

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

How we are achieving our strategic goals

Building trust

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

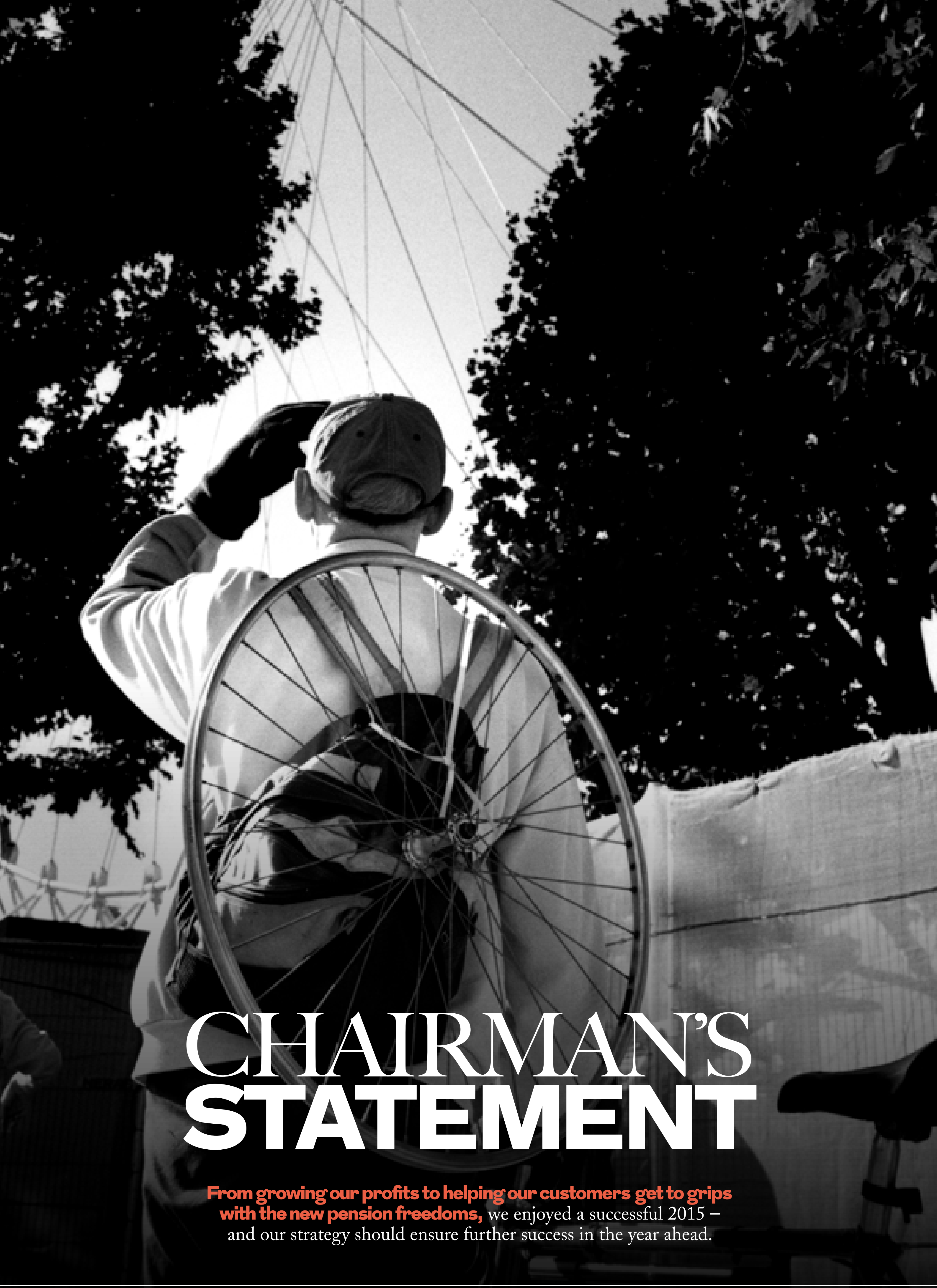
As part of this we have extended ProfitShare to a wider range of customers and members, starting with those who have unit-linked pension policies. This change should not disadvantage qualifying with-profits policyholders, as we expect it to result in a larger and more successful Royal London that will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

Raising awareness

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

Delivering value and service

To continue to improve our service and product development we must invest in the underlying technology. This enables us to streamline our operations to ensure we deliver good value for money. We continue to be recognised through industry awards for our services and products across the Group's offerings.



CHAIRMAN'S STATEMENT

From growing our profits to helping our customers get to grips with the new pension freedoms, we enjoyed a successful 2015 – and our strategy should ensure further success in the year ahead.

Rupert Pennant-Rea
Chairman

In general, though, we see the new pension freedoms as positive for the Group and for all those who are responsible enough to save for the future. Being a mutual helps: by their very nature, pensions involve trust and far-sighted commitment, and Royal London has built up a reputation as a trusted provider working for the long-term interests of our customers.

£70m

ProfitShare for our members – up from £60m in 2014

A pivotal year, full of change and opportunity: that seems the right way to summarise Royal London's 2015, and it is probably how it will look to any future historian.

It was also a successful year financially, with EEV operating profit before tax and exceptional items of £244m, up 11% on 2014 and Present Value of New Business Premiums (PVNBP) up 40% to £6,774m, double our PVNBP in 2011. This has allowed us to increase the ProfitShare for our members to £70m, up from £60m in 2014, which will add 1.4% to the underlying value of all qualifying policies.

Looking behind these headline figures, our Intermediary division (which includes both Pensions and Protection) produced sales growth of 38%, helped by the auto-enrolment programme for company pensions that the Government has promoted, and also by our strong position in the pension drawdown market. Our asset management business, Royal London Asset Management (RLAM) had another good year, with funds under management rising to £84.5bn. Royal London Platform Services, trading under the name of 'Ascentric', saw solid growth in gross sales and increased the amount of money it services. Our Consumer business, still in its infancy, is gradually establishing itself as a significant presence in its markets. You will find details of all these achievements elsewhere in this report.

So what was 'pivotal' about 2015? First, we substantially completed the rebranding of the Group, with the main divisions operating under the Royal London name and organised accordingly. We have spent time and money promoting Royal London and our purple pelican brand, and the results so far are encouraging: advisers, customers and potential customers like what they see and hear. The marketing programme included our second year as sponsors of one-day cricket, and the England team hit a suitably purple patch last summer.

The other big change in 2015 is as yet largely notional, but has major implications for Royal London's future. We are extending the chance to participate in ProfitShare to a wider range of customers and members, starting with those who have unit-linked pension policies. This change should not disadvantage qualifying with-profits policyholders, as we expect it to result in a larger and more successful Royal London that will in time produce more profit for sharing. With-profits members should benefit from an enhanced annual bonus as a result of the proposals. When I report to you again in 12 months' time, around 750,000 members will be eligible to benefit from our enhanced ProfitShare. Details of this change and what it means are discussed further, later in this report.

The amount allocated to ProfitShare obviously depends on how much money Royal London makes, but it is also affected by the Group's capital position and what it needs to invest. We are now governed by a new set of capital rules, called Solvency II, which typically require life and pension companies to increase the size of their capital cushions. Our preparations for Solvency II have also involved spending money to get our IT systems and procedures up to scratch. In fact, the Group is investing heavily to improve all of its IT infrastructure, which will help us to achieve lower operating costs and a better digital experience for customers in future. By the time this investment programme is complete, your Group will be even better placed to provide excellent service and a largely seamless transaction for customers.

Solvency II is just one example of how the Group is affected by legislative and regulatory changes beyond our control. Some require expensive responses, others open up opportunities – and the biggest of all at the moment are in the pensions field. Government reform of pensions has produced some disappointments which deter competition (notably the charge cap); and a few threats, such as possible changes to the tax treatment of pension saving.

In general, though, we see the new pension freedoms as positive for the Group and for all those who are responsible enough to save for the future. Being a mutual helps: by their very nature, pensions involve trust and far-sighted commitment, and Royal London has built up a reputation as a trusted provider working for the long-term interests of our customers. We maintain good working relations with our regulators and the relevant government departments, but the relations that matter most are those with our members and other customers. Making the business work day after day is the job of our approximately 3,000 staff. They had a demanding year, and I want to thank them – and my fellow directors – for their skill and dedication. We go forward with confidence.

GROUP CHIEF EXECUTIVE'S STATEMENT

Royal London is a very different organisation to most others in our field. We are owned by our members, and our sole purpose is to support them in achieving their aims. Over the past year we have found new ways to mark out our difference by offering more to our customers.

Phil Loney
Group Chief Executive

600,000

The number of customers becoming eligible for our ProfitShare arrangement.

2015 AWARDS

money marketing
Financial Services Awards 2015
In association with Aberdeen
WINNER
Company of the Year

Last year was a busy and successful one for Royal London. Big changes in the pensions and long-term savings business have largely been well received and have been positive for us. Because we tend not to shout about our achievements, it is easy to underestimate just how much we have grown over recent years. Sales have more than doubled in the last four years and the assets invested with us have almost doubled. We have increased the value of your business by generating £277m in EEV profit before tax and ProfitShare. We see opportunities for more growth in the future. Sales have risen by 40% over 2015, and we see opportunities in several markets for more growth in the future.

The rise in profits and sales across our business in 2015 enabled us to increase our ProfitShare to qualifying members by 17% to £70m.

ProfitShare

In October we announced plans to bring an additional 600,000 customers into our ProfitShare arrangement. We are the first pension provider to launch such a scheme, and we are delighted that so many people, including thousands who belong to workplace pension schemes, will share in the success of Royal London. Most of these customers are already members of Royal London and their participation in our ProfitShare does not mean a reduction in payments for our members who hold qualifying Royal London with-profits policies, who should in fact receive an increase in their annual bonus allocation as a result of the expanded ProfitShare.

From the beginning of 2016, unit-linked pension and drawdown customers who joined after July 2001 will become eligible to receive ProfitShare. The first allocation will come in 2017, once the expanded scheme has been in place for a full year.

Whilst the annual amount of ProfitShare per person may not seem large, its cumulative effect, with the benefit of any investment growth, can make a meaningful difference to a final pension pot, as well as to your standard of living post retirement.

Pensions and life assurance

We have continued to play a prominent part in auto-enrolment, the Government scheme in which employers are required to enrol workers in a workplace pension scheme. Around 100,000 people have joined Royal London through workplace pension schemes, making us one of the most successful participants in this market. Our role is to make the process as smooth as possible for employers, and to help them explain to their employees the enormous benefits of a workplace pension.

Pension freedoms announced in the 2014 Budget came into force in 2015 and we saw strong growth in both drawdown and personal pensions schemes. Drawdown is one of the preferred ways of managing money in retirement, and we have one of the best-regarded propositions in the market.

Greater choice

Our Annuity Bureau is another example of how Royal London takes a different approach to our competitors. Rather than trying to sell our own branded annuities, the Bureau enables customers to find the best annuity from a range of high-quality providers. Choosing the right annuity can improve retirement income by up to 15%, so this service can provide real value to those customers for whom an annuity is the right solution. The Bureau is aimed at direct customers – those without access to a regulated financial adviser to do the shopping around on their behalf.

A year ago we saw glimmers of a recovery in our Protection business after a difficult period of falling sales through intermediaries. A number of players exited the market, but we took the decision that this was an important market in which we could play a useful role. We invested in research to identify what customers wanted and developed our products to meet those needs.

We enhanced the criteria on which people can claim and have focused on the benefits that customers most use and value. We also made improvements to our Helping Hand service. This provides support to customers recovering from illness or those who want to seek a second opinion on a medical condition.

Group Chief Executive's statement continued

We also focused on paying claims faster. More than half of smaller bereavement claims are now paid out within five days.

Our efforts were rewarded, helped by some recovery in the market itself. Intermediary protection sales rose by 49% on the previous year and new business profits also increased.

In Ireland, where our business was formerly known as Caledonian Life, sales and profits also rose and we launched a new critical illness product that has proved very popular. In 2016 we plan to complete our product range by launching a new Whole of Life product. We continue to make good progress in our Irish business.

With-profits policyholders

In 2015 our investment performance for with-profits customers exceeded our benchmark. ProfitShare was up by 17% on the previous year.

Qualifying with-profits policyholders may worry that the expansion of the ProfitShare scheme could come at their expense. This is not the case. Instead, we will increase the total amount we pay out to accommodate the new participants. In some cases our industry has treated with-profits policyholders as poor relations. We will continue to place a high priority on ensuring good returns for this core group of our members.

Good value for consumers

It is still early days for our Consumer division, but over the year we gained momentum and our products are becoming better known all the time. We are developing a reputation for good value. Our Over 50s Life Cover product saw sales increase through the year as people came to realise that it offers much better value for money than rivals.

In January we launched our Funeral Benefit Plan, which enables people to ensure their funeral does not become a financial burden on those left behind. The plan, which came to us through the acquisition of The Co-operative Insurance Society Limited, is sold through leading funeral providers and has become a strong business line.

Asset management returns

Financial markets are rarely quiet for long, but 2015 was a particularly volatile year. The slowdown in China, falling oil and commodity prices and continued low interest rates all had a significant impact on the markets. Against this difficult background, RLAM achieved good investment returns.

A number of new funds were launched, including a new multi-asset fund for the Consumer division, the Cautious Managed Fund, and a fixed income fund – the Enhanced Cash Plus Fund.

A great deal of thought has gone into helping customers deal with the low interest rate environment, and designing products to deal with that issue. An important theme for 2015 was preparing for an expansion into multi-asset investment – that is, investing across a range of assets including shares, bonds, property and cash in a range of currencies and geographies. More products will emerge from this area.

Royal London Platform Services (RLPS), which operates under the Ascentric brand to underline its status as an independent platform service, is another area that has benefited from the Government's reforms of the pensions system. Sales rose by 14% as more and more people chose to manage their money outside a traditional pension fund.

RLPS has continued to invest heavily in technology which will enable us to improve the capabilities of the platform to ensure it has the capacity for further growth and becomes the 'quality act' in its chosen markets.

Awards success

In 2015 Royal London won many awards for its products and services.

We were named Company of the Year at the *Money Marketing* Financial Services Awards. In the *Investment Life and Pensions* Awards we won Best Group Pension Provider and, for the fourth year in a row, were named Best Income Drawdown provider.

At the *Financial Adviser* Life & Pensions Awards 2015 we won in four categories: Pension Provider of the Year, Individual Pension Provider, Group Pensions Provider, and Auto Enrolment Provider.

Our RLAM business also won 10 awards throughout the year, including the five-star Service Award for Investments with the *Financial Adviser*.

Building our brand

As a brand, Royal London is becoming better known and more influential. We are building a strong brand and aim to be recognised and recommended across our audiences. We have taken the lead in talking about some of the key issues facing our industry, including raising awareness of how much people need to save if they are to enjoy a happy and financially stable retirement.

We have also taken the lead on opposing changes to the pensions system which we believe would be damaging to our customers, such as the idea of moving pensions on to an ISA basis rather than the current basis of giving tax relief on contributions. In the latest budget the Government has preserved the current tax relief approach for pensions whilst introducing a new lifetime ISA for the under 40s. This will have an impact on the long-term savings market and could prove to be a significant development.

During the year we substantially completed the programme of bringing all our businesses under the Royal London brand. We have developed brand communications based on the fact that Royal London has been around since 1861 and therefore we know a thing or two about providing financial services. We've held on to the ethics and principles that we were founded on and which come from an age when honesty, loyalty and a sense of community were commonplace values.

In these fast-moving modern times, it's these traditional values that set Royal London apart from other financial institutions. We have continued our national television advertising campaign running our Pensions advert on prime time TV, sponsoring ITV London Weekday Weather and sponsoring

14%

Rise in gross sales for Royal London Platform Services, operating under the Ascentric brand

100,000

Number of people who have joined Royal London through workplace pension schemes, making us one of the most successful participants in this market

49%

Rise in sales in our Protection business compared to the previous 12 months

Channel 5 cricket highlights – all of which helps drive recognition of our brand.

Speaking of cricket, we've concluded the second year of our four-year sponsorship deal with the England and Wales Cricket Board for one-day cricket. Some of the new cricket activities for 2015 included our grassroots initiative encouraging children aged 11 and under to play soft ball cricket, the Royal London Gilbert Cup. This has more than 1,500 competitors and concludes with a grand final at Lord's. We also launched a partnership with the Professional Cricketers' Association (PCA) Benevolent Fund as they look to help current and former players in times of hardship. We developed a digital strategy focused around a new website and social media content based around cricket.

People and culture

We employ almost 3,000 people across the UK and the culture of our organisation is key to delivering great service to customers and to keep on sustaining innovation. Through our Spirit of Royal London Programme we have local events all around the country through which we help our people to embrace the values that Royal London believes in.

Investing for the future

We have not just been working on products and services for today; we have also been investing and developing capabilities for the future. We have developed new technologies behind our Protection businesses, which will make it cheaper and faster to make product improvements in future. The technology being developed in our Platform business could ultimately be used right across our long-term savings business.

These kinds of investments help us to keep our prices competitive for customers by keeping our costs down. They also help us to offer more digital content, such as websites that allow customers and intermediaries to place new business with us with a minimum of form-filling bureaucracy.

In doing so, these investments underpin our growth.

We are growing quite rapidly so we need to ensure we invest in our underlying technology to ensure we continue to give good service and provide competitive products into the future. We have also invested in our finance and actuarial systems to ensure they were prepared for the introduction of Solvency II, the new regulatory regime for European insurers that came into effect in January 2016.

The workplace pensions surge will not last forever. Auto-enrolment will extend to smaller employers in 2016 and 2017 and then will start to tail off. Whilst this will inevitably mean a slowdown in that area, we still see continued growth elsewhere.

Our personal pensions business continues to be popular, and as people get older we expect to see more demand for drawdown. We have more ideas for Protection products for the future.
In our Asset Management business the multi-asset product range is a key area for expansion.

We have lots of plans for serving you even better in 2016, and look forward to putting them into practice.

Group performance

Measuring our performance.
We are always transparent about our performance, where we could have achieved more and what we hope to do in the future.

Performance description	2015 result	Historic performance
Profitability **EEV profit before tax and ProfitShare.**[1,2,3]	£277m +7%	2012: £320m 2013: £551m 2014: £259m 2015: £277m
Profitability **IFRS result (total transfer to unallocated divisible surplus).**[3,4]	£175m +31%	2012: £261m 2013: £379m 2014: £134m 2015: £175m
New business **Present value of new life and pensions business premiums.**	£6,774m +40%	2012: £3,160m 2013: £3,464m 2014: £4,826m 2015: £6,774m
Funds **Group funds under management.**	£84.5bn +3%	2012: £49.8bn 2013: £73.6bn 2014: £82.3bn 2015: £84.5bn
Capital **Regulatory (Insurance Groups Directive) capital surplus.**	£3,535m +4%	2012: £2,374m 2013: £2,749m 2014: £3,390m 2015: £3,535m

1 2014 includes an exceptional item being the £61m charge relating to the pensions charge cap.
2 2013 includes £150m one-off gain arising on the acquisition of the Co-operative life, pensions and asset management businesses.
3 2012 and 2013 results exclude Royal London 360°, which was disposed of during 2013.
4 2013 IFRS results include £125m one-off gain arising on the acquisition of the Co-operative life, pensions and asset management businesses. 2014 includes exceptional item being the £61m charge relating to the pensions charge cap.

Risk management and internal control

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

The system is designed to manage, rather than eliminate, the risks of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The system has been in place throughout the period under review and accords with the UK Corporate Governance Code. The Board is very conscious of the importance of the Group's internal controls and attaches high priority to developing them in line with good practice. The Board is aware that from time to time, due to the size and scale of the Group, issues could arise that impact the reputation of the Group and its operations. In the event of such risk materialising, the Board will ensure that necessary actions are taken to address them.

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

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

Taken together these elements are designed to:

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

We have a formal governance structure of committees to manage risk, reporting to the Board, and this has been further improved in 2015. Risk management is an integral part of our corporate agenda and employees at all levels have risk management responsibilities.

Our primary objective in undertaking risk management is to ensure that the achievement of the Group's performance and objectives is not undermined by unexpected events and that sufficient capital is maintained. During 2015 the risk management system described below, in conjunction with the Individual Capital Assessment (ICA), the Internal Model, our risk register and the Own Risk and Solvency Assessment (ORSA), has been used to help identify, mitigate, monitor and quantify significant risks to which we are exposed.

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

We have made a considerable effort to ensure that there is a strong risk management culture in all important decision-making processes and that the risk management system is well embedded across all Royal London business areas. During 2015, Royal London continued to strengthen its risk management system in relation to risks to end customers or conduct risk. We consistently seek good customer outcomes in everything we do and have no appetite for knowingly treating customers unfairly. In 2015, as part of a continuous improvement approach to the management of risk, all areas of the Group have been set objectives to further strengthen risk management processes and culture.

The Board has conducted a review of the effectiveness of the Group's system of internal control during the year ended 31 December 2015, taking into account matters arising up to the date of approval of this Annual Report and Accounts. The review covered all material controls including business, operational, financial, compliance and risk management processes. It was conducted on an ongoing basis, via reports submitted to the Board, the Board Risk Committee and the Audit Committee and also by reports prepared as part of the year-end process.

Three lines of defence

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

In practice, executive management has delegated the day-to-day responsibility for establishing and implementing appropriate systems and controls and for managing the risks which impact upon their respective areas of responsibility.

Risk management and internal control continued

Business unit managers identify, assess and record material risks, including information on their likelihood and severity and the mitigating controls or actions planned.

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

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

Group risk appetite framework

Our risk appetite framework consists of three components:

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

The Board has approved risk appetite statements as follows:

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

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

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

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

Operational
We will operate strong controls over our business environment. Operational risk appetite is designed to protect both policyholders and the Group whilst delivering sustainable growth.

Operational risks are managed by evaluating key exposures, monitoring risks on an ongoing basis and taking action to mitigate risks where needed.

Group risk policies

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

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

Solvency II

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

The regime allows insurers to use a standard formula for determining their regulatory capital requirements or to use their own Internal Model, which will require approval from the regulator. Building on our existing strong capital modelling and control capabilities, it is our intention to use our own Internal Model. The Internal Model is central to the business and it will enable us to make more effective decisions by fully integrating risk and capital management.

We have been working on the development and implementation of the Internal Model and a Solvency II standard formula approach has been used since 1 January 2016 whilst Internal Model approval is sought. In addition, during this period we will continue to use our own capital modelling and control capabilities.

Principal risks and uncertainties

Managing risk is fundamental to our activities in order to generate returns for policyholders.

We have processes in place to identify and manage risks, which include assessing scenarios and reverse stress tests.

Our approach to risk management is set out earlier in this statement. The Board believes the principal risks and uncertainties facing the Group are as set out on pages 14 to 18 with the actions taken to manage and mitigate them.

The Group's risk governance structures

Responsibilities of the Board

Board

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

Board Risk Committee

The role of the Committee is to ensure that the interests of the members and customers of Royal London are properly protected through the application of effective risk and capital management systems.

Responsibilities of management to risk

Executive Risk Committee

The role of the Committee is to monitor the risk management processes, and to ensure that appropriate action is taken to manage risk.

Capital Management Committee

The Committee's role is to advise and support the Board regarding the Group's capital position. It also ensures the Group has in place the necessary processes to identify, manage and report on market, credit and liquidity risks in accordance with the Group's Risk Appetite statements and parameters set out by the Board.

Customer Standards Committee

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

Solvency II Steering Committee

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

Internal Model Governance Committee

The role of the Committee is to review, challenge and approve the overall design, implementation and performance of the Internal Model including its scope and application.

Principal risks and uncertainties

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

The Board confirms the principal risks and uncertainties facing the Group are as set out on the following pages, along with the actions taken to mitigate and manage them. The Board has carried out a robust assessment and monitors principal risks and uncertainties on a quarterly basis, with an annual review undertaken. Our approach to risk management, including the process of assessing and reviewing these risks, is set out on pages 11 and 12.

Our risk profile is stable and generally changes only gradually from year to year. This, combined with the fact that most, if not all, of the principal risks and uncertainties set out last year are still of concern means that the principal risks and uncertainties remain broadly unchanged from the previous year. What has changed, however, is the progress we have made in mitigating and managing risk.

The economy and Royal London's key markets

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

Changing regulation

We have prepared and mobilised for Solvency II implementation in 2016. Work carried out during 2015, combined with further clarity from the Prudential Regulation Authority (PRA), has removed some of the uncertainty and reduced the likelihood of this risk relating to the regulatory framework.

Principal risk and uncertainty	Risk mitigation and management
Uncertainty in changes to the regulatory framework resulting from Solvency II **Solvency II implementation occurred on 1 January 2016.** **Whilst the high-level regulation is understood, important elements of the low-level detail are still undecided. This gives rise to the possibility that we will be required to hold greater levels of capital than previously required.**	In line with PRA recommendations, we have continued to develop our Internal Model and our risk and capital management systems, monitoring closely the potential impacts on its capital requirements and ProfitShare. We will be seeking Internal Model approval in due course. Until that time, we remain exposed to the risk that our capital position will be subject to capital add-ons which may misstate our true capital position in the market, leading to reputational damage. This risk is mitigated by close dialogue with the regulator on the level of the capital add-on that has been approved, and ongoing monitoring of its appropriateness. We also have the risk that the Internal Model may not be approved by the regulator.
Changes in the legislative and regulatory landscape may alter the design and marketing of propositions **Unprecedented levels of change in legislation and heightened regulatory activity could adversely impact our ability to implement and deliver changes as well as our reputational, operational and financial position. The conduct and prudential environment is still developing and this could impact how we develop and distribute new propositions, as well as how we administer and deal with contracts sold in the past. It is possible that regulatory thematic industry-wide reviews from the regulator may have a significant impact on the Group.**	Meeting the expectations of customers and our regulators is at the forefront of everything we do. To that end we actively engage with regulators on an ongoing basis. We continue to monitor developments, for example the Markets in Financial Instruments Directive (MiFID), on our Royal London operation. Our conduct risk framework is in place, together with an associated proposition development and review process designed with the aim to achieve fair outcomes and experiences for our customers. We continue to be represented on several industry bodies including Association of British Insurers (ABI) senior committees.

The political environment

Principal risk and uncertainty	Risk mitigation and management
Changes to financial services markets may arise from the political environment **The political environment may give rise to changes that alter the viability of our propositions in the markets in which we operate. It will take time for the implications of the Government's pension changes, like the charge cap levels, the introduction of independent governance committees for the workplace pensions and the new pension freedoms measures that began on 6 April 2015, to be embedded and fully understood. Changes to Government could affect our markets (e.g. pension charge capping being tightened or extended to further product types).**	As the environment changes we continually evaluate how our markets are evolving and look to develop propositions to meet the needs of end customers and distributors. To support this we undertake regular monitoring of our performance and the external political and environmental landscape. We also undertake scenario testing of external factors that could detrimentally impact our business model. In addition, we undertake a role in lobbying on political and legislative issues in the best interest of our customers.
Possible UK exit from the European Union creates uncertainty over the prospects for the insurance and investment markets **The impact on markets is likely to be a marked rise in uncertainty resulting in a shock to economic confidence, pressure on sterling and the UK credit rating, and increased inflation.** **There is further uncertainty over the impact this may have on regulation and legislation.** **This has been considered as an additional principal risk and uncertainty at the end of 2015.**	The UK's exit from the EU is not expected to have a detrimental impact on Royal London's strategy and model as it is mainly centred on the UK. However, we recognise the potential impact on our Ireland business and any implications with regard to Scotland's independence. Risks related to the market will be mitigated through our normal market risk monitoring and activity. 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.

Principal risks and uncertainties continued

Maintaining our financial strength

Principal risk and uncertainty	Risk mitigation and management
An increase in our funding commitments for defined benefit pension schemes may impact on our financial position **Our main risks in managing our defined benefit pension schemes arise from inflation, interest rates and longevity, and from risks associated with the schemes' investment strategies. Any adverse movements in these factors could increase future funding costs and could impact our financial position. An additional risk factor is a possible Solvency II approach regulation being imposed.**	Overall, the schemes are reasonably well funded; however, the Board recognises this position could change and continues to closely monitor funding levels and work with the Trustee Boards to assess opportunities to reduce volatility and risk. During 2015, we notified Trustees of our intention to close the main Group defined benefit scheme to future accrual from 1 April 2016. This will reduce the funding commitment to that scheme.
We are exposed to the risk of failure or default of one or more of our counterparties **As part of our business, we invest in debt securities and other assets in order to meet our obligations to policyholders. As a result of this activity exposures can arise to issuers of debt and other financial instruments. Our day-to-day activities also mean we have exposures to banking, insurance and reinsurance counterparties as well as third-party providers of IT and administration services.**	We seek to manage exposure to any one counterparty or third-party. We actively monitor and report against limits in respect of investments. Contracts with third parties and suppliers are governed by strict service level agreements, which are monitored and discussed at regular account management meetings. The Capital Management Committee reviews large exposures that approach or exceed risk appetite, and reviews the actions being taken to manage the exposures.
If our assumptions are subsequently proven to be wrong then adjustments may impact on our financial position **Our business involves the underwriting of risks where the ultimate liability is dependent on long-term trends in factors such as mortality, lapse rates, interest rates and counterparty defaults.** **We take a prudent approach when calculating capital requirements. However, extreme movements can take place. Such events could arise from, for example, medical science advances and movements in financial markets or in the broader economic environment. It may be necessary to review assumptions if this did happen, potentially impacting our financial position.**	In the event that actual claims experience is less favourable than envisaged, our reinsurance arrangements will provide significant mitigation. Additionally, we use our experience to assess and set prices for known risks and to ensure that reserves are appropriate. The calculation of reserves is underpinned by stress and scenario testing which assesses the appropriateness of key assumptions to a combination of extreme events, including financial and economic conditions, investment performance and product-specific matters.

Organisational delivery

Principal risk and uncertainty	Risk mitigation and management
Delivery may be impaired by the high level of change across the Group **The Group has grown in recent years, and we have completed internal change programmes in line with this growth in order to continually improve our capabilities and the experience of our customers. There is a remote risk that the continued growth plans, combined with the significant amount of external change in markets, regulation and legislation, result in possible future inefficient or ineffective organisational delivery, with consequential operational loss and/or reputational damage.**	Our strategic and operational plans are regularly reviewed by the Board. These take account of our resources and the scale and diversity of change currently under way and planned for the future. Specific change reporting takes place at project, programme, portfolio and strategic execution level, utilising a dashboard of measures to ensure that appropriate risk-based decisions are made, and that resources are allocated in an efficient and sustainable manner. The portfolio is also constructed initially to take account of the anticipated level of resourcing available.

Material outsourcers and supplier relationships

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

Brand transition

Principal risk and uncertainty	Risk mitigation and management
Brand transition **In moving to a single strong brand we are aware there is an inherent risk of diluting or damaging established strong reputations and customer relationships.**	Significant progress has been achieved under the transition plan into the new single brand. We have incorporated governance and processes that ensure we maintain existing strengths and relationships with our customers. Metrics are in place to monitor brands across the Group, including our Intermediary division, where the remaining brand transition continues in its Protection business. A quarterly brand tracking survey measures consumer awareness and sentiment. Regular adviser surveys are undertaken to keep track of brand and proposition awareness as well as the likelihood of recommending us.

Legacy products

Principal risk and uncertainty	Risk mitigation and management
Legacy remediation **We have a number of legacy products in which clients are still invested.** **There is a risk that we may be requested to review and remediate legacy books in force, in line with the overall impact for the industry.** **This has been considered as an additional principal risk and uncertainty in 2015.**	We have increased the resource allocated to managing our legacy books and rolling out a more comprehensive product review process. Positive work has been undertaken in product and proposition review and in clearly identifying and structuring our approach to dealing with a range of remedial actions for our legacy book. Work has commenced on reviewing and undertaking a gap analysis following the release of the Financial Conduct Authority (FCA) findings on the industry-wide review of the treatment of longstanding customers.

Principal risks and uncertainties continued

Removed principal risk and uncertainty since prior report

The uncertainty in relation to establishing an appropriate response to the regulator's concerns surrounding the declining volumes of with-profits business has now been removed, and this has been replaced with a risk regarding the implementation and delivery of the operational aspects of this initiative. A project is in place to deliver this and all aspects are currently on track.

Principal risk and uncertainty	Risk mitigation and management
Potential constraints on the mutual with-profits sector may impact our ability to grow or write new business **In 2012 the Financial Services Authority (FSA) issued a policy statement on with-profits funds and a consultation paper on mutuals managing such business. A related policy statement from the FCA in March 2014 has taken account of matters arising through the consultation process. This gave rise to the possibility that mutual insurers could, in the future, be constrained in their use of surplus assets from with-profits business to fund strategic initiatives such as acquisitions or supporting the writing of new business.**	We believe that the writing of profitable new business is advantageous for our financial strength and consequently beneficial for policyholders. As the largest mutual insurer in the UK, we view this issue as being of critical importance for a positive resolution. We have been in discussion with the FCA/FSA since 2007 with a view to addressing the implications of declining volumes of with-profits business. This uncertainty has now been removed for Royal London following the receipt of non-objections from both the PRA and FCA relating to the introduction of ProfitShare accounts. ProfitShare accounts widen the share of profits from the Group from with-profits business only to include more policy types from 1 January 2016. A project is in place to deliver the implementation and delivery of the operational aspects of this initiative and full and robust governance and tracking of progress is in place.

Longer-Term Viability Statement

Assessment of prospects

The context for the assessment

Our business model and strategy are integral to understanding the Group's prospects, and details can be found on pages 2 and 3. The nature of the Group's business model is long-term – indeed we were founded over 150 years ago – and the Board's strategy is subject to the ongoing monitoring and development described on this page.

The Group's current strategy has been in place for several years and our strategic goals detailed on page 3 remain at the core of everything we do.

The Board continues to take a conservative approach to the Group's strategy and the focus is on building trust with our customers, raising awareness of our brand and delivering value to our members, whilst meeting the expectation of regulators and other stakeholders in a changing capital regime.

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

The assessment process

The Group's prospects are assessed primarily through its strategic planning process which is led by the Group Chief Executive and involves all relevant functions. The Board fully participates in this process and undertakes a robust review and challenge of the strategy and assumptions, in particular through the use of stress and scenario testing; the scenarios being summarised as follows:

- **Base scenario** – global growth remains below its pre-2008 average but with inflationary pressures leading to rises in interest rates;
- **Adverse scenario** – slowdown in western economies and China, recession in the UK and sharp falls in equities; and
- **Strong scenario** – strong economic recovery with growth that is faster than expected and an increase in interest rates.

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

Whilst the directors have no reason to believe that the Group will not be viable over a longer period, the period over which the directors consider it possible to form a reasonable expectation as to the Group's longer-term viability is the five-year period to December 2020.

This period has been selected because the Group's medium-term business planning process sets out its strategy and assumptions on a five-year time horizon; and the latest business plans, which include in-depth analysis of its risk profile, liquidity, and profit and capital projections, cover the period until December 2020.

Assessment of viability

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

- a range of sensitivity analyses and stress tests over key economic, insurance and operational risks, for example a 1 in 200 adverse impact from financial markets or a significant medical science advance; and
- stressing of the business plan for adverse scenarios impacting profitability, liquidity and/or solvency, including:
  - adverse regulatory and legislative developments;
  - adverse distribution developments affecting the Group's market share;
  - infrastructure weaknesses negatively impacting the Group's ability to support strategic ambitions, including weakness caused by high volumes of new business; and
  - an extreme market downturn resulting in a severe reduction in the Group's solvency.

Each scenario is designed to be severe but plausible, and take full account of the availability and likely effectiveness of the potential mitigating actions management could take to avoid or reduce the impact in the circumstances. In considering the likely effectiveness of such actions, the conclusion of the Board's regular monitoring and review of risk and internal control systems, discussed on pages 11 and 12, are taken into account.

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

Viability Statement

Based on their robust assessment of the principal risks and uncertainties facing the Group and the stress-testing-based assessment of the Group's prospects, which have been described on this page, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020.

Going concern

The directors also considered it appropriate to prepare the financial statements on a going concern basis, as explained on page 44 in the Corporate Governance section.

Strategic Report highlights

Intermediary

We have started work on improving the service we can give customers to help them navigate the complex world of pensions, investment and financial planning.

To find out more, turn to p22.

Consumer

We worked to improve the process that customers experience at the point their policy matures, providing as much guidance and education as possible to ensure they could make informed choices.

To find out more, turn to p24.

Wealth

We launched several new products across our cash and fixed interest teams. In general, these have been focused predominantly on expanding our short duration strategies which are well positioned to offer investors protection against any potential upcoming interest rate rise.

To find out more, turn to p26.

Our corporate responsibility

We are delighted to be the first customer-owned life, pensions and investment provider to enable customers to share in our profits through the launch of ProfitShare for pension customers.

To find out more, turn to p28.

“2015 was a busy and successful year for Royal London. Big changes in the pensions and long-term savings business have largely been well received and have been positive for us as a business.”

SETTING THE PACE

Intermediary

Our intermediary business delivered an exceptional performance in a fast-moving market.

Against a challenging market backdrop, our Intermediary division traded strongly in 2015 delivering excellent new business results.

Pensions has seen success through continued market-leading service, leading to significantly increased loyalty from Financial Advisers. Business volumes have been boosted by markets fuelled by auto-enrolment and pension freedoms and the propositions we have developed to serve those opportunities and customers' needs.

UK Protection has benefited from the action taken to improve the quality of the protection proposition. This included improving the customer experience by online new business processes and underwriting via the Underwrite Me development. The proposition has been further strengthened through improved Critical Illness definitions, enhancing our Helping Hand support service with the second medical opinion service and targeted pricing improvements.

The improved business results and leadership changes have given UK Protection a huge boost and momentum continues to build.

Our Intermediary division won five-star awards in both Protection (Bright Grey) and Pensions for our customer service, something we are particularly proud of in a year when many struggled to maintain such high standards as us.

Pensions

Group Pensions

Auto-enrolment has been a huge success for our industry. By the end of 2015, 5.2 million UK employees will have been automatically enrolled into a pension scheme.

Winning new auto-enrolment schemes was a key priority for us, with 45,000 small and medium-sized enterprises due to go through auto-enrolment in 2015. Whilst a number of pension providers downgraded their proposition to provide a more self-service approach, we stayed true to our values and put our expert people at the centre of our process, even for smaller schemes. This full-service approach has proved highly popular in the market, and as a result we helped to set up more than 4,000 group pension schemes in 2015, creating 100,000 new members who now have a group pension with Royal London.

To meet the demands of 2016, when around 470,000 employers are due to stage, we have increased resources that will enable us to implement more than double the number of schemes supported this year.

Individual Pensions

Our Individual Pensions business has continued to thrive as a result of the increased flexibility customers have in how they access their pension. Income Release continues to be the market-leading simplified drawdown proposition for advised clients with new business up 67% on the same period in 2014.

We received unprecedented customer calls immediately after the new pension freedoms were made available. Despite this, research carried out by Harris Interactive on our behalf shows that overall call experience and customer satisfaction has been rated very highly.

Although we have no desire to offer regulated financial advice, we'll never leave customers without the support they need. We'll always take action to help them achieve financial security in their later years. This especially applies post pension freedoms. Our ambition is to provide customers with helpful information on things that affect them throughout the lifetime of their pension. This includes encouraging them to take independent financial advice at every opportunity.

"We received unprecedented call volumes in the period immediately after the new pension freedoms were made available to policyholders. It is particularly pleasing that the experience received by our customers was an extremely positive one."

67%

The increase in new business generated by our Income Release product in 2015 compared to the previous year

+4,000

The number of pension schemes we helped to set up in 2015

2015 AWARDS

In tune with our members

We were on song in 2015, winning a trunkful of awards including Life Insurer of the Year and Best Pension Provider.

Protection

In 2015 we worked to restore our position in the market by improving our products and the way we engage with our customers and advisers. Sales responded well to the changes. Our full-year results show UK Protection sales were up from £338m in 2014 to £502m in 2015, which represents a 49% increase, and applications levels were above 2014 levels.

This growth has been driven by a focus on three basic principles:

- being easy to do business with;
- providing cover that matters; and
- nurturing long-term relationships with our advisers.

The launch of an innovative new online 'quote & apply' service will make the process of applying for protection products quicker and simpler, saving advisers' time and money. This means fewer and better targeted underwriting questions with more flexibility where either the adviser or client can complete the application online.

We have improved our critical illness definitions to enhance coverage for our customers. We have focused on the five conditions that account for over 90% of our claims.

Ensuring we are building sustainable business relationships with our advisers has meant that we have improved several areas of proposition and service in 2015. We've reviewed and rewritten our expert underwriting rules and introduced a more competitive philosophy. We've rationalised and re-priced our product range. We've also addressed legacy issues on our portal platforms.

Royal London Ireland had its first year trading under the new name after rebranding from Caledonian Life in 2014. The rebrand was well received and, combined with the product and service improvements, contributed to a strong year for the business. Sales rose by 13% to £50m.

The changes to products and services are part of an ongoing programme which will continue into 2016 and beyond. In the past, the protection market has tended to focus on matching or improving on competitors' products. We are moving the focus away from the competition and back to the customer – creating products that offer direct solutions to customers' needs at reasonable prices.

Consumer

2015 was the first full year of operation for the new direct part of our Consumer division, which focuses on customers who want to deal directly with Royal London rather than through a financial adviser. It is now growing fast and is an important part of our strategy for future growth.

New Protection products
Our two Protection products, Over 50s Life Cover and Level Term Assurance, began to be sold in earnest last year after trials and soft marketing in 2014. We are pleased that both products won Defaqto five-star ratings in 2015, providing a valuable independent endorsement for the quality they deliver to customers. Further endorsements were received from customers and the regulator. This critical acclaim and our new marketing capabilities have helped drive sales, which rose by 385%.

These products are being sold through a range of channels, including television and press advertising, direct mail and increasingly through digital media channels. We were also keen to sell to existing Royal London customers, and take-up so far has been strong.

A substantial proportion of sales are now completed online or on mobile phones, and a great deal of work went into creating a simple, accessible digital-purchase process. By the end of 2015 around 27% of customers bought these products online using a computer, tablet or mobile phone. A further 12-15% used digital channels as part of the process, such as for research or comparison. A life insurance product can now be bought on a mobile device in a straightforward five-step process, an achievement that many of our competitors have struggled to emulate.

Existing customers
The Consumer division also looks after our non-advised customers and 2015 was a year that saw significant regulatory change and the introduction of improved products and services for these customers.

Pension freedoms
Responding to the new pension freedoms that came into effect in April 2015 was one of the year's biggest challenges. We developed a range of new products to allow customers to take advantage of the newly liberalised system, enabling them to have access to their retirement pot at age 55 – 10 years earlier than previously allowed.

In May, we launched the Retirement Account. This enables customers to take withdrawals from their pension pots whilst retaining the largest portion of their fund under management with Royal London. The product was created in collaboration with Royal London Platform Services (RLPS), which provided the technology platform, and Royal London Asset Management (RLAM), which created a fund specifically designed to meet the needs of this group of customers.

Many were Royal London customers of many years' standing, with relatively modest pension pots. As a result, their requirement was for a cautiously managed fund that provided good value for money.

We also worked to improve the process that customers experience at the point of maturity, providing as much guidance and education as possible to ensure they could make informed choices.

The Retirement Account's popularity exceeded expectations and interest in the product range remains strong.

Annuity Bureau
Our Annuity Bureau offers the opportunity for a significantly better retirement income to most customers by providing a range of annuity options from a panel of leading providers. Whilst demand for annuities in general has reduced as pension freedoms have given customers a greater choice, they remain an important part of the range of investment options and the right choice for many customers.

> “We worked to improve the process that customers experience at the point of maturity, providing as much guidance and education as possible to ensure customers could make informed choices.”

55

The age at which customers can access their retirement pot under new pension freedoms

One step ahead

We developed a range of new products to allow our customers to take advantage of new pension freedoms.

Wealth

Royal London's Wealth division enjoyed significant growth in 2015. The division is made up of two investment-related businesses. Royal London Asset Management (RLAM) manages assets on behalf of internal and external customers, whilst Royal London Platform Services (RLPS) is an independent wrap platform service that trades under the name Ascentric. It enables advisers to manage their clients' long-term savings and investments.

RLAM

In a volatile year for financial markets, RLAM has performed well, both in delivering returns for clients and in winning new business. As at 31 December 2015, we had £84.5bn under management, a growth of 3% on the previous year. Retail sales were the main driver of new business growth.

We launched several new products across our cash and fixed interest teams. These have been focused predominantly on expanding our short duration strategies which are well positioned to offer investors protection against any potential upcoming interest rate rise.

We also announced the appointment of Trevor Greetham, our Head of Multi Asset in April. This newly created role and the team of multi-asset specialists built since Trevor's appointment is aimed at expanding RLAM's investment expertise. The planned launch of a new range of multi-asset funds in 2016 will introduce funds with the potential to smooth returns in ever-changing market conditions.

All seven of our large mixed asset funds outperformed their benchmarks during the year.

Investment backdrop

The global economy continued to grow in 2015, helped by government interventions with quantitative easing, but the slowdown in China pulled performance down and growth was muted. The collapse in oil prices was good for growth prospects in advanced economies, benefiting the consumer and those industries influenced by increased consumer spending.

Deflationary trends continued with falling commodity prices. We are preparing for a low-growth, low-inflation environment with lower investment returns.

We remain poised for an interest rate rise and any impact on market volatility that this may have. In this low-growth environment, our focus on investing for income has been a real strength, as this continues to be a growing trend among investors.

Returns for Royal London policyholders

Royal London policyholders are by far RLAM's largest single client group, making up around three quarters of funds under management. Therefore, good performance in this area is critical to our success.

Our long-term investment performance was above the benchmark, delivering a return of 48% over five years across the Royal London with-profits fund (the Royal London Long-Term Fund). We have now outperformed the benchmark for seven years out of the last 10 years.

Products

The RL Absolute Return Government Bond Fund celebrated its one-year anniversary in November, having achieved its objective of delivering positive performance over 12 months. This fund establishes our expertise in managing absolute return funds ahead of plans to add further products within this area.

RLAM's strength in fixed income was recognised as we were named top-ranking bond fund manager by FundCalibre in December. Other accolades for the team included the award for Fixed Income Manager of the Year from Professional Pensions. This recognition is complemented by some further additions to our bond fund range, including the launch of the RL Investment Grade Short Dated Credit Fund and the RL Global Bond Opportunities Fund in December. The former is aimed principally at our institutional clients seeking to access our credit expertise with an ethical overlay, whilst the latter builds upon the success of the RL Sterling Extra Yield Bond Fund, offering investors global exposure. These developments are aimed at ensuring our bond fund offering remains competitive and resilient as market conditions remain uncertain.

£84.5bn

The amount that RLAM had under management as at 31 December 2015

2015 AWARDS

INVESTMENT WEEK
FUND MANAGER OF THE YEAR 2015
WINNER
Mixed - Managed

The RL Enhanced Cash Plus Fund was launched in May. This fund is managed according to the same process as the RL Cash Plus Fund, offering those investors with an appetite for an increase in risk the potential for an increased yield.

RLAM collaborated with other parts of Royal London to deliver new products by helping to launch a new multi-asset fund, the RL Cautious Managed Fund, for the Consumer division. This is designed to meet the needs of those taking advantage of the new pension freedoms, and has been well received as a low-risk fund for those who do not wish to buy an annuity.

RLAM worked with the Pensions division to enhance the range of investment options available to their clients. We are also working with them to refine the Governed investment proposition.

External sales

Retail sales through financial advisers and wealth managers were key to driving growth for RLAM in 2015. We forged new distribution relationships, something we will seek to further develop into 2016, as well as maintaining the strong relationships established by the wholesale sales team. The institutional market was negatively impacted by a number of trends. For instance, the decline of defined benefit pension schemes saw an increase in the number of group personal pension schemes. However, RLAM made some progress, bringing in new local government clients and winning new mandates from existing clients.

People and systems

The final stages of integrating the asset management business from The Co-operative Group, acquired in 2013, were completed during the year. TCAM, as the business was known, is now fully assimilated and our Sustainable Funds Team relocated to our London office in February 2016.

An overhaul of our data systems began during the year and will continue in 2016. This is designed to give us a platform on which we can build products and services for the future, as well as enabling us to meet new regulatory requirements, such as the EU's second Markets in Financial Instruments Directive (MiFID II), which comes into force in 2018.

RLPS (Ascentric)

Royal London's wrap platform, which enables advisers to manage their clients' long-term savings, is branded separately as Ascentric to underline its independence. Ascentric continued growing strongly through the year and has maintained its market share in this expanding business area. Assets under administration increased by 13% to exceed the £10bn mark. During the year it agreed a third strategic alliance with Partnership, the provider of non-standard annuities for those with medical and lifestyle conditions.

Ascentric has also worked with other parts of Royal London, including providing support and technology to the Consumer division's Retirement Account.

A project is under way to replace Ascentric's back-office technology with a new, state-of-the-art system.

Jon Taylor, former CEO of Royal London (CIS) Ltd, became Managing Director of Ascentric in January 2015. Hugo Thorman retired as Chairman in June 2015, having made an invaluable contribution to the business during his time as Managing Director and then Chairman.

> “RLAM collaborated with other parts of Royal London to launch the RL Cautious Managed Fund for the Consumer division. This is designed to meet the needs of those taking advantage of the new pension freedoms.”

Our corporate responsibility

We have long acknowledged that responsible business makes good financial sense.
Our approach concentrates on the way we behave and interact with our employees and our communities, and the products we offer our customers. For us, responsibility is simply who we are.

Responsible business

At Royal London we want our customers to think of us as a company they can trust and recommend, but in order to be this company, we need to deliver the outcomes that matter most to our customers. We have created our Customer Value Statements model to show what these outcomes are.

During 2015, we carried out extensive research to complete the development of this model by improving our understanding of what matters most to our customers. In 2016, we are launching a new measurement programme to gather customer feedback on how we are performing against each element of our Customer Value Statements model. This will tell us the areas customers want us to focus on improving, and drive our activity.

We are committed to helping raise the understanding and importance of key financial issues among consumers. During 2015 we ran two key campaigns: Pensions Through the Ages, to raise awareness of how much people have to save to enjoy the standard of living they aspire to in retirement; and the Royal London National Funeral Cost Index, highlighting the wide disparity and unfairness in the cost of funerals across the UK.

We continually seek to identify opportunities to enhance our product and service offering. In September 2015, our protection business enhanced its critical illness cover, which also incorporated the requirements of the ABI's Statement of Best Practice for critical illness. For example, Royal London has now added spinal stroke to its full payment definitions and upgraded the Parkinson's disease definitions to ABI+. In our consumer business, both term assurance and Over 50s products now have five-star ratings and provide market-leading value and ease of purchase.

We are also delighted to be the first customer-owned life, pensions and investment provider to enable customers to share in our profits through the launch of ProfitShare for pension customers from January 2016.

We are one of the UK's leading asset managers, with Royal London Asset Management (RLAM) managing over £84.5bn of assets. Being a mutual means responsible investment of these assets is very important to us.

Following the integration of The Co-operative's life and savings business, we adopted a detailed responsible investment policy for RLAM to reflect our new integrated approach to responsible investing. The policy is overseen by RLAM's responsible investment team, which brings in-depth knowledge of environmental, social and governance (ESG) matters.

RLAM is a signatory to the Principles for Responsible Investment (PRI). For the latest period for which signatories are assessed, RLAM received 'A' grades in five of the six areas assessed and 'B' in the other.

We have started the integration of ESG issues into our fixed income investments focusing on two sectors – water utilities and housing associations.

Corporate governance is one of our core priorities, as we see it as fundamental to protecting long-term member value of the companies we invest in. In 2015 we were more vocal in our concerns about certain companies that we felt were putting value at risk by defying basic governance principles. We also continued to engage with companies privately about issues such as executive pay, board composition, succession planning and corporate strategy, thus further cementing our reputation as a good steward of our customers' savings and investments.

We keep our clients and members informed on progress through our quarterly report, *Responsibility Matters*. In 2015 we also published opinion and analysis pieces on topics ranging from climate change, executive pay and culture in banking to the living wage.

Further, our suite of award-winning Sustainable funds continued their strong performance in 2015 with all of them outperforming their respective peer groups.

As a key player in the UK property investment market, we are committed to reducing the impact of our property portfolio through environmental good practice and its application to acquisition, development and management activities.

Our people

We are committed to recruiting, developing, promoting and training employees on the basis of individual competencies and performance, respecting and valuing a diverse workplace. To help our people realise their potential and reach their own ambitions and goals, we encourage and are committed to providing training and development opportunities. In 2015 there was a significant investment in building leadership capability. During the year, more than 400 employees participated in a variety of leadership workshops. Aligned to employees' development plans, we continue to evolve a learning model that places emphasis on learning through experience (on the job) and learning from others, whilst supporting more formal delivery methods.

Engagement with our employees is important, and we seek to gain their feedback through our annual employee opinion survey. 85% of our employees participated in the survey in 2015, an increase on the previous year. Through our employee forums, known as Pods, we have been able to engage our employees across the businesses in the development of our values and culture programme. This resulted in the launch of the Spirit of Royal London, which starts to embed the systems, symbols and behaviours aligned to our customer centric culture.

We value a diverse workforce and as an equal opportunities employer we offer career prospects without discrimination. We are currently refreshing our diversity strategy and will provide an update on progress in next year's Annual Report.

We care for the health and well-being of our employees and through our Employee Assistance Programme we offer 24-hour, confidential support covering a range of issues, whether home or work-related issues, challenging situations or medical concerns. A new Employee Health Gateway is being launched in 2016, which will include a review of our Occupational Health Service to ensure further alignment with Royal London's commitment to support employees back to work.

Our community

We recognise our responsibilities to support the communities where we live and work.

Since April 2013 we have been working with Bloodwise, the UK's specialist blood cancer charity. Together with our employees, we have raised over £200,000 for the charity. With our support, Bloodwise can continue to invest in life-saving research, including its Trials Acceleration Programme, which has revolutionised the way clinical trials are run in the UK, bringing new drugs to blood cancer patients faster than ever before. In 2015 we also enabled 22 families to visit Disneyland Paris, where they were able to have a much needed break from the challenges of living with blood cancer. We also support our employees in giving back to charity, enabling them to take up to two days annually to volunteer in their local communities and match their fundraising efforts up to £250 per person annually.

Further, we also offer employees the opportunity to support the charities that matter to them through payroll giving.

In 2015, Royal London became the appointed Pelican Partner to the Royal Parks Foundation for the next three years. The partnership is designed to help conserve the presence of London's most regal birds. In September, we partnered with the Royal Zoological Society of Scotland (RZSS) to be the first sponsor of the new 'Pelican Walkthrough' that opened at RZSS Edinburgh Zoo in the summer.

In our first year of our grassroots programme to find the cricket stars of the future, we engaged more than 1,500 children across 18 counties in the Gilbert Cup. In addition, our continued support for the Professional Cricketers Association has enabled more help to be given to more people during 2015.

Meanwhile, as well as paying all applicable UK taxes, Phil Loney, our Group Chief Executive, donates 15% of his pre-tax salary and 25% of the pre-tax value of all STIP and LTIS payments to charity.

Our environment

We continually strive to reduce our direct environmental impacts, focusing specifically on reducing our impact in relation to climate change, waste management and water consumption. We have achieved a year-on-year reduction in our CO^2 emissions, which also helps to reduce cost implications under the Carbon Reduction Commitment Taxation scheme. We also continue to identify opportunities to manage our buildings more effectively and in 2015 upgraded all office uplighter systems in our largest office in Wilmslow to LED panels. This is giving us a direct saving on electricity used of approximately £5,000 per month.

View the Corporate Responsibility section on our website for more details.

> Corporate governance is one of our core priorities, as we see it as fundamental to protecting long-term member value. In 2015 we were more vocal in our concerns about certain companies that we felt were putting value at risk by defying basic governance principles.

GROUP FINANCE DIRECTOR'S REVIEW

The strong platform we've built over a number of years, along with our ability to adapt to changing markets, helped us to grow our profits and expand our product offering in 2015.

Tim Harris
Group Finance Director

> Whatever value we generate in the years ahead, the changes we made to our ProfitShare scheme recently will ensure that more of our members benefit.

£244m

Our EEV operating profit before tax and exceptional items compared with £220m in 2014

I'm delighted to be able to report on another successful year for Royal London. As a customer-centric business that always puts our members first, we are well positioned to capitalise on market opportunities. In particular, we are succeeding in helping customers get to grips with auto-enrolment workplace pension schemes and make the most of the new pension freedoms introduced in April 2015.

These successes enabled us to build on the growth of the previous three years. They also demonstrated that our strategy, which we continue to deliver against, is working. Both our Chairman and Group Chief Executive have highlighted earlier in this Annual Report how impressive our new business performance has been, with our sales revenues doubling since we embarked on our strategy. In this review I will explain the main factors behind our strong performance last year.

I appreciate that the world of financial services is a complex one and can make things difficult to understand, so I've done my best to be as clear as possible in my review. Any financial jargon that I cannot avoid is explained in the Glossary on pages 200 to 204.

Financial summary

We measure profitability using the European Embedded Value (EEV) basis. Our EEV operating profit before tax and exceptional items grew by 11% in 2015 to £244m. The excellent performance of our pensions business played a big part in this growth, whilst the record level of new business we wrote last year contributed to more than half our profits.

The EEV profit before tax and ProfitShare was £277m (compared with £259m in 2014), a result largely driven by the operating profit result above and economic variances. ProfitShare, as highlighted already by our Chairman and Group Chief Executive, increased by 17% to £70m – great news for the Group and our members.

Key developments in 2015

Our dedication to forward-planning allowed us to adapt our products and services to the two external events that were the key drivers of new business in 2015: pension freedoms and auto-enrolment. We attracted £1,301m in funds into our Income Release drawdown proposition and provided workplace pensions to around 100,000 employees across 4,000 pension schemes in the UK. Meanwhile, in Protection we saw recovery, both in the market overall and in our own performance, with improved products and service-boosting sales.

We'll continue to develop our products in 2016 and beyond to help our customers to grow the savings and protection they need for the future.

Solvency II

Last year was a busy one for Royal London not only in terms of attracting new business, but also in preparing for the new Solvency II regime that came into effect on 1 January 2016. Our Solvency II projects made tremendous progress in 2015 to ensure we had everything in place to report under the directive. For the last time, capital reporting for the period covered in this Annual Report comes under the Solvency I regime.

Operational efficiency

We also made significant progress with our finance transformation programme. This not only enabled us to meet all the requirements of Solvency II, but will help us ensure we're better equipped to meet the needs of the business over the coming years. This programme represents an important investment for Royal London and places us in good stead to drive value across our business at a sustainable cost as we strive to realise our strategic ambitions to grow the business.

Across the Group, there was a sharp focus on keeping costs under control and ensuring we run our business effectively. A good example of this was our decision to simplify our management reporting structure by reducing the number of layers involved. We also decided to introduce a new procurement system. Both moves will help us focus our attention on the right activities and manage our cost base to ensure we continue to generate value for our policyholders.

Group Finance Director's review continued

Additional provisions for remediation
Our operating profit results include provisions incorporating some expenditure on remediation. Our Independent Governance Committee (IGC) issued its first annual report for 2015 on 3 March 2016. This is an independent report into the value for money provided by Royal London's workplace pensions and is a new requirement of the Financial Conduct Authority (FCA). We have provided for the actions recommended in this report which are expected to cost in excess of £15m.

Mutual benefits
Whatever value we generate in the years ahead, the changes we made to our ProfitShare scheme recently will ensure that more of our members benefit. With ProfitShare, we're using our status as a mutual to allow customers to share in our success – and last year we announced plans to significantly expand the number of customers who will benefit from our scheme.

Our growth over recent years has attracted many new customers, but many of these new customers don't have with-profits policies and therefore haven't qualified to share in our profits. That's all set to change, as we're broadening the base of those eligible to take part in ProfitShare. This will allow far more of our members – in effect part-owners of Royal London – to share in our success. It's important to note, however, that this is not being done at the expense of existing with-profits customers, who will continue to receive payouts and ProfitShare allocations determined in the same way as before.

The expansion of ProfitShare will allow our customers to get even more out of a scheme that has proved to be a big hit with members and has helped us secure our future as a mutual. Over the past decade we have allocated more than £530m to our eligible with-profits policyholders – and we remain as committed as ever to basing our business model on our mutual status, so our customers can profit from our growth and have their say in how we run our business. Bonuses increased significantly in 2015 as outlined later in this report.

We're also dedicated to meeting our responsibility to ensure we give our customers and members good value, high-quality products and services.

Planning for financial security in the future is an issue that's important to all of us, and at Royal London we're determined to play our full part in enabling new and existing members and customers to realise their savings goals. In doing so, we must also generate a positive financial return to secure our own position as a stable and successful organisation with a long-term future. With this in mind, we completed a £350m subordinated debt issue in 2015, enabling us to maintain and enhance our strong capital position.

New business results
We won a lot of new business during 2015. Sales grew by 40% to £6,774m, whilst our life and pensions business saw contributions from new business increase by 107% to £135.6m. Meanwhile, RLAM enjoyed a strong year against a difficult economic backdrop.

New business results by division

Intermediary
New business contribution for pensions in Intermediary, our largest division, grew by 94% to £107.9m, with the division boosted by new business volumes.

The contribution from our Protection Intermediary new business rose by 86% to £42.3m and continued to build momentum during the year. The impressive result was achieved whilst growing margins. Across both pensions and protection, margins on new business improved by 50% and 25% respectively, compared with 2014.

Consumer
Consumer is our newest and smallest division but is growing fast as we begin to sell our products not only through financial advisers but direct to consumers as well. New business volumes grew exponentially by 385% to £165m, reflecting strong growth in the direct to consumer and funeral plan business lines.

To ensure we build on this growth, we've continued to invest in developing our direct marketing capabilities and building a full online presence that will strengthen our direct offering. To help us achieve our growth plans, we are continuing to maintain a tight control on costs as the division develops.

New business results[1]

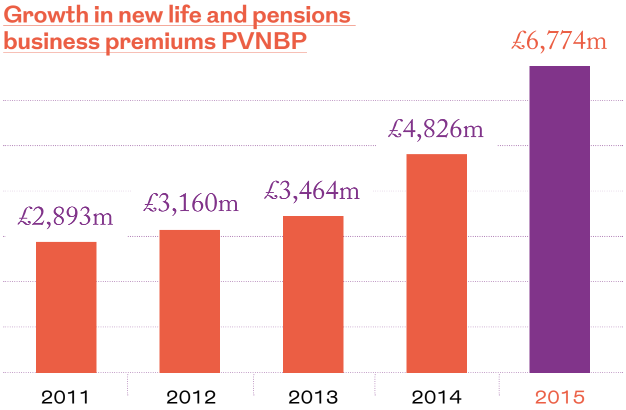
	New business contribution		PVNBP		New business margin	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 %	2014 %
Intermediary						
Pensions	107.9	55.6	6,107	4,454	1.8	1.2
Protection	42.3	22.7	502	338	8.4	6.7
Consumer	(14.6)	(12.9)	165	34	(8.8)	(37.9)
Life and pensions business	135.6	65.4	6,774	4,826	2.0	1.4
RLAM	22.2	29.9	3,146	3,755	0.7	0.8
Total	157.8	95.3	9,920	8,581	1.6	1.1

1 New business contribution in the table above has been grossed up for tax at 20% (2014 21%). We have done this to help compare our results with the results of shareholder-owned life insurance companies, which typically pay at 20% (2014 21%).

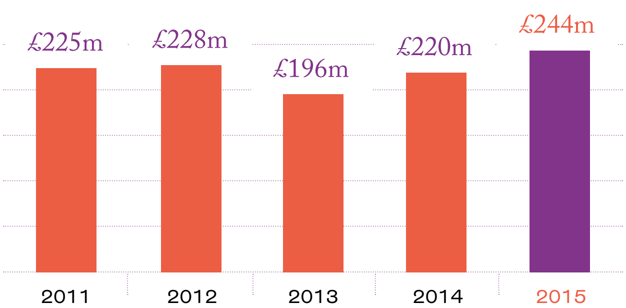
Wealth

Royal London Asset Management performed well in a year of turbulent market conditions. Gross new business inflows were £3.1bn, slightly down on the more buoyant period in 2014 (£3.8bn), but still a strong performance. Wholesale net inflows were £795m, predominantly going into the UK Equity and Fixed Income Credit funds. Changes to our business mix and a higher proportion of wholesale business meant that new business contribution of £22.2m was achieved, down 26% on 2014 (£29.9m). The Ascentric wrap platform saw sales increase by 14% to £2.5bn, thanks to the growing use of the platform among financial advisors, whilst our white-label business expanded through the creation of an Enhanced Retirement Account product in conjunction with Partnership.

Growth in new life and pensions business premiums PVNBP



EEV operating profit before tax and exceptional items*



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

Financial review

EEV operating profit

Our EEV operating profit before tax and exceptional items rose by 11% during the year to £244m (2014 £220m), thanks to our strong new business gains as outlined earlier. We also saw the benefits of our Operating Efficiency projects in improved cost controls across the business, which means that our future costs will decrease. Our EEV operating profit includes:

- £137m profits from new business written during the year, an increase of 61% as compared with last year (2014 £85m);
- £74m benefits from operating assumption variances (2014 £12m);
- £3m from experience variances, a fall of 95% (2014 £56m); and
- £21m strategic development costs (2014 £31m) relating to investment for the future across a number of projects including the rebranding of the Group.

EEV profit before tax after reflecting the impact of economic variances

Profit before tax was £203m, an increase of 4% compared with 2014 (£195m). Many of the factors outlined earlier in this report contributed to the result. Additionally, payments to our members through ProfitShare increased by £10m to £74m before tax (£70m after tax).

IFRS results

Whilst IFRS and EEV results broadly follow each other, there are key differences outlined below which contribute to the differences in respective results. As a mutual, the transfer to the unallocated divisible surplus (UDS) from continuing operations is a key measure in determining the level of profits available to share with our members.

Transfer to UDS

Our 2015 total transfer to UDS was £175m (2014 £134m), an increase of 31% which reflects the strong performance seen in EEV operating profit. On an IFRS basis, operating profit is broadly similar to our EEV operating profit, with the main differences being the amortisation of certain intangible assets that are recognised in the IFRS result but not EEV and the embedded value profits of our asset management business, which are recognised under EEV operating profit but not in our IFRS operating profit.

Our 2015 operating profit was £252m (2014 £131m). The table overleaf reconciles our operating profit to the IFRS total transfer to UDS. The most notable change from 2014 in the reconciliation is the difference in investment returns following more difficult market conditions during 2015.

Group Finance Director’s review continued

IFRS balance sheet
Our balance sheet remains robust with an increase in net assets of almost £1bn matching policyholder liabilities arising from our new business results.

Our total investment portfolio, including investment property, increased by 1% to £65,165m and was the main reason for the growth in our total assets. Our financial investment portfolio of £60,129m remains well balanced across a number of financial instruments, with the majority (35%) sitting in equity securities and fixed income assets.

The main change in our liability positions over the course of 2015 arose in insurance and investment contract liabilities, which is a result of increased new business as well as other economic and demographic factors.

Movement in staff pension scheme surplus
The Royal London Group Pension Scheme (RLGPS) had a surplus of £71m at the end of 2015, an increase of £23m on the previous year. This increase was mainly due to a rise in the rate used to discount the scheme liabilities, which reflects an increase in the yields available on high-quality corporate bonds, as well as lower than expected levels of inflation during 2015.

We also operate two schemes for ex-Royal Liver employees. The surpluses from these schemes are included as part of the valuation of the closed Royal Liver Sub-Fund and therefore do not count towards the surplus position of the Royal London Open Fund. The combined Royal Liver scheme surplus as at 31 December 2015 was £106m (2014 £80m).

The Group continues to work closely with the Trustee Board to assess options for reducing the Schemes’ exposure to market volatility.

During the year we consulted to close RLGPS, our defined benefit pension scheme, to future accrual of benefits from 31 March, 2016. This was an important step in managing our costs and the capital requirements, and we will start to see the benefits next year.

All employees will be eligible to join the Royal London Group Personal Pension (RLGPP), the defined contribution scheme to which many of our employees already belong. We have also agreed to improve the terms of this scheme, increasing the potential employer contributions and reducing the annual management charge.

Presentation of our results
As a mutual business, our Group financial results presented in this Annual Report and Accounts represent the full movement in the year in the value of the Royal London Open Fund. Our reported profit does not include the profits of closed sub-funds, since we retain the surpluses of closed funds for the benefit of with-profits policyholders who are invested in those funds.

This differs from the way that shareholder-owned life insurance companies present their results. For these companies, the profit or loss for the year is only that attributed to the company’s shareholders and is generally restricted to 10% of the distributable surplus in the with-profits fund and all the surplus from the non-profit business. Amounts attributable to policyholders are retained separately and are not included in reported profit.

Reconciliation of operating profit to IFRS total transfer to UDS

	2015 £m	2014 £m
Operating profit before exceptional items	252	192
Exceptional items (Pension Charge Cap)	-	(61)
Operating profit	252	131
Adjusting for the following items:		
Investment return variances and economic assumption changes	15	336
Pension schemes costs recognised on profit	(10)	(8)
Finance costs	(44)	(43)
ProfitShare	(70)	(60)
IFRS profit before tax	143	356
Tax charge	18	207
Other comprehensive income	50	(15)
Total transfer to unallocated divisible surplus	175	134

40%

The proportion by which sales grew in 2015

£697m

The amount we added in bonuses to with-profits policies in 2015

Capital strength
Maintaining our strong capital position and managing this effectively is a key priority for us – it ensures we can provide our members with financial security and allows us to continue to grow the business.

As ever, we worked hard last year to ensure compliance with regulatory requirements for financial reporting. As in 2014, our capital reporting for 2015 is under Solvency I measures. We also followed the Insurance Groups Directive (IGD), which is one of two Prudential Regulatory Authority (PRA) Pillar 1 reporting bases and requires us to detail our solvency position. Our IGD capital surplus increased by 4% during the year to £3,535m as a result of our strong business performance. The second basis is the realistic basis which underpins our IFRS and EEV valuations. Realistic working capital rose by 6% to £3,596m.

Issuing debt is a common way of raising additional capital and it is particularly effective for companies that do not have shareholders. We raise debt in order to support our general business and commercial activities. In November, we raised £350m in a debt issue of 13-year subordinated notes. The notes carry a coupon of 6.125% and were issued at par. The issue was heavily oversubscribed, indicating strong investor support. In December we went on to redeem in full our subordinated notes originally issued in 2015 at the first reset date. Maintaining our debt programme ensures that our capital position remains strong.

Our preparations for Solvency II have gone well and, as a Group, we are well positioned to cope with the increased reporting that this will necessitate. More importantly, we have the capital strength to support these requirements. Solvency II, the European Union directive that will now regulate how we manage and report risk and capital, transforms the way in which we report our capital. Look out for further detail on this in our future press releases.

Rating agencies
Our financial strength and stability as a business are important both in maintaining the confidence of our members and customers, and in enabling us to run Royal London efficiently. These are also the qualities that ratings agencies look for when they analyse our financial health. Standard & Poor's and Moody's, two of the best-known agencies, have issued ratings on Royal London for a number of years.

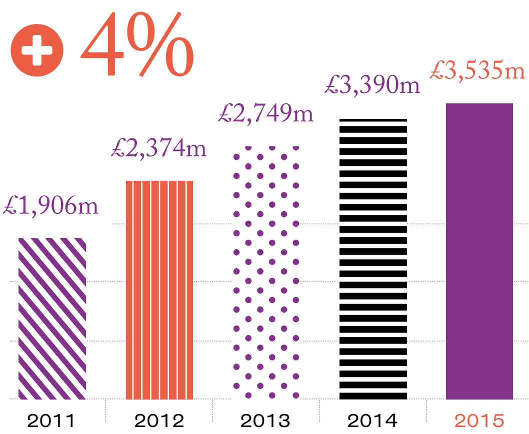
Our Standard & Poor's rating is A and our Moody's rating is A2, with both ratings remaining unchanged in 2015.

Regulatory capital

	2015 £m	2014 £m
Total available regulatory capital[1]	14,283	13,366
Capital requirement	(1,222)	(1,341)
Additional with-profits requirements[2]	(9,526)	(8,635)
Excess regulatory capital	3,535	3,390

1 Includes Tier 2 capital.
2 The additional with-profits requirements represent the regulatory surpluses in the closed funds. These are held for the benefit of the policyholders invested in them and therefore do not count towards the Royal London Open Fund excess regulatory capital.

Excess regulatory capital

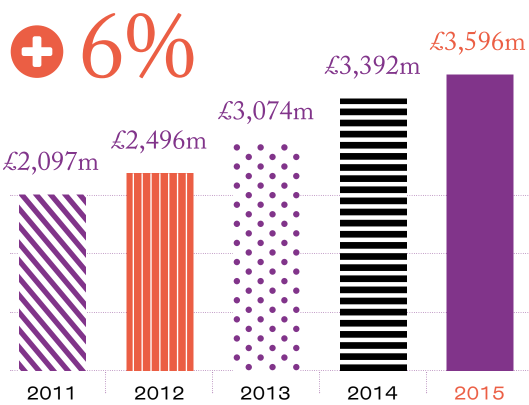


Realistic capital

	2015 £m	2014 £m
Realistic working capital (before closed fund transfer commitments)[1]	7,181	6,459
Closed fund transfer commitments[2]	(3,585)	(3,052)
Total working capital	3,596	3,407
Risk capital margin	-	(15)
Excess realistic capital	3,596	3,392

1 Includes Tier 2 capital.
2 Closed fund transfer commitments represent the realistic working capital of the closed sub-funds, which is retained for the benefit of policyholders in those funds.

Excess realistic capital



Returning value to our members and policyholders

We have returned good value to our with-profits policyholders in 2015 through:

- positive investment returns on their policies, despite difficult economic conditions;
- the payouts that were made to maturing policies during the year, which compare well with our industry; and
- ProfitShare, which increased from last year to a 1.4% enhancement to the qualifying policies' asset shares (£70m in total after tax).

Investment returns

RLAM, which invests assets on behalf of our customers, performed well in volatile and sometimes difficult market conditions. These challenging conditions were reflected in the performance of the FTSE 100, the share index for the largest companies quoted on the London Stock Exchange, which fell by 4.7% to 6,242 during the year.

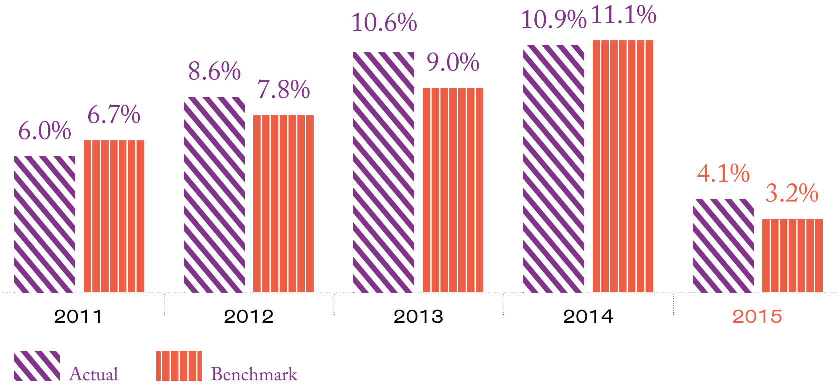
Our performance is measured against benchmarks that look at returns from different types of asset in the market, such as property, equities and bonds. Each of our funds has different benchmarks that reflect their mix of assets. This helps us to ensure we are comparing like with like to assess our asset management performance.

During the year our investments backing the asset shares of the Royal London Open Fund, our largest fund, achieved a return of 4.1%, which was down on 2014 (10.9%) but ahead of the benchmark at 3.2%. The first chart shows the fund's performance over the past six years and our outperformance as compared with the benchmark in three of those years.

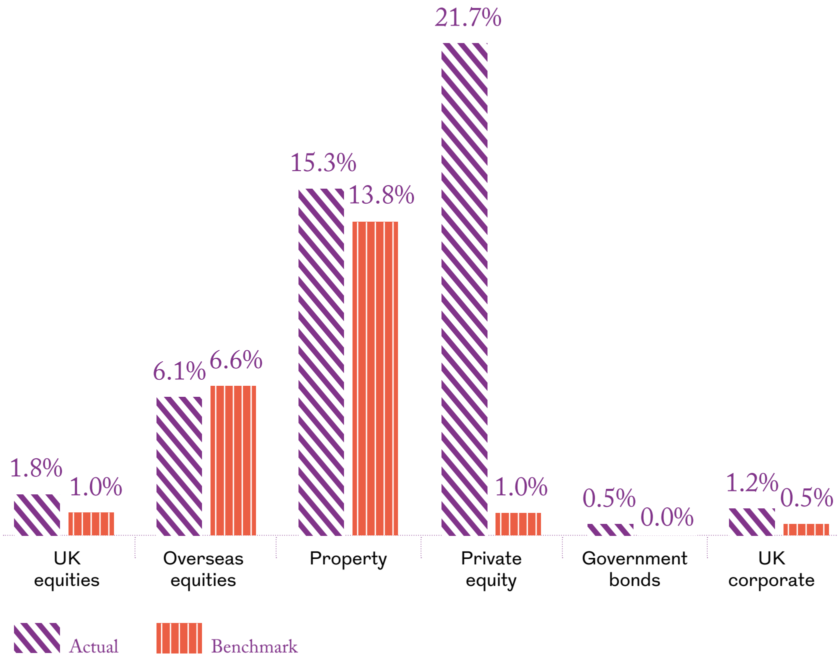
The second chart illustrates the performance of the different types of investment in asset classes that underpin the fund. During 2015, we were ahead of the benchmark across all asset classes, with the exception of overseas equities, where we were 0.5% behind the benchmark.

With-profits investment performance

Royal London with-profits performance



Royal London with-profits performance by asset class in 2015



All of the life funds managed by RLAM outperformed their benchmarks in 2015 and indeed have done for the last three-year period.

RLAM, which invests assets on behalf of our customers, performed well in volatile and sometimes difficult market conditions.

£70m

The value of ProfitShare in 2015 – an increase of 17% on the previous year

11%

The increase in EEV operating profit last year

With-profits policyholder bonuses

We added £697m of bonuses (2014 £285m) to with-profits policies in 2015 as follows:

	2015 £m	2014 £m
Annual	77	73
Interim	17	12
Final	603	200
Total	697	285

The increase in bonuses is primarily driven by the CIS fund being £386m (2014 £15m) of the total amounts, following the Part VII transfer of CIS at the end of 2014.

We manage our with-profits funds and set bonus rates with the aim of being fair to all policyholders invested in the funds. When we decide bonus rates, we need to consider the policyholders who will remain in the fund as well as those whose policies mature or become claims. We also need to maintain the strength of the funds and protect the long-term interests of current and future policyholders and members.

Annual bonus rates for 2015 remained unchanged at 0.5% for Royal London conventional with-profits life policies and have been increased for Royal London accumulating with-profits pension policies, from 2.0% to 2.5%. The annual bonus rates for Royal London unitised with-profits policies also increased for most lines of business, including the With-Profits ISA, With-Profits Bond, and Regular Savings Plan.

Unit-linked investment returns

All of the Governed Portfolios have outperformed their benchmarks over one year, three years and since launch to the end of December 2015. This has been helped by strong relative performance from the underlying components of the portfolios. Over the last three-year period the portfolios have outperformed benchmark by 3.71% on average.

Group Finance Director's review continued

ProfitShare
As outlined earlier, we announced plans last year to expand the number of members eligible for ProfitShare to include more than 600,000 customers with unit-linked retirement policies. In the past only with-profits policyholders have benefited. This change will take effect in 2016, and further details are outlined in the Group Chief Executive's Review on pages 6 to 9 and elsewhere in this report.

As outlined earlier ProfitShare, formerly known as the Mutual Dividend, increased by 17% to £70m in 2015. The improved payout reflects the strong performance of the business in 2015, but also takes into account other factors, including the introduction in January 2016 of Solvency II, the new European regulatory regime.

We apply ProfitShare by enhancing the asset shares of relevant policies. This year, the enhancement amounts to 1.40% of each policyholder's assets, an increase from 1.15% paid out in 2014. Compared with the extremely low rates of interest currently paid on most bank deposits, the 1.40% ProfitShare represents a meaningful addition to our members' savings.

Tax
During the past couple of years, tax has become a topic of contention across a number of industries. At Royal London, we believe in transparency and manage our tax affairs in accordance with the tax strategy outlined.

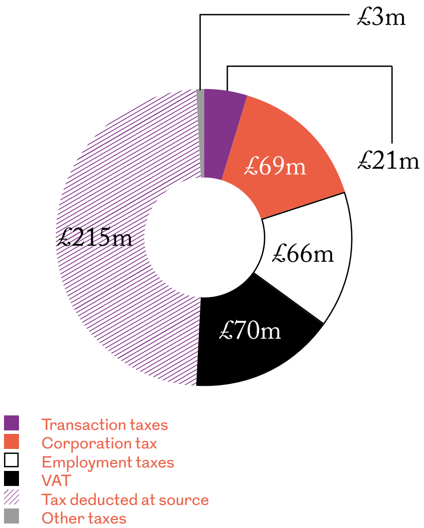
Tax strategy
We strive to pay the right amount of tax and, a fair amount of tax with a balance between all our stakeholders, ensuring that our policyholders are all being treated fairly.

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

How we're taxed
Royal London is subject to various taxes including corporate taxes, employment taxes on salaries, and indirect taxes such as VAT. The corporation tax that the Group pays is a proxy for policyholder tax liabilities, paid on behalf of certain life assurance policyholders. For these life policies, tax is charged on taxable income less expenses relating to policies. This tax is paid directly to HMRC by the Group as corporation tax on behalf of policyholders.

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

The majority of our business is based in the UK and therefore most of the tax we pay relates to UK taxes. In 2015, the total UK tax contribution of the Group was £444m (2014 £246m). A summary chart of the total contribution of the Group for 2015 is shown below.



> The strong performance we delivered in 2015 demonstrated that Royal London is a robust business that's capable of rising to the occasion and meeting the needs of a changing market.

The Group's total tax contribution is made up of the taxes borne and collected by the Group over the period. Taxes borne are the taxes incurred by the Group in the period that impact on the results of the Group. Taxes collected are those administered by Royal London Group on behalf of Government and collected from others for onward payment to HMRC. In 2015, taxes of £139m (2014 £93m) were borne by the Group and the Group collected £305m (2014 £153m) of taxes on behalf of the UK Government. The large increase in taxes collected is a result of policyholders taking advantage of the increased flexibility in accessing pension savings provided by the new pension freedoms.

Conclusion

The strong performance we delivered in 2015 demonstrated that Royal London is a robust business that's capable of rising to the occasion and meeting the needs of a changing market. Our financial results were impressive, showing an increase in EEV operating profit of 11%, along with a 17% rise in ProfitShare for eligible policyholders. We were also thrilled with our new business results.

And reassuringly, our capital position has remained robust as we begin to operate under the new regulatory regime of Solvency II.

What's more, we see scope for continued growth in 2016. We believe our strength and stability as a business will enable us to deliver on that promise, whilst at the same time welcoming hundreds of thousands more Royal London customers to share in our success through our ProfitShare scheme.

Tim Harris
Group Finance Director

Forward-looking statements

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

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

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

Strategic Report

The 2015 Strategic Report, from pages 2 to 39, was approved by the Board of Directors on 30 March 2016.

By order of the Board

Simon Mitchley
Company Secretary
For and on behalf of
Royal London Management Services Limited
30 March 2016

HOW WE'RE RUN

How companies are run has become over-complicated in recent years, but at Royal London we take a simple approach that allows us to focus on what matters.

Rupert Pennant-Rea
Chairman

> The Board has ultimate responsibility for the health of the Group and is answerable to its owners. That is why Royal London's members elect the directors, and at each AGM you decide whether or not you want us to continue.

How companies are run, in plain English, has been a subject of debate over the past 10-15 years. Corporate Governance is the term now widely used, and in its name a small industry of consultants, lawyers, academics and regulators has emerged. Whatever their merits, there is no substitute for a company board that tries to ensure a firm is well run.

What does that mean? The simplified answer comes in two parts: the firm should be run for the benefit of (a) customers and (b) owners. If the firm is producing things that customers want and doing so at least as efficiently as its competitors, then it will be profitable and its owners will benefit too.

Royal London being a mutual, our position is different. All our owners are customers too, which in some ways makes the governance issue simpler. As we say elsewhere in this report, we are now able to offer the benefits of ownership to a wider range of customers. This means that, over time, our customers and our owners will increasingly be one and the same people. By contrast, proprietary companies often face a dilemma: they may need to spend more time and money to do what is best for their customers, but that might delay the rewards for impatient shareholders. For a mutual, this tension between short-term pressures and long-term benefits does crop up from time to time, but it is certainly easier to handle.

A good company is run well at every level, of course. The day-to-day tasks at Royal London are the responsibility of all our staff. They design the Group's products – pension schemes, protection policies and investment funds – and then sell them, manage them and provide a service for customers at each stage of a product's life. In a vital sense, they are involved in corporate governance all the time.

However, the business of Corporate Governance (with a capital C and a capital G) usually refers to what happens at the top of the company – senior management and the Board. This is the stuff of annual reports, and I hope you will find in these pages a full account of Royal London's governance.

In broad terms, the job of the Board comes in four main parts: to set the Group's strategic course; to oversee its operations and finances; to check that the Group sticks to the law and regulations; and to make sure its senior management are the right people for the job and properly incentivised to do it well.

The Board delegates big chunks of these tasks to various sub-committees: Audit, Investment, Nomination, Remuneration, Risk, and a With-Profits Committee especially for the with-profits policyholders. This range is standard for other insurance companies doing more or less what we do, as is the fact that all committees are chaired by non-executive directors. I'd encourage you to read all their reports: you don't have to be a Corporate Governance anorak to find them useful.

Over the past 20 years, what constitutes good governance has been brought together and formalised, most recently in the UK Corporate Governance Code. The Code is produced by the Financial Reporting Council, a quango with more reach and power than is generally recognised. Last revised in 2014, the Code runs to 36 pages and in almost every clause the word 'should' appears at least twice. These recommendations are not obligatory, but companies that don't comply with the Code have to explain why not.

The Code is intended for listed companies, and particularly the larger ones. As a mutual, Royal London is not obliged to follow the Code, but the Board has long agreed that we should do so as far as possible. We report on a specially annotated form of the Code for mutual companies. What you will find in this report comes close to satisfying all the requirements of the Code, a practice we intend to continue.

As the Code makes clear, the Board has ultimate responsibility for the health of the Group and is answerable to its owners. That is why Royal London's members elect the directors, and at each AGM you decide whether or not you want us to continue. Staff, directors, owners: if all play their proper part, the result will be a well-run company.

Board of Directors

Rupert Pennant-Rea
Chairman

Rupert Pennant-Rea was appointed to the Board on 13 December 2012 and was appointed Chairman after the AGM in 2013. Rupert has extensive financial services industry experience. He was chairman of Henderson Group for eight years and stepped down at its AGM in May 2013. He was deputy governor of the Bank of England from 1993 to 1995, prior to which he spent 16 years with *The Economist*, where he was editor from 1986 to 1993. He was appointed non-executive chairman of the Economist Group in July 2009. His other directorships include PGI Group Limited and Times Newspapers Holdings Limited.

Phil Loney
Group Chief Executive

Phil Loney was appointed to the Board on 1 October 2011, coinciding with his appointment as Chief Executive of the Group. He previously spent eight years at Lloyds Banking Group, most recently as managing director of the Life, Pensions and Investments business. Prior to joining Lloyds Banking Group, Phil held senior management positions with AXA, Norwich Union, CGU and Lloyds Abbey Life amongst others. He is a director of the Association of British Insurers.

Tim Harris
Group Finance Director

Tim Harris was appointed to the Board as Group Finance Director on 19 May 2014. Prior to joining Royal London, Tim was chief finance officer for Torus Insurance and held a number of senior executive positions at Aviva Plc, most recently deputy group chief financial officer, and served on the boards of Aviva Ireland and Aviva France. He was also a partner in the Global Capital Markets practice at PricewaterhouseCoopers LLP. Tim is a Fellow of the Institute of Chartered Accountants (ICAEW) and a Chartered Insurance Practitioner, and serves on the Insurance Committee of the Financial Services faculty of the ICAEW.

Andrew Carter
Executive Director

Andrew Carter was a director from January 2007 to 31 December 2015. He joined Royal London Asset Management in September 2001 as Chief Investment Officer and was promoted to Chief Executive Officer in September 2003. In 2012 he was made Chief Executive Officer of Royal London Wealth. Andrew has extensive asset management experience of the major asset classes, beginning his career in investment management in 1983 with Provident Life. Prior to joining Royal London, he held a number of investment management positions at Gartmore from 1987 to 2001.

Jon Macdonald
Group Risk Director

Jon Macdonald was appointed to the Board on 14 December 2012 having joined the Group in November 2012 as Group Risk Director. He was previously Group Chief Risk Officer for RSA. He has held a number of senior risk and capital management roles at Prudential, PricewaterhouseCoopers LLP, Aviva Plc, Fox-Pitt Kelton, Swiss Re and Zurich and is a Fellow of the Institute of Actuaries.

Sally Bridgeland
Non-Executive Director

Sally Bridgeland was appointed to the Board on 14 January 2015. She is a member of the Nomination and Remuneration Committees and Chairman of the Investment Committee. Sally spent 20 years at AON Hewitt followed by seven years as chief executive officer of the BP Pension Fund. Sally is currently an independent trustee on the boards of Lloyds Bank Group pension funds, a Trustee Member of NEST Corporation and a member of the Trust Investment Committee at innovation charity Nesta. She is Senior Warden of the Worshipful Company of Actuaries and a non-executive director of Impax Asset Management Group plc.

Ian Dilks
Non-Executive Director

Ian Dilks was appointed to the Board on 14 November 2014. He is a member of the Nomination, Investment and Audit Committees. Ian spent his entire career at PricewaterhouseCoopers LLP, joining the firm (which was then Coopers & Lybrand) in 1974, becoming a partner in 1986. He rose to become a member of the global financial services leadership team and global insurance leader. He also led their IFRS conversion businesses in the UK. In his final role at PricewaterhouseCoopers LLP he had responsibility for the regulatory affairs of the global network. He is currently Chairman of the NHS Litigation Authority.

Duncan Ferguson
Senior Independent Director

Duncan Ferguson was appointed to the Board on 1 April 2010. He is Senior Independent Director and Chairman of the With-Profits Committee. He also sits on the Nomination, Board Risk and Audit Committees. He was Senior Partner of Bacon & Woodrow, then B&W Deloitte, from 1994 to 2003, and a non-executive director of Henderson Group until December 2013. Duncan was a non-executive director of Halifax from 1994 until it merged with Bank of Scotland in 2001 and then of HBOS Financial Services until 2007. He was President of the Institute of Actuaries from 1996 to 1998.

Tracey Graham
Non-Executive Director

Tracey Graham was appointed to the Board on 10 March 2013. She is Chairman of the Remuneration Committee and sits on the Audit and Nomination Committees. She was chief executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that, she was president of Sequoia Voting Systems and customer services director at AXA, and held a number of senior positions at HSBC. Tracey is currently a non-executive director of Link Scheme Limited, Ibstock plc and Acal plc. Tracey is also Vice Chairman of the Nonsuch and Wallington Eduction Trust.

Andrew Palmer
Non-Executive Director

Andrew Palmer was appointed to the Board on 1 April 2011. Andrew is Chairman of the Audit Committee and sits on the Remuneration, Board Risk and Nomination Committees. He was group finance director of Legal & General Group plc where he also held a number of financial and operational roles in the asset management, insurance and international businesses. He is a non-executive director of Direct Line Insurance Group, a trustee and honorary treasurer of Cancer Research UK, and a member of the Financial Reporting Review Panel of the Financial Reporting Council.

David Weymouth
Non-Executive Director

David Weymouth was appointed to the Board on 1 July 2012. He chairs the Board Risk Committee and sits on the Nomination and Audit Committees. His 27 year career at Barclays encompassed a wide variety of leadership roles, including Operations Technology and Risk, most recently Global Chief Information Officer. He subsequently consulted to a number of blue chip and government organisations. He was on the Executive Committee of RSA Insurance Group plc and was Group Chief Risk Officer, until his retirement in May 2015. He is currently a non-executive director and Chairman of the Risk Committee at Mizuho International Holdings plc, the Risk Committee at the Financial Services Compensation Scheme and the Audit Committee at Bank of Ireland (UK) plc. He joined the board of Fidelity UK as a non-executive director in October 2015.

Directors' report for the year ended 31 December 2015

The directors present their report for the year ended 31 December 2015. **The Directors' report should be read together with the Strategic Report and the Corporate Governance statement,** which are incorporated in this Directors' report by reference.

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

The Corporate Governance statement reports on the Company's compliance with the UK Corporate Governance Code 2014: An Annotated Version for Mutual Insurers (the code) published in April 2015 and includes information about any principal risks and uncertainties associated with the business.

Principal activities

The Group comprises The Royal London Mutual Insurance Society Limited and its subsidiaries. The Group is structured into a number of businesses as set out in the Strategic Report. The principal activity of the Company is the transaction of long-term insurance business covering life and pensions. A list of the Company's subsidiaries is set out in note 21 to the financial statements.

Going concern

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

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

Dividend

The Company is limited by guarantee without share capital and therefore no dividend is payable. A description of how value is returned to members is provided on page 36.

Annual General Meeting

The Annual General Meeting (AGM) of the Company will be held at 10.30 a.m. on Thursday 9 June 2016, at The Kia Oval, Kennington, London SE11 5SS. The Notice convening the meeting, together with guidance on the AGM, is sent to all members.

Directors

Details of the current directors are set out on pages 42 and 43. All of the directors have held office throughout the year except Sally Bridgeland who was appointed on 14 January 2015. Andrew Carter resigned as a director on 31 December 2015.

In accordance with the Code, all continuing directors retire and offer themselves for reappointment each year. The details of the executive directors' service contracts are set out in the Directors' remuneration report on pages 58 to 76. None of the directors has, or had, an interest in the equity shares of any Group undertaking.

Directors' indemnities

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

Directors' conflicts

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

Financial instruments

The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments and information on the risk exposures arising from those instruments are set out in note 43 to the financial statements.

Employees

Details of the Group's employment policies are shown on pages 28 to 29.

Risk management

The Group has procedures in place to identify, monitor and evaluate the significant risks it faces. The Group's risk management objectives and policies are set out on pages 11 to 12 and in note 43 on pages 167 to 181 of the financial statements.

The Group has procedures in place to identify, monitor and evaluate the significant risks it faces.

Political donations

No political donations were made in the year ended 31 December 2015 (2014 £nil).

Auditors

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

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

Further information on our audit tendering policy is provided on page 52.

Strategic Report

For the purposes of the UK Companies Act 2006, the Directors' report for the year ended 31 December 2015 comprises pages 44 to 45 of the Corporate Governance report and the Directors' responsibility statements on page 49.

As it is entitled to do by the Companies Act 2006, the Board has chosen to set out in the Strategic Report (pages 2 to 39) those matters required to be disclosed in the Directors' report which it considers to be of strategic importance to the Group, as follows:

Information	Location in Annual Report
Risk management and Internal Controls	Strategic Report, pages 11 and 12
The Group's Governance structures	Strategic Report, page 13
Principal Risks and Uncertainties	Strategic Report, pages 14 to 18
Longer-Term Viability Statement	Strategic Report, page 19

In addition, the information in the following table is also incorporated into the Directors' report:

Information	Location in Annual Report
Disclosure of information to the auditor	Corporate Governance statement, page 45
Future development of business of the Group	Group Chief Executive's statement, pages 6 to 9
Employee involvement	Corporate Responsibility statement, pages 28 and 29

By order of the Board

Simon Mitchley
For and on behalf of Royal London Management Services Limited
Company Secretary
30 March 2016

Corporate Governance statement

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

In this report, the term 'period under review' means the period from 1 January 2015 to the date of this report.

The UK Corporate Governance Code

The Board considers that throughout the period under review it has applied the relevant principles and complied with the relevant provisions of the UK Corporate Governance Code 2014: An Annotated Version for Mutual Insurers, published in April 2015 (the 'Code').

Members

As a mutual, the Company has no shareholders and is owned by its Members. This means that the focus of the Company is to provide long-term benefit to those Members. The Company has extended its ProfitShare participation so that more Members can share in the success of the Company.

The Board

The Board is given the powers to manage the Company's business by the Members. One of the main roles of the Board is to focus on the strategic objectives of the Royal London Group, to ensure that it is appropriately managed and that it achieves these objectives.

Role

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

- values, standards and ethics;
- strategy and objectives and approves an annual business plan and budget and monitors the Group's performance in achieving them;
- risk appetite;
- internal control system;
- organisational structure; and
- remuneration (including pension) policies.

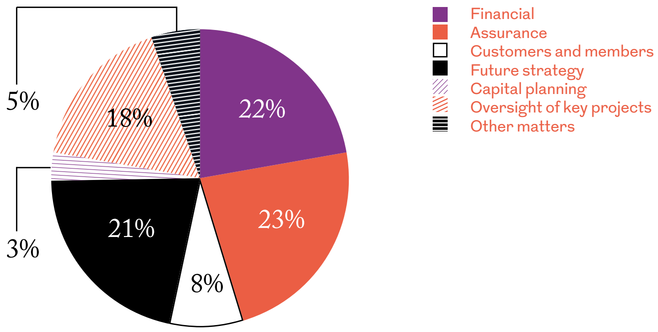
The Board also:

- reviews the most significant risks affecting the Group and the action being taken to manage or mitigate them;
- appoints directors and makes and approves certain senior appointments including the Group Chief Executive, the executives who report directly to him, the senior actuarial appointments, the Group Risk Director, Group Head of Regulatory Risk and Compliance and the Company Secretary;
- determines the responsibilities of the Group Chief Executive and approves any delegation of his responsibilities to executive directors, heads of business units or support functions;
- declares annual and final bonuses (and the basis for payment of benefits on early termination, including market value adjustment factors) on with-profits policies issued by any Group company;
- approves contracts entered into by the Company or subsidiary which are deemed material in the context of the Group's strategy, size or level of risk;
- approves methods and assumptions for determining long-term business liabilities;
- approves the Annual Report and Accounts and the significant regulatory returns;
- approves the Principles and Practices of Financial Management for the with-profits funds; and
- reserves to itself certain decisions.

These reserved decisions include:

- those relating to the acquisition or disposal of any business or major asset;
- setting up of a new business or joint venture or the merging of any part of the Group's business with a third-party;
- making or guaranteeing a significant loan; and
- significant investments and transactions not at arm's length.

Allocation of Board agenda time



Those matters that are not specifically reserved for the Board are delegated to the Group Chief Executive, who has in place a clear and appropriate apportionment of responsibilities amongst executive directors and senior managers in order that the business of the Group can be effectively managed and reported on.

The roles of the Chairman and Group Chief Executive are separate and there is a clear division of responsibilities between the two roles. The Chairman is primarily responsible for leading the Board, ensuring its effectiveness and setting its agenda. The Group Chief Executive is responsible for the day-to-day management of the Group's business. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with. In addition, all directors have access to independent professional advice at the Group's expense where they consider it necessary in the discharge of their duties.

Allocation of time

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

Composition and balance

The Board currently comprises the Chairman, six independent non-executive and three executive directors. One of the non-executive directors, Duncan Ferguson, is the Senior Independent Director. The biographies of all the directors appear on pages 42 and 43, together with summaries of their experience and qualifications and a note of their other significant commitments. Membership of the Board's committees is set out in this statement.

The Board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experience to their understanding of the Royal London Group, and to review and refresh regularly the skills and experience the Board requires.

The Nomination Committee is responsible for succession planning for directors and other senior executives to ensure that an appropriate balance of skills and experience is maintained and that there is progressive refreshing of the Board. As part of the process for the appointment of new directors, the Nomination Committee, on behalf of the Board, considers the diversity of the Board, including gender. The aim is that the Board as a whole should have an appropriate balance of skills, experience, independence and knowledge to enable each director and the Board as a whole to discharge their duties and responsibilities effectively. Each director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

The process for appointing new directors is conducted by the Nomination Committee and a description of its duties is set out in its report.

Board effectiveness

The Board conducts a formal and rigorous evaluation of its performance, the performance of its directors and the performance of its committees every year, with an external review every three years. The process is led by the Chairman and supported by the Company Secretary.

The Group completed an internal Board effectiveness review for the year ending 2015, with the next external review scheduled for the year ending 2016.

The review in 2015 included aspects of Board governance, to confirm the Board and Committees have:

- fulfilled their responsibilities under their terms of reference;
- the right balance of skills, knowledge and experience;
- been working effectively and efficiently;
- received management information and papers that are sufficient and timely, focusing on key issues throughout the year; and
- exhibited the right behaviours.

Upon completion of the review, it was concluded that the Board and the Committees operated effectively in 2015, and that every director contributed effectively to this outcome.

The review did identify some specific changes and areas for improvement. These included providing greater clarity on the work the Committees carried out on behalf of the Board.

All matters arising from the evaluation have been assigned an action plan and will be regularly reviewed by the Board.

The Board considers that each non-executive director, including the Chairman, displayed the commitment required to discharge the role properly and was independent. The Chairman meets from time to time with the non-executive directors in the absence of the executive directors. By way of a Board development plan, the directors have continued to update their skills and knowledge, both within the Group and outside. Presentations have been given on key issues and developments within the industry. The directors are kept informed of relevant regulatory and corporate governance developments as they arise through senior managers and external advisers.

Induction and development

Induction

As provided by the Code, the Chairman is responsible for ensuring that a full, formal and tailored induction is provided to all new directors and he is assisted by the Company Secretary in facilitating the induction. A tailored induction programme is provided for all newly-elected non-executive directors and it is designed to enhance the directors' knowledge and understanding of the Group's businesses, operations and regulatory environment. The induction programme provided is specific to each new director, with consideration given to their experience, background and level of knowledge of the Group's business. The induction usually includes meetings with management and external stakeholders, visits to business units and presentations on the regulatory framework applicable to the Group.

The following is an example of the induction programme for a non-executive director:

- Introduction
  - Royal London structure; and
  - introduction to business areas and functions.
- Market knowledge
  - Group products – pensions, with-profits policies, platforms, and investment management.
- Business strategy and model
  - business model;
  - operations;
  - risk and strategy; and
  - IFAs and customers.
- Risk management and control
  - Solvency II
- Financial analysis and controls
  - financial reporting and external audit; and
  - internal controls.
- Governance oversight and controls
- Remuneration policy
- Regulatory framework and requirements
- ProfitShare accounts

Essential information covering the following is also provided in a Director Induction Pack:

- Directors' duties
- The Group's business
- Board issues: memorandum and articles of association; minutes of recent Board meetings; Board Committees' terms of reference
- Internal policies

The induction programme has been reviewed following the appointment of directors in 2014 and 2015 and was found to be fit for purpose.

Development

The Chairman has the responsibility to review and agree with each director their training and development needs and the Company Secretary has primary responsibility for co-ordinating the ongoing training and development of all directors. The continuing development of the directors entails regular updates on the Group's businesses and industry-related matters as well as any changes in the regulatory environment. We have also introduced mandatory training for the non-executive directors, as currently required for all employees. This covers areas such as the Senior Insurance Managers Regime, Fighting Financial Crime, Data Protection and Treating Customers Fairly.

> The directors are responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

During the year the directors received briefings on the following topics:

- Solvency II and Internal Model Governance: the Board completed four days of training on Solvency II matters in preparation for the implementation of Solvency II;
- At Retirement Market;
- Derivatives;
- Direct to Consumer;
- Senior Insurance Managers Regime; and
- Culture.

Succession and diversity

It is the responsibility of the Board to ensure that plans are in place for appointments to the Board that will maintain an appropriate balance of skills and experience. The Nomination Committee provides advice to the Board on succession planning.

The Board is committed to ensuring a diverse pool of candidates is considered for any vacancies that may arise and that they are filled by the most qualified candidates based on merit, having regard to the benefits of diversity, including gender.

Institutional shareholder

The Group, through Royal London Asset Management Limited (RLAM), firmly believes in the use of best practices by the companies in which it invests and its approach is set out in the corporate responsibility statement on pages 28 to 29.

Directors' responsibilities

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

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

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

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

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

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

Each of the directors, whose names and functions are shown on pages 42 and 43, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, cash flow and profit of the Group;
- the Strategic Report on pages 2 to 39 includes a fair review of the development and performance of the business and the position of the Group;
- a description of the principal risks and uncertainties that the Group faces together with details of the Group's risk governance structure are provided on pages 13 to 18; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position, performance, business model and strategy.

Corporate Governance statement continued

Attendance of Board and Board Committee meetings

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

	Board	Audit Committee	Board Risk Committee	Investment Committee	Nomination Committee	Remuneration Committee	With-Profits Committee	Independent Governance Committee
Total number of scheduled meetings in 2015	10	12*	9	4	2*	11*	8*	5*

* A number of meetings are held to deal with matters arising between scheduled meetings, typically relating to Solvency II or other regulatory matters.
The number of additional meetings in 2015 were: Audit (3), Nomination (1), Remuneration (1), With-Profits Committee (2), Independent Governance Committee (1).

Attendance

Member	Board	Audit Committee	Board Risk Committee	Investment Committee	Nomination Committee	Remuneration Committee	With-Profits Committee	Independent Governance Committee
Sally Bridgeland (appointed to the Board 14 January 2015)	10	-	-	4	2	-	-	-
Andrew Carter	8	-	-	-	-	-	-	-
Ian Dilks	10	11	-	3	2	-	-	-
Duncan Ferguson	10	8	9	-	2	-	8	-
Tracey Graham	10	9	-	-	2	11	-	-
Tim Harris	10	-	-	4	-	-	7	-
Phil Loney	9	-	-	-	-	-	-	-
Jon Macdonald	9	-	-	4	-	-	-	5
Andrew Palmer	10	12	9	-	2	11	-	-
Rupert Pennant-Rea	10	-	-	-	2	11	-	-
David Weymouth	10	10	9	-	1	-	-	-

(i) The table shows attendance for those Committees the individual is a member of.
(ii) Non-Executive Directors may also attend Committee meetings of which they are not a member, which collectively totalled 23 meetings in 2015.

Board Committees

The Board has established the following Committees:

- Audit Committee;
- Board Risk Committee;
- Investment Committee;
- With-Profits Committee;
- Nomination Committee;
- Remuneration Committee; and
- Independent Governance Committee.

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

Report of the Audit Committee

On behalf of the Audit Committee (the Committee) I am pleased to present the Committee's report for 2015. The membership of the Audit Committee comprises Andrew Palmer (Chairman), Ian Dilks, Duncan Ferguson, Tracey Graham and David Weymouth. The respective chairs of this Committee and the Board Risk Committee attend meetings of the other committee as members.

A joint Board Risk and Audit Committee was held on one occasion on 15 December 2015. This ensures that the two committees are operating effectively together on areas of common responsibility and where either of the committees is required to collaborate on, or assume responsibility for, a review conducted by the other.

The qualifications of each member of the Committee are included in the biographies of the directors on pages 42 and 43. The responsibilities of the Committee include:

- monitoring the integrity of the financial statements and formal announcements relating to financial performance;
- reporting to the Board the Committee's view of all aspects of proposed financial reporting by the Group;
- reviewing accounting policies and the determination of actuarial liabilities;
- reviewing accounting matters requiring the exercise of judgement;
- reviewing the effectiveness of the Internal Audit function;
- reviewing, on an ongoing basis, reports from the Internal Audit function;
- approving the annual Internal Audit plan and ongoing resources;
- monitoring and reviewing the effectiveness of the Group's internal controls;
- reviewing the external auditors' findings (including those contained in management letters) and management's response to them;
- making recommendations to the Board in relation to the appointment of the external auditors, to be put to the members for their approval in general meetings;
- recommending to the Board the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence, objectivity, expertise and resources and the effectiveness of the audit process;
- monitoring the engagement of the external auditors to supply non-audit services; and
- review of regulatory compliance and governance.

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

Some executive directors and some members of senior management including the Group Audit Director and the external auditors attend meetings of the Audit Committee and some members of senior management submit reports to the Committee.

The Code states that the Board should satisfy itself that at least one member of the Committee has recent and relevant financial experience. The Board takes the view that more than one member of the Committee has recent and relevant financial experience. The Board also views the Committee as a whole for this test and has concluded that the Committee does have the relevant skills and financial experience necessary.

During the year the Committee particularly focused on the following areas.

1. Financial reporting matters
The Committee reviewed the Group's annual and half-year IFRS and EEV reporting. In doing so, the Committee considered the accounting policies adopted by the Group, the impact of any emerging technical accounting issues and the significant reporting and valuation judgements made by management. This included assessing the process for the valuation of investments by the directors, the key actuarial assumptions underpinning the insurance liabilities and any material contingent assets and liabilities. The Committee discussed and reviewed the results and the presentation of them in the Annual Report and Accounts, press releases and the going concern and Longer-Term Viability Statement.

2. Control environment
The Committee reviewed the effectiveness of the control environment across the Group throughout 2015. This included reviewing reports from management on major control issues being managed in the year, and the assessment of the effectiveness and consistency of the Group's processes. The Committee concluded that the control environment of the Group was generally effective throughout the year and that any matters arising were being appropriately dealt with.

3. Internal Audit
The Committee oversaw the activities of the Internal Audit function. It received summary reports on the results of all audits performed and monitored management's responses to issues identified and the timeliness of their resolution.

The Committee reviewed and provided input into the risk-based internal audit plans for 2016. The Committee held a number of meetings with the Group Audit Director without the executives present.

The Group Audit Director reports to the Chairman of the Audit Committee and has a dotted line to the Group Chief Executive.

4. External audit
The Committee monitored the operation of the Group's external audit, including receiving reports from the external auditors on their audit plan, the key audit risks, their progress during the year, significant findings arising from their audit and reviewing the audit fee.

Auditor objectivity and independence were safeguarded through the authorisation of non-audit services by either the Committee or the Chairman of the Audit Committee, depending on fee thresholds.

5. Solvency II reporting
The Committee received regular updates on the Solvency II programme including governance structure, Solvency II reporting and Day One readiness.

In October 2014 the Prudential Regulation Authority (PRA) instructed firms to have their December 2014 balance sheet, submitted on a Solvency II basis, audited. These filings were submitted on 31 March 2015 (step 1) and 30 June 2015 (step 2). In November 2015 Royal London submitted its third quarter Quantitative Reporting Templates (QRTs) and submitted this filing on 23 November 2015.

Non-audit services provided by the external auditor

The Committee received regular updates on the level of all non-audit work performed. The fees paid or invoiced for non-audit services in 2015 were £1,709k, which was 27.7% of the total fees paid to the auditors in 2015. In determining if the appointment of PricewaterhouseCoopers LLP for non-audit work is appropriate, consideration is given to the skills and experience, the impact on independence and the safeguards in place. The overall level of fees relative to the audit fee is also considered. The non-audit services performed by the external auditors in 2015 included the following:

- audit related and other assurance services:
  - Solvency II – including balance sheet audit and review of methodology;
  - ICA limited assurance review; and
  - assurance work related to debt issuance during the year.
- HR Services:
  - review of the Royal London Group Pension Scheme (RLGPS) arrangements; and
  - review of the Royal London Asset Management Remuneration Strategy.

Objectivity and independence of the external auditors

The Committee is satisfied as to the continued independence and objectivity of the auditors, PricewaterhouseCoopers LLP. An evaluation of the effectiveness of the external auditors was reviewed by the Committee, which was prepared by Internal Audit using input from across the Group, and which concluded the external auditors were effective. In addition, the Committee conducted private meetings with the external auditors to discuss and review key issues, without management being present.

Policy on external audit tendering

The Committee keeps under review the ongoing legislative proposals on audit tendering and rotation from the EU and the Competition and Markets Authority, as well as the Financial Reporting Council, and will implement the proposals when they come into force. PricewaterhouseCoopers LLP has been the Group's auditor since 2000, which was the last time an audit tender was carried out.

The Committee will continue to consider annually the need to go to tender for audit quality or independence reasons. Subject to the outcome of this process continuing to be satisfactory, it is currently expected that PricewaterhouseCoopers LLP will remain in office and a resolution to reappoint PricewaterhouseCoopers LLP for the 2016 audit will therefore be proposed at the 2016 AGM.

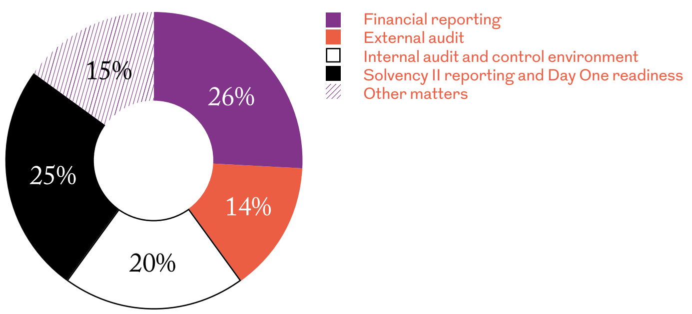
Significant matters considered by the Audit Committee in 2015

This table highlights some significant matters considered by the Audit Committee in 2015 and the actions taken.

Matters considered	Action taken by the Committee
Review of effectiveness of the external auditor	The Committee considered the feedback received across the Group on the 2014 external audit process and the comments made were noted.
Long-term business liability valuations – methodology and assumption recommendations	The Committee considers The Royal London Mutual Insurance Society Limited (RLMIS) and Royal London (CIS) Limited's long-term business regulatory liability valuations as at 31 December 2014 and accepted the Valuation Report of the Actuarial Function Holder, for the year ended 31 December 2014, including the changes to methods and assumptions.
Valuation of investments including an assessment of the process for valuing difficult to value investments	The Committee considered the Group's Investment Valuations as at 31 December 2014 and 30 June 2015. The Committee considered the process by which the Group was valuing all its financial assets including difficult to value investments. The Committee has reviewed the Investment Valuation Report requested by the PRA.
Presentation on key accounting and actuarial judgements and assumptions	The Committee was briefed on the key accounting and actuarial judgements and assumptions and the most notable areas of the 2015 Group accounts involving judgements. It also reviewed the proposed approach, specifically any changes since the previous year, and it recommended to the Board the proposed approach for key accounting/actuarial judgements and the assumptions.
Solvency II reporting filings with the PRA	The Committee reviewed the governance arrangements of the various returns to be filed with the PRA for Solvency II.
Oversight of the project to update the Group's financial and actuarial reporting systems and processes	The Committee received an update on: › the governance, including proposed reporting to the Board Committees; › the scope of the workstreams and the transition states the organisation will undergo as the new solutions and working practices become effective; › the progress and arrangements for each external audit; and › a review of the new systems.
Internal control	The Committee considered regular reports from the Group Audit Director on the effectiveness of the Group's control environment, including that provided by the outsource provider, Capita.

Allocation of agenda time

The chart provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2015.



Andrew Palmer
Chairman of the Audit Committee

Corporate Governance statement continued

Report of the Nomination Committee

On behalf of the Nomination Committee I am pleased to present the Committee's report for 2015.

The current membership of the Nomination Committee comprises Rupert Pennant-Rea (Chairman), Sally Bridgeland, Ian Dilks, Duncan Ferguson, Tracey Graham, Andrew Palmer and David Weymouth.

The responsibilities of the Nomination Committee include:

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

During the year the Committee considered the reappointment of the Group's directors. When reviewing the Board structure the Committee considered the expertise and skills of our Board, our Group's Strategy and diversity, including gender. Following the review it was recommended that all directors be put forward for re-election at the 2016 AGM.

An Independent Governance Committee was created in April 2015, for which the Committee considered the appointment of the external members. An external search firm identified a diverse list of potential candidates and the members were selected, following a rigorous selection process.

The Board Chairman's other significant commitments and any changes to them are highlighted in the biography section on pages 42 and 43.

Rupert Pennant-Rea

Rupert Pennant-Rea
Chairman of the Nomination Committee

Report of the Board Risk Committee

On behalf of the Board Risk Committee I am pleased to present the Committee's report for 2015.

The membership of the Board Risk Committee comprises David Weymouth (Chairman), Duncan Ferguson and Andrew Palmer.

The responsibilities of the Board Risk Committee include:

- reviewing and recommending to the Group Board the assignment of risk management responsibilities;
- reviewing and challenging risk information received, including whether key risks are managed to an acceptable level and cost;
- providing oversight and advice to the Board on the current risk exposures of the Group by reviewing and recommending to the Board actions on significant risk issues, trends, practices, litigation and loss events that have implications for the Group;
- monitoring the effectiveness of the Group's overall risk and capital management frameworks through ongoing review and independent assurance;
- reviewing and challenging the stresses and scenarios undertaken, including reverse stress tests;
- reviewing and recommending to the Board the Group's risk appetite and ensuring it is aligned with the strategy of the Group;
- reviewing and approving the Group's main policies in relation to strategic, financial and operational risks, including the process for identifying and assessing emerging business and environmental risks and the management of these risks by the Group;
- ensuring that the Group conducts appropriate review and due diligence of potential acquisitions; and
- an annual review of results to ensure profits are aligned with risk appetite for remuneration purposes.

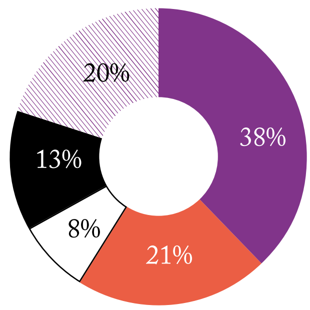
The Committee reports to the Board on all of the matters detailed above, identifying any matters in respect of which it considers that action or improvement is needed and makes recommendations to the Board. The Group Risk Director attends meetings of the Board Risk Committee. The executive directors and certain members of senior management, such as the Group Head of Regulatory Risk and Compliance and the Group Audit Director attend meetings regularly by invitation.

A joint Board Risk and Audit Committee was held on one occasion on 15 December 2015. This ensures that the two committees are operating effectively together on areas of common responsibility and where either of the committees is required to collaborate on, or assume responsibility for, a review conducted by the other.

During the year the Committee particularly focused on the following areas:

- Solvency II programme including Day One readiness;
- Risk management system;
- Own Risk and Solvency Assessment (ORSA);
- Review and approval of main Group policies;
- Business risk review;
- Conduct risk;
- Capital management; and
- IT security.

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2015.



Solvency II programme
Risk management system
Business model risks, business risk review and review of Group policies
Operational excellence and conduct risk
Others

David Weymouth

David Weymouth
Chairman of the Board Risk Committee

Report of the Investment Committee

On behalf of the Investment Committee I am pleased to present the Committee's report for 2015. This is my first report as Chairman. I joined the Board and Committee in January 2015 and was appointed as the Committee Chairman on 1 July 2015, and would very much like to take the opportunity to thank Kathryn Matthews for the work that she has done in developing and leading the Investment Committee. We all wish her the best for the future.

The membership of the Investment Committee comprises both executive and non-executive directors/members. Current members of the Investment Committee comprise Sally Bridgeland (Chair), Ian Dilks, Julius Pursaill, Tim Harris and Jon Macdonald. In addition, Andrew Carter (CEO, Wealth), Piers Hillier (Chief Investment Officer, RLAM), Stephen Wilson (With-Profits Actuary to 31 December 2015), Brian Murray (With-Profits Actuary from 1 January 2016) and Rachel Elwell (Investment Office and Staff Pensions Director) attend Committee meetings.

The responsibilities of the Investment Committee include:

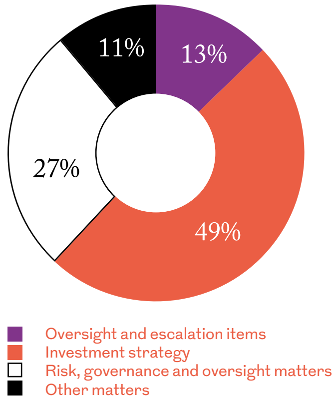
- assisting the Board in discharging its responsibilities in respect of investment matters, including investment strategy;
- undertaking, on behalf of the Board, oversight of the physical investment assets of The Royal London Mutual Insurance Society Limited, including investment performance;
- reviewing for recommendation to the Board the Investment Philosophy taking into account regulatory, industry and competitor investment developments;
- reviewing for recommendation to the Board the suitability of new investment classes and approaches for Group funds as proposed by the Executive;
- reviewing the governance of the relationships between Group and all investment managers, including periodic, risk-based confirmation that the Investment Management Agreements governing such relationships are current and fit for purpose; and
- receiving reports from the Executive on investment performance and operational effectiveness of investment managers and agreeing action on any material issues affecting investment operations, risk and performance.

During the year, as part of its normal duties, the Committee focused on:

- supporting the Board in developing their investment strategy including review of the use of asset classes such as hedge funds and private equity;
- reviewing RLAM's development of new approaches to multi-asset funds, cash and bond investment;
- reviewing the statement of Investment Philosophy in a number of emerging areas to aid the Committee and Board in their investment decision-making process;
- reviewing asset managers' performance and suitability to manage the Group's investment mandates, including review of quarterly market and economic data and investment performance of key funds;
- reviewing and recommending for Board approval of property and private equity transactions above delegated authorities; and
- overseeing investment-related regulatory matters and implementation of best practice guidance.

The chart on this page provides an illustration of the percentage of time spent by the Investment Committee on various matters during 2015.

Sally Bridgeland
Chairman of the Investment Committee



Report of the With-Profits Committee

On behalf of the With-Profits Committee I am pleased to present the Committee's report for 2015.

The With-Profits Committee was established in 2012. The membership of the Committee comprises Duncan Ferguson, Tim Harris and four independent members. The independent members are Nick Dumbreck, Jim Gallagher, Julius Pursaill and Bridget Rosewell. Nick Dumbreck was previously the With-Profits Actuary for the CIS Life funds and Bridget Rosewell was a member of the CIS With-Profits Committee and they joined the Committee when the CIS Fund became part of Royal London. The With-Profits Actuary is the principal adviser to the Committee and both he and the Group's Actuarial Function Holder attend Committee meetings.

The Committee's role is to consider the interests of all policyholders in the Royal London Group with an entitlement to share in the profits of the Group and exercise independent judgement in advising the Board on the achievement of the fair treatment of those policyholders. This includes providing independent opinion and oversight on matters that affect with-profits policyholders.

The Committee's role is to assess, report on and provide clear advice on:

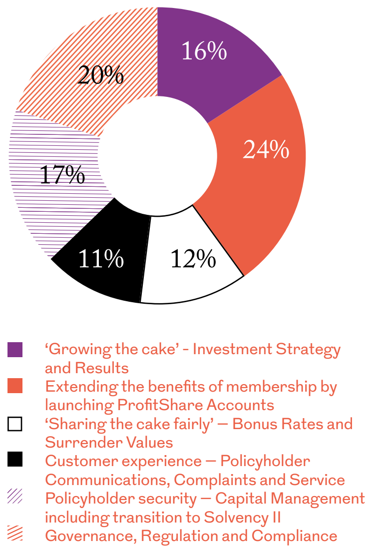
- the way each with-profits fund is managed;
- compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);
- whether the interests of with-profits policyholders, and the respective interests of groups of with-profits policyholders, are fairly reflected. This includes considering the treatment of any conflicts of interest that may arise between different groups of with-profits policyholders, between with-profits policyholders and the Group and between with-profits policyholders and the members of the Group; and
- any other matter in which it might reasonably be expected that the Committee should have an involvement.

During the year the Committee focused on:

- extending the benefits of membership by launching ProfitShare accounts;
- the ProfitShare and bonus rates to be declared for 2015;
- investment performance and investment strategy of the various with-profits funds;
- the surrender value bases applied to the various blocks of with-profits business;
- the financial and capital management of the with-profits funds including the impact of Solvency II;
- the quality of the service provided to with-profits policyholders, having regard to complaints and other measures;
- the interaction of Group strategy with the interests of the with-profits policyholders; and
- the effectiveness of the With-Profits Actuary.

The chart on this page provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2015.

Duncan Ferguson
Chairman of the With-Profits Committee



Report of the Independent Governance Committee

On behalf of the Independent Governance Committee I am pleased to present the Committee's report for 2015.

The Independent Governance Committee was established in April 2015 and comprises two Company members and three independent members. The independent members are Phil Green (Chairman), Peter Dorward, and David Gulland. The Company members are Isobel Langton and Jon Macdonald.

The Committee was formed in response to the FCA's directive on independent governance for workplace pensions. The Committee assesses the ongoing value for money of relevant workplace pension schemes offered by Royal London; reports and escalates issues which are identified and remain unresolved; and prepares an annual report on its activities and the value for money offered by the relevant pension schemes. The Committee's report on the value for money delivered by Royal London's schemes will be published separately to this Annual Report and Accounts and made available on the Group's website by 5 April 2016.

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

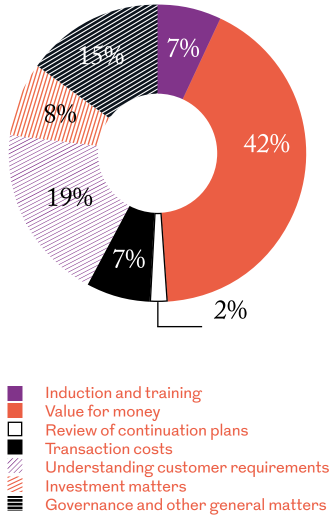
The FCA guidance for Independent Governance Committees forms the basis of the Committee's activities. Broadly the Committee reviews and where necessary reports on the following:

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

In order to report on these items the Committee has focused its activities on the following:

- establishing principles with which to assess the value for money delivered by all of Royal London's relevant workplace pension contracts;
- assessment of Royal London's relevant workplace pension contracts (including legacy contracts and individual continuation plans) and consideration of proposals and an implementation plan prepared by Royal London to change contract terms or improve Royal London's workplace proposition as a result of the assessment;
- induction and training of the independent members on Royal London's workplace pensions business, procedures and governance structure;
- review of the investments and default investment strategies offered;
- understanding customer requirements; and
- transaction costs.

The Committee met five times during 2015, as well as holding two full induction days. The chart provides an illustration of the approximate percentage of time spent by the Committee on various matters during 2015. As this was the Committee's first year of operation, the Committee has also spent considerable time outside of meetings discussing these issues. This additional time is not captured in the time analysis.



Phil Green
Chairman of the Independent Governance Committee

2015 Directors' remuneration report

Annual statement from the Remuneration Committee chairman

Dear Member,

On behalf of the Board I am pleased to present the Remuneration Committee report for 2015. The remuneration report is split into two parts: the Directors' remuneration policy which, sets out how the Group remunerates directors, and the Annual report on remuneration, which explains the link between executive remuneration and Group performance, detailing what payments and awards have been made to directors during the year.

Royal London is committed to being transparent with its members. The majority of our disclosures are in line with the remuneration reporting requirements applicable to listed companies and we aim to meet as many of them as is practical. Your Board believes that these transparent remuneration disclosures will help members better understand how our remuneration strategy supports the Group's strategy and ultimately our members' interests.

Over recent years, the remuneration landscape within financial services has been characterised by both increasing regulation and public scrutiny, and the same can be said of 2015. The Committee has kept itself abreast of evolving legislation, including the European Banking Authority (EBA) consultation on the remuneration provisions of the Capital Requirements Directive (CRD IV) as communicated at the last AGM. This year the focus of the Committee has been preparation for the Solvency II requirements which were implemented from 1 January 2016; the Committee receiving specific training on this during 2015. The Committee fully understands its obligations in respect of the appropriate balance between risk and reward and overseeing the development of the Group's remuneration policies and practices.

Within this environment, Royal London must continue to attract and retain talented people who can ensure we have the best products and services and deliver sustainably high levels of performance for our members, delivering good customer outcomes. As a mutual organisation competing for talent against publicly listed and privately held financial institutions, we need to carefully balance competitive pay, motivational incentives to drive performance, and appropriate management of risk.

The remuneration policy continues to have three main aims:

- to align executives' interests with those of our members and customers;
- to support the delivery of the Group strategy, whilst ensuring adherence to the Group's risk appetite; and
- to ensure remuneration is competitive for our markets to help the Group attract and retain talent.

The Remuneration Committee's role is to ensure that the Group's remuneration structure is fully aligned with these three main aims. We do so by:

- ensuring remuneration is driven by the Group strategy as determined by the medium-term (five-year) and annual business plans, which guide the Board's selection of a number of financial and non-financial measures and targets;
- conducting regular market reviews to ensure that remuneration remains aligned to the market in which we operate; and
- commissioning a risk review of each of our remuneration arrangements in advance of Committee approval.

The main elements of the reward package are salary, a Short-Term Incentive Plan (referred to as the 'STIP') linked to the achievement of the annual business plan, a Long-Term Incentive Scheme (the 'LTIS') linked to the achievement of the five-year business plan and market-related benefits and pension provision.

The Board's assessment of performance is captured and summarised in the Group's scorecard of financial and non-financial measures. I am pleased to say that the Group performed strongly against these measures. The Committee rigorously reviewed the scorecard results against the Group's wider performance, in particular the continued strong growth in our Pensions business which has resulted from placing ourselves in an excellent position to respond to changes in pension regulation including the new pension freedoms. The Committee also sought input from the Audit Committee regarding the quality of earnings and from the Risk Committee regarding risk appetite performance before agreeing a final award of 162%.

The Committee has reviewed both the directors' remuneration policy and the remuneration policy for all Group employees and is satisfied that an appropriate reward structure exists to attract and retain the talent the Group requires to deliver good customer outcomes, which are the key to the continued success of the Group. Details of other activities undertaken by the Committee during 2015 are provided in the Annual report on remuneration.

This year we will be asking for an advisory vote only on the Annual report on remuneration, as the remuneration policy approved by members in 2014 remained unchanged. The Annual report on remuneration is set out on pages 66 to 76 of this report.

The Remuneration Committee and the Board recommend that you vote for the resolution on the Annual report on remuneration.

Tracey Graham
Chairman of the Remuneration Committee

Directors' remuneration policy

Key principles of remuneration policy

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

Align executives' interests with those of our members and other customers	Performance-related incentive arrangements will be designed to align the interests of executives with those of members and other customers.
Support delivery of Group strategy whilst ensuring adherence to the Group's risk appetite	Performance-related incentive arrangements will be designed to reinforce the achievement of Group strategy. The remuneration policy will have regard to the remuneration codes of all relevant regulators, including the Prudential Regulation Authority and Financial Conduct Authority, as well as institutional investor guidance on remuneration governance best practice. The Committee will ensure that risk-taking outside of the Group's risk appetite is not rewarded and will have absolute discretion to amend incentive amounts prior to payment to ensure they are appropriate. When assessing performance, the Committee will take into account not just the measures and targets in the balanced scorecard, but also wider views of Group performance, quality of earnings and the sustainability of performance before finalising awards.
Align with relevant market practice	Total remuneration will be appropriately competitive to support the recruitment, retention and motivation of talented people, and to help the Group compete effectively with leading UK life insurers and other financial services companies with which it competes for talent.

The tables overleaf set out separately the remuneration policy for executive directors and non-executive directors, as approved at the AGM in 2014. No material changes have been made to the approved policy.

The Policy that was voted on and approved by 92% of members in 2014 can be found at **royallondon.com/about/annual-reports/2014-annual-reports**

Future remuneration policy table – executive directors

	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Support the recruitment, retention and motivation of talented people.	Salaries are reviewed annually by considering the role and its pay positioning against the median of appropriate comparator groups. The primary benchmarking comparator group is the top 12 UK life insurers with whom we compete for talent and business. The Committee also takes into account any changes in responsibilities since the salary was last reviewed, individual performance, Group performance, and the outcome of the salary review for the broader Royal London employee population.	Increases for executive directors will normally be in line with those for the broader Royal London employee population who achieved the same performance rating and have a similar pay positioning relative to market.	Subject to annual review of individual contribution and Group performance.
Short-Term Incentive Plan (STIP)[1]	Focus participants on the in-year results that need to be achieved to meet Royal London's annual financial and non-financial objectives in the context of the agreed Group strategy.	Performance is assessed against a balanced scorecard of one-year measures, with vesting outcomes subject to a discretionary override by the Committee (which may decrease or increase the award) to ensure that awards fairly reflect underlying performance. Payment of at least one-third of any amount earned under the STIP is deferred for three years and is adjusted for the change in the value of Royal London to its members[2] over the period. Unvested deferred STIP awards are subject to malus.[3] An additional project-related STIP may be offered in exceptional circumstances at Committee discretion.	Maximum STIP opportunity of up to 150% of salary. Target STIP opportunity of up to 75% of salary. No payment is made for threshold performance. Project-related STIP awards may be in addition to the maximum STIP.	Performance is assessed against a scorecard covering five areas of performance which are reviewed each year. For 2016 the measures and weights are: Financial Performance (45%), Best Customer Propositions (20%), Our People (10%), Assurance (15%) and Building the Future (10%). The weighting for each category and the selection of sub-measures or tasks within each category may be tailored each year to reflect business priorities, although the weighting on financial measures will be no less than 30%.[4]
Long-Term Incentive Scheme (LTIS)	Help align executives with the long-term interests of members and other customers.	Vesting of awards is based on performance over three years against the Group's key long-term performance measures. To align further with members' long-term interests, release of any award is further deferred as follows: › 50% vests after three years; › 25% vests after four years; and › 25% after five years from the date of grant. Vesting outcomes are subject to a discretionary override by the Committee (which may decrease or increase the award) to ensure that overall awards fairly reflect underlying performance and are also subject to clawback from 2014. Deferred payments are also subject to malus.[3] Further, the value of an award is adjusted for the change in the value of Royal London to its members.[2] The vesting calculation is reviewed by Internal Audit.	The maximum potential opportunity is 187.5% of salary. No award is payable for delivering an 'on plan' level of performance.	The key long-term performance measures for 2015 are: Operating Profit (55%), Investment Performance (25%), Customer Experience (10%) and Quality of Proposition (10%). LTIS awards of up to 150% can be adjusted by a multiplier of +/- 25% based on the cumulative ProfitShare over the three years. Specific performance measures and weightings for each LTIS cycle will be described in the Annual report on remuneration in the year of grant and the year of vesting.

	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
RLAM Long-Term Incentive Plan (RLAM LTIP) Applies to only one executive director (CEO, Wealth)[5]	Provide strong alignment of participants with RLAM long-term performance.	Vesting of awards is based on investment performance and profit growth over three years. Vesting outcomes are subject to a discretionary override based on the Committee's assessment of underlying performance and are also subject to clawback from 2014.	Maximum opportunity of up to 150% of salary per annum, with 34% of maximum payable for achieving the target level of performance. No payment is made for below-target performance.	Key long-term performance measures for RLAM, split 70% on investment performance and 30% on revenue growth over three years. Specific performance measures and weightings for each RLAM LTIP cycle will be described in the Annual report on remuneration in the year of grant and the year of vesting.
Benefits	To support the recruitment, retention and motivation of talented people.	Benefits are reviewed from time to time to ensure they remain competitive in the relevant talent markets. Currently they include life insurance, private medical insurance, medical screening and a discretionary living-away-from-home allowance and either a company car or a cash allowance in lieu of a car. Executive directors may participate in the Group's flexible benefit scheme. Executive directors may be eligible to receive relocation support based on the requirements of their role as determined by the Group.	Varies by individual and level.	
Pension[6]	To support the recruitment, retention and motivation of talented people.	There are two schemes currently operating. The Defined Contribution Scheme applies to newly-appointed executive directors who are not members of the Defined Benefit Scheme. Directors may elect to receive all or part of the Group contribution to the Defined Contribution Scheme as a cash allowance. We also operate a Defined Benefit Scheme[7]. The main terms applying to the final salary pensions accrued since April 2011 under this scheme are: › payable from age 60; › spouse's pension (55% of the director's pension) payable on death of the director; › increase in payment in line with inflation, up to a maximum of 2.5% each year; and › maximum increase in accrual of 2.5% per annum (anything accrued prior to April 2011 is not capped).	Up to 25% of salary. Up to 1/45th of final salary for each year worked.	

2015 Directors' remuneration report continued

Future remuneration policy table – non-executive directors (NEDs)

	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual fee	Sufficient to attract and retain directors of the highest calibre and reflecting the responsibilities and time commitment required.	Fees are reviewed annually against non-executive director fees at companies of a similar size, with particular reference to financial services and the UK life insurance sector. All directors abstain on determination of their own remuneration. The remuneration of the Group Chairman and the non-executive directors is determined by the Board as a whole. The Chairman and non-executive directors are not eligible to participate in incentive schemes and their service is not pensionable.	Fees will be targeted to be broadly within 20% of fees at companies of a similar size, with particular reference to UK life insurers and financial services companies.	Continued good contribution.
Fees for chairing committees	To reflect the additional time commitment that chairing a committee requires.	Fees for chairing committees are reviewed in the same way as the annual fee, as set out above.	Same approach as set out above for annual fee.	Continued good contribution.
Additional fees	To ensure that the governance framework remains flexible.	The non-executive directors may be paid an additional fee for projects that the Board considers are over and above their normal duties. Such additional fees are paid on a per diem rate, based on the additional time commitment required.	Same approach as set out above for annual fee.	Continued good contribution.

1 To be eligible to receive any payment, participants must be in employment and not be under notice prior to the date payment is due in accordance with the Plan Rules. In exceptional circumstances, the Committee may make higher awards, or select different performance measures or waive deferrals, where it considers this to be in the best interests of members.
2 Deferred STIP and LTIS awards are converted into EEV units whose value is based on the Royal London Group European Embedded Value (EEV). The Royal London ProfitShare (formerly known as Mutual Dividend) allocated during the period is notionally added back to the unit value. Prior to 2014, the value of units was calculated using Royal London's Appraisal Value. The Committee considers EEV to be a simpler and more objective measure of Royal London's value, which is easier to benchmark against other life insurers.
3 Malus may be applied at the discretion of the Committee for reasons such as, but not limited to, misconduct, material financial restatement, or behaviour that could lead to significant reputational damage.
4 To avoid any conflict with control function independence, the control function STIP is based on the performance of the function, and the Group financial element is minimal (10% of the overall rating). Of the executive directors, this arrangement only applies to Jon Macdonald.
5 The RLAM LTIP is in addition to the LTIS.
6 Historically, employees who had reached the HMRC lifetime allowance limit were invited to accrue an equivalent replacement benefit under an Unfunded Unapproved Retirement Benefit Scheme. This arrangement has been closed to new members and Andrew Carter is the only executive director who continues to participate in this scheme.
7 Following a review of Royal London's longer-term reward strategy including pension and protection benefits, it entered into a consultation with members in October 2015. The proposal is to close the current scheme to future accrual from 1 April 2016. The outcome of the consultation and impact on executive directors will be disclosed in the Directors' remuneration report for 2016.

Deferral

Deferral is a key principle of the remuneration policy for Executive Directors. When an award is deferred, the cash amount is converted into EEV units[8] that change in value in line with the value of Royal London to its members, and these EEV units cannot vest (be converted back into cash and paid) until the end of the deferral period. The change in value of EEV units supports alignment of executive director interests with those of our members.

8 In the past the value of Royal London was based upon Appraisal Value (AV) and executives were awarded AV units.

Additional fees for non-executive directors in exceptional circumstances

A basic level of time commitment is expected from each Non-Executive Director to carry out their duties as set out in their letter of appointment. Where additional duties are required, non-executive directors may receive payment of additional fees on a per diem basis for any time commitment over and above the normal expectation. For example, the acquisition of the life, pensions and asset management business of the Co-operative Group in 2013 required additional governance and oversight of the business acquired, and its integration into the Group required additional time to be committed by some non-executive directors.

Remuneration policy for all employees

The remuneration policy for Royal London employees is the same as for executive directors, although levels of remuneration differ and the majority of employees do not participate in the LTIS or RLAM LTIP. For all employees and directors, remuneration is set with reference to the specific requirements of the individual role and pay levels in the relevant talent markets. The Committee does not consult directly with employees specifically on remuneration policy for directors, but is mindful of pay and employment conditions elsewhere in the Group when doing so, and when considering potential payments under the policy. The Committee receives detailed information from management regarding the annual pay review for all employees and also reviews the Group Chief Executive's recommendations for salary and STIP for his direct reports. It also reviews all awards to be made under long-term incentive plans including the LTIS and RLAM LTIP.

Remuneration under previous policies

Any awards made prior to the implementation of the remuneration policy detailed in this report will be honoured. These include the Group deferred STIP, LTIS, LTIP and RLAM LTIP awards from prior years. The value of outstanding awards is shown in the Annual report on remuneration on page 74.

Performance measure selection and approach to target setting

Performance targets are set for each incentive plan measure, reflecting the expected level of performance, as defined in the Group's Medium-Term Plan (MTP). For the STIP, minimum and maximum levels of bonus payout are set around the plan. The threshold payout level is set with regard to the prior year's achievement. On-target performance equates to a performance equal to plan and the maximum payout level is set at a level which might be achieved only once in every five years. A balanced scorecard is used to provide a holistic view of our overall Group performance. To do this, our business performance has been divided into the five sections shown below. For 2016 the STIP comprises these five measures, with the relative proportion of each measure shown.[1]

The Committee adopts a similar approach when setting targets for the Group LTIS and RLAM LTIP, with targets based on the Group budget for year one of the performance period, and on the Group's MTP for years two and three. Further details on measures used in our incentives are provided below. The current measures and weightings used for the LTIS are also outlined.[2]

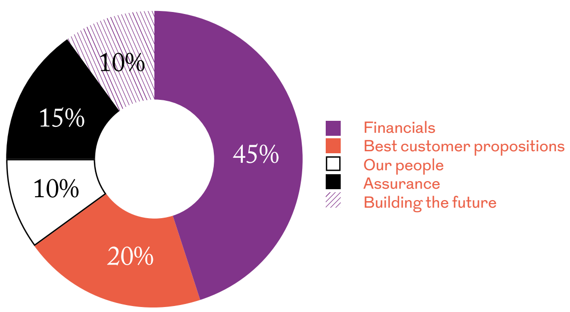
In addition, a capital strength multiplier is applied, reflecting the potential ProfitShare capacity over the performance period. The long-term awards are deferred through EEV units that change in value based on the Group's EEV. The Committee has discretion to add or remove performance measures.

Scope for Committee discretion

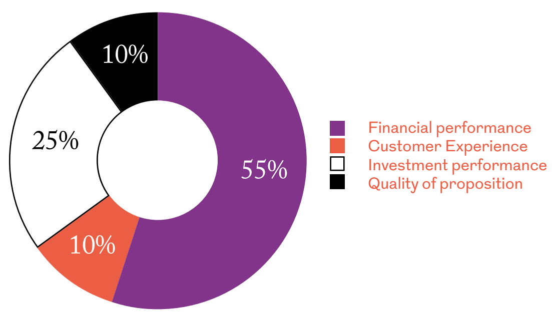
As outlined in the policy table, the Committee has discretion to override formulaic outcomes for the STIP, LTIS and RLAM LTIP, either positively or negatively. The Committee intends to use its discretion only when it is necessary to ensure that actual awards fairly reflect the underlying business performance that has been delivered for members. Any discretion would be applied within the maximum award limits of the relevant plan.

1 In the case of the CEO of Wealth Andrew Carter, 73% of the STIP is based on measures specific to RLAM performance.
2 Andrew Carter receives a smaller Group LTIS, but also participates in the RLAM LTIP linked 70% to RLAM investment performance and 30% to RLAM revenue growth.

Performance measure selection and approach to target setting: 2016 STIP



Performance measure selection and approach to target setting: 2016 LTIS



Approach to the recruitment of executive directors

The Nomination Committee of the Board appoints directors who are the most appropriate for each position. The Committee's approach to determining remuneration for new executive directors is to pay sufficient to recruit the individual, giving careful consideration to internal and external market pay levels, as well as previous remuneration. The following limits are placed on remuneration awarded to new executive directors:

- the maximum STIP award will not exceed 150% of salary;
- the maximum combined LTIS and RLAM LTIP opportunity on recruitment will not exceed 300% of salary; and
- pension and benefits will be as outlined in the Policy table.

Where a newly-recruited executive forfeits incentives from their previous employer, Royal London may make compensatory awards, typically using one-off additional STIP, LTIS (and LTIP in RLAM), or EEV unit awards to offset any losses. Such awards will be made on no more than an equal fair value basis, taking into account performance measures, time horizon and other aspects of the award that has been forfeited. Depending on the value of the award forfeited, the normal maximum plan limits may need to be exceeded on a one-off basis.

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

The approach to setting remuneration for newly-appointed Non-Executive Directors is aligned with the approach taken for the annual review of fees as stated in the Future remuneration policy table and takes into account market-competitive fee levels and the fees paid to the existing NEDs.

Ownership guideline

The Group CEO and other executive directors are required to hold either AV or EEV units earned under the short- and long-term incentive plans and build up a minimum holding over a period of three to five years. This means that the value of a participant's holding changes in line with the value of Royal London to its members. The Committee believes that ownership of EEV units reinforces the principles underlying the Group's remuneration policy and further aligns the interests of executives with those of members. The current holding requirements by each director are detailed in the Annual report on remuneration.

The requirement to hold units was introduced in 2011. Only units that have vested (and are no longer conditional on performance) under Royal London incentive schemes count towards the guideline. Executive directors are therefore given time to acquire units, with 50% of any LTIS and deferred STIP (net of tax) vesting deferred in units until the holding requirement is satisfied. The Committee reviews these guidelines periodically to ensure they are appropriate for Royal London, taking into account market practice.

Pay scenario charts

The charts opposite illustrate the potential total pay opportunity for each executive director for the 2016 performance year, based on different scenarios.

Scenario	Salary, pension and benefits	STIP outcome (% of max)	LTIS outcome (% of max)
Fixed	Received in line with contractual entitlement.	0	0
On plan performance (achieves targets)		50	0[1]
Maximum performance (significantly exceeds targets)		100	100

1 34% for RLAM LTIP

Fixed elements of pay (salary, pension and benefits) are positioned to ensure the total package is appropriate for the individual and role.

The short and long-term incentives are designed to align executives with the interests of members and customers and reinforce the short and long-term success of Royal London.

Actual variable pay outcomes can vary between 0% and 100% of maximum depending on actual performance delivered, resulting in a higher or lower split between fixed and variable pay. This is illustrated in the charts opposite.

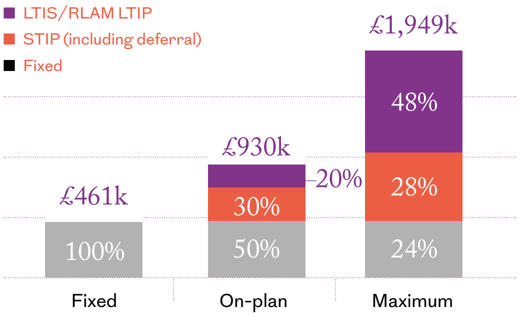
Service contracts

All new executive director service contracts will require 12 months' notice to the Group, and will also require that the director mitigate any pay in lieu of notice. Details of the service contracts for the current executive directors are provided in the Annual report on remuneration.

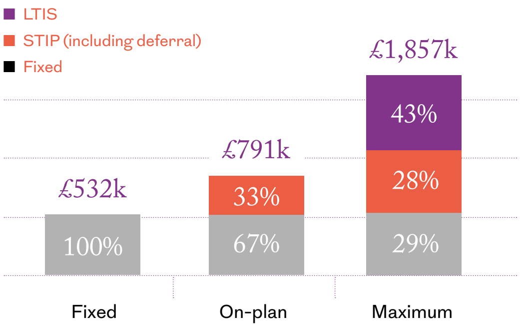
The Chairman and Non-Executive Directors have letters of appointment with the Group. Letters of appointment do not contain provisions for loss of office payments, or any additional remuneration other than the fees set out in this policy.

Pay scenarios

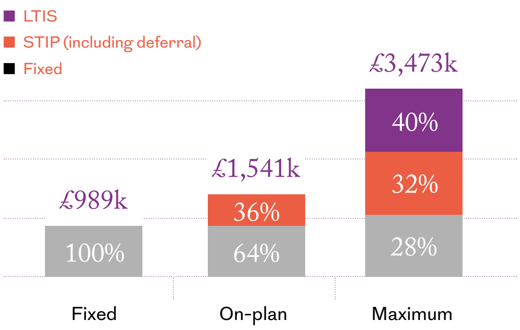
Andrew Carter



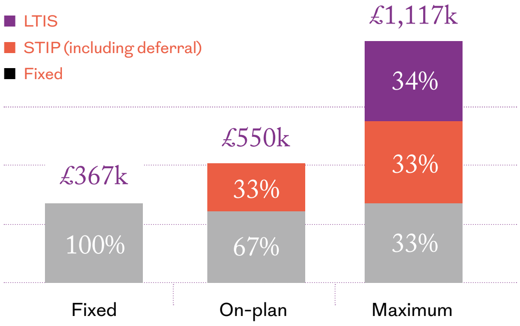
Tim Harris



Phil Loney



Jon Macdonald



Note: This excludes buy out awards that were made on joining Royal London.

Exit payment policy

The Group's approach to any payments in the event of termination is to take account of the individual circumstances, including the reason for termination, any contractual obligations and applicable incentive plan and pension scheme rules. Executive directors' contracts do not include any specific compensation for severance as a result of a change of control.

In the event an executive leaves for reasons of death, injury, disability, change of control of the Group, or any other reason which the Committee in its absolute discretion permits, any outstanding awards under applicable short and long-term incentive plans will be pro-rated for time and performance. For all other leavers, outstanding short and long-term incentive awards will lapse. The Committee retains discretion to alter these provisions as permitted by the relevant plan rules on a case-by-case basis following a review of circumstances and to ensure fairness for members and participants. Salary, pension and benefits will normally be paid up to the date of termination of employment. In certain circumstances, payment of salary (this may also include pension and benefits) in respect of the notice period may be made as a single payment in lieu of notice. Salary, pension and benefits included in any termination payments will be in line with the remuneration policy.

Under certain circumstances, it may be in members' interests for the Group to enter into a legally binding agreement with an executive director when their employment is terminated. In these circumstances, the Group may reimburse reasonable legal fees that have been incurred by the executive director.

External appointments

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

Consideration of members' views

In determining remuneration policy, the Committee endeavours to take into account the views that members express at the AGM, following the Remuneration Committee Chairman's presentation. Members of the Committee are also available to speak with members on an individual basis at the AGM.

Annual report on remuneration

Activities of the Remuneration Committee during 2015

During the year the Committee met 11 times and the table below sets out the principal activities of the Committee during 2015.

Area	Activity
Directors' remuneration policy	The Committee reviewed the Directors' remuneration policy and agreed that no changes were required for 2016.
Incentive scheme targets	The Committee agreed the targets for the 2015 STIP, the 2015 LTIS and the 2015 RLAM LTIP.
Salary review	As part of the annual salary review, the Committee benchmarked salaries relative to the competitive market for each role within its remit, taking into consideration the performance of the executives.
Incentive scheme outcomes	The Committee reviewed STIP, LTIS and RLAM LTIP outcomes for 2015 in the context of overall Group performance and risk appetite.
LTIS measures	The Committee kept the performance conditions in the Group's LTIS under review to ensure that they continued to align with the Group's overall purpose and strategy, which includes maximising value for the Group's members and customers.
Standardisation of benefits	The Committee continued an ongoing programme to standardise benefits where possible across the Group.
Administering Executive Director Holding Condition	The Committee reviewed the holding conditions and agreed that these would be expressed in pounds sterling as a percentage of salary, rather than as a minimum number of units.
Regulatory changes	The Committee considered the impact of new regulations from the PRA and FCA, including Solvency II and the Senior Insurance Managers Regime and considered how these should be adopted by the Group.
RLAM remuneration policy	The Committee reviewed the initial findings of a review of RLAM remuneration policy, which remains ongoing.
Committee advisors	The Committee reviewed its advisors during the year and reappointed Kepler, a brand of Mercer.

Exercise of discretion by the Committee

Having considered the outcome of the scorecard and the overall performance of the Group, the Committee believed that the result delivered by the scorecard accurately reflects our strong performance and did not see a need to exercise any further discretion on this occasion.

Executive director remuneration in 2015 – audited

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

	Andrew Carter		Tim Harris		Phil Loney		Jon Macdonald	
	2015 (£000)	2014 (£000)	2015 (£000)	2014 (£000)	2015 (£000)	2014 (£000)	2015 (£000)	2014 (£000)
Salary	**362**	354	**417**	255	**651**	634	**299**	292
Benefits	**15**	15	**15**	9	**69**	75	**15**	15
Pension supplement	**-**	-	**83**	51	**163**	151	**13**	13
Pension benefits	**181**	144	**-**	-	**-**	5	**29**	31
TOTAL	**558**	513	**515**	315	**883**	865	**356**	351
STIP	**348**	389	**462**	325	**984**	904	**267**	312
TOTAL remuneration for performance year	**906**	902	**977**	640	**1,867**	1,769	**623**	663
Long-term incentives vesting	**890**	747	**-**	-	**1,269**	1,090	**265**	218
Total remuneration	**1,796**	1,649	**977**	640	**3,136**	2,859	**888**	881

Note: Salaries are shown gross of any Salary Sacrifice element and the pension benefits for Jon Macdonald and Phil Loney do not include employee contributions made by Salary Sacrifice.
STIP values are the full value awarded for the performance year including amounts still subject to time-based conditions.
The Long-Term Incentives values are based on the estimated value of awards exercisable (after a three-year performance period) at the reporting date and exclude any estimated value of awards deferred to future years (but include awards restricted by holding conditions).

Salary

The salaries shown for executive directors are prior to participation in any benefit-related Salary Sacrifice arrangements.

Benefits

Benefits include life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car). Phil Loney receives a transport and overnight expenses allowance to fund travel between his home and place of work, it is currently £46,000 per annum and is reviewed in April each year to ensure it has been set at the correct level.

Pensions supplement

Jon Macdonald, Phil Loney and Tim Harris received cash supplements in lieu of pension of 15%, 25% and 20% of salary respectively. Jon Macdonald invested part of his supplement into the Group's Defined Contribution Scheme.

Other – payment to leavers

No payments other than those disclosed under the 'Loss of office payments' on page 70, the 'Interest in deferred bonus awards' and the 'Interest in exercisable long-term incentive awards' on page 74 were made to past directors.

Defined benefit pension

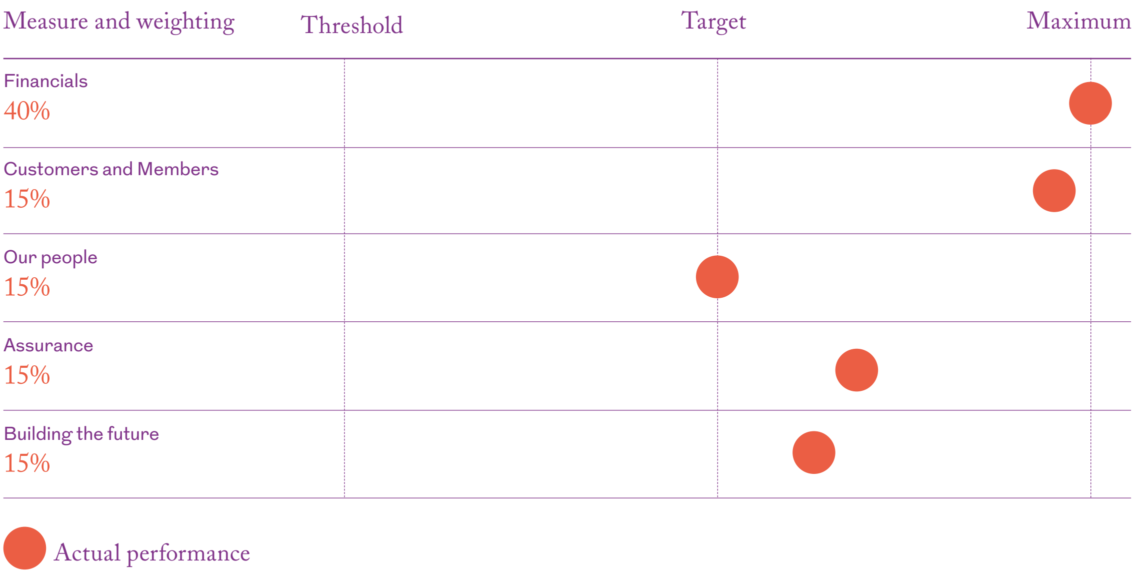
This was calculated as 20 times the increase in accrued pension in the year, net of inflation and employee contributions.

2015 STIP outcome – audited

The maximum STIP opportunity levels, performance ratings and overall STIP outcomes for the executive directors in respect of 2015 are shown in the table on the right.

	Max award (as % of salary)	Outcome (as % of salary)
Andrew Carter	150	96
Tim Harris	120	110
Phil Loney	150	150
Jon Macdonald	120	89

2015 STIP performance was assessed against the following measures:



84% of Andrew Carter's 2015 STIP award was assessed against RLAM specific measures:

In publishing the relative STIP performance outcomes to targets, the Board aims to provide members with a clear understanding of how performance outcomes are rewarded for under the STIP whilst protecting the commercial sensitivity of the underlying metrics.

Individual awards were calculated with reference to the overall scorecard outcomes, the maximum opportunity level, and the individual's performance rating.

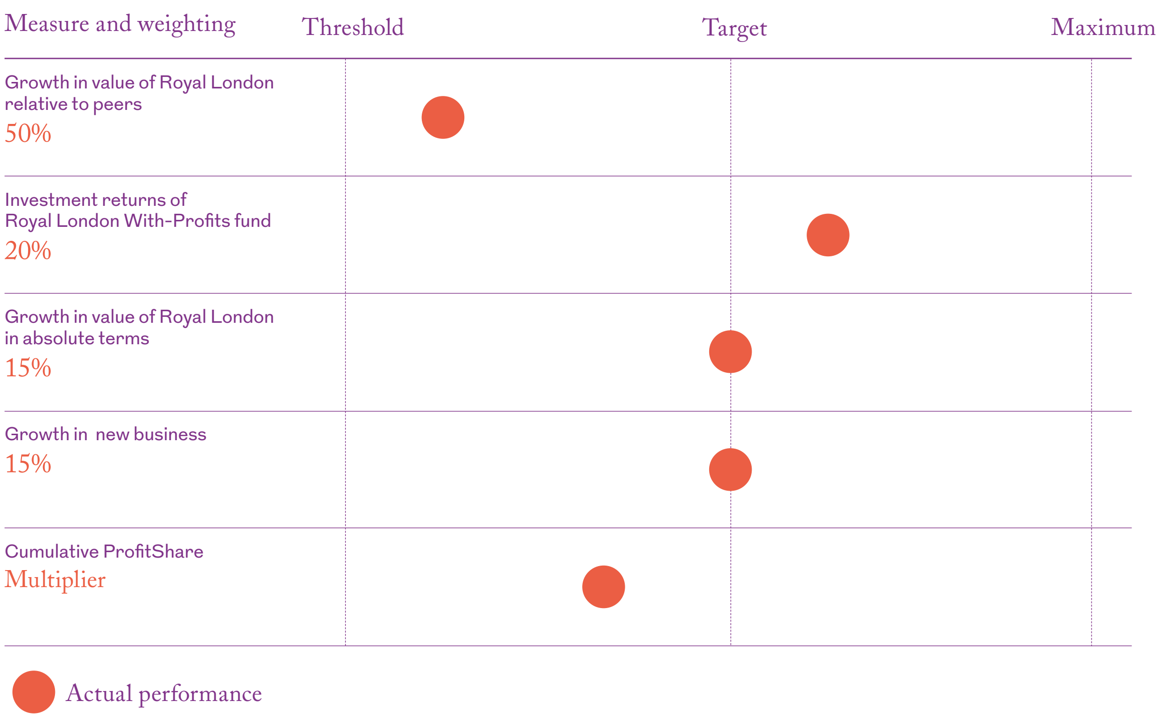
One-third of STIP payments are deferred for three years. The value of the deferred element varies over the deferral period in line with the value of Royal London to its members (plus any ProfitShare allocated during the period). The STIP figures shown in the single figure table include the deferred element of the payment. Further details of outstanding deferred STIP awards are provided on page 74.

Long-term incentives vesting in 2015 – audited

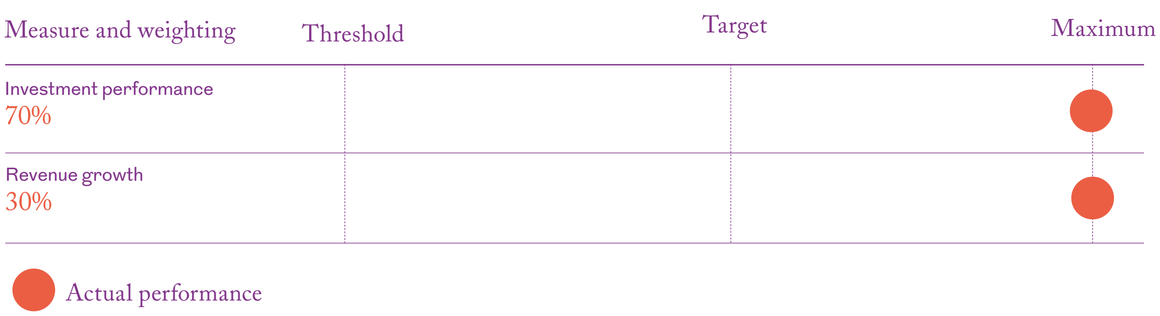
The table on the right details the percentage of long-term incentive awards granted in 2013 which vested at 31 December 2015.

	Scheme	Initial award (as % of salary)	Vesting (as % of salary)
Andrew Carter	LTIS	80	37
	RLAM LTIP	150	150
Phil Loney	LTIS	150	70
Jon Macdonald	LTIS	100	47

The performance measures and estimated outcomes for the 2013 LTIS are as follows:



The performance measures and outcomes for the 2013 RLAM LTIP were as follows:



In publishing the relative LTIS and RLAM LTIP performance outcomes to targets, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the LTIS and RLAM LTIP, whilst protecting the commercial sensitivity of the underlying metrics.

2013 LTIS and RLAM LTIP awards vest at the end of the three-year performance period, with vested awards paid 50% after three years, 25% after four years, and 25% after five years from the date of grant.

All long-term incentive award outcomes are reviewed by internal audit.

2015 Directors' remuneration report continued

Loss of office payments – audited

Details of loss of office payments made in 2015, and any outstanding loss of office payments, are provided in the table below.

Name	Details of loss of office payments
John Deane	No additional payments were made to John Deane other than those in accordance with the terms disclosed in the 2012 Directors' remuneration report.
Stephen Shone	No additional payments were made to Stephen Shone other than those in accordance with the terms disclosed in the 2013 Directors' remuneration report.
Mike Yardley	No additional payments were made to Mike Yardley other than those in accordance with the terms disclosed in the 2011 Directors' remuneration report.

Payments to past directors - audited

No payments other than those disclosed under the 'Loss of office payments' above, the 'Interest in Deferred Bonus Awards' and the 'Interest in excercisable long-term incentive awards' on page 74.

Executive director pensions – audited

Until his resignation, Andrew Carter was the only executive director who participated in the Group's Defined Benefit pension scheme. Details of his pension rights under the scheme as at 31 December 2015 are outlined in the table below.

	Pension rights as at 31 December 2015 (£000)
Andrew Carter	110

The main terms applying to his final salary pension accrued since 30 November 2001 are:

- payable from normal retirement age of 60;
- spouse's pension of 55% of the director's pension, payable on death of the director;
- pensions in payment increase in line with RPI (up to a maximum of 7.5% each year) in relation to pension accrued before 1 April 2011 and in line with CPI (up to a maximum of 2.5% each year) in relation to pension accrued from 1 April 2011;
- pensionable salary increases are capped at a maximum of 2.5% each year in respect of service from 1 April 2011; and
- no additional benefit is receivable in the event of early retirement.

Non-executive director remuneration in 2015 – audited

The non-executive directors received the following remuneration:

	Annual fee (£000)		Committee chairmanship fee (£000)		Additional fee[1] (£000)		Total (£000)	
	2015	2014	2015	2014	2015	2014	2015	2014
Sally Bridgeland	54	-	8	-	-	-	62	--
Ian Dilks	56	7	-	-	-	-	56	7
Duncan Ferguson	56	55	30	33	11	23	97	111
Tracey Graham	56	54	20	20	11	-	87	74
Kathryn Matthews	-	55	18	15	-	-	18	70
Andrew Palmer	56	55	20	20	11	23	87	98
Rupert Pennant-Rea	226	220	-	-	-	-	226	220
David Weymouth	56	55	22	17	11	6	89	78

1 Additional fees were paid to NEDs in relation to extra responsibilities and time commitment relating to Solvency II were over and above the time commitment required in their letter of appointment.
2 Kathryn Matthews resigned as a director on 31 December 2015 and remained as Chair of the Investment Committee until 30 June 2015 when Sally Bridgeland become Chair of the Investment Committee.
3 Duncan Ferguson receives a fee for his role as the Senior Independent Director and this is included in the disclosure of his Committee chairmanship fee.

Group Chief Executive's remuneration compared to Royal London growth

The table and chart below shows the Group Chief Executive's single remuneration figure compared to EEV growth over the past six years. It should be noted that Phil Loney joined the Group on 1 October 2011 and the remuneration shown before that date is that of Mike Yardley who resigned on 30 September 2011.

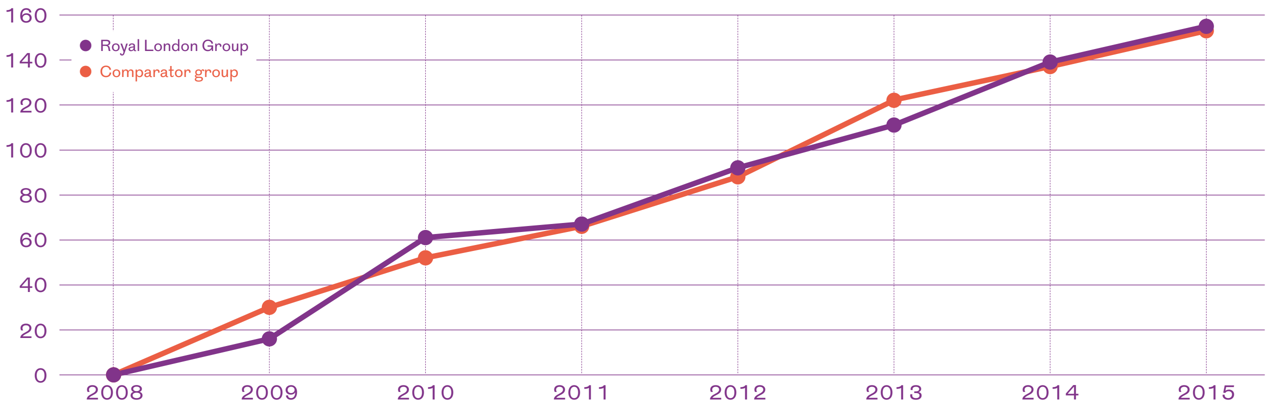
The comparator group of life insurers for Royal London comprises Aviva, Legal & General, Old Mutual, Prudential, Friends Life, Standard Life and St. James's Place. These represent the companies with which Royal London most directly competes. We will continue to review this group of life insurers to ensure that they are the most relevant peer group to compare to.

		2009	2010	2011	2012	Restated 2013	2014	2015
Group Chief Executive	Total single figure (£000s)	-	-	1,403	1,703	2,614	2,859	**3,136**
Phil Loney	Bonus vesting as a % of maximum	-	-	93	85	93	95	**100**
	LTIS vesting as a % of maximum	-	-	-	-	71	39	**37**

2013 restated to reflect the percentage of Royal London units which vested.

		2009	2010	2011	2012	2013	2014	2015
Group Chief Executive	Total single figure (£000s)	1,385	2,343	4,420	-	-	-	-
Mike Yardley	Bonus vesting as a % of maximum	82	94	92	-	-	-	-
	LTIS vesting as a % of maximum	No maximum award limit. Value at vesting included in total single figure stated above.			-	-	-	-

Percentage change in Royal London EEV since 2008 versus life insurance comparator group*



Note: The 31 December 2015 comparator group percentage change is estimated based on information publicly available.
* EEV for Royal London and the comparator group includes cumulative dividends paid since 31 December 2008.

Supporting social responsibility

At Royal London, we believe social responsibility is at the centre of making mutuality meaningful. Phil Loney, Group CEO, leads by example. As well as paying all applicable UK taxes, Phil donates 15% of his pre-tax salary and 25% of the pre-tax value of all STIP and LTIS payments to charity.
In light of the Group CEO's pay rise for 2016 onwards, as determined by the Remuneration Committee, Phil will increase charitable donations made from his salary from 15% to 25%.

In addition, our 'Stepforward' programme enables our people to undertake voluntary work in and around our communities, and the Group has set a target to raise £100,000 for our national charity partner Leukaemia & Lymphoma Research over two years. In addition to supporting social responsibility at a corporate level, we actively encourage it at an individual level, enabling our people to donate tax effectively through 'Give As You Earn' schemes. These schemes have contributed significant donations to charity.

2015 Directors' remuneration report continued

Group CEO remuneration compared to other employees

During the year Phil Loney's remuneration increased by 6.4% compared to 2014, whereas the average employee's remuneration increased by 5.4%.

	Change in remuneration			
	% change in base salary 2014 to 2015	% of target STIP earned	% change in STIP 2014 to 2015	% change in total remuneration 2014 to 2015
Chief Executive	3.0	200	8.8	6.4
All employees	4.5	190	17.5	5.4

Note: '% of target STIP earned' is not the level of bonus earned. For example, if an employee has a target bonus of 10% of salary and an average rating they would have received 16.2% of salary (10% x 162%).
'% of target STIP earned' analysis includes all participants in the 2015 STIP, not just those employed at 31 December 2015.
Total remuneration includes salary, allowances, benefits and STIP (excludes long-term incentives and pension which are deemed too volatile to make meaningful comparisons).

Employee performance has a significant impact on the annual STIP received by employees in any given year. The Committee therefore considers employees who received the same performance rating as the Group CEO for 2015 as the most meaningful group with which to compare the change in Group CEO remuneration. In 2015, for those employees with the same performance rating as the CEO, total remuneration increased by 14.5%.

Implementation of remuneration policy in 2015

As part of the annual executive directors' remuneration review the following matters are taken into account:

- the overall Group cap on increase in salary bill;
- an external review of executive reward;
- the current remuneration package, experience, achievements and individual performance;
- the performance of Royal London Group and its business units; and
- the annual review of remuneration for all employees in the Royal London Group.

The following section sets out how remuneration policy will be implemented in 2016, including details of salary increases and short- and long-term incentive awards.

Salaries

Salaries for executive directors were reviewed in accordance with the remuneration policy. The following table sets out the annual salaries payable to each director from 1 April 2016.

	2016 (£000)	2015 (£000)	Increase (%)
Andrew Carter	372	364	2.2
Tim Harris	431	419	2.9
Phil Loney	736	656	12.2
Jon Macdonald	306	300	2.0

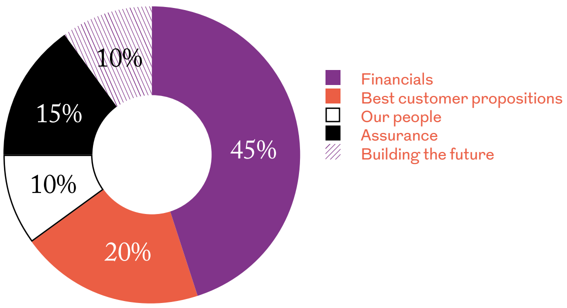
Following a thorough and independent benchmarking exercise undertaken in 2016 to compare the remuneration of the Group Chief Executive with both the current remuneration and five-year trend of comparator group roles, the Committee approved a 12.2% increase to realign both salary and total compensation with the correct market level.

STIP opportunities for 2016

In line with remuneration policy, STIP opportunities and performance measures for the executive directors in respect of 2016 performance are as follows:

	Maximum (as % of salary)
Andrew Carter	150
Tim Harris	120
Phil Loney	150
Jon Macdonald	120

Performance measure selection and approach to target setting: 2016 STIP



In the case of the CEO of Wealth, Andrew Carter, 73% of the STIP is based on measures specific to RLAM performance. Further detail on targets set for each measure will be provided in the Directors' remuneration report for 2016, subject to commercial sensitivity.

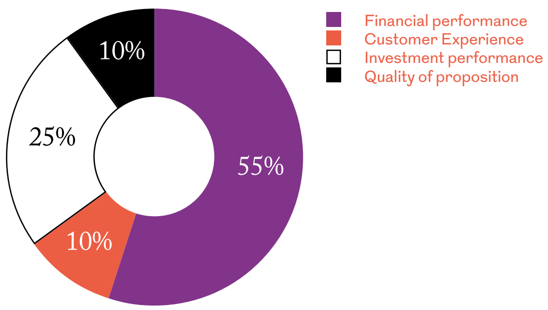
Long-term incentive awards granted in 2016

The following long-term incentive awards will be granted to executive directors in 2016, in accordance with the remuneration policy.

	Scheme	Face value (as % of salary)	% vesting for plan performance	End of performance period
Andrew Carter	LTIS	80	0	31 December 2018
	RLAM LTIP	150	34	
Tim Harris	LTIS	150	0	
Phil Loney	LTIS	150	0	
Jon Macdonald	LTIS	100	0	

Performance measures for LTIS awards granted in 2016 are shown in the chart below.

Performance measure selection and approach to target setting: 2016 LTIS



In addition, a capital strength multiplier is determined and applied by the Committee at the end of the performance period. The multiplier reflects the potential ProfitShare capacity over the performance period.

The RLAM LTIP is linked 70% to RLAM investment performance and 30% to RLAM revenue growth.

Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2018, unless the Committee considers them too commercially sensitive to disclose.

Pension and benefits

Pension and benefits will be implemented in line with the stated remuneration policy in 2016.

Non-executive director fees for 2016

The annual base fee for non-executive directors in 2016 is £58,100. Additional fees are payable for Committee chairmanship as follows:

- Board Risk Committee: £22,000;
- Investment Committee: £15,000;
- With-Profits Committee: £20,000;
- Audit Committee: £20,000; and
- Remuneration Committee: £20,000.

The annual fee for the Group Chairman is £245,000 and the annual fee for the Senior Independent Director is £13,500.

In addition, non-executive directors may receive additional fees in respect of time commitment over and above that normally required, as described in the remuneration policy.

Following a thorough and independent benchmarking exercise undertaken in 2016 to compare the annual fee for the Group Chairman with both the current remuneration and five-year trend of comparator group roles, the Committee approved an 8.65% increase to realign with the correct market level.

Units held by executive directors

The table below sets out the value of units held by executive directors as at 31 December 2015 and their individual holding requirements.

	Holding requirement (£000)	Value of units held at 31 Dec 2015 (£000)
Andrew Carter	291	632
Tim Harris	629	108
Phil Loney	1,312	1,800
Jon Macdonald	300	537

Note: Current holding requirements are stated as a percentage of salary. Total share interests include all long-term incentives which have satisfied their performance conditions and are value based on their starting unit price. RLAM LTIP awards are not subject to holding conditions.

Outstanding awards under incentive schemes – audited

The following tables provide details of outstanding awards under incentive schemes, including deferred STIP and other deferred bonus awards.

Interest in deferred bonus awards

	Value of non-exercisable awards as at 31.12.2014 (£000)	Paid in 2015 (£000)	Deferred in 2015 (£000)	Change in value of non-exercisable awards during 2015 (£000)	Value of non-exercisable awards as at 31.12.2015 (£000)
Andrew Carter	667	356	129	31	471
John Deane	429	337	-	3	95
Tim Harris	-	-	108	11	119
Phil Loney	986	164	301	85	1,208
Jon Macdonald	269	-	104	29	402
Stephen Shone	826	526	-	16	316
Mike Yardley	500	500	-	-	-

Notes: The value of all non-excercisable awards is estimated based on information available at the reporting date.

Interest in exercisable long-term incentive awards

	Value of exercisable awards as at 31.12.2014[1] (£000)	Transfer from non-exercisable awards (£000)	Change in value of exercisable awards during 2015 (£000)	Paid in 2015 (£000)	Value of exercisable awards as at 31.12.2015 (£000)
Andrew Carter	911	890	(1)	(911)	890
John Deane[1]	240	255	(2)	(238)	255
Phil Loney	1,936	1,269	(5)	(1,931)	1,269
Jon Macdonald	330	335	-	(401)	265
Stephen Shone	603	523	-	(603)	523

Notes: The value of exercisable awards is estimated based on information available at the reporting date and includes awards subject to holding conditions.
1 The awards for John Deane have been recalculated due to incorrect pro rating being applied on leaving. In addition a correcting payment of £92,129 was made in June 2015 relating to the 2011 LTIS.

In addition to the previously noted exercisable awards, the following values have been estimated in respect of plans which have not reached their third anniversary or date of exercise.

Non-exercisable as at 31.12.2015

	Total value as at 31.12.2014[1] (£000)	Transfer to exercisable awards[2] (£000)	Change in value of non-exercisable awards during 2015 (£000)	Value of non-exercisable awards subject to time[3] (£000)	Value of non-exercisable awards subject to time and performance[4] (£000)	Total value as at 31.12.2015 (£000)
Andrew Carter[5]	1,645	(890)	826	196	1,385	1,581
John Deane[6]	240	(255)	15	-	-	-
Tim Harris	330	-	423	-	753	753
Phil Loney	2,057	(1,269)	1,028	656	1,160	1,816
Jon Macdonald	585	(335)	309	205	354	559
Stephen Shone	603	(523)	44	124	-	124

Notes: The value of non-exercisable awards is estimated based on information available at the reporting date.
Included in this amount are buyout awards for Jon Macdonald that were made on joining Royal London and disclosed in the Directors' remuneration report for the year in which he joined.
1 This disclosure shows the face value of non-exercisable long-term incentive awards as at the start and end of the year.
2 This is the value of long-term incentive awards that became exercisable in 2015 and are no longer subject to performance or time-based conditions.
3 This is the value of long-term incentive awards that are no longer subject to performance, but may not be exercised until a future date.
4 This is the value of long-term incentive awards that are subject to further performance, i.e. the performance period has not yet ended.
5 Andrew Carter's RLAM LTIP has been restated to be the full amount of the award, which is not yet exercisable and subject to performance in accordance with note 1.
6 The awards for John Deane have been recalculated due to incorrect pro rating being applied on leaving. In addition a correcting payment of £92,129 was made in June 2015 relating to the 2011 LTIS.

Service contracts

The main terms of executive director service contracts are provided in the table below.

	Group CEO terms	Other executive director terms
Duration	Continuous term to retirement age.	Continuous term to retirement age.
Notice period	12 months by the Group. 12 months by the CEO.	12 months by the Group. Up to 12 months by the executive director.
Pay in lieu of notice	Pay in lieu of notice (salary and contractual benefits) if employment is terminated by the Group for reasons other than misconduct.	Pay in lieu of notice (salary and contractual benefits) if employment is terminated by the Group for reasons other than misconduct.
Other allowances	Group reimburses reasonable travel and overnight expenses in connection with work-related travel to and from home to place of work.	Not applicable.

All executive director service contracts require the mitigation of any pay in lieu of notice.

The main terms of non-executive directors' letters of appointment are provided in the table below.

	Date of letter of appointment	Notice period
Sally Bridgeland	10 November 2014	3 months
Ian Dilks	17 September 2014	3 months
Duncan Ferguson	31 March 2010	3 months
Tracey Graham	19 December 2012	3 months
Andrew Palmer	25 March 2011	3 months
Rupert Pennant-Rea	4 September 2012	3 months
David Weymouth	24 April 2012	3 months

Remuneration Committee meetings in 2015

The Remuneration Committee met 11 times in 2015. During 2015, the members of the Committee were as follows:

- Tracey Graham (Chairman)
- Rupert Pennant-Rea
- Andrew Palmer

The Committee received support and advice from external advisers during the year. From time to time it undertakes due diligence to ensure that the advice it receives is independent. The table below provides details of the external advisers to the Committee and the respective fees paid to them in 2015. Fees are charged based on the scope and requirements of the work as agreed with the Committee or Royal London Group as a whole.

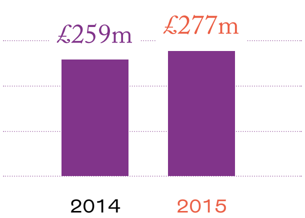
2015 Directors' remuneration report continued

	Nature of advice provided to the Remuneration Committee	Total fees (£000)	Nature of advice provided to other parts of the Royal London Group	Appointed by
Kepler, a brand of Mercer	Independent advice on all aspects of remuneration of the executive directors and senior executives. Provides support on other aspects of Group remuneration for the Committee.	164	None.	Appointed by the Remuneration Committee. Kepler's parent company, Mercer, provides unrelated services to the Group in the areas of fund management performance tracking and provision of advice to the pension Trustees. However, the Committee is satisfied that Kepler, in providing remuneration advice to the Committee, did not have any connection with the Group that impaired its independence.
Pinsent Masons	Legal support with regard to the operation of the Group's incentive plans and matters pertaining to the terms of appointment of directors.	13	General legal advice.	Advisers to the Group on HR matters.
PricewaterhouseCoopers	Agreed upon procedures on RLAM incentive schemes.	87	Audit, tax and non-audit services.	Appointed by the Committee but auditors to the Group.

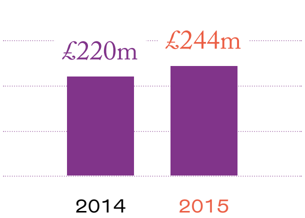
Distribution statement

The illustration below shows the increase in EEV profit before tax and ProfitShare, EEV operating profit, ProfitShare and total employee pay expenditure in 2015.

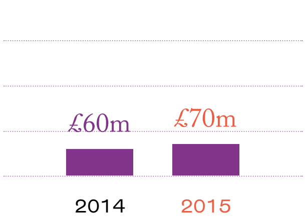
EEV profit before tax and ProfitShare



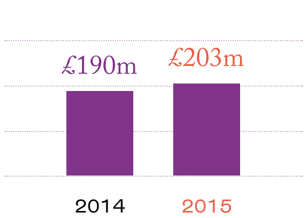
EEV operating profit before exceptional items



ProfitShare (net of tax)



Total employee pay expenditure



Consideration of members' views

The voting outcome on the Directors' remuneration report at the 2014 and 2015 AGMs is shown in the table below. Members expressed no adverse views on executive remuneration at the AGM.

DRR for year	Number of votes cast for	Percentage of votes cast for (%)	Number of votes against	Percentage of votes cast against (%)	Total votes cast	Number of votes withheld
2015	15,732	96.7	536	3.3	16,268	315
2014	14,943	95.1	771	4.9	15,714	424

By order of the Board

Tracey Graham
Chairman of the Remuneration Committee

Independent auditors' report to the members of The Royal London Mutual Insurance Society Limited

Report on the financial statements

Our opinion
In our opinion:

- the Royal London Mutual Insurance Society Limited's Group financial statements and Parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2015 and of the Group's result and the Group's and the Parent company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report, comprise:

- the Group and Parent company balance sheets as at 31 December 2015;
- the Consolidated statement of comprehensive income for the year then ended;
- the Group and Parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Materiality
Overall Group materiality: £85m which represents 2.6% of Unallocated Divisible Surplus ("UDS").

Audit scope
The Group is structured along four core segments being Intermediary, Consumer, Wealth and 'Central and Other items'. The Intermediary segment is further sub-divided into the individual 'brands' that have been acquired by Royal London which, together with the subsidiary entities within the Wealth and Central and Other items segments, each represented a reporting unit for the purposes of our scoping assessment. Seven of the 13 reporting units were audited by the Group audit team. The reporting units where we performed audit work accounted for 96.3% of the transfer to UDS and 99.5% of the total asset balance. Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.

Areas of focus
Our areas of focus during the audit were:

- the valuation of insurance contract liabilities, focussing particularly on:
  - guaranteed annuity option (GAO) take-up rate assumptions;
  - persistency assumptions; and
  - expense assumptions.
- pension scheme liability valuation; and
- valuation of complex investments.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the tables on pages 78 to 80. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of insurance contract liabilities Refer to page 87 (Accounting policies) and page 129 (note 25) for further information	
GAO take up rates *GAOs impact the valuation of insurance contract liabilities within the Group financial statements. The Group financial statements include liabilities of £1.8bn as at 31 December 2015 (see note 44 to the financial statements for more information) relating to management's estimate of the future cost of GAOs.* **GAOs provide policyholders with the option to take out annuities at a guaranteed minimum rate upon retirement. We applied particular focus on GAOs because the liabilities are sensitive to changes in assumptions, including the proportion of eligible policyholders taking the GAO (the 'GAO take up rate'). The Group makes its assumptions about the GAO take up rate using 'experience analysis' based on historical data about policyholder behaviour.** **As a consequence of the Finance Act 2014, individuals now also have greater choice at retirement about access to their pension savings. Since April 2015 policyholders with larger policies have been able to take the whole of the fund as cash, in the way that holders of smaller policies already can.** **Estimating the long-term GAO assumption is further complicated by the potential introduction in April 2017 of legislation that would allow a policyholder to sell their annuity to a third party, which under current economic circumstances would be expected to increase the GAO take up rate. This may mean that policyholder behaviour changes in the future and is an important judgement affecting the calculation of the liabilities.**	Using PwC actuarial specialists, we obtained evidence over key inputs and assumptions as follows: › we tested the historic data being used in management's experience analysis and found no material exceptions; › we examined management's analysis and rationale on whether recent short-term changes to the GAO take up rate provided sufficient and robust evidence of a change to the long-term trend; › we focused particularly on the size of the policies that have vested over the past two years, using audited data from the policy administration systems to re-perform management's GAO take-up percentage calculation; › to get comfortable with the GAO take up rate assumptions used by management, we compared management's assumptions against the actual month by month movement in GAO take up trends between April 2014 and March 2016, considering any one-off changes that may have been caused by an increase in policyholders eligible to take their funds as cash. We also compared this data to experience data prior to April 2014 to assess long-term changes in policyholder behaviour; › we assessed management's judgement in setting the take up rate assumption when assessing the importance of the differing GAO take up rate experience over the past two years as the Finance Act 2014 has been embedded, together with an assessment of changes to upcoming legislation (for example in the second-hand annuity market) which may change the take up rate in the future; › we assessed the sensitivity on reserves from applying different take up rates and assessed how this information was used to inform the judgements made when choosing the final assumptions; and › finally, we compared the GAO take up rate assumptions with those adopted by other insurers using our in-house industry benchmarking data. This is an inherently subjective area, but we found that management's approach to determining the GAO take up rate assumptions for use in the valuation model was supported by the evidence we obtained.

Area of focus	How our audit addressed the area of focus
Persistency assumptions *Persistency impacts the value of the Group insurance contract liabilities and Group intangible assets. The Group financial statements include intangible assets relating to management's estimate of the Present Value of acquired In-force Business (PVIF), which total £186m across the Group as at 31 December 2015. See note 28 to the financial statements for more information. Insurance contract liabilities total £36.2bn across the Group as at 31 December 2015. See note 25 to the financial statements for more information.* **The Group has material intangible assets, in particular the PVIF, being the value of the projected future profits arising from the income from servicing policies. We focused on persistency because this is a significant assumption for the value of future income from servicing policies and therefore valuation of the PVIF intangible, being the assumption relating to retention of policies over time.** **When valuing future cash flows, an assumption needs to be made regarding how many policies will be in force in future time periods. Lapses are a key element of future policies in-force and thus a key assumption when valuing the total quantum of insurance contract liabilities.** **Persistency assumptions are driven by past experience (the experience investigations), and assumptions about future changes to policyholder behaviour which are difficult to predict and therefore there is judgement applied when setting an appropriate basis.** **Persistency can be impacted by a range of factors including changes to regulation for products sold by the Group such as the Finance Act 2014. We focused on whether management have made appropriate assumptions against this background.**	We tested the accuracy of the data being used in management's experience analysis by checking that the historical data used to calculate the previously observed persistency rates ('the source of experience') is consistent with the data used in the valuation. We also performed controls testing over the extraction and calculation of the policyholder retention from the data. We found no material exceptions from this testing. With respect to the experience investigations, we assessed: › past events in the data we tested and whether these events better reflect the likely future experience when considering weighting the experience observed; and › the validity of the analysis performed on the data by management and their conclusions drawn. We understood the relevant factors being taken into account by management and compared their view with our understanding of the impact on the wider market and on the experience data that management had observed from the persistency in previous time periods. Using our understanding of the expected impact of regulatory changes we tested management's assumptions including: › recalculating the experience observed across a sample of policies selected from the total reserve analysis. This recalculation was performed with no material exceptions; and › observing persistency experience and analysing the experience for lines of business that may be affected by policyholder behaviours as a result of legislative or regulatory changes. We found no material issues as a result of this testing. We also compared the persistency assumptions with those adopted by other insurers using our in-house industry benchmarking data. This is an inherently subjective area. Based on the results of our testing, we found that the assumptions were supportable based on the evidence we obtained.
Expense assumptions *The Group financial statements include liabilities for the estimated future expenses that would be incurred in continuing to maintain the existing policies to maturity. These expense liabilities are included within the insurance and investment contract liabilities. See note 27 to the financial statements for more information.* **The expense assumptions are calculated using an Activity Based Costing (ABC) model. The significant assumptions and judgements in this model are the overall costs in the future and cost allocations between products which have different expected durations and therefore different expected product lifetime costs. The most significant area of risk with expense reserving lies in the methodology used to categorise expenses between one-off, acquisition and maintenance, of which only the latter is used in the expense reserving calculation. Any change in methodology applied could have a significant impact on the quantum of the expense reserve.**	We obtained evidence over key inputs and assumptions as follows: › we tested the completeness of the expenses used in the calculation of the expense liabilities through reconciling the total expenses recorded within the accounting records of the Group, to the total expenses input into the ABC model and found them to be materially consistent; › we tested the total number of policies used in setting expense assumptions by corroborating these to the Group policy numbers used in the financial statements with no material exceptions; › we assessed significant judgements made in setting the assumptions such as the split between acquisition and maintenance costs, the one-off project costs, and the allocation of costs to different products. This was performed by agreeing a sample of costs to supporting evidence, and tracing the allocation of each cost within the sample through the model, to verify that the final allocation was appropriate. We found these judgements to be reasonable; › we recalculated the per policy expense across a sample of policies. This recalculation was performed with no material exceptions; and › we compared the resulting expense assumptions to the expenses incurred over the prior 12 months, along with any known expected increases, in order to satisfy ourselves that the assumptions were sufficient in aggregate and we found the results comparable.

Auditors' report continued

Area of focus	How our audit addressed the area of focus
Pension scheme liability valuation See note 1 to the financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 38 for detailed pension disclosures.	
The Group has a defined benefit pension plan net surplus of £71m (2014 £48m), comprising assets of £2,274m and liabilities of £2,203m. **The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in assumptions about inflation, discount rates, and mortality can have a material impact on the calculation of the liability.**	We tested the reliability of the data used to determine the pension scheme valuation by: › testing the completeness and accuracy of the scheme data used by the pension administrator by agreeing a sample of member records back to source documentation and found no material exceptions. We evaluated management's assumptions in relation to the valuation of the liabilities in the pension plan as follows: › we assessed the appropriateness of the discount rate, Retail Price Index/Consumer Price Index (inflation) spread and life expectancy of both pensioners and non-pensioners. We found them to be consistent with the prior year and within an acceptable range using an internally developed range of acceptable assumptions for valuing pension liabilities, based on our view of various economic indicators; and › we compared the key assumptions used against those used by other companies and found the assumptions to be broadly consistent.
Valuation of complex investments See note 1 to the financial statements for the directors' disclosures of the related accounting policies and use of estimates. Note 16 provides further information and quantification on judgements and estimates specific to the investment risks.	
Valuation of complex investments **The Group holds investments in property, private equity and hedge funds. We focused on this area because these asset classes are complex in nature and there is subjectivity in their valuation due to limited or no observable market prices.** **The valuation of investment property is obtained through valuation reports from management's valuation experts. The valuation of private equity and hedge funds is obtained through independent valuation confirmations from the fund manager.**	We performed testing for directly held property as follows. We: › obtained valuation reports from management's valuation experts and assessed their independence and competency; › assessed the assumptions and methodology used by management's valuation experts by using internal PwC valuation specialists to check these were appropriate. We found the assumptions were supported by the audit evidence obtained; and › agreed a sample of inputs used by management's valuation experts to source documentation. We found that the inputs and assumptions used to value the investment property were supported by audit evidence obtained and in line with industry practice. We performed detailed testing for private equity and hedge funds as follows. We: › obtained independent confirmations for 47% of the fair value as at 31 December 2015 directly from fund managers; › considered the fund managers' bases of valuation for these funds and assessed the appropriateness of the valuation methods used; › for a sample of funds, compared the unaudited quarterly statements with the last audited net asset value to obtain evidence over the accuracy of the reporting of the fund manager; › considered the appropriateness of the accounting policies applied by the funds; and › for a sample of funds, obtained post year-end valuations to obtain evidence of the valuations as at 31 December 2015. We found that, based on the testing performed, the valuations of private equity and hedge funds are appropriately stated.

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

A reporting unit was deemed to be financially significant if it contained more than 10% of the total Group insurance or investment contract liabilities. Reporting units were also deemed to be significant if they contained balances relating to one of the areas of audit focus.

For the Group's seven individually financially significant reporting units a full scope audit was performed. Additional balances were selected to provide coverage across all material financial statement line items and to perform audit work over the areas of focus we identified and which we have set out above. Reporting units were each allocated an individual component materiality ranging from £30m to £70m. In addition, individual balances within other reporting units were also selected as 'in-scope' based on size.

Our audit scope allowed us to test 96.3% of the transfer to UDS and 99.5% of the total asset balance. Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.

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

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

Overall Group materiality	£85m (2014 £85m).
How we determined it	Our primary benchmark used to determine materiality was the unallocated divisible surplus. Our overall materiality represented 2.6% of the UDS (2014 2.7%).
Rationale for benchmark applied	We had regard to the UDS as disclosed in note 31 to the financial statements which represents the amount of surplus yet to be allocated to the members of the Company to whom this opinion is addressed. When analysing the facts and circumstances specific to Royal London, we used our professional judgement, considering the reasonableness of the overall materiality in relation to the Key Performance Indicator metrics reported by the Group including the operating profit, the ProfitShare and the IFRS result before tax.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4.25m (2014 £4.25m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 44, required for companies with a premium listing on the London Stock Exchange.

The directors have requested that we review the statement as if the Parent company were a premium listed company. We have nothing to report having performed our review.

The directors have voluntarily chosen to report how they have applied the UK Corporate Governance Code – An Annotated Version for Mutual Insurers (the 'Code'). Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Parent company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
The statement given by the directors on page 49, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent company acquired in the course of performing our audit.	We have no exceptions to report.
The section of the Annual Report on page 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

The directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
The directors' explanation in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

The directors have requested that we review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group, set out on page 19. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinion on additional disclosures

Directors' remuneration report

The Parent company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the Parent company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matter on which we have agreed to report by exception

Corporate Governance statement

The Parent company voluntarily prepares a Corporate Governance statement in accordance with the provisions of the Code.

The directors have requested that we review the parts of the Corporate Governance statement relating to the Parent company's compliance with the 10 further provisions of the Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Parent company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibilities statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the Group's and the Parent 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 financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Gavin Phillips (Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 March 2016

a. The maintenance and integrity of the Royal London Mutual Insurance Society Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income
for the year ended 31 December 2015

	Notes	Group 2015 £m	2014 £m
Revenues			
Gross earned premiums	3 (a)	**1,194**	1,218
Premiums ceded to reinsurers		**(400)**	(1,794)
Net earned premiums		**794**	(576)
Fee income from investment and fund management contracts	4	**255**	243
Investment return	5	**2,122**	7,796
Other operating income	6	**44**	47
Total revenues		**3,215**	7,510
Policyholder benefits and claims			
Claims paid, before reinsurance	7 (a)	**2,725**	2,569
Reinsurance recoveries	7 (a)	**(470)**	(432)
Claims paid, after reinsurance		**2,255**	2,137
(Decrease)/increase in insurance contract liabilities, before reinsurance		**(948)**	3,749
Reinsurance ceded		**160**	(1,515)
(Decrease)/increase in insurance contract liabilities, after reinsurance		**(788)**	2,234
(Increase)/decrease in non-participating value of in-force business		**(194)**	3
Increase in investment contract liabilities		**903**	1,846
Total policyholder benefits and claims		**2,176**	6,220
Operating expenses			
Administrative expenses	8, 9	**477**	486
Investment management expenses	11	**238**	190
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	19	**40**	72
Investment return attributable to external unit holders	36	**22**	101
Other operating expenses	12	**75**	42
Total operating expenses		**852**	891
Finance costs	13	**44**	43
Result before tax before transfer to unallocated divisible surplus		**143**	356
Tax charge	14 (a)	**18**	207
Transfer to the unallocated divisible surplus	31	**125**	149
Profit for the year		**-**	-
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	38	**50**	(15)
Transfer to/(from) the unallocated divisible surplus	31	**50**	(15)
Other comprehensive income for the period, net of tax		**-**	-
Total comprehensive income for the year		**-**	-

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

Balance sheets

as at 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Parent company 2015 £m	Parent company 2014 £m
ASSETS					
Property, plant and equipment	17	**42**	46	**-**	-
Investment property	18	**5,036**	4,727	**4,936**	4,633
Intangible assets					
Goodwill		**250**	250	**232**	232
Acquired PVIF on investment contracts		**30**	34	**21**	24
Acquired PVIF on insurance contracts		**156**	177	**150**	171
Deferred acquisition costs on investment contracts		**344**	425	**344**	425
Other intangible assets		**52**	45	**30**	41
Total intangible assets	19	**832**	931	**777**	893
Reinsurers' share of insurance contract liabilities	25	**5,302**	5,462	**5,302**	5,462
Pension scheme asset	38	**177**	128	**177**	128
Current tax asset		**19**	-	**22**	-
Financial investments	20	**60,129**	59,492	**42,629**	44,231
Investments in Group entities	21	**-**	-	**15,321**	12,894
Trade and other receivables	23	**546**	412	**383**	285
Cash and cash equivalents	24	**2,823**	2,736	**2,209**	2,259
Total assets		**74,906**	73,934	**71,756**	70,785
LIABILITIES					
Participating insurance contract liabilities	25	**28,874**	29,607	**28,949**	29,682
Participating investment contract liabilities	29	**2,326**	2,308	**2,326**	2,308
Unallocated divisible surplus	31	**3,314**	3,139	**3,359**	3,183
Non-participating value of in-force business	28	**(1,526)**	(1,332)	**(1,526)**	(1,332)
		32,988	33,722	**33,108**	33,841
Non-participating insurance contract liabilities	25	**7,291**	7,506	**7,290**	7,504
Non-participating investment contract liabilities	29	**24,982**	22,691	**24,982**	22,691
		32,273	30,197	**32,272**	30,195
Subordinated liabilities	32	**743**	640	**743**	640
Payables and other financial liabilities	33	**5,156**	5,544	**5,107**	5,486
Provisions	34	**224**	250	**219**	237
Other liabilities	35	**286**	316	**220**	244
Liability to external unit holders	36	**3,145**	3,122	**-**	-
Deferred tax liability	37	**91**	91	**87**	91
Current tax liability		**-**	52	**-**	51
Total liabilities		**74,906**	73,934	**71,756**	70,785

The financial statements on pages 84 to 185 were approved by the Board of Directors and signed on its behalf on 30 March 2016.

Tim Harris
Group Finance Director

Statements of cash flows

for the year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 £m	Parent company 2015 £m	Parent company 2014 £m
Cash flows from operating activities					
Transfer to the unallocated divisible surplus		**175**	134	**176**	245
Adjustments for non-cash items	42 (a)	**1,760**	(1,036)	**1,707**	(2,711)
Adjustments for non-operating items	42 (b)	**44**	43	**(8)**	7
Acquisition of investment property		**(211)**	(277)	**(211)**	(264)
Net acquisition of financial investments		**(1,432)**	(414)	**(1,530)**	(1,777)
Proceeds from disposal of investment property		**331**	54	**331**	50
Changes in operating receivables		**(134)**	96	**(98)**	29
Changes in operating payables		**(422)**	1,646	**(407)**	4,918
Change in liability to external unit holders		**23**	636	**-**	-
Net cash flows from operating activities before tax		**134**	882	**(40)**	497
Tax (paid)/received		**(89)**	(47)	**(64)**	1
Net cash flows from operating activities		**45**	835	**(104)**	498
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(6)**	(15)	**-**	-
Acquisition of intangibles		**(15)**	-	**-**	-
Acquisition of Group entities	42 (d)	**-**	(180)	**(30)**	(8)
Proceeds from disposal of Group entities	42 (d)	**-**	-	**-**	10
Dividends received from Group entities		**-**	-	**20**	31
Net cash flows from investing activities		**(21)**	(195)	**(10)**	33
Cash flows from financing activities					
Proceeds on issue of debt		**348**	-	**348**	-
(Repayment of)/proceeds from other debt and finance lease liabilities		**(246)**	-	**(246)**	14
Interest paid		**(44)**	(43)	**(43)**	(41)
Net cash flows from financing activities		**58**	(43)	**59**	(27)
Net increase/(decrease) in cash and cash equivalents		**82**	597	**(55)**	504
Cash and cash equivalents at 1 January		**2,730**	2,133	**2,253**	1,749
Cash and cash equivalents at 31 December	24	**2,812**	2,730	**2,198**	2,253

An integral part of the operations of the Group is the management of a portfolio of investment assets. Cash flows relating to the purchase and sale of these assets have been treated as operating cash flows for the purposes of the statements of cash flows. In the Parent company, Open Ended Investment Companies (OEICs) and other investment funds that are classified for financial reporting purposes as subsidiaries are also part of this operating portfolio of investment assets and hence cash flows in relation to these assets are also classified as operating cash flows for the Parent company statement of cash flows.

Notes to the financial statements

for the year ended 31 December 2015

1. Accounting policies

(a) Basis of preparation

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

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

All amounts in the financial statements are shown in pounds sterling, which is the presentational currency of the Group and the Parent company. Unless otherwise stated, amounts are shown in millions of pounds, rounded to the nearest million.

New and amended standards adopted by the Group

The following new and amended standards, none of which have had a material impact on the Group, have been adopted for the first time in these financial statements:

- Amendments to IAS 19, 'Defined benefit Plans' – Employee contributions.
- Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle.
- Amendments to IFRSs Annual Improvements to IFRSs 2011-2013 Cycle.

New and amended standards not yet effective

The following new and amended standards, which have been issued but are not yet effective, have not been applied in these financial statements:

- IFRS 9, 'Financial Instruments', final version issued July 2014. This new standard was issued in several phases and will replace IAS 39, 'Financial Instruments: Recognition and Measurement' when it becomes effective on 1 January 2018. IFRS 9 covers the classification and measurement of financial instruments, impairment and hedge accounting. The impact on the financial statements will continue to be assessed and the Group will also take into account the interaction between IFRS 9 and the requirements of the replacement for IFRS 4, when the latter is issued.
- IFRS 15, 'Revenue from contracts with customers', effective from 1 January 2018. This standard establishes a single comprehensive model for revenue arising from contracts with customers. The Group is considering how this standard will impact the reporting of investment contract revenue and has yet to complete its final assessment.
- Amendments to IAS 1, 'Disclosure Initiative', effective from 1 January 2016. These amendments may result in some minor changes to the financial statements disclosures.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Group.

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Parent company and its subsidiaries.

Subsidiaries are those entities (including OEICs and other investment funds) over which the Group has control. The Group controls an entity when it has power over it, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group considers all relevant facts and circumstances when determining whether control exists and makes a re-assessment whenever those facts and circumstances change. Profits or losses of subsidiaries sold or acquired during the period are included in the consolidated results up to the date that control ceases or from the date of gaining control.

The Group applies the purchase method in accounting for business combinations. The cost of business combinations comprises the fair value of the consideration paid and of the liabilities incurred or assumed. For acquisitions completed prior to 2010, the cost of business combinations also included any directly related expenses. For subsequent acquisitions, all acquisition costs are expensed as incurred. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

The excess of the cost of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the business combination is less than the fair value of identifiable net assets acquired, the difference is recognised immediately in the statement of comprehensive income.

The Group has chosen to apply predecessor accounting to transactions whereby the trade and assets of a Group entity or the entity itself are transferred to another entity within the Group, known as common control business combinations. The effect of predecessor accounting is that the assets and liabilities recognised by the acquiring entity in such a transaction are those used previously in the Group consolidated accounts.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group. Intra-group transactions, balances and unrealised gains and losses on intra-group transactions are eliminated.

1. Accounting policies (continued)

(b) Basis of consolidation (continued)

The Group invests in investment funds, which themselves invest mainly in equities, bonds and cash and cash equivalents. Some of these funds are managed by Group companies and therefore in addition to investment income from its holding in the funds, the Group also receives management fees from external unit holders. Where the Group's holding is greater than 50% it is presumed that it is exposed to variable returns from the fund and can use its power to influence those returns; in such cases the fund is consolidated. Conversely where the Group's holding is less than 20% it is not considered to have significant influence over the fund and the fund is accounted for within financial investments at fair value.

Holdings between 20% and 50% are assessed to determine whether the Group is deemed to have control; judgement is made around the concept of power and the factors taken into account include:

- the Group's level of combined interest in the fund (from investment income and management fees);
- any rights held by other parties and the nature of those rights.

Where the funds are consolidated, the interests of the other parties are included within liabilities and are presented as 'Liability to external unit holders'. Holdings of investment funds of between 20% and 50%, which are not consolidated, are treated as associates.

The Group also invests in certain private equity funds and property unit trusts, which are managed by external third-party administrators. The structure of each fund, the terms of the partnership agreement and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the fund/unit trust should be consolidated.

Associates are entities over which the Group has significant influence but not control, generally accompanying an ownership interest of between 20% and 50%. The Group's investments in associates are all investment funds and have been accounted for as financial assets held at fair value through profit or loss as permitted by IAS 28, 'Investments in Associates and Joint Ventures'.

(c) Classification of contracts

The Group classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant proportion of the total contractual payments; and
- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
  - the performance of a specified pool of contracts, or a specified type of contract, or
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or
  - the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as 'with-profits' or as 'participating' contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with-profits (participating) investment mediums at the same time. Certain hybrid contract types are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue.

(d) Revenue

(i) Premiums

Premiums received and reinsurance premiums paid relate to insurance and non-hybrid participating investment contracts. They are accounted for when due for payment except for recurring single premiums and premiums in respect of unit-linked business, which are accounted for when the related liabilities are created.

(ii) Fee income from investment and fund management contracts

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees, which relate to the future provision of services are deferred and recognised in the statement of comprehensive income over the anticipated period in which the services will be provided. Such deferred fee income is shown as a liability in the balance sheet.

(iii) Investment return

Investment return comprises the investment income and fair value gains and losses derived from assets held at fair value through profit or loss, rental income and fair value gains and losses derived from investment property and interest income derived from cash and cash equivalents.

Investment income derived from assets held at fair value through profit or loss includes dividends and interest income. Dividends are recorded on the date on which the shares are declared ex-dividend. UK dividends are recorded net of the associated tax credits; overseas dividends are recorded gross, with the related withholding tax included within the tax expense as foreign tax. Interest income is recognised on an accruals basis. Rental income from investment property, net of any lease incentives received or paid, is recognised on a straight-line basis over the term of the lease.

(iv) Commission income

The Group acts as an introducer for certain third-party insurers. Commission income and profit commission received on the underwriting results of those insurers is recognised in the statement of comprehensive income as the related services are provided.

(e) Claims

Claims paid and reinsurance recoveries relate to insurance and non-hybrid participating investment contracts. For non-linked policies, maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the related contract liabilities. Death claims and all other non-linked claims are accounted for when notified. For linked policies, claims are accounted for on cancellation of the associated units.

Claims payable include related claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

1. Accounting policies (continued)

(f) Tax expense

Tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The following temporary differences are not provided for:

- the initial recognition of goodwill not deductible for tax purposes; and
- temporary differences arising on investments in subsidiaries where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(g) Property, plant and equipment

Owner-occupied land and buildings are carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, and is based on market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in profit or loss, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income.

Other plant and equipment consisting of computer equipment, office equipment and vehicles are stated at cost less accumulated depreciation and impairment losses. Cost comprises the fair value of the consideration paid to acquire the asset and includes directly related expenditure.

Subsequent costs are included in an asset's carrying value only to the extent that it is probable that there will be future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

Land is not depreciated. No depreciation is provided on owner-occupied buildings as such depreciation would be immaterial. Depreciation on other items of property, plant and equipment is charged to the statement of comprehensive income and is calculated so as to reduce the value of the assets to their estimated residual values on a straight-line basis over the estimated useful lives of the assets concerned, which range from three to eight years.

The residual values and estimated useful lives are reviewed annually. Where an asset's carrying amount exceeds its recoverable amount the carrying amount is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

(h) Intangible assets

(i) Goodwill

Goodwill is tested annually for impairment and is stated at cost less accumulated impairment losses. Any gain or loss on subsequent disposal of a subsidiary will include any attributable goodwill remaining.

(ii) Acquired PVIF

The present value of acquired in-force business (PVIF) arises on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary. It represents the net present value of the expected pre-tax cash flows of the contracts which existed at the date of acquisition and is amortised over the remaining lifetime of those contracts. The amortisation is recognised in the statement of comprehensive income and is calculated on a systematic basis to reflect the pattern of emergence of profits from the acquired contracts. Amortisation is stated net of any unwind of the discount rate. The estimated lifetime of the acquired contracts ranges from five to 35 years for life business and 17 to 40 years for pensions business.

The value of the acquired PVIF is assessed annually for impairment and any impairment is recognised in full in the statement of comprehensive income in the year it is identified.

(iii) Deferred acquisition costs

Deferrable acquisition costs for non-participating and hybrid participating investment contracts are capitalised as an intangible asset, provided that it is considered probable that those costs are recoverable. Deferrable costs are restricted to directly related and incremental costs incurred for the acquisition of new contracts. This consists of commission only, including the value of future commission payable to third parties. All other acquisition costs are expensed as incurred. The deferred acquisition cost asset is amortised over the anticipated lifetime of the related contracts in the same pattern as the related services are provided.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

(iv) Other intangible assets

Other intangible assets include investment management rights, administration servicing rights and distribution agreements acquired as part of a business combination, computer software and deferred incremental acquisition costs directly related to the costs of acquiring new unit trust business. They are carried at cost less accumulated amortisation and impairment losses. The initial cost is determined as the fair value of the intangible asset at the date of acquisition. Where that fair value is not readily observable it is determined using a valuation technique such as discounted cash flow analysis.

Other intangible assets are amortised on a straight-line basis over their useful lives, which range from three to 10 years. The useful lives are determined by considering relevant factors such as the remaining term of agreements, the normal lives of related products and the competitive position.

1. Accounting policies (continued)

(i) Reinsurance

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Reinsurance assets represent short-term payments due from reinsurers and longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the reinsured insurance contracts. Reinsurance liabilities represent premiums payable for reinsurance.

(j) Investments

(i) Investment property

Investment property is property held for rental, capital growth or both, excluding that occupied by the Group or the Parent company. Investment property includes freehold and leasehold land and buildings.

Investment property is initially measured at cost. For freehold property, cost comprises the fair value of the consideration paid plus the associated transaction costs. For leasehold property, the cost is the lower of the fair value of the property and the present value of the minimum lease payments at the inception of the lease.

All investment property is subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

(ii) Financial investments

All investment transactions are recognised at trade date.

All financial investments are classified upon initial recognition as held at fair value through profit or loss (FVTPL). The Group does not classify any financial investments as 'available for sale' or as 'held to maturity'. The FVTPL category has two sub-categories: financial assets held for trading and those designated as FVTPL. All derivative instruments are classified as held for trading as required by IAS 39, 'Financial Instruments: Recognition and Measurement'. All other financial investments are classified as designated as FVTPL.

Financial assets that are designated as FVTPL are:

- financial assets held in the internal linked funds of the Group backing unit-linked insurance and investment contract liabilities. The designation of these assets at FVTPL eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- financial assets managed and whose performance is evaluated on a fair value basis.

Financial assets classified as FVTPL, including derivatives classified as held for trading, are initially recognised at the fair value of the consideration paid. They are subsequently measured at fair value with any resultant gain or loss recognised in the statement of comprehensive income.

Fair value for quoted investments in an active market is the bid price, which management believe is representative of fair value. For investments in unit trusts, OEICs and other pooled funds (including those classified as investments in Group entities) it is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. If the market for a quoted financial investment is not active or the investment is unquoted, the fair value is determined by using valuation techniques. For these investments, the fair value is established by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques include the use of recent arm's length transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs from independent sources and relying as little as possible on entity specific inputs.

(iii) Investments in Group entities

Investments in Group entities within the Parent company financial statements are designated as FVTPL. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined using the same valuation techniques as are used for unquoted investments, as described above.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest method.

(l) Finance leases

(i) Group acting as lessor

Leases under which substantially all the risks and rewards of ownership are transferred by the lessor are classified as finance leases.

The Group leases certain freehold buildings to third parties by way of finance lease. No amount is recognised for these buildings within investment property. Instead an asset is recognised within trade and other receivables that represents the Group's net receivable from finance leases. This asset is initially stated at an amount equal to the present value of the minimum lease rentals receivable at the inception of the lease. As lease rentals are received, these are split between an interest element, calculated on an effective interest basis, which is credited to the statement of comprehensive income and a capital element, which reduces the finance lease receivable.

(ii) Group acting as lessee

Leases under which substantially all the risks and rewards of ownership are assumed by the lessee are classified as finance leases.

Leasehold investment property is accounted for as a finance lease. At the commencement of the lease an asset is recognised within investment property at an amount equal to the lower of the fair value of the property and the present value of the minimum lease payments. An equal liability is established to represent the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability.

1. Accounting policies (continued)

(m) Operating lease payments

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments under operating leases, net of lease incentives received, are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

(n) Impairment

Goodwill is tested for impairment annually. The carrying amounts of other intangible assets, property, plant and equipment and financial assets (other than those at FVTPL) are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable.

For non-financial assets, an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

For financial assets (other than those at FVTPL) an impairment loss is recognised if the present value of the estimated future cash flows arising from the asset is lower than the asset's carrying value. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised in the statement of comprehensive income.

An impairment loss in respect of goodwill is never reversed. In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. For financial assets (other than those at FVTPL) an impairment loss is reversed if there is a decrease in the impairment that can be related objectively to an event occurring after the impairment was recognised. An impairment loss is reversed only to the extent that after the reversal, the asset's carrying amount is no greater than the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) De-recognition and offset of financial assets and financial liabilities

A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or where they have been transferred and the Group has also transferred substantially all of the risks and rewards of ownership.

A financial liability is de-recognised when the obligation specified in the contract is discharged or cancelled or expires.

All derivatives are accounted for on a contract-by-contract basis and are not offset in the balance sheet.

(p) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances, deposits held on call with banks and other short-term highly liquid investments with three months or less to maturity from the date of acquisition. Cash and cash equivalents in the statement of cash flows are stated net of bank overdrafts.

(q) Insurance contracts and participating investment contracts

Under IFRS 4, 'Insurance Contracts', insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS.

(i) General insurance contracts

All contracts of general insurance are classified as insurance. The Group does not write general insurance business. All of the general insurance business acquired as part of the CIS acquisition in 2013 was transferred out of the Group by way of a Part VII transfer with an effective date of 31 March 2014.

General insurance claims incurred comprise claims paid during the year together with related claims handling costs and the change in the gross liability for claims in the period net of related recoveries.

Claims outstanding comprise provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the balance sheet date ('claims reported'); and
- expected additional cost in excess of 'claims reported' for all claims occurring by the balance sheet date ('claims incurred but not reported').

Aggregate claims provisions include attributable claims handling expenses. Anticipated reinsurance recoveries are disclosed separately within assets under the heading of 'Reinsurers' share of insurance contract liabilities'.

(ii) Long-term insurance and participating investment contracts

The long-term insurance and participating investment contract liabilities are determined annually in accordance with regulatory requirements. For participating contracts the liabilities are determined on a realistic basis in accordance with the former UK GAAP standard FRS 27 'Life Assurance', which was adopted on transition to IFRS. As an exception to this, the participating liabilities within the closed funds are adjusted to ensure that any difference between the surplus in those funds as measured on an IFRS basis and the surplus as measured on a realistic basis is included within participating liabilities.

The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, the Scottish Life Fund, the PLAL With-Profits Sub-fund, the Royal Liver Assurance Fund and the RL (CIS) with-profits funds.

The participating liabilities include an assessment of any future options and guarantees included in this business on a market-consistent basis. The calculations also take into account bonus decisions, which are consistent with the Parent company's Principles and Practices of Financial Management. In determining the realistic value of the participating liabilities the value of non-profit business written in the participating funds is accounted for as part of the calculation. The present value of future profits on this business is separately calculated and this value is deducted from the participating liabilities.

For linked insurance contracts, the calculation of the liability is based upon the fund value at the valuation date plus a reserve where, on a prudent basis, it is estimated that future cash outflows cannot be covered by future cash inflows.

A liability adequacy test is then carried out on long-term insurance liabilities to ensure that the carrying amount of the liabilities (less related intangible assets) is sufficient in the light of current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Where a shortfall is identified it is charged immediately to the statement of comprehensive income.

1. Accounting policies (continued)

(q) Insurance contracts and participating investment contracts (continued)

The estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the statement of comprehensive income as they occur.

The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date.

(r) Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host contract and they meet the definition of a derivative.

(s) Unallocated divisible surplus

The nature of benefits for participating contracts is such that the allocation of surpluses between participating policyholders is uncertain. The amount not allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus.

(t) Non-participating investment contracts

All the non-participating investment contracts issued by the Group are unit-linked. The financial liabilities for these contracts are designated at inception as at fair value through profit or loss. This classification has been used because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date.

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

(u) Premiums received and claims paid on investment contracts

For non-participating investment and hybrid participating investment contracts the amounts received as premiums are not included in the statement of comprehensive income but are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet.

Amounts repaid as claims on non-participating investment and hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as a deduction from investment contract liabilities.

(v) Subordinated debt

Liabilities for subordinated debt are recognised initially at the fair value of the proceeds received, net of any discount and less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost. The transaction costs and discount are amortised over the period to the earliest possible redemption date on an effective interest rate basis. The amortisation charge is included in the statement of comprehensive income within finance costs. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value. Interest costs are expensed as they are incurred.

(w) Payables and other financial liabilities

(i) Reinsurance arrangement

The Group has a financial liability in respect of a reinsurance arrangement and holds an unquoted debt security which has cash flows which exactly match those of the reinsurance liability. Consequently both the debt security and the reinsurance liability are designated at FVTPL in order to avoid an accounting mismatch.

Movements in the fair value of the liability are recognised within revenue in the statement of comprehensive income within premiums ceded to reinsurers. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within investment return.

(ii) Other financial liabilities

All other payables and financial liabilities are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently measurement is at amortised cost using the effective interest method.

(x) Provisions

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(y) Pension costs

The Group operates three defined benefit schemes and a number of defined contribution arrangements.

(i) Defined benefit schemes

The defined benefit schemes provide benefits based on pensionable pay. The assets of the schemes are held in separate Trustee administered funds. The position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The pension scheme asset recognised in the balance sheet is the excess that is recoverable of the fair value of the plan assets in a scheme over the present value of that scheme's liabilities. Deficits in the value of a scheme's assets over its scheme liabilities are recognised in the balance sheet as a pension liability. 'Current service cost' and the 'Net interest on the net defined benefit asset' are included within 'Administrative expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Administrative expenses'. Remeasurements are charged or credited to the unallocated divisible surplus in other comprehensive income in the period in which they arise.

(ii) Defined contribution arrangements

The Group operates a number of defined contribution arrangements for employees who are not active members of a group defined benefit scheme. The Group pays contractual contributions in respect of these arrangements and such contributions are recognised as an expense as the related employee services are provided.

1. Accounting policies (continued)

(z) Foreign currency translation

The primary economic environment in which the Group and the Parent company operate is the United Kingdom. Hence the functional currency of the Group and the Parent company is pounds sterling. Assets and liabilities denominated in foreign currencies are expressed in sterling at the exchange rate ruling on the balance sheet date. Revenue transactions for foreign operations are translated at average rates of exchange for the year. For all other operations, revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at the rates of exchange ruling at the time of the respective transactions. Exchange differences arising from the translation of foreign operations are included within the statement of comprehensive income within other operating income or other operating expenses as appropriate. Any other exchange differences are dealt with in the statement of comprehensive income under the same heading as the underlying transactions are reported.

(aa) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Board of Directors.

(bb) Use of judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. In selecting accounting policies where IFRS permits a choice of policy, the directors have applied judgement in determining the most appropriate policy as follows:

- measurement model for certain assets. IFRS allows a choice of measurement model for financial assets, investment property, property, plant and equipment and, in the Parent company balance sheet, investments in Group entities. This is typically a choice between a cost and a fair value model. The Group and Parent company have applied a fair value model to all these assets, with the exception of trade and other receivables and computers, office equipment and vehicles. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;
- measurement model for non-participating investment contracts. As set out in note 1 (t) these liabilities have been valued at fair value in order to match their valuation to the related assets;
- valuation of financial assets in illiquid markets. The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique as described in note 1 (j) (ii);
- the classification of contracts as insurance or investment on initial recognition; and
- the determination of whether the Group has control over an entity. This decision requires the consideration of a number of factors. As set out in note 1 (b) these include the Group's ownership interest, any other rights it has over the entity and the rights of third parties.

The preparation of financial statements also requires the use of estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant to the following:

Item	Note
Classification of contracts as insurance or investment	1 (c)
Deferred tax	1 (f) (ii), 37
Intangible assets	1 (h), 19
Fair values of investment property and financial investments	1 (j) 16,18, 20
Impairment	1 (n)
Insurance contracts and participating investment contract liabilities	1 (q), 25 to 30
Pension costs	1 (y), 38

2. Segmental information

The segmental disclosures required under IFRS are based on operating segments that reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally.

The activities of each operating segment are described below.

Intermediary

- Pensions
  Royal London provides pensions and other retirement products to individuals and to employer pension schemes in the UK.
- Protection
  UK Protection provides protection products to individuals in the UK. Royal London Ireland provides protection products to individuals in the Republic of Ireland.

Consumer

Consumer administers the Group's direct to customer business.

Wealth

The Wealth segment mainly comprises Royal London Asset Management, which is the fund management operation of the Group. It provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities and charities as well as individuals. The segment also includes Ascentric, the Group's wrap platform.

Central items

This segment comprises mainly centrally held items, such as Group functions.

(a) Segment profit

The profit measure used by the Group Board of Directors to monitor performance is European Embedded Value (EEV) operating profit before tax. Further detail on the EEV results is given within the EEV section on pages 186 to 197. The EEV operating profit by operating segment is shown in the following table, together with a reconciliation of the total EEV operating profit before tax to the IFRS result before tax. Revenues by segment are not given as this information is not provided to the Group Board of Directors and consequently there is no reconciliation of reportable segments' revenues to the Group's revenue.

The tables in the geographical analysis present revenues split by the geographic region in which the underlying business was written.

2. Segmental information (continued)
(a) Segment profit (continued)

	Group 2015 £m	Group 2014 £m
Intermediary		
› Pensions	112	78
› UK Protection	28	63
› Royal London Ireland	7	6
Consumer	20	(11)
Wealth	61	42
Central items	16	42
EEV operating profit before tax and exceptional items	244	220
Exceptional cost arising from regulatory change	-	(61)
Total EEV operating profit before tax	244	159
Amortisation of intangibles	3	(11)
Valuation differences between EEV and IFRS	5	(17)
Investment return variances	(17)	479
Economic assumption changes	32	(143)
Pension schemes' costs recognised in profit	(10)	(8)
Financing costs	(44)	(43)
ProfitShare	(70)	(60)
IFRS result before tax	143	356

(b) Geographical analysis

	Group – 2015		
	UK £m	International £m	Total £m
Revenues			
Net earned premiums	757	37	794
Fee income from investment and fund management contracts	255	-	255
Investment return	2,101	21	2,122
Other operating income	44	-	44
Total revenues	3,157	58	3,215

	Group – 2014		
	UK £m	International £m	Total £m
Revenues			
Net earned premiums	(616)	40	(576)
Fee income from investment and fund management contracts	243	-	243
Investment return	7,677	119	7,796
Other operating income	46	1	47
Total revenues	7,350	160	7,510

(c) Major customers
The directors consider the Group and Parent company's external customers to be the individual policyholders. As such, the Group and Parent company are not reliant on any individual customer.

3. Premiums

(a) Gross earned premiums

	Group 2015 £m	Group 2014 £m
Regular premiums		
› Insurance contracts	**804**	840
› Participating investment contracts	**24**	24
	828	864
Single premiums		
› Insurance contracts	**359**	351
› Participating investment contracts	**7**	3
	366	354
	1,194	1,218

(b) Premiums received on investment contracts

As set out in note 1(u) the Group does not account for the amounts received as premiums in relation to non-participating and hybrid participating investment contracts as premium income in the statement of comprehensive income. These amounts are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet. The amounts received by the Group during the year were £4,347m (2014 £3,513m) in respect of non-participating contracts and £9m (2014 £9m) in respect of hybrid participating contracts.

4. Fee income from investment and fund management contracts

	Group 2015 £m	Group 2014 £m
Investment contract fees receivable		
› Annual management charges applied to linked funds	**124**	121
› Policy administration fees	**11**	14
› Bid/offer spread and other charges	**4**	5
	139	140
Fund management fees receivable	**92**	76
	231	216
Change in deferred fee income	**24**	27
	255	243

5. Investment return

	Group 2015 £m	Group 2014 £m
Investment income from financial investments held at fair value through profit or loss	**1,639**	1,561
Fair value (losses)/gains from financial investments held at fair value through profit or loss	**(185)**	5,567
Rental income from investment property	**254**	243
Fair value gains from investment property	**439**	441
Interest income from cash and cash equivalents	**13**	11
Net foreign exchange loss	**(38)**	(27)
	2,122	7,796

The fair value gains from financial investments held at fair value through profit or loss (FVTPL) and the fair value gains from investment property include both the net fair value gain and loss on the revaluation of assets held at the balance sheet date and the gains and losses realised on assets disposed of during the year. The fair value gains from financial investments held at FVTPL include a gain of £45m (2014 loss of £477m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 33).

Included within fair value gains from financial investments held at FVTPL are fair value losses of £510m (2014 gains of £1,189m) arising on assets held for trading.

6. Other operating income

	Group 2015 £m	Group 2014 £m
Commission income	**14**	17
Other	**30**	30
	44	47

7. Claims

(a) Claims paid

	Group 2015 £m	Group 2014 £m
Claims paid, before reinsurance		
› Insurance contracts	**2,531**	2,410
› Participating investment contracts	**194**	159
	2,725	2,569
Reinsurance recoveries		
› Insurance contracts	**(470)**	(432)
Claims paid, after reinsurance		
› Insurance contracts	**2,061**	1,978
› Participating investment contracts	**194**	159
	2,255	2,137

(b) Claims on investment contracts

As set out in note 1(u) the Group does not account for the amounts paid out as claims in relation to non-participating and hybrid participating investment contracts as a claim expense in the statement of comprehensive income. These amounts are accounted for as deposits repaid and are deducted from the value of investment contract liabilities in the balance sheet. The amounts repaid by the Group during the year totalled £2,747m (2014 £1,605m) in respect of non-participating investment contracts and £63m (2014 £56m) in respect of hybrid participating investment contracts.

8. Administrative expenses by type

	Group	
	2015 £m	2014 £m
Acquisition costs		
› Expenses	132	139
› Commission	109	78
Movement in deferred acquisition costs on investment contracts (note 19)		
› Additions	(15)	(22)
› Amortisation and impairment charges	96	55
	322	250
Maintenance costs		
› Operational expenses	135	131
› Renewal commission	37	38
› Restructuring expenses	-	3
› IT systems development expenses	-	3
› Movement in provision for future commission (note 34)	(64)	7
› Pension scheme cost (note 38)	10	12
	118	194
Other administrative expenses, including long-term incentive plans	37	42
	477	486

9. Administrative expenses by nature

	Group	
	2015 £m	2014 £m
Staff costs	**158**	163
Movement in deferred acquisition costs on investment contracts (note 19)	**81**	33
Acquisition commission	**109**	78
Renewal commission	**37**	38
Depreciation of property, plant and equipment (note 17)	**5**	4
Information systems maintenance and rent	**33**	32
Property costs	**13**	14
Regulatory, professional and administration fees	**72**	103
Movement in provision for future commission (note 34)	**(64)**	7
Other expenses	**33**	14
	477	486

Auditors' remuneration, net of VAT

	Group	
	2015 £000	2014 £000
Fees payable to PwC for the audit of the Parent company and consolidated financial statements	**2,202**	1,787
Fees payable to PwC for other services:		
› Audit of the company's subsidiaries	**724**	831
› Audit related assurance services	**1,530**	285
› Tax compliance services	**49**	-
› Tax advisory services	**169**	312
› Other assurance services	**999**	149
› Other non-audit services	**492**	106
Total	**6,165**	3,470

The appointment of auditors to the Group's pension schemes and the fees paid in respect of those audits are agreed by the Trustee of the scheme who acts independently from the management of the Group.

Fees in respect of the Royal London Group Pension Scheme – Audit	**43**	45
Fees in respect of the Royal Liver Assurance Superannuation Fund – Audit	**16**	13
Fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI) – Audit	**16**	13
Total	**75**	71

10. Staff costs

(a) Analysis of staff costs

	Group	
	2015 £m	2014 £m
Wages and salaries	**171**	151
Social security contributions	**14**	16
Other pension costs – defined contribution arrangements	**6**	6
Other pension costs – defined benefit schemes (note 38)	**10**	12
Termination benefits	**2**	5
	203	190

	Number	Number
The average number of persons (including executive directors) employed by the Group during the year was:		
Sales and sales support	**387**	345
Administration	**2,743**	2,456
	3,130	2,801

The total staff costs of £203m (2014 £190m) are included in the statement of comprehensive income within administration expenses (2015 £158m, 2014 £163m), within investment management expenses (2015 £26m, 2014 £27m) and within other operating expenses (2015 £19m, 2014 £nil).

(b) Directors' emoluments

	Group	
	2015 £m	2014 £m
Total emoluments	**7**	6
Long-term incentives vesting in the year	**2**	2

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 58 to 76. The information included therein, together with the table above, encompasses that required by the Companies Act 2006.

(c) Key management compensation payable

Compensation payable to key management, including executive directors, is shown in the table below. The number of key management for the year, including executive and non-executive directors, was 30 for the Group and 26 for the Parent company (2014 29 for the Group and 24 for the Parent company).

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Salaries, short-term incentive plans and other benefits	**14**	11	**10**	9
Change in amounts payable under long-term incentive plans	**8**	9	**5**	7
	22	20	**15**	16

The Group's policy for determining key management remuneration, including executive directors, is for total remuneration to be at the median of the UK financial services market. Bonus plans are designed to encourage and reward increases in the value of the business for the benefit of members. The total amount receivable by key management, including executive directors, under long-term incentive plans was £7m as at 31 December 2015 (2014 £6m). The amount of long-term incentive plans exercised by key management during the year was £8m (2014 £6m).

11. Investment management expenses

	Group 2015 £m	2014 £m
Property expenses	33	29
Other transaction costs	40	16
Costs of in-house investment management operations – staff costs	26	27
Costs of in-house investment management operations – other	39	31
Distributions to external unit holders from consolidated funds	70	61
Other	30	26
	238	190

12. Other operating expenses

	Group 2015 £m	2014 £m
Operating interest payable	2	2
Provisions	2	-
Foreign currency translation	2	7
Other project costs – staff costs	19	-
Other project costs – other	50	33
	75	42

13. Finance costs

	Group 2015 £m	2014 £m
Finance costs comprise interest payable arising from:		
› Subordinated liabilities	42	40
› Other	2	3
	44	43

14. Tax charge

(a) Tax charge in the statement of comprehensive income

	Group 2015 £m	Group 2014 £m
Tax has been provided as follows:		
UK corporation tax charge		
› Current year	13	87
› Adjustments in respect of prior periods	(14)	(2)
	(1)	85
Foreign tax partially relieved against UK corporation tax	19	16
Deferred tax (note 37)	-	106
	18	207

(b) Reconciliation of the effective tax rate

Tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated companies as follows:

	Group 2015 £m	Group 2014 £m
Result before tax before transfer to unallocated divisible surplus	143	356
Tax calculated at the standard rate of corporate tax in the UK	28	71
Accounting profit not subject to policyholder tax	(28)	(71)
Policyholder tax on long-term insurance business	18	207
Tax charge for the year	18	207

UK corporation tax in the statement of comprehensive income has been calculated at a rate of 20% (2014 20%) on the taxable profits in respect of insurance business of the long-term fund and at 20.25% (2014 21.25%) on the taxable profits of the subsidiaries of the long-term fund.

The Finance No.2 Act 2015 reduced the rate of corporation tax to 19% effective from 1 April 2017 and to 18% from 1 April 2020. The impact of this reduction in tax rate, which is applicable to the subsidiaries of the long-term fund's calculation of deferred tax assets and liabilities at the reporting date, is reflected in the deferred tax charge above.

15. Parent company statement of comprehensive income

The Parent company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a parent company statement of comprehensive income. The Parent company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or from the unallocated divisible surplus.

16. Fair value measurement

(a) Fair value of the Group and Parent company's assets and liabilities that are measured at fair value on a recurring basis

Some of the Group and Parent company's assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these assets and liabilities are determined.

		2015			2014		
Asset/liability	Valuation techniques and key inputs	Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level	Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level
Owner-occupied land and buildings	Fair value is determined using both income capitalisation and market comparison valuation methods.	27	-	3	25	-	3
Investment property	Fair value is determined using both income capitalisation and market comparison valuation methods.	5,036	4,936	3	4,727	4,633	3
Derivatives – equity options	Mark to model technique using expected dividend yields and market-implied volatility.	59	59	2	70	70	2
Derivatives – interest rate swaps	Mark to model technique using market swap rates.	2,267	2,267	2	2,250	2,250	2
Derivatives – interest rate swaptions	Mark to model technique using forward swap rates and interest rate volatility.	171	171	2	250	250	2
Derivatives – currency forwards	Mark to model technique using expected foreign exchange rates.	18	10	2	3	1	2
Derivatives – total return swaps	Mark to model technique using market swap rates.	30	30	2	550	550	2
Equity securities – quoted	Quoted prices in an active market.	20,742	7,094	1	19,024	7,287	1
Equity securities – quoted	Quoted prices, but insufficient trading activity to confirm market is active.	18	13	2	28	19	2
Equity securities - quoted	Quoted prices, but shares have been delisted or there are pending corporate actions.	2	-	3	-	-	N/A
Equity securities – unquoted	Fair value is derived using observable market prices.	12	12	2	180	15	2
Equity securities – unquoted	Fair value is based on the net asset value (NAV) of the entity.	-	-	N/A	33	33	3
Equity securities – unquoted – private equity	The NAV provided by the third-party administrator adjusted for any cash flows occurring after the NAV date and before the reporting period end.	220	184	3	146	146	3
Equity securities – unquoted – property funds	The NAV provided by the external fund managers.	206	206	3	180	180	3
Government bonds – UK treasuries	Debt Management Office (DMO) price (average of prices used in actual transactions).	13,495	12,916	1	14,146	13,267	1
Government bonds – other	Quoted prices provided by third-party pricing sources.	1,281	1,113	2	1,725	1,444	2
Other quoted debt and fixed income securities	Quoted prices provided by third-party pricing sources, using consensus pricing.	11,336	9,182	2	11,108	9,537	2
Other quoted debt and fixed income securities	Quoted prices in an active market.	6	2	1	31	-	1
Other quoted debt and fixed income securities	Mark to model technique using a gross redemption yield.	13	11	3	6	6	3
Loans secured by policies	Carrying value.	5	5	3	9	9	3

16. Fair value measurement (continued)

(a) Fair value of the Group and Parent company's assets and liabilities that are measured at fair value on a recurring basis (continued)

		2015			2014		
Asset/liability	**Valuation techniques and key inputs**	**Fair value Group £m**	**Fair value Parent company £m**	**Fair value hierarchy level**	Fair value Group £m	Fair value Parent company £m	Fair value hierarchy level
Other unquoted debt and fixed income securities	Prices provided by third-party pricing sources, using consensus pricing.	**2,788**	**2,788**	**2**	2,815	2,815	2
Other unquoted debt and fixed income securities	Mark to model technique using a gross redemption yield.	**3**	**3**	**3**	-	-	N/A
Unit trusts and other pooled investments – quoted	Quoted prices in an active market.	**4,915**	**4,899**	**1**	4,631	4,557	1
Unit trusts and other pooled investments – quoted	Quoted prices, but insufficient trading activity to confirm market is active.	**172**	**172**	**2**	234	234	2
Unit trusts and other pooled investments – unquoted	The NAV provided by external fund manager.	**400**	**320**	**3**	487	487	3
Investment in Group entities – shares	Net present value of future projected cash flows.	**-**	**543**	**3**	-	470	3
Investment in Group entities – loans	Carrying value.	**-**	**29**	**3**	-	29	3
Investment in Group entities – investment funds	Quoted prices in an active market.	**-**	**14,699**	**1**	-	12,233	1
Investment in Group entities – investment funds	The NAV provided by external fund manager.	**-**	**50**	**3**	-	162	3
Non-participating investment contract liabilities	Determined by the fair value of the net assets of the underlying unitised investment funds.	**(24,982)**	**(24,982)**	**2**	(22,691)	(22,691)	2
Liability to external unit holders	Quoted prices in an active market.	**(3,145)**	**-**	**1**	(3,122)	-	1
Reinsurance liability	Discounted cash flows are used to derive the fair value.	**(2,773)**	**(2,773)**	**2**	(2,799)	(2,799)	2
Derivative liabilities	As described above for each type of derivative.	**(1,460)**	**(1,445)**	**2**	(2,064)	(2,057)	2
Provision for future commission	Present value of future projected cash flows.	**(148)**	**(148)**	**3**	(212)	(212)	3

The Group and Parent company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period. £101m has been transferred from level 2 to level 1 as a quoted price in an active market was available as at 31 December 2015 (2014 £111m was transferred from level 2 to level 1).

There are no fair value measurements in the balance sheet on a non-recurring basis.

(b) Fair value of the Group and Parent company's assets and liabilities that are not measured at fair value on a recurring basis (but fair values are disclosed)

		Group and Parent company			
		2015		2014	
Asset/liability	**Valuation techniques and key inputs**	**Fair value £m**	**Fair value hierarchy level**	Fair value £m	Fair value hierarchy level
Subordinated liabilities	Quoted market price.	**768**	**1**	682	1

16. Fair value measurement (continued)

(c) Fair value hierarchy

Assets and liabilities held at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The position assigned to the asset or liability in the fair value hierarchy has to be determined by the lowest level of any input to its valuation that is considered to be significant to the valuation of the asset or liability in its entirety. The hierarchy only reflects the methodology used to derive the asset's or liability's fair value. The three levels of the hierarchy are as follows:

Level 1 – Quoted prices in active markets

Inputs to level 1 fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and at sufficient volumes to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices included within level 1 that are observable

Inputs to level 2 fair values are those other than quoted prices included within level 1, which are observable for the asset or liability, either directly as prices or indirectly, i.e. derived from prices. Level 2 inputs include:

- quoted prices for identical assets in markets that are not active;
- quoted prices for similar assets in active markets; and
- inputs to valuation models that are observable for the asset. For example, interest rates and yield curves observable at commonly quoted intervals, volatilities and swap rates.

Level 3 – Inputs not based on observable data

Inputs to level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs are typically used where observable inputs are not available.

The Group and Parent company's assets and liabilities classified into the three levels of the fair value hierarchy are shown in the following tables.

	Group – 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Owner-occupied land and buildings (note 17)	-	-	27	27
Investment property (note 18)	-	-	5,036	5,036
Financial investments:				
Derivative assets	-	2,545	-	2,545
Equity securities				
› Quoted	20,742	18	2	20,762
› Unquoted	-	12	426	438
Debt and fixed income securities				
› Government bonds	13,495	1,281	-	14,776
› Other quoted	6	11,336	13	11,355
› Loans secured by policies	-	-	5	5
› Other unquoted	-	2,788	3	2,791
Other investments				
› Unit trusts and other pooled investments	4,915	172	400	5,487
	39,158	18,152	849	58,159
› Deposits with credit institutions	-	-	-	1,970
Total financial investments (note 20)	39,158	18,152	849	60,129
Total assets at fair value	39,158	18,152	5,912	65,192
Liabilities				
Non-participating investment contract liabilities (note 29)	-	(24,982)	-	(24,982)
Reinsurance liability (note 33)	-	(2,773)	-	(2,773)
Derivative liabilities (note 33)	-	(1,460)	-	(1,460)
Provision for future commission (note 34)	-	-	(148)	(148)
Liability to external unit holders (note 36)	(3,145)	-	-	(3,145)
Total liabilities at fair value	(3,145)	(29,215)	(148)	(32,508)

16. Fair value measurement (continued)

(c) Fair value hierarchy (continued)

	Group – 2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Owner-occupied land and buildings (note 17)	-	-	25	25
Investment property (note 18)	-	-	4,727	4,727
Financial investments:				
Derivative assets	-	3,123	-	3,123
Equity securities				
› Quoted	19,024	28	-	19,052
› Unquoted	-	180	359	539
Debt and fixed income securities				
› Government bonds	14,146	1,725	-	15,871
› Other quoted	31	11,108	6	11,145
› Loans secured by policies	-	-	9	9
› Other unquoted	-	2,815	-	2,815
Other investments				
› Unit trusts and other pooled investments	4,631	234	487	5,352
	37,832	19,213	861	57,906
› Deposits with credit institutions	-	-	-	1,586
Total financial investments (note 20)	37,832	19,213	861	59,492
Total assets at fair value	37,832	19,213	5,613	64,244
Liabilities				
Non-participating investment contract liabilities (note 29)	-	(22,691)	-	(22,691)
Reinsurance liability (note 33)	-	(2,799)	-	(2,799)
Derivative liabilities (note 33)	-	(2,064)	-	(2,064)
Provision for future commission (note 34)	-	-	(212)	(212)
Liability to external unit holders (note 36)	(3,122)	-	-	(3,122)
Total liabilities at fair value	(3,122)	(27,554)	(212)	(30,888)

16. Fair value measurement (continued)

(c) Fair value hierarchy (continued)

	Parent company – 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investment property (note 18)	-	-	4,936	4,936
Financial investments:				
Derivative assets	-	2,537	-	2,537
Equity securities				
› Quoted	7,094	13	-	7,107
› Unquoted	-	12	390	402
Debt and fixed income securities				
› Government bonds	12,916	1,113	-	14,029
› Other quoted	2	9,182	11	9,195
› Loans secured by policies	-	-	5	5
› Other unquoted	-	2,788	3	2,791
Other investments				
› Unit trusts and other pooled investments	4,899	172	320	5,391
	24,911	15,817	729	41,457
› Deposits with credit institutions	-	-	-	1,172
Total financial investments (note 20)	24,911	15,817	729	42,629
Investments in Group entities (note 21)	14,699	-	622	15,321
Total assets at fair value	39,610	15,817	6,287	62,886
Liabilities				
Non-participating investment contract liabilities (note 29)	-	(24,982)	-	(24,982)
Provision for future commission (note 34)	-	-	(148)	(148)
Reinsurance liability (note 33)	-	(2,773)	-	(2,773)
Derivative liabilities (note 33)	-	(1,445)	-	(1,445)
Total liabilities at fair value	-	(29,200)	(148)	(29,348)

16. Fair value measurement (continued)

(c) Fair value hierarchy (continued)

	Parent company – 2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investment property (note 18)	-	-	4,633	4,633
Financial investments:				
Derivative assets	-	3,121	-	3,121
Equity securities				
› Quoted	7,287	19	-	7,306
› Unquoted	-	15	359	374
› Debt and fixed income securities				
› Government bonds	13,267	1,444	-	14,711
› Other quoted	-	9,537	6	9,543
› Loans secured by policies	-	-	9	9
› Other unquoted	-	2,815	-	2,815
Other investments				
› Unit trusts and other pooled investments	4,557	234	487	5,278
	25,111	17,185	861	43,157
› Deposits with credit institutions	-	-	-	1,074
Total financial investments (note 20)	25,111	17,185	861	44,231
Investments in Group entities (note 21)	12,233	-	661	12,894
Total assets at fair value	37,344	17,185	6,155	61,758
Liabilities				
Non-participating investment contract liabilities (note 29)	-	(22,691)	-	(22,691)
Provision for future commission (note 34)	-	-	(212)	(212)
Reinsurance liability (note 33)	-	(2,799)	-	(2,799)
Derivative liability (note 33)	-	(2,057)	-	(2,057)
Total liabilities at fair value	-	(27,547)	(212)	(27,759)

(d) Level 3 assets and liabilities

For the majority of level 3 investments, the Group and Parent company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and Parent company review the appropriateness of these valuations on the following basis:

- for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market; and
- corporate bonds are predominantly valued using single broker indicative quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements.

16. Fair value measurement (continued)

(d) Level 3 assets and liabilities (continued)

The fair value measurements for level 3 investments are reviewed by the RLAM Investment Committee and the Group Investment Performance Committee and approved by the Audit Committee at the half year and year end for inclusion in the financial statements. The Group Investment Performance Committee is responsible for agreeing the valuation basis for any investment assets or liabilities where a market price is not readily available, as well as agreeing any changes to the valuation principles applicable to all investment assets and liabilities.

Changes in the assumptions used to calculate the level 3 valuations to reasonably possible alternative assumptions would have the following impact on the Royal London Group IFRS result before tax for the year. Only changes in assets held by the Royal London Open Fund would impact the Group's profit for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below.

- for level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2015 would result in a £3.1m increase or decrease in profit before tax or total assets or liabilities;
- for level 3 corporate bonds, increasing assumed yields at 31 December 2015 by 100bps would result in a decrease in profit before tax and the fair value of the corporate bonds of £0.3m. Decreasing assumed yields at 31 December 2015 by 100bps would result in an increase in profit after tax and the fair value of the corporate bonds of £0.3m;
- for investments in Group entities (where the net present value of future projected cash flows is used) a 100bps increase or decrease in risk-free interest rates would result in a £11.2m increase or decrease in profit before tax and fair value of investment in Group entities; and
- for the provision for future commission, a 10% increase or decrease in the value of the underlying funds at 31 December 2015 would result in a £8.7m increase or decrease in the provision for future commission and a 10% increase or decrease in future surrender rates would result in a £10.6m increase or decrease in the provision.

Information about fair value measurements using significant unobservable inputs:

Asset/liability	Valuation technique	Unobservable input	Range (weighted average)
Owner-occupied property and investment property	Income capitalisation	Equivalent yield	4.68%-10.42% (5.08%)
		Estimated rental value per square foot	£3.65-£100 (£41.91)
	Market comparison	Price per acre	£2,000-£1,750,000
Equity securities – unquoted – private equity and property funds	Adjusted net asset value	Adjustment to net asset value	n/a
Debt and fixed income securities	Single broker quotes	Unadjusted single broker quotes	n/a
Loans secured by policies	Carrying value	Adjustment to carrying value	n/a
Unit trusts and other pooled investments	Adjusted net asset value	Adjustment to net asset value	n/a
Investments in Group entities – shares	Net present value of future projected cash flows	Fees (bps) p.a.	10.0-48.2 (24.3)
		Expenses (bps) p.a.	6.3-11.0 (7.5)
		Investment return (%) p.a.	2.0
		Surrender rate (%) p.a.	14.9-35.0 (19.9)
		Funds under management end 2015 (£m)	21,194
		Tax	At enacted rates of corporation tax
Investments in Group entities – loans	Carrying value	Carrying value	n/a
Provision for future commission	Present value of future projected cash flows	Fund based renewal commission rated (%) p.a.	0.01-1.00 (0.53)
		Investment return (%) p.a.	2.40 (2.40)
		Surrender rate (%) p.a.	0-13.8 (6.3)
		Value of underlying funds at end 2015 (£m)	4,041

16. Fair value measurement (continued)

(d) Level 3 assets and liabilities (continued)

Movement during the year in the level 3 assets and liabilities:

	Group – 2015			
	Financial investments £m	Owner-occupied property £m	Investment property £m	Total £m
At 1 January	861	25	4,727	5,613
Purchases	58	-	211	269
Sales	(320)	-	(261)	(581)
Net gains and (losses) recognised in profit or loss	204	2	359	565
Transfers into level 3	46	-	-	46
At 31 December	849	27	5,036	5,912
'Net gains and (losses) recognised in profit or loss' that relate to assets still held at the balance sheet date	112	2	359	473

	Group – 2014			
	Financial investments £m	Owner-occupied property £m	Investment property £m	Total £m
At 1 January	911	24	4,074	5,009
Purchases	15	-	274	289
Sales	(219)	-	(56)	(275)
Net gains and (losses) recognised in profit or loss	167	1	435	603
Transfers into level 3	4	-	-	4
Transfers out of level 3	(17)	-	-	(17)
At 31 December	861	25	4,727	5,613
'Net gains and (losses) recognised in profit or loss' that relate to assets still held at the balance sheet date	122	1	425	548

16. Fair value measurement (continued)
(d) Level 3 assets and liabilities (continued)

	Parent company – 2015			
	Financial investments £m	Investment property £m	Investments in Group entities £m	Total £m
At 1 January	861	4,633	661	6,155
Purchases	57	211	40	308
Sales	(320)	(261)	(113)	(694)
Net gains and (losses) recognised in profit or loss	124	353	34	511
Transfers into level 3	7	-	-	7
At 31 December	729	4,936	622	6,287
'Net gains and (losses) recognised in profit or loss' that relate to assets still held at the balance sheet date	113	353	34	500

	Parent company – 2014			
	Financial investments £m	Investment property £m	Investments in Group entities £m	Total £m
At 1 January	357	2,503	509	3,369
Purchases	14	262	8	284
Sales	(160)	(50)	(10)	(220)
Part VII transfer in	592	1,564	329	2,485
Net gains and (losses) recognised in profit or loss	69	354	(175)	248
Transfers into level 3	1	-	-	1
Transfers out of level 3	(12)	-	-	(12)
At 31 December	861	4,633	661	6,155
'Net gains and (losses) recognised in profit or loss' that relate to assets still held at the balance sheet date	122	356	(175)	303

The 'Net gains and (losses) recognised in profit and loss' shown above are included within the statement of comprehensive income within 'Investment return'.

The Group and Parent company's policy is to recognise transfers into and out of level 3 at the end of the reporting period.

The movement in the provision for future commission is shown in note 34.

17. Property, plant and equipment

	Group – 2015		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
Cost or valuation			
At 1 January	**43**	**98**	**141**
Additions	**-**	**6**	**6**
Revaluation gains	**2**	**-**	**2**
Transfers to intangible assets	**-**	**(7)**	**(7)**
At 31 December	**45**	**97**	**142**
Accumulated depreciation and impairment losses			
At 1 January	**(18)**	**(77)**	**(95)**
Depreciation charge	**-**	**(5)**	**(5)**
At 31 December	**(18)**	**(82)**	**(100)**
Net book value			
At 1 January	**25**	**21**	**46**
At 31 December	**27**	**15**	**42**

	Group – 2014		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
Cost or valuation			
At 1 January	43	83	126
Additions	-	15	15
At 31 December	43	98	141
Accumulated depreciation and impairment losses			
At 1 January	(19)	(73)	(92)
Depreciation charge	-	(4)	(4)
Reversal of impairment losses	1	-	1
At 31 December	(18)	(77)	(95)
Net book value			
At 1 January	24	10	34
At 31 December	25	21	46

For the purposes of the disclosure required by IAS 1, 'Presentation of Financial Statements', all property, plant and equipment held by the Group is classified as being held for more than 12 months from the balance sheet date. The Parent company did not hold any property, plant and equipment at the balance sheet date or at the previous balance sheet date.

Owner-occupied land and buildings shown above are held on a freehold basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows:

	Group	
	2015 £m	2014 £m
Cost	**35**	35
Accumulated depreciation and impairment losses	**(18)**	(18)
Net book value	**17**	17

18. Investment property

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Fair value				
At 1 January	**4,727**	4,074	**4,633**	2,503
Additions				
› Capitalised expenditure on existing properties	**41**	72	**41**	59
› Acquisition of new properties	**170**	205	**170**	205
Disposals	**(261)**	(51)	**(261)**	(45)
Net gain from fair value adjustments	**365**	427	**358**	347
Foreign exchange losses	**(6)**	-	**(5)**	-
Part VII transfer	**-**	-	**-**	1,564
At 31 December	**5,036**	4,727	**4,936**	4,633
Rental income from investment property	**254**	243	**252**	154
Direct operating expenses arising from investment property	**33**	29	**32**	17

For the purposes of the disclosure required by IAS 1, the amount of investment property at the balance sheet date that is classified as being held for more than 12 months is £4,953m for the Group (2014 £4,717m) and £4,853m for the Parent company (2014 £4,623m).

The fair value of investment property above includes £489m (2014 £548m) for the Group and £489m (2014 £548m) for the Parent company held under finance leases.

The total direct expenses above relating to properties that did not generate income are £11m (2014 £13m) for the Group and £11m (2014 £13m) for the Parent company.

Investment property is revalued to fair value annually with an effective date of 31 December. The fair values are determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The principal valuers used were CBRE Limited, Cushman & Wakefield, and Knight Frank LLP. Fair value is determined using market and income approaches (note 16 (d)). In estimating the fair value of properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The net gain from fair value adjustments shown above represents the net fair value gain on the revaluation of properties held at the balance sheet date and does not include gains or losses realised on properties disposed of during the year.

Investment properties are leased to third parties under operating leases. Under the terms of certain leases, the company is required to repair and maintain the related properties. At the balance sheet date the future minimum lease payments receivable under non-cancellable leases are shown in the following table. For the purposes of this table, the minimum lease period has been taken as the period to the first possible date that the lease can be terminated by the lessee.

These total future minimum lease payments receivable can be analysed as follows:

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Not later than one year	**220**	227	**218**	226
Later than one year and not later than five years	**682**	698	**678**	694
Later than five years	**1,270**	1,261	**1,270**	1,258
	2,172	2,186	**2,166**	2,178

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Freehold	**1,858**	1,815	**1,852**	1,807
Leasehold	**314**	371	**314**	371
	2,172	2,186	**2,166**	2,178

19. Intangible assets

The following tables show the movements in the intangible assets of the Group and the Parent company.

	Group – 2015					
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	Total £m
Cost						
At 1 January	250	421	1,013	838	215	2,737
Additions	-	-	-	15	15	30
Transfers from tangible assets	-	-	-	-	7	7
At 31 December	250	421	1,013	853	237	2,774
Accumulated amortisation and impairment losses						
At 1 January	-	(387)	(836)	(413)	(170)	(1,806)
Amortisation charge	-	(3)	(11)	(53)	(15)	(82)
Impairment losses	-	(1)	(10)	(43)	-	(54)
At 31 December	-	(391)	(857)	(509)	(185)	(1,942)
Net book value						
At 1 January	250	34	177	425	45	931
At 31 December	250	30	156	344	52	832

The net book value of intangible assets at 31 December 2015 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review):

Within 12 months	-	10	29	49	13	101
In more than 12 months	250	20	127	295	39	731
	250	30	156	344	52	832

	Group – 2014					
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	Total £m
Cost						
At 1 January	250	421	1,013	816	215	2,715
Additions	-	-	-	22	-	22
At 31 December	250	421	1,013	838	215	2,737
Accumulated amortisation and impairment losses						
At 1 January	-	(379)	(791)	(358)	(146)	(1,674)
Amortisation charge	-	(8)	(18)	(55)	(24)	(105)
Impairment losses	-	-	(27)	-	-	(27)
At 31 December	-	(387)	(836)	(413)	(170)	(1,806)
Net book value						
At 1 January	250	42	222	458	69	1,041
At 31 December	250	34	177	425	45	931

The net book value of intangible assets at 31 December 2014 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review):

Within 12 months	-	2	12	52	15	81
In more than 12 months	250	32	165	373	30	850
	250	34	177	425	45	931

19. Intangible assets (continued)

	Parent company – 2015					
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	Total £m
Cost						
At 1 January	232	410	1,003	838	138	2,621
Additions	-	-	-	15	-	15
At 31 December	232	410	1,003	853	138	2,636
Accumulated amortisation and impairment losses						
At 1 January	-	(386)	(832)	(413)	(97)	(1,728)
Amortisation charge	-	(1)	(12)	(53)	(11)	(77)
Impairment losses	-	(2)	(9)	(43)	-	(54)
At 31 December	-	(389)	(853)	(509)	(108)	(1,859)
Net book value						
At 1 January	232	24	171	425	41	893
At 31 December	232	21	150	344	30	777

The net book value of intangible assets at 31 December 2015 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review):

Within 12 months	-	10	23	49	11	93
In more than 12 months	232	11	127	295	19	684
	232	21	150	344	30	777

	Parent company – 2014					
	Goodwill £m	Acquired PVIF on investment contracts £m	Acquired PVIF on insurance contracts £m	Deferred acquisition costs on investment contracts £m	Other intangible assets £m	Total £m
Cost						
At 1 January	232	410	891	816	138	2,487
Part VII transfer	-	-	112	-	-	112
Other additions	-	-	-	22	-	22
At 31 December	232	410	1,003	838	138	2,621
Accumulated amortisation and impairment losses						
At 1 January	-	(377)	(787)	(358)	(86)	(1,608)
Amortisation charge	-	(9)	(18)	(55)	(11)	(93)
Impairment losses	-	-	(27)	-	-	(27)
At 31 December	-	(386)	(832)	(413)	(97)	(1,728)
Net book value						
At 1 January	232	33	104	458	52	879
At 31 December	232	24	171	425	41	893

The net book value of intangible assets at 31 December 2014 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review):

Within 12 months	-	2	11	52	12	77
In more than 12 months	232	22	160	373	29	816
	232	24	171	425	41	893

19. Intangible assets (continued)

The impairment losses in both Group and Parent company include £43m relating to a reclassification from the provision for renewal commission to DAC and £11m in acquired PVIF resulting from changes in persistency and expense assumptions on ex-Royal Liver business and changes to vesting assumptions on ex-RL (CIS) deferred annuity business. 2014 included £26m for both the Group and Parent company resulting from a reclassification from acquired PVIF to non-participating insurance contract liabilities, as a result of the Part VII transfer.

(a) Goodwill

Goodwill is the only intangible asset that has an indefinite useful life. The carrying value of £250m comprises £119m relating to the acquisition of the former Resolution businesses and assets in 2008 (2014 £119m), £110m (2014 £110m) in respect of the acquisition of Scottish Life in 2001, £3m (2014 £3m) in relation to a cash management business and £18m (2014 £18m) relating to the acquisition of Investment Funds Direct Group Limited and Investment Sciences Limited.

Goodwill is tested for impairment annually. The impairment test involves comparing the carrying value of the goodwill to its recoverable amount on a cash-generating unit basis. The recoverable amount of the goodwill has been determined using a value-in-use calculation. This is determined as the present value of the expected profits arising from the future new business written by the relevant business unit. The key assumptions used for the value-in-use calculations are as follows:

- expected profits from future new business are based on the medium-term plan approved by the Board of Directors, which covers a five-year period, and as such reflects the best estimate of future profits based on both historical experience and expected growth rates. Some of the assumptions that underlie the budgeted expected profits include customer numbers, premium rate and fee income changes, claims inflation and commission rates;
- growth rates – cash flows beyond that period have been assumed to grow at a steady rate of between 2.5% and 3% per annum (2014 2.5% to 3% per annum); and
- discount rates – most of the cash flows have been discounted using a risk-adjusted discount rate of 6.1% (2014 6.1%).

The recoverable amount exceeds the carrying amount of the goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the goodwill to exceed its recoverable amount.

(b) Other intangible assets

Other intangible assets consist of distribution channel relationships, software and incremental acquisition costs directly related to acquiring new unit trust management business. They are being amortised over their expected useful lives of between three and 10 years.

20. Financial investments

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Financial investments held at fair value through profit or loss (FVTPL)				
› Classified as held for trading	**2,545**	3,123	**2,537**	3,121
› Designated as FVTPL	**57,584**	56,369	**40,092**	41,110
	60,129	59,492	**42,629**	44,231

For the purposes of the disclosure required by IAS 1, it has been assumed that financial investments will be realised in order to settle the claims expected to arise during the 12 months following the balance sheet date. On this basis, the amount of financial investments at the balance sheet date that are classified as being held for more than 12 months is £55,186m for the Group (2014 £55,420m) and £37,687m for the Parent company (2014 £40,161m).

The Parent company includes within its investment portfolio a significant holding in OEICs and other investment funds managed by subsidiary companies. Those funds over which the Parent company has control are classified as subsidiaries ('consolidated funds'). The Parent company's investment in these consolidated funds is shown in note 21 and is not included in the Parent company figures below. On consolidation, the underlying investments of the consolidated funds are included within the appropriate investment line in the balance sheet and are therefore included in the Group figures shown below.

(a) Financial investments classified as held for trading

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Derivatives (note 20 (d))				
› Unquoted	**2,545**	3,123	**2,537**	3,121

(b) Financial investments designated as FVTPL

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Equity securities				
› Quoted	**20,762**	19,052	**7,107**	7,306
› Unquoted	**438**	539	**402**	374
	21,200	19,591	**7,509**	7,680
Debt and fixed income securities				
› Government bonds	**14,776**	15,871	**14,029**	14,711
› Other quoted	**11,355**	11,145	**9,195**	9,543
› Loans secured by policies	**5**	9	**5**	9
› Deposits with credit institutions	**1,970**	1,586	**1,172**	1,074
› Other unquoted	**2,791**	2,815	**2,791**	2,815
	30,897	31,426	**27,192**	28,152
Other investments				
› Unit trusts and other pooled investments	**5,487**	5,352	**5,391**	5,278
Total financial investments designated as FVTPL	**57,584**	56,369	**40,092**	41,110

Included in the figures for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £144m for the Group (2014 £215m) and £137m for the Parent company (2014 £209m).

Included in the Group and Parent company figure for unquoted debt securities above is £2,773m (Group 2014 £2,799m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 33).

20. Financial investments (continued)

(c) Derivative financial instruments

The Group and Parent company utilise derivative instruments to hedge market risk (see note 43), for efficient portfolio management and for the matching of liabilities to policyholders. Derivatives are either 'exchange-traded' (regulated by an exchange), which have a quoted market price, or 'over-the-counter' (individually negotiated between the parties to the contract), which are unquoted.

The Group is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other financial investments. To mitigate this risk, a portion of the fair value of the derivatives held by the Group at any point in time is matched by collateral and cash margin received from the counterparty to the transaction. Cash margin is collateral in the form of cash. Initial cash margin is exchanged at the outset of the contract. Variation margin is exchanged during the life of the contract in response to changes in the value of the derivative. Further details are given in note 20(e). The remaining credit risk is managed within the Group's risk management framework, which is discussed further in note 43.

The Group and Parent company utilise the following derivatives:

Options and warrants

Options are contracts under which the seller grants the buyer the right, but not the obligation, to buy or to sell a specific amount of a financial instrument at a pre-determined price, at or by a set date, or during a set period. The Group uses equity options to manage its exposure to fluctuations in equity markets and to back certain products which include a guaranteed investment return based on equity values. Warrants give the holder the right to purchase a particular equity at a specified price.

Futures

A futures contract is an agreement to buy or sell a given quantity of a financial instrument, at a specified future date at a pre-determined price. The Group uses futures to manage its exposure to fluctuations in equity markets.

Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

Swaptions

Swaptions are options to enter into an interest rate swap at a future date, and are used to limit exposure to fluctuations in interest rates over the long term.

Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

Credit default swaps

A credit default swap is a contract under which the purchaser pays a periodic premium in exchange for a contingent payment in the event of a credit default occurring in an agreed underlying asset. The Group uses credit default swaps to manage the credit exposure of its fixed rate financial assets.

Currency forwards

A currency forward is a contract to exchange an agreed amount of currency at a specified exchange rate and on a specified date. The Group uses currency forwards to reduce exposure to movements in exchange rates.

20. Financial investments (continued)

(d) Fair value of derivative instruments held

	Group					
	2015			2014		
	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Equity options and warrants	**605**	**59**	**(13)**	619	70	(8)
Interest rate swaps	**23,335**	**2,267**	**(1,424)**	18,659	2,250	(1,947)
Interest rate swaptions	**7,797**	**171**	**-**	8,105	250	-
Total return swaps	**3,043**	**30**	**(1)**	6,039	550	(94)
Credit default swaps	**5**	**-**	**-**	5	-	-
Currency forwards	**1,545**	**18**	**(22)**	1,703	3	(15)
Total derivative assets/(liabilities)		**2,545**	**(1,460)**		3,123	(2,064)

	Parent company					
	2015			2014		
	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Equity options and warrants	**604**	**59**	**(13)**	619	70	(8)
Interest rate swaps	**23,335**	**2,267**	**(1,424)**	18,659	2,250	(1,946)
Interest rate swaptions	**7,797**	**171**	**-**	8,105	250	-
Total return swaps	**3,043**	**30**	**(1)**	6,039	550	(94)
Credit default swaps	**5**	**-**	**-**	5	-	-
Currency forwards	**585**	**10**	**(7)**	695	1	(9)
Total derivative assets/(liabilities)		**2,537**	**(1,445)**		3,121	(2,057)

In addition to the above, the Group and Parent company make use of futures contracts. At 31 December 2015, the Group and Parent company had entered into equity futures trades giving exposure to equities with a notional value of Group £593m (2014 £457m) and Parent company £440m (2014 £309m) and into gilt futures trades giving exposure to gilts with a notional value of £246m for both Group and Parent company (2014 £245m). The equity and gilt futures had no market value at that date because all variation margin on these contracts is settled on a daily basis.

The Group paid initial cash margin of £38m (2014 £26m) and Parent company £29m (2014 £19m) in respect of these trades, which is included within 'trade and other receivables'.

The net variation margin payable at 31 December 2015 by the Group was £2m and by the Parent company was £3m (2014 £2m for both Group and Parent company), being the amount due for the movement on the last business day of 2015, which was settled on the first business day in 2016. Variation margin receivable is included within 'trade and other receivables' and variation margin payable is included within 'payables and other financial liabilities'.

(e) Collateral and other arrangements

(i) Stock loan agreements

The Group and Parent company have entered into a number of stock lending transactions that transfer legal title to third parties, but not the exposure to the income and market value movements arising from those assets. As a result, the Group and Parent company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and Parent company balance sheets. There are no restrictions arising from the transfers.

The assets transferred under these agreements are secured by the receipt of collateral. The level of collateral held is monitored regularly and adjusted as necessary to manage exposure to credit risk.

The collateral received was in the form of UK, US, Japanese and European Government bonds and quoted equities. There were no borrower defaults in the year (2014 none).

20. Financial investments (continued)

(e) Collateral and other arrangements (continued)

(i) Stock loan agreements (continued)

The following table shows the assets within the Group and Parent company balance sheets that have been transferred under stock loan agreements and the related collateral received.

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Stock loan agreements				
› Listed equities	**629**	592	**98**	117
› Corporate bonds	**50**	71	**45**	68
› Government bonds	**482**	548	**330**	458
	1,161	1,211	**473**	643
Collateral received	**1,209**	1,273	**488**	669

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £769m for both the Group and the Parent company (2014 £684m). The collateral received was in the form of UK Government bonds and European sovereign debt. It may be sold or re-pledged in the absence of default. No collateral was sold or re-pledged in the year (2014 £nil) and there were no defaults in the year (2014 none).

Cash margin was £380m (2014 £288m) for both the Group and the Parent company. Cash margin received is included within 'cash and cash equivalents', with an offsetting liability included within 'payables and other financial liabilities'.

The market value of derivatives in respect of which collateral and cash margin were received was £1,125m for both the Group and the Parent company (2014 £1,168m).

Collateral of £2,768m was received for both the Group and the Parent company (2014 £2,795m) in respect of an unlisted debt security. The collateral received was in the form of UK Government bonds, other fixed income debt securities, floating rate notes and cash. The market value of the debt security in respect of which the collateral was received was £2,773m (2014 £2,799m).

Collateral of £658m (2014 £642m) was received for the Group and Parent company in respect of reverse repo deposits.

(iii) Assets pledged as collateral

The Group and Parent company pledged £57m (2014 Group and Parent company £95m) of assets as collateral in respect of derivative contracts. The corresponding derivative liability is included within 'payables and other financial liabilities' and amounted to £25m (2014 £102m).

In addition, the Group and Parent company paid £379m (2014 £3m) of initial and variation cash margin in respect of derivatives.

There was no collateral pledged in the year in respect of repo liabilities (2014 none).

20. Financial investments (continued)
(f) Sovereign debt exposures
Included within the Group and Parent company's government bonds are the following exposures to sovereign debt shown by country:

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
UK	**13,495**	14,146	**12,916**	13,267
Germany	**131**	233	**124**	200
France	**125**	107	**121**	104
Ireland	**-**	2	**-**	1
Italy	**24**	39	**19**	30
Spain	**15**	10	**10**	8
Belgium	**31**	34	**30**	34
Austria	**25**	26	**25**	26
Finland	**8**	25	**8**	23
The Netherlands	**37**	28	**35**	28
Other Europe	**149**	143	**143**	133
USA	**163**	368	**97**	255
Canada	**6**	21	**3**	13
Japan	**87**	90	**48**	56
Rest of World	**33**	39	**29**	33
Total	**14,329**	15,311	**13,608**	14,211

The Group's exposure to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain represents less than 1% (2014 less than 1%) of the total investment portfolio.

21. Investments in Group entities
The Parent company's investments in Group entities comprise:

	Parent company	
	2015 £m	2014 £m
Shares	**543**	470
Loans	**29**	29
OEICs and other investment funds	**14,749**	12,395
	15,321	12,894

Investments in Group entities are carried in the balance sheet at fair value. For the purposes of the disclosure required by IAS 1, all of the investments in Group entities held at the balance sheet date are classified as being held for more than 12 months.

The OEICs and other investment funds represent the Parent company's investment in funds which are managed by subsidiaries of the Group and over which the Group has control.

21. Investments in Group entities (continued)

(a) Subsidiaries

The Parent company has the following subsidiaries, all of which are incorporated in the United Kingdom, with the exception of Commercial Properties (UK) Unit Trust, Royal London Asset Management C.I. Limited and Royal London Custody Services C.I. Limited, which are incorporated on the Channel Islands, RL Pension Trustees (ROI) Limited, Royal Liver Trustee Services Ireland Limited and GRE Part 7 Limited, which are incorporated in the Republic of Ireland, Euro Luxembourg SA, which is incorporated in Luxembourg and ISL Software (India) Private Limited, which is incorporated in India. All subsidiary undertakings are included in the consolidation.

Name	% holding 2015	% holding 2014	Nature of business
Operational subsidiaries:			
Royal London Asset Management Limited	**100.0**	100.0	Investment management
Royal London Unit Trust Managers Limited	**100.0**	100.0	Unit trust management
RL Marketing (CIS) Limited	**100.0**	100.0	ISA management
Royal London Savings Limited	**100.0**	100.0	ISA management
RL Finance Bonds plc	**100.0**	100.0	Finance company
RL Finance Bonds No.2 plc	**100.0**	100.0	Finance company
RL Finance Bonds No.3 plc	**100.0**	-	Finance company
RLUM Limited	**100.0**	100.0	Unit trust management
Royal London Management Services Limited	**100.0**	100.0	Service company
Hornby Road Investments Limited	**100.0**	100.0	Property company
Wrap IFA Services Limited	**100.0**	100.0	Holding company
Investment Funds Direct Group Limited	**100.0**	100.0	Holding company
Investment Funds Direct Holdings Limited	**100.0**	100.0	Holding company
Investment Funds Direct Limited	**100.0**	100.0	Wrap platform management
ISL Software (India) Private Limited	**100.0**	100.0	Software development
RL Corporate Pension Services Limited	**100.0**	100.0	Pensions administration & consultancy services
Royal London Asset Management C.I. Limited	**100.0**	100.0	Investment management
Royal London Custody Services C.I. Limited	**100.0**	100.0	Custodian
The Royal London General Insurance Company Limited	**100.0**	100.0	General insurance
S.L. (Davenport Green) Limited	**100.0**	100.0	Property company
Royal London Marketing Limited	**100.0**	100.0	Intermediary
Nominee companies:			
Fundsdirect Isa Nominees Limited	**100.0**	100.0	Nominee company
Fundsdirect Nominees Limited	**100.0**	100.0	Nominee company
IFDL Personal Pensions Limited (previously Fundsdirect Pep Nominees Limited)	**100.0**	100.0	Nominee company
Iceni Nominees (No 3) Limited	**100.0**	100.0	Nominee company
Iceni Nominees (No 4) Limited	**100.0**	100.0	Nominee company
RL Marketing ISA Nominees Limited	**100.0**	100.0	Nominee company
RLAM (Nominees) Limited	**100.0**	100.0	Nominee company
RLS Nominees Limited	**100.0**	100.0	Nominee company
Trustee companies:			
R.L. Pensions Trustees Limited	**100.0**	100.0	Trustee company
R.L.M. Staff Pension Trust Limited	**100.0**	100.0	Trustee company
RL Pension Trustees (ROI) Limited	**100.0**	100.0	Trustee company
RLGPS Trustee Limited	**100.0**	100.0	Trustee company
Royal Liver Pension Trustee Services Limited	**100.0**	100.0	Trustee company
Royal Liver Trustee Services Ireland Limited	**100.0**	100.0	Trustee company
Royal Liver Trustees Limited	**100.0**	100.0	Trustee company
Royal London Trustee Services Limited	**100.0**	100.0	Trustee company

21. Investments in Group entities (continued)
(a) Subsidiaries (continued)

Name	% holding 2015	% holding 2014	Nature of business
Unit trusts, OEICs and other investment funds reported as subsidiaries under IFRS:			
Commercial Properties (UK) Unit Trust	**99.9**	99.9	Property unit trust
The Royal London Sterling Credit Fund	**52.9**	51.4	OEIC
The Royal London UK Mid Cap Growth Fund	**64.7**	64.8	OEIC
The Royal London UK Opportunities Fund	**97.2**	96.8	OEIC
The Royal London European Opportunities Fund (previously The Royal London European Income Fund)	**99.9**	99.7	OEIC
The Royal London Japan Tracker Fund	**92.4**	90.1	OEIC
The Royal London FTSE 350 Tracker Fund	**84.1**	81.7	OEIC
The Royal London US Tracker Fund	**87.9**	85.3	OEIC
The Royal London All Share Tracker Fund	**71.9**	78.6	OEIC
The Royal London Index Linked Fund	**74.1**	73.2	OEIC
The Royal London UK Growth Fund	**91.8**	90.0	OEIC
The Royal London European Growth Fund	**93.7**	90.8	OEIC
The Royal London UK Equity Fund	**92.2**	90.8	OEIC
The Royal London Asia ex Japan Tracker Fund	**87.5**	90.2	OEIC
The Royal London UK Smaller Companies Fund	**97.2**	99.0	OEIC
The Royal London Cash Plus Fund	**52.1**	37.3	OEIC
The Royal London Enhanced Cash Plus Fund	**100.0**	N/A	OEIC
The Royal London Investment Grade SD Credit Fund	**100.0**	N/A	OEIC
The Royal London Global Bond Opportunities Fund	**100.0**	N/A	OEIC
The Royal London European Corporate Bond Fund	**99.9**	99.7	OEIC
The Royal London Europe ex UK Tracker Fund	**99.6**	99.9	OEIC
The Royal London International Government Bonds Fund	**80.6**	80.1	OEIC
The Royal London Short Duration Gilt Fund[1]	**N/A**	41.5	OEIC
The Royal London UK Government Bond Fund[2]	**N/A**	47.3	OEIC
The Royal London Short Duration Global High Yield Fund	**52.8**	67.3	OEIC
The Royal London Global High Yield Bond Fund	**97.8**	97.8	OEIC
The Royal London Global Index Linked Fund[2]	**N/A**	43.5	OEIC
The Royal London Short-term Money Market Fund	**96.6**	34.1	OEIC
The Royal London Short Duration Credit Fund	**46.4**	53.2	OEIC
The Royal London Absolute Return Government Bond Fund	**89.1**	100.0	OEIC
The Royal London Sustainable Managed Income Trust	**98.6**	98.7	Unit trust
The Royal London Sustainable Managed Growth Trust	**80.7**	87.1	Unit trust
The Royal London US Growth Trust	**57.9**	57.1	Unit trust
The Royal London European Growth Trust	**38.0**	36.3	Unit trust
Goldman Sachs Multi-Strategy Portfolio COIS Limited	**100.0**	100.0	Investment fund
The Royal London Property Trust	**100.0**	100.0	Property trust

1 This fund is not accounted for as a subsidiary in 2015 as the Group's holding has reduced to 11.9% as at 31 December 2015.
2 These funds are accounted for as associates in 2015 as shown in note 21 (b).

21. Investments in Group entities (continued)

(a) Subsidiaries (continued)

Name	% holding 2015	% holding 2014	Nature of business
Non-trading companies:			
Investment Sciences Limited	**100.0**	100.0	Non-trading
Brightgrey Limited	**100.0**	100.0	Non-trading
Canterbury Life Assurance Company Limited	**100.0**	100.0	Non-trading
Capitol Way Commercial No 1 Limited	**100.0**	100.0	Non-trading
Capitol Way Commercial No 2 Limited	**100.0**	100.0	Non-trading
Capitol Way Estate Management Limited	**100.0**	N/A	Non-trading
Capitol Way Estate No 1 Limited	**100.0**	100.0	Non-trading
Capitol Way Estate No 2 Limited	**100.0**	100.0	Non-trading
Euro-Luxembourg SA	**100.0**	100.0	Non-trading
GRE Part 7 Limited	**100.0**	100.0	Non-trading
Leyburn Developments Limited	**100.0**	100.0	Non-trading
The Lion Insurance Company Limited	**100.0**	100.0	Non-trading
Nodessa File (One) Limited	**100.0**	100.0	Non-trading
Nodessa File (Two) Limited	**100.0**	100.0	Non-trading
RL Schedule 2C Holdings Limited	**100.0**	100.0	Non-trading
R.A.Securities Limited	**100.0**	100.0	Non-trading
Refuge Assurance Limited	**100.0**	100.0	Non-trading
Refuge Investments Limited	**100.0**	100.0	Non-trading
Refuge Life Assurance Consultants Limited	**100.0**	100.0	Non-trading
Refuge Portfolio Managers Limited	**100.0**	100.0	Non-trading
RL LA Limited	**100.0**	100.0	Non-trading
RL Money Manager Limited	**100.0**	100.0	Non-trading
RL NPB Services Limited	**100.0**	100.0	Non-trading
RLM Finance Bonds Plc	**100.0**	100.0	Non-trading
RLM Finance Plc	**100.0**	100.0	Non-trading
Royal Liver (IFA Holdings) Plc	**100.0**	100.0	Non-trading
Royal Liver Asset Managers Limited	**100.0**	100.0	Non-trading
Royal Liver Management Services Limited	**100.0**	100.0	Non-trading
Royal London 360 Holdings Limited	**100.0**	100.0	Non-trading
Royal London Asset Management (CIS) Limited	**100.0**	100.0	Non-trading
Royal London Cash Management Limited	**100.0**	100.0	Non-trading
Royal London (CIS) Limited	**100.0**	100.0	Non-trading
Royal London Homebuy Limited	**100.0**	100.0	Non-trading
Royal London Pooled Pensions Company Limited	**100.0**	100.0	Non-trading
Scottish Life (Coventry) Property Limited	**100.0**	100.0	Non-trading
Scottish Life Administration Services Limited	**100.0**	100.0	Non-trading
The Scottish Life Assurance Company	**100.0**	100.0	Non-trading
Scottish Life Finance Limited	**100.0**	100.0	Non-trading
Southpoint General Partner Limited	**50.0**	50.0	Non-trading
St Andrew Estates Limited	**100.0**	100.0	Non-trading
The Scottish Life Guarantee Company Limited	**100.0**	100.0	Non-trading
United Assurance Group Limited	**100.0**	100.0	Non-trading
United Friendly Group Limited	**100.0**	100.0	Non-trading
United Friendly Insurance Limited	**100.0**	100.0	Non-trading
United Friendly Life Assurance Limited	**100.0**	100.0	Non-trading
United Friendly Staff Pension Fund Limited	**100.0**	100.0	Non-trading

21. Investments in Group entities (continued)

(b) Interests in associates

All of the Group's associates are investment funds accounted for as financial assets held at fair value through profit or loss and are all incorporated in England. At 31 December 2015, the following funds have been recognised as associates:

Name of investment fund	Group's % holding 2015	Group's % holding 2014
Royal London Corporate Bond Monthly Fund (previously CIS Corporate Bond Income Trust)	32.3	29.8
Royal London UK Growth Trust (previously CIS UK Growth Trust)	23.6	22.9
Royal London Property Fund	21.2	22.8
Royal London Global Index Linked Fund[3]	24.4	N/A
Royal London UK Government Bond Fund[3]	29.8	N/A
Royal London Sterling Extra Yield Bond Fund	20.3	17.8
Royal London Corporate Bond Fund[3]	N/A	20.3

Summarised financial information for associates:

(i) Summarised balance sheet

	2015						
	Royal London Corporate Bond Monthly Fund (previously CIS Corporate Bond Income Trust)	Royal London UK Growth Trust (previously CIS UK Growth Trust)	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London UK Government Bond Fund	Royal London Sterling Extra Yield Bond Fund	Total
	£m	£m	£m	£m	£m	£m	£m
Current assets							
Cash and cash equivalents	1	8	29	-	2	26	66
Other current assets	6	3	3	1	7	129	149
Total current assets	7	11	32	1	9	155	215
Current liabilities							
Financial liabilities	-	-	5	-	4	-	9
Other current liabilities	1	2	-	1	2	106	112
Total current liabilities	1	2	5	1	6	106	121
Non-current assets	326	1,125	353	70	363	1,041	3,278
Total net assets	332	1,134	380	70	366	1,090	3,372

3 Royal London Corporate Bond Fund is not accounted for as an associate in 2015, as the Group's holding in this fund has fallen below 20%. Royal London Global Index Linked Fund and Royal London UK Government Bond Fund were accounted for as subsidiaries in 2014, see note 21 (a).

21. Investments in Group entities (continued)

(b) Interests in associates (continued)

(i) Summarised balance sheet (continued)

	2014				
	Royal London Corporate Bond Monthly Fund (previously CIS Corporate Bond Income Trust)	Royal London UK Growth Trust (previously CIS UK Growth Trust)	Royal London Property Fund	Royal London Corporate Bond Fund	Total
	£m	£m	£m	£m	£m
Current assets					
Cash and cash equivalents	1	18	3	11	33
Other current assets	7	3	12	17	39
Total current assets	8	21	15	28	72
Current liabilities					
Financial liabilities	1	2	5	5	13
Other current liabilities	-	-	-	3	3
Total current liabilities	1	2	5	8	16
Non-current assets	345	1,135	315	674	2,469
Total net assets	352	1,154	325	694	2,525

(ii) Summarised statement of comprehensive income

	2015						
	Royal London Corporate Bond Monthly Fund (previously CIS Corporate Bond Income Trust)	**Royal London UK Growth Trust (previously CIS UK Growth Trust)**	**Royal London Property Fund**	**Royal London Global Index Linked Fund**	**Royal London UK Government Bond Fund**	**Royal London Sterling Extra Yield Bond Fund**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Interest income	**18**	**-**	**-**	**1**	**11**	**-**	**30**
Net gains/(losses) on investments	**(12)**	**41**	**17**	**(1)**	**(8)**	**7**	**44**
Other income/(expense)	**(18)**	**(4)**	**-**	**(1)**	**(14)**	**(1)**	**(38)**
Net income	**(12)**	**37**	**17**	**(1)**	**(11)**	**6**	**36**

	2014				
	Royal London Corporate Bond Monthly Fund (previously CIS Corporate Bond Income Trust)	Royal London UK Growth Trust (previously CIS UK Growth Trust)	Royal London Property Fund	Royal London Corporate Bond Fund	Total
	£m	£m	£m	£m	£m
Interest income	19	-	-	29	48
Net gains/(losses) on investments	20	(2)	24	44	86
Other income/(expense)	(19)	(5)	-	(31)	(55)
Net income	20	(7)	24	42	79

21. Investments in Group entities (continued)

(c) Interests in other significant holdings

The Group also invests in the following private equity funds, which represent an ownership interest of greater than 20%. These are all managed by external administrators and the Group has no involvement in the management, operation or decision making of the funds. As such, the presumption that significant influence exists is overcome and these investments have not been recognised as associates, but have been treated as investment funds within financial investments.

	% holding		
Name	2015	2014	Country of incorporation
SPL ARL Private Finance	**99.4**	99.4	Guernsey
WP Global Mezzanine Private Equity	**38.5**	38.5	US
Corealpha Private Equity Partners	**29.8**	28.0	US
R.L. Private Equity Fund	**44.2**	44.2	UK
KKR CIS Global Investor L.P.	**100.0**	100.0	US
Rising Star Growth Fund 2	**21.8**	21.8	UK

(d) Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group's interests in structured entities are comprised of investments in a range of investment vehicles, principally pooled investment funds and unquoted equity securities, managed both internally and externally, and some investments in asset-backed securities.

(i) Consolidated structured entities

Where it has been determined that the Group has control over a structured entity it has been consolidated. The Group has not provided, nor has any intention of providing, financial or other support to any consolidated structured entity.

(ii) Unconsolidated structured entities

The Group also invests in unconsolidated structured entities. The Group has not provided, nor has any intention of providing, financial or other support to any unconsolidated structured entity.

The following table shows the carrying value of the Group's holdings in unconsolidated structured entities, all of which are reported within 'financial investments'.

	2015 £m	2014 £m
Debt and fixed income securities		
Asset-backed securities	**1,436**	1,412
Unquoted equity securities		
Private equity funds	**220**	172
Land investment pools	**206**	180
Unit trusts and other pooled investments		
Investment in associates	**801**	583
Unit trusts	**2,008**	1,967
OEICs	**1,413**	1,388
Venture capital offshore funds	**318**	370
Other investment funds	**944**	1,042
Total	**7,346**	7,114

The Group's maximum exposure to loss from those investments that are not managed by Group companies is the carrying value of the investment on the Group balance sheet.

21. Investments in Group entities (continued)

(d) Interests in structured entities (continued)

(iii) Other interests in unconsolidated structured entities

The Group also has interests in structured entities through management fees received on those investments that the Group manages. The Group's maximum exposure to loss from these investments is the carrying value on the Group balance sheet and future management fees. The Group's holdings in these investments are included in the table above.

The table below shows those assets under management in which the Group does not have a holding and the management fees earned during the year.

	2015		2014	
	Assets under administration	Management fees	Assets under administration	Management fees
Investment funds:	£m	£m	£m	£m
OEICs	6,009	24	5,143	19
Unit trusts	2,568	8	2,511	32
Total	8,577	32	7,654	51

22. Prior year Part VII transfers

On 30 December 2014 the entire long-term business and related assets and liabilities of the subsidiary companies, Royal London (CIS) and Royal London Pooled Pensions Company, were transferred to the Parent company by way of transfers made under Part VII of the Financial Services and Markets Act 2000. No consideration was paid for either transfer and the transfers resulted in no gain or loss for the Parent company.

The Royal London (CIS) transfer resulted in £27,111m of assets and £27,111m of liabilities being transferred into the Parent company. The Royal London Pooled Pensions Company transfer resulted in £3,227m of assets and £3,227m of liabilities being transferred into the Parent company.

As the Part VII transfers were between entities within the Group, there was no net impact on the Group balance sheet or the consolidated statement of comprehensive income. As set out in note 1 (b), transfers between entities within the Group are accounted for using predecessor accounting, with the effect that the assets and liabilities recognised by the acquiring entity are those used previously in the Group consolidated accounts. As a result the Parent company recognised £112m of acquired VIF relating to the transferred business. In addition, both the Group and Parent company derecognised £26m of acquired VIF which following the transfer is presented as a deduction from the non-participating insurance contract liabilities.

On 31 March 2014 the entire general insurance business of Royal London (CIS) and the related assets and liabilities were transferred to CIS General Insurance Limited (CISGIL) under a Part VII transfer. This resulted in £86m of assets and £86m of liabilities being transferred.

23. Trade and other receivables

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amounts due from customers	**60**	17	**33**	17
Receivables arising under reinsurance contracts	**23**	21	**23**	21
Investment income receivable	**129**	119	**94**	89
Amounts due from brokers	**191**	86	**124**	32
Finance lease receivables	**11**	11	**11**	11
Amounts due from other Group entities	**-**	-	**16**	13
Prepayments and accrued income	**29**	34	**4**	5
Other receivables	**103**	124	**78**	97
	546	412	**383**	285
Expected to be recovered within 12 months	**536**	402	**373**	275
Expected to be recovered in more than 12 months	**10**	10	**10**	10
	546	412	**383**	285

Trade and other receivables are carried in the balance sheet at amortised cost, which approximates fair value.

Finance lease receivables

The Group and the Parent company have leased to third parties a number of properties under long-term leases, which are classified as finance leases. The average term of the finance leases entered into is 44 years.

	Group and Parent company	
	2015 £m	2014 £m
Receivables under finance leases – minimum lease receipts:		
Not later than one year	**1**	1
Later than one year and not later than five years	**5**	5
Later than five years	**23**	23
	29	29
Less: future charges	**(18)**	(18)
Present value of receivables under finance leases	**11**	11
Present value of receivables under finance leases:		
Not later than one year	**1**	1
Later than one year and not later than five years	**4**	4
Later than five years	**6**	6
	11	11

24. Cash and cash equivalents

	Group		Parent company	
	2015 £m	2014 £m	2015 £m	2014 £m
Bank balances	**1,117**	1,408	**642**	949
Short-term bank deposits	**1,591**	1,325	**1,452**	1,307
Short-dated debt	**115**	3	**115**	3
	2,823	2,736	**2,209**	2,259

The cash and cash equivalents for the purposes of the statements of cash flows are as follows:

	Group		Parent company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and cash equivalents	**2,823**	2,736	**2,209**	2,259
Bank overdrafts (note 33)	**(11)**	(6)	**(11)**	(6)
Cash and cash equivalents in the statements of cash flows	**2,812**	2,730	**2,198**	2,253

25. Insurance contract liabilities and reinsurance assets

	Group		Parent company	
	2015 £m	2014 £m	2015 £m	2014 £m
Gross				
Total participating insurance contract liabilities	**28,874**	29,607	**28,949**	29,682
Non-participating insurance contract liabilities				
General insurance contracts	**1**	2	**-**	-
Long-term insurance contracts	**7,290**	7,504	**7,290**	7,504
Total non-participating insurance contract liabilities	**7,291**	7,506	**7,290**	7,504
Total insurance contract liabilities	**36,165**	37,113	**36,239**	37,186
Reinsurers' share of insurance contract liabilities				
Total participating insurance contract liabilities	**(1,350)**	(1,466)	**(1,350)**	(1,466)
Non-participating insurance contract liabilities				
Long-term insurance contracts	**(3,952)**	(3,996)	**(3,952)**	(3,996)
Total non-participating insurance contract liabilities	**(3,952)**	(3,996)	**(3,952)**	(3,996)
Total reinsurers' share of insurance contract liabilities	**(5,302)**	(5,462)	**(5,302)**	(5,462)
Net of reinsurance				
Total participating insurance contract liabilities	**27,524**	28,141	**27,599**	28,216
Non-participating insurance contract liabilities				
General insurance contracts	**1**	2	**-**	-
Long-term insurance contracts	**3,338**	3,508	**3,338**	3,508
Total non-participating insurance contract liabilities	**3,339**	3,510	**3,338**	3,508
Total insurance contract liabilities, net of reinsurance	**30,863**	31,651	**30,937**	31,724

26. General insurance contracts

(a) Change in general insurance liabilities and reinsurance assets

(i) General insurance – claims and loss adjustment expenses

	Group					
	2015			2014		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Notified outstanding claims	-	-	-	60	(60)	-
Claims incurred but not reported	2	-	2	27	(27)	-
At 1 January	2	-	2	87	(87)	-
Claims paid during the year	-	-	-	(1)	1	-
Increase/(decrease) in liabilities arising from prior year claims	(1)	-	(1)	-	-	-
Total recognised income and expense for the financial year	(1)	-	(1)	(1)	1	-
Part VII transfer	-	-	-	(86)	86	-
Notified outstanding claims	-	-	-	-	-	-
Claims incurred but not reported	1	-	1	2	-	2
At 31 December	1	-	1	2	-	2

27. Long-term insurance contract liabilities and reinsurance assets

The movement in long-term insurance contract liabilities and reinsurance assets in the year is shown in the following tables.

	Group – 2015					
	Long-term insurance contract liabilities, gross of reinsurance		Reinsurers' share of long-term insurance liabilities		Long-term insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	29,607	7,504	(1,466)	(3,996)	28,141	3,508
Expected changes during the year	(1,976)	(193)	191	104	(1,785)	(89)
Expected closing position	27,631	7,311	(1,275)	(3,892)	26,356	3,419
New business	124	202	-	(193)	124	9
Experience variations						
Demographic	386	(14)	7	2	393	(12)
Economic	550	43	1	2	551	45
	936	29	8	4	944	33
Changes in assumptions						
Demographic	(75)	(62)	7	28	(68)	(34)
Expense	(34)	36	-	-	(34)	36
Economic	93	(145)	7	130	100	(15)
Management actions	103	9	-	-	103	9
Methodology	(43)	-	(1)	-	(44)	-
	44	(162)	13	158	57	(4)
Other movements						
Claims outstanding	-	(85)	-	(33)	-	(118)
Other	139	(5)	(96)	4	43	(1)
	139	(90)	(96)	(29)	43	(119)
At 31 December	28,874	7,290	(1,350)	(3,952)	27,524	3,338

27. Long-term insurance contract liabilities and reinsurance assets (continued)

	Group – 2014					
	Long-term insurance contract liabilities, gross of reinsurance		Reinsurers' share of long-term insurance liabilities		Long-term insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	26,365	6,912	(1,218)	(2,642)	25,147	4,270
Expected changes during the year	(1,830)	(110)	136	84	(1,694)	(26)
Expected closing position	24,535	6,802	(1,082)	(2,558)	23,453	4,244
New business	118	187	-	(161)	118	26
Experience variations						
Demographic	303	16	-	(2)	303	14
Economic	2,827	54	(17)	-	2,810	54
	3,130	70	(17)	(2)	3,113	68
Changes in assumptions						
Demographic	(16)	49	22	(29)	6	20
Expense	58	(26)	-	-	58	(26)
Economic	1,697	460	(333)	(227)	1,364	233
Management actions	113	-	-	(1,019)	113	(1,019)
Methodology	(12)	(23)	2	(7)	(10)	(30)
	1,840	460	(309)	(1,282)	1,531	(822)
Other movements						
Claims outstanding	-	6	-	2	-	8
Other	(16)	(21)	(58)	5	(74)	(16)
	(16)	(15)	(58)	7	(74)	(8)
At 31 December	29,607	7,504	(1,466)	(3,996)	28,141	3,508

27. Long-term insurance contract liabilities and reinsurance assets (continued)

	Parent company – 2015					
	Long-term insurance contract liabilities, gross of reinsurance		Reinsurers' share of long-term insurance liabilities		Long-term insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	29,682	7,504	(1,466)	(3,996)	28,216	3,508
Expected changes during the year	(1,976)	(193)	191	104	(1,785)	(89)
Expected closing position	27,706	7,311	(1,275)	(3,892)	26,431	3,419
New business	124	202	-	(193)	124	9
Experience variations						
Demographic	386	(14)	7	2	393	(12)
Economic	550	43	1	2	551	45
	936	29	8	4	944	33
Changes in assumptions						
Demographic	(75)	(62)	7	28	(68)	(34)
Expense	(34)	36	-	-	(34)	36
Economic	93	(145)	7	130	100	(15)
Management actions	103	9	-	-	103	9
Methodology	(43)	-	(1)	-	(44)	-
	44	(162)	13	158	57	(4)
Other movements						
Claims outstanding	-	(85)	-	(33)	-	(118)
Other	139	(5)	(96)	4	43	(1)
	139	(90)	(96)	(29)	43	(119)
At 31 December	28,949	7,290	(1,350)	(3,952)	27,599	3,338

27. Long-term insurance contract liabilities and reinsurance assets (continued)

	Parent company – 2014					
	Long-term insurance contract liabilities, gross of reinsurance		Reinsurers' share of long-term insurance liabilities		Long-term insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	11,268	3,388	-	(608)	11,268	2,780
Expected changes during the year	(460)	(6)	-	(17)	(460)	(23)
Expected closing position	10,808	3,382	-	(625)	10,808	2,757
New business	1	39	-	(101)	1	(62)
Experience variations						
Demographic	43	17	-	(2)	43	15
Economic	670	58	-	-	670	58
	713	75	-	(2)	713	73
Changes in assumptions						
Demographic	(14)	35	-	(14)	(14)	21
Expense	63	(27)	-	-	63	(27)
Economic	380	312	-	(77)	380	235
Management actions	100	-	-	-	100	-
Methodology	(3)	-	-	-	(3)	-
	526	320	-	(91)	526	229
Other movements						
Part VII transfer-in	17,641	3,693	(1,466)	(3,180)	16,175	513
Claims outstanding	-	6	-	2	-	8
Other	(7)	(11)	-	1	(7)	(10)
	17,634	3,688	(1,466)	(3,177)	16,168	511
At 31 December	29,682	7,504	(1,466)	(3,996)	28,216	3,508

For the purposes of the disclosure required by IAS 1, the amount of long-term insurance contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £32,954m for the Group (2014 £35,075m) and £33,029m for the Parent company (2014 £35,150m).

The amount of the reinsurers' share of long-term insurance liabilities classified as due to be recovered in more than 12 months from the balance sheet date is £4,735m (2014 £5,298m) for the Group and Parent company.

The amounts presented above for the Parent company represent the liabilities of the open and closed sub-funds.

28. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
At 1 January				
Non-participating value of in-force business included within participating contract liabilities	**1,332**	1,335	**1,332**	1,169
Acquired PVIF	**211**	264	**195**	137
Adjusted deferred acquisition costs arising on investment contracts	**261**	285	**261**	285
Deferred fee income on investment contracts	**(194)**	(216)	**(194)**	(216)
Total value of in-force business at 1 January	**1,610**	1,668	**1,594**	1,375
Expected changes during the year	**(120)**	(139)	**(119)**	(131)
Expected closing position	**1,490**	1,529	**1,475**	1,244
New business	**161**	129	**161**	124
Experience variations				
Demographic	**(14)**	(7)	**(14)**	(12)
Economic	**27**	65	**27**	57
	13	58	**13**	45
Changes in assumptions				
Demographic	**5**	59	**5**	40
Expense	**30**	10	**30**	12
Economic	**12**	(77)	**12**	(16)
Management actions	**11**	(64)	**11**	-
Methodology	**61**	(37)	**61**	-
	119	(109)	**119**	36
Other movements				
Part VII transfer-in	**-**	-	**-**	128
Other	**(6)**	3	**(6)**	17
	(6)	3	**(6)**	145
	1,777	1,610	**1,762**	1,594
At 31 December				
Non-participating value of in-force business included within participating contract liabilities	**1,526**	1,332	**1,526**	1,332
Acquired PVIF	**186**	211	**171**	195
Adjusted deferred acquisition costs arising on investment contracts	**236**	261	**236**	261
Deferred fee income on investment contracts	**(171)**	(194)	**(171)**	(194)
Total value of in-force business at 31 December	**1,777**	1,610	**1,762**	1,594

28. Non-participating value of in-force business (continued)

The adjusted deferred acquisition costs arising on investment contracts shown above are equal to the deferred acquisition costs arising on investment contracts shown in note 19 less the element of those deferred acquisition costs that relates to future commission.

The deferred fee income on investment contracts shown on the previous page is equal to the deferred fee income shown in note 35. For the Group only, this is adjusted to remove deferred fee income in relation to fund management contracts of £2m at 31 December 2015 (2014 £3m).

For the purposes of the disclosure required by IAS 1, the amount of the Group and Parent company balance of £1,526m (2014 £1,332m) of non-participating value of in-force business classified as due to be recovered in more than 12 months from the balance sheet date is £1,336m (2014 £1,166m).

29. Investment contract liabilities

(a) Movement in investment contract liabilities

The movement in investment contract liabilities in the year is shown in the tables below.

	Group			
	2015		2014	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	2,308	22,691	2,284	19,148
Expected changes during the year	(79)	(1,388)	(121)	(733)
Expected closing position	2,229	21,303	2,163	18,415
New business	17	3,415	17	2,871
Experience variations				
Demographic	(5)	(295)	99	452
Economic	25	557	32	955
	20	262	131	1,407
Changes in assumptions				
Demographic	40	-	1	-
Expense	(2)	-	(2)	-
Economic	26	-	1	-
Management actions	8	-	3	-
Methodology	-	3	-	-
	72	3	3	-
Other movements				
Other	(12)	(1)	(6)	(2)
At 31 December	2,326	24,982	2,308	22,691

29. Investment contract liabilities (continued)
(a) Movement in investment contract liabilities (continued)

	Parent company			
	2015		2014	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	2,308	22,691	1,980	16,254
Expected changes during the year	(79)	(1,388)	(121)	(429)
Expected closing position	2,229	21,303	1,859	15,825
New business	17	3,415	17	2,316
Experience variations				
Demographic	(5)	(295)	103	253
Economic	25	557	11	620
	20	262	114	873
Changes in assumptions				
Demographic	40	-	1	-
Expense	(2)	-	(2)	-
Economic	26	-	1	-
Management actions	8	-	3	-
Methodology	-	3	-	-
	72	3	3	-
Other movements				
Part VII transfer-in	-	-	318	3,679
Other	(12)	(1)	(3)	(2)
	(12)	(1)	315	3,677
At 31 December	2,326	24,982	2,308	22,691

The participating investment contract liabilities include a discretionary element, determined by management from time to time, with regard to the returns earned on investments in the relevant with-profits fund. These liabilities have been calculated on a basis consistent with the valuation of insurance contracts. It is not considered practicable to provide a fair value for these liabilities.

For the purposes of the disclosure required by IAS 1, the amount of investment contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £25,009m (2014 £22,801m) for the Group and Parent company.

The amounts presented above represent the liabilities of the open and closed sub-funds.

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions

(a) Assumptions

The assumptions used to determine long-term insurance and investment contract liabilities are set by the Board of Directors based on advice given by the Actuarial Function Holder. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used can be summarised as follows.

(i) Demographic

Mortality and morbidity

Mortality and morbidity risks are inherent in most lines of business. For protection business an increase in mortality and morbidity rates leads to increased claim levels and hence an increase in liabilities. For annuity business the risk is that policyholders live longer than expected. Reinsurance arrangements have been put in place to mitigate mortality and morbidity risks.

The rates of mortality and morbidity are set in line with recent company experience, where it is available in sufficient volume to provide reliable results. Where company experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured.

A margin is included to provide for potential adverse variations in experience. For non-participating liabilities the margins are typically 8%, whilst for participating liabilities and the calculation of the non-profit value of in-force business the margins are typically 2%.

The principal mortality assumptions are shown in the following table.

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Class of business	2015 mortality	2014 mortality
Ordinary long-term assurances		
Royal London Mutual and Ex-United Assurance Group non-linked	**90.72% AMC00 and 117.72% AFC00**	90.72% AMC00 and 117.72% AFC00
Ex-Scottish Life	**59.40% AMC00 and 97.20% AFC00**	59.40% AMC00 AND 97.20% AFC00
Ex-Royal Liver	**112.32% AMC00 and 117.72% AFC00**	112.32% AMC00 AND 117.72% AFC00
RL Retail non-linked term assurances		
› male non-smokers	**88.56% TMN00 sel**	88.56% TMN00 sel
› male smokers	**88.56% TMN00 sel**	92.88% TMS00 sel
› female non-smokers	**88.56% TMN00 sel**	90.72% TFN00 sel
› female smokers	**88.56% TMN00 sel**	95.04% TFS00 sel
Self Assurance term assurances		
› male non-smokers	**74.52% TMN00 sel**	74.52% TMN00 sel
› male smokers	**100.44% TMS00 sel**	100.44% TMS00 sel
› female non-smokers	**64.80% TFN00 sel**	64.80% TFN00 sel
› female smokers	**87.48% TFS00 sel**	87.48% TFS00 sel
Ex-RL (CIS)		
› traditional with-profits	**66.96% AMC00**	66.96% AMC00
› accumulating with-profits bond	**87.40% AMC00**	87.40% AMC00
Pensions – deferred annuities in deferment		
Ex-Refuge Assurance OB non-linked	**82.80% PPMD00 and 88.32% PPFD00**	95.68% PPMD00 and 88.32% PPFD00
Ex-Scottish Life – individual	**64.40% AMC00 and 67.16% AFC00**	72.68% AMC00 and 71.76% AFC00
Ex-Scottish Life – group	**66.24% AMC00 and 65.32% AFC00**	71.76% AMC00 and 72.68% AFC00
Pensions – immediate annuities and deferred annuities in payment		
Ex-Royal London	**100% PPMV00 CMI (2014) 2%pa[1]**	100% PPMV00 CMI (2013) 2%pa[2]
	87% PPFV00 CMI (2014) 2%pa[1]	87% PPFV00 CMI (2013) 2%pa[2]
Ex-Scottish Life	**91% PPMV00 CMI (2014) 2%pa[1]**	91% PPMV00 CMI (2013) 2%pa[2]
	83% PPFV00 CMI (2014) 2%pa[1]	83% PPFV00 CMI (2013) 2%pa[2]
Ex-RL (CIS)		
› Personal pensions in payment	**115.37% PPMV00 CMI (2014) 2%pa[1]**	112.88% PPMV00 CMI (2012) 2%pa[3]
	107.90% PPFV00 CMI (2014) 2%pa[1]	103.75% PPFV00 CMI (2012) 2%pa[3]
› Section 226 retirement annuity	**96.28% RMV00 CMI (2014) 2%pa[1]**	99.60% RMV00 CMI (2012) 2%pa[3]
	100.43% RFV00 CMI (2014) 2%pa[1]	105.41% RFV00 CMI (2012) 2%pa[3]
Industrial assurance		
Royal London Mutual	**59.40% ELT16 (males)**	82.08% ELT16 (males)
Ex-United Assurance Group	**78.84% ELT16 (males)**	82.08% ELT16 (males)
Ex-Royal Liver	**64.80% ELT16 (males)**	70.20% ELT15 (males)
Ex-RL (CIS)		
› endowment	**81.00% ELT16 (males)**	81.00% ELT16 (males)
› whole life	**70.20% ELT16 (males)**	70.20% ELT16 (males)

1 The mortality basis is displayed as a percentage of base table mortality in 2000 projected in line with the 2014 CMI model mortality improvements and a percentage per annum long-term improvement rate.
2 The mortality basis is displayed as a percentage of the base table mortality in 2000 projected in line with the 2013 CMI model mortality improvements and a percentage per annum long-term improvement rate.
3 The mortality basis is displayed as a percentage of the base table mortality in 2000 projected in line with the 2012 CMI model mortality improvements and a percentage per annum long-term improvement rate.

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Persistency

Persistency is the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry.

The rates of persistency are set in line with recent company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience. The rates vary by product line, sales channel, duration in force and for some products by fund size.

A margin is included to provide for potential adverse variations in experience. For non-participating liabilities the margins are typically 20% whilst for participating liabilities and the calculation of the non-profit value of in-force business the margins are typically 5%.

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A margin is included to provide for potential adverse variations in experience. The margins for non-participating liabilities are typically 8%. For Ex-RL (CIS) fund business, a 2.8% margin is applied for non-participating liabilities. For participating liabilities and the calculation of the non-profit value of in-force business the margins are typically 2%. For Ex-RL (CIS) fund business, a 0.7% margin is applied for participating liabilities and the calculation of the non-profit value of in-force business.

Excluding Ex-RL (CIS) fund business, expenses are assumed to inflate in line with the change in the Retail Price Index plus 1%. Expenses for Ex-RL (CIS) fund business are assumed to inflate by 3.6% for non-participating liabilities, and in line with the change in the Retail Price Index plus 0.6% for participating liabilities and the calculation of the non-profit value of in-force business.

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(ii) Expenses (continued)

The principal expense assumptions are shown in the following table.

Class of business	2015 Per policy £	2015 Premium %	2015 Reserve %	2014 Per policy £	2014 Premium %	2014 Reserve %
Ordinary long-term						
RL OB WP life & pensions	**14.97**	**5.40**	**0.1020**	11.00	5.40	0.0970
Ex-RA OB WP pre 1998 life & pensions	**9.90**	**4.32**	**0.0810**	9.60	4.32	0.0830
Ex-UF OB WP DWP pensions	**0.00**		**0.1890**	0.00		0.1910
Scottish Provident business	**21.24**		**0.0650**	19.13		0.0650
Bright Grey	**14.62**		**0.0650**	13.68		0.0650
RL Retail protection business	**20.02**		**0.0650**	19.30		0.0650
Ex-RL (CIS)						
OB Investments						
› premium paying	**21.43**			20.08		
› single premium/paid up	**18.35**			17.22		
OB Protection						
› premium paying	**20.06**			18.79		
› single premium/paid up	**17.53**			16.46		
› OB annuities in payment	**17.93**			16.80		
Pensions – deferred annuities						
Ex-Scottish Life – Individual RP	**47.19**		**0.0810**	43.63		0.0810
Ex-Scottish Life – Group RP	**34.76**		**0.0810**	37.63		0.0810
Ex-RL (CIS)						
› premium paying	**18.26**			17.11		
› paid up	**15.61**			14.53		
Industrial assurance						
Royal London Mutual	**10.48**	**5.40**	**0.102**	6.19	5.40	0.097
Ex-Refuge Assurance	**7.48**	**2.70**	**0.066**	7.27	2.70	0.066
Ex-Royal Liver	**7.73**	**0.00**	**0.065**	7.64	0.00	0.065
Ex-United Friendly	**7.18**	**2.70**	**0.072**	6.96	2.70	0.093
Ex-RL (CIS)						
› premium paying	**13.80**			12.93		
› paid up	**11.68**			11.00		

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(iii) Economic

- Non-participating liabilities

  The valuation interest rate for any given product group is set by reference to the market value of, and yields on, assets chosen to support that product group. The valuation interest rates used reflect the allocation of assets to the various lines of business and margins consistent with the statutory solvency basis of valuation. A reduction in interest rates increases the liabilities.

- Participating liabilities

  The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market consistency by:

  - deriving the underlying risk-free rate from the forward gilt curve; and
  - calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist.

- Non-participating value of in-force business

  The non-participating value of in-force business has been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to risk-free yields.

The valuation interest rates used for non-participating liabilities are shown in the following table.

Class of business	2015 interest % per annum	2014 interest % per annum
Ordinary long-term non-linked life assurances		
Royal London fund business	**3.200**	3.400
Ex-Royal Liver fund business	**2.250**	2.250
Ex-Scottish Life fund business	**1.600**	1.900
Ex-RL (CIS) fund business	**2.900**	2.800
Pensions – deferred annuities		
Royal London fund – in deferment	**3.750**	3.750
Royal London fund – in payment	**(1)**	(1)
Ex-Royal Liver fund – in deferment	**2.250**	2.250
Ex-Royal Liver fund – in payment	**2.625**	2.625
Ex-Scottish Life fund – in deferment	**2.000**	2.250
Ex-Scottish Life fund – in payment	**(1)**	(1)
Ex-RL (CIS) fund business	**3.625**	3.250
Pensions – individual – in payment		
Royal London fund business	**3.000**	2.875
Ex-Royal Liver fund business	**2.625**	2.625
Ex-RL CIS fund business	**3.125**	2.750
Industrial assurance		
Royal London fund business	**3.200**	3.400
Ex-Refuge Assurance fund business	**3.600**	3.800
Ex-Royal Liver fund business	**2.250**	2.250
Ex-United Friendly fund business	**4.200**	4.400
Ex-RL CIS fund business	**2.900**	2.800

1. Valuation interest rates determined using the forward gilt curve.

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Changes in assumptions

The following tables show the impact of changes in the assumptions used to calculate insurance contract liabilities and reinsurance assets during the year. The tables demonstrate this effect by showing the 2015 year-end liabilities as if they had been calculated using the 2014 year-end assumptions.

	Group 2015					
		Impact of change in variable				
	Liability using 2014 assumptions £m	Demographic £m	Expenses £m	Economic £m	Other £m	Liability using 2015 assumptions £m
Long-term insurance contract liabilities, gross						
Participating insurance contracts	28,830	(75)	(34)	93	60	28,874
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	1,010	16	38	14	8	1,086
› Non-profit annuities	4,290	(47)	(2)	(153)	-	4,088
› Claims outstanding	275	-	-	-	-	275
	7,453	(62)	36	(145)	8	7,290
	36,283	(137)	2	(52)	68	36,164
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,362)	7	-	7	(2)	(1,350)
Non-participating insurance contracts						
› Non-profit, other than annuities	(541)	(14)	-	5	-	(550)
› Non-profit annuities	(3,482)	42	-	125	-	(3,315)
› Claims outstanding	(87)	-	-	-	-	(87)
	(4,110)	28	-	130	-	(3,952)
	(5,472)	35	-	137	(2)	(5,302)
Long-term insurance contract liabilities, net						
Participating insurance contracts	27,468	(68)	(34)	100	58	27,524
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	469	2	38	19	8	536
› Non-profit annuities	808	(5)	(2)	(28)	-	773
› Claims outstanding	188	-	-	-	-	188
	3,343	(34)	36	(15)	8	3,338
	30,811	(102)	2	85	66	30,862
Non-participating value of in-force business	(1,407)	(5)	(30)	(12)	(72)	(1,526)

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Changes in assumptions (continued)

	Group 2014					
		Impact of change in variable				
	Liability using 2013 assumptions £m	Demographic £m	Expenses £m	Economic £m	Other £m	Liability using 2014 assumptions £m
Long-term insurance contract liabilities, gross						
Participating insurance contracts	27,767	(16)	58	1,697	101	29,607
Non-participating insurance contracts						
› Unit-linked	1,874	6	-	98	-	1,978
› Non-profit, other than annuities	909	11	(15)	108	(33)	980
› Non-profit annuities	3,901	32	(11)	254	10	4,186
› Claims outstanding	360	-	-	-	-	360
	7,044	49	(26)	460	(23)	7,504
	34,811	33	32	2,157	78	37,111
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,158)	22	-	(333)	3	(1,466)
Non-participating insurance contracts						
› Non-profit, other than annuities	(408)	(4)	-	(27)	(34)	(473)
› Non-profit annuities	(2,252)	(25)	-	(200)	(992)	(3,469)
› Claims outstanding	(54)	-	-	-	-	(54)
	(2,714)	(29)	-	(227)	(1,026)	(3,996)
	(3,872)	(7)	-	(560)	(1,023)	(5,462)
Long-term insurance contract liabilities, net						
Participating insurance contracts	26,609	6	58	1,364	104	28,141
Non-participating insurance contracts						
› Unit-linked	1,874	6	-	98	-	1,978
› Non-profit, other than annuities	501	7	(15)	81	(67)	507
› Non-profit annuities	1,649	7	(11)	54	(982)	717
› Claims outstanding	306	-	-	-	-	306
	4,330	20	(26)	233	(1,049)	3,508
	30,939	26	32	1,597	(945)	31,649
Non-participating value of in-force business	(1,457)	(59)	(10)	77	117	(1,332)

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Changes in assumptions (continued)

	Parent company 2015					
		Impact of change in variable				
	Liability using 2014 assumptions £m	Demographic £m	Expenses £m	Economic £m	Other £m	Liability using 2015 assumptions £m
Long-term insurance contract liabilities, gross						
Participating insurance contracts	28,905	(75)	(34)	93	60	28,949
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	1,010	16	38	14	8	1,086
› Non-profit annuities	4,290	(47)	(2)	(153)	-	4,088
› Claims outstanding	275	-	-	-	-	275
	7,453	(62)	36	(145)	8	7,290
	36,358	(137)	2	(52)	68	36,239
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,362)	7	-	7	(2)	(1,350)
Non-participating insurance contracts						
› Non-profit, other than annuities	(541)	(14)	-	5	-	(550)
› Non-profit annuities	(3,482)	42	-	125	-	(3,315)
› Claims outstanding	(87)	-	-	-	-	(87)
	(4,110)	28	-	130	-	(3,952)
	(5,472)	35	-	137	(2)	(5,302)
Long-term insurance contract liabilities, net						
Participating insurance contracts	27,543	(68)	(34)	100	58	27,599
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	469	2	38	19	8	536
› Non-profit annuities	808	(5)	(2)	(28)	-	773
› Claims outstanding	188	-	-	-	-	188
	3,343	(34)	36	(15)	8	3,338
	30,886	(102)	2	85	66	30,937
Non-participating value of in-force business	(1,407)	(5)	(30)	(12)	(72)	(1,526)

30. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)
(b) Changes in assumptions (continued)

	Parent company 2014					
		Impact of change in variable				
	Liability using 2013 assumptions £m	Demographic £m	Expenses £m	Economic £m	Other £m	Liability using 2014 assumptions £m
Long-term insurance contract liabilities, gross						
Participating insurance contracts	29,156	(14)	63	380	97	29,682
Non-participating insurance contracts						
› Unit-linked	1,874	6	-	98	-	1,978
› Non-profit, other than annuities	867	13	(15)	115	-	980
› Non-profit annuities	4,083	16	(12)	99	-	4,186
› Claims outstanding	360	-	-	-	-	360
	7,184	35	(27)	312	-	7,504
	36,340	21	36	692	97	37,186
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,466)	-	-	-	-	(1,466)
Non-participating insurance contracts						
› Non-profit, other than annuities	(441)	(8)	-	(24)	-	(473)
› Non-profit annuities	(3,410)	(6)	-	(53)	-	(3,469)
› Claims outstanding	(54)	-	-	-	-	(54)
	(3,905)	(14)	-	(77)	-	(3,996)
	(5,371)	(14)	-	(77)	-	(5,462)
Long-term insurance contract liabilities, net						
Participating insurance contracts	27,690	(14)	63	380	97	28,216
Non-participating insurance contracts						
› Unit-linked	1,874	6	-	98	-	1,978
› Non-profit, other than annuities	426	5	(15)	91	-	507
› Non-profit annuities	673	10	(12)	46	-	717
› Claims outstanding	306	-	-	-	-	306
	3,279	21	(27)	235	-	3,508
	30,969	7	36	615	97	31,724
Non-participating value of in-force business	(1,296)	(40)	(12)	16	-	(1,332)

31. Unallocated divisible surplus

The movement in the unallocated divisible surplus (UDS) during the year is shown in the table below.

	Group		Parent company	
	2015 £m	2014 £m	2015 £m	2014 £m
At 1 January	3,139	3,005	3,183	2,938
Transfer from profit or loss	125	149	126	260
Transfer from/(to) other comprehensive income	50	(15)	50	(15)
At 31 December	3,314	3,139	3,359	3,183

The UDS represents a surplus for which the allocation between participating policyholders has yet to be determined. Therefore, for the purposes of the disclosure required by IAS 1, the whole of the UDS at the balance sheet date has been classified as a balance that will be settled after more than 12 months.

The closing balance on the UDS for both the Group and Parent company includes amounts attributable to the Royal London fund only. The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) with-profits funds.

32. Subordinated liabilities

	Group and Parent company			
			Effective interest rate	
	2015 £m	2014 £m	2015 %	2014 %
Perpetual Cumulative Step-up Subordinated Guaranteed Notes	-	245	-	6.30
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	395	395	6.20	6.30
Guaranteed Subordinated Notes due 2028	348	-	6.20	-
	743	640		

All of the balance shown above is expected to be settled more than 12 months after the balance sheet date.

Subordinated liabilities are carried in the balance sheet at amortised cost. Their fair value at 31 December 2015 was £768m (2014 682m).

Perpetual Cumulative Step-up Subordinated Guaranteed Notes

On 14 December 2005, RL Finance Bonds plc, a wholly owned subsidiary of the Parent company, issued the Perpetual Cumulative Step-up Subordinated Guaranteed Notes (the Perpetual Notes). The issue price of the Perpetual Notes was 99.676% of the principal amount of £400m. The discount of £1m and the directly related costs incurred to issue the Perpetual Notes of £4m were capitalised as part of the carrying value and were amortised on an effective interest basis over the period to the first possible redemption date.

The Perpetual Notes were guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the Notes.

The Perpetual Notes had no maturity date but the issuer had the option to redeem all of them at their principal amount on 15 December 2015 and at three-monthly intervals thereafter. Interest was payable on the Perpetual Notes at a fixed rate of 6.125% per annum for the period to 15 December 2015, payable annually in arrears on 15 December each year.

32. Subordinated liabilities (continued)

On 29 November 2013, Perpetual Notes with a nominal value of £154m were purchased by way of a tender offer at a price equal to 101% of the nominal value. On 15 December 2015, all remaining Notes with a nominal value of £246m were redeemed at par and, as a result, the Parent company repaid a corresponding amount of the loan.

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043

On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Parent company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all of the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023 the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

Guaranteed Subordinated Notes due 2028

On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly owned subsidiary of the Parent company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the Issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

33. Payables and other financial liabilities

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amounts due to customers	**254**	98	**248**	98
Payables arising under reinsurance contracts	**2,804**	2,830	**2,804**	2,830
Amounts due to brokers	**294**	52	**278**	37
Finance lease obligations	**20**	21	**20**	21
Collateral loans	**182**	288	**182**	288
Derivative liabilities (note 20 (d))	**1,460**	2,064	**1,445**	2,057
Amounts due to other Group entities	**-**	-	**56**	39
Bank overdrafts (note 24)	**11**	6	**11**	6
Other payables	**131**	185	**63**	110
	5,156	5,544	**5,107**	5,486
Expected to be settled within 12 months	**2,193**	2,509	**2,144**	2,451
Expected to be settled in more than 12 months	**2,963**	3,035	**2,963**	3,035
	5,156	5,544	**5,107**	5,486

33. Payables and other financial liabilities (continued)

The payables arising under reinsurance contracts include a financial liability of £2,773m (2014 £2,799m) which is valued at fair value through profit or loss. The liability is owed to a major reinsurer under a reinsurance agreement to reinsure a proportion of the Group's obligations in respect of deferred annuities and annuities in payment of the RL (CIS) with-profits fund. Under the reinsurance agreement, the RL (CIS) with-profits fund is contracted to pay premiums in accordance with a schedule of payments covering a period of up to 2066. At inception of the contract, which was before RL (CIS) was acquired by the Group, it recognised its premium obligation in full within the statement of comprehensive income by a charge representing the net present value of the contracted payments and continues to recognise a financial liability to the extent that the premium has yet to fall due for payment. At inception of the contract, it also purchased a debt security, cash flows from which will fund the discharge of the financial liability as amounts fall due for payment. The movement in the fair value of the liability in the year was a gain of £45m (2014 loss of £477m) which is included in premiums ceded to reinsurers.

The reinsurance liability and the derivative liabilities are stated at fair value. All the remaining balances are carried in the balance sheet at amortised cost, which approximates to fair value.

(a) Finance lease obligations

Leased investment property is accounted for as if it had been acquired under a finance lease. At the commencement of the lease a liability is established to represent the financing element of the lease contract. As lease payments are made, these are split between an interest element, calculated on an effective interest basis, which is charged to the statement of comprehensive income and a capital element, which reduces the finance lease liability. The average term of finance leases entered into is 130 years for the Group (2014 197 years) and 130 years for the Parent company (2014 197 years). The interest rate inherent in the leases is fixed at the start of the lease.

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Obligations under finance leases – minimum lease payments:				
Not later than one year	**1**	1	**1**	1
Later than one year and not later than five years	**6**	6	**6**	6
Later than five years	**183**	243	**183**	243
	190	250	**190**	250
Less: future charges	**(170)**	(229)	**(170)**	(229)
Present value of obligations under finance leases	**20**	21	**20**	21
Present value of obligations under finance leases:				
Not later than one year	**1**	1	**1**	1
Later than one year and not later than five years	**5**	4	**5**	4
Later than five years	**14**	16	**14**	16
	20	21	**20**	21

(b) Collateral loans

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Collateral loans – contractual maturity analysis:				
Not later than one year	**2**	-	**2**	-
Later than one year and not later than five years	**46**	106	**46**	106
Later than five years	**134**	182	**134**	182
	182	288	**182**	288

34. Provisions

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Provision for future commission	**148**	212	**148**	212
Other provisions	**76**	38	**71**	25
	224	250	**219**	237
Expected to be settled within 12 months	**29**	37	**26**	35
Expected to be settled in more than 12 months	**195**	213	**193**	202
	224	250	**219**	237

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force.

Other provisions comprise amounts in respect of the long-term incentive plan, an unfunded pension provision, the mortgage endowment review, Royal Liver past business review and surplus sales and administration offices which have been closed and for which the Group retains lease commitments.

The movement in provisions during the year is shown in the following table.

	Group		Parent company	
	Provision for future commission £m	**Other provisions £m**	**Provision for future commission £m**	**Other provisions £m**
At 1 January 2015	**212**	**38**	**212**	**25**
Additional provisions	**2**	**50**	**2**	**47**
Transfer in	-	-	-	**10**
Utilised during the year	**(25)**	**(12)**	**(25)**	**(11)**
Unwind of the discount rate	**2**	-	**2**	-
Change arising from commission restriction	**(43)**	-	**(43)**	-
At 31 December 2015	**148**	**76**	**148**	**71**

35. Other liabilities

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Deferred fee income	**173**	197	**171**	194
Accrued expenses	**64**	69	-	-
Other	**49**	50	**49**	50
	286	316	**220**	244
Expected to be settled within 12 months	**136**	147	**72**	75
Expected to be settled in more than 12 months	**150**	169	**148**	169
	286	316	**220**	244

Deferred fee income is front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

Other liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

36. Balances in respect of external unit holders

(a) Investment return attributable to external unit holders

The investment return attributable to external unit holders represents the portion of the investment return included within the Group statement of comprehensive income that relates to the consolidated funds that are owned by third parties.

(b) Liability to external unit holders

The liability to external unit holders represents the portion of the consolidated funds included within the Group balance sheet but which is owned by third parties. The balance is stated at fair value being the quoted bid price of the relevant fund on the last day of the accounting period on which investments in such funds could be redeemed.

For the purposes of the disclosure required by IAS 1, none of the balance (2014 none) is classified as being expected to be settled in more than 12 months from the balance sheet date.

37. Deferred tax (asset)/liability

(a) Net deferred tax balance

The tables below show the movement in the net deferred tax balance in the year. The deferred tax assets and liabilities are considered to be non-current.

	Group – 2015		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(61)	20	(41)
Excess of management expenses carried forward	(26)	(25)	(51)
Revaluation of investments	185	(2)	183
Other short-term timing differences	(7)	7	-
Net deferred tax liability	**91**	**-**	**91**

	Group – 2014		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(69)	69	-
Excess management expenses carried forward	(75)	75	-
Revaluation of investments	90	(90)	-
Other short-term timing differences	(7)	7	-
Net deferred tax asset	(61)	61	-

37. Deferred tax (asset)/liability (continued)

(a) Net deferred tax balance (continued)

	Group – 2014		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(15)	(46)	(61)
Excess management expenses carried forward	-	(26)	(26)
Revaluation of investments	58	127	185
Other short-term timing differences	3	(10)	(7)
Net deferred tax liability	46	45	91

	Parent company – 2015		
	1 Jan £m	**Recognised in the statement of comprehensive income £m**	**31 Dec £m**
Deferred acquisition expenses	**(61)**	**20**	**(41)**
Excess management expenses carried forward	**(26)**	**(25)**	**(51)**
Revaluation of investments	**175**	**(4)**	**171**
Other short-term timing differences	**3**	**5**	**8**
Net deferred tax liability	**91**	**(4)**	**87**

	Parent company – 2014		
	1 Jan £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(68)	7	(61)
Excess management expenses carried forward	(75)	49	(26)
Revaluation of investments	89	86	175
Other short-term timing differences	5	(2)	3
Net deferred tax liability	(49)	140	91

The 2014 deferred tax charge in the Parent company included a charge of £62m relating to the Part VII transfer in of RL (CIS) (note 22). This is eliminated on consolidation in the Group numbers above.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. There are overall deferred tax liabilities in both years, within these liabilities deferred tax assets have been offset as they all meet the criteria above.

37. Deferred tax (asset)/liability (continued)

(b) Unrecognised deferred tax balances

(i) Unrecognised deferred tax assets

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £6m (2014 £6m), of which £5m (2014 £5m) related to the Parent company. These unused losses and allowances can be carried forward and utilised as long as the company in which they arose is active or trading.

(ii) Unrecognised deferred tax liabilities

Deferred tax liabilities arising from gains on subsidiary holdings have not been recognised by the Parent company as it controls the timing of any sale of a subsidiary and the repatriation of any dividend and it is not probable that a sale or repatriation will happen in the foreseeable future as the Group's intention is that these investments will be held to provide long-term returns. The potential tax liability arising is less than £1m (2014 less than £1m).

There are no other unrecognised deferred tax liabilities within the Group.

38. Pension schemes

The Group provides pension benefits for its employees in order to support recruitment, retention and motivation of talented people. For all employees joining after 1 September 2005, this is via contributory, defined contribution arrangements which are benchmarked to ensure that the reward package overall is competitive. Where possible under local regulation, employees are auto-enrolled and the Group sees a correspondingly high take-up across employees. The Group pays contributions in respect of these arrangements and such contributions are recognised as an expense as the related employee services are provided. The expense recognised in 2015 is £6m (2014 £6m) and is reported within staff costs (note 10(a)).

In addition to the above arrangements, the Group operates three funded defined benefit schemes, which are established under separate trusts. The assets of the schemes are held in separate Trustee administered funds and the funding position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The ability of the defined benefit pension schemes to meet the projected pension payments is maintained through investments and, where applicable, regular contributions from employees and the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions.

The main defined benefit scheme is the Royal London Group Pension Scheme ('RLGPS'). On 1 September 2005, RLGPS was closed to new entrants. As a result of the Royal Liver acquisition on 1 July 2011, the Group took responsibility for two further defined benefit pension schemes: the Royal Liver Assurance Limited Superannuation Fund ('Royal Liver UK') and the Royal Liver Assurance Limited (ROI) Superannuation Fund ('Royal Liver ROI'). Royal Liver employees in these schemes stopped earning additional defined benefit pensions on 30 June 2011.

In addition, the Group also operates a small, legacy unfunded unapproved arrangement for certain executives who joined before 1 September 2005, which provides mirror RLGPS benefits for accrual above that provided by RLGPS. This has £10m of liabilities, for which a provision is held in the Group's balance sheet.

The Group pays contractual contributions to RLGPS in line with a funding framework agreed with the RLGPS Trustee, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent triennial valuation dated 31 December 2013, RLGPS was in surplus and therefore the only contributions payable are in respect of the ongoing accrual of benefits and, if RLGPS has insufficient surplus, costs of any augmentations including the award of discretionary pension increases. During the year, there was a consultation on the closure of RLGPS to future accrual of benefits from 31 March 2016. All employees will be eligible to join the Royal London Group Personal Pension (RLGPP), the defined contribution scheme.

The Royal Liver schemes are supported in the first instance by the Royal Liver Assurance fund. Only in the event of that fund having insufficient assets to meet the needs of the Royal Liver schemes would the Royal London Open Fund be required to provide support. This structure is supported via guarantees from the Parent company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2012. As these schemes are closed to future accrual, no contributions are currently payable.

38. Pension schemes (continued)

(a) Amounts recognised in the balance sheet

The amounts recognised in the balance sheet are as follows for the Group and Parent company:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Fair value of plan assets	**2,788**	2,874	**2,274**	2,329	**321**	336	**193**	209
Pension scheme obligation	**(2,611)**	(2,719)	**(2,203)**	(2,281)	**(248)**	(259)	**(160)**	(179)
Pension scheme surplus	**177**	155	**71**	48	**73**	77	**33**	30
Less: restriction of surplus	**-**	(27)	**-**	-	**-**	(27)	**-**	-
Net pension scheme asset	**177**	128	**71**	48	**73**	50	**33**	30

It is anticipated that the Group and Parent company will make contributions of £2m to RLGPS in the year to 31 December 2016. No contributions are anticipated to be made to the Royal Liver pension schemes.

In accordance with paragraph 64 of IAS 19, 'Employee Benefits' the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes. For the Royal Liver UK scheme, the benefit is only available as a refund, as no additional defined pension benefits are being earned. Under UK tax legislation an income tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. In the prior year, this tax deduction was shown as a restriction to the value of the net pension scheme asset that could be recognised for this scheme. In the current year, the expected actual manner of recovery of the surplus and the related tax effect has been reassessed and as a result the pension scheme asset has been shown in full, with the tax impact now included within deferred tax.

38. Pension schemes (continued)

(b) Reconciliation of net pension scheme asset

The movement in the net pension scheme asset during the year can be analysed as follows:

	Total				
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m	Restriction on surplus £m	Net pension scheme asset £m
At 1 January 2014	(2,466)	2,634	168	(17)	151
Costs recognised in profit for the year:					
Current service cost	(8)	-	(8)	-	(8)
Administration costs	-	(4)	(4)	-	(4)
Interest (expense)/income	(105)	112	7	(1)	6
Past service cost	(6)	-	(6)	-	(6)
	(119)	108	(11)	(1)	(12)
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	240	240	-	240
Changes in demographic assumptions	(39)	-	(39)	-	(39)
Changes in financial assumptions	(234)	-	(234)	-	(234)
Experience gains	27	-	27	-	27
Changes in the effect of the asset ceiling	-	-	-	(9)	(9)
	(246)	240	(6)	(9)	(15)
Other movements:					
Exchange differences	11	(13)	(2)	-	(2)
Employer contributions	-	6	6	-	6
Employee contributions	(2)	2	-	-	-
Benefit payments	103	(103)	-	-	-
At 31 December 2014	(2,719)	2,874	155	(27)	128
Costs recognised in profit for the year:					
Current service cost	(9)	-	(9)	-	(9)
Administration costs	-	(3)	(3)	-	(3)
Interest (expense)/income	(93)	97	4	-	4
Past service cost	(2)	-	(2)	-	(2)
	(104)	94	(10)	-	(10)
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	(59)	(59)	-	(59)
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	46	-	46	-	46
Experience gains	36	-	36	-	36
Changes in the effect of the asset ceiling	-	-	-	27	27
	82	(59)	23	27	50
Other movements:					
Exchange differences	9	(10)	(1)	-	(1)
Employer contributions	-	10	10	-	10
Employee contributions	(2)	2	-	-	-
Benefit payments	123	(123)	-	-	-
At 31 December 2015	**(2,611)**	**2,788**	**177**	**-**	**177**

The past service cost of £2m (2014 £6m) represents the increase in the pension scheme obligation due to the granting of discretionary pension increases to certain categories of scheme members. There have been no other plan amendments, curtailments or settlements in the year.

38. Pension schemes (continued)
(b) Reconciliation of net pension scheme asset (continued)

	RLGPS				
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m	Restriction on surplus £m	Net pension scheme asset £m
At 1 January 2014	(2,065)	2,155	90	-	90
Costs recognised in profit for the year:					
Current service cost	(8)	-	(8)	-	(8)
Administration costs	-	(3)	(3)	-	(3)
Interest (expense)/income	(90)	93	3	-	3
Past service cost	(6)	-	(6)	-	(6)
	(104)	90	(14)	-	(14)
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	161	161	-	161
Changes in demographic assumptions	(39)	-	(39)	-	(39)
Changes in financial assumptions	(179)	-	(179)	-	(179)
Experience gains	23	-	23	-	23
Changes in the effect of the asset ceiling	-	-	-	-	-
	(195)	161	(34)	-	(34)
Other movements:					
Exchange differences	-	-	-	-	-
Employer contributions	-	6	6	-	6
Employee contributions	(2)	2	-	-	-
Benefit payments	85	(85)	-	-	-
At 31 December 2014	(2,281)	2,329	48	-	48
Costs recognised in profit for the year:					
Current service cost	(9)	-	(9)	-	(9)
Administration costs	-	(2)	(2)	-	(2)
Interest (expense)/income	(81)	81	-	-	-
Past service cost	(2)	-	(2)	-	(2)
	(92)	79	(13)	-	(13)
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	(41)	(41)	-	(41)
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	37	-	37	-	37
Experience gains	30	-	30	-	30
Changes in the effect of the asset ceiling	-	-	-	-	-
	67	(41)	26	-	26
Other movements:					
Exchange differences	-	-	-	-	-
Employer contributions	-	10	10	-	10
Employee contributions	(2)	2	-	-	-
Benefit payments	105	(105)	-	-	-
At 31 December 2015	**(2,203)**	**2,274**	**71**	**-**	**71**

38. Pension schemes (continued)

(b) Reconciliation of net pension scheme asset (continued)

	Royal Liver UK				
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/(deficit) £m	Restriction on surplus £m	Net pension scheme asset £m
At 1 January 2014	(241)	290	49	(17)	32
Costs recognised in profit for the year:					
Current service cost	-	-	-	-	-
Administration costs	-	(1)	(1)	-	(1)
Interest (expense)/income	(10)	13	3	(1)	2
Past service cost	-	-	-	-	-
	(10)	12	2	(1)	1
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	45	45	-	45
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	(21)	-	(21)	-	(21)
Experience gains	2	-	2	-	2
Changes in the effect of the asset ceiling	-	-	-	(9)	(9)
	(19)	45	26	(9)	17
Other movements:					
Exchange differences	-	-	-	-	-
Employer contributions	-	-	-	-	-
Employee contributions	-	-	-	-	-
Benefit payments	11	(11)	-	-	-
At 31 December 2014	(259)	336	77	(27)	50
Costs recognised in profit for the year:					
Current service cost	-	-	-	-	-
Administration costs	-	(1)	(1)	-	(1)
Interest (expense)/income	(9)	12	3	-	3
Past service cost	-	-	-	-	-
	(9)	11	2	-	2
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	(14)	(14)	-	(14)
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	4	-	4	-	4
Experience gains	4	-	4	-	4
Changes in the effect of the asset ceiling	-	-	-	27	27
	8	(14)	(6)	27	21
Other movements:					
Exchange differences	-	-	-	-	-
Employer contributions	-	-	-	-	-
Employee contributions	-	-	-	-	-
Benefit payments	12	(12)	-	-	-
At 31 December 2015	**(248)**	**321**	**73**	**-**	**73**

38. Pension schemes (continued)
(b) Reconciliation of net pension scheme asset (continued)

	Royal Liver ROI				
	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/ (deficit) £m	Restriction on surplus £m	Net pension scheme asset £m
At 1 January 2014	(160)	189	29	-	29
Costs recognised in profit for the year:					
Current service cost	-	-	-	-	-
Administration costs	-	-	-	-	-
Interest (expense)/income	(5)	6	1	-	1
Past service cost	-	-	-	-	-
	(5)	6	1	-	1
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	34	34	-	34
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	(34)	-	(34)	-	(34)
Experience gains	2	-	2	-	2
Changes in the effect of the asset ceiling	-	-	-	-	-
	(32)	34	2	-	2
Other movements:					
Exchange differences	11	(13)	(2)	-	(2)
Employer contributions	-	-	-	-	-
Employee contributions	-	-	-	-	-
Benefit payments	7	(7)	-	-	-
At 31 December 2014	(179)	209	30	-	30
Costs recognised in profit for the year:					
Current service cost	-	-	-	-	-
Administration costs	-	-	-	-	-
Interest (expense)/income	(3)	4	1	-	1
Past service cost	-	-	-	-	-
	(3)	4	1	-	1
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	(4)	(4)	-	(4)
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	5	-	5	-	5
Experience gains	2	-	2	-	2
Changes in the effect of the asset ceiling	-	-	-	-	-
	7	(4)	3	-	3
Other movements:					
Exchange differences	9	(10)	(1)	-	(1)
Employer contributions	-	-	-	-	-
Employee contributions	-	-	-	-	-
Benefit payments	6	(6)	-	-	-
At 31 December 2015	**(160)**	**193**	**33**	**-**	**33**

38. Pension schemes (continued)

(c) Analysis of plan assets

	Total					
	2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	156	-	156	167	-	167
High-yield bonds	121	-	121	112	2	114
Index-linked bonds	691	-	691	771	-	771
Corporate bonds	788	7	795	819	7	826
Equities	575	-	575	683	-	683
Equity investment funds	131	67	198	-	62	62
Diversified growth collective investment scheme	-	12	12	-	12	12
Property	-	3	3	-	14	14
Property investment funds	200	-	200	185	-	185
Derivative instruments:						
Foreign exchange forwards	-	(4)	(4)	-	-	-
Interest rate and inflation swaps	-	(7)	(7)	-	(5)	(5)
Total return swaps	-	(3)	(3)	43	(43)	-
Cash and other receivables	10	41	51	10	35	45
Fair value of plan assets	2,672	116	2,788	2,790	84	2,874

	RLGPS					
	2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	13	-	13	13	-	13
High-yield bonds	121	-	121	112	2	114
Index-linked bonds	577	-	577	644	-	644
Corporate bonds	618	7	625	655	7	662
Equities	575	-	575	683	-	683
Equity investment funds	131	-	131	-	-	-
Diversified growth collective investment scheme	-	-	-	-	-	-
Property	-	-	-	-	-	-
Property investment funds	200	-	200	185	-	185
Derivative instruments:						
Foreign exchange forwards	-	(4)	(4)	-	-	-
Interest rate and inflation swaps	-	(5)	(5)	-	(3)	(3)
Total return swaps	-	(1)	(1)	-	-	-
Cash and other receivables	10	32	42	10	21	31
Fair value of plan assets	2,245	29	2,274	2,302	27	2,329

38. Pension schemes (continued)
(c) Analysis of plan assets (continued)

	Royal Liver UK					
	2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	57	-	57	58	-	58
High-yield bonds	-	-	-	-	-	-
Index-linked bonds	114	-	114	127	-	127
Corporate bonds	105	-	105	96	-	96
Equities	-	-	-	-	-	-
Equity investment funds	-	41	41	-	36	36
Diversified growth collective investment scheme	-	-	-	-	-	-
Property	-	2	2	-	12	12
Property investment funds	-	-	-	-	-	-
Derivative instruments:						
Foreign exchange forwards	-	-	-	-	-	-
Interest rate and inflation swaps	-	(1)	(1)	-	-	-
Total return swaps	-	(2)	(2)	13	(13)	-
Cash and other receivables	-	5	5	-	7	7
Fair value of plan assets	276	45	321	294	42	336

	Royal Liver ROI					
	2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	86	-	86	96	-	96
High-yield bonds	-	-	-	-	-	-
Index-linked bonds	-	-	-	-	-	-
Corporate bonds	65	-	65	68	-	68
Equities	-	-	-	-	-	-
Equity investment funds	-	26	26	-	26	26
Diversified growth collective investment scheme	-	12	12	-	12	12
Property	-	1	1	-	2	2
Property investment funds	-	-	-	-	-	-
Derivative instruments:						
Foreign exchange forwards	-	-	-	-	-	-
Interest rate and inflation swaps	-	(1)	(1)	-	(2)	(2)
Total return swaps	-	-	-	30	(30)	-
Cash and other receivables	-	4	4	-	7	7
Fair value of plan assets	151	42	193	194	15	209

38. Pension schemes (continued)

(d) Risks

All three schemes are exposed to differing levels of interest rate, inflation, credit and market risk. The Group has agreed with the Trustee Boards of each pension scheme that, where appropriate, each scheme's risks will be managed in line with the Group's risk appetite. In particular, the schemes' investment strategies are designed to minimise interest rate, inflation and market risk exposure where this is cost and capital effective.

The schemes have active liability-driven investment strategies using a combination of corporate and sovereign debt and derivative instruments such as interest rate and inflation swaps. Approximately 60% of RLGPS assets and 80% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk.

The Group's exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. allocations to property and to high-yield debt.) Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection.

The schemes, and therefore the Group, are also exposed to longevity risk. The Group believes that some of this risk exposure is partially mitigated via a natural hedge with the mortality risk inherent in the protection business written by the Group.

Further information on the schemes' risk management strategies can be found in the schemes' annual reports and accounts which are available on the Group's website.

(e) Assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme asset for both the Group and the Parent company are:

	2015			2014		
	RLGPS %	UK %	ROI %	RLGPS %	UK %	ROI %
Discount rate	**3.7**	**3.7**	**2.2**	3.6	3.6	2.0
Price inflation (RPI)	**3.0**	**3.0**	**N/A**	3.0	3.0	N/A
Price inflation (CPI)	**2.0**	**2.0**	**1.75**	2.0	2.0	1.7

The salary growth assumption (only applicable to RLGPS) at 31 December 2015 was CPI +1.0% (2014 CPI +1.0%) but it does not have a significant impact on the defined benefit obligation and thus has not been included in the above table.

The most significant non-financial assumption is the assumed rate of mortality. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a scheme member aged 60 (non-pensioner is assumed to be 45 now). A weighted average is shown for the UK schemes.

	Group and Parent company			
	2015		2014	
	UK	ROI	UK	ROI
Pensioner				
Male	**26**	**27**	26	27
Female	**29**	**29**	28	29
Non-pensioner				
Male	**28**	**29**	27	29
Female	**30**	**30**	30	30

38. Pension schemes (continued)

(e) Assumptions and sensitivity analysis (continued)

The sensitivity of the defined benefit obligations to changes in the principal assumptions is shown in the table below:

	Increase/(decrease) in defined benefit obligation			
	Total £m	RLGPS £m	UK £m	ROI £m
100 basis point increase in risk discount rates	(489)	(421)	(45)	(23)
5% proportionate decrease in mortality and morbidity	37	31	3	3
100 basis point decrease in price inflation (RPI)	(283)	(257)	(26)	N/A
100 basis point decrease in inflation (CPI)	(297)	(257)	(26)	(14)

This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

The information provided above shows the sensitivity of the schemes' liabilities to changes in the key assumptions. Due to the asset-liability matching strategies, the impact of changes in discount rates and inflation will also impact the schemes' asset values, thereby mitigating the effect of such changes on the Group.

(f) Maturity profile

The weighted average duration of the defined benefit obligation is 17 years (2014 18 years).

39. Contingent liabilities

Regulatory reviews

During the year, the Group and Parent company continued to address issues from past inappropriate selling practices and other regulatory matters. The directors consider that they have made prudent provision for any liabilities arising across the Group and, as and when the circumstances calling for such provision arise, that the Group and Parent company have adequate reserves to meet all reasonably foreseeable eventualities.

40. Commitments

(a) Capital expenditure

The Group and Parent company have the following commitments to make capital purchases as at the balance sheet date:

	Group and Parent company	
	2015 £m	2014 £m
Investment property	79	42

40. Commitments (continued)

(b) Investments in private equity funds

The Group and Parent company have a portfolio of investments in private equity funds. The structure of these funds is such that the commitment is drawn down over the investment period. The total amount committed, net of drawdown, at the balance sheet date for the Group and Parent company is £159m (2014 £159m).

(c) Operating lease commitments

Operating lease payments represent rentals payable by the Group for land and buildings. The total future minimum lease payments due under these arrangements, net of any related sub-lease receipts, are shown in the following table.

	Group and Parent company	
	2015 £m	2014 £m
Total future minimum lease payments under non-cancellable leases:		
Not later than one year	**1**	2
Later than one year and not later than five years	**2**	3
Later than five years	**2**	1
	5	6
Less: total future minimum sub-lease payments under non-cancellable sub-leases expected to be received	**(2)**	(1)
	3	5

41. Related party transactions

The Parent company is the ultimate parent undertaking of the Group. The Group and Parent company carried out the following transactions with related parties.

(a) Related party transactions of the Group

Transactions between Group entities are eliminated on consolidation. The following are those transactions carried out by Group entities with those related parties that are outside the Group.

(i) Subsidiaries' transactions with OEICs and other investment funds

The Group markets a portfolio of OEICs and other investment funds. A number of these funds are classified as subsidiaries for the purposes of financial reporting and hence are included within the Group. For those funds not consolidated within the Group the transactions during the year were as follows:

	2015 £m	2014 £m
Management fees earned during the year	**68**	62

There were no amounts outstanding between the Group and the funds at the year end (2014 £nil). The total value of units held by the Parent company at 31 December 2015 in the funds that are not consolidated into the Group was £1,083m (2014 £1,015m). The acquisition and sale of units in the funds during the year were as follows:

	2015 £m	2014 £m
Acquisition of funds	**224**	155
Proceeds from sale of funds	**137**	106

The subsidiaries of the Parent company are shown in note 21. Transactions between the Parent company and its subsidiaries and other related party transactions of the Parent company are shown below.

(i) Administration and investment management services provided by subsidiaries

Subsidiary companies perform the administration and investment management activities of the Parent company. The Parent company is charged fees for these services under management services agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer.

41. Related party transactions (continued)

(b) Related party transactions of the Parent company

The following table summarises the fees and recharges incurred by the Parent company during the year.

	Parent company 2015 £m	Parent company 2014 £m
Administration fees	**243**	242
Investment management fees	**33**	13
	276	255

(ii) Financing transactions undertaken with subsidiaries

The Parent company has provided loans to subsidiaries.

As set out in note 32, three subsidiaries have issued subordinated liabilities, lending the proceeds to the Parent company on the same terms as the original debt issue.

The following table summarises the interest income and expense incurred by the Parent company during the year in relation to these transactions.

	Parent company 2015 £m	Parent company 2014 £m
Interest income on loans to subsidiaries	**3**	3
Interest expense on subordinated liabilities	**(42)**	(40)

(iii) Other income received from subsidiaries

	Parent company 2015 £m	Parent company 2014 £m
OEIC management fee rebates	**55**	40
OEIC distributions	**292**	249
Other dividends receivable from subsidiaries	**20**	211
Rental income	**3**	3
	370	503

The OEIC management fee rebates relate to the investment in Group OEICs made by certain unit-linked funds of the Parent company. The Parent company deducts an investment management fee from the unit-linked fund. The authorised corporate director of the OEICs, which is a subsidiary of the Parent company, deducts an investment management fee from the OEIC in which the unit-linked fund has invested. In order to avoid the unit-linked fund bearing both these investment management fees, the subsidiary company rebates the portion of its charge relating to the internal holding of OEICs to the unit-linked fund.

OEIC distributions are those received from OEICs that are classified as subsidiaries for financial reporting purposes.

(iv) Outstanding balances with Group entities at the year end

At the year end, the following balances were outstanding with Group entities in relation to the transactions above.

	Parent company 2015 £m	Parent company 2014 £m
Amounts due from Group entities	**16**	13
Loans to Group entities	**29**	29
	45	42
Subordinated liabilities	**(743)**	(640)
Amounts due to Group entities	**(56)**	(39)
	(799)	(679)

The amounts due to and from Group entities are due on demand and are not secured.

41. Related party transactions (continued)

(b) Related party transactions of the Parent company (continued)

(v) Other transactions of the Parent company with related parties

As part of its portfolio of investment assets, the Parent company has holdings in OEICs and other funds, managed by subsidiaries. The Parent company's acquisitions and sales of these funds during the year were as follows:

	Parent company	
	2015 £m	2014 £m
Acquisition of funds	**4,263**	2,278
Proceeds from sale of funds	**1,569**	1,047

(vi) Transactions with key management personnel

No director had transactions or arrangements with the Group that require disclosure, other than those given in the Directors' remuneration report. Key management remuneration is disclosed in note 10.

42. Additional cash flow information

(a) Adjustments for non-cash items

Adjustments in the statements of cash flows for non-cash items comprise the following:

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Tax charge/(credit)	**18**	207	**(12)**	197
Depreciation of property, plant and equipment	**5**	4	**-**	4
Reversal of impairments on property, plant and equipment	**-**	(1)	**-**	-
Fair value gain on investment property	**(439)**	(441)	**(430)**	(359)
Amortisation and impairment charges on acquired PVIF and other intangible assets	**40**	77	**35**	(47)
Change in deferred acquisition costs	**81**	33	**81**	33
Change in reinsurers' share of insurance liabilities	**160**	(1,515)	**160**	(4,854)
Change in pension scheme asset	**(49)**	23	**(49)**	23
Fair value loss/(gain) on financial investments	**185**	(5,567)	**164**	(1,976)
Net foreign exchange gain on financial investments	**38**	27	**34**	22
Change in participating insurance contract liabilities	**(733)**	3,242	**(733)**	18,414
Change in participating investment contract liabilities	**18**	24	**18**	328
Change in non-participating value of in-force business	**(194)**	3	**(194)**	(163)
Change in non-participating insurance contract liabilities	**(215)**	507	**(214)**	4,116
Change in non-participating investment contract liabilities	**2,291**	3,543	**2,291**	6,437
Change in provisions	**(26)**	2	**(18)**	5
Non-cash transfer of investments	**36**	(160)	**36**	-
Other non-cash items	**544**	(1,044)	**538**	(24,891)
	1,760	(1,036)	**1,707**	(2,711)

The non-cash transfer of investments shown above relates to assets transferred in by external clients of £36m (2014 transferred out £160m). The other non-cash items in the Parent company in 2014 predominantly relate to the Part VII transfer in of RL (CIS) and RLPPC.

42. Additional cash flow information (continued)

(b) Adjustments for non-operating items

Adjustments in the statements of cash flows for non-operating items comprise the following:

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Fair value (gain)/loss on investments in Group entities	**-**	-	**(31)**	177
Dividends received from subsidiaries	**-**	-	**(20)**	(211)
Finance costs	**44**	43	**43**	41
	44	43	**(8)**	7

The fair value (gain)/loss on investments in Group entities and the dividends received from subsidiaries shown above exclude amounts in relation to OEICs and other funds treated as subsidiaries for financial reporting purposes.

(c) Dividends and interest

Interest and dividend receipts and payments included in the statements of cash flows are as follows:

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Dividends received:				
> Operating cash flows (including Group OEICs)	**608**	520	**526**	355
> Investing cash flows	**-**	-	**20**	31
	608	520	**546**	386
Interest received:				
> Operating cash flows	**1,021**	1,037	**912**	496
Interest paid:				
> Operating cash flows	**2**	3	**2**	3
> Financing cash flows	**44**	43	**43**	41
	46	46	**45**	44

(d) Acquisition and disposal of Group entities

The Parent company's operating portfolio of investment assets includes OEICs and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows for the Parent company statement of cash flows. The amount included within 'Net acquisition of financial investments' relating to the acquisition and disposal of such funds was a net acquisition of £2,693m (2014 £1,231m).

The figures for the acquisition and disposal of Group entities in the statements of cash flows can be analysed as follows:

- the acquisition of Group entities figure of £180m in 2014 related to the cash settlement of the deferred consideration payable on the acquisition of RL (CIS) and RLAM (CIS);
- the acquisition of Group entities in the Parent company in 2015 of £30m relates to a capital contribution to Wrap IFA Services Limited; in 2014 the total of £8m related to the purchase of the minority interest in Wrap IFA Services Limited of £4m and capital injections into subsidiaries totalling £4m; and
- the Parent company proceeds of £10m in 2014 related to a share capital reduction in a subsidiary.

43. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences which define the types of risk the Group views as being desirable, neutral towards or undesirable and which form a core part of the Group's risk management framework and control techniques. The Group seeks to manage its exposures to risk through its risk management framework ensuring that the residual risk exposures are within acceptable tolerances agreed by the Board. The risk management framework established within the Group is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Group is well capitalised. The Corporate governance section of this Annual Report and Accounts includes a summary of the Group's risk management and internal controls approach.

The key control techniques for the major categories of risk exposure are summarised in the following sections.

(a) Insurance risk

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under insurance contracts.

The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks can be summarised as follows:

- mortality – the risk that the Group's experience of life assurance customers is different from that expected. For life assurance the risk is that more customers die than expected;
- morbidity – the risk that more of the Group's health insurance customers fall ill or become incapacitated than expected;
- persistency – the risk that policies do not remain in force and are for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry. For policies without guarantees, the risk is generally that fewer policies remain in force than expected. For those with guarantees, the risk is generally that more remain in force than expected;
- annuitant longevity – the risk that the annuitant lives longer than assumed in the pricing and reserving basis used;
- expenses – the risk that actual expenses are higher than those expected; and
- option take-up – the risk that more customers than expected exercise options within their policies, in particular guaranteed annuity options.

In addition, it is necessary for the Group to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include the allocation of investments between asset classes, the setting of with-profits policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms.

The primary responsibility for managing insurance risk falls to the Insurance Committee. This Committee has responsibility for the setting of policy and for monitoring the levels of risk arising from mortality, morbidity, persistency and expenses. The Committee also considers the Group's reinsurance coverage.

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;
- the use of the Group insurance risk policy to provide Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks;
- regular monitoring of actual exposures compared to agreed limits to ensure that the insurance risk accepted remains within risk appetite;
- the use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Group's exposure to large single claims and catastrophes and to alleviate the impact of new business strain;
- the diversification of business over several classes of insurance and over large numbers of individual risks to reduce variability in loss experience; and
- control over product development and pricing.

These techniques are supported by the use of actuarial models to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used to determine appropriate assumptions for those models.

43. Risk management (continued)

(a) Insurance risk (continued)

Concentration risk

The Group and Parent company write a diverse mix of business across a diverse group of people and have no material concentrations of risk by product type. However, as the Group and Parent company have written substantially all of their business in the UK, results are sensitive to demographic and economic changes arising in the UK. Concentrations of insurance risk are considered by the Insurance Committee to ensure that the risk is within the Group's overall risk appetite.

The Group seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits.

Sensitivity analysis

The following tables present the sensitivity of insurance and investment contract liabilities to the insurance risks set out above. Sensitivities are only shown in one direction as an equal and opposite movement in the variable for the majority of business would have an equal and opposite impact on the value of insurance and investment contract liabilities.

- Mortality and morbidity

  5% proportionate decrease in base mortality and morbidity rates. This sensitivity demonstrates the effect of a decrease in the rate of deaths and serious illness.

  The impact of such a change on the contract liabilities varies depending on the type of business written. For life assurance business a decrease in mortality rates will typically decrease the liabilities as there will be fewer payouts for early death. However, for those policies which contain a guaranteed annuity option the policy liability may increase as its value depends in part on the length of time over which the guaranteed rate will be paid. Likewise, for annuity business a decrease in mortality rates will increase the liability as the average period over which annuity payments have to be made will be extended.

- Persistency

  10% proportionate decrease in lapse rates. This sensitivity reflects a single, downward movement in lapse rates. This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in force.

- Expenses

  10% decrease in maintenance expenses – the ongoing cost of administering contracts. This sensitivity is applied to the projected level of expenses. There is no change to the assumed rate of future expense inflation. A reduction in expenses will reduce the value of the liabilities for most classes of business. For some unit-linked contracts where future charges cover expenses, however, the liability may be unaffected.

The tables demonstrate the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, the assumptions may be interdependent. It should also be noted that the impact on the liabilities from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

43. Risk management (continued)
(a) Insurance risk (continued)

	Group							
	2015				2014			
		Impact of change in variable				Impact of change in variable		
	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m
Long-term insurance contract liabilities, gross								
Participating insurance contracts	**28,874**	**26**	**5**	**10**	29,607	31	12	11
Non-participating insurance contracts								
› Unit-linked	**1,841**	**7**	**2**	**(2)**	1,978	8	3	(2)
› Non-profit, other than annuities	**1,086**	**(142)**	**34**	**(34)**	980	(134)	28	(29)
› Non-profit annuities	**4,088**	**64**	**-**	**(13)**	4,186	66	-	(14)
› Claims outstanding	**275**	**-**	**-**	**-**	360	-	-	-
	7,290	**(71)**	**36**	**(49)**	7,504	(60)	31	(45)
	36,164	**(45)**	**41**	**(39)**	37,111	(29)	43	(34)
Long-term insurance contract liabilities, net								
Participating insurance contracts	**27,524**	**2**	**-**	**11**	28,141	6	7	12
Non-participating insurance contracts								
› Unit-linked	**1,841**	**7**	**2**	**(2)**	1,978	8	3	(2)
› Non-profit, other than annuities	**536**	**(21)**	**1**	**(34)**	507	(23)	-	(29)
› Non-profit annuities	**773**	**10**	**-**	**(7)**	717	9	-	(7)
› Claims outstanding	**188**	**-**	**-**	**-**	306	-	-	-
	3,338	**(4)**	**3**	**(43)**	3,508	(6)	3	(38)
	30,862	**(2)**	**3**	**(32)**	31,649	-	10	(26)
Non-participating value of in-force business	**(1,526)**	**(13)**	**(94)**	**(81)**	(1,332)	(12)	(78)	(69)
Investment contract liabilities								
Participating investment contracts	**2,326**	**(12)**	**(4)**	**(1)**	2,308	(14)	(3)	(3)
Non-participating investment contracts	**24,982**	**-**	**-**	**-**	22,691	-	-	(1)
	27,308	**(12)**	**(4)**	**(1)**	24,999	(14)	(3)	(4)

43. Risk management (continued)
(a) Insurance risk (continued)

	Parent company							
	2015				2014			
		Impact of change in variable				Impact of change in variable		
	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m
Long-term insurance contract liabilities, gross								
Participating insurance contracts	28,949	26	5	10	29,682	31	12	11
Non-participating insurance contracts								
› Unit-linked	1,841	7	2	(2)	1,978	8	3	(2)
› Non-profit, other than annuities	1,086	(142)	34	(34)	980	(134)	28	(29)
› Non-profit annuities	4,088	64	-	(13)	4,186	66	-	(14)
› Claims outstanding	275	-	-	-	360	-	-	-
	7,290	(71)	36	(49)	7,504	(60)	31	(45)
	36,239	(45)	41	(39)	37,186	(29)	43	(34)
Long-term insurance contract liabilities, net								
Participating insurance contracts	27,599	2	-	11	28,216	6	7	12
Non-participating insurance contracts								
› Unit-linked	1,841	7	2	(2)	1,978	8	3	(2)
› Non-profit, other than annuities	536	(21)	1	(34)	507	(23)	-	(29)
› Non-profit annuities	773	10	-	(7)	717	9	-	(7)
› Claims outstanding	188	-	-	-	306	-	-	-
	3,338	(4)	3	(43)	3,508	(6)	3	(38)
	30,937	(2)	3	(32)	31,724	-	10	(26)
Non-participating value of in-force business	(1,526)	(13)	(94)	(81)	(1,332)	(12)	(78)	(69)
Investment contract liabilities								
Participating investment contracts	2,326	(12)	(4)	(1)	2,308	(14)	(3)	(3)
Non-participating investment contracts	24,982	-	-	-	22,691	-	-	(1)
	27,308	(12)	(4)	(1)	24,999	(14)	(3)	(4)

43. Risk management (continued)

(b) Market risk

Market risk arises from the possibility that fluctuations in the values of or income from the Group's assets or in interest rates or foreign currency exchange rates cause a divergence in the value of the Group's assets and liabilities.

The Group manages market risk within the risk management framework outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Capital Management Committee regularly monitors these processes.

The Group is not exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements prescribe the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk, swap spread risk and currency risk.

(i) Equity risk and property risk

Equity risk and property risk are the risks that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices of equities or investment properties, other than those arising from interest rate or currency risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is delegated to the Group's investment management subsidiary with monitoring procedures in place.

The investment management agreement in place between the Parent company and its asset management company specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular asset category or specific investment. The Group's Capital Management Committee and Investment Committee monitor the actual asset allocation and performance against benchmark.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi).

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities – actual or notional – with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Parent company uses government securities with interest rate swap overlays to provide interest rate sensitivity matching.

A sensitivity analysis to interest rate risk is included in section (vi).

(iii) Inflation risk

Inflation risk is the risk that inflation results in the value of the Group's liabilities increasing by more than the value of its assets. It arises principally in the Group's defined benefit pension scheme, where higher inflation would result in higher increases in deferred pensions and would be expected to be associated with higher increases in pensions in payment.

The Group mitigates some inflation risk in its defined benefit pension schemes by the use of inflation swap derivatives.

(iv) Credit spread risk and swap spread risk

Credit spread risk is the risk that the difference between the yields on non-sovereign investment bonds and the yields on UK Government bonds increases from current levels, causing the value of the Group's holdings of non-sovereign bonds to reduce by more than the value of the associated liabilities. Swap spread risk is similar to credit spread risk but arises in respect of the Group's holdings of interest rate swaps.

The Group manages its exposures to spread risks through its hedging strategy and regular review of its hedging arrangements.

43. Risk management (continued)

(b) Market risk (continued)

(v) Currency risk

Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change as a result of a change in foreign exchange rates. As the Group operates principally in the UK its assets and liabilities are mainly denominated in sterling. For investment assets, the Group's investment management policies and procedures allow for a small exposure to overseas markets, via both equities and fixed interest securities. The resulting currency risk is managed by the use of exposure limits and authorisation controls operated within the Group's risk management framework.

The tables below demonstrate the extent to which the assets and liabilities of the Group and the Parent company are exposed to currency risk. Linked assets are not subject to currency risk as this risk is borne by the customers concerned. A sensitivity analysis of the Group and Parent company's exposure to currency risk is included in section (vi).

	Group		Parent company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Non-linked assets denominated in GBP	**45,122**	45,880	**42,077**	42,776
Non-linked assets denominated in EUR	**808**	1,044	**759**	999
Non-linked assets denominated in USD	**1,733**	1,892	**1,677**	1,892
Non-linked assets denominated in JPY	**169**	159	**169**	159
Non-linked assets denominated in other currencies	**251**	290	**251**	290
	48,083	49,265	**44,933**	46,116
Linked assets not subject to currency risk	**26,823**	24,669	**26,823**	24,669
	74,906	73,934	**71,756**	70,785
Non-linked liabilities denominated in GBP	**47,038**	48,027	**43,888**	44,878
Non-linked liabilities denominated in EUR	**1,045**	1,238	**1,045**	1,238
	48,083	49,265	**44,933**	46,116
Linked liabilities not subject to currency risk	**26,823**	24,669	**26,823**	24,669
	74,906	73,934	**71,756**	70,785

At 31 December 2015, the Group and Parent company held currency forwards with a sterling notional value of £85m (2014 Group and Parent company £189m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

(vi) Market risk sensitivity analysis

The following table shows the impact on the unallocated divisible surplus (before tax) from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

Interest rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities is also increased when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

Currency rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and increase the sterling value of liabilities denominated in that currency. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the unallocated divisible surplus.

43. Risk management (continued)

(b) Market risk (continued)

(vi) Market risk sensitivity analysis (continued)

Equity/property capital values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. Consequently, the unallocated divisible surplus will be reduced by a fall in asset values.

Impact before tax on the UDS	Group 2015 £m	Group 2014 £m	Parent company 2015 £m	Parent company 2014 £m
Interest rates +100bp	**28**	(8)	**28**	(8)
Interest rates -100bp	**(15)**	(15)	**(15)**	(15)
10% increase in GBP/EUR exchange rate	**(3)**	(12)	**2**	(8)
10% decrease in GBP/EUR exchange rate	**3**	14	**(2)**	9
10% increase in GBP/USD exchange rate	**(133)**	(133)	**(128)**	(133)
10% decrease in GBP/USD exchange rate	**163**	163	**157**	163
10% increase in GBP/JPY exchange rate	**(12)**	(12)	**(12)**	(12)
10% decrease in GBP/JPY exchange rate	**14**	15	**14**	15
10% increase in GBP/other currencies exchange rates	**(19)**	(21)	**(19)**	(21)
10% decrease in GBP/other currencies exchange rates	**20**	23	**20**	23
Equity/property prices +10%	**244**	239	**244**	239
Equity/property prices -10%	**(228)**	(236)	**(228)**	(236)

Limitations of sensitivity analysis

The above table demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks.

The Group's assets and liabilities are actively managed. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment market conditions change, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to with-profits policyholders and taking other protective action.

It should also be noted that the impact on the unallocated divisible surplus from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

(c) Credit risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Group's exposure to credit risk arises principally from its investment portfolio, from its holdings in bonds, derivatives and cash in particular and from reinsurance arrangements. The credit risk policy and procedures and the investment management agreements stipulate approved counterparties, permitted investments and exchanges, as well as detailing specific asset class exposure limits. The policy also required that asset holdings were within the regulatory limits in force during the year that restricted excessive concentrations with individual counterparties or with particular asset classes. For derivatives, the derivatives risk management policy also details legal, collateral and valuation requirements. 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 exist on individual counterparties and on the overall quality of the Group's bond portfolio. The one exception is exposure to the UK Government. Investment in government debt is a key part of the Group's investment and asset and liability management strategies and it has been decided that no limit should be set. If the UK's credit standing were to deteriorate significantly, however, this decision would be reviewed.

Exposures to individual counterparties are monitored against the agreed limits by the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Capital Management Committee. For bond holdings, exposures are also monitored by industry sector and by credit rating.

43. Risk management (continued)

(c) Credit risk (continued)

The Group is also exposed to credit risk in respect of its reinsurance arrangements. The credit exposures for reinsurance contracts are monitored by the Group's Capital Management and Insurance Committees as part of the overall credit risk policy.

The following tables show the assets of the Group and Parent company that are subject to credit risk and a reconciliation to the balance sheet carrying values. The credit risk in respect of linked assets is borne by the holders of the contracts concerned except where investment is made in the funds of other life companies via reinsurance contracts.

	Group					
	2015			2014		
	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m
Financial investments (note 20)						
› Debt and fixed income securities	20,814	10,083	30,897	21,587	9,839	31,426
› Derivatives	2,544	1	2,545	3,122	1	3,123
Cash and cash equivalents	1,450	1,373	2,823	1,546	1,190	2,736
Reinsurers' share of insurance liabilities	5,302	-	5,302	5,462	-	5,462
Trade and other receivables	341	205	546	251	161	412
	30,451	11,662	42,113	31,968	11,191	43,159

	Parent company					
	2015			2014		
	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m
Financial investments (note 20)						
› Debt and fixed income securities	20,747	6,445	27,192	21,529	6,623	28,152
› Derivatives	2,537	-	2,537	3,120	1	3,121
Cash and cash equivalents	1,249	960	2,209	1,386	873	2,259
Reinsurers' share of insurance liabilities	5,302	-	5,302	5,462	-	5,462
Trade and other receivables	280	103	383	182	103	285
	30,115	7,508	37,623	31,679	7,600	39,279

The following tables show an analysis of the credit quality of those assets that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. AAA is the highest rating possible for assets exposed to credit risk.

The credit ratings in respect of derivative financial investments are those of the counterparties to the derivative contracts. The debt and fixed income securities which have not been rated by an external agency are subject to internal analysis to provide an internal rating, the average of which at 31 December 2015 was BBB+.

The internal rating process used by the Group is to assess credit risk within the context of the bond issuer's financial position, the bond's covenants and structure and the likely recovery should default occur. Three major sectors that are significant issuers of sterling denominated unrated bonds, namely social housing, investment trusts and property, are each asset rich. For these sectors, documented specific credit analysis is undertaken, which assesses the individual risks of bonds in the sector and relates the risk of loss to that implied by the rating bands of the rating agencies. The internal ratings produced are compared for consistency with formally rated, broadly equivalent stocks in the same sector and for consistency with the market pricing of the underlying bond. For stocks in other sectors, the background of the issuer and the bond characteristics are assessed within a framework similar, where possible, to credit rating agency methodology.

43. Risk management (continued)

(c) Credit risk (continued)

In order to reduce its exposure to credit risk the Group and Parent company invest primarily in higher graded assets, rated BBB or above. The Group and Parent company also make use of collateral arrangements in respect of their derivative exposures and stock lending activity, wherever possible. Further details of the collateral held are shown in note 20(e).

	Group – 2015							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
› Debt and fixed income securities	803	14,226	2,741	2,367	330	4	343	20,814
› Derivatives	-	-	2,520	-	-	-	24	2,544
Cash and cash equivalents	117	609	706	14	4	-	-	1,450
Reinsurers' share of insurance liabilities	-	3,546	1,624	132	-	-	-	5,302
Trade and other receivables	-	-	-	-	-	-	341	341
	920	18,381	7,591	2,513	334	4	708	30,451

	Group – 2014							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
› Debt and fixed income securities	453	15,516	2,930	2,167	193	1	327	21,587
› Derivatives	-	-	3,008	113	-	-	1	3,122
Cash and cash equivalents	22	910	601	-	13	-	-	1,546
Reinsurers' share of insurance liabilities	-	4,458	1,004	-	-	-	-	5,462
Trade and other receivables	-	-	-	-	-	-	251	251
	475	20,884	7,543	2,280	206	1	579	31,968

	Parent company – 2015							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
› Debt and fixed income securities	804	14,159	2,741	2,366	330	4	343	20,747
› Derivatives	-	-	2,520	-	-	-	17	2,537
Cash and cash equivalents	117	606	509	14	3	-	-	1,249
Reinsurers' share of insurance liabilities	-	3,546	1,624	132	-	-	-	5,302
Trade and other receivables	-	-	-	-	-	-	280	280
	921	18,311	7,394	2,512	333	4	640	30,115

43. Risk management (continued)
(c) Credit risk (continued)

	Parent company – 2014							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
> Debt and fixed income securities	453	15,458	2,930	2,167	193	1	327	21,529
> Derivatives	-	-	3,007	113	-	-	-	3,120
Cash and cash equivalents	22	893	466	-	5	-	-	1,386
Reinsurers' share of insurance liabilities	-	4,458	1,004	-	-	-	-	5,462
Trade and other receivables	-	-	-	-	-	-	182	182
	475	20,809	7,407	2,280	198	1	509	31,679

The following tables show the financial assets that are exposed to credit risk, analysing them between those that are neither past due nor impaired, those that are past due (by age band) but are not considered to be impaired and those that have been impaired.

	Group – 2015						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	**0–3 months £m**	**3–6 months £m**	**6 months–1 year £m**	**>1 year £m**	**Assets that have been impaired £m**	**Total £m**
Assets subject to credit risk:							
Financial investments							
> Debt and fixed income securities	**20,814**	**-**	**-**	**-**	**-**	**-**	**20,814**
> Derivatives	**2,544**	**-**	**-**	**-**	**-**	**-**	**2,544**
Reinsurers' share of insurance liabilities	**5,297**	**2**	**1**	**1**	**1**	**-**	**5,302**
Trade and other receivables	**312**	**28**	**-**	**-**	**1**	**-**	**341**
	28,967	**30**	**1**	**1**	**2**	**-**	**29,001**

	Group – 2014						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
> Debt and fixed income securities	21,587	-	-	-	-	-	21,587
> Derivatives	3,122	-	-	-	-	-	3,122
Reinsurers' share of insurance liabilities	5,459	2	-	1	-	-	5,462
Trade and other receivables	230	21	-	-	-	-	251
	30,398	23	-	1	-	-	30,422

43. Risk management (continued)
(c) Credit risk (continued)

	Parent company – 2015						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
› Debt and fixed income securities	20,747	-	-	-	-	-	20,747
› Derivatives	2,537	-	-	-	-	-	2,537
Reinsurers' share of insurance liabilities	5,297	2	1	1	1	-	5,302
Trade and other receivables	252	28	-	-	-	-	280
	28,833	30	1	1	1	-	28,866

	Parent company – 2014						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
› Debt and fixed income securities	21,529	-	-	-	-	-	21,529
› Derivatives	3,120	-	-	-	-	-	3,120
Reinsurers' share of insurance liabilities	5,459	2	-	1	-	-	5,462
Trade and other receivables	161	21	-	-	-	-	182
	30,269	23	-	1	-	-	30,293

No collateral was held against assets that are past due or impaired (2014 £nil). There were no material financial assets that would have been past due or impaired had the terms of the instrument not been renegotiated.

(d) Liquidity risk
The Group defines liquidity risk as the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group has limited exposure to liquidity risk due primarily to its financial strength and availability of liquid assets. However, the Group recognises that extreme liquidity issues could have a serious impact on the Group. The Group believes that its liquidity risk is managed effectively and that the Group has good capabilities in this area within its Group functions and its investment management subsidiary.

The Group's liquidity management process includes:

- maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term;
- holding sufficient assets in investments that are readily marketable in a sufficiently short time-frame to be able to settle liabilities as these fall due. Where liabilities are backed by less marketable assets, for example, investment property unit-linked funds, contract terms permit the Group to delay settlement in order to provide the time to sell investments in an orderly fashion to provide the required funds should the need arise;
- maintaining a contingency funding plan that covers the framework to enable ongoing monitoring of the Group's capacity to meet its short and medium-term liabilities. It also includes a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios;
- appropriate matching of the maturities of assets and liabilities. The Group's market risk policy covers asset liability management to ensure the duration of liabilities is matched by assets; and a risk limit framework for Liquidity Coverage Ratios; and
- reporting. Liquidity exposures are reported to the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Capital Management Committee.

43. Risk management (continued)

(d) Liquidity risk (continued)

These processes are regularly reviewed and updated to ensure their continued effectiveness.

The Group's exposure to liquidity risk principally arises from its insurance and investment contracts. The following tables show a maturity analysis for the Group and Parent company's insurance and investment contract liabilities. As permitted by IFRS 4, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the non-participating investment contracts has been shown on the same basis for consistency. Had the analysis for these liabilities been presented on the basis of the earliest contractual maturity date (as required by IFRS 7) then the whole balance would have been included in the '0–5 years' column, as customers can exercise surrender options at their discretion. In such a scenario the liability may be reduced by the application of surrender penalties. The tables also show a maturity analysis for the Group and Parent company's derivative liabilities and the reinsurance liability held at FVTPL presented on a contractual cash flow basis.

The longer-term matching of assets and liabilities is covered within market risk, note 43 (b). As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Group considers the residual liquidity risk arising from its activities to be immaterial. Therefore, an analysis of the Group's asset cash flows by contractual maturity is not considered necessary to evaluate the nature and extent of the Group's liquidity risk.

	Group – 2015						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	**(28,874)**	**(8,546)**	**(6,691)**	**(6,696)**	**(5,312)**	**(3,723)**	**(30,968)**
Participating investment contract liabilities	**(2,326)**	**(771)**	**(585)**	**(486)**	**(360)**	**(591)**	**(2,793)**
Non-participating insurance contract liabilities	**(7,291)**	**(998)**	**(775)**	**(698)**	**(541)**	**(765)**	**(3,777)**
Non-participating investment contract liabilities	**(24,982)**	**(7,462)**	**(6,676)**	**(5,811)**	**(4,579)**	**(6,958)**	**(31,486)**
	(63,473)	**(17,777)**	**(14,727)**	**(13,691)**	**(10,792)**	**(12,037)**	**(69,024)**
Derivative liabilities	**(1,460)**	**(664)**	**(627)**	**(614)**	**(594)**	**(1,084)**	**(3,583)**
Reinsurance liability	**(2,773)**	**(437)**	**(573)**	**(654)**	**(636)**	**(1,740)**	**(4,040)**

	Group – 2014						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(29,607)	(8,896)	(7,295)	(7,042)	(6,355)	(4,942)	(34,530)
Participating investment contract liabilities	(2,308)	(732)	(563)	(485)	(373)	(667)	(2,820)
Non-participating insurance contract liabilities	(7,506)	(1,106)	(747)	(687)	(527)	(726)	(3,793)
Non-participating investment contract liabilities	(22,691)	(7,151)	(5,926)	(5,054)	(3,946)	(5,710)	(27,787)
	(62,112)	(17,885)	(14,531)	(13,268)	(11,201)	(12,045)	(68,930)
Derivative liabilities	(2,064)	(901)	(879)	(872)	(842)	(1,415)	(4,909)
Reinsurance liability	(2,799)	(418)	(556)	(658)	(658)	(1,852)	(4,142)

43. Risk management (continued)
(d) Liquidity risk (continued)

	Parent company – 2015						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(28,949)	(8,573)	(6,711)	(6,717)	(5,328)	(3,733)	(31,062)
Participating investment contract liabilities	(2,326)	(771)	(585)	(486)	(360)	(591)	(2,793)
Non-participating insurance contract liabilities	(7,290)	(997)	(775)	(698)	(541)	(765)	(3,776)
Non-participating investment contract liabilities	(24,982)	(7,462)	(6,676)	(5,811)	(4,579)	(6,958)	(31,486)
	(63,547)	(17,803)	(14,747)	(13,712)	(10,808)	(12,047)	(69,117)
Derivative liabilities	(1,445)	(664)	(627)	(614)	(594)	(1,084)	(3,583)
Reinsurance liability	(2,773)	(437)	(573)	(654)	(636)	(1,740)	(4,040)

	Parent company – 2014						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(29,682)	(8,918)	(7,315)	(7,061)	(6,373)	(4,955)	(34,622)
Participating investment contract liabilities	(2,308)	(732)	(563)	(485)	(373)	(667)	(2,820)
Non-participating insurance contract liabilities	(7,504)	(1,104)	(747)	(687)	(527)	(726)	(3,791)
Non-participating investment contract liabilities	(22,691)	(7,151)	(5,926)	(5,054)	(3,946)	(5,710)	(27,787)
	(62,185)	(17,905)	(14,551)	(13,287)	(11,219)	(12,058)	(69,020)
Derivative liabilities	(2,057)	(901)	(879)	(872)	(842)	(1,415)	(4,909)
Reinsurance liability	(2,799)	(418)	(556)	(658)	(658)	(1,852)	(4,142)

(e) Pension schemes
The Group maintains three defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and regular contributions from employees and the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions. Management of the assets of the pension schemes is the responsibility of each scheme's Trustees, who also appoint the Scheme Actuaries to perform triennial valuations to assess the level of funding required to meet the scheme's liabilities. The schemes' main exposures are to equity, interest rate, inflation and longevity risk. For further information on pension scheme assets and liabilities, see note 38.

The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and used in discussions with the Trustees, through whom any risk management activity must be conducted.

43. Risk management (continued)

(f) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, human resources, change management, tax, legal, fraud and compliance. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes and systems under their control and for the allocation of responsibilities.

Details of risks on inherent (before controls) and residual (after controls) bases are maintained on risk registers, with each part of the business being responsible for identifying, assessing, managing and reporting on its operational risks and for implementing and maintaining controls in accordance with the Group's operational risk methodology. In performing these assessments, account is taken of the Group's risk appetite with greater significance being placed on those risks that fall outside these parameters. This is used as a basis for review and challenge by senior management, Risk Committees and the Board of Directors. Management attention is focused upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weakness is identified. In addition, the Group conducts a series of operational risk scenarios. These scenarios allow the Group to consider how effective controls will be should an extreme event occur and to make improvements where necessary. The scenarios also provide data that is used to calculate the capital held by the Group for operational risk.

(g) Emerging risk

All insurers may be impacted by risks that are potentially significant but are currently only just beginning to emerge. The Group has defined emerging risks as being newly developing or changing risks which are difficult to quantify or may be uncertain and which could have a major impact on an organisation. Typically the drivers for these risks are technological, economic, environmental or geo-political. The Group's Emerging Risk Forum comprises members from across the Group who identify and assess emerging risks and possible mitigating actions. Information about emerging risks is provided to senior management and the Board and is used to inform decision making.

(h) Risk governance

An independent Risk and Compliance function provides challenge to the business on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place and any actions being progressed. In many parts of the Group, governance and risk teams are embedded within business units supporting the process. The independent function provides advice and guidance on the impact of regulatory change and undertakes risk-based compliance monitoring reviews to assess the quality of business processes and controls, reporting the results of its findings to management and to the Board monthly.

(i) Stress and scenario testing

The Group conducts a range of sensitivity analysis and stress and scenario testing activity in order to help it understand its risk profile and assess and manage its risks. This is a key element of the Group's risk management framework, as well as being a regulatory requirement.

Stress and scenario testing in various forms is carried out on a regular basis as part of business as usual and in response to specific regulatory initiatives and can involve either:

- straightforward stress tests/sensitivity analysis: analyses of the sensitivity of financial and operational metrics and the risk profile to discrete changes in market values or demographic experience; or
- scenarios that involve a combination of changes in economic parameters or that concentrate on specific operational, non-market and/or market risks.

The following outputs are produced as part of business as usual and include results from one or both of the tests described above:

- Group Performance Reviews, produced monthly;
- Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- Capital Management Plan, produced bi-annually;
- Reports on the capital requirements of the Parent company, produced annually;
- ICAAP results for regulated non-insurance firms (where applicable), produced annually; and
- Medium-Term Plans, produced annually.

43. Risk management (continued)

(i) Stress and scenario testing (continued)

The stress testing performed, as detailed above, includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

Operational risk stresses and scenarios are completed to calculate the capital required for this risk. The stresses allow an assessment of the extreme impacts arising from a given risk by way of assessment of the frequency of occurrence and the distribution. A top-down approach is used for determining the Parent company's capital requirements which involves the analysis of single, but potentially catastrophic, events/risks which cover all risks used for modelling the capital requirement.

Various broad-based scenarios and reverse stress tests have been considered in the Group over the year, as well as business model analysis activity. These scenarios provide a top-down analysis of events that would affect the Group in a significant way. These events could be in relation to issues such as the markets the Group operates in, financial strength, long-term strategy and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

44. Capital management

(a) Capital management policies and objectives

The Group's capital management objectives are:

- to protect the Group's financial strength, providing security to policyholders;
- to ensure that the Group's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board; and
- to comply with the PRA's capital requirements. The Group has not breached these requirements at any point in the current or prior year.

The capital position of the Group is monitored on a regular basis and reviewed formally by the Capital Management Committee. The Group's capital requirements are forecast on a regular basis. Those forecasts are compared against the available capital and the Group's required minimum internal rate of return. The internal rate of return forecast to be achieved on potential investments is also measured against minimum required benchmarks taking into account the risk associated with the investment.

From 1 January 2016, the Group will be required to maintain and report its capital position under Solvency II. Under Solvency II, the Group is required to hold sufficient capital to withstand adverse outcomes from its key risks, e.g. that equity markets fall. This 'Solvency Capital Requirement' (SCR) is calibrated so that it is broadly equal to the adverse experience likely to occur once in every 200 years. The Group will remain solvent under these new requirements. The remainder of this note sets out the Group's capital position under the regulatory requirements in force at 31 December 2015.

In the period up to and including 31 December 2015, the PRA's capital requirement was that the Group must hold capital in excess of the higher of two amounts – the Pillar 1 and Pillar 2 requirements. The Pillar 1 capital requirement was calculated as the higher of two prescribed tests, Peak 1 and Peak 2, which are outlined as follows:

- Peak 1 – prudent valuation of the guarantees of the Group's life funds; and
- Peak 2 – a realistic, market-consistent valuation of the expected future cash flows of the Group's life funds.

The Pillar 2 capital requirement was based on the Group's Individual Capital Assessment which was reported privately to the PRA. It was broadly equivalent to the capital needed to cover adverse experience likely to occur once in every 200 years, based on the Group's actual portfolio of risks having regard to the Group's own risk controls.

(b) Realistic balance sheet

A summary realistic balance sheet is shown below, split between those funds within the Parent company currently open to new business and those that are closed. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) with-profits funds. The RL (CIS) with-profits funds were formed on the transfer of RL (CIS)'s long-term insurance business to the Parent company by way of a Part VII transfer on 30 December 2014.

Realistic available capital for both the open and closed funds of the Parent company is determined in accordance with the PRA's realistic balance sheet methodology. This can be broadly described as placing a market value on both the assets and participating liabilities,

44. Capital management (continued)

(b) Realistic balance sheet (continued)

including both benefits already guaranteed and future discretionary benefits. Additionally, the value of future profits on acquired in-force long-term business within the Parent company as well as on non-participating business issued by the Group may be included as an asset.

Participating liabilities comprise asset shares, plus the costs of smoothing, plus the value of guarantees and options which have been granted to policyholders. The asset share represents the premiums received to date, together with investment return earned, less expenses and charges.

There are two principal types of financial option and guarantee:

- guaranteed lump sum payments due on specified dates.
  These mainly comprise the sum assured together with annual bonuses added onto participating contracts. Although the Group invests in a broad spread of asset types, there is still a risk that assets held to back any individual policy (the asset share) may be depressed at the time that the guaranteed payment due at maturity falls to be paid. The potential cost of honouring these guarantees is quantified as part of the liability for participating contracts; and
- guaranteed annuities.
  These primarily arise in connection with pension business and occur in one of two forms:
  - a guaranteed income specified in the contract; and
  - guaranteed terms for converting lump sum maturity benefits into an income at maturity.

When calculating the participating liabilities, allowance has been made for actions that management would be expected to undertake on key assumptions, for example future bonus or investment policy in varying market conditions, in line with the PPFM. The costs of financial options and guarantees are measured using a market-consistent stochastic model.

For the purpose of the capital statement, all excess assets associated with policies written within the closed funds of the Parent company, amounting to £3,585m (2014 £3,052m), are reported as liabilities because they are not available for distribution to other policyholders or for other business purposes. However, those excess assets are available to provide support to the relevant policies under stressed financial conditions before any call on the reported excess capital within the open funds of the Parent company need be made.

	2015			2014		
	Open funds £m	**Closed funds £m**	**Total Parent company £m**	Open funds £m	Closed funds £m	Total Parent company £m
Total realistic participating assets	**7,347**	**29,034**	**36,381**	7,248	30,451	37,699
Value of in-force business on a realistic basis	**2,135**	**374**	**2,509**	1,956	320	2,276
Current liabilities and subordinated liabilities	**(1,240)**	**(5,051)**	**(6,291)**	(1,020)	(5,869)	(6,889)
Total realistic participating net assets	**8,242**	**24,357**	**32,599**	8,184	24,902	33,086
Realistic participating liabilities						
› Participating benefit reserve	**4,890**	**17,938**	**22,828**	4,889	18,770	23,659
› Costs of smoothing	**7**	**226**	**233**	(13)	168	155
› Guarantees	**215**	**788**	**1,003**	227	888	1,115
› Options (guaranteed annuities)	**164**	**1,613**	**1,777**	232	2,028	2,260
› Future charges for guarantees	**-**	**(473)**	**(473)**	-	(508)	(508)
› Other	**65**	**680**	**745**	85	504	589
Total realistic participating liabilities (before closed fund transfer commitments)	**5,341**	**20,772**	**26,113**	5,420	21,850	27,270
Total realistic available capital (before closed fund transfer commitments)	**2,901**	**3,585**	**6,486**	2,764	3,052	5,816
Closed fund transfer commitments	**-**	**(3,585)**	**(3,585)**	-	(3,052)	(3,052)
Total realistic available capital	**2,901**	**-**	**2,901**	2,764	-	2,764

44. Capital management (continued)

(c) Capital statement

	2015 £m	2014 £m
Unallocated divisible surplus	**3,314**	3,139
Adjustments onto a regulatory basis		
› Inadmissible goodwill, other intangibles, pension schemes and deferred tax assets	**(431)**	(415)
› Other adjustments to the value of net assets	**(176)**	(161)
› Adjustments to liabilities on a regulatory basis	**194**	201
Total available capital resources	**2,901**	2,764
Analysis of liabilities		
Participating insurance contract liabilities	**28,874**	29,607
Participating investment contract liabilities	**2,326**	2,308
Unallocated divisible surplus	**3,314**	3,139
Non-participating value of in-force business	**(1,526)**	(1,332)
	32,988	33,722
Non-participating insurance contract liabilities		
› Unit-linked	**1,841**	1,978
› Other	**5,450**	5,528
Non-participating investment contract liabilities		
› Unit-linked	**24,982**	22,691
	32,273	30,197
Total long-term contract liabilities	**65,261**	63,919

The capital statement sets out the financial strength of the Group and provides a reconciliation of the unallocated divisible surplus to the available capital resources. The available capital resources are determined using PRA valuation rules. The asset valuation rules are based on IFRS, adjusted to exclude certain assets not admissible for regulatory purposes and for other specific valuation differences.

The capital requirement for the Group is the Risk Capital Margin (RCM). This represents the level of capital that the Group is required to hold in a stress event. The RCM for the Parent company is £nil (2014 £15m) and is calculated assuming that persistency improves by 32.5% (2014 32.5%), that equity markets fall by 19.9% (2014 20.0%), property values fall by 12.5 % (2014 12.5%) and risk-free yields fall by 42 basis points (2014 38 basis points). Credit risk is allowed for by assuming an immediate and permanent widening in yield spreads on corporate bonds over risk-free rates, calculated on a stock-by-stock basis.

During 2015, the Parent company transitioned from the realistic peak to the regulatory peak. On the regulatory basis, the Group and Parent company's total available capital was £14,282m (2014 £13,366m), the capital resources requirement was £10,747m (2014 £9,976m) and the excess capital was £3,535m (2014 £3,390m).

44. Capital management (continued)

(d) Movement in available capital resources

	2015			2014		
	Open funds £m	Closed funds £m	Total Parent company £m	Open funds £m	Closed funds £m	Total Parent company £m
At 1 January (after closed fund transfer commitments)	**2,764**	**-**	**2,764**	2,454	–	2,454
Closed fund transfer commitments	**-**	**3,052**	**3,052**	-	972	972
At 1 January (before closed fund transfer commitments)	**2,764**	**3,052**	**5,816**	2,454	972	3,426
Changes in assumptions	**53**	**565**	**618**	(104)	(382)	(486)
Investment performance	**69**	**71**	**140**	327	327	654
New business	**79**	**-**	**79**	23	-	23
Changes in management policy	**(61)**	**(89)**	**(150)**	(46)	(126)	(172)
Other movements	**(3)**	**(14)**	**(17)**	110	2,261	2,371
Movement	**137**	**533**	**670**	310	2,080	2,390
At 31 December (before closed fund transfer commitments)	**2,901**	**3,585**	**6,486**	2,764	3,052	5,816
Closed fund transfer commitments	**-**	**(3,585)**	**(3,585)**	-	(3,052)	(3,052)
At 31 December (after closed fund transfer commitments)	**2,901**	**-**	**2,901**	2,764	-	2,764

	2014
	RL (CIS) £m
At 1 January	1,445
Changes in assumptions	(458)
Investment performance	1,354
Changes in management policy	(22)
Other movements	(49)
Part VII transfer	(2,270)
Movement	(1,445)
At 31 December	-

The table above shows key elements of the movement in available capital resources analysed by open and closed funds within the Parent company and separately for RL (CIS) until the Part VII transfer in 2014. The impact from assumption changes includes economic, persistency, mortality, expense and regulatory valuation assumption changes and their effects on the costs of guarantees, options and smoothing, the value of in-force business and the participating benefit reserve. The dominant effect arises from changes in demographic assumptions.

The investment performance impact comprises the after-tax return on opening capital, including the value of in-force business, performance on assets backing liabilities in respect of guarantees, options and smoothing and other future policy-related liabilities, and the reduction in cost of guarantees caused by the higher than expected value of underlying asset shares.

Value of new business is calculated on the basis used to value liabilities within the realistic balance sheet and is quoted net of development costs and tax.

Changes in management policy reflect actions taken by the Board of Directors of the relevant entity which affect the value of liabilities set aside to meet future payments to with-profits policyholders.

Other movements include experience profits over the year including those earned on the non-life subsidiary, the impact of acquisitions in the open and closed funds and opening adjustments to reflect improved modelling and residual items.

44. Capital management (continued)

(d) Movement in available capital resources (continued)

There were no significant changes in regulation or other similar external developments.

(e) Sensitivity of capital

The capital position of the Group is sensitive to changes in economic conditions and financial markets both through the impact on asset values and also the effect that changes in interest rates and investment returns may have on liability valuations. The liabilities are also sensitive to the other assumptions that have been used in their calculation, such as mortality and persistency. The Group's approach to managing these risks is detailed in note 43.

(i) Economic conditions and financial markets

The liability valuation will include assumptions about interest rates and investment returns. An adverse change in either variable will increase liabilities and, to the extent that assets are impacted, this may increase or decrease the available capital. For example, a reduction in long-term interest rates would increase the amount of the Group's liabilities and could therefore reduce its available capital, depending upon the extent to which the liabilities are matched by assets with similar anticipated cash flows. Currently, the available capital of the Group will increase if interest rates fall.

Similarly, an adverse change in the markets for the Group's investment assets could increase or decrease the available capital of the Group to the extent that equity falls cannot be reflected in reductions in payments to policyholders because of the presence of guarantees and options in the underlying contracts, and any change in assets within the working capital. Currently, a fall in equity/property values would reduce available capital for the Parent company.

(ii) Assumptions

The Group monitors actual experience in mortality, morbidity and persistency rates against the assumptions used, and applies that outcome to refine its long-term assumptions. Amounts paid will inevitably differ from estimates, particularly when the expected payments do not occur until well into the future. Liabilities are evaluated at least half yearly, allowing for changes in the assumptions used, as well as for the actual claims experience. If actual claims experience is less favourable than the underlying assumptions, or it is necessary to increase provisions in anticipation of a higher rate of future claims, then available capital will be reduced.

European Embedded Value supplementary information

Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information

The directors of Royal London have chosen to prepare supplementary information in accordance with the European Embedded Value Principles (the EEV Principles) issued in May 2004 by the CFO Forum, as supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005. When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles. The directors have chosen not to adopt the Market Consistent Embedded Value Principles published by the CFO Forum in June 2008.

In preparing the EEV supplementary information, the directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data and then applied them consistently;
- made estimates that are reasonable and consistent; and
- determined the basis on which business that is not covered business has been included in the supplementary information.

Independent auditors' report to the directors of The Royal London Mutual Insurance Society Limited on the supplementary financial statements – European Embedded Value Basis

We have audited the Supplementary Financial Statements – European Embedded Value Basis of The Royal London Mutual Insurance Society Limited ('the Company') for the year ended 31 December 2015 which comprise the Consolidated Income Statement – European Embedded Value Basis, Consolidated balance sheet – European Embedded Value Basis and the related notes ("the supplementary financial statements") which have been prepared in accordance with the European Embedded Value ("EEV") basis set out in Note (a) – Basis of Preparation and which should be read in conjunction with the Group's financial statements.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for preparing the supplementary financial statements in accordance with the EEV basis set out in Note (a) – Basis of preparation. Our responsibility is to audit and express an opinion on the supplementary financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our letter of engagement dated 22 October 2015 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the supplementary financial statements

An audit involves obtaining evidence about the amounts and disclosures in the supplementary financial statements sufficient to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group'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 supplementary financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited supplementary financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the supplementary financial statements

In our opinion, the supplementary financial statements for the year ended 31 December 2015 have been properly prepared in all material respects in accordance with the European Embedded Value basis set out in Note (a) – Basis of preparation.

Emphasis of matter – Solvency II

Without modifying our opinion on the EEV financial statements, we draw attention to the Basis of preparation as set out in Note (a) which explains that, as permitted by the additional guidance issued in October 2015 by the European Insurance CFO Forum, the financial statements have been prepared making no allowance for the impact of Solvency II regulatory requirements, other than allowing for the impact of Solvency II project costs.

PricewaterhouseCoopers LLP
Chartered Accountants
London
30 March 2016

Notes:

(a) The supplementary financial statements are published on the website of the Royal London Group, www.royallondon.com. The maintenance and integrity of the Royal London Group website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the supplementary financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of supplementary financial statements may differ from legislation in other jurisdictions.

Consolidated income statement – EEV basis

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Operating activities			
Contribution from new business	(g) (i)	137	85
Profit from existing business	(g) (ii)		
› Expected return		76	91
› Experience variances		3	56
› Operating assumption changes		74	12
Expected return on opening net worth	(g) (iii)	27	42
Profit on uncovered business	(g) (iv)	7	7
Strategic development costs and other items	(g) (v)	(80)	(73)
Operating profit before tax and exceptional items		244	220
Exceptional cost arising from regulatory change	(g)(vi)	-	(61)
Total operating profit before tax		244	159
Economic experience variances	(g) (vii)	21	325
Economic assumption changes	(g) (viii)	32	(143)
Movement in RLGPS pension scheme surplus	(g) (ix)	23	(42)
Financing costs	(g) (x)	(43)	(40)
ProfitShare	(g) (xi)	(74)	(64)
EEV profit before tax		203	195
Attributed tax charge	(g) (xii)	(22)	(35)
Total EEV profit after tax		181	160

Consolidated balance sheet – EEV basis
as at 31 December 2015

	2015 £m	2014 £m
Assets		
Assets held in closed funds	**31,631**	32,927
Assets backing non-participating liabilities	**24,084**	21,938
Reinsurance assets	**7,528**	7,576
Assets backing participating liabilities and net worth		
› UK equities	**1,715**	1,781
› Overseas equities	**734**	687
› Land and buildings	**852**	776
› Approved fixed interest securities	**2,201**	2,313
› Other fixed interest securities	**1,415**	1,332
› Other assets	**749**	669
Value of in-force business	**2,034**	1,838
Pension scheme surplus (RLGPS)	**71**	48
Total	**73,014**	71,885
Liabilities		
Liabilities in closed funds	**31,631**	32,927
Non-participating liabilities	**24,084**	21,938
Reinsured liabilities	**7,528**	7,576
Participating liabilities	**5,363**	5,438
Current liabilities	**1,241**	1,020
Total	**69,847**	68,899
Embedded Value		
Net worth	**1,062**	1,100
Value of in-force business	**2,034**	1,838
Pension scheme surplus (RLGPS)	**71**	48
Total	**3,167**	2,986

Value of in-force business – EEV basis
as at 31 December 2015

	2015 £m	2014 £m
Value of in-force business before allowance for burn-through and capital costs	**2,066**	1,881
Burn-through cost	**(3)**	(9)
Cost of capital	**(29)**	(34)
Value of in-force business	**2,034**	1,838

(a) Basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the Additional Guidance issued in 2005 by the CFO Forum. They provide supplementary information for the year ended 31 December 2015 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union. The EEV results have also been prepared in accordance with the additional guidance for embedded value reporting in advance of the effective date of Solvency II issued by the CFO Forum in October 2015, which states that an allowance for Solvency II and its associated consequences is not required when complying with the EEV Principles for reporting periods ending before 30 June 2016. Consequently the EEV results presented include provision for the costs of implementing Solvency II but do not reflect any other impact that Solvency II may have on the Group's EEV results.

The EEV Principles and Guidance were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles and Guidance accordingly. With-profits policies held by members do not generally contribute to the value of in-force business. However, the liabilities associated with these contracts are deducted from total assets to arrive at net worth. Hence, any movement in liabilities not matched by a corresponding movement in assets will change the net worth and flow through the income statement. The reported embedded value provides an estimate of Royal London's value to its members.

EEV operating profit follows the same principles, in terms of items to include and exclude, as IFRS operating profit with the exception of certain items which are recognised under IFRS but are excluded from EEV. This is a consequence of the basis of preparing the Group EEV results, which is by reference to the Realistic Balance Sheet (RBS). Some items recognised under IFRS are inadmissible in the RBS and are therefore not recognised in our EEV reporting. Most notably, operating profit includes amortisation of intangibles (and impairment if relevant) whereas in our EEV reporting, we exclude goodwill or other intangible assets arising on the acquisition of a subsidiary or business (other than Value of in-force business) because such items are not permitted to be recognised in the RBS.

The RBS is produced at the level of the Parent company. In order to present the EEV balance sheet as a Group balance sheet, the RBS is grossed up to include the assets and liabilities of subsidiaries which are included in the RBS at the value of the Parent company's net investment. A further presentation adjustment is made to the EEV balance sheet in respect of reinsurance. The RBS shows reinsured liabilities net of the related reinsurance asset. The EEV balance sheet is grossed up to show the reinsured liabilities and assets separately.

(b) EEV methodology

(i) Overview

The EEV basis of reporting is designed to recognise the economic value of a new policy at the point it is written. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

For the purposes of EEV reporting, the Group has adopted a market-consistent methodology. Within a market-consistent framework, assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.

(ii) Covered business

The EEV Principles require an insurance company to distinguish between covered and uncovered business according to whether the business is valued on EEV Principles. The covered business, in the case of Royal London, incorporates:

- life and pensions business defined as long-term business by UK and overseas regulators; and
- asset management business; both that derived from the life and pensions business and that arising from external clients (except that arising from cash mandates, which is treated as uncovered).

This business, which represents the vast majority of the Group's total business, is valued on an EEV basis.

(iii) Embedded value
The reported embedded value provides an estimate of the value of the covered business, including future cash flows expected from the existing business but excluding any value that may be generated from future new business. For covered business, it comprises the sum of the net worth calculated on an EEV basis and the value of the in-force business. For uncovered business, it comprises the IFRS net worth.

The net worth is the market-consistent value of the net assets (excluding the value of in-force business and pension scheme surplus) over and above those required to manage the business in line with the published Principles and Practices of Financial Management (PPFM). It is based on the RBS working capital in those funds within the Group that are open to new business and allows for the value of the sub-debt on a market-consistent basis.

The value of in-force business is the present value of the projected streams of future cash flows available from the existing business at the valuation date, on a best estimate basis allowing for risk, adjusted for the cost of holding the required capital.

(iv) Allowance for risk
The allowance for risk is a key feature of the EEV Principles. The table below summarises how each item of risk has been allowed for:

Type of risk	EEV methodology
Market-related risks	Allowed for explicitly in the EEV calculations
Non-market risks which are symmetrical in terms of the impact on EEV	Allowed for within the estimates of future operating experience
Non-market risks which are asymmetrical in terms of the impact on EEV	Allowed for in the calculation of VIF and financial options by way of an additional margin in the estimates of future operating experience

Market risk
The approach adopted to calculate the Market Consistent Embedded Value combines deterministic and stochastic techniques. Deterministic techniques have been used to value 'non-option cash flows'; that is cash flows whose values vary linearly with market movements. Stochastic techniques have been used to value cash flows with an asymmetric effect on profit, such as investment guarantees on with-profits products.

In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate and a bond cash flow is valued using a bond risk discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate. In practice, it is not necessary to discount each cash flow at a different rate. For cash flows that are either independent or move linearly with the market, a method known as the 'certainty equivalent approach' will achieve the same results. Under this method all assets are assumed to earn the risk-free rate of return and all cash flows are discounted using the risk-free rate. This approach has been adopted to value the 'non-option cash flows' within a deterministic model.

Non-market risk
In general, the allowance for non-market risk is covered by the margin incorporated into the Group's estimates of future operating experience assumptions. However, there are certain situations in which the impact of fluctuations in experience is asymmetric, namely that adverse experience can have a higher negative impact on value than the positive impact generated by favourable experience.

In these cases, an additional margin over best estimate is incorporated into the experience assumptions. The methodology used to determine the appropriate allowance for non-market risk is based on the analyses undertaken as part of the development of the RBS and the Individual Capital Assessment.

(c) Cost of capital
The EEV Principles require capital allocated to the covered business to be split between required capital, the future distributions of which are restricted, and free surplus. We have defined the amount of required capital to be that necessary to meet the more onerous of the PRA Pillar 1 and Pillar 2 capital requirements, which for Royal London is currently Pillar 2.

The EEV includes a deduction for the frictional cost of holding the required capital. Frictional costs, being the tangible costs of holding capital, have been allowed for on a market-consistent basis. These consist of the total taxation and investment expenses incurred on the required capital over the period it is anticipated to be required. They reflect the cost to a member of having an asset held within a mutual insurance company, rather than investing in the asset directly.

No allowance has been made for any agency costs. These represent the potential markdown to value that members might apply because they do not have direct control over their capital. Any adjustment would be subjective and different members will have their own views of what adjustment, if any, should be made.

(d) Burn-through cost

Under adverse conditions, the funds that remain open to new business may be required to make good any deficits that arise in the closed funds. The time value cost of this potential liability, known as the burn-through cost, is modelled stochastically, as it will only occur in adverse scenarios.

The burn-through cost is calculated as the average value of the capital support required in a large number of market-consistent scenarios. Allowance has been made under the different scenarios for management actions, such as altered investment strategy, consistent with the PPFM.

The stochastic models used to calculate this liability have been calibrated to market conditions at the valuation date. In addition, due to the asymmetric nature of this liability, an additional margin has been incorporated into the operating assumptions.

(e) Expenses

The EEV Guidance requires companies to perform an active review of expense assumptions, and include an appropriate allowance for corporate costs and service company costs.

Corporate costs

Corporate costs are those costs incurred at a corporate level that are not directly attributable to the covered businesses. To the extent that future corporate costs have not been anticipated within the EEV they are accounted for as they arise.

Service company costs

An in-house administration service company, which receives a fee in respect of each policy it administers, is responsible for the administration of the majority of Royal London's policies. A similar arrangement exists for asset management services, although the fee is applied as a percentage of assets. The value of the in-force life and pensions business has been calculated using the service company (including asset management) fees.

Costs within the in-house administration service company have been classified as either ongoing (including an element of development expenditure) or non-recurring costs. Non-recurring costs have not been anticipated within the EEV and instead are accounted for as they arise. The profits expected to arise from life and pensions business within the administration service company from activities related to the maintenance of existing business and within Royal London Asset Management (RLAM) in respect of investment management services have been capitalised within the EEV. These calculations result in the recognition of further value in the in-force business. £10m (2014 £15m) is recognised in respect of the administration service company and £87m (2014 £69m) is recognised in respect of RLAM's investment management services.

No allowance has been made for future productivity gains.

(f) New business

New covered business includes:

- premiums from the sale of new contracts (including any contractual future increments on new contracts);
- non-contractual increments (both regular and single premium) on existing policies; and
- premiums relating to new entrants in Group pension schemes.

(g) Analysis of EEV profit

(i) Contribution from new business

The contribution from new business is calculated using economic assumptions at the end of the period. It is shown after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as total single premium sales received in the year plus the discounted value, at point of sale, of regular premiums expected to be received over the term of the new contracts. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate the new business contribution, so the components of the new business margin are on a consistent basis.

The new business contribution in the table below represents the new business contribution grossed up for tax at 20% (2014 21%). This is to aid comparability with proprietary companies which typically pay tax at the main corporation tax rate of 20% (2014 21%).

The new business margin represents the ratio of the new business contribution to PVNBP.

2015	**Present value of new business premiums £m**	**New business contribution £m**	**New business margin %**
Intermediary			
Pensions	6,107	107.9	1.8
Protection	502	42.3	8.4
Consumer	165	(14.6)	(8.8)
Continuing life and pensions business	6,774	135.6	2.0
Total life and pensions business	**6,774**	**135.6**	**2.0**
Wealth	3,146	22.2	0.7
Total	**9,920**	**157.8**	**1.6**

2014	Present value of new business premiums £m	New business contribution £m	New business margin %
Intermediary			
Pensions	4,454	55.6	1.2
Protection	338	22.7	6.7
Consumer	34	(12.9)	(37.9)
Continuing life and pensions business	4,826	65.4	1.4
Total life and pensions business	4,826	65.4	1.4
Wealth	3,755	29.9	0.8
Total	8,581	95.3	1.1

Pension volumes have increased by 37% with strong growth observed in both the individual and group markets. The increase in margin is largely attributed to a reduction in acquisition and maintenance unit costs resulting from the increase in volumes of business sold.

Protection comprises Bright Grey and Scottish Provident (both now rebranded Royal London) and Royal London Ireland. Overall, volumes have increased by almost 50%, reflecting both an increase in the size of the protection market in general and changes to our proposition increasing our market share. Higher margins largely reflect lower acquisition unit costs.

Consumer volumes have increased materially reflecting the launch of a new single premium product together with increased volumes on the regular premium protection products. Although still negative, the new business margin improved in 2015 and is expected to continue to improve as volumes increase.

RLAM's new business volumes from new asset management mandates were down 16% on 2014. Margins also reduced slightly.

(ii) Profit from existing business

Profit from existing business comprises:

- the expected return on the value of in-force business at the start of the period; plus
- profits and losses caused by differences between actual experience for the period and that assumed in the embedded value calculations at the start of the period; plus
- the impact of any changes in the assumptions regarding future operating experience.

The decrease in the expected return reflects the decrease in the opening risk-free rate from 3.45% to 2.00%.

The £74m impact of operating assumption changes primarily reflects lower GAO take-up assumptions on pension contracts and also changes to future expense assumptions.

(iii) Expected return on opening net worth

The expected return on opening net worth represents the expected investment return on the net worth over the period.

(iv) Profit on uncovered business

Profit on uncovered business has been valued on an IFRS basis, as used in the primary financial statements. A breakdown of the profit reported on uncovered business is shown in the table below:

	2015 £m	2014 £m
General insurance commissions	5	6
Annuity and other commissions	3	3
Ascentric	-	(1)
Royal London Financial Planner	-	(1)
Royal London Asset Management	(1)	-
Total	7	7

(v) Strategic development costs and other items

Strategic development costs represent investments that we believe are important for our future competitiveness and we expect will deliver good returns in the future.

Other items represent a combination of:

- corporate costs and other development costs, which are typically investments made to improve future EEV profits (for example, by reducing ongoing expense levels or increasing new business volumes); and
- other non-recurring items. As an example, this would include the impact of any changes in the way the business is modelled and improvements to valuation techniques.

A breakdown of these items is shown in the table below:

	2015 £m	2014 £m
Strategic development costs	(21)	(31)
Corporate and other development costs	(78)	(70)
Modelling and other changes	19	28
Total	(80)	(73)

The 'modelling and other changes' component reflects a small number of modelling and methodology changes.

(vi) Exceptional cost arising from regulatory change
In March 2014, the Department for Work and Pensions set out various proposals relating to defined contribution pension scheme charging following completion of their Better Workplace Pensions consultation. In the prior year we estimated that complying with these proposals would have a £(61)m impact on operating profit.

(vii) Economic experience variances
This shows the impact of actual investment returns relative to those expected. Economic experience variances have an impact on the value of in-force (VIF) business and on the net worth.

The economic experience variance on the VIF arises from the change in policy values in which Royal London has an interest. The economic experience variance on the net worth represents the impact that investment returns, being different to those anticipated, have on:

- the value of the opening net worth;
- the value of financial options and guarantees (*); and
- the value of the assets backing the financial options and guarantees (*).

(*) Excluding those movements due solely to changes in the yield curve, which have been netted off against the movement in the value of assets caused by the shift in the yield curve.

The value of the second and third items above is generally far more significant for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profits funds is restricted typically to 10% of the distributable surplus.

For assets held within the Royal London Fund, private equity investments returned in excess of 20%, property returned in excess of 15% and overseas equities returned in excess of 6%. Returns on other asset categories were flat during 2015.

(viii) Economic assumption changes
Long-term economic assumptions were revised to take into account the financial conditions at the end of the period including the impact of related management actions. The effect of these changes contributed £32m (2014 £(143)m) to the pre-tax result. Further details of the economic basis used are provided in section (h).

(ix) Pension scheme surplus
The principal scheme is the Royal London Group Pension Scheme, a final salary scheme that is closed to new entrants. On an International Accounting Standard (IAS) 19 basis, the scheme had a surplus of £71m at 31 December 2015 (December 2014 £48m).

The surplus in the two pension schemes acquired as part of the Royal Liver transaction is part of the closed Liver Sub-fund and so is not included in the EEV income statement.

(x) Financing costs
Royal London has two tranches of subordinated debt in issue at 31 December 2015: £397m (after expenses) issued on 29 November 2013 and £348m (after expenses) issued on 13 November 2015, both of which carry a coupon of 6.125% per annum. The Group had previously issued subordinated debt with a nominal value of £400m in 2005. On 29 November 2013, debt with a nominal value of £154m was purchased by way of a tender offer at a price equal to 101% of the nominal value and the remaining nominal value of £246m was redeemed at par on 15 December 2015. The cost of servicing the debt over the year has increased to £43m (2014 £40m) due to the larger debt in issue and is included as a financing cost.

(xi) ProfitShare
In 2015, Royal London's Board exercised its discretion to allocate a proportion of the profits to certain asset shares by crediting an investment return in excess of the rate earned on the underlying assets, thereby directly increasing the value of the liabilities set aside to meet future payments to relevant policyholders. This is the 'ProfitShare' of £70m referred to in the Chairman's statement (£70m being the net of tax amount). In 2014, the corresponding figure was £60m.

(xii) Attributed tax charge
EEV profits are calculated net of tax and then grossed up at an appropriate tax rate. In general, this will be 5% (2014 6%), the expected long-term rate of tax payable by Royal London, although subsidiary companies may be subject to different rates of tax.

(h) EEV assumptions

(i) Principal economic assumptions – deterministic

Economic assumptions are reviewed actively and are based on the prevailing market yields on risk-free assets at the valuation date. With effect from 31 December 2014, the valuation of non-profit and unit-linked business uses risk-free yield and inflation curves. Indicative values are provided in the table below for comparison purposes:

	2015 %	2014 %
Risk-free rate	**2.40**	2.20
Retail price inflation	**3.00**	3.00
Expense inflation	**4.00**	4.00

(ii) Principal economic assumptions – stochastic

The value of financial options (including premium rate guarantees and guaranteed annuity options), smoothing costs and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation.

The economic scenarios achieve market consistency by:

- deriving the underlying risk-free rate from the forward gilt curve;
- calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist. We attempt to achieve the best possible fit, although modelling restrictions prevent this from being perfect.

The tables below show the implied volatilities used in the modelling by asset class:

	Term (years)				
2015	**5**	**10**	**15**	**20**	**30**
15-year risk-free zero coupon bonds	**12.5%**	**9.6%**	**7.1%**	**5.7%**	**6.2%**
15-year AA-rated corporate bonds	**13.9%**	**11.1%**	**8.8%**	**7.5%**	**7.8%**
Equities	**20.8%**	**22.2%**	**23.6%**	**25.2%**	**26.5%**

	Term (years)				
2014	5	10	15	20	30
15-year risk-free zero coupon bonds	10.9%	8.5%	6.6%	5.5%	5.6%
15-year AA-rated corporate bonds	12.3%	10.1%	8.5%	7.5%	7.4%
Equities	20.4%	21.7%	23.0%	24.3%	26.3%

(iii) Expected returns in reporting period

For the purposes of calculating the expected returns over the period, allowance is made for a risk premium as set out in the following table:

	2015 %	2014 %
Risk premium – equities	**2.50**	2.50
Risk premium – property	**2.00**	2.00

All other assets are assumed to earn the risk-free rate.

(iv) Other assumptions
Demographic assumptions are regularly reviewed having regard to past, current and expected future experience, and any other relevant data. These are generally set as best estimate with an appropriate margin for adverse deviations.

(v) Sensitivity analyses
The table below shows the sensitivity of the embedded value at 31 December 2015 and the 2015 contribution from new business to changes in assumptions:

	Notes	Change in embedded value £m	Change in new business contribution £m
100 basis point reduction in risk-free rates		(42)	(6)
10% increase in market values of equities and property	1	264	-
10% proportionate decrease in lapse and paid-up rates		118	34
10% proportionate decrease in expenses		142	33
5% proportionate decrease in mortality and morbidity		-	3
50% increase in capital requirements		(15)	-

Notes:
1 The value of new business is assessed at the point of sale. Increases in the value of equities and property at this date have no impact on the value of new business.
2 The sensitivities in the table include the impact of stress testing the Royal London Group Pension Scheme.

(i) Reconciliation of the IFRS unallocated divisible surplus to the European Embedded Value

	2015 £m	2014 £m
IFRS unallocated divisible surplus	**3,314**	3,139
Valuation differences between IFRS and EEV		
› Goodwill and intangible assets	**(277)**	(273)
› Deferred tax valuation differences	**-**	3
› Subordinated debt at market value	**(25)**	(42)
› Capital requirements of subsidiaries and other valuation differences	**(18)**	(46)
Add items only included on an embedded value basis		
› Valuation of asset management and service subsidiaries	**172**	187
Other valuation differences	**1**	18
European Embedded Value	**3,167**	2,986

(j) Reconciliation of IFRS transfer to unallocated divisible surplus to EEV profit

	2015 £m	2014 £m
IFRS transfer to unallocated divisible surplus	**175**	134
Amortisation of intangible assets	**(3)**	11
Differences in valuation of subsidiaries	**13**	17
Change in realistic value of subordinated debt	**17**	(26)
Movement in valuation differences for deferred tax assets	**(3)**	24
Other movements in valuation bases	**(18)**	-
EEV profit for the year	**181**	160

Notice of Annual General Meeting

Notice is hereby given that the 2016 Annual General Meeting of The Royal London Mutual Insurance Society Limited (the Group) will be held at 10.30am on Thursday 9 June 2016, at The Kia Oval, Kennington, London SE11 5SS to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. That the audited Annual Report and Accounts with the related auditors' report for the year ended 31 December 2015 be received.

2. That the Annual report on remuneration for the year ended 31 December 2015 be approved.

3. That PricewaterhouseCoopers LLP be reappointed as auditors to the Group until the conclusion of the next Annual General Meeting.

4. That the remuneration of PricewaterhouseCoopers LLP be fixed by the Audit Committee.

5. That Sally Bridgeland be reappointed a director.

6. That Ian Dilks be reappointed a director.

7. That Duncan Ferguson be reappointed a director.

8. That Tracey Graham be reappointed a director.

9. That Tim Harris be reappointed a director.

10. That Phil Loney be reappointed a director.

11. That Jon Macdonald be reappointed a director.

12. That Andrew Palmer be reappointed a director.

13. That Rupert Pennant-Rea be reappointed a director.

14. That David Weymouth be reappointed a director.

By order of the Board

Simon Mitchley
For and on behalf of Royal London Management Services Limited
Company Secretary
30 March 2016

The Royal London Mutual Insurance Society Limited

55 Gracechurch Street, London EC3V 0RL

Registered in England and Wales, No. 99064

Commentary on the resolutions

Resolution 1

Annual Report and Accounts 2015

Following changes introduced by the Companies Act 2006 (the Act), the Group is not required to lay its accounts before a general meeting.

The Board nonetheless considers it best practice to do so and will continue to present the Annual Report and Accounts to the Annual General Meeting (AGM).

Resolution 2

Annual report on remuneration

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

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

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

Resolution 2 seeks approval for the Annual report on remuneration.

The Directors' remuneration report appears on pages 58 to 76 of the Annual Report and Accounts.

Resolution 2 is an advisory vote.

Resolutions 3 and 4

Appointment and remuneration of auditors

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

PricewaterhouseCoopers LLP are the Group's existing auditors and it is proposed that they be reappointed, until the next general meeting. You are asked to authorise their reappointment and to authorise the Audit Committee to determine their remuneration.

Resolutions 5 to 14

Reappointment of directors

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

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

Glossary

A

Association of British Insurers (ABI)
The ABI represents the collective interests of the UK's insurance industry.

Acquisition costs
The costs of acquiring and processing new business, including a share of overheads.

Adviser
Someone authorised by the FCA, who is qualified by experience and examination to provide financial advice.

Annuity
An insurance policy that provides a regular income in exchange for a lump-sum payment.

Annuity Bureau
Launched in 2014, a Royal London service used to help customers who wish to buy a guaranteed income for life find the best rate for their individual circumstances.

Asset share
A policy's asset share is calculated by accumulating the premiums paid, deducting all applicable expenses and tax, and adding its share of the investment returns achieved by the with-profits fund over the policy's lifetime.

Assets under administration (AUA)
The total assets administered on behalf of individual customers and institutional clients. It includes those assets for which the Group provides investment management services, as well as those that the Group administers where the customer has selected an external third-party investment manager.

Auto-enrolment
The Government has introduced a new law designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they are not already in one.

Available regulatory capital
The excess of admissible assets over liabilities, as measured following the PRA's regulatory reporting requirements for UK life insurers.

B

Bright Grey
Royal London business unit providing protection products in the UK through intermediaries, which was combined with Scottish Provident in 2015 as a single life assurance business under the Royal London brand.

Burn-through cost
Under adverse conditions, the fund that remains open to new business may be required to make good any deficits that arise in the closed funds. This potential liability is known as the burn-through cost. It is modelled using stochastic techniques as it will only occur in adverse scenarios.

Business unit
A sub-division of the Group that focuses on a specific product offering, market or function. A business unit may be a statutory entity or part of one or more separate statutory entities.

C

Capital markets
Markets in which institutions and individuals trade financial securities such as long term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

CFO Forum
A high level discussion group formed and attended by the Chief Financial Officers of major European insurance companies to discuss and harmonise reporting standards.

CIS
The Co-operative Insurance Society Limited purchased by the Group on 31 July 2013. On 1 August 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. Includes Royal London Money Manager, the financial planning and education business unit, brought into the Consumer division in 2014.

Consumer Price Index (CPI)
A measure of changes in the price level of a basket of consumer goods and services purchased by households.

Covered business
The business covered by the EEV methodology. This includes life and pensions business defined as long-term business by UK and overseas regulators and asset management business (excluding cash management).

Critical illness cover
Cover that pays a lump sum if the insured person is diagnosed with a serious illness that meets the cover's definition.

D

Deferred acquisition costs (DAC)
The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

Deferred fee income
The method of accounting whereby up-front policy charges are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

Defined benefit scheme
A type of occupational pension scheme, where the benefits are based on the employee's salary and service.

Direct to consumer
Insurance business sold by the Group directly to end customers, rather than through advisers.

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.

European Union (EU) Markets in Financial Instruments Directive (MiFID II)
MiFID II is the EU legislation regulating firms providing services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

EEV operating profit
The profit on an EEV basis resulting from our primary business operations namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds.

Exceptional items
Items that, in the directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

Excess realistic capital
The excess of realistic working capital over the risk capital margin.

Excess regulatory capital
The excess of available regulatory capital over the regulatory capital required.

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.

Flexi-Access Drawdown (FAD)
FAD is a flexible retirement option introduced in April 2015 to allow a policyholder to take their pension fund how they want to at any time from age 55.

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 by third parties.

G

Governed portfolio range
A mix of assets held within each portfolio designed to match risk attitude and time to retirement to a suitable mix of assets and funds.

Group
The Royal London Group.

Guaranteed annuities
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.

Income drawdown
Also known as pension-fund withdrawal or income withdrawal. Drawdown allows putting off buying an annuity to a maximum age of 75, giving an income directly from the pension fund in the meantime.

Independent financial adviser (IFA)
Someone authorised by the FCA, qualified by experience and examination to provide financial advice, who is not working for any single product provider company.

Individual Capital Assessment (ICA)
An assessment of the capital required by the Group under the regulatory regime in force up to and including 31 December 2015, reported privately to the PRA. It is broadly equivalent to the capital needed to cover the Group's actual portfolio of risks at a 'one in two hundred year event' risk level, having regard to the Group's own risk controls.

Insurance Groups Directive (IGD)
The IGD is a regulatory directive also in force for insurance groups' requirement to submit details relating to their own solvency position and also the overall solvency position of the parent undertaking.

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

Internal Model
The processes, systems and calculations that together allow the Group to control the risks that it faces and quantify the capital needed to support those risks. It includes a calculation engine to quantify capital requirements, the Group's risk management framework and its system of governance.

Internal rate of return (IRR)
The discount rate at which the present value of the after-tax cash flows we expect to earn over the lifetime of the business written is equal to the total capital invested to support the writing of that business.

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

K

Key performance indicator (KPI)
An indicator used by a business to measure its development, performance or position.

M

Maintenance expenses
Expenses related to the servicing of the in-force book of business, including investment and termination expenses and a share of overheads.

Market-consistent basis
A basis of valuation in which assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.

Glossary continued

Mortgage endowment
An insurance contract combining savings and protection elements designed to repay the principal of a loan or mortgage.

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.

Over-the-counter (OTC) derivatives
Contracts which are traded (and privately negotiated) directly between two parties, without going through an exchange or other intemediary.

Own Risk and Solvency Assessment (ORSA)
The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

P

Parent company
The Royal London Mutual Insurance Society Limited.

Part VII Insurance Business Transfers
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.

Payback period
The period required for the after-tax cash flows expected to arise on new business to be equal to the capital invested to support the writing of the business.

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

Pension charge cap
In the April 2014 Budget the Government announced the introduction of a cap on member charges of 0.75% from April 2015 on the defaults available in defined contribution pension schemes used to comply with the auto-enrolment legislation.

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

Pension freedoms
The new pension legislation introduced in Budget 2014 that has become known as 'Freedom and choice' introduced new ways by which pension savings can be accessed. Now, members of a defined contribution (DC) pension scheme have increased flexibility in the options available to them when taking their pension benefits.

Personal pension
A pension plan for an individual policyholder.

PLAL
Phoenix Life Assurance Limited. PLAL's assets and liabilities were transferred into Royal London Group with effect from 29 December 2008.

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

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

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

ProfitShare
ProfitShare, previously referred to as the Mutual Dividend, is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares of eligible policies.

Project Chrysalis
An ongoing FCA review of the application of conduct-of-business rules to mutual with-profits life insurers, in light of falling volumes of with-profits business.

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 easing
Monetary policy used by a central bank to stimulate an economy when standard monetary policy has become ineffective.

R

Rating agencies
A rating agency (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default.

Realistic balance sheet (RBS)
The Group's balance sheet as calculated on the realistic reporting approach.

Realistic reporting approach
This is prescribed by the PRA and recognises the potential for future final bonus payments under with-profits business, the value of in-force business and the cost of future financial options and guarantees, which is calculated explicitly using stochastic techniques.

Realistic working capital
See definition of 'working capital'.

Regular premium
A series of payments for an insurance contract, typically monthly or annually.

Regulatory capital required
The amount of capital that the PRA requires a UK life insurer to hold which is calculated using the European Union solvency requirements basis, also known as the Insurance Groups Directive requirement.

Regulatory reserving basis
The basis of reserving for liabilities following the regulatory approach. This is prescribed by the PRA and is a prudent approach but does not recognise the potential for future final bonus payments under with-profits business.

Required capital
An amount that an insurer must set aside in addition to the value of the technical provisions to give additional comfort that an insurer will be able to meet policyholder liabilities as they fall due.

Retail Distribution Review (RDR)
A major FSA regulatory reform programme, implemented on 31 December 2012, which changed the way investment and pension products are sold.

Retail Price Index (RPI)
A measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

Risk capital margin
The required capital amount as prescribed by the PRA's realistic reporting approach.

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

Royal London 360°
Royal London business unit responsible for international business. This business was disposed of during 2013.

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

Royal London Asset Management Channel Islands (RLAM CI), Royal London Cash Management (RLCM)
Royal London's two cash-management operations, which provide specialist cash-management services for a wide range of clients including charities, insurance companies, universities and plcs. These were transferred into RLAM during 2014.

Royal London (CIS) Limited, Royal London Asset Management (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 Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

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

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

Royal London Platform Services (trading as Ascentric)
Royal London's independent wrap platform services which trades as Ascentric, providing investment administration and consolidation services to long-term investors and financial advisers through its online wrap service.

Royal London Plus
Royal London business unit responsible for managing the Group's direct to consumer businesses. This includes customers who were transferred from Refuge Assurance, United Friendly, Phoenix Life Assurance Limited and Royal Liver. Royal London Plus became part of the Consumer division in 2014.

Royal London Pooled Pensions Company Limited (RLPPC)
A subsidiary of the Group previously providing managed fund facilities to pension schemes. RLPPC was transferred into the Royal London Open Fund during 2014.

Royal London Long-Term Fund
The long-term business fund of Royal London, comprising the Royal London Open Fund and a number of closed sub-funds from businesses acquired in the past.

S

Sales
Sales represent PVNBP for life and pensions business.

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.

Single premium
A single payment for an insurance contract.

Solvency II
A major European Union directive which transforms how we manage and report risk and capital.

Glossary continued

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

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

TCAM
The Co-operative Asset Management Limited purchased by the Group on 31 July 2013. On 1 August it was renamed Royal London Asset Management (CIS) Limited.

Three lines of defence model
The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision making, risk and control to achieve effective governance, risk management and assurance.

U

UK Corporate Governance Code ('the Code')
This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Uncrystallised Fund Pension Lump Sum (UFPLS)
Lump sum paid on the death, before the age of 75, of a member of a money purchase pension scheme, in respect of funds that have not been used to purchase an annuity or provide unsecured pension benefits.

Unallocated divisible surplus
The amount of surplus 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)'.

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.

Working capital
The excess of assets over liabilities, as measured by the PRA's realistic reporting approach.

Wrap platform
A trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

Wrap provider
An investment company, such as Ascentric, that offers investors the opportunity to consolidate their different investments under a single administrative account.

Date	Event
31 March 2016	Financial results for 2015 and investor conference call
12 May 2016	Interim management statement and first quarter new business figures
9 June 2016	Annual General Meeting
18 August 2016	Interim financial results and second quarter new business figures and investor conference call
4 November 2016	Interim management statement and third quarter new business figures
13 November 2016	RL Finance Bonds No 3 plc Subordinated debt interest payment date
30 November 2016	RL Finance Bonds No 2 plc Subordinated debt interest payment date

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