ROYAL LONDON

HITTING THE RIGHT NOTES

Annual Report and Accounts 2016

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

We enjoyed a highly successful 2016 with record levels of sales and increased profits across our business.

Royal London also announced plans to share our profits with an additional 700,000 customers.

We're concentrating on our customers and members.
As a mutual, profits that we do not share immediately with our customers and members are reinvested to help us improve products and services for the long term.

9.0m

The Group has 9 million policies across our offerings, ranging from insurance to investments, pensions and other savings products

1.0m

Royal London is a mutual with more than 1 million members who share in our success

£650m

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

£8.7bn

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

Some key numbers

£321m

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

£143m

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

£114m

ProfitShare allocation for 2016 after tax

28%

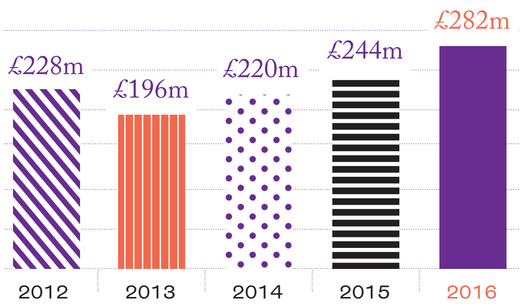
Increase in our life and pensions new business on the previous year, calculated on the present value of new business premiums basis

£100bn

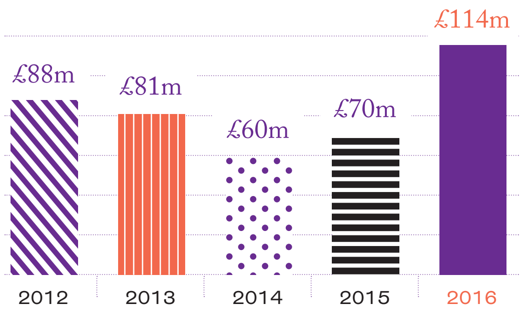
We are the largest life and pensions mutual in the UK, with £100bn funds under management

Performance at a glance

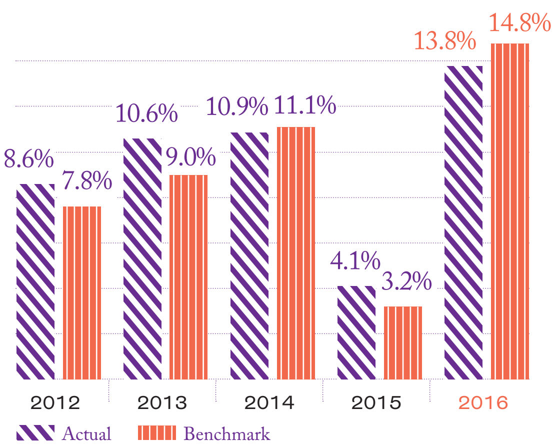
EEV operating profit before tax and exceptional items



ProfitShare (after tax)



Royal London with-profits performance



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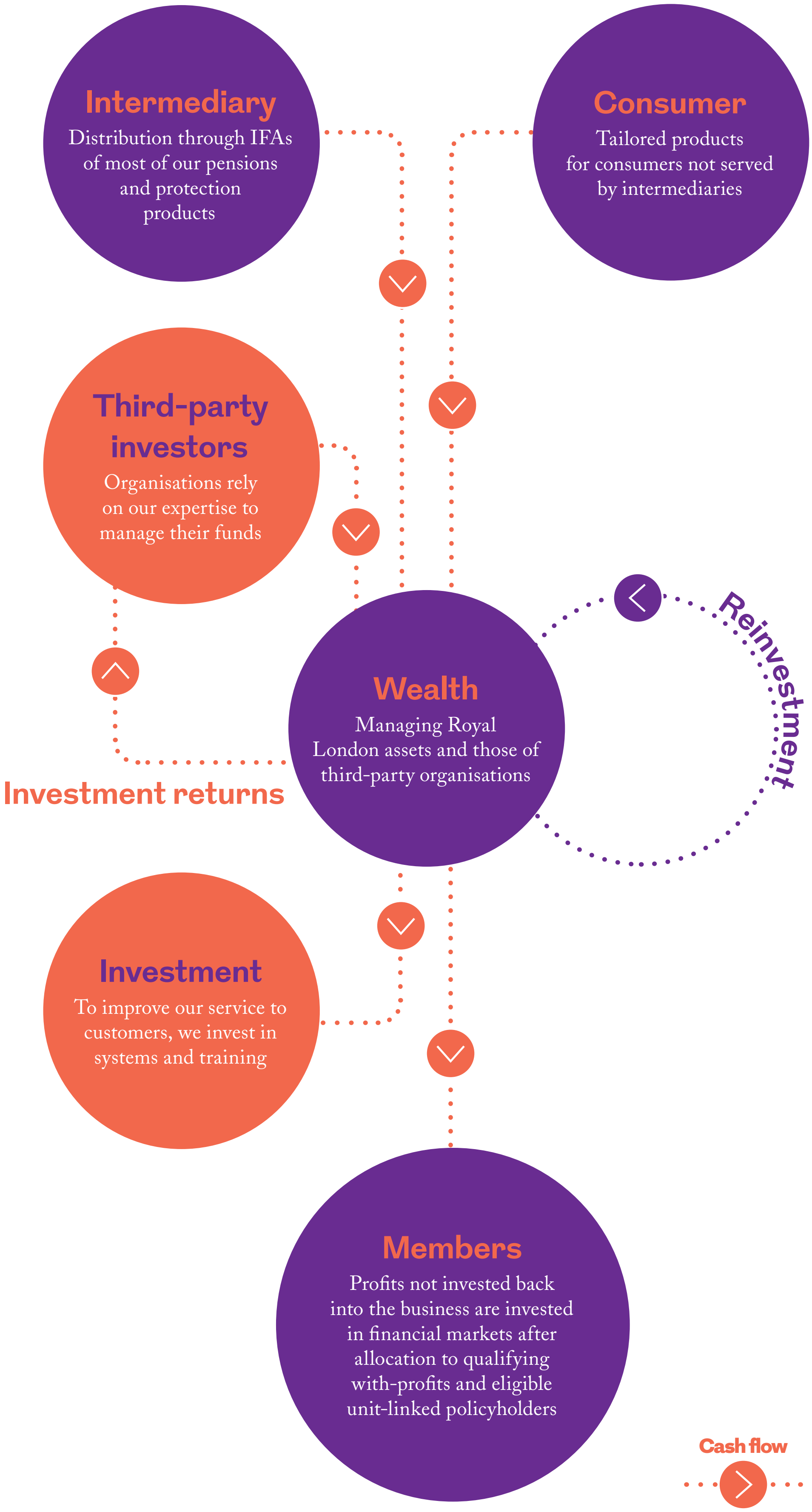
Our approach to business is based on achieving long-term value for our members. We achieve this by growing our business in the pensions, protection and wealth management markets in the United Kingdom and Ireland and also by managing our assets to deliver long-term growth and stability of income.

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



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

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 grow new business through our Intermediary, Consumer and Wealth divisions.

How we are achieving our strategic goals

Building trust

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

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

Raising awareness

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

Delivering value and service

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

CHAIRMAN'S STATEMENT

We drove our business forward in the face of difficult economic conditions and regulatory pressure, which helped us deliver a strong performance and maintain the customer service levels we're renowned for.

Rupert Pennant-Rea
Chairman

We are now in our third year of this rebranding, and in general progress has continued to be excellent. At last your Group has a clear identity, one that stands for the proven virtues of customer service, reliability and value for money.

£114m

ProfitShare for our members, up from £70m in 2015

Your Group has had another productive year, with strong financial results and some significant strategic progress. Although economic, market and regulatory conditions have not been easy to navigate, Royal London has maintained its reputation for customer service and a long-term commitment to its members.

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

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

Indeed, some of that spending is obligatory. The whole insurance industry has switched to a new set of capital rules in 2016 (called Solvency II). Our finance and IT staff have been busy ensuring that Royal London's systems and procedures are fully compliant with these rules in good time for the deadline set for us by the Prudential Regulation Authority (PRA). We will be seeking approval from the PRA to use our Internal Model under Solvency II from 2019.

Solvency II is just one example of how external legislation and regulation set an agenda that we must follow. In recent years, Royal London has been affected by pension freedoms, auto-enrolment for workplace pensions, a cap on the charges that companies levy on pension policies, and other more detailed changes that do not attract attention but are still time-consuming to implement. It is no surprise that financial services are being reformed, and there will be more changes to come, no doubt.

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

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

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

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

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

GROUP CHIEF EXECUTIVE'S STATEMENT

We kept pace with our growth targets in 2016, whilst our ability to deliver top-quality products and service means we're increasingly being recommended to others, putting us in pole position to attract new business in the year ahead.

Phil Loney
Group Chief Executive

2016 AWARDS

FINANCIAL ADVISER SERVICE AWARDS

WINNER
Company of the year

FIVE STARS
Pensions service
Protection service
Investment service

FTADVISER AND INNOVATION AWARDS

WINNER
Company of the year

FIVE STARS
Online service – pension
Online service – protection

MONEY MARKETING FINANCIAL SERVICES AWARDS

WINNER
Company of the year
Best Pension Provider

We made excellent progress at Royal London in 2016, performing well despite the backdrop of a turbulent year in politics and markets.

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

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

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

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

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

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

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

Membership and ProfitShare

Royal London now has over one million members, and numbers continue to increase rapidly as employees who join workplace pension schemes become members of our Group, alongside self-employed customers buying our personal pensions and people utilising our drawdown product to manage their retirement income.

Group Chief Executive's statement continued

During the year we increased our efforts to communicate with members digitally wherever possible. If you register your email address with us and keep an eye on the Members section of the Royal London website, you will receive regular updates on how your Group is performing. You will also find member offers and useful information to help you manage your finances more effectively and get the most out of your Royal London products.

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

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

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

Pensions and life assurance

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

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

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

Consumer

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

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

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

Royal London Asset Management

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

In March 2016, RLAM launched a range of six Global Multi Asset Portfolios, aimed at achieving attractive returns above inflation over the medium to long term. This is the latest example of our strategy to widen the RLAM product range, so that we can bring competitively priced and innovative fund offerings to a wider range of institutional and wholesale investors. Again, our growth is underpinned by our strategy of continually innovating to bring better value to customers.

57%

The proportion of adults who are now aware of Royal London*

£3.8bn

Total sales of personal pensions and drawdown, an increase of 17% on the previous year

86%

The proportion of our smaller bereavement claims that are paid in less than five days

*Source: YouGov Brand Index

Brand

Over the last three years we have been undergoing an enormous change at Royal London. In the past we chose to operate under a wide variety of company brands and, as a result, we were a well-kept secret rather than a widely known name in the financial services industry.

Once we decided to focus all our business areas on a strategy of constantly improving the value for money and quality of our products and services, it made sense to operate under a single Royal London brand that might over time become a hallmark for quality and value in our industry. We were inspired by the success other mutuals and partnerships such as Nationwide, Waitrose and John Lewis have achieved in their markets.

You may have seen Royal London advertisements on television or in the cinema throughout the year, or a campaign in partnership with *The Telegraph*, which encouraged the public to identify the quirky side of Britain. As ever, we emphasised Royal London's quintessential Britishness and the Group's important values, such as stability and mutuality.

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

Rewarding success

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

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

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

Record investment

Our strong sales performance meant we were able to invest during 2016 in a whole range of areas that will benefit both the business and our customers in the future.

We are investing in tools for customers and financial advisers to help our customers make the best possible decisions about their money. In 2016, we introduced better tools for advisers to guide their drawdown customers on what they can safely take out of their pension pot without threatening their future financial security. We see this type of investment as critical to helping us achieve our aim of being the company that customers and advisers recommend.

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

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

Group Chief Executive's statement continued

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

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

Doing more for customers

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

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

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

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

Looking forward

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

"Our new online service application for Life Insurance is industry leading and very well received, having made the notoriously complicated process of applying for life insurance simpler and more transparent."

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	2016 result	Historic performance 2013	2014	2015	2016
Profitability **EEV profit before tax and ProfitShare.**[1, 2, 3, 4]	£321m + 16%	£551m	£259m	£277m	£321m
Profitability **IFRS result (total transfer to unallocated divisible surplus).**[1, 3, 5, 6]	£143m – 18%	£379m	£134m	£175m	£143m
New business **Present value of new life and pensions business premiums.**	£8,686m + 28%	£3,464m	£4,826m	£6,774m	£8,686m
Funds **Funds under management.**	£100bn + 18%	£74bn	£82bn	£85bn	£100bn
Capital **Solvency II capital cover ratio.**[7]	232% + 3%	n/a	n/a	226%	232%

1 2014 includes an exceptional item being the £61m charge relating to the pensions charge cap.
2 2013 includes £150m one-off gain arising on the acquisition of the Co-operative life, pensions and asset management businesses.
3 2013 results exclude Royal London 360°, which was disposed of during 2013.
4 2016 result is before the change in basis for Solvency II of £182m.
5 2013 IFRS results include £125m one-off gain arising on the acquisition of the Co-operative life, pensions and asset management businesses.
6 2016 IFRS result is before the impact of the change in basis for Solvency II of £165m.
7 The Solvency II capital cover ratio is the total Own Funds of the Royal London Open Fund and Royal London Closed Funds divided by the Solvency Capital Requirement. It is before the restriction of the surplus in the Closed Funds.

Risk management and internal control

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

The system is designed to manage and mitigate the risks of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss. The system has been in place throughout the period under review and accords with the UK Corporate Governance Code. The Board is very conscious of the importance of the Group's internal controls and attaches high priority to developing them in line with good practice. The Board is aware that from time to time, due to the size and scale of the Group, issues could arise that impact the reputation of the Group and its operations. In the event of such risk materialising, the Board ensures that necessary actions are taken to address them.

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

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

Taken together these elements are designed to:

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

We have a formal governance structure of committees to manage risk, reporting to the Board, and accountability has been further strengthened through implementation of the Senior Insurance Managers Regime (SIMR) in 2016. Risk management is an integral part of our corporate agenda and employees at all levels have risk management responsibilities. Our primary objective in undertaking risk management is to ensure that the achievement of the Group's performance and objectives is not undermined by unexpected events and that sufficient capital is maintained. During 2016, the risk management system, in conjunction with the Solvency Capital Requirement (SCR), the Internal Model, our risk register and the Own Risk and Solvency Assessment (ORSA), has been used to help identify, mitigate, monitor and quantify significant risks to which we are exposed.

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

We have made a considerable effort to ensure that there is a strong risk management culture in all important decision-making processes and that the risk management system is well embedded across all business areas. During 2016, we continued to strengthen our approach to risk management by enhancing the design of the risk management system and processes, alongside the implementation of new risk management software that is used by all areas of the Group to manage all the elements of the risk management system onto one platform.

The Board reviewed the effectiveness of the Group's Risk Management System and Internal Control System during the year ended 31 December 2016. This took into account matters arising up to the date of approval of this Annual Report and Accounts. It covers all material controls across business, financial, compliance and risk management processes. It was conducted on an ongoing basis, via reports submitted to the Board, the Board Risk Committee and the Audit Committee and also by reports prepared as part of the year-end process. In the event of any significant weaknesses being identified, the Board ensures that necessary actions are taken to address them.

Three lines of defence

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

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

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

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

Group risk appetite framework

Our risk appetite framework consists of three components:

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

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

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

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

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

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

Operational
We operate strong controls over our business environment, with a robust risk management approach designed to ensure we do not expose the Group or our customers and members to inappropriate operational risks or inappropriate risk taking. By doing this, we aim to deliver better customer and member outcomes than our peers. We aim to provide a positive customer and member experience in everything that we do. In addition, we seek to have good relationships with our regulators and also with law enforcers.

Group risk policies

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

Solvency II

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

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

Principal risks and uncertainties

Managing risk is fundamental to our activities in order to generate returns for our customers and members. We have processes in place to identify and manage risks, which include assessing scenarios and reverse stress tests. Our approach to risk management is set out earlier in this statement. The Board believes the principal risks and uncertainties facing the Group are as set out on pages 15 to 18, with the actions taken to manage and mitigate them.

The Group's risk governance structures

Risk responsibilities of the Board

Board

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

Board Risk Committee

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

Audit Committee

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

Risk responsibilities of management

Executive Risk Committee

The role of the committee is to support the Group Chief Executive by giving consideration to and developing proposals and recommendations in respect of areas within the risk management system.

Capital Management Committee

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

Customer Standards Committee

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

Solvency II Steering Committee

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

Internal Model Governance Committee

The role of the committee is to support the Group Chief Executive by giving consideration to and developing proposals and recommendations that ensure the Internal Model accurately reflects the structure and risk profile of the business.

Principal risks and uncertainties

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

The Board confirms the principal risks and uncertainties facing the Group are as set out on the following pages, along with the actions taken to mitigate and manage them. The Board monitors principal risks and uncertainties on a quarterly basis, and undertakes a full review annually. Our approach to risk management, including the process of assessing and reviewing these risks, is set out below and on the following three pages.

Our risk profile is stable and generally changes only gradually from year to year. Although most of the principal risks and uncertainties set out last year are still relevant, we recognise that these have evolved due to the events and developments in 2016. Progress has also been made on a number of activities to manage and reduce certain risks.

The economy and Royal London's key markets

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

Principal risks and uncertainties continued

Changing political and regulatory environment

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

Principal risk and uncertainty	Risk mitigation and management
The referendum vote in favour of the UK leaving the EU creates uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation **The impact on markets is likely to be a marked rise in uncertainty resulting in a further impact on economic confidence, sterling, the UK credit rating and increased inflation.** **Uncertainty over the nature and timing of any negotiations with the EU leads to a lack of clarity over future regulation and legislation for the insurance and investment markets.**	The UK's exit from the EU is not expected to have a materially detrimental impact on Royal London's strategy and business due to our focus on the UK. However, we recognise the potential impact on our Ireland business and any potential implications with regard to Scotland's independence. Risks related to the market will be mitigated through our normal market risk monitoring and capital management activity. Given the Group's UK-focused business, we are less exposed than many of our peers to the risk of failing to access the single European market. We will 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.
Uncertainty over the Solvency II Internal Model Application Process (IMAP) **We intend to use a Solvency II Internal Model, subject to approval of an Internal Model application.** **Until such time as an application is approved, we remain exposed to the risk that our capital position will be subject to capital add-ons which may misstate our true capital position, leading to potential reputational damage and product uncompetitiveness.** **Whilst the high level regulations and process are understood, important elements of the details around the design of our Internal Model and the application process itself are still to be agreed with the regulator.** **There is a risk that we will have insufficient time to respond to feedback from the regulator, which increases the risk of significant re-work later in the application process or failure in achieving approval of our Internal Model.**	In line with PRA recommendations, we have continued to enhance our Internal Model and our risk and capital management systems, monitoring closely the potential impacts on capital requirements and ProfitShare. Our ongoing engagement with the PRA, which will lead to the submission of our Internal Model application, aims to identify any design issues to be addressed in advance of the application and increases the likelihood of a successful outcome in the Internal Model being approved.
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 regulators 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 the impact of developments such as the Markets in Financial Instruments Directive (MiFID) on our RLAM and RLPS operations. 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.
Changes to financial services markets may arise from the political environment **The political environment may give rise to changes that alter the viability of our propositions in the markets in which we operate. This could include a broadening and/or tightening of the application of the charge cap on workplace pensions, and a focus on asset management fees.**	As the political environment changes, we continually evaluate how our markets are evolving and look to develop propositions to meet the needs of customers and distributors. To support this we undertake regular monitoring of our performance, and the political and environmental landscape. 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.

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 their exposure to inflation, interest rates and longevity, and from risks associated with the state funds' investment strategies. Any adverse movements in these factors could increase future funding costs and could impact our financial position.**	Overall, the schemes are reasonably well funded; however, the Board recognises this position could change and continues to closely monitor funding levels and work with the Trustee Boards to assess opportunities to reduce volatility and risk. The main Group defined benefit scheme closed to future accrual from 31 March 2016. This has reduced the current funding commitment to that scheme.
We are exposed to the risk of failure or default of one or more of our counterparties **As part of our business, we invest in debt securities and other assets in order to meet our obligations to policyholders. As a result of this activity, exposures can arise to issuers of debt and other financial instruments. Our day-to-day activities also mean we have exposures to banking, insurance and reinsurance counterparties as well as third-party providers of IT and administration services.**	We seek to manage exposure to any one counterparty or third party. We actively monitor and report against limits in respect of investments. Contracts with third parties and suppliers are governed by strict service level agreements, which are monitored and discussed at regular account management meetings. The Capital Management Committee reviews large exposures that approach or exceed risk appetite and review the actions being taken to manage the exposures.
If our assumptions are subsequently proven to be wrong then adjustments may impact on our financial position **Our business involves the underwriting of risks where the ultimate liability is dependent on long-term trends in factors such as mortality, lapse rates, interest rates and counterparty defaults.** **We take a prudent approach when calculating capital requirements. However, extreme movements can take place. Such events could arise from, for example, medical science advances and movements in financial markets or in the broader economic environment. 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.

Core processes and organisational delivery

We continue to monitor change as a principal risk, recognising that the amount of internal changes across our systems and processes could also affect our ability to deliver.

Principal risk and uncertainty	Risk mitigation and management
Organisational capabilities may be impaired by the high level of change across the Group **The Group has grown in recent years and we have completed change programmes in line with this growth in order to continually improve our capabilities and the experience of our customers. There is a risk that the continued growth plans and changes to our operational systems and processes, combined with the significant amount of external change in markets, regulation and legislation, result in possible future inefficient or ineffective organisational delivery, with consequential operational loss and/or reputational damage.** **This includes, for example, the ongoing financial and actuarial system enhancement programmes, which if not delivered effectively could give rise to a material financial reporting error.**	Our strategic and operational plans are regularly reviewed by the Board. These take account of our resources and the scale and diversity of change currently under way and planned for the future. Specific change programme monitoring and reporting takes place at project, programme, portfolio and strategic execution level, utilising a dashboard of measures to ensure appropriate risk-based decisions are made and that resources are allocated in an efficient and sustainable manner. The portfolio is also constructed to take account of the anticipated level of resourcing available. Additionally, the risk of financial reporting errors arising during and after the financial and actuarial enhancement programmes is mitigated by thorough testing of the systems before, during and after implementation, and ongoing control monitoring through the control framework for financial reporting data.

Principal risks and uncertainties continued

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 material outsourcer or service provider.**	We have a framework for the governance and oversight of material outsourcer and supplier arrangements. It includes the requirement for executive approval prior to commencing material outsourcer and supplier arrangements together with policies and processes for the oversight and escalation of risks and issues to the attention of the appropriate risk committees. The business closely manages outsourcer and supplier relationships, and the governance arrangements for material outsourcers require that our customers do not face an increased level of risk due to an outsourced arrangement.

Legacy products

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

Removed principal risk and uncertainty since prior report

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

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 governance and processes in place that ensure we maintain existing strengths and relationships with our customers. Metrics are in place to monitor brands across the business. A quarterly brand tracking survey measures consumer awareness and sentiment. Regular adviser surveys are undertaken to keep track of brand and proposition awareness, as well as the likelihood of recommending us.

Longer-Term Viability Statement

Assessment of prospects

The context for the assessment

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

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

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

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

The assessment process

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

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

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

Whilst the directors have no reason to believe that the Group will not be viable over a longer period, the period over which the directors consider it possible to form a reasonable expectation as to the Group's longer-term viability is the five-year period to December 2021.

This period has been selected because the Group's medium-term business planning process sets out its strategy and assumptions on a five-year time horizon; and the latest business plans, which include in-depth analysis of its risk profile, liquidity, profit and capital projections, cover the period to December 2021.

Assessment of viability

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

- a range of sensitivity analyses and stress tests over key economic, insurance and operational risks, for example a 1 in 200 adverse impact from financial markets or a significant medical science advance; and
- stressing of the business plan for adverse scenarios impacting profitability, liquidity and/or solvency, including:
  - adverse regulatory and legislative developments;
  - adverse distribution developments affecting the Group's market share;
  - technological advances allowing more competitors to enter markets and changing the basis of product pricing; and
  - changes to the requirements of customers impacting the relevance of the Group's product set.

Each above scenario is designed to be severe but plausible, and take full account of the availability and likely effectiveness of the potential mitigating actions management could take to avoid or reduce the impact in the circumstances. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, discussed on pages 12 and 13, are taken into account.

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

Viability statement

Based on their robust assessment of the principal risks and uncertainties facing the Group and the stress testing based assessment of the Group's prospects, which have been described on this page, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2021.

Going concern

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

SUSTAINED EFFORT

Our three main business divisions all enjoyed another strong year. We further enhanced our reputation for high-quality products and service, while continuing to raise consumer awareness of key financial issues.

> Our aim is to help as many people as possible afford impartial advice. We do this by designing our products and services to support advisers in delivering risk-tailored solutions for their clients in a cost-effective way.

Intermediary

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

To find out more, turn to p22.

Consumer

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

To find out more, turn to p24.

Wealth

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

To find out more, turn to p26.

Our corporate responsibility

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

To find out more, turn to p28.

Intermediary

It was another excellent year for our Intermediary business, which won a lot of new business whilst playing a leading role in auto-enrolment for workplace pensions.

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

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

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

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

Group Pensions

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

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

Personal Pensions

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

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

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

We also introduced a drawdown governance service for advisers, helping them monitor their portfolio of clients in retirement and highlighting cases where the level of income being taken is unsustainable and may require a client-specific review.

17%

The proportion that our sales of personal pensions (including drawdown) rose by last year

7,492

The number of employers that we supported through auto-enrolment in 2016

2016 AWARDS

FTADVISER INNOVATION AND ONLINE SERVICE AWARDS 2016

WINNER
Company of the year

FIVE STARS
Pensions online service (10th year running)
Protection online service

HIGHLY COMMENDED
Innovation award for online service (new this year)

CORPORATE ADVISER AWARDS

WINNER
Ultimate Default Fund – Target Lifestyle Strategies

DEFAQTO STAR RATINGS

FIVE STARS
Critical Illness Cover
Income Protection
Whole of Life Assurance***

Protection

Recovery in the performance of our protection business began in 2015 and momentum continued to build throughout 2016. This restore phase of our strategy involved ensuring our products were at the top of their class, underpinned by customer and adviser service that is high quality and constantly improving to align with the distinct segments of the intermediated protection market.

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

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

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

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

We have also been working on ways to simplify the process of buying life cover alongside a mortgage application. House purchase is a key lifestage moment for customers and yet the proportion of customers taking life and critical illness protection remains stubbornly low. We are developing analytics capability to use the data supplied as part of the mortgage application process to provide a streamlined process and competitive price for buying life cover. This is another example of our commitment to develop the protection market in 2017 and beyond.

Consumer

It hasn't taken our Consumer division long to establish itself as a leading player in its chosen markets. The division not only delivered a very successful trading year, but also created distribution partnerships with other like-minded businesses that should lead to further growth.

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

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

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

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

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

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

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

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

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

Partnerships

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

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

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

Existing customers

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

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

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

11,500

The number of Post Office outlets through which we're offering our products as part of our new partnership

Pump up the volume

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

Wealth

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

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

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

RLAM

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

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

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

External sales

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

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

Investment backdrop

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

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

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

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

Returns for Royal London policyholders

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

Corporate Governance

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

In 2016, we voted on 11,576 resolutions at 703 companies, the vast majority of which were UK listed companies. Overall we voted 'For' 94% of the proposals, 'Against' 5% and 'Abstained' on 1%. By far the category we most regularly vote against management is on remuneration. For remuneration votes, we voted 'For' 69%, 'Against' 23% and 'Abstained' on 8%. We wrote to every company held in our actively managed funds to explain our reasons for voting against the proposal.

Over the course of the year we spoke to 134 companies on issues such as executive pay, succession planning, workforce, culture, climate change, diversity, and cyber security.

In cases where voting and engagement have not led to meaningful improvements, we spoke out publicly to draw attention to our concerns. In fact, transparency is a key part of what we do. We publish details of all Company votes on the RLAM website, along with details of our policies and a regular newsletter.

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

RLPS (Ascentric)

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

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

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

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

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

2016 AWARDS

FINANCIAL ADVISER 5* SERVICE AWARDS

WINNER
Company of the year
Investments

MONEYWISE FUND AWARDS

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

INVESTORS CHRONICLE TOP 100 FUNDS

WINNER
RL Sterling Extra Yield Bond Fund
RL Ethical Bond Fund

£12.3bn

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

Our corporate responsibility

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

Supporting our customers

Raising financial awareness and capability

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

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

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

Meeting customer needs

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

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

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

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

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

Understanding our customers

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

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

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

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

Our asset management business

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

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

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

Our quarterly report *Responsibility Matters*, keeps our clients and members up to date with our engagement and voting activities along with our views and insight into specific sectors or issues. Our sustainable funds continue to perform and RLAM's Sustainable World Trust was named the UK's cleanest fund by non-profit organisation As You Sow.

Supporting our people

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

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

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

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

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

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

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

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

Making a difference in our communities

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

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

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

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

Our environment

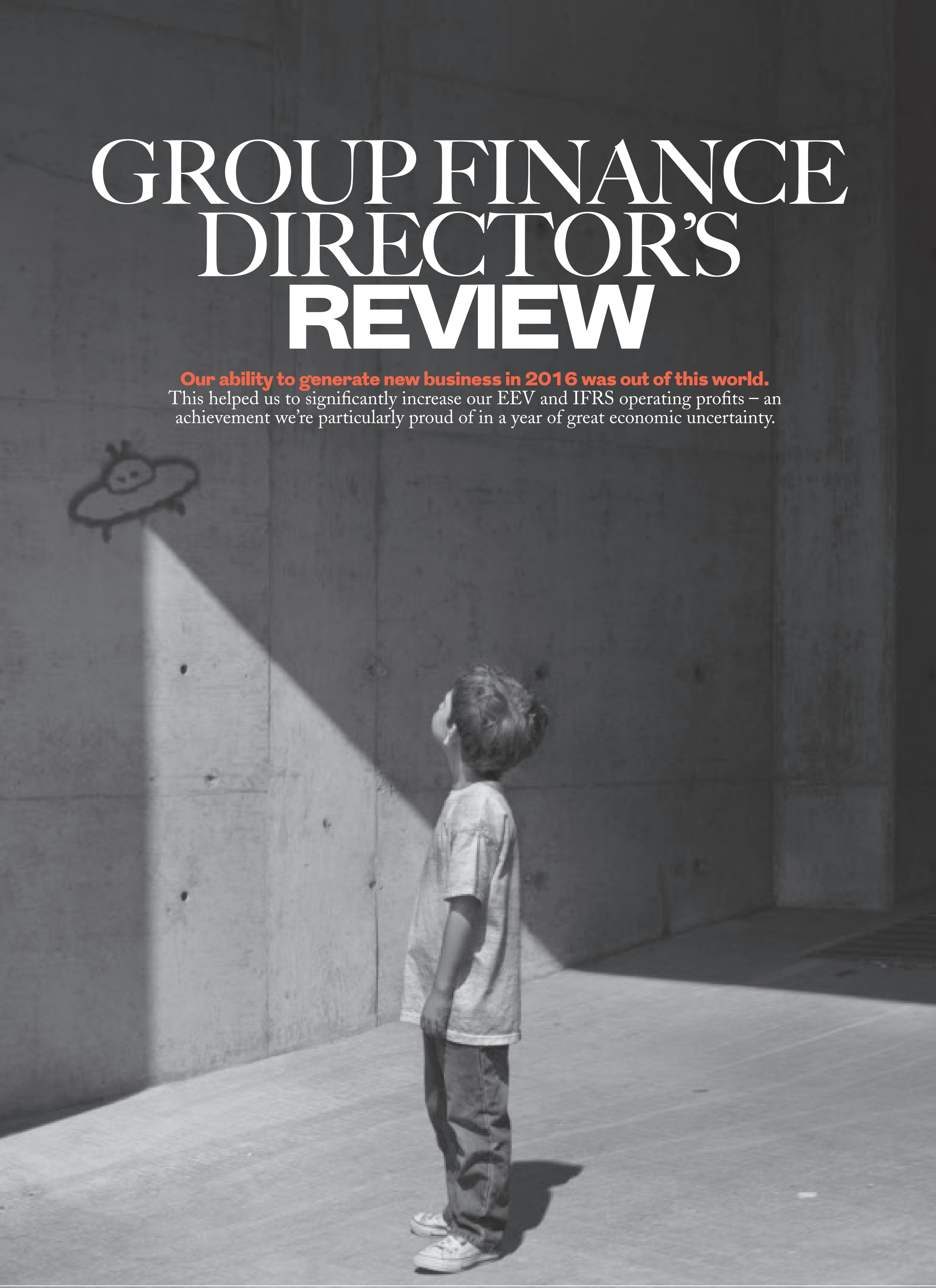
In 2016 we prepared our first Group-wide Sustainability Statement. More information is available on our Corporate Responsibility webpages. Our main environmental impact areas are the use of energy and carbon dioxide (CO_2) emissions, the generation of waste and the use of water. However, all of our practices aim to result in minimal or zero environmental impact.

www.royallondon.com/about/corporate-responsibility

> We fully support the requirements under the Financial Reporting Council's (FRC) Stewardship Code, maintaining a high level of disclosure and transparency in our stewardship responsibilities.

GROUP FINANCE DIRECTOR'S REVIEW

Our ability to generate new business in 2016 was out of this world. This helped us to significantly increase our EEV and IFRS operating profits – an achievement we're particularly proud of in a year of great economic uncertainty.



Tim Harris
Group Finance Director

Even using the more stringent capital measurements of Solvency II, our capital position remains strong.

£282m

Our EEV operating profit before tax compared with £244m in 2015

Royal London performed incredibly well during 2016. Our new business generation was outstanding, and operating profit rose strongly. During the year we also made significant investment in the business to position ourselves for future growth. Looking through all of this, 2016 is one of our strongest years in recent times.

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

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

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

In this review I will explain the main factors that drove our financial performance during the year. Given the complex nature of accounting and regulation in our industry, it is not always easy to make these explanations simple, but our aim is always to be as clear as possible. A glossary of financial jargon on page 208 will help explain some of the terminology.

Financial summary

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

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

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

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

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

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

Key developments

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

1 Total Company is The Royal London Mutual Insurance Society Limited, which comprises the Royal London Open Fund, into which all new business is written, and seven closed, ring-fenced funds from previous acquisition activity.

Group Finance Director's review continued

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

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

We are also working hard on cost control and our Operational Efficiency programme, launched in 2014, is used to identify and realise cost savings with the emphasis on sustainable cost reductions. During the year, the programme identified £18m of savings for 2017. This has been achieved through a variety of initiatives, from the deployment of continuous improvement end-to-end process reviews, to organisational redesign opportunities, and by introducing a more structured and consistent approach to cost centre management. During 2017 we will continue to explore further ways to streamline our business model and strive to remove more waste and complexity from our current processes and structures.

Solvency II and changes in accounting policy

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

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

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

New business results

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

Intermediary

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

Consumer

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

Wealth

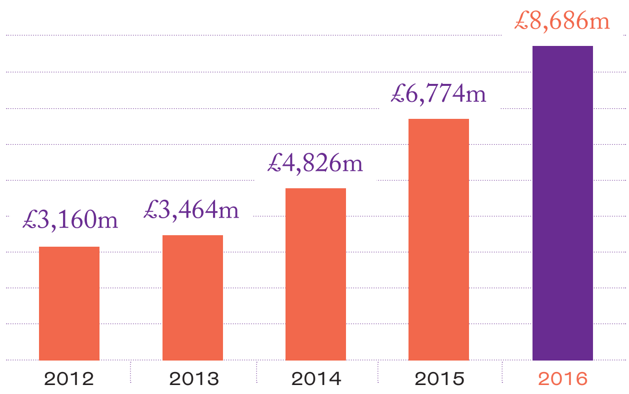
RLAM saw net inflows of £2,321m (2015: £532m) during the year and total funds rose above £100bn for the first time in Q3 2016 and remained at £100bn at 31 December 2016 (2015:

New business results[1]

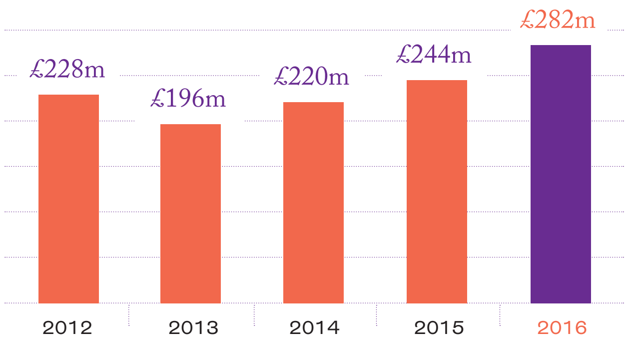
	New business contribution		PVNBP		New business margin	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 %	2015 %
Intermediary						
Pensions	170.6	107.9	7,738	6,107	2.2	1.8
Protection	42.8	42.3	647	502	6.6	8.4
Consumer	4.3	(14.6)	301	165	1.4	(8.8)
Life and pensions business	217.7	135.6	8,686	6,774	2.5	2.0
Wealth	37.7	22.2	6,741	3,146	0.6	0.7
Total	255.4	157.8	15,427	9,920	1.7	1.6

1 New business contribution in the table above has been grossed up for tax at 20% (2015: 20%). We have done this to help compare our results with the results of shareholder-owned life insurance companies, which typically pay tax at 20% (2015: 20%).

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.

£85bn). The UK referendum on EU membership and subsequent decision to leave the EU created considerable volatility in investment markets, with interest rates remaining lower for longer than expected. While this made investment decisions difficult, it also created opportunities, and institutional investors increased funds coming to us, particularly in the fixed interest area. The Ascentric wrap platform maintained market share and increased assets under management by 22% to £12.3bn.

Financial review

EEV operating profit

EEV operating profit before tax rose by 16% to £282m (2015: £244m), mainly driven by the new business sales and changes to our underlying assumptions mainly regarding consumer behaviour.

Profit contribution from new business was £223m, up 63% from the previous year. For the first time this year, the new business contribution was discounted using a rate derived from the swap curve. In previous years a gilt yield derived discount rate was used. Margins held up well at 1.7% (2015: 1.6%) benefiting from our increased sales despite the challenging economic environment.

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

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

> A partnership with Post Office Money to sell our products through its outlets was signed in early 2017 and we expect it will increase our sales volumes significantly.

28%

The increase in our life and pensions PVNBP from £6,774m in 2015

£18m

The amount in savings that our Operational Efficiency programme identified for 2017 mainly due to small operating profits on our uncovered business offset by significant cost being incurred in 2016 relating to the development of new back office software in RLPS (Ascentric). This included an impairment charge of £44m.

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

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

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

On this basis EEV profit was £321m (2015: £277m). The increase on the previous year is due to our strong operating performance, despite the low interest rate environment. The low interest rate environment had an adverse impact on the RLGPS, the funding level of which decreased by £118m (before the curtailment gain of £21m recognised in operating profit; 2015: increase of £23m) during the year due to the decrease in the rate used to discount the scheme liabilities. Low interest rates have also resulted in an adverse change of £192m to the economic assumptions we use (2015: positive £32m), which has been more than offset from investment returns being better than we expected at the start of the year by £395m (2015: £21m).

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

IFRS results

Alongside EEV, Royal London also reports its results under the International Financial Reporting Standards (IFRS). While the two methods broadly follow each other, there are key differences outlined in notes (i) and (j) to the financial statements on pages 204 and 205 of the Annual Report and Accounts that contribute to the differences in respective results. As a mutual, the transfer to the unallocated divisible surplus (UDS) is a key measure in determining the level of profits available for us to share with our members.

Transfer to UDS

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

Our 2016 operating profit (IFRS basis) was £281m (2015: £252m). On an IFRS basis, operating profit differs from EEV in that it recognises the amortisation of certain intangible assets. However, IFRS does not recognise the embedded value profits of our asset management business (these are included in the EEV profit). The table below reconciles our operating profit to the IFRS total deduction from/transfer to UDS. The most notable items are:

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

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

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

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

Staff pension scheme
As we announced in the last year, the RLGPS was closed to future accrual of benefits in March 2016, an important step in managing our costs and capital requirements. All employees are now encouraged to join the Royal London Group Personal Pension or the Ascentric Group Personal Pension, both of which are consistent with the products we offer to our customers through our pensions business. The closure resulted in a one-off gain of £21m that is recognised in our operating profit.

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

We also operate two schemes for former Royal Liver employees. The surplus from these schemes is included as part of the valuation of the closed Royal Liver Sub-Fund and therefore does not count towards the position of the Royal London Open Fund. The combined Royal Liver schemes surplus as at 31 December 2016 was £131m (2015: £106m surplus).

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

Capital strength
A strong capital base is an essential requirement for our business, both to ensure we have the capital to fund further growth and to safeguard the peace of mind of our members that we can meet our financial commitments to them.

Maintaining this strong capital position and managing it effectively is a key priority for us.

Solvency II capital position on a Standard Formula basis
Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. The Royal London Open Fund had an excess surplus of £1.9bn and a capital cover ratio of 209% at 31 December 2016 (1 January 2016: 239%). The Closed Funds are also well capitalised with an excess surplus of £2.6bn and a capital cover ratio of 254%. The average capital cover ratio for Royal London is 232%, including surplus in the closed funds.

In common with the rest of the industry, we present two cover ratios: an 'investor view' for analysts and investors in our subordinated debt (which does not restrict the surplus in the Closed Funds), and a 'regulatory view' where this Closed Funds' surplus is treated as a liability.

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

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

Solvency II capital position on a Standard Formula basis

31 December 2016	Royal London Open Funds (£bn)	Royal London Closed Funds (£bn)	Total Company (Investor View) (£bn)	Closed Funds Restriction	Total Company (Regulatory View) (£bn)
Own Funds:					
Tier 1	2.8	4.3	7.1	-	7.1
Tier 2	0.8	-	0.8	-	0.8
Total Own Funds	**3.6**	**4.3**	**7.9**	**-**	**7.9**
Closed Funds restriction	-	-	-	(2.6)	(2.6)
Adjusted Own Funds (A)	**3.6**	**4.3**	**7.9**	**(2.6)**	**5.3**
Solvency Capital Requirement (B)	**1.7**	**1.7**	**3.4**	**-**	**3.4**
Surplus	**1.9**	**2.6**	**4.5**	**(2.6)**	**1.9**
Capital cover ratio (A/B)	**209%**	**254%**	**232%**	**n/a**	**155%**
1 January 2016 Capital cover ratio (A/B)	**239%**	**213%**	**226%**	**n/a**	**169%**

1 The 31 December 2016 figures are estimated and have not been subject to an external audit opinion.
2 The 1 January 2016 ratios are taken from data in Royal London's opening Solvency II balance sheet submission to the PRA in May 2016.
3 The 31 December 2016 figures assume the Transitional Measures on Technical Provisions (TMTP) have not been recalculated at year-end 2016.

Further detail on our capital can be seen in note 42 to the IFRS Financial Statements on pages 190 to 192.

Ratings agencies

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

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

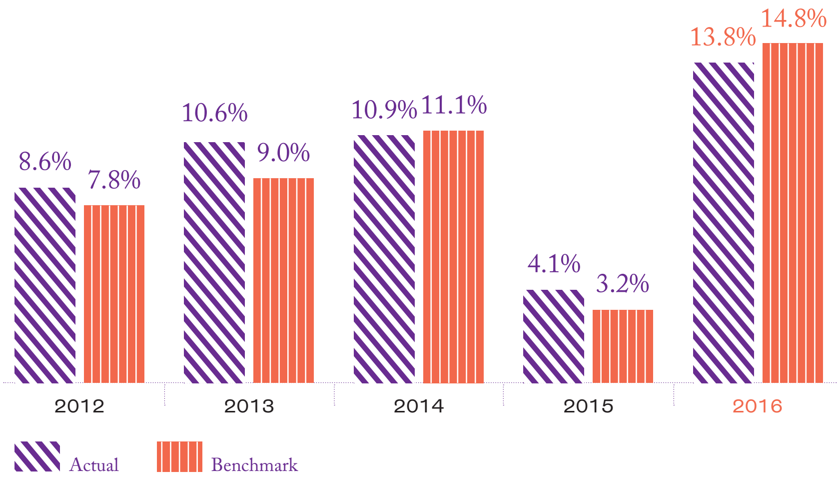
Returning value to our members and policyholders

Our with-profits policyholders saw good returns in 2016 from:

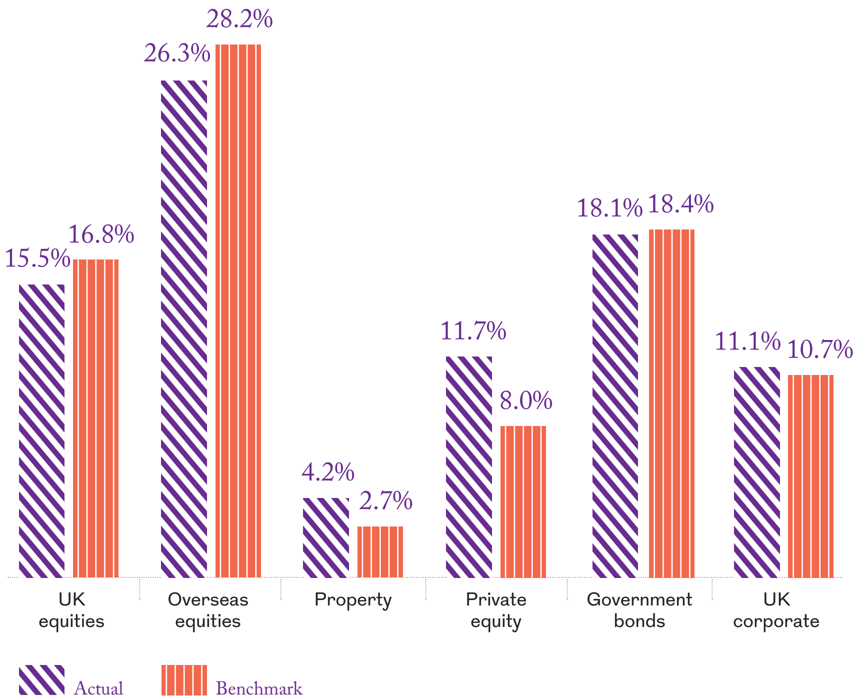
- positive investment returns on their policies, helped by rising stock markets despite volatile financial markets and low interest rates;
- the payouts that were made to maturing policies during the year, which compare well with our industry; and
- ProfitShare of £114m, up from £70m in 2015.

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

Royal London with-profits performance



Royal London with-profits performance by asset class in 2016



Investment returns

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

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

Our investment performance is measured both in absolute terms and against benchmarks that look at returns from different types of assets, such as property, equities and bonds. Each of our funds has different benchmarks to reflect their mix of assets and to ensure we are comparing like with like.

During the year our investments backing the asset shares of the Royal London Open Fund, our largest fund, achieved a return of 13.8%, an improvement on the 2015 return of 4.1%. Although good in absolute terms, the result did not exceed the benchmark. This reflects the fact that our investment strategies at

“We expanded the reach of ProfitShare last year. This allowed the vast majority of our unit-linked pension customers to share in Royal London's success.”

£114m

The total ProfitShare award, up from £70m the previous year

1.4%

The proportion by which we have been able to enhance our traditional with-profits customers' ProfitShare return

0.18%

The enhancement to the unit-holdings of eligible unit-linked pension customers

the beginning of 2016 were predicated on rising interest rates and a slow performance for the FTSE 100. The vote to exit the EU meant that investment markets took a very different course.

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

Unit-linked investment returns

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

With-profits policyholder bonuses

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

Strong investment returns over 2016, as sterling weakened against major global currencies, means we can increase payouts for most of our traditional with-profits customers who receive a payout in 2017. One of the main features of with-profits policies is smoothing. We have held back some of the particularly strong investment returns in 2016 to top up with-profits payouts in future years if investment returns are poorer than expected.

We continue to manage our closed with-profits funds in line with our Principles and Practices of Financial Management, treating all of our policyholders fairly. In particular, we aim to maximise the long-term returns for our with-profits policyholders while ensuring we can pay all the amounts guaranteed to our policyholders.

ProfitShare

We expanded the reach of ProfitShare last year. This allowed the vast majority of our unit-linked pension customers to share in Royal London's success. We committed to look after the interests of our existing with-profits customers while we expanded ProfitShare.

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

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

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

Tax

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

Tax strategy

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

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

Group Finance Director's review continued

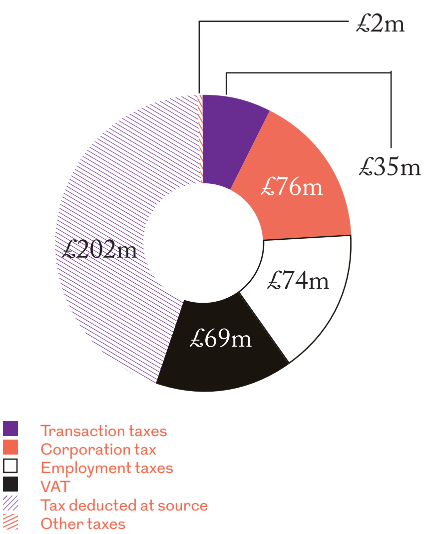
Keep a look out for our detailed tax strategy document which will be published on our website later in the year.

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

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

The majority of our business is based in the UK and therefore most of the tax we pay relates to UK taxes. In 2016 the total UK tax contribution of the Group was £458m (2015:£444m) and a summary chart of the total contribution of the Group for 2016 is shown below.

The Group's total tax contribution is made up of the taxes borne and collected by the Group in the period. Taxes borne are the taxes suffered by the Group in the period which impact on the results of the Group. Taxes collected are those administered by the Group on behalf of government and collected from others for onward payment to HMRC. In 2016 taxes of £166m (2015: £139m) were borne by the Group and the Group collected £292m (2015: £305m) of taxes on behalf of the UK Government.



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

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

Tim Harris
Group Finance Director

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

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

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

Strategic report
The 2016 Strategic report, from pages 1 to 38, was approved by the Board of Directors on 29 March 2017.

By order of the Board

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

An eye for detail

In 2016 we paid very close attention to making sure we delivered outstanding performance to all our members and customers.

WE WORK FOR YOU

Being a mutual allows us to take longer-term decisions that better serve the interests of all our members, and we always welcome it when members challenge our directors to improve what we do.

Rupert Pennant-Rea
Chairman

"The Group's external auditors check our standards of reporting Royal London's financial results are in line with the Code, which aims to ensure our standards are as high as any listed company's would be."

Being a mutual has many pluses. It also has one big minus. Could the minus ever be turned into another plus?

The question is all about the power of ownership. In most models of corporate governance, the central question is how to organise a company's affairs so that it takes full account of the interests of its owners. The answer is a hierarchy of powers and responsibilities, with the Board at the top. The chief executive, who runs the company, is answerable to the non-executive directors and can be dismissed by them. But they in turn are there only as long as the owners want them.

Now imagine three versions of Royal London. RL Mark 1 is the company as it is today, selling the familiar range of products and services, and mutually owned by some (though not all) of its customers. RL Mark 2 is identical, except that it is publicly quoted, its shares freely bought and sold on the stock exchange. RL Mark 3 is owned by a private equity group.

In what way might the shareholders of RL Mark 2 and Mark 3 be better owners of the company than our profit-sharing customers are?

After four years as your chairman, I think the answer is: only in one respect. They would put more pressure on the Board. The Mark 2 shareholders would insist on regular meetings with senior management, ask difficult questions – and they would vote. If you take a quoted company of a similar size to Royal London, the resolutions at its AGM typically pass with the votes of about 70% of its shares. By contrast, the resolutions at our AGM last year were voted on by less than 2% of those eligible to vote and only 40-50 members attended the meeting.

All those differences would be even clearer in the case of RL Mark 3, where a private equity group owns a large majority of the shares (the rest are typically owned by senior managers). For that type of owner, putting pressure on management is its main purpose in life. Its time horizon can be damagingly short, but its knowledge of the company's affairs usually can't be faulted. The result: the management and Board need never wonder what the owners think and want.

The real Royal London is quite different. Because of our ownership structure, some of the conventional checks and balances of corporate governance don't work well for the directors. Speaking personally, this is a frustrating conundrum. I would like to know what you are thinking. I would like to feel you are a check on me and my fellow directors. We aren't interested in unconstrained power. I value Royal London's mutuality and have no doubt it allows us to take longer-term decisions that serve the interests of all our customers better than if the Group was listed on the stock exchange; but I do wish more of our members did more to challenge the directors to improve what the Group does. You can send any questions to us by email to members@royallondon.com, with the subject 'Question for the Board' and your query will be sent direct to us.

Despite not having enough owner-pressure, your Board tries to ensure the vacuum is filled in positive ways. First, by having independent non-executive directors with experience of listed-company life, who know how a good Board operates. Secondly, by having several sub-committees – at Royal London there are eight – and ensuring their chairs have a lot of autonomy. The committees become mini centres of power in their own right, well placed to challenge the senior managers (and indeed the Group Chairman).

In addition, outsiders act as independent sources of pressure. The Group's external auditors check our standards of reporting Royal London's financial results are in line with the Code[1], which aims to ensure our standards are as high as any listed company's would be. Secondly, our bondholders, who have lent Royal London nearly £750m, have a powerful interest in ensuring the Group is well run. Thirdly, as a provider of workplace pensions we are required to have an Independent Governance Committee that represents the interests of scheme members. And last but not least, we have two regulators – the Prudential Regulation Authority and the Financial Conduct Authority – that take a deep and continuous interest in our affairs. Chairmen often complain about 'excessive regulation', but in our case we recognise the valuable role these two bodies play in our corporate governance.

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

Board of Directors

Rupert Pennant-Rea
Chairman

Appointed: 13 December 2012.
Skills, competencies and experience: Rupert was appointed Chairman after the AGM in 2013. He has extensive financial services industry experience. He was chairman of Henderson Group for eight years and stepped down at its AGM in May 2013. He was deputy governor of the Bank of England from 1993 to 1995, prior to which he spent 16 years with *The Economist*, where he was editor from 1986 to 1993.
Committee memberships: Nomination Committee (Chair), member of Remuneration Committee and attends all other committees.
External appointments: Non-executive chairman of the Economist Group and PGI Group Limited, Independent National Director of Times Newspapers Holdings Limited.

Phil Loney
Group Chief Executive

Appointed: 1 October 2011.
Skills, competencies and experience: Prior to joining the Group, Phil spent eight years working in the Insurance Division of Lloyds Banking Group, most recently as managing director of the Life, Pensions and Investments business. Before joining Lloyds Banking Group, Phil held senior leadership positions with AXA, Norwich Union, CGU and Lloyds Abbey Life among others. Phil's experience has been across both long-term savings and general insurance.
Committee memberships: Disclosure Committee.
External appointments: Association of British Insurers (Senior Independent Director).

Tim Harris
Group Finance Director

Appointed: 19 May 2014.
Skills, competencies and experience: Prior to joining Royal London, Tim was chief finance officer for Torus Insurance and held a number of senior executive positions at Aviva Plc, most recently deputy group chief financial officer, and served on the boards of Aviva Ireland and Aviva France. He was also a partner in the Global Capital Markets practice at PricewaterhouseCoopers LLP. Tim is a Fellow of the Institute of Chartered Accountants (ICAEW) and a Chartered Insurance Practitioner, and serves on the Insurance Committee of the Financial Services faculty of the ICAEW.
Committee memberships: Disclosure, Investment, and With-Profits Committees.
External appointments: ABI Prudential Regulation, Financial Reporting & Tax Committee (Chair) and ABI (Director). Tim also sits on the PRA Practitioners Committee.

Jon Macdonald
Chief Risk Officer

Appointed: 14 December 2012.
Skills, competencies and experience: Jon joined the Group in November 2012 as Chief Risk Officer. He was previously group chief risk officer for RSA and Prudential and has held a number of senior risk and capital management roles at Prudential, PricewaterhouseCoopers LLP, Aviva Plc, Fox-Pitt Kelton, Swiss Re and Zurich and is a Fellow of the Institute of Actuaries.
Committee memberships: Disclosure, Independent Governance and Investment Committees.

Sally Bridgeland
Independent Non-Executive Director

Appointed: 14 January 2015.
Skills, competencies and experience: Sally spent 20 years at AON Hewitt followed by seven years as chief executive officer of the BP Pension Fund. Sally is a Non-Executive Director of LPP Ltd and Impax Asset Management Group plc.
Committee memberships: Investment Committee (Chair), Nomination and Remuneration Committees.
External appointments: Independent trustee for Lloyds Banking Group Pension Trustee Limited and NEST Corporation and a member of the Trust Investment Committee at innovation charity Nesta. Non-executive director of Impax Asset Management Group plc and Local Pensions Partnership Limited. Master of the Worshipful Company of Actuaries.

Ian Dilks
Independent Non-Executive Director

Appointed: 14 November 2014.
Skills, competencies and experience: Ian spent his entire career at PricewaterhouseCoopers LLP, joining the firm (which was then Coopers & Lybrand) in 1974, becoming a partner in 1986. He rose to become a member of the global financial services leadership team and global insurance leader. At PricewaterhouseCoopers LLP he had responsibility for the public policy and regulatory affairs of the global network.
Committee memberships: Nomination, Investment and Audit Committees.
External appointments: NHS Litigation Authority (Chairman); Expert Adviser, House of Commons Treasury Committee.

Duncan Ferguson
Senior Independent Director

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

Tracey Graham
Independent Non-Executive Director

Appointed: 10 March 2013.
Skills, competencies and experience: Tracey was chief executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that, she was president of Sequoia Voting Systems and customer services director at AXA, and held a number of senior positions at HSBC.
Committee memberships: Remuneration Committee (Chair), Board Risk and Nomination Committees.
Subsidiary appointment: Investment Funds Direct Limited (Chair).
External appointments: Non-executive director of Link Scheme Limited, Ibstock plc and Acal plc.

Andrew Palmer
Independent Non-Executive Director

Appointed: 1 April 2011.
Skills, competencies and experience: Andrew was group finance director of Legal & General Group plc where he also held a number of financial and operational roles in the asset management, insurance and international businesses.
Committee memberships: Audit Committee (Chair) and sits on the Board Risk and Nomination Committees
Subsidiary appointment: Royal London Asset Management Limited (Chair).
External appointments: Non-executive director of Direct Line Insurance Group, a trustee and honorary treasurer of Cancer Research UK. Member of Financial Reporting Review Panel of the Financial Reporting Council. Honorary Treasurer of The Royal School of Needlework.

David Weymouth
Independent Non-Executive Director

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

Directors' report for the year ended 31 December 2016

The directors present their report for the year ended 31 December 2016. **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, understandable 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 2016: An Annotated Version for Mutual Insurers (the 'Code') published in September 2016, and includes information about any principal risks and uncertainties associated with the business. The Code is published by the Association of Financial Mutuals with the permission of the Financial Reporting Council, and is a revised version of the UK Corporate Governance Code published in April 2016. It provides a guide to effective Board practice and is based on the principles of good governance: accountability, transparency, probity and a focus on the sustainable success of an entity over the longer term. The Board believes that its practices are consistent with each of the principles of the Code, are appropriate and offer the necessary levels of protection for our members.

Principal activities

The Group comprises The Royal London Mutual Insurance Society Limited (Registered Number 99064) and its subsidiaries. The Group is structured into a number of businesses as set out in the Strategic report. The principal activity of the Group is the transaction of long-term insurance business covering life and pensions. A list of the Group's subsidiaries is set out in note 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 pages 36 and 37.

Annual General Meeting

The AGM of the Company will be held at 11:00am on Wednesday 14 June 2017, at Clothworkers' Hall, Dunster Court, Mincing Lane, London EC3R 7AH. 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.

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 62 to 79. 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 Group also maintains directors' and officers' liability insurance in respect of itself and its directors.

Directors' conflicts

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

Persons with significant control

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

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 41 to the financial statements.

Employees

Details of the Group's employment policies are shown on page 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 12 and 13 and in note 41 on pages 176 to 189 of the financial statements.

Political donations

No political donations were made in the year ended 31 December 2016 (2015: £nil).

Essential contracts

The Company has contractual and other arrangements with numerous third parties in support of its business activities.

Senior Insurance Managers' Regime

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) encourage individuals to take greater responsibility for their actions and make it easier for both regulated companies and the regulators to hold individuals to account. The Senior Insurance Managers' Regime (SIMR) seeks to promote a clear allocation of responsibilities to key decision-makers, strengthen their individual accountability through a robust initial and ongoing assessment of their fitness and propriety whilst providing regulators with increased powers of approval and enforcement.

The Group has introduced a formal governance structure of committees to manage risk, reporting to the Board, and individual accountability has been further strengthened through implementation of the SIMR in 2016. Further detail can be found in the risk management and control section on page 12.

Supplier payment policy and performance

It is the Company's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

Auditors

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

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

During 2016 the European Union (EU) Audit Directive and Regulation came into effect, and as a result the Group must rotate auditors by no later than 2023 (effective for the year ending 31 December 2024). After careful consideration the Group has no immediate plans to perform an audit tender process, however this decision is reviewed annually by the Audit Committee. Further information on our audit tendering policy is provided on page 53.

Strategic report

For the purposes of the UK Companies Act 2006, the Directors' report for the year ended 31 December 2016 comprises pages 44 and 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 1 to 38) 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 12 and 13
Corporate Governance structure	Corporate Governance statement, pages 46 to 51
Principal risks and uncertainties	Strategic report, pages 15 to 18
Longer-Term Viability Statement	Strategic report, page 19

In addition, the information in the following table is also included in the Annual Report as referenced below:

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 10
Employee involvement	Our corporate responsibility pages 28 and 29

By order of the Board

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

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 2016 to the date of this report.

The UK Corporate Governance Code 2016 (the 'Code')

As previously referenced on pages 41 and 44, the Board believes that its practices are consistent with each of the principles of the Code, are appropriate and offer the necessary level of protection for our members.

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 uses the AGM to communicate with members and to encourage their participation.

Leadership – the Board

The Board is given the powers to manage the Group's business by the members. One of the main roles of the Board is to focus on the strategic objectives of the Group, to ensure that it is appropriately managed, achieves these objectives and is collectively responsible for the long-term success of the Company.

Role

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

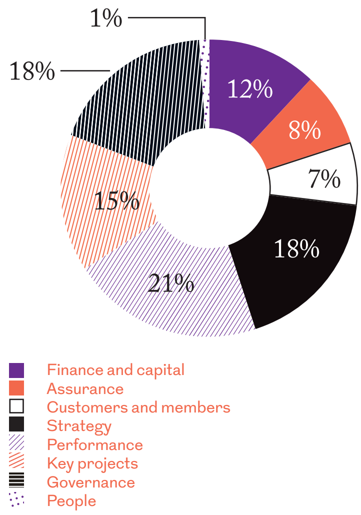
- values, standards and ethics;
- strategy and objectives, and approves an annual business plan and budget, and monitors the Group's performance in achieving them;
- risk appetite;
- internal control system;
- organisational structure; and
- remuneration (including pension) policies.

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 Chief Risk Officer, 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 its subsidiaries 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 annual regulatory returns;
- approves the principles and practices of financial management for the with-profits funds; and
- reserves to itself certain decisions including:
  - those relating to the acquisition or disposal of any business or major asset;
  - establishing 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.

Board activity and areas of focus

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



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.

Separation of responsibilities

The Chairman	The Chief Executive
Leads the Board and ensures that its principles and processes are maintained	Leads the executive team in the day-to-day running of the Company
Promotes high standards of Corporate Governance	Develops appropriate structures to support the Group's objectives
Sets agendas with the directors and the Company Secretary	Makes operational decisions
Ensures the directors receive accurate, timely and clear information	Leads strategy
Encourages open debate and constructive discussion and decision making	Oversees internal and external communication
Assesses board performance and facilitates training needs	Represents the Group to its members and external stakeholders and regulators

No one individual has unfettered powers of decision making. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board and committee 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.

Composition, balance and length of tenure

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

Board composition	
Executive	3
Non-executive	7

	Length of tenure	
	1 to 3 years	More than 3 years
Executive	1	2
Non-executive	2	5

Membership of the Board's committees is set out in this statement. One of the non-executive directors, Duncan Ferguson, is the Senior Independent Director. Duncan is due to retire at the next AGM in 2017. 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. As part of their role as members of a unitary board, the non-executive directors constructively challenge and help develop proposals on strategy in line with their statutory duty to promote the success of the Company.

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 Group, and to review and refresh regularly the skills and experience the Board requires. Each non-executive director is able to devote sufficient time to the role in order to discharge his or her duties to the Company effectively.

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

> 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.

Corporate Governance statement continued

to discharge their duties and responsibilities effectively.

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

Board and committee effectiveness
The Group engaged an external third party to conduct a full Board and committee evaluation which took place during Q4 2016. The process was led by the Chairman and supported by the Company Secretary. Upon completion of the review, it was concluded that the Board and the Committees had operated effectively during 2016, and that each director had contributed effectively. The review did identify and recommend some changes and areas for improvement. Matters arising from the evaluation are being addressed and will be regularly reviewed by the Board.

Induction and development
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 bespoke 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
  - Group structure; and
  - Introduction to business areas and functions;
- Market information;
  - Group products – pensions, with-profits policies, platforms and investment management;
- Business strategy and model;
  - Business model;
  - Operations;
  - Strategy; and
  - IFAs and customers;
- Risk management and internal controls;
  - Financial management and controls;
  - Solvency II; and
  - Financial reporting and external audit;
- Governance oversight and controls;
- Remuneration policy;
- Regulatory framework and requirements;
- ProfitShare accounts.

The following essential information is also provided in a Director Induction Pack:

- Directors' duties;
- The Group's business;
- The articles of association;
- Minutes of recent Board meetings;
- Committees' terms of reference;
- Internal policies; and
- Training and development opportunities.

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

> A bespoke 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.

all directors in order to refresh their skills and knowledge. The continuing development of the directors entails regular updates on the Group's businesses and industry-related matters as well as any changes in the regulatory environment.

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, Solvency II, Fighting Financial Crime, Data Protection and Treating Customers Fairly.

During the year,the directors received regular briefings. The main topics were:

- Solvency II;
- Group strategy;
- industry, markets and products;
- key projects; and
- IT security.

Succession and diversity

The Board is committed to ensuring a diverse pool of candidates is considered for any vacancies that may arise and that they are filled by the most qualified candidates based on merit, having regard to the benefits of diversity, including gender. More information regarding the Group's approach to diversity can be found in the corporate responsibility statement on pages 28 and 29 and in the Nomination Committee report on pages 56 and 57.

Role as an institutional investor

The Group, through RLAM, firmly believes in the use of best practices by the companies in which it invests and its approach is set out in the corporate responsibility statement on pages 28 and 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 a 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 1 to 38 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 15 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	Renumeration Committee	With-Profits Committee	Independent Governance Committee	Disclosure Committee
Total number of scheduled meetings in 2016	11	8	9	5	4	11	6	6	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 additional meetings in 2016 were: Board (2), Remuneration (2), Investment (1).

Attendance									
Member	Board	Audit Committee	Board Risk Committee	Investment Committee	Nomination Committee	Renumeration Committee	With-Profits Committee	Independent Governance Committee	Disclosure Committee
Sally Bridgeland	11	-	-	5	4	11	-	-	-
Ian Dilks	11	8	-	5	4	-	-	-	-
Duncan Ferguson	11	8	8	-	4	-	5	-	-
Tracey Graham	11	7	-	-	4	11	-	-	-
Tim Harris	11	-	-	5	-	-	6	-	5
Phil Loney	11	-	-	-	-	-	-	-	3
Jon Macdonald	11	-	-	5	-	-	-	5	3
Andrew Palmer	11	8	9	-	4	10	-	-	-
Rupert Pennant-Rea	11	-	-	-	4	1	-	-	-
David Weymouth	11	8	9	-	4	-	-	-	-

(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.
(iii) Andrew Palmer stepped down from the Remuneration Committee at its November meeting. Rupert Pennant-Rea then joined this committee and attended its December meeting as a member.

The Board and certain committees met on 24 and 25 May 2016 in Edinburgh where 1,163 employees are based and on 26 and 27 September 2016 in Wilmslow where 1,094 employees are based as part of an ongoing initiative to promote better engagement with the business. The Board also held a number of strategy sessions throughout the year, including 'deep dives' with particular areas of the business.

Governance structure

Board
Rupert Pennant-Rea

- **Remuneration Committee** – Tracey Graham
- **Board Risk Committee** – David Weymouth
- **Independent Governance Committee** – Phil Green
- **Audit Committee** – Andrew Palmer
- **Nomination Committee** – Rupert Pennant-Rea
- **With-Profits Committee** – Duncan Ferguson
- **Investment Committee** – Sally Bridgeland
- **Disclosure Committee** – Phil Loney

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.

During March 2016, the Board established the Disclosure Committee. The primary purpose of this Committee is to review and approve material press releases concerning the performance of the Group and regular reporting to the supervisory authorities as directed by the Board, in addition to the returns overseen by the Audit Committee. More detail regarding the role and responsibilities of both the Disclosure Committee and the Audit Committee can be found on pages 61 and 52 to 55, respectively.

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

Committee membership

Andrew Palmer (Chair)	Non-executive
Ian Dilks	Non-executive
Duncan Ferguson	Non-executive
Tracey Graham	Non-executive
David Weymouth	Non-executive

Tracey Graham stepped down as a member of the Audit Committee on 7 March 2017

As Chairman of the Audit Committee (the Committee) I am pleased to present the Committee's report for the year ended 31 December 2016.

The membership of the Committee, as set out in the table above, is comprised solely of independent non-executive directors. Rupert Pennant-Rea attends meetings of the Committee, but is not a member of the Committee. The respective chairs of this Committee and the Board Risk Committee attend meetings of the other committees as members. The qualifications of each member of the Committee are included in the biographies of the directors on pages 42 and 43.

Joint Board Risk and Audit Committee meetings were held on two occasions in 2016. This ensures that the two committees are operating effectively together on areas of adjacent responsibility and where either of the Committees is required to collaborate on, or assume responsibility for, a review conducted by the other.

Key responsibilities, purpose and role

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

Accounting and financial reporting

- monitoring the integrity and quality of the financial statements and formal announcements relating to financial performance, ensuring that all of the financial statements are fair, balanced and understandable;
- reporting to the Board the Committee's view of all aspects of proposed financial reporting by the Group;
- reviewing accounting policies;
- reviewing accounting matters requiring the exercise of judgement including actuarial liabilities; and
- reviewing the appropriateness of the going concern assumption and the Longer-Term Viability Statement and recommend for approval to the Board.

Solvency II Reporting

- reviewing reports from the (Solvency II) Compliance Function on compliance with the guidance, regulations and administrative provisions adopted via the Solvency II Directive and an assessment of the possible impact of any changes in the legal environment on operations and the identification and assessment of Solvency II compliance risk;
- reviewing the Solvency and Financial Condition Report (SFCR) prior to publication, the Regular Supervisory Report (RSR) and other reports prior to submission to the PRA; and
- reviewing the Governance Process and Disclosure and Reporting Policy and any other Group policies as determined by the Board, from time to time.

Internal Audit and Control Management

- 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; and
- monitoring and reviewing the effectiveness of the Group's internal financial controls.

External Auditors

- 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 selection, appointment, re-appointment and removal of the external auditors, to be put to the members for their approval in general meetings;
- recommending to the Board, prior to being put to the members for their approval, the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence, objectivity, expertise, performance and resources and the effectiveness of the audit process; and
- monitoring and approving the engagement of the external auditors to supply non-audit services.

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

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

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

The Code and the latest FRC guidance on Audit Committees state that the Board should satisfy itself that the Committee as a whole has the competence relevant to the sector in which the Group operates and that at least one Committee member has competence in accounting or auditing. The Board continues to be satisfied that this requirement has been met.

An external effectiveness review was undertaken by the Group during Q4 2016 which found that the Committee had fulfilled its duties under its terms of reference during the year.

An external effectiveness review was undertaken by the Group during Q4 2016 which found that the Committee had fulfilled its duties under its terms of reference during the year.

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

Areas of focus during the year

The Committee has a number of standing agenda items that it considers each year affecting the Group's financial statements and policies, financial risks, internal control matters and external audit. In addition, each year the Committee focuses on a number of operational matters. Some of the items the Committee spent time on during 2016 were:

- updates from Group Finance on significant financial accounting reporting and disclosure matters;
- updates from Group Finance on governance and monitoring of investment risk and in particular difficult to value investments;
- findings from Internal Audit reports and how high priority findings are being followed up by management;
- updates to the Internal Audit annual plan;
- updates from management on the effectiveness of the Group's control environment;
- updates on work completed by the external auditor;
- updates on Solvency II implementation and methodology including review of the year ended 31 December 2015 Solvency II reporting; and
- updates on finance and actuarial systems transformation projects.

In March 2016, the Committee was involved in the establishment of the Disclosure Committee which was formed to approve the Solvency II quarterly reporting, in line with the Group's Reporting and Disclosure policy.

Effectiveness of the external auditor

The Committee conducts an annual review of the external auditor through completion of a questionnaire by senior management across the Group and members of the Group's finance community. The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by Group Internal Audit. The results of the questionnaire were evaluated by the Committee which concluded that PwC continued to perform a high-quality audit, and an effective and independent challenge to management. The Committee was satisfied with the external audit process and that the independence of the external auditor was in no way compromised.

Audit tender

In April 2014, the European Union published its revised Audit Directive making periodic rotation of external audit firms mandatory for public interest entities such as Royal London. In the UK, public interest entities are required to put the audit out to tender at least every 10 years and rotate the auditors at least every 20 years. The transitional arrangements included in the Directive allow the audit tender to be deferred until 2023 at the latest, if the external auditor was appointed between 17 June 1994 and 16 June 2003.

PwC was appointed as the Group's external auditor in 2000, following a formal tender process and their appointment has not been subject to a tender since that time. The Group audit engagement partner Gavin Phillips was appointed in 2012 and will rotate off the Group's audit after the 2016 year-end audit process having served his permitted five-year term. The Committee considers its recommendations to the Board on the appointment and reappointment of auditors annually. The Committee has reviewed the timetable for tender, taking into account all relevant regulation and guidance and has concluded that it is not necessary at the present time to undertake a tender process for the Group's external audit. The Committee proposes to tender the audit by 2023 which is in line with the transitional arrangements.

Corporate Governance statement continued

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

Auditor independence
The Group has introduced a revised policy which is aimed at safeguarding and supporting the independence and objectivity of the external auditor. The policy is in full compliance with UK corporate governance requirements and takes into account the Financial Reporting Council's *Revised Ethical Standard 2016 for Auditors* which was issued on 17 June 2016.

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

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

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

Audit and non-audit fees
In 2016 the Group paid PwC £5.2m (2015: £5.4m) for audit, audit-related and other assurance services. In addition, PwC were paid £1.3m (2015: £0.8m) for other non-audit services, resulting in a total fee to PwC of £6.5m (2015: £6.2m). This included £0.2m (2015: £0.2m) relating to the RLAM Audit and Assurance Fund (AAF) control report and Solvency II fees of £1.2m (2015: £1.2m), of which £0.8m (2015: £1.2m) were for audit-related and other assurance services.

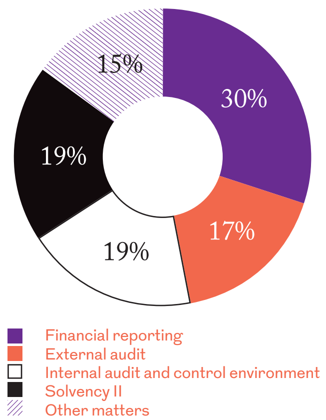
Further details are provided in note 10 of the financial statements.

In addition, the Committee conducted three private meetings with the external auditor to discuss and review key issues without management being present.

Training
During the year, the Committee received training which included:

- Solvency II market insights;
- Technical provision transitions between Solvency I and Solvency II; and
- Solvency II Pillar III reporting requirements - Regular Supervisory Report (RSR) and the Solvency and Financial Condition Report (SFCR).

Allocation of agenda time
The chart provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2016. During 2015, the Committee dedicated considerable time preparing for the implementation of Solvency II on 1 January 2016. Since this date, the Committee has been able to focus more time on financial reporting, in particular.



Significant matters considered by the Audit Committee in 2016

The table below highlights some significant matters considered by the Committee in 2016 and the actions taken.

Significant matters considered by the Committee in relation to the financial statements and regulatory returns	How the matter was addressed by the Committee
Review of effectiveness of the external auditor	The Committee considered the feedback received across the Group on the 2015 external audit process and the comments made were noted.
Long-term business liability valuations – methodology and assumption recommendations	The Committee considered the Group's long-term business regulatory liability valuations as at 31 December 2015 and accepted the Valuation Report of the Actuarial Function Holder, for the year ended 31 December 2015, including the changes to methods and assumptions. The Committee also considered the actuarial assumptions for the year ended 31 December 2015 for Solvency II opening balance sheet reporting, including mortality, persistency and expense 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 2015 and 30 June 2016. The Committee considered the process by which the Group was valuing all its financial assets including difficult to value investments.
Consideration of accounting and actuarial judgements and assumptions	The Committee considered all accounting and actuarial judgements, and estimates that the Directors believe could be material to the financial statements. It also reviewed and recommended to the Board the proposed approach for key accounting and actuarial judgements and assumptions.
Financial statements	The Group's ARA (and associated material) for the years ended 31 December 2015 and 2016 were extensively reviewed during the year, in line with the relevant timetables, before being recommended to the Board for approval.
Solvency II reporting filings with the PRA	Following the implementation of the Solvency II regime on 1 January 2016, the Committee had been heavily involved in ensuring the Group's compliance with the new reporting obligations and the transition from Solvency I. The Solvency II opening balance sheet was subject to audit procedures and submitted to the PRA. The Committee also reviewed the impact of the new requirements upon actuarial assumptions, methodology and modelling as well as the impact of Solvency II on the financial measures associated with the valuation of the Group's long-term incentive schemes. The ongoing obligations such as the Pillar 3 annual reporting requirements, including the SFCR which will be published on the Group's website for the first time in May 2017, were also considered.
Oversight of the Group's financial and actuarial reporting systems and processes	The Committee was continually updated on enhancements to the processes and systems throughout the year, with particular focus upon data quality.
Internal control	The Committee considered regular reports from the external auditor and Group Audit Director on the effectiveness of the Group's control environment, including that provided by the outsource provider Capita.
Other matters	At meetings throughout the year, the Committee also considered management's papers on the following subjects: › assessment of the carrying value of intangible assets and goodwill; › provisions for 2016 year end; and › the appropriateness of the investment asset valuations.

Andrew Palmer
Chairman of the Audit Committee

Report of the Nomination Committee

Committee membership

Rupert Pennant-Rea (Chair)	Non-executive
Sally Bridgeland	Non-executive
Ian Dilks	Non-executive
Duncan Ferguson	Non-executive
Tracey Graham	Non-executive
Andrew Palmer	Non-executive
David Weymouth	Non-executive

As Chairman of the Nomination Committee (the Committee), I am pleased to present the Committee's report for the year ended on 31 December 2016.

The membership of the Committee is set out in the table above. The qualifications of each member of the Committee and their other significant commitments are included in the biographies of the directors on pages 42 and 43.

Key responsibilities, purpose and role

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

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and its Committees 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.

Areas of focus during the year

During the year, the Committee considered the reappointment of the Group's directors. When reviewing the Board's composition, the Committee considered the expertise, skills and performance of the directors, the Group's strategy and diversity, including gender. Following the review it was recommended that all directors, with the exception of Duncan Ferguson, who would step down, be put forward for re-election at the 2017 AGM.

In compliance with the UK Corporate Governance Code the Committee appointed an external company to undertake the Board's effectiveness review for 2016.

With the ongoing focus on subsidiary board governance, the Committee had recommended to the Board the appointment of Tracey Graham as Chairman of the Investment Funds Direct Limited and Andrew Palmer as Chairman of the RLAM Board.

In addition, following the establishment of the Independent Governance Committee (IGC) in April 2015, the Committee recommended to the Board that Myles Edwards should be appointed to the IGC as a member representative.

Rupert Pennant-Rea

Rupert Pennant-Rea
Chairman of the Nomination Committee

Report of the Board Risk Committee

Committee membership

David Weymouth (Chair)	Non-executive
Duncan Ferguson	Non-executive
Andrew Palmer	Non-executive

Tracey Graham became a member of the Committee on 7 March 2017

As the Chairman of the Board Risk Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2016.

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

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

Key responsibilities, purpose and role

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

- making recommendations to the Board for approval on an annual basis regarding the Group's overall risk strategy, risk appetite and risk preferences and oversight that the business strategy of the Group is consistent with these;
- advising the Board on the Group's overall risk management system, including the oversight of current risk exposures of the Group, by reviewing and recommending to the Board actions on significant risk issues, trends, practices, litigation and loss events that have implications for the Group;

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

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

Two joint Board Risk and Audit Committee meetings were held during 2016. These ensure 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.

A Joint Board Risk and Remuneration Committee meeting was held in March 2016. The purpose of the meeting was to review the discretion applied to the incentive schemes within the Group to ensure incentive scheme performance awards and conditions were within risk appetite and to review the appropriateness of the remuneration of controlled function holders.

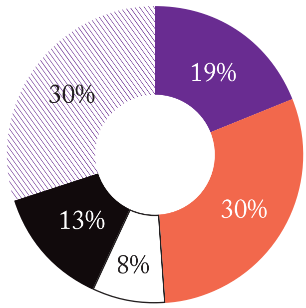
Areas of focus during the year

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

- ORSA;
- Solvency II programme;
- risk management system;
- review and approval of main Group policies;
- business risk review;
- conduct risk;
- capital management;
- review core support functions;
- IT and information security; and
- change delivery risk identification and mitigation.

Allocation of agenda time

The chart provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2016.



Solvency II programme risk management system
Risk Management, business model risks and business risk review
Operational excellence and conduct risk
Capital management
Other matters

David Weymouth

David Weymouth
Chairman of the Board Risk Committee

Corporate Governance statement continued

Report of the Investment Committee

Committee membership

Sally Bridgeland (Chair)	Non-executive
Ian Dilks	Non-executive
Tim Harris	Executive
Jon MacDonald	Executive
Julius Pursaill	Independent

As Chair of the Investment Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2016.

The membership of the Committee, as set out in the table above, is comprised of both executive and non-executive directors and independent members. Andrew Carter (CEO, Wealth), Piers Hillier (Chief Investment Officer, RLAM), and Rachel Elwell (Investment Office and Staff Pensions Director) attend meetings of the Committee, but are not members of the Committee. The qualifications of each member of the Committee are included in the biographies of the directors on pages 42 and 43, with the exception of Julius Pursaill who is not a director of the Company.

Key responsibilities, purpose and role

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

Risk framework

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

Philosophy, strategy and investment

- reviewing the investment principles which are approved by the Board from time to time (Investment Philosophy);
- reviewing the executive's assessment of investment strategies deployed using the Group's investment assets against investment philosophy and risk appetite;
- reviewing proposals from the executive for recommendation to the Board, on the suitability of new investment classes (or sub-classes) for the Group's investment assets by considering them in the context of the investment philosophy, investment strategy and against the investment risk framework and risk appetite; and
- reviewing and approving matters (e.g. property transactions) above individuals' delegated authorities and within current Committee parameters.

The Committee also considers the oversight of asset managers and other third parties involved in investment and new fund launches.

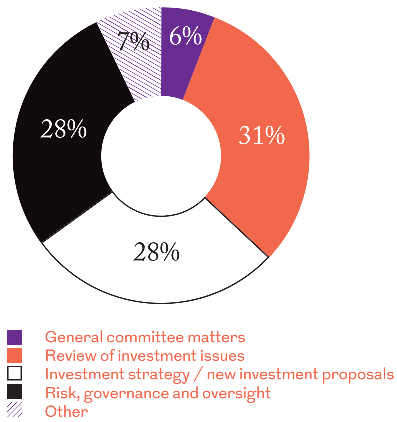
Areas of focus during the year

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

- supporting the Board in setting investment strategy, including the changes to the unit-linked proposition;
- reviewing the statement of Investment Philosophy, investment beliefs and the investment risk framework to aid management, the Committee and Board in their investment decision-making process;
- reviewing asset managers' performance and suitability to manage the Group's investment mandates, including review of quarterly market and economic data, and assessment of investment performance of key funds;
- reviewing asset managers' investment management agreements; and
- reviewing and recommending for Board approval transactions above delegated authorities.

Allocation of agenda time

This chart provides an illustration of the time spent by the Committee on various matters during 2016.



Sally Bridgeland
Chairman of the Investment Committee

Report of the With-Profits Committee

Committee membership

Duncan Ferguson (Chair)	Non-executive
Nick Dumbreck	Independent
Jim Gallagher	Independent
Tim Harris	Executive
Julius Pursaill	Independent
Bridget Rosewell	Independent

As Chairman of the With-Profits Committee (the Committee), I am pleased to present the Committee's report for year ended 31 December 2016.

The With-Profits Committee was established in 2012 and its membership, throughout 2016, as set out in the table above, was comprised of the Senior Independent Director, the Group Finance Director and four independent members. The Committee has been well served by both Brian Murray in his first year in the With-Profits Actuary role and Steve Wilson before him. I would like to thank Steve for all his service as With-Profits Actuary. I would also like to thank Julius Pursaill who retired as a Committee member at the end of 2016. The qualifications of the members of the Committee, who are also directors, are included in the biographies of the directors on pages 42 and 43.

Key responsibilities, purpose and role

The responsibilities of the Committee, as set out in its terms of reference are reviewed annually and made available to members on the Group's website. The Committee'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 fair treatment of those policyholders. This includes providing independent opinion and oversight on matters that affect with-profits policyholders.

In addition, the Committee assesses, reports on and provides clear advice regarding:

- the way each with-profits fund is managed;
- compliance with each with-profits fund's principles and practices of financial management;
- 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 Company and between with profits policyholders and the members of the Company; and
- any other matter in which it might reasonably be expected that the Committee should have an involvement.

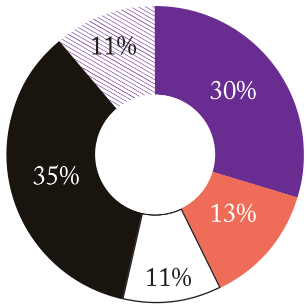
Areas of focus during the year

During the year the Committee focused on:

- the interaction of Group strategy with the interests of the with-profits policyholders;
- the ProfitShare and bonus rates to be declared for 2016;
- the financial and capital management of the with-profits funds, including the development of run-off plans for each of the funds;
- particular focus was given to the capital management of the Scottish Life Fund during 2016;
- 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 quality of the service provided to with profits policyholders, having regard to complaints and other measures;
- researching customers' attitudes to risk and information needs; and
- the effectiveness of the With-Profits Actuary.

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2016.



- 'Growing the cake' – investment strategy and results
- 'Sharing the cake fairly' – bonus rates and surrender values
- Customer experience – policyholder communications, complaints and service
- Policyholder security – capital management and run-off plans
- Governance, regulation and compliance

Duncan Ferguson
Chairman of the With-Profits Committee

Report of the Independent Governance Committee

Committee membership

Phil Green (Chair)	Independent
Peter Dorward	Independent
Myles Edwards	Independent
David Gulland	Independent
Isobel Langton	Company Member
Jon Macdonald	Company Member

As Chairman of the Independent Governance Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2016.

The membership of the Committee is set out in the table above. Myles Edwards is a Royal London customer and was appointed on 1 November 2016, following a selection process calling for applications from Royal London members.

Key responsibilities, purpose and role

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

The Committee was established in April 2015 in response to the FCA's directive regarding independent governance for workplace pensions. The Committee assesses the ongoing value for money of relevant workplace pension schemes offered by Royal London; reports and escalates issues which are identified and remain unresolved; and prepares an annual report on its activities and the value for money offered by the relevant pension schemes. The Committee's first report on the value for money delivered by Royal London's schemes was published on the Group's website on 3 March 2016, with the next report due by 5 April 2017.

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.

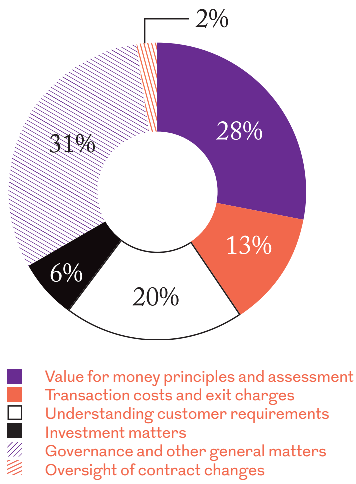
Areas of focus during the year

The Committee has focused its activities on the following:

- monitoring the implementation of the changes to Royal London's workplace pension contracts agreed at the end of last year and as reported in the Committee's annual report in March 2016;
- reviewing and understanding customer requirements, researching all aspects of customer engagement including complaints and service;
- reviewing the principles with which to assess the value for money delivered by all of Royal London's relevant workplace pension contracts to ensure they remain appropriate;
- ongoing assessment of Royal London's relevant workplace pension contracts (including legacy contracts and individual continuation plans) against those principles;
- reviewing the investments and default investment strategies offered; and
- providing input into Royal London's projects to provide transaction cost reporting and review exit charges.

Allocation of agenda time

The Committee met six times during 2016. The chart below provides an illustration of the approximate percentage of time spent by the Committee on various matters during the year. The Committee also spent considerable time outside of meetings discussing these issues and meeting representatives from Royal London and other IGCs. Members of the Committee also met with the FCA twice during the year. This additional time is not captured in the time analysis.



Phil Green
Chairman of the
Independent Governance Committee

Report of the Disclosure Committee

Committee membership

Phil Loney (Chair)	Executive
Tim Harris	Executive
Jon Macdonald	Executive

As Chair of the Disclosure Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2016.

The Committee was established by the Board during March 2016 and its membership is currently comprised solely of executive directors. Other members of senior management are invited to attend as appropriate but only members of the Committee have the right to attend meetings. The qualifications of each member of the Committee are included in the biographies of the directors on pages 42 and 43.

Key responsibilities, purpose and role

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

- approving all announcements regarding the Group's new business performance;
- approving the Group's quarterly quantitative reporting templates (including the Financial Stability templates) not directly overseen by the Audit Committee, before submission to the relevant supervisory authority;
- approving any material non-financial announcement where approval is not already a matter reserved for the Board;
- reviewing annually and updating its terms of reference, recommending any changes to the Board and evaluating its own membership and performance on a regular basis;
- reporting to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;
- reporting to the Board regarding any matters where it considers that action or improvement are needed, and to make recommendations as to the steps to be taken; and
- in carrying out its duties, the Committee:
  - gives due consideration to all applicable laws and regulations, including the requirements of the Listing Rules and the Disclosure Rules, as applicable;
  - ensures that disclosures are made in line with the Group's policies; and
  - where appropriate, ensures the disclosures are made in keeping with the views of the Audit Committee and the Board Risk Committee.

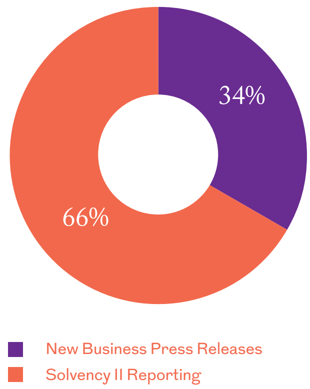
Areas of focus during the year

The Committee met five times during 2016 and particularly focused upon:

- reviewing and approving the necessary Solvency II regulatory reporting templates and returns; and
- the approval of two new business press releases.

Allocation of agenda time

The chart provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2016.



P. D. Loney

Phil Loney
Chairman of the Disclosure Committee

2016 Directors' remuneration report

Annual statement from the Remuneration Committee Chair

Dear Member,

On behalf of the Board, I am pleased to present the Remuneration Committee report for 2016. This year the remuneration report for the year ended 31 December 2016 is split into three parts:

- the Directors' remuneration policy, which sets out how the Group intends to remunerate its directors over the period 2017 to 2019. The policy was last voted on by members at the 2014 AGM. This year, the Remuneration Committee (the 'Committee') reviewed the policy to ensure it remains aligned to Royal London's aims. The review concluded that the policy continues to remain fit for purpose, albeit this year the Committee has recommended a few changes. The revised policy will be put to a members' vote at the June 2017 AGM;
- the 2016 annual report on remuneration, which explains the link between executive remuneration and Group performance, detailing what payments and awards have been made to directors during the year. As last year, this section will be put to a members' vote at the 2017 AGM. Details can be found on pages 68 to 74 of this report;
- the Directors' proposed remuneration for 2017. Previously this section was part of the 2015 annual report on remuneration, however for this year it has been separated out to improve transparency on how the proposed policy will impact remuneration in 2017 and going forward.

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

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

The Group is committed to being transparent with its members. Our remuneration disclosures continue to be in line with listed company remuneration reporting requirements, to the extent that they enhance members' understanding of how our remuneration strategy supports the Group's strategy and members' interests. We have also made some changes this year to the layout of the report to improve readability.

Remuneration policy review in 2016

Remuneration within financial services is subject to significant amounts of regulation, and Royal London has to comply with many different codes. The Committee has worked closely with regulators to ensure our remuneration complies with all the relevant requirements. This year, the focus of the Committee has been working with the Prudential Regulation Authority (PRA) to comply with the remuneration requirements of Solvency II.

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

- maximising alignment with our members and customers, reflecting our mutual status;
- ensuring regulatory compliance of our remuneration policy; and
- simplifying the remuneration structure, to improve understanding for our people and members.

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

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

The intention is for this revised policy to apply for three years until the 2020 AGM. Further details on these changes are included on page 77.

The Committee also elected to make some changes to the implementation of the policy for 2017 onwards, these include combining the two profit measures in the LTIS to a single measure of profit and ensuring that all elements of the LTIS have a meaningful weighting of at least 10%.

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

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

Remuneration in 2016

The Board's assessment of Group performance is based on the scorecards that capture one-year and three-year financial and strategic performance. These are detailed further on pages 69 to 71. I am pleased to report that the Group has made excellent progress during 2016, performing well despite the backdrop of a turbulent year in politics and markets. Royal London's EEV operating profit has continued to grow despite the low interest rate regime and our performance has translated into an increase in the ProfitShare for 2016 and commencing an extended ProfitShare allocation to our pension members. The Committee has sought input from the board Audit Committee regarding the quality of earnings and from the BRC regarding the Group's performance in terms of risk measurement.

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

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

Remuneration in 2017

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

The Executive Directors will be eligible for 2017 STIP and LTIS awards, subject to members' advisory approval of up to 150% of salary for the STIP and up to 187.5% of salary for the LTIS.

Other

Andrew Carter stepped down from the Board on 31 December 2015 and therefore received no remuneration in 2016 for services as an Executive Director. Remuneration awarded for his time in 2015 as an Executive Director is disclosed.

Details of other activities undertaken by the Committee during 2016 are provided in the annual report on remuneration on page 76.

Conclusion

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

The Committee is satisfied the reward structure continues to attract and retain the talent the Group needs to deliver good outcomes for members and customers, and continue the long-term success of the Group.

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

Tracey Graham
Chair of the Remuneration Committee

Directors' remuneration policy

The policy applicable for 2014-2016 was voted on and approved by 92% of members at the 2014 AGM. It can be found in the 2013 Annual Report and Accounts available at **royallondon.com/about/annual-reports/annualreport**

Key principles of remuneration policy

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

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

Remuneration policy – executive directors

Base salary

The aim of base salary is to support recruitment and retention of talented people.

Salaries are reviewed annually taking into account each executive director's role and responsibilities, individual performance and the external market data (principally top UK life insurers, other mutuals, general insurers and other firms with whom we compete for talent). While there is no maximum salary or % salary increase, it will be typically in line with those for the Group's broader employee population who have received the same performance rating and have a similar pay positioning to market.

Short-Term Incentive Plan (STIP)

The aim of the STIP is to focus participants on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy. The target STIP opportunity ranges from 60% to 75% of salary with the maximum being twice target.

Performance is assessed using a scorecard of one-year financial and strategic measures which are reviewed each year and individual performance ratings (determined by the Committee for the Group Chief Executive and by the Group Chief Executive for the other executive directors).

The weighting for each category and the selection of sub-measures within each category are tailored each year to reflect business priorities, although the weighting on financial measures will be no less than 30%. No payment is made for threshold performance. The Committee reserves the right to apply a discretionary override to ensure that awards fairly reflect underlying performance. To avoid any conflict which could impact upon the independence of control functions, the STIP for executives in control functions is based on the performance of the function, and the financial element focuses on cost management and operational efficiency rather than profit. Of the executive directors, this arrangement only currently applies to the Chief Risk Officer.

Payment of at least one-third of any amount earned under the STIP is deferred for up to three years. The deferred award is converted into Royal London Group European Embedded Value (EEV) units. These EEV units vest (are converted back into cash and paid) at the end of the deferral period. The change in value of EEV units supports alignment of executive director interests with the long-term interests of our members.

Malus may be applied to unvested awards at the discretion of the Committee for reasons such as, but not limited to, gross misconduct, material financial restatement, or behaviour that could lead to significant reputational damage.

Long-Term Incentive Scheme (LTIS)
The aim of the LTIS is to align executives with the long-term interests of members and customers.

Vesting of awards is based on performance over three years against the Group's key long-term performance measures and is deferred as follows:

- 50% is payable after three years;
- 25% is payable after four years; and
- 25% is payable five years from the date of grant.

The LTIS award is converted into EEV units at the start of the three year performance period and the value of units is adjusted to reflect the change in the value of the Group to its members over the vesting period. The vesting calculation is reviewed by Internal Audit.

LTIS awards of up to 150% of salary are assessed using a balanced scorecard of three-year performance measures and may be subject to discretionary adjustment of up to +25% or down to zero by the Committee based on a basket of performance measures which include but are not limited to strategic milestones and performance relative to peers. The maximum potential opportunity is therefore 187.5% of salary.

The Committee has discretion to add or remove performance measures.

No award is payable for delivering an 'on plan' level of performance.

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. The awards are subject to malus or clawback for reasons such as, but not limited to gross misconduct, material financial restatement, or behaviour that could lead to significant reputational damage.

Benefits
The aim of providing competitive benefits is to support the recruitment and retention of our people.

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

Pension
The aim of a market-competitive pension contribution is to support the recruitment and retention of our people.

With effect from 1 April 2016, all pension benefits for existing and new Directors are Defined Contribution. Executive directors can receive a cash allowance in lieu of pension or they may elect to pay all or part of their allowance into their Pension Plan. The maximum pension contribution is 25% of salary.

Scope for Committee discretion
The Committee has discretion to override formulaic outcomes for the STIP and LTIS, either positively or negatively. The Committee intends to use its discretion only when it is necessary to ensure that awards fairly reflect underlying business performance and value creation for members and policyholders. Any discretion would only be exercised within the pre-approved limits of the relevant plan.

Remuneration policy for non-executive director fees

Board fee
The fees for Non-Executive Directors (NEDs) are set to be sufficient to attract and retain directors of the highest calibre, reflecting the responsibilities and time commitment required. These fees are reviewed annually against fee levels at companies of a similar size, with particular reference to financial services and other UK life insurers. Whilst there is no specific cap on fees, they are targeted to be within 20% of the median Board fees at previously mentioned comparators.

NED/Chairmanship fees
The remuneration of the Group Chairman is determined by the Committee, while the remuneration of other non-executive directors is determined by the Chairman and executive directors. All directors abstain on determination of their own remuneration.

Additional fees are paid to NEDs for chairing committees and subsidiary boards to reflect the additional time commitment that is required. These fees are determined in the same way as the annual base fees.

The NEDs are not eligible to participate in incentive schemes and their service is not pensionable.

Please note that additional per diem fees for project work carried out over and above normal duties operated until 31 May 2016. This has now been discontinued.

Approach to the recruitment of executive directors
The Nomination Committee of the Board appoints executive directors who it considers to be 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 taking into account their existing 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 LTIS opportunity on recruitment will not exceed 187.5% of salary; and
- pension and benefits will be as outlined in the policy table on page 68.

Where a newly-recruited executive forfeits incentives from their previous employer, Royal London may make compensatory awards, typically using one-off additional STIP, LTIS 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, employment conditions and any other conditions attached to the award being 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.

Remuneration for newly-appointed NEDs will be aligned with the approach taken for the existing NEDs.

Exit payment policy

Any payments in the event of termination of an executive director will 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.

The Committee retains discretion to alter the provisions contained in the relevant plan rules on a case-by-case basis following a review of circumstances in order to ensure fairness for members and participants. Under certain circumstances, it may be in the members' interests for the Group to enter into a legally binding agreement with an executive director when their employment is terminated.

External appointments

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

Service contracts

The service contract of any new executive director will require 12 months' notice to the Group, and will also require that the director mitigate any pay in lieu of notice. 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 travel and overnight expenses in connection with work-related travel to and from home to place of work.	Not applicable.

The Chairman and non-executive directors have letters of appointment with Royal London. 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. All non-executive directors' have a notice period of three months and the dates of their letters of appointment are provided in the table below.

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

The contracts of the executive directors, Chairman and non-executive directors are available for inspection by members at the 2017 AGM from 11:00am onwards.

EEV unit holding guideline
The Group Chief Executive and other executive directors are required to hold EEV units earned under the short-term and long-term incentive schemes, 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 the Group to its members. The holding requirement for the Group Chief Executive is 200% of salary and it is 150% and 100% of salary for the Group Finance Director and Chief Risk Officer respectively.

The Committee believes that holding of EEV units reinforces the principles underlying the Group's Remuneration Policy and further aligns the interests of executives with those of members.

Executive directors are 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 will review these guidelines periodically to ensure they remain appropriate for the Group, taking into account market practice and the Board's assessment of what is appropriate.

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 and RLAM LTIP awards from prior years.

Alignment with remuneration policy for the wider workforce
The remuneration policy for Group employees is broadly the same as for executive directors, although the levels of remuneration clearly differ and the majority of employees do not participate in the LTIS or any other long-term incentive arrangement. The Executive Committee, who report to the Group Chief Executive, are eligible for LTIS and are subject to similar deferral requirements where applicable.

The Committee receives detailed information from management regarding the annual pay reviews for all employee groups and also reviews the Group Chief Executive's recommendations for salary and STIP for his direct reports. It also reviews all awards made under the LTIS and other long-term incentive plans.

For all employees, remuneration is set with reference to the specific requirements of the individual role and pay levels in the relevant talent markets.

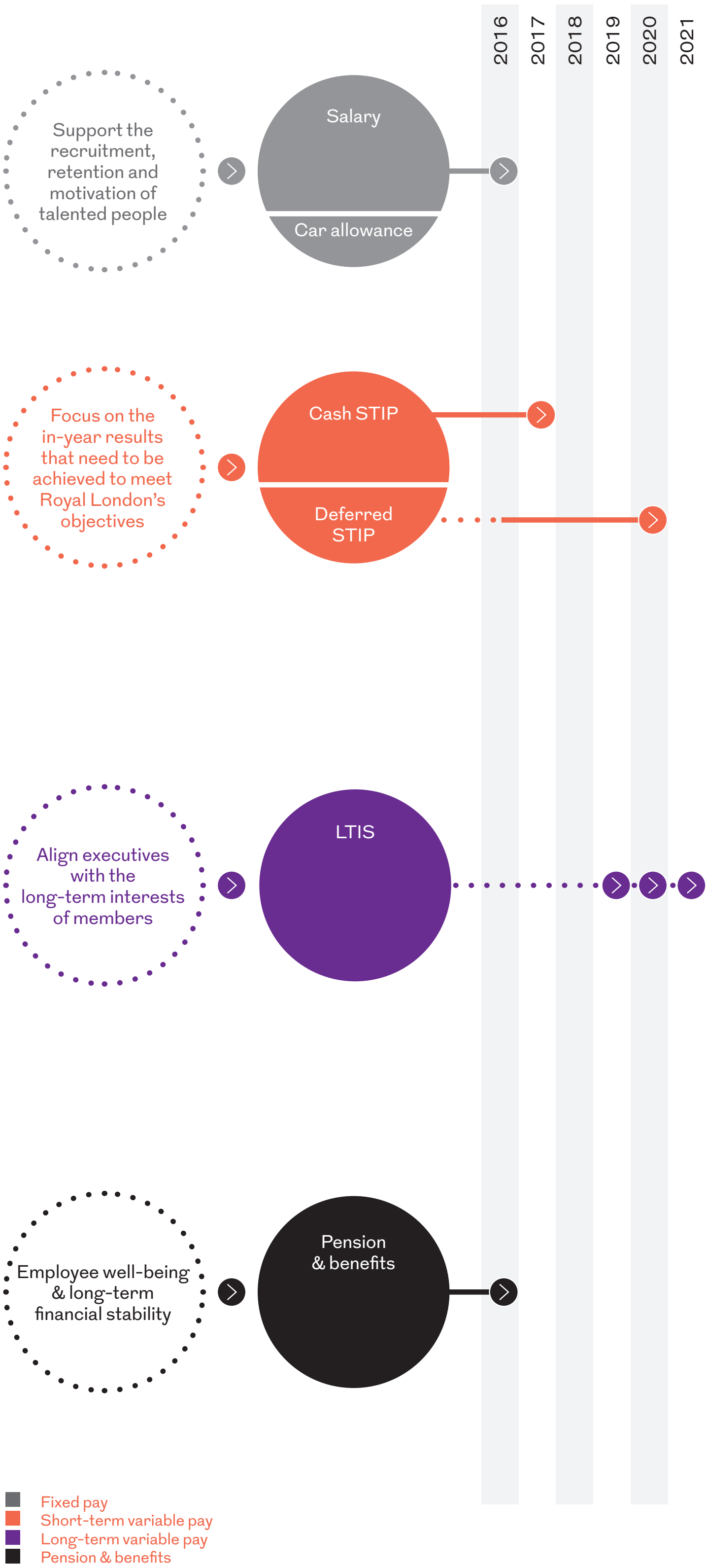
The Committee does not consult directly with employees specifically on Remuneration Policy for directors, but is mindful of pay and employment conditions elsewhere in the Group when doing so, and when considering potential payments under the policy.

> The Committee believes that holding of EEV units reinforces the principles underlying the Group's remuneration policy and further aligns the interests of executives with those of members.

2016 Directors' remuneration report continued

2016 Annual report of remuneration

This section of the report details how the Group implemented the 2014 approved policy in 2016, as well as the required disclosures such as the single figure table. A diagram that summarises the 2016 implementation is also provided below.



Key features of the policy	2016 Implementation
Reviewed annually considering: › Role and responsibilities › Benchmarking of comparator groups › Individual performance › Group performance › Broader employee population	Salary increases were 3.1%
Performance is assessed against a balanced scorecard of one-year measures, with vesting outcomes subject to a discretionary override by the Committee. Maximum STIP opportunity of up to 150% of salary. Target STIP opportunity of up to 75% of salary. Payment of at least one-third of any amount earned under the STIP is deferred for three years and is adjusted for the change in the value of the Group to its members over the period.	Short-term performance measures are: › Financial performance – 45% › Best customer propositions – 20% › Our people – 10% › Assurance – 15% › Building the future – 10%
Vesting of awards is based on performance over three years against the Group's key long-term performance measures released as follows: › 50% is exercisable after three years; › 25% is exercisable after four years; and › 25% is exercisable after five years from the date of grant. Vesting outcomes are subject to a discretionary override by the Committee. The maximum potential opportunity is 187.5% of salary. No award is payable for delivering an 'on plan' level of performance.	Long-term performance measures are: › Operating profit – 50% › Investment performance – 25% › Customer experience – 10% › Quality of proposition – 10% › Strategic progress – 5%
The Group operates a Defined Contribution Scheme. Directors may elect to receive all or part of the Group contribution to the Defined Contribution Scheme as a cash allowance. Until 31 March 2016, we also operated a Defined Benefit Scheme. This is now closed to future accrual. Benefits varies by individual and level.	› Pension – up to 25% of salary › Life insurance › Private medical insurance › Medical screening › Discretionary living-away-from-home allowance › Flexible benefits (optional)

Executive director remuneration in 2016 – audited

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

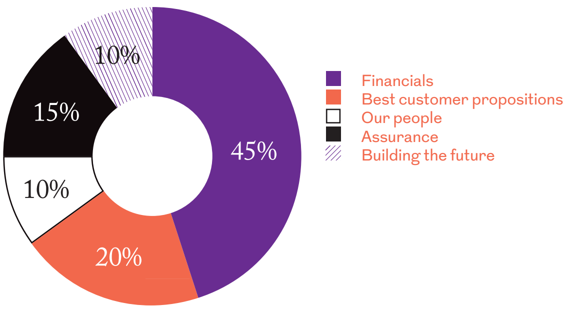
	Phil Loney		Tim Harris		Jon Macdonald	
	2016 (£000)	2015 (£000)	2016 (£000)	2015 (£000)	2016 (£000)	2015 (£000)
Salary	**716**	651	**428**	417	**305**	299
Benefits	**60**	69	**15**	15	**15**	15
Pension supplement	**179**	163	**84**	83	**4**	13
Pension benefits	**-**	-	**2**	-	**41**	29
TOTAL	**955**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

Salaries are shown gross of any Salary Sacrifice element and the pension benefits for Jon Macdonald and Phil Loney do not include employee contributions made by Salary Sacrifice. Jon Macdonald, Phil Loney and Tim Harris received cash supplements in lieu of pension of 15%, 25% and 20% respectively. Jon Macdonald and Tim Harris invested part of their supplements into the Group's Defined Contribution Plan.
Benefits include life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car). Phil Loney receives a transport and overnight expenses allowance to fund travel between his home and place of work, it is currently £46,000 per annum and is reviewed in April each year to ensure it has been set at the correct level. STIP values are the full value awarded for the performance year including amounts due to be deferred, subject to continued service requirements and any other performance conditions. The long-term incentives values are based on the estimated value of awards exercisable subject to being employed on the payment date (after a three-year performance period) at the reporting date and exclude any estimated value of awards deferred to future years (but include awards restricted by holding conditions).

2016 STIP outcome – audited

The maximum STIP opportunity levels and resulting overall STIP outcomes for each executive director in respect of 2016 are shown in the table.

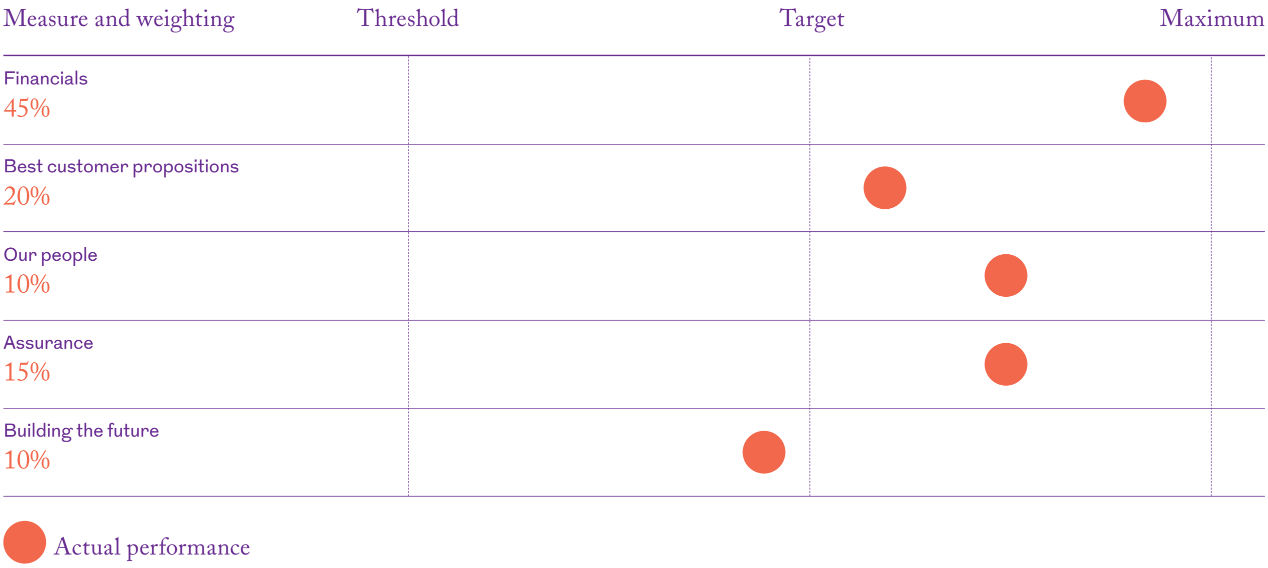
The 2016 overall STIP outcome was determined by assessing the Group's performance over the year against a scorecard of financial and non-financial measures and personal performance rating of the individual for that year.



	Max award (as % of salary)	Outcome (as % of salary)[1]
Jon Macdonald	120	82
Phil Loney	150	147
Tim Harris	120	109

1 Based on salary 31 December 2016

The scorecard for 2016 was set at the start of year and consisted of threshold, target and maximum targets for each measure that was grouped into five categories. The categories for the 2016 STIP and resulting performance outcomes against each category are detailed below:



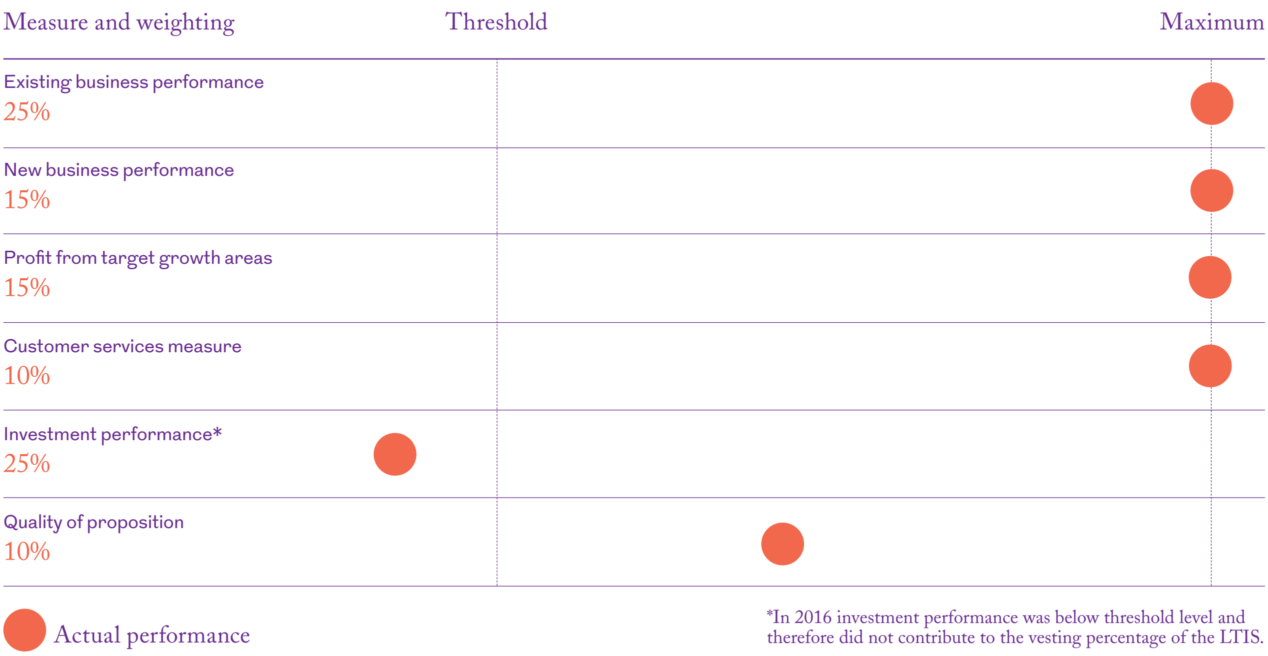
Overall the scorecard result was 155% out of maximum of 200%. This result, combined with personal performance ratings of strong, strong and good meant that STIPs 147%, 109% and 82% of salary was paid out to the Group Chief Executive, Group Finance Director and Chief Risk Officer.

Long-term incentives vesting in 2016 – audited

The table on the right details the percentage of long-term incentive awards granted in 2014 which vested at 31 December 2016.

	Scheme	Initial award (as % of salary)	Vesting (as % of salary)
Jon Macdonald	LTIS	100	69
Phil Loney	LTIS	150	104
Tim Harris	LTIS	150	104

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



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

As a result of Royal London's performance against the measures, 69% of the 2014 LTIS awards is estimated to vest, which equates to 104%, 104% and 69% of salary – which is subject to further EEV unit price changes – for the Group Chief Executive, Group Finance Director and Chief Risk Officer. In line with policy, 50% of the award will vest immediately, with 25% vesting after one year and the remaining 25% after two years.

For additional context, the awards paid in 2015 (2012 LTIS and 2014 STIP) included the following financial thresholds, maximum and actuals.

2014 STIP	Threshold	Max	Actuals
New business contribution	£40.2m	£48.2m	£85.8m
Existing business profits	£112.6m	£172.6m	£168.4m

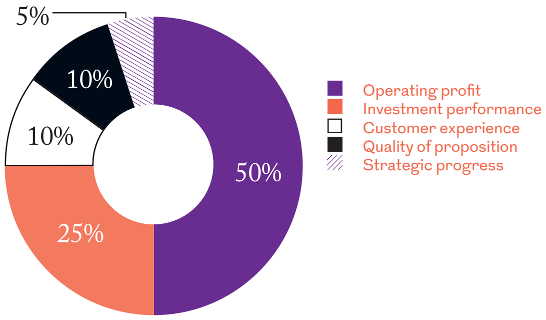
2012 LTIS	Threshold	Max	Actuals
Growth in value compared to peers	123.60%	148.30%	134.00%
EEV growth	0%	30%	55.80%
New business growth	£212.5m	£233.8m	£233.7m

In publishing the relative STIP and LTIS performance outcomes to thresholds, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the plans, whilst protecting the commercial sensitivity of the underlying metrics. All STIP and LTIS award outcomes are reviewed by Group Internal Audit.

Long-term incentives granted in 2016

In 2016, the Committee granted initial LTIS awards of 150% of salary to the Group Chief Executive and Group Finance Director and 100% to the Chief Risk Officer (maximum of 187.5% and 125% of salary).

The vesting of these awards will be dependent on the following performance measures and is subject to +/- 25% cumulative ProfitShare multiplier.



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

Exercise of discretion by the Committee

Having considered the outcome of both the 2016 STIP and 2014 LTIS scorecards and the overall performance of the Group, the Committee believes that the result delivered by the scorecards accurately reflects strong performance and is within the risk appetite of the Group. The Committee did not see a need to exercise any further discretion on this occasion on the payouts/vesting of these awards.

2016 Directors' remuneration report continued

Outstanding awards under incentive schemes – audited

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

	Value of non-exercisable awards		Exercisable awards	Total awards
	Awards subject to time (£000)	Awards subject to time and performance (£000)		
Tim Harris	737	1,022	278	2,037
Phil Loney	1,792	1,592	1,461	4,845
Jon Macdonald	522	488	480	1,490

The following payments were also made to the following past directors in 2016: Andrew Carter, £1,061k; John Deane, £350k; Stephen Shone, £709k.

Units held by executive directors

The table below sets out the value of units held by executive directors as at 31 December 2016 and their individual holding requirements. Holding requirements cease on leaving date but all awards subject to deferral remain.

	Holding Requirement (£000)	Value of units held at 31 Dec 2016 (£000)
Tim Harris	647	859
Phil Loney	1,472	2,891
Jon Macdonald	306	918

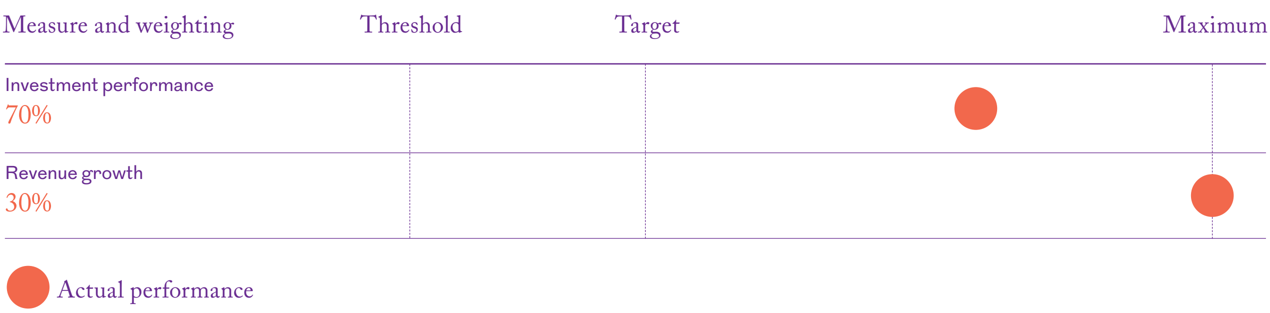
Loss of office payments and payments to past directors – audited

At the end of 2015, Andrew Carter, the CEO of Wealth stepped down as a director of the Company. He did not receive a payment for loss of office, as he remains an employee of the Group.

However, during 2014 when Andrew Carter was a director of the Group, he was granted LTIS and RLAM LTIP awards (which was disclosed in the relevant 2014 report). The outcome of these awards has been provided below:

	Scheme	Initial award (% salary)	Vesting (% salary)
Andrew Carter	LTIS	80	55
	RLAM LTIP	150	118

The LTIS peformance is detailed on page 70. The peformance measures and outcomes for the 2014 RLAM LTIP were as follows:



In publishing the relative LTIP performance outcomes to targets, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the plans, whilst protecting the commercial sensitivity of the underlying metrics. All long-term incentive award outcomes (LTIS and RLAM LTIP) are reviewed by Group Internal Audit.

No additional payments were made to other past directors during 2016 nor were any payments made for loss of office in 2016.

Non-executive directors remuneration in 2016 – audited

The non-executive directors received the following remuneration:

	Annual fee (£000)		Committee chairmanship fee (£000)		Additional fee (£000)		Total (£000)	
	2016	2015	2016	2015	2016	2015	2016	2015
Sally Bridgeland	65	54	15	8	2	-	82	62
Ian Dilks	65	56	-	-	2	-	67	56
Duncan Ferguson	65	56	33	30	7	11	105	97
Tracey Graham	65	56	20	20	27	11	112	87
Andrew Palmer	65	56	20	20	37	11	122	87
Rupert Pennant-Rea	245	226	-	-	-	-	245	226
David Weymouth	65	56	22	22	7	11	94	89

Non-executive directors do not receive any taxable benefits.

The continued focus of regulation in the financial services industry had led to increased accountability for all Board Committees as part of their core role. As a result, from June 2016, non-executive directors were not paid any additional per diem rate payments for additional time commitments beyond their contract. Instead, the annual base fees, were increased from £58,100 to £69,100 to account for the additional workload.

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

Group Chief Executive's remuneration compared to Royal London growth

The tables below show the Group Chief Executive's single remuneration figure growth over the past eight years.

		2009	2010	2011	2012	Restated 2013	2014	2015	2016
Group Chief Executive	Total single figure (£000s)	-	-	1,403	1,703	2,614	2,859	3,136	3,033
Phil Loney	Bonus vesting as a % of maximum	-	-	93	85	93	95	100	98
	LTIS vesting as a % of maximum	-	-	-	-	71	39	37	55

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

		2009	2010	2011	2012	2013	2014	2015	2016
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.			-	-	-	-	-

Phil Loney joined the Group on 1 October 2011. The remuneration shown before that date is that of Mike Yardley who resigned on 30 September 2011.

2016 Directors' remuneration report continued

Group Chief Executive remuneration compared to other employees

	% change in base salary 2016 vs. 2015[1]	Change in STIP as % of salary	% change in total remuneration 2016 vs. 2015[2]
Group Chief Executive	9.98	(3.00)	(3.28)
All employees	4.65	(2.51)	2.13
All employees rated strong or exceptional	4.89	(0.92)	4.61

1 See single figure table
2 For Group Chief Executive it includes salary, benefits, pensions and incentives (see single figure table)

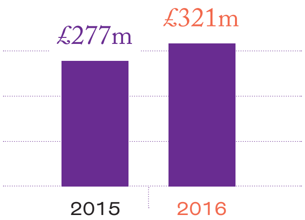
The Group Chief Executive received a salary increase of 9.98% to reflect internal and external market relativities and his strong performance during 2016. In comparison, salary increases for other Royal London employees rated strong or exceptional ranged from 2% to 18.6%, which included promotional increases. All salary increases are determined using the same criteria which link the % increase to individual performance rating and position within the market range. Change in STIP as a % of salary is down marginally for all employees, including the Group Chief Executive, which reflects a strong 2016 for Royal London, on the back of an exceptional 2015. Total remuneration for all employees continues to reflect the strong performance of the Group.

The Group Chief Executive donated 25% of his pre-tax salary, bonus and LTIS to charity.

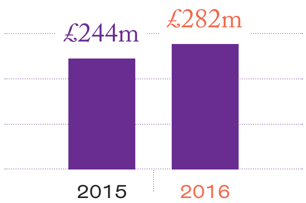
Distribution statement

The illustration below shows the increase in EEV profit before tax, ProfitShare and change in basis for Solvency II; EEV operating profit; ProfitShare; and total employee pay expenditure in 2016.

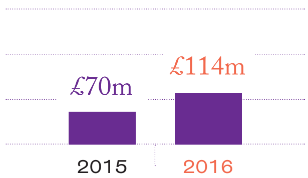
EEV profit before tax, ProfitShare and change in basis for Solvency II



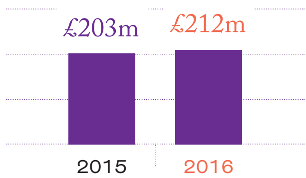
EEV operating profit



ProfitShare (net of tax)



Total employee pay expenditure



Remuneration Committee meetings in 2016

The Remuneration Committee met 11 times in 2016. In addition a Joint Board Risk and Remuneration Committee meeting was held in March 2016. The purpose of the meeting was to review the discretion applied to the incentive schemes within the Group to ensure incentive scheme performance awards and conditions are within risk appetite and to review the appropriateness of the remuneration of controlled function holders. During 2016, the members of the Committee were as follows:

- Tracey Graham (Chairman);
- Rupert Pennant-Rea from 30/11/2016;
- Andrew Palmer until 29/11/2016; and
- Sally Bridgeland from 1/1/2016.

The Committee received support and advice from external advisers during the year. From time to time it undertook 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 2016. Fees are charged based on the scope and requirements of the work as agreed with the Committee or the Group as a whole.

	Nature of advice provided to the Remuneration Committee	Total	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.	128	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 incentives matters during 2016. Advisers to the Company on operation of the Group's incentive HR matters.	2	General legal advice.	Advisers to the Group on HR matters.
PricewaterhouseCoopers	Agreed upon procedures on RLAM incentive schemes.	6	Audit, tax and non-audit services.	Audit Committee that appoint the External Auditors.
Deloitte	Solvency II readiness and compliance report.	22	Tax and non-audit services.	Appointed by the Remuneration Committee.
FIT	Remuneration benchmarking reports.	16	None.	Appointed by the Remuneration Committee.

2016 Directors' remuneration report continued

Activities of the Remuneration Committee during 2016

The table below sets out the principal activities of the Committee during 2016.

Area	Activity
Directors' remuneration policy	The Committee reviewed the Directors' remuneration policy and agreed that only a few changes were required for 2017.
Incentive scheme targets	The Committee agreed the targets for the 2016 STIP, the 2016 LTIS and the 2016 RLAM LTIP.
Salary review	As part of the annual salary review, the Committee benchmarked salaries relative to the competitive market for each role, and adjusted salaries taking into consideration the current market pay positioning and the performance of the executives.
Chairman's fee proposal	The Committee reviewed and agreed the Chairman of the Group's fees for 2016/17.
Incentive scheme outcomes	The Committee reviewed STIP, LTIS and RLAM LTIP outcomes for 2016 in the context of overall Group performance and risk appetite.
Strategic review	The Committee held its first bi-annual strategy meeting to consider the Group's remuneration philosophy and strategy, which included a strategic review of its approach to STIP and LTIS reward structure, and remuneration policy.
Joint risk and remuneration meeting	The Committee held a joint meeting with the Board Risk Committee to jointly consider any required risk adjustments to variable pay outcomes and how risk is captured in all aspects of the remuneration policy.
STIP and LTIS measures	The Committee kept the performance conditions in the Group's STIP and LTIS under review to ensure that they continued to align with the Group's overall purpose and strategy, which includes maximising value for the Group's members and customers as described on page 78.
Standardisation of benefits	The Committee finalised its programme to standardise benefits where possible across the Group.
Royal London Ireland standardisation of benefits harmonisation	The Committee reviewed and approved a programme of benefits harmonisation for Royal London Ireland to align the STIP and life assurance propositions with the Group.
RLAM remuneration policy	The Committee continued its review of its approach to RLAM remuneration policy, and reviewed all RLAM STIP and LTIP schemes as part of an annual reward cycle and in the context of the FCA requirements.
Other allowances	Group reimburses travel and overnight expenses in connection with work-related travel to and from home to place of work.

Consideration of members' views

In determining the remuneration policy, the Committee takes into account the views of members as expressed at our AGMs, following the Remuneration Committee Chairman's presentation. All members of the Committee are available to speak with members at the AGM.

The voting outcomes on the annual report of remuneration at the 2014, 2015 and 2016 AGMs are shown in the table below for the previous year's report. Members have not expressed any adverse views at these AGMs on our current remuneration policies and procedures.

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
2016	14,604	96.4	543	3.5	15,147	325
2015	15,732	96.7	536	3.3	16,268	315
2014	14,943	95.1	771	4.9	15,714	424

2017 Director remuneration

This section describes the policy for executive and non-executive director remuneration from 2017, and is subject to an advisory member vote at the 2017 AGM.

The Committee has conducted an independent review of our remuneration policy with the following three key objectives:

- maximising alignment with our members and customers, reflecting our mutual status;
- ensuring regulatory compliance of our remuneration policy; and
- simplifying the remuneration structure, to improve understanding for our people and members.

The review of the policy concluded that most of the existing policy remained fit for purpose. However, the Committee elected to make a limited number of changes to the policy to strengthen alignment to the three key objectives of the review and ultimately the aims of the policy.

The review recommended the following changes to the proposed policy:

- inclusion of an additional aim for the remuneration policy which takes into account fairness for employees, members and policyholders;
- 40% of the STIP is deferred into EEV units for three years. Previously one-third of the STIP was deferred. This change was made in order to better align with regulatory requirements and market practice;
- clarification in the DRR that personal performance ratings are reflected in individual STIP outcomes;
- additional discretion for the Committee to adjust the LTIS outcomes by +25% (or down to zero) based on a basket of measures. This change has been made to ensure outcomes reflect underlying Group performance;
- removal of additional per diem fees for activities beyond the normal workload for non-executive directors;
- inclusion of annual fees for chairing a subsidiary Board of the Company;
- removal of reference to the defined benefit pension scheme as this is now closed to all executive directors; and
- simplification of the operation of EEV holding requirements.

The following sections set out the proposed remuneration for 2017 in line with the proposed policy, including details of salary increases and short- and long-term incentive awards.

Salaries

There were no changes proposed to the policy for fixed pay and benefits. Salaries for executive directors continue to be reviewed considering their roles and responsibilities, individual and Group performance, competitiveness against comparator organisations and the broader employee population.

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

	2017 (£000)	2016 (£000)	Increase (%)
Tim Harris	443	431	2.8
Phil Loney	755	736	2.6
Jon Macdonald	318	306	3.9

The salaries for the executive directors have been reviewed following a robust benchmarking exercise conducted by the independent advisers to the Committee. The actual increases applied are in line with the approach adopted for all employees within the Group.

Pension and benefits

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

Pension benefits for existing and new directors are provided through the Defined Contribution Plan or they will receive a payment in lieu of pension for 2017.

STIP opportunities for 2017

A review of STIP levels for executive directors indicated that a target STIP opportunity of up to 75% (maximum 150%) of salary remains competitive and no changes have been made to individuals' maximum STIP opportunities for 2017.

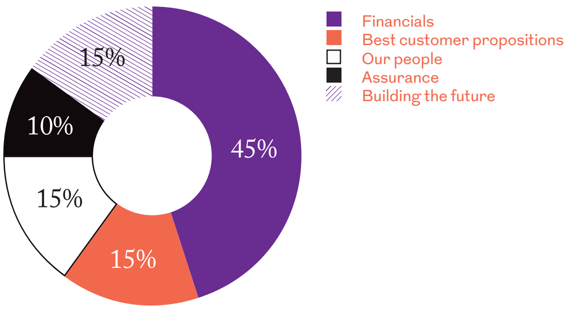
	Maximum (as % of salary)
Tim Harris	120
Phil Loney	150
Jon Macdonald	120

Performance measure selection and approach to target setting: 2017 STIP

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

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

For 2017 the measures and weights are as follows:



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

To avoid any conflict with control function independence, the control function STIP is based on the performance of the function, and the financial element targets cost management and operational efficiency rather than profit-based performance. Of the executive directors, this arrangement only applies to Jon Macdonald.

In light of regulation and alignment to our risk strategy, deferral of STIP will be increased to 40% for awards granted from 1 January 2017. The deferred award will vest in three equal tranches on the year anniversary of the award. The deferred award is converted into Royal London Group European Embedded Value (EEV) units. These EEV units cannot vest (be converted back into cash and paid) until the end of the deferral period.

Malus may be applied to unvested awards at the discretion of the Committee for reasons such as, but not limited to, gross misconduct, material financial restatement, or behaviour that could lead to significant reputational damage.

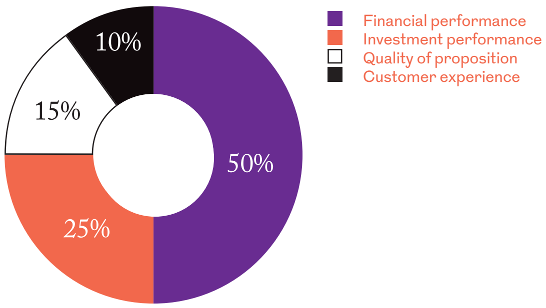
LTIS awards to be granted in 2017

LTIS opportunities are also expected to remain unchanged from 2016; the following awards will be granted to executive directors:

	Scheme	Face value (as % of salary)	% vesting for plan performance	End of performance period
Tim Harris	LTIS	150	0	31 December 2019
Phil Loney	LTIS	150	0	
Jon Macdonald	LTIS	100	0	

Performance measure selection and approach to target setting: 2017 LTIS

The aim of the LTIS continues to be the alignment of executives with the long-term interests of members and customers. The performance measures for 2017 LTIS are anticipated to be as follows:



The 2017 LTIS award may also be subject to discretionary adjustment by the Committee, based on a basket of measures which include but are not limited to strategic milestones and performance relative to peers. ProfitShare is now included as part of the LTIS scorecard with a weighting of 10%.

Other changes to the scorecard for the 2017 LTIS include the combination of the new business and existing business operating profit measures to a single total measure, and the removal of strategic progress as part of the scorecard as it is included in the discretionary adjustment on the LTIS.

Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2019, unless the Committee considers them too commercially sensitive to disclose.

Pay scenario charts

The charts (right) illustrate the potential pay opportunities available for each executive director for 2017 based on different performance scenarios.

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

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

Non-executive director fees for 2017

The annual base fee for non-executive directors from January 2017 is £71,200. Additional fees are payable for Committee chairmanship as follows:

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

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

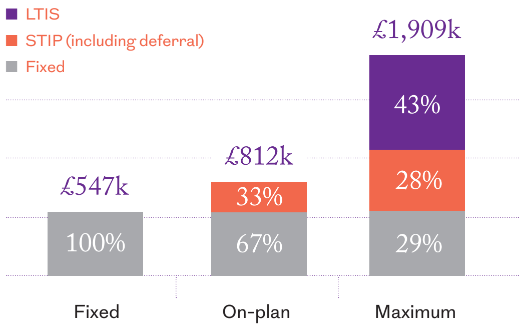
To reflect the additional time commitments now required of non-executive directors, from 1 June 2016 the per diem fees that had previously been paid were included within the annual base fee, which increased from £58,100 to £69,100 from June 2016. The fee for the Senior Independent Director also increased from £10,000 to £13,500 at the same point.

By order of the Board

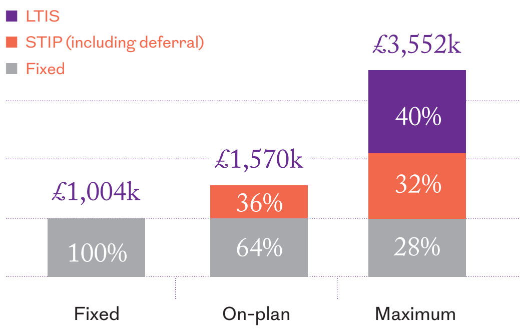
Tracey Graham
Chairman of the Remuneration Committee

Pay scenarios

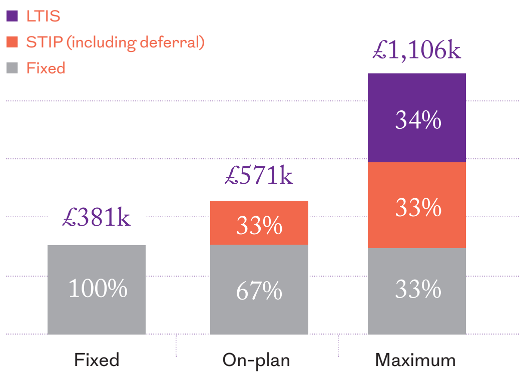
Tim Harris



Phil Loney



Jon Macdonald



Auditors' report

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 2016 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 (IFRS) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRS 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 2016;
- 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 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, and applicable law.

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 items'. The Intermediary segment is further sub-divided into Pensions and Protection segments which, together with the Consumer segment and certain subsidiaries in both Central items and the Wealth segment, each represented a reporting unit for the purposes of our scoping assessment. All of the 13 reporting units were audited by the Group audit team. The reporting units where we performed audit work accounted for 95.8% of the transfer to UDS and 99.3% 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, focusing particularly on persistency assumptions and expense assumptions;
- pension scheme liability valuation;
- valuation of complex investments; and
- the financial systems replacement program.

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 81 to 83. 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 See note 1 to the financial statements for the directors' disclosures of related accounting policies, judgments and estimates, and note 24 for further information.	
Persistency assumptions *Persistency impacts the value of the Group insurance contract liabilities and Group intangible assets. Insurance contract liabilities total £40.6bn across the Group as at 31 December 2016. See note 24 to the financial statements for more information. The Group financial statements include intangible assets relating to management's estimate of the Present Value of In-Force Business (PVIF), which total £131m across the Group as at 31 December 2016. See note 26 to the financial statements for more information.* **When valuing future cashflows of insurance contracts, 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.** **The Group has material intangible assets, in particular the acquired 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.** **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 April 2015 pension freedoms. We focused on whether management had 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 and the input of assumptions into the valuation models. 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 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 any judgements applied, including prudent margins, and then 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 by 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 methodology used to derive 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 concluded that the assumptions used were supported 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 25 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 data extracts from the policy systems, with no material exceptions. The data within the policy systems has also been tested and there were no material exceptions from this testing; › 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.

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 36 for detailed pension disclosures.**	
The Group pension scheme has a deficit of £26m (2015: net surplus £71m), comprising assets of £2,611m and liabilities of £2,637m. During the year the plan closed to future accrual and a curtailment gain of £21m was recognised. **The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in assumptions about inflation, discount rates, and mortality can have a material impact on the calculation of the liability and can be affected by a range of factors. The market volatility and historic low corporate bond yields have significantly impacted on the discount rate, increasing the sensitivity of other changes and therefore the uncertainty over the valuation. We have focused on whether management has applied the appropriate assumptions given the current economic environment.**	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 actuary to calculate the pension liability 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 prior years and within a tolerable range using an internally developed range of acceptable assumptions for valuing pension liabilities, based on our view of various economic indicators; › we reviewed the curtailment gain as a result of the plan's closure to future accrual and assessed the appropriateness of the gain recognised; 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.**	
The Group holds investments in property, private equity and hedge funds. We focused on this area because these asset classes are complex in nature, 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 managers.**	We performed testing for directly held property as follows: › we obtained valuation reports from management's valuation experts and assessed their independence and competency; › we assessed the assumptions and methodology used by management's valuation experts by using internal PwC valuation specialists to check these were appropriate. We found the assumptions were supported by the audit evidence obtained; and › we agreed a sample of inputs used by management's valuation experts to source documentation. We found that the inputs and assumptions used to value the investment property were supported by audit evidence obtained and in line with industry practice. We performed detailed testing for private equity and hedge funds as follows: › we obtained independent confirmations for 56% of the fair value as at 31 December 2016 directly from fund managers; › we 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; › we considered the appropriateness of the accounting policies applied by the funds as a proxy for fair value in the Group and whether any liquidity adjustments were required; and › for a sample of funds, we obtained post year-end valuations to obtain evidence of the valuations as at 31 December 2016. We found that, based on the testing performed, the valuation of private equity and hedge funds were supported by the evidence obtained.

Area of focus	How our audit addressed the area of focus
Financial systems replacement	
The Group is undergoing a significant project to implement a new general ledger and associated supporting applications. The financial systems replacement project involves changes to process, data and systems of the Group in order to provide enhancements to its financial processes and controls and meet Solvency II accelerated reporting requirements. **The new general ledger and associated applications process and record the accounting data used in the preparation of the Group financial statements. We focused on this project given that any errors in the implementation of the systems involved in processing the accounting information or weaknesses in the control environment could have a direct impact on the financial statements.**	We tested the design and configuration of the controls within the applications as follows: › we reviewed the user access controls to identify any segregation of duties conflicts; › we reviewed and tested the design of automated controls; › we reviewed the key application interfaces and tested the operating effectiveness of controls on data transfer between applications; and › we reviewed and tested the operating effectiveness of the IT general controls covering logical access, application change management, security administration and back up, recovery and contingency planning. Where we noted findings from the review and remediation was not completed when the applications were first used for financial reporting, we have performed additional audit procedures to mitigate the risks identified. No material issues were noted from this testing. We performed testing over the completeness and accuracy of the data migration, and the mapping of the accounting data into the new general ledger system as follows: › we reviewed and tested the output from management's controls to obtain evidence of the completeness and accuracy of the data transferred to the new general ledger; and › for a sample of the accounting data we tested the accuracy of the mapping into the new general ledger. We reviewed the consistency of the mapping output against the previous general ledger and validated differences with management to ensure that the mapping was appropriate. We found no material exceptions from this testing.

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 financially significant if they contained balances relating to one of the areas of audit focus.

For the Group's nine 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 materiality ranging from £25m to £60m. In addition, individual balances within other reporting units were also selected as in-scope based on size. Our audit scope allowed us to test 95.8% of the transfer to UDS and 99.3% 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.

Auditors’ report continued

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 (2015: £85m).
How we determined it	2.6% of Unallocated Divisible Surplus (UDS).
Rationale for benchmark applied	We regard UDS, as disclosed in note 29 to the financial statements, as the primary measure relevant to the members of the Parent company, as this represents the amount of surplus yet to be allocated to those members and 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 (2015: £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 London Stock Exchange.

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

The directors have chosen to voluntarily 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.

“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.”

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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 and Accounts 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 position and 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 and Accounts on page 52, 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 on page 49 of the Annual Report, in accordance with provision C.2.1 of the Code, 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 and Accounts 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 on page 19 of the Annual Report, in accordance with provision C.2.2 of the Code, 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.

Auditors' report continued

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 ten 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' judgments 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Gavin Phillips.

Gavin Phillips
Senior Statutory Auditor
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 March 2017

* The maintenance and integrity of The Royal London Mutual Insurance Society Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
* 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 2016

	Notes	Group 2016 £m	Group 2015 Restated £m
Revenues			
Gross earned premiums	4 (a)	**1,291**	1,194
Premiums ceded to reinsurers		**(730)**	(400)
Net earned premiums		**561**	794
Fee income from investment and fund management contracts	5	**254**	255
Investment return	6	**10,864**	2,122
Other operating income	7	**76**	44
Total revenues		**11,755**	3,215
Policyholder benefits and claims			
Claims paid, before reinsurance	8 (a)	**2,703**	2,725
Reinsurance recoveries	8 (a)	**(507)**	(470)
Claims paid, after reinsurance		**2,196**	2,255
Increase/(decrease) in insurance contract liabilities, before reinsurance[1]		**4,545**	(1,020)
Reinsurance ceded		**(548)**	122
Increase/(decrease) in insurance contract liabilities, after reinsurance		**3,997**	(898)
(Increase) in non-participating value of in-force business[1]		**(317)**	(92)
Increase in investment contract liabilities[1]		**3,974**	911
Total policyholder benefits and claims before change in basis for Solvency II		**9,850**	2,176
Change in basis for Solvency II	2	**165**	-
Total policyholder benefits and claims		**10,015**	2,176
Operating expenses			
Administrative expenses	9, 10	**561**	477
Investment management expenses	12	**266**	238
Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets	19	**120**	40
Investment return attributable to external unit holders	34	**308**	22
Other operating expenses	13	**113**	75
Total operating expenses		**1,368**	852
Finance costs	14	**47**	44
Result before tax and before transfer to the unallocated divisible surplus		**325**	143
Tax charge	15 (a)	**249**	18
Transfer to the unallocated divisible surplus	29	**76**	125
Result for the year		**-**	-
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	36 (b)	**(98)**	50
(Deduction from)/transfer to the unallocated divisible surplus	29	**(98)**	50
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**-**	-

1 The 2016 figures are presented before the change in basis for Solvency II of £165m.

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 2016

		Group			Parent company		
	Notes	**2016 £m**	2015 Restated £m	1 January 2015 Restated £m	**2016 £m**	2015 Restated £m	1 January 2015 Restated £m
ASSETS							
Property, plant and equipment	17	**51**	42	46	**-**	-	-
Investment property	18	**5,297**	5,036	4,727	**5,290**	4,936	4,633
Intangible assets							
Goodwill		**232**	250	250	**232**	232	232
Acquired PVIF on investment contracts		**15**	30	34	**7**	21	24
Acquired PVIF on insurance contracts		**116**	156	177	**116**	150	171
Deferred acquisition costs on investment contracts		**301**	344	425	**300**	344	425
Other intangible assets		**19**	52	45	**19**	30	41
Total intangible assets	19	**683**	832	931	**674**	777	893
Reinsurers' share of insurance contract liabilities	2, 24	**5,907**	5,052	5,174	**5,907**	5,052	5,174
Pension scheme asset	36	**131**	177	128	**131**	177	128
Current tax asset		**3**	19	-	**1**	22	-
Financial investments	20	**74,479**	60,129	59,492	**47,856**	42,629	44,231
Investments in Group entities	21	**-**	-	-	**22,699**	15,321	12,894
Trade and other receivables	22	**788**	546	412	**582**	383	285
Cash and cash equivalents	23	**3,292**	2,823	2,736	**1,856**	2,209	2,259
Total assets		**90,631**	74,656	73,646	**84,996**	71,506	70,497
LIABILITIES							
Participating insurance contract liabilities	2, 24	**32,709**	28,708	29,455	**32,765**	28,783	29,530
Participating investment contract liabilities	27	**2,154**	2,232	2,206	**2,154**	2,232	2,206
Unallocated divisible surplus	29	**3,292**	3,314	3,139	**3,368**	3,359	3,183
Non-participating value of in-force business	26	**(1,217)**	(910)	(818)	**(1,217)**	(910)	(818)
		36,938	33,344	33,982	**37,070**	33,464	34,101
Non-participating insurance contract liabilities	2, 24	**7,860**	6,683	6,956	**7,860**	6,682	6,954
Non-participating investment contract liabilities	27	**31,329**	24,984	22,693	**31,329**	24,984	22,693
		39,189	31,667	29,649	**39,189**	31,666	29,647
Subordinated liabilities	30	**744**	743	640	**744**	743	640
Payables and other financial liabilities	31	**7,448**	5,156	5,544	**7,274**	5,107	5,486
Provisions	32	**279**	224	250	**268**	219	237
Other liabilities	33	**279**	286	316	**209**	220	244
Liability to external unit holders	34	**5,502**	3,145	3,122	**-**	-	-
Pension scheme liability	36	**26**	-	-	**26**	-	-
Deferred tax liability	35	**226**	91	91	**216**	87	91
Current tax liability		**-**	-	52	**-**	-	51
Total liabilities		**90,631**	74,656	73,646	**84,996**	71,506	70,497

The Parent company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a parent company statement of comprehensive income. The Parent company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or deduction from the unallocated divisible surplus.

The financial statements on pages 87 to 192 were approved by the Board of Directors and signed on its behalf on 29 March 2017.

Tim Harris
Group Finance Director

Statements of cash flows

for the year ended 31 December 2016

	Notes	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £m
Cash flows from operating activities					
(Deduction from)/transfer to the unallocated divisible surplus		**(22)**	175	**9**	176
Adjustments for non-cash items	40 (a)	**1,834**	1,760	**2,086**	1,707
Adjustments for non-operating items	40 (b)	**47**	44	**65**	(8)
Acquisition of investment property		**(623)**	(211)	**(627)**	(211)
Net acquisition of financial investments		**(5,309)**	(1,432)	**(3,951)**	(1,530)
Proceeds from disposal of investment property		**305**	331	**216**	331
Changes in operating receivables		**(242)**	(134)	**(199)**	(98)
Changes in operating payables		**2,214**	(422)	**2,095**	(407)
Change in liability to external unit holders		**2,357**	23	**-**	-
Net cash flows from operating activities before tax		**561**	134	**(306)**	(40)
Tax paid		**(98)**	(89)	**(71)**	(64)
Net cash flows from operating activities		**463**	45	**(377)**	(104)
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(7)**	(6)	**-**	-
Acquisition of intangibles		**(22)**	(15)	**-**	-
Acquisition of Group entities	40 (d)	**-**	-	**(71)**	(30)
Proceeds from disposal of Group entities	40 (d)	**12**	-	**25**	-
Dividends received from Group entities		**-**	-	**57**	20
Net cash flows from investing activities		**(17)**	(21)	**11**	(10)
Cash flows from financing activities					
Proceeds on issue of debt		**-**	348	**-**	348
Repayment of other debt and finance lease liabilities		**-**	(246)	**-**	(246)
Interest paid		**(47)**	(44)	**(47)**	(43)
Net cash flows from financing activities		**(47)**	58	**(47)**	59
Net increase/(decrease) in cash and cash equivalents		**399**	82	**(413)**	(55)
Cash and cash equivalents at 1 January		**2,812**	2,730	**2,198**	2,253
Cash and cash equivalents at 31 December	23	**3,211**	2,812	**1,785**	2,198

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.

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.

Change in accounting policy

The Group has changed the presentation of its insurance and participating investment contracts to align more closely with Solvency II. The resultant changes and restatements are set out in note 2.

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 1, 'Disclosure initiative'.
- Amendments to IFRS 11, 'Accounting for acquisitions of interests in joint operations'.
- Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation'.
- Amendments to IFRSs Annual Improvements to IFRSs 2012-2014 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 standard covers the classification and measurement of financial instruments, impairment and hedge accounting.
  - The number of classifications for financial assets is reduced to three: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification of the Group's financial assets and liabilities is not expected to change as a result of implementing IFRS 9.
  - The IFRS 9 impairment model will only apply to the Group's trade and lease receivable balances, as all other financial assets will continue to be held at FVTPL.
  - The Group does not hedge account so this section of IFRS 9 is not relevant.

Although effective from 2018, the Group's current intention is to defer implementation of IFRS 9 until 2021 in accordance with the amendment to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. This amendment was issued in 2016 and is effective from 2018. It gives eligible insurers two alternative options for the implementation of IFRS 9: a temporary exemption and the overlay approach. Using the December 2015 balance sheets, it has been determined that both the Group and the Parent company meet the criteria for applying the temporary exemption:

  - Neither has previously adopted any version of IFRS 9;
  - Both the Group and Parent company's activities are predominantly connected with insurance, as evidenced by the fact that the carrying amount of liabilities within the scope of IFRS 4 is significant when compared to the carrying amount of total liabilities; and
  - The percentage of the Group and Parent company's liabilities connected with insurance exceed 90% of total liabilities.

- 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. It will apply to the Group's fee income from investment and fund management contracts and the Group will continue to assess its expected impact on the financial statements.
- IFRS 16, 'Leases', issued in January 2016 and effective 1 January 2019. This standard replaces IAS 17 and will result in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The Group has carried out an initial assessment of the standard and the impact on the Group is not expected to be material.

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

Insurance contracts standard (IFRS 17)

A new IFRS for insurance contracts is due to be issued during 2017. This standard, expected to be called IFRS 17, will have a significant effect on the measurement and presentation of the Group's insurance contracts. A detailed impact assessment will be performed once the standard is issued.

(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.

1. Accounting policies (continued)

(b) Basis of consolidation (continued)

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

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

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

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

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

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

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

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

Associates are entities over which the Group has significant influence but not control, 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 contracts that are classified as investment contracts are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue. Hybrid contracts that contain significant insurance risk are classified as insurance contracts.

(d) Revenue

(i) Premiums

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

(ii) Fee income from investment and fund management contracts

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees, 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.

1. Accounting policies (continued)

(d) Revenue (continued)

(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.

(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 5 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.

1. Accounting policies (continued)

(h) Intangible assets (continued)

(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 3 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.

(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.

1. Accounting policies (continued)

(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.

(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. A change to those accounting policies is permitted if it makes the financial statements more relevant and no less reliable, or more reliable and no less relevant. Following the introduction of Solvency II on 1 January 2016 the Group made a change to the way that the 'non-participating value of in-force business' is presented to more closely align with Solvency II. Further detail is provided in note 2.

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

Participating insurance and participating investment contracts

For participating insurance and participating investment contracts, the liabilities are determined in accordance with the measurement requirements of the former UK GAAP standard FRS 27, 'Life Assurance', which was adopted on transition to IFRS. Under FRS 27, the participating liabilities are measured using the PRA's realistic balance sheet regime. That regime was replaced by Solvency II with effect from 1 January 2016. However the Group is continuing to apply the realistic basis, including any waivers or guidance from the PRA that were in force on transition to Solvency II, because it is the measurement basis established on transition to IFRS. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic basis.

1. Accounting policies (continued)

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

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Parent company's Principles and Practices of Financial Management.

For the closed funds, any excess of the IFRS value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-Fund, the United Friendly OB Sub-Fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) Fund.

The present value of future profits on non-participating investment contracts, the value of future transfers from the Group's 90:10 with-profits funds and the value of administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds are accounted for as part of the calculation of the realistic value of participating contract liabilities. The value of administration and asset management arrangements can be allocated to participating policies and so the participating liabilities are shown net of this item. The future profits on non-participating investment contracts and the value of future transfers cannot be allocated to particular participating liabilities and so are shown as a separate negative liability on the face of the balance sheet, the 'non-participating value of in-force business'.

Non-participating insurance contracts

For non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts. The cash flows are determined on a best estimate basis plus an allowance for risk, which is made by including margins within the assumptions used.

Liability adequacy test

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

Claims outstanding

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

(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.

1. Accounting policies (continued)

(w) Payables and other financial liabilities (continued)

(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, contingent liabilities and contingent assets

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future losses. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

Contingent liabilities are disclosed if:

- there is a possible obligation as a result of a past event; or
- there is a present obligation as a result of a past event, but a liability is not recognised either because a payment is not probable or the amount cannot be reliably estimated.

Contingent assets are disclosed when an inflow of economic benefit is considered probable.

(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 scheme liability. 'Current service cost' and the 'Net interest on the net defined benefit asset' are included within 'Administrative expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Administrative expenses'. Remeasurements are charged or credited to the unallocated divisible surplus in other comprehensive income in the period in which they arise.

(ii) Defined contribution arrangements

The Group operates a number of defined contribution arrangements for employees. The Group pays contractual contributions in respect of these arrangements and such contributions are recognised as an expense as the related employee services are provided.

(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, which requires an assessment of whether significant insurance risk has been transferred to the Group; and
- the determination of whether the Group has control over an entity. This decision requires the consideration of a number of factors. As set out in note 1 (b) these include the Group's ownership interest, any other rights it has over the entity and the rights of third parties.

1. Accounting policies (continued)

(bb) Use of judgements, estimates and assumptions (continued)

The preparation of financial statements also requires the use of estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant to the following:

- The valuation of the Group's financial assets and liabilities – the fair value measurement note (note 16) explains the assumptions used in the valuation, particularly in respect of level 3 assets and liabilities. The impact on the Group's result of changes in these assumptions to reasonably possible alternative assumptions is also illustrated.
- Impairment of intangible assets – acquired VIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Goodwill and other acquired intangible assets are recognised and tested for impairment using the present value of future cash flows expected to arise from the asset. Significant estimates include forecast cash flows and discount rates. Further information is provided in note 19.
- Insurance and investment contracts – the key assumptions used in calculating the year-end insurance and investment contract liabilities are described in note 28. This note also presents the effects of changes in these assumptions from the previous year.
- Provisions, contingent liabilities and contingent assets – the Group evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimate of the expenditure required to settle the obligation. Further information is shown in notes 32 and 37. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits.
- Pension schemes – note 36 sets out the major assumptions used to calculate the pension scheme asset/liability and the sensitivity of the schemes' liabilities to changes in key assumptions.
- In addition to the above, the sensitivity of the Group and Parent company's assets and insurance contract liabilities to insurance risk and market risk is analysed in note 41.

2. Accounting policy change – change in presentation of insurance and participating investment contracts

(i) Overview of the change in presentation

On 1 January 2016 a new regulatory regime for EU insurers, Solvency II, came into force. Under this new regime there have been changes to how the Group calculates the liabilities for its insurance and investment contracts for regulatory purposes. As a consequence of these changes to regulatory reporting the Group has reviewed its IFRS accounting policy for insurance and participating investment contract liabilities. The conclusion of this review was that the Group will continue to apply the former UK GAAP standard FRS 27, 'Life Assurance', which was adopted on transition to IFRS. However the Group has decided to make changes to how it applies FRS 27 in order to align with the requirements of Solvency II. For this reason the changes are considered to provide reliable and more relevant information. Further detail is given below. The revised accounting policy is set out in note 1 (q).

Methodology – change in accounting estimate

Under FRS 27, the participating liabilities are measured using the PRA's realistic balance sheet (RBS) regime. The Group has made changes to the methodology used to calculate the realistic value of its insurance and participating investment contract liabilities to more closely align with the way that they are calculated for Solvency II. In accordance with IFRS (IAS 8) 'Accounting Policies, Changes in Accounting Estimates and Errors' these changes have been treated as a 'change in accounting estimate', which is required to be recognised in the current year with no restatement of prior year comparatives. The total impact of the change is a charge of £165m, which has been shown in the 2016 consolidated statement of comprehensive income as a separate line item. This is made up of a charge of £170m resulting from the use of a swap curve to discount cash flows, rather than the gilt curve used previously, offset by a credit of £5m which results from other minor modelling changes made to align with Solvency II.

Presentation – change in accounting policy

In addition to the methodology change noted above, the Group has changed the presentation of its insurance and participating investment contracts to more closely align with the way that they are presented under Solvency II. This has resulted in items previously included in the negative liability, the 'non-participating value of in-force business' now being deducted from the related liabilities. Further detail is given below. There is no change to the unallocated divisible surplus.

Under IFRS (IAS 8), this presentation change is a 'change in accounting policy' which has to be applied by restating the comparative figures previously presented. IFRS also requires the inclusion of a restated balance sheet at the beginning of the comparative period, in this case 1 January 2015. Consequently the Group and Parent company have restated the figures previously presented in the 2015 consolidated statement of comprehensive income and the balance sheets as at 31 December 2014 and 31 December 2015, as set out in the tables below. The statements of cash flows have not been affected by this change and have not therefore been restated.

The items that have been restated are:

- the 'non-participating insurance contract liabilities' and the 'reinsurers' share of insurance contract liabilities' were previously presented in accordance with the RBS. The RBS presentation, as applied to IFRS, showed them within the balance sheet in the following lines:
  - the line items 'non-participating insurance contract liabilities' and 'reinsurers' share of insurance contract liabilities' were included on the more prudent 'regulatory' basis. This resulted in a higher value than the 'realistic' value.
  - the negative liability the 'non-participating value of in-force business' included an amount which represented the elimination of the prudence in the regulatory basis over and above the realistic value.

For the new presentation both the 'non-participating insurance contract liabilities' and the 'reinsurers' share of insurance contract liabilities' have been shown net of the regulatory prudence previously included within the 'non-participating value of in-force business'. These changes are shown as adjustments 1 and 4 in the tables on pages 99 and 101 respectively.

- the 'non-participating value of in-force business' also previously included the value of the inter-fund administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds. As permitted by FRS 27, where these items can be attributed to specific participating liabilities they can be deducted from those liabilities and the liabilities can be shown net. This item can be attributed to participating liabilities and therefore the 'participating insurance contract liabilities' and the 'participating investment contract liabilities' are now shown net of this value. This change is shown as adjustments 2 and 5 in the tables on pages 99 and 101.

The value remaining within the 'non-participating value of in-force business' is the present value of future profits on non-participating investment contracts and the value of future transfers from the Group's 90:10 with-profits funds. These items cannot be attributed to specific participating liabilities and therefore their presentation has not changed.

The adjustments to the balance sheet presentation set out above result in a reclassification between line items within the statement of comprehensive income, shown as adjustment 3 in the table on page 100. There is no net impact on the statement of comprehensive income or the result for the period.

2. Accounting policy change – change in presentation of insurance and participating investment contracts (continued)

The following tables show the restatement of Group and Parent balance sheets and the consolidated statement of comprehensive income for the above presentational changes.

IFRS Group Balance Sheet

	31 December 2015			
	As previously reported £m	Impact of change in presentation £m	£m	Restated £m
Assets				
Reinsurers' share of insurance contract liabilities	5,302	(250)[1]	-	5,052
Other assets not impacted by the change	69,604	-	-	69,604
Total assets	**74,906**	**(250)**	**-**	**74,656**
Liabilities				
Participating insurance contract liabilities	28,874	-	(166)[2]	28,708
Participating investment contract liabilities	2,326	-	(94)[2]	2,232
Unallocated divisible surplus	3,314	-	-	3,314
Non-participating value of in-force business	(1,526)	358[1]	258[2]	(910)
Non-participating insurance contract liabilities	7,291	(608)[1]	-	6,683
Non-participating investment contract liabilities	24,982	-	2[2]	24,984
Other liabilities not impacted by the change	9,645	-	-	9,645
Total liabilities	**74,906**	**(250)**	**-**	**74,656**

IFRS Parent company Balance Sheet

	31 December 2015			
	As previously reported £m	Impact of change in presentation £m	£m	Restated £m
Assets				
Reinsurers' share of insurance contract liabilities	5,302	(250)[1]	-	5,052
Other assets not impacted by the change	66,454	-	-	66,454
Total assets	**71,756**	**(250)**	**-**	**71,506**
Liabilities				
Participating insurance contract liabilities	28,949	-	(166)[2]	28,783
Participating investment contract liabilities	2,326	-	(94)[2]	2,232
Unallocated divisible surplus	3,359	-	-	3,359
Non-participating value of in-force business	(1,526)	358[1]	258[2]	(910)
Non-participating insurance contract liabilities	7,290	(608)[1]	-	6,682
Non-participating investment contract liabilities	24,982	-	2[2]	24,984
Other liabilities not impacted by the change	6,376	-	-	6,376
Total liabilities	**71,756**	**(250)**	**-**	**71,506**

Notes on the IFRS restatement:

1 This adjustment is to show the non-participating insurance contract liabilities and the reinsurers' share of reinsurance liabilities at their 'realistic' value. Previously the non-participating insurance contract liabilities and the reinsurers' share of reinsurance liabilities were shown at their 'regulatory' value with the difference between the regulatory and realistic values of £358m included within the non-participating value of in-force business. The adjustment moves the £358m from the non-participating value of in-force business and nets £608m from the non-participating insurance contracts liabilities and £250m from the reinsurers' share of insurance contract liabilities.

2 This adjustment is the presentational change to move the value of inter-fund administration and asset management arrangements of £258m from the non-participating value of in-force business and to net £166m of this value from the participating insurance contract liabilities, £94m from the participating investment contract liabilities and £2m to non-participating investment contract liabilities.

2. Accounting policy change – change in presentation of insurance and participating investment contracts (continued)

IFRS Consolidated Statement of Comprehensive Income

	31 December 2015		
	As previously reported £m	Impact of change in presentation[3] £m	Restated £m
Total revenues	**3,215**	**-**	**3,215**
Policyholder benefits and claims			
Claims paid, after reinsurance	2,255	-	2,255
Decrease in insurance contract liabilities, before reinsurance	(948)	(72)	(1,020)
Reinsurance ceded	160	(38)	122
Decrease in insurance contract liabilities, after reinsurance	(788)	(110)	(898)
Increase in non-participating value of in-force business	(194)	102	(92)
Increase in investment contracts	903	8	911
Total policyholder benefits and claims	**2,176**	**-**	**2,176**
Total operating expenses	**852**	**-**	**852**
Finance costs	**44**	**-**	**44**
Result before tax and before transfer to the unallocated divisible surplus	**143**	**-**	**143**
Tax charge	18	-	18
Transfer to the unallocated divisible surplus	125	-	125
Profit for the year	-	-	-

Notes on the IFRS restatement:

3. The changes to the consolidated statement of comprehensive income are the movement between the adjustments made to the 31 December 2015 and the 31 December 2014 balance sheets. In other words the difference between adjustments 1 and 2 made to the 31 December 2015 balance sheet and adjustments 4 and 5 on page 101 made to the 31 December 2014 balance sheet. The net effect on both balance sheets is nil and therefore there is no overall net effect on the consolidated statement of comprehensive income.

2. Accounting policy change – change in presentation of insurance and participating investment contracts (continued)

IFRS Group Balance Sheet

	31 December 2014			
	As previously reported £m	Impact of change in presentation £m	Impact of change in presentation £m	Restated £m
Assets				
Reinsurers' share of insurance contract liabilities	5,462	(288)[4]	-	5,174
Other assets not impacted by the change	68,472	-	-	68,472
Total assets	**73,934**	**(288)**	**-**	**73,646**
Liabilities				
Participating insurance contract liabilities	29,607	-	(152)[5]	29,455
Participating investment contract liabilities	2,308	-	(102)[5]	2,206
Unallocated divisible surplus	3,139	-	-	3,139
Non-participating value of in-force business	(1,332)	262[4]	252[5]	(818)
Non-participating insurance contract liabilities	7,506	(550)[4]	-	6,956
Non-participating investment contract liabilities	22,691	-	2[5]	22,693
Other liabilities not impacted by the change	10,015	-	-	10,015
Total liabilities	**73,934**	**(288)**	**-**	**73,646**

IFRS Parent company Balance Sheet

	31 December 2014			
	As previously reported £m	Impact of change in presentation £m	Impact of change in presentation £m	Restated £m
Assets				
Reinsurers' share of insurance contract liabilities	5,462	(288)[4]	-	5,174
Other assets not impacted by the change	65,323	-	-	65,323
Total assets	**70,785**	**(288)**	**-**	**70,497**
Liabilities				
Participating insurance contract liabilities	29,682	-	(152)[5]	29,530
Participating investment contract liabilities	2,308	-	(102)[5]	2,206
Unallocated divisible surplus	3,183	-	-	3,183
Non-participating value of in-force business	(1,332)	262[4]	252[5]	(818)
Non-participating insurance contract liabilities	7,504	(550)[4]	-	6,954
Non-participating investment contract liabilities	22,691	-	2[5]	22,693
Other liabilities not impacted by the change	6,749	-	-	6,749
Total liabilities	**70,785**	**(288)**	**-**	**70,497**

Notes on the IFRS restatement:

4 This adjustment is to show the non-participating insurance contract liabilities and the reinsurers' share of reinsurance liabilities at their 'realistic' value. Previously the non-participating insurance contract liabilities and the reinsurers' share of reinsurance liabilities were shown at their 'regulatory' value with the difference between the regulatory and realistic values of £262m included within the non-participating value of in-force business. The adjustment moves the £262m from the non-participating value of in-force business and nets £550m from the non-participating insurance contracts liabilities and £288m from the reinsurers' share of insurance contract liabilities.

5 This adjustment is the presentational change to move the value of inter-fund administration and asset management arrangements of £252m from the non-participating value of in-force business and to net £152m of this value from the participating insurance contract liabilities, £102m from the participating investment contract liabilities and £2m to non-participating investment contract liabilities.

3. 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. This 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 193 to 205. 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.

	Group	
	2016 £m	2015 Restated £m
Intermediary		
› Pensions	**263**	112
› UK Protection	**22**	28
› Royal London Ireland	**2**	7
Consumer	**90**	20
Wealth	**35**	61
Central items	**(130)**	16
EEV operating profit before tax	**282**	244
Amortisation of intangibles	**30**	3
Change in basis for Solvency II	**(165)**	-
Valuation differences between EEV and IFRS	**(31)**	5
Economic assumption changes and investment return variances	**373**	15
Pension schemes' costs recognised in profit	**(3)**	(10)
Financing costs	**(47)**	(44)
ProfitShare	**(114)**	(70)
IFRS result before tax	**325**	143

3. Segmental information (continued)

(b) Geographical analysis

	Group – 2016		
	UK £m	International £m	Total £m
Revenues			
Net earned premiums	**519**	**42**	**561**
Fee income from investment and fund management contracts	**254**	**-**	**254**
Investment return	**10,666**	**198**	**10,864**
Other operating income	**76**	**-**	**76**
Total revenues	**11,515**	**240**	**11,755**

	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

(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.

4. Premiums

(a) Gross earned premiums

	Group	
	2016 £m	2015 £m
Regular premiums		
› Insurance contracts	**796**	804
› Participating investment contracts	**24**	24
	820	828
Single premiums		
› Insurance contracts	**466**	359
› Participating investment contracts	**5**	7
	471	366
	1,291	1,194

(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 £5,514m (2015: £4,347m) in respect of non-participating contracts and £10m (2015: £9m) in respect of hybrid participating contracts.

5. Fee income from investment and fund management contracts

	Group 2016 £m	Group 2015 £m
Investment contract fees receivable		
› Annual management charges applied to linked funds	125	124
› Policy administration fees	11	11
› Bid/offer spread and other charges	3	4
	139	139
Fund management fees receivable	93	92
	232	231
Change in deferred fee income	22	24
	254	255

6. Investment return

	Group 2016 £m	Group 2015 £m
Investment income from financial investments held at fair value through profit or loss	1,745	1,639
Fair value gains/(losses) from financial investments held at fair value through profit or loss	9,088	(185)
Rental income from investment property	263	254
Fair value (losses)/gains from investment property	(60)	439
Interest income from cash and cash equivalents	12	13
Net foreign exchange loss	(184)	(38)
	10,864	2,122

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 £371m (2015: £45m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 31).

Included within fair value gains from financial investments held at FVTPL are fair value losses of £964m (2015: £510m) arising on assets held for trading.

7. Other operating income

	Group 2016 £m	Group 2015 £m
Commission income	12	14
Foreign currency translation	19	-
Other	45	30
	76	44

8. Claims

(a) Claims paid

	Group	
	2016 £m	2015 £m
Claims paid, before reinsurance		
› Insurance contracts	**2,516**	2,531
› Participating investment contracts	**187**	194
	2,703	2,725
Reinsurance recoveries		
› Insurance contracts	**(507)**	(470)
Claims paid, after reinsurance		
› Insurance contracts	**2,009**	2,061
› Participating investment contracts	**187**	194
	2,196	2,255

(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 £2,855m (2015: £2,747m) in respect of non-participating investment contracts and £58m (2015: £63m) in respect of hybrid participating investment contracts.

9. Administrative expenses by type

	Group	
	2016 £m	2015 £m
Acquisition costs		
› Expenses	**157**	132
› Commission	**139**	109
Movement in deferred acquisition costs on invest		
› Additions	**(5)**	(15)
› Amortisation and impairment charges	**48**	96
	339	322
Maintenance costs		
› Operational expenses	**151**	135
› Renewal commission	**34**	37
› Movement in provision for future commission (note 32)	**19**	(64)
› Pension scheme cost (note 36)	**(18)**	10
	186	118
Other administrative expenses, including long-term incentive plans	**36**	37
	561	477

10. Administrative expenses by nature

	Group 2016 £m	Group 2015 £m
Staff costs	**159**	158
Movement in deferred acquisition costs on investment contracts (note 19)	**43**	81
Acquisition commission	**139**	109
Renewal commission	**34**	37
Depreciation of property, plant and equipment (note 17)	**6**	5
Information systems, maintenance and rent	**38**	33
Property costs	**11**	13
Regulatory, professional and administration fees	**84**	72
Movement in provision for future commission (note 32)	**19**	(64)
Other expenses	**28**	33
	561	477

Auditors' remuneration, net of VAT

	Group 2016 £000	Group 2015 £000
Fees payable to PwC for the audit of the Parent company and consolidated financial statements	**2,461**	2,202
Fees payable to PwC for other services:		
› Audit of the company's subsidiaries	**823**	724
› Audit related assurance services	**1,776**	1,530
› Tax compliance services	**51**	49
› Tax advisory services	**534**	169
› Other assurance services	**175**	999
› Other non-audit services	**694**	492
Total	**6,514**	6,165

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**	43
Fees in respect of the Royal Liver Assurance Superannuation Fund – Audit	**16**	16
Fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI) – Audit	**16**	16
Total	**75**	75

11. Staff costs

(a) Analysis of staff costs

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Wages and salaries	**196**	171	**185**	160
Social security contributions	**19**	14	**18**	13
Other pension costs – defined contribution arrangements	**13**	6	**13**	6
Other pension costs – defined benefit schemes (note 36)	**(18)**	10	**(18)**	10
Termination benefits	**2**	2	**2**	2
	212	203	**200**	191

	Number	Number	**Number**	Number
The average number of persons (including executive directors) employed by the Group during the year was:				
Sales and sales support	**419**	387	**382**	351
Administration	**3,107**	2,743	**2,839**	2,491
	3,526	3,130	**3,221**	2,842

The total staff costs of £212m (2015: £203m) are included in the statement of comprehensive income within administration expenses (2016: £159m, 2015: £158m), within investment management expenses (2016: £32m, 2015: £26m) and within other operating expenses (2016: £21m, 2015: £19m). The Parent company pays its employees via a subsidiary company.

(b) Directors' emoluments

	Group	
	2016 £m	2015 £m
Total emoluments	**5**	7
Long-term incentives vesting in the year	**2**	2

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 62 to 79. 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 29 for the Group and 22 for the Parent company (2015: 30 for the Group and 26 for the Parent company).

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Salaries, short-term incentive plans and other benefits	**13**	14	**10**	10
Change in amounts payable under long-term incentive plans	**8**	8	**6**	5
	21	22	**16**	15

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 £4m as at 31 December 2016 (2015: £7m). The amount of long-term incentive plans exercised by key management during the year was £8m (2015: £8m).

12. Investment management expenses

	Group 2016 £m	Group 2015 £m
Property expenses	30	33
Other transaction costs	22	40
Costs of in-house investment management operations – staff costs	32	26
Costs of in-house investment management operations – other	43	39
Distributions to external unit holders from consolidated funds	99	70
Other	40	30
	266	238

13. Other operating expenses

	Group 2016 £m	Group 2015 £m
Operating interest payable	2	2
Provisions	22	2
Foreign currency translation	3	2
Other project costs – staff costs	21	19
Other project costs – other	65	50
	113	75

14. Finance costs

	Group 2016 £m	Group 2015 £m
Finance costs comprise interest payable arising from:		
› Subordinated liabilities	46	42
› Other	1	2
	47	44

15. Tax charge

(a) Tax charge in the statement of comprehensive income

	Group 2016 £m	Group 2015 £m
Tax has been provided as follows:		
UK corporation tax charge		
› Current year	**91**	13
› Adjustments in respect of prior periods	**(3)**	(14)
	88	(1)
Foreign tax partially relieved against UK corporation tax	**29**	19
Deferred tax (note 35)	**132**	-
	249	18

(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 2016 £m	Group 2015 £m
Result before tax and before transfer to the unallocated divisible surplus	**325**	143
Tax calculated at the standard rate of corporate tax in the UK	**65**	28
Accounting profit not subject to policyholder tax	**(65)**	(28)
Policyholder tax on long-term insurance business	**249**	18
Tax charge for the year (note 15a)	**249**	18

UK corporation tax in the statement of comprehensive income has been calculated at a rate of 20% (2015: 20%) on the taxable profits in respect of insurance business of the long-term fund and at 20% (2015: 20.25%) on the taxable profits of the subsidiaries of the long-term fund.

In the year, further reductions to the UK corporate tax rate have been announced. The tax rate will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020; these changes were substantively enacted on 15 September 2016 and, therefore, are recognised in these financial statements.

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.

Asset/liability	Valuation techniques and key inputs	2016 Fair value Group £m	2016 Fair value Parent company £m	2016 Fair value hierarchy level	2015 - Restated Fair value Group £m	2015 - Restated Fair value Parent company £m	2015 - Restated Fair value hierarchy level
Owner-occupied land and buildings	Fair value is determined using both income capitalisation and market comparison valuation methods.	36	-	3	27	-	3
Investment property	Fair value is determined using both income capitalisation and market comparison valuation methods.	5,297	5,290	3	5,036	4,936	3
Derivatives – equity options	Mark to model technique using expected dividend yields and market-implied volatility.	61	61	2	59	59	2
Derivatives – interest rate swaps	Mark to model technique using market swap rates.	4,020	4,020	2	2,267	2,267	2
Derivatives – interest rate swaptions	Mark to model technique using forward swap rates and interest rate volatility.	200	200	2	171	171	2
Derivatives – currency forwards	Mark to model technique using expected foreign exchange rates.	2	2	2	18	10	2
Derivatives – total return swaps	Mark to model technique using market swap rates.	16	16	2	30	30	2
Derivatives – inflation swaps	Mark to model technique using market swap rate	23	23	2	-	-	N/A
Equity securities – quoted	Quoted prices in an active market.	24,240	7,980	1	20,742	7,094	1
Equity securities – quoted	Quoted prices, but insufficient trading activity to confirm market is active.	33	4	2	18	13	2
Equity securities – quoted	Quoted prices, but shares have been delisted or there are pending corporate actions.	1	-	3	2	-	3
Equity securities – unquoted	Fair value is derived using observable market prices.	10	10	2	12	12	2
Equity securities – unquoted	Fair value is based on the net asset value (NAV) of the entity.	2	-	3	-	-	N/A
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.	193	193	3	220	184	3
Equity securities – unquoted – property funds	The NAV provided by the external fund managers.	227	227	3	206	206	3
Government bonds – UK treasuries	Debt Management Office (DMO) price (average of prices used in actual transactions).	12,755	11,046	1	13,495	12,916	1
Government bonds – other	Quoted prices provided by third-party pricing sources.	2,362	1,395	2	1,281	1,113	2
Other quoted debt and fixed income securities	Quoted prices provided by third-party pricing sources, using consensus pricing.	14,230	10,176	2	11,336	9,182	2
Other quoted debt and fixed income securities	Quoted prices in an active market.	5	1	1	6	2	1
Other quoted debt and fixed income securities	Mark to model technique using a gross redemption yield.	6	5	3	13	11	3
Loans secured by policies	Carrying value.	5	5	3	5	5	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)

		2016			2015 - Restated		
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.	**3,241**	**3,241**	**2**	2,788	2,788	2
Other unquoted debt and fixed income securities	Mark to model technique using a gross redemption yield.	**2**	**2**	**3**	3	3	3
Unit trusts and other pooled investments – quoted	Quoted prices in an active market.	**6,648**	**6,466**	**1**	4,915	4,899	1
Unit trusts and other pooled investments – quoted	Quoted prices, but insufficient trading activity to confirm market is active.	**-**	**-**	**N/A**	172	172	2
Unit trusts and other pooled investments – unquoted	The NAV provided by external fund manager.	**425**	**323**	**3**	400	320	3
Investment in Group entities – shares	Net present value of future projected cash flows.	**-**	**429**	**3**	-	543	3
Investment in Group entities – loans	Carrying value.	**-**	**18**	**3**	-	29	3
Investment in Group entities – investment funds	Quoted prices in an active market.	**-**	**22,248**	**1**	-	14,699	1
Investment in Group entities – investment funds	The NAV provided by external fund manager.	**-**	**4**	**3**	-	50	3
Non-participating investment contract liabilities	Determined by the fair value of the net assets of the underlying unitised investment funds.	**(31,329)**	**(31,329)**	**2**	(24,984)	(24,984)	2
Liability to external unit holders	Quoted prices in an active market.	**(5,502)**	**-**	**1**	(3,145)	-	1
Reinsurance liability	Discounted cash flows are used to derive the fair value.	**(3,069)**	**(3,069)**	**2**	(2,773)	(2,773)	2
Derivative liabilities	As described above for each type of derivative.	**(1,586)**	**(1,574)**	**2**	(1,460)	(1,445)	2
Provision for future commission	Present value of future projected cash flows.	**(167)**	**(167)**	**3**	(148)	(148)	3

The 2015 figures have been restated for the change in accounting presentation, as set out in note 2.

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. £202m in the Group and £197m in the Parent company has been transferred from level 2 to level 1 as a quoted price in an active market was available as at 31 December 2016 (2015: £101m was transferred from level 2 to level 1). In addition, £21m in the Group and £3m in the Parent company was transferred from level 1 to level 2, as although quoted prices were available at 31 December 2016, there was insufficient trading activity to evidence that the market was active at that date.

There are no fair value measurements in the balance sheet on a non-recurring basis.

16. Fair value measurement (continued)

(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 the fair values are disclosed)

		Group and Parent company			
		2016		2015 - Restated	
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.	801	1	773	1

(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.

16. Fair value measurement (continued)

(c) Fair value hierarchy (continued)

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 – 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Owner-occupied land and buildings (note 17)	-	-	36	36
Investment property (note 18)	-	-	5,297	5,297
Financial investments:				
Derivative assets	-	4,322	-	4,322
Equity securities				
› Quoted	24,240	33	1	24,274
› Unquoted	-	10	422	432
Debt and fixed income securities				
› Government bonds	12,755	2,362	-	15,117
› Other quoted	5	14,230	6	14,241
› Loans secured by policies	-	-	5	5
› Other unquoted	-	3,241	2	3,243
Other investments				
› Unit trusts and other pooled investments	6,648	-	425	7,073
Total financial investments for fair value hierarchy	43,648	24,198	861	68,707
› Deposits with credit institutions	-	-	-	5,772
Total financial investments (note 20)	43,648	24,198	861	74,479
Total assets at fair value	43,648	24,198	6,194	79,812
Liabilities				
Non-participating investment contract liabilities (note 27)	-	(31,329)	-	(31,329)
Reinsurance liability (note 31)	-	(3,069)	-	(3,069)
Derivative liabilities (note 31)	-	(1,586)	-	(1,586)
Provision for future commission (note 32)	-	-	(167)	(167)
Liability to external unit holders (note 34b)	(5,502)	-	-	(5,502)
Total liabilities at fair value	(5,502)	(35,984)	(167)	(41,653)

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16. Fair value measurement (continued)

(c) Fair value hierarchy (continued)

	Group 2015 – Restated			
	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
Total financial investments for fair value hierarchy	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 27)	-	(24,984)	-	(24,984)
Reinsurance liability (note 31)	-	(2,773)	-	(2,773)
Derivative liabilities (note 31)	-	(1,460)	-	(1,460)
Provision for future commission (note 32)	-	-	(148)	(148)
Liability to external unit holders (note 34b)	(3,145)	-	-	(3,145)
Total liabilities at fair value	(3,145)	(29,217)	(148)	(32,510)

The Non-participating investment contract liabilities figure has been restated to reflect the change in accounting presentation, see note 2.

16. Fair value measurement (continued)
(c) Fair value hierarchy (continued)

	Parent company – 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investment property (note 18)	-	-	5,290	5,290
Financial investments:				
Derivative assets	-	4,322	-	4,322
Equity securities				
› Quoted	7,980	4	-	7,984
› Unquoted	-	10	420	430
Debt and fixed income securities				
› Government bonds	11,046	1,395	-	12,441
› Other quoted	1	10,176	5	10,182
› Loans secured by policies	-	-	5	5
› Other unquoted	-	3,241	2	3,243
Other investments				
› Unit trusts and other pooled investments	6,466	-	323	6,789
Total financial investments for fair value hierarchy	25,493	19,148	755	45,396
› Deposits with credit institutions	-	-	-	2,460
Total financial investments (note 20)	25,493	19,148	755	47,856
Investments in Group entities (note 21)	22,248	-	451	22,699
Total assets at fair value	47,741	19,148	6,496	75,845
Liabilities				
Non-participating investment contract liabilities (note 27)	-	(31,329)	-	(31,329)
Reinsurance liability (note 31)	-	(3,069)	-	(3,069)
Derivative liabilities (note 31)	-	(1,574)	-	(1,574)
Provision for future commission (note 32)	-	-	(167)	(167)
Total liabilities at fair value	-	(35,972)	(167)	(36,139)

16. Fair value measurement (continued)

(c) Fair value hierarchy (continued)

	Parent company 2015 – Restated			
	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
Total financial investments for fair value hierarchy	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 27)	-	(24,984)	-	(24,984)
Reinsurance liability (note 31)	-	(2,773)	-	(2,773)
Derivative liability (note 31)	-	(1,445)	-	(1,445)
Provision for future commission (note 32)	-	-	(148)	(148)
Total liabilities at fair value	-	(29,202)	(148)	(29,350)

The Non-participating investment contract liabilities figure has been restated to reflect the change in accounting presentation, see note 2

(d) Level 3 assets and liabilities

For the majority of level 3 investments, the Group and Parent company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and Parent company review the appropriateness of these valuations on the following basis:

- for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market; and
- corporate bonds are predominantly valued using single broker indicative quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements.

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 Valuation Oversight Committee and approved by the Audit Committee at the half year and year end for inclusion in the financial statements. The Group Valuation Oversight Committee is responsible for agreeing the valuation basis for any investment assets or liabilities where a market price is not readily available, as well as agreeing any changes to the valuation principles applicable to all investment assets and liabilities.

Changes in the assumptions used to calculate the level 3 valuations to reasonably possible alternative assumptions would have the following impact on the Royal London Group IFRS result before tax for the year. Only changes in assets held by the Royal London Open Fund would impact the Group's IFRS result for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below.

- for level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2016 would result in a £3.2m increase or decrease in result before tax or total assets or liabilities;
- for level 3 corporate bonds, increasing assumed yields at 31 December 2016 by 100bps would result in a decrease in result before tax and the fair value of the corporate bonds of £0.3m. Decreasing assumed yields at 31 December 2016 by 100bps would result in an increase in result 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 £17.6m increase or decrease in result 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 2016 would result in a £10.2m increase or decrease in the provision for future commission and a 10% increase or decrease in future surrender rates would result in a £11.4m 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 Market comparison	Equivalent yield Estimated rental value per square foot Price per acre	4.8%-16.5% (10.9%) £4.27-£42.81 (£34.85) £655,000
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. Expenses (bps) p.a. Investment return (%) p.a. Surrender rate (%) p.a. Funds under management end 2016 (£m) Tax	10.0-45.3 (23.6) 4.2-10.2 (6.7) 2.0 14.2-35.0 (20.4) 25,812 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. Investment return (%) p.a. Surrender rate (%) p.a. Value of underlying funds at end 2016 (£m)	0.01-1.00 (0.53) 0.73 (0.73) 0-11 (6.0) 4,076

16. Fair value measurement (continued)

(d) Level 3 assets and liabilities (continued)

Movement during the year in the level 3 assets and liabilities:

	Group – 2016			
	Financial investments £m	Owner-occupied property £m	Investment property £m	Total £m
At 1 January	**849**	**27**	**5,036**	**5,912**
Purchases	48	-	623	671
Transfer to/(from) Property, Plant and Equipment	-	3	(3)	-
Sales	(116)	-	(285)	(401)
Net gains and (losses) recognised in statement of comprehensive income	78	6	(74)	10
Transfers into level 3	2	-	-	2
At 31 December	**861**	**36**	**5,297**	**6,194**
'Net gains and (losses) recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	56	6	(74)	(12)

	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 recognised in statement of comprehensive income	204	2	359	565
Transfers into level 3	46	-	-	46
At 31 December	849	27	5,036	5,912
'Net gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	112	2	359	473

16. Fair value measurement (continued)

(d) Level 3 assets and liabilities (continued)

	Parent company – 2016			
	Financial investments £m	Investment property £m	Investments in Group entities £m	Total £m
At 1 January	729	4,936	622	6,287
Purchases	49	627	71	747
Sales	(101)	(197)	(161)	(459)
Net gains and (losses) recognised in statement of comprehensive income	78	(76)	(81)	(79)
At 31 December	755	5,290	451	6,496
'Net gains and (losses) recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	56	(57)	(81)	(82)

	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 recognised in statement of comprehensive income	124	353	34	511
Transfers into level 3	7	-	-	7
At 31 December	729	4,936	622	6,287
'Net gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	113	353	34	500

The 'Net gains and (losses) recognised in statement of comprehensive income shown above are included within 'Investment return'.

The Group and Parent company's policy is to recognise transfers into and out of level 3 at the end of the reporting period.

The movement in the provision for future commission is shown in note 32.

17. Property, plant and equipment

	Group – 2016		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
Cost or valuation			
At 1 January	45	97	142
Additions	-	6	6
Disposals	-	(79)	(79)
Transfers from investment property (note 18)	3	-	3
At 31 December	48	24	72
Accumulated depreciation and impairment losses			
At 1 January	(18)	(82)	(100)
Depreciation charge	-	(6)	(6)
Disposals	-	79	79
Reversal of impairment losses	6	-	6
At 31 December	(12)	(9)	(21)
Net book value			
At 1 January	27	15	42
At 31 December	36	15	51

	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 (note 19)	-	(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

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	
	2016 £m	2015 £m
Cost	38	35
Accumulated depreciation and impairment losses	(12)	(18)
Net book value	26	17

18. Investment property

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Fair value				
At 1 January	**5,036**	4,727	**4,936**	4,633
Additions				
› Capitalised expenditure on existing properties	**91**	41	**91**	41
› Acquisition of new properties	**532**	170	**536**	170
Disposals	**(285)**	(261)	**(197)**	(261)
Transfer to property, plant and equipment (note 17)	**(3)**	-	**-**	-
Net (loss)/gain from fair value adjustments	**(80)**	365	**(76)**	358
Foreign exchange gains/(losses)	**6**	(6)	**-**	(5)
At 31 December	**5,297**	5,036	**5,290**	4,936
Rental income from investment property	**263**	254	**260**	252
Direct operating expenses arising from investment property	**30**	33	**30**	32

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 £5,168m for the Group (2015: £4,953m) and £5,204m for the Parent company (2015: £4,853m). During the year, as part of the ongoing management of the Group's portfolio, the decision was made to dispose of the Royal Liver Building and two French properties. Contracts were exchanged for the sale of the Royal Liver Building on 3 February 2017 for £48m and for the two French properties on 6 March 2017 for an estimated consideration of £46m. As contracts had not been exchanged at the year-end date all three properties are included in the Group and Parent company figures shown above at their carrying value at 31 December 2016 totalling £86m.

The fair value of investment property above includes £494m (2015: £489m) for the Group and £494m (2015: £489m) for the Parent company held under finance leases.

The total direct expenses above relating to properties that did not generate income are £7m (2015: £11m) for the Group and £7m (2015: £11m) 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 (loss)/gain from fair value adjustments shown above represents the net fair value (loss)/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.

18. Investment property (continued)

These total future minimum lease payments receivable can be analysed as follows:

	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £m
Not later than one year	**245**	220	**243**	218
Later than one year and not later than five years	**749**	682	**747**	678
Later than five years	**1,470**	1,270	**1,469**	1,270
	2,464	2,172	**2,459**	2,166

	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £m
Freehold	**2,171**	1,858	**2,166**	1,852
Leasehold	**293**	314	**293**	314
	2,464	2,172	**2,459**	2,166

19. Intangible assets

The following tables show the movements in the intangible assets of the Group and the Parent company.

Group – 2016	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	853	237	2,774
Additions	-	-	-	5	23	28
At 31 December	250	421	1,013	858	260	2,802
Accumulated amortisation and impairment losses						
At 1 January	-	(391)	(857)	(509)	(185)	(1,942)
Amortisation charge	-	(9)	(28)	(48)	(12)	(97)
Impairment losses	(18)	(6)	(12)	-	(44)	(80)
At 31 December	(18)	(406)	(897)	(557)	(241)	(2,119)
Net book value						
At 1 January	250	30	156	344	52	832
At 31 December	232	15	116	301	19	683

The net book value of intangible assets at 31 December 2016 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review):

	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
Within 12 months	-	15	24	40	11	90
In more than 12 months	232	-	92	261	8	593
	232	15	116	301	19	683

19. Intangible assets (continued)

	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 (note 17)	-	-	-	-	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

	Parent company – 2016					
	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**	**853**	**138**	**2,636**
Additions	**-**	**-**	**-**	**4**	**-**	**4**
At 31 December	**232**	**410**	**1,003**	**857**	**138**	**2,640**
Accumulated amortisation and impairment losses						
At 1 January	**-**	**(389)**	**(853)**	**(509)**	**(108)**	**(1,859)**
Amortisation charge	**-**	**(10)**	**(23)**	**(48)**	**(11)**	**(92)**
Impairment losses	**-**	**(4)**	**(11)**	**-**	**-**	**(15)**
At 31 December	**-**	**(403)**	**(887)**	**(557)**	**(119)**	**(1,966)**
Net book value						
At 1 January	**232**	**21**	**150**	**344**	**30**	**777**
At 31 December	**232**	**7**	**116**	**300**	**19**	**674**

The net book value of intangible assets at 31 December 2016 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review):

Within 12 months	**-**	**7**	**24**	**40**	**11**	**82**
In more than 12 months	**232**	**-**	**92**	**260**	**8**	**592**
	232	**7**	**116**	**300**	**19**	**674**

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

(a) Goodwill

Goodwill is the only intangible asset that has an indefinite useful life. The carrying value of £232m comprises £119m relating to the acquisition of the former Resolution businesses and assets in 2008 (2015: £119m), £110m (2015: £110m) in respect of the acquisition of Scottish Life in 2001 and £3m (2015: £3m) in relation to a cash management business.

Goodwill is tested for impairment annually. The impairment test involves comparing the carrying value of the goodwill to its recoverable amount on a cash-generating unit basis. The recoverable amount of the goodwill has been determined using a value-in-use calculation. This is determined as the present value of the expected profits arising from the future new business written by the relevant business unit. The key assumptions used for the value-in-use calculations are as follows:

- expected profits from future new business are based on the medium-term plan approved by the Board of Directors, which covers a five-year period, and as such reflects the best estimate of future profits based on both historical experience and expected growth rates of around 3%. Some of the assumptions that underlie the budgeted expected profits include customer numbers, premium rate and fee income changes, claims inflation and commission rates;
- growth rates – cash flows beyond that period have been assumed to grow at a steady rate of 1% per annum (2015: 2.5% to 3% per annum); and
- discount rates – the cash flows have been discounted using a risk-adjusted discount rate of 7% (2015: 6.1%).

For all goodwill items held on the Group and Parent company Balance Sheets as at 31 December 2016 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.

Following the annual impairment assessment, goodwill in the Group of £18m relating to the acquisition of Investment Funds Direct Group Limited has been written off as the recoverable amount did not exceed its carrying amount.

(b) Acquired PVIF and Deferred Acquisition Costs (DAC)

The 2016 impairment loss includes £9m impact from the change in basis for Solvency II (£4m reported within Acquired PVIF on investment contracts and £5m reported within Acquired PVIF on insurance contracts). Further detail can be found in note 2 *Methodology – change in accounting estimate.*

19. Intangible assets (continued)

(b) Acquired PVIF and Deferred Acquisition Costs (DAC) (continued)

The impairment losses in both Group and Parent company in 2015 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 RL (CIS) deferred annuity business.

(c) 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 3 and 10 years. The impairment loss in the Group of £44m is the amount by which the carrying value of certain software witin the Wealth segment exceeds its recoverable amount. It is reported within the 'Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets' line of the Consolidated statement of comprehensive income. The software is in the process of being developed and the recoverable amount has been estimated using a value in use calculation based on the latest Board approved business plans and using a discount rate of 10%.

20. Financial investments

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Financial investments held at fair value through profit or loss (FVTPL)				
› Classified as held for trading	**4,322**	2,545	**4,322**	2,537
› Designated as FVTPL	**70,157**	57,584	**43,534**	40,092
	74,479	60,129	**47,856**	42,629

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 £69,168m for the Group (2015: £55,186m) and £42,545m for the Parent company (2015: £37,687m).

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Derivatives (note 20 (d))				
› Unquoted	**4,322**	2,545	**4,322**	2,537

20. Financial investments (continued)

(b) Financial investments designated as FVTPL

	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £m
Equity securities				
› Quoted	**24,274**	20,762	**7,984**	7,107
› Unquoted	**432**	438	**430**	402
	24,706	21,200	**8,414**	7,509
Debt and fixed income securities				
› Government bonds	**15,117**	14,776	**12,441**	14,029
› Other quoted	**14,241**	11,355	**10,182**	9,195
› Loans secured by policies	**5**	5	**5**	5
› Deposits with credit institutions	**5,772**	1,970	**2,460**	1,172
› Other unquoted	**3,243**	2,791	**3,243**	2,791
	38,378	30,897	**28,331**	27,192
Other investments				
› Unit trusts and other pooled investments	**7,073**	5,487	**6,789**	5,391
Total financial investments designated as FVTPL	**70,157**	57,584	**43,534**	40,092

Included in the figures for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £208m for the Group (2015: £144m) and £177m for the Parent company (2015: £137m).

Included in the Group and Parent company figure for unquoted debt securities above is £3,069m (Group 2015: £2,773m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 31).

Included in the Group and Parent company figures for deposits with credit institutions is £1,898m (2015: £645m) of reverse repurchase deposits.

(c) Derivative financial instruments

The Group and Parent company utilise derivative instruments to hedge market risk (see note 41), 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 41.

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.

20. Financial investments (continued)

(c) Derivative financial instruments (continued)

Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

Swaptions

Swaptions are options to enter into an interest rate swap at a future date, and are used to limit exposure to fluctuations in interest rates over the long term.

Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are principally used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

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.

Inflation swaps

An inflation swap is a contract under which there is an exchange of cash flows in order to transfer inflation risk. One party pays a fixed rate while the other party pays a floating rate that is linked to an inflation index.

20. Financial investments (continued)
(d) Fair value of derivative instruments held

	Group					
	2016			2015		
	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	**584**	**61**	**(16)**	605	59	(13)
Interest rate swaps	**18,659**	**4,020**	**(1,532)**	23,335	2,267	(1,424)
Interest rate swaptions	**7,747**	**200**	**-**	7,797	171	-
Total return swaps	**447**	**16**	**(16)**	3,043	30	(1)
Credit default swaps	**-**	**-**	**-**	5	-	-
Inflation swaps	**304**	**23**	**-**	-	-	-
Currency forwards	**1,387**	**2**	**(22)**	1,545	18	(22)
Total derivative assets/(liabilities)		**4,322**	**(1,586)**		2,545	(1,460)

	Parent company					
	2016			2015		
	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	**584**	**61**	**(16)**	604	59	(13)
Interest rate swaps	**18,659**	**4,020**	**(1,534)**	23,335	2,267	(1,424)
Interest rate swaptions	**7,747**	**200**	**-**	7,797	171	-
Total return swaps	**447**	**16**	**(16)**	3,043	30	(1)
Credit default swaps	**-**	**-**	**-**	5	-	-
Inflation swaps	**304**	**23**	**-**	-	-	-
Currency forwards	**847**	**2**	**(8)**	585	10	(7)
Total derivative assets/(liabilities)		**4,322**	**(1,574)**		2,537	(1,445)

In addition to the above, the Group and Parent company make use of futures contracts. At 31 December 2016, the Group and Parent company had entered into equity futures trades giving exposure to equities with a notional value of Group £671m (2015: £593m) and Parent company £340m (2015: £440m). There was no exposure to gilt future trades in 2016 for both Group and Parent company (2015: £246m). The equity futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

The Group paid initial cash margin of £35m (2015: £38m) and Parent company £18m (2015: £29m) in respect of these trades, which is included within 'trade and other receivables'.

The net variation margin payable by the Group was £4m (2015: £2m) and for the Parent company was £4m at 31 December 2016 (2015: £3m), being the amount due for the movement on the last business day of 2016, which was settled on the first business day in 2017. 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 (2015: 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Stock loan agreements				
› Listed equities	**877**	629	**122**	98
› Corporate bonds	**50**	50	**36**	45
› Government bonds	**920**	482	**750**	330
	1,847	1,161	**908**	473
Collateral received	**1,937**	1,209	**953**	488

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £869m for both the Group and the Parent company (2015: £769m). The collateral received was in the form of UK Gilts. It may be sold or re-pledged in the absence of default. No collateral was sold or re-pledged in the year (2015: £nil) and there were no defaults in the year (2015: none).

Cash margin in respect of derivatives was £1,976m (2015: £380m) 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 £2,881m for both the Group and the Parent company (2015: £1,125m).

Collateral of £3,101m was received for both the Group and the Parent company (2015: £2,768m) 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 £3,069m (2015: £2,773m).

(iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £68m for both the Group and the Parent company (2015: £57m). The collateral pledged was in the form of UK Gilts. It may be sold or repledged in the absence of default. No collateral was sold or re-pledged in the year (2015: nil) and there were no defaults in the year (2015: none).

Cash margin pledged in respect of derivatives was £56m (2015: £nil) for both the Group and Parent company. A corresponding asset is included within 'trade and other receivables'.

The market value of derivatives in respect of which collateral and cash margin were pledged was £125m for both the Group and the Parent company (2015: £25m).

In addition, the Group and Parent company pledged £1,022m of initial margin (2015: £166m) in respect of derivatives. This was pledged in the form of UK gilts.

The Group and Parent company has entered into reverse repurchase transactions with a cash value of £1,898m (2015: £645m). The value of the UK gilts associated with these deposits at 31 December 2016 was £1,937m (2015: £652m). Collateral in the form of UK gilts of £42m (2015: £12m) was pledged in respect of these transactions.

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
UK	**12,680**	13,495	**10,968**	12,916
Germany	**142**	131	**117**	124
France	**201**	125	**167**	121
Italy	**44**	24	**26**	19
Spain	**13**	15	**8**	10
Belgium	**49**	31	**45**	30
Austria	**21**	25	**21**	25
Finland	**23**	8	**5**	8
The Netherlands	**43**	37	**40**	35
Other Europe	**144**	149	**136**	143
USA	**599**	163	**287**	97
Canada	**4**	6	**1**	3
Japan	**136**	87	**38**	48
Rest of World	**64**	33	**45**	29
Total	**14,163**	14,329	**11,904**	13,608

The Group's exposure to the sovereign debt of Greece, Italy, Portugal and Spain represents less than 1% (2015: less than 1%) of the total investment portfolio.

21. Investments in Group entities

The Parent company's investments in Group entities comprise:

	Parent company	
	2016 £m	2015 £m
Shares	**429**	543
Loans	**18**	29
OEICs and other investment funds	**22,252**	14,749
	22,699	15,321

Investments in Group entities are carried in the balance sheet at fair value. For the purposes of the disclosure required by IAS 1, all of the investments in Group entities held at the balance sheet date are classified as being held for more than 12 months.

The OEICs and other investment funds represent the Parent company's investment in funds which are managed by subsidiaries of the Group and over which the Group has control.

The Group's wholly owned subsidiary, The Royal London General Insurance Company Limited (RLGI), was sold on 29 December 2016. The cash consideration received was £12m giving rise to a loss on a sale of £2m. The disclosure requirements of IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations' have not been applied to RLGI as it is not material to the Group.

21. Investments in Group entities (continued)

(a) Subsidiaries

The Parent company has the following subsidiaries with a registered office of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted by a letter which corresponds to the addresses listed in the table on page 134. All subsidiary undertakings are included in the consolidation.

Name	% holding 2016	% holding 2015	Nature of business	Registered Office
Operational subsidiaries:				
Royal London Asset Management Limited	100.0	100.0	Investment management	-
Royal London Asset Management Bond Funds plc	99.0	N/A	Investment management	A
Royal London Unit Trust Managers Limited	100.0	100.0	Unit trust management	-
RL Marketing (CIS) Limited	100.0	100.0	ISA management	-
Royal London Savings Limited	100.0	100.0	ISA management	-
RL Finance Bonds No.2 plc	100.0	100.0	Finance company	-
RL Finance Bonds No.3 plc	100.0	100.0	Finance company	-
RLUM Limited	100.0	100.0	Unit trust management	-
Royal London Management Services Limited	100.0	100.0	Service company	-
Hornby Road Investments Limited	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	B
Investment Funds Direct Holdings Limited	100.0	100.0	Holding company	B
Investment Funds Direct Limited	100.0	100.0	Wrap platform management	B
ISL Software (India) Private Limited	100.0	100.0	Software development	C
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	D
Royal London Custody Services C.I. Limited	100.0	100.0	Custodian	D
The Royal London General Insurance Company Limited	N/A	100.0	General insurance	-
Royal London Marketing Limited	100.0	100.0	Intermediary	-
Nominee companies:				
Fundsdirect Isa Nominees Limited	100.0	100.0	Nominee company	B
Fundsdirect Nominees Limited	100.0	100.0	Nominee company	B
IFDL Personal Pensions Limited (previously Fundsdirect Pep Nominees Limited)	100.0	100.0	Nominee company	B
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	E
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	E
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 2016	% holding 2015	Nature of business	Registered Office
Unit trusts, OEICs and other investment funds reported as subsidiaries under IFRS:				
Commercial Properties (UK) Unit Trust[1]	N/A	99.9	Property unit trust	-
The Royal London Sterling Credit Fund[2]	N/A	52.9	OEIC	-
The Royal London UK Mid Cap Growth Fund	64.4	64.7	OEIC	-
The Royal London UK Opportunities Fund	98.3	97.2	OEIC	-
The Royal London European Opportunities Fund (previously The Royal London European Income Fund)	99.9	99.9	OEIC	-
The Royal London Japan Tracker Fund	92.2	92.4	OEIC	-
The Royal London FTSE 350 Tracker Fund	86.1	84.1	OEIC	-
The Royal London US Tracker Fund	89.1	87.9	OEIC	-
The Royal London All Share Tracker Fund	68.2	71.9	OEIC	-
The Royal London Index Linked Fund	70.9	74.1	OEIC	-
The Royal London UK Growth Fund	93.0	91.8	OEIC	-
The Royal London European Growth Fund	91.6	93.7	OEIC	-
The Royal London UK Equity Fund	92.9	92.2	OEIC	-
The Royal London Asia Pacific ex Japan Tracker Fund	92.4	87.5	OEIC	-
The Royal London UK Smaller Companies Fund	98.2	97.2	OEIC	-
The Royal London Cash Plus Fund	67.6	52.1	OEIC	-
The Royal London Enhanced Cash Plus Fund	56.9	100.0	OEIC	-
The Royal London Investment Grade SD Credit Fund	48.0	100.0	OEIC	-
The Royal London Global Bond Opportunities Fund	100.0	100.0	OEIC	A
The Royal London European Corporate Bond Fund	99.8	99.9	OEIC	-
The Royal London Europe ex UK Tracker Fund	98.2	99.6	OEIC	-
The Royal London International Government Bonds Fund	90.4	80.6	OEIC	-
The Royal London Short Duration Gilt Fund[3]	45.1	N/A	OEIC	-
The Royal London Short Duration Global High Yield Fund	38.7	52.8	OEIC	A
The Royal London Global High Yield Bond Fund	94.2	97.8	OEIC	A
The Royal London Short-term Money Market Fund	75.7	96.6	OEIC	-
The Royal London Short Duration Credit Fund	38.4	46.4	OEIC	-
The Royal London Absolute Return Government Bond Fund	86.0	89.1	OEIC	A
The Royal London Growth Fund[4]	95.8	N/A	OEIC	-
The Royal London Conservative Fund[4]	99.7	N/A	OEIC	-
The Royal London Balanced Fund[4]	93.8	N/A	OEIC	-
The Royal London Adventurous Fund[4]	99.5	N/A	OEIC	-
The Royal London Dynamic Fund[4]	98.9	N/A	OEIC	-
The Royal London Defensive Fund[4]	85.6	N/A	OEIC	-
The Royal London Short Duration Global Index Linked Fund[4]	46.0	N/A	OEIC	-
The Royal London Sustainable Managed Income Trust	86.3	98.6	Unit trust	-
The Royal London Sustainable Managed Growth Trust	65.6	80.7	Unit trust	-
The Royal London US Growth Trust	58.3	57.9	Unit trust	-
The Royal London European Growth Trust	37.9	38.0	Unit trust	-
The Royal London Corporate Bond Monthly Fund[3]	34.6	N/A	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	-
Vision Park Management Limited	66.0	N/A	Property trust	J

21. Investments in Group entities (continued)

(a) Subsidiaries (continued)

Name	% holding 2016	% holding 2015	Nature of business	Registered Office
Non-trading companies:				
Brightgrey Limited	**100.0**	100.0	Non-trading	-
Canterbury Life Assurance Company Limited	**100.0**	100.0	Non-trading	-
Capitol Way Commercial No 1 Limited	**100.0**	100.0	Non-trading	-
Capitol Way Commercial No 2 Limited	**100.0**	100.0	Non-trading	-
Capitol Way Estate Management Limited	**100.0**	100.0	Non-trading	-
Capitol Way Estate No 1 Limited	**100.0**	100.0	Non-trading	-
Capitol Way Estate No 2 Limited	**100.0**	100.0	Non-trading	-
Euro-Luxembourg SA	**100.0**	100.0	Non-trading	F
GRE Part 7 Limited	**100.0**	100.0	Non-trading	I
Investment Sciences 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	H
Nodessa File (Two) Limited	**100.0**	100.0	Non-trading	H
RL Finance Bonds plc	**100.0**	100.0	Non-trading	-
RL Schedule 2C Holdings Limited	**100.0**	100.0	Non-trading	-
R.A.Securities Limited	**100.0**	100.0	Non-trading	-
Refuge Assurance Limited	**100.0**	100.0	Non-trading	-
Refuge Investments Limited	**100.0**	100.0	Non-trading	-
Refuge Life Assurance Consultants Limited	**100.0**	100.0	Non-trading	-
Refuge Portfolio Managers Limited	**100.0**	100.0	Non-trading	-
RL LA Limited	**100.0**	100.0	Non-trading	G
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	G
Royal London Asset Management (CIS) Limited	**100.0**	100.0	Non-trading	-
Royal London Cash Management Limited	**100.0**	100.0	Non-trading	H
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	G
S.L. (Davenport Green) Limited	**100.0**	100.0	Non-trading	
Scottish Life (Coventry) Property Limited	**100.0**	100.0	Non-trading	G
Scottish Life Administration Services Limited	**100.0**	100.0	Non-trading	G
The Scottish Life Assurance Company	**100.0**	100.0	Non-trading	G
Scottish Life Finance Limited	**100.0**	100.0	Non-trading	G
Southpoint General Partner Limited	**50.0**	50.0	Non-trading	H
St Andrew Estates Limited	**100.0**	100.0	Non-trading	-
The Scottish Life Guarantee Company Limited	**100.0**	100.0	Non-trading	G
United Assurance Group Limited	**100.0**	100.0	Non-trading	-
United Friendly Group Limited	**100.0**	100.0	Non-trading	-
United Friendly Insurance Limited	**100.0**	100.0	Non-trading	-
United Friendly Life Assurance Limited	**100.0**	100.0	Non-trading	-
United Friendly Staff Pension Fund Limited	**100.0**	100.0	Non-trading	-

1 This fund is not accounted for as a subsidiary in 2016, as it was sold during 2016.

2 The Royal London Sterling Credit Fund is not accounted for as a subsidiary in 2016 as the Group's holding has reduced to 30% as at 31 December 2016. This is now accounted for as an associate in 2016, see note 21(b).

3 The Royal London Short Duration Gilt Fund has been accounted for as a subsidiary in 2016. It was not accounted for as a subsidiary in 2015 as the Group's holding was 11.9% as at 31 December 2015. The Royal London Corporate Bond Monthly Fund has been accounted for as a subsidiary in 2016 and was accounted for as an associate in 2015 as shown in note 21(b).

4 These funds are new in 2016 and are all accounted for as subsidiaries.

21. Investments in Group entities

(a) Subsidiaries (continued)

The Parent company subsidiaries and associates which have a registered office other than 55 Gracechurch Street, London EC3V 0RL, United Kingdom, are noted below by letter.

Reference	Registered address
A	70 Sir John Rogerson's Quay, Dublin 2, Ireland
B	Trimbridge House, Trim House, Trim Street, Bath, BA1 1HB, United Kingdom
C	374/35, First Floor, (Out House) 6th Cross Wilson Garden, Bangalore, KA560027, India
D	30 Cornet Street, St Peter Port, Guernsey, GY1 1LF, United Kingdom
E	47/48 St Stephen's Green, Dublin 2, Ireland
F	5, Allee Scheffer, L – 2520, Luxembourg
G	St Andrew House, 1 Thistle Street, Edinburgh, EH2 1DG, United Kingdom
H	KPMG LLP, 8 Princes Parade, Liverpool, L3 1QH, United Kingdom
I	KPMG LLP, Russell Court, 1 Stokes Place, St Stephen's Green, Dublin, Ireland
J	Bidwell House, Trumpington Road, Cambridge, CB2 9LD, United Kingdom
K	PO Box 650, 1st Floor Royal Chambers, St Julian's Avenue, St Peters Port, Guernsey, Channel Islands, GY1 3JX, United Kingdom
L	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
M	8-9 Well Court, London, EC4M 9DN, United Kingdom
N	9 West 57th Street, Suite 4200, New York, 10019, United States
O	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom

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 with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted in the table on page 134. At 31 December 2016, the following funds have been recognised as associates:

Name of investment fund	Group's % holding 2016	Group's % holding 2015	Registered Office
Royal London Corporate Bond Monthly Fund [1]	N/A	32.3	-
Royal London UK Growth Trust	24.6	23.6	-
Royal London Property Fund	22.2	21.2	-
Royal London Global Index Linked Fund	32.3	24.4	-
Royal London UK Government Bond Fund	31.2	29.8	-
Royal London Sterling Extra Yield Bond Fund	21.8	20.3	A
Royal London Duration Hedged Credit Fund[1]	24.6	N/A	-
Royal London Sterling Credit Fund [1]	30.4	N/A	-

1 Royal London Corporate Bond Monthly Fund is not accounted for as an associate in 2016, as it has been accounted for as a subsidiary, see note 21(a). The Royal London Sterling Credit Fund was accounted for as subsidiary in 2015, see note 21 (a).

Summarised financial information for associates:

(i) Summarised balance sheet

	2016							
	Royal London 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	Royal London Duration Hedged Credit Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Current assets								
Cash and cash equivalents	10	19	1	3	(11)	1	24	47
Other current assets	2	7	2	5	30	3	23	72
Total current assets	12	26	3	8	19	4	47	119
Current liabilities								
Financial liabilities	-	5	-	-	-	21	-	26
Other current liabilities	2	-	4	7	1	1	11	26
Total current liabilities	2	5	4	7	1	22	11	52
Non-current assets	1,129	362	160	543	1,399	183	993	4,769
Total net assets	1,139	383	159	544	1,417	165	1,029	4,836

21. Investments in Group entities (continued)

(b) Interests in associates (continued)

(i) Summarised balance sheet (continued)

	2015						
	Royal London Corporate Bond Monthly Fund	Royal London 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

(ii) Summarised statement of comprehensive income

	2016							
	Royal London 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**	**Royal London Duration Hedged Credit Fund**	**Royal London Sterling Credit Fund**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Investment income	**33**	**-**	**1**	**13**	**91**	**9**	**37**	**184**
Net gains/(losses) on investments	**69**	**6**	**8**	**26**	**-**	**(3)**	**32**	**138**
Other income/(expense)	**(34)**	**-**	**(1)**	**(15)**	**(6)**	**(7)**	**(33)**	**(96)**
Net income	**68**	**6**	**8**	**24**	**85**	**(1)**	**36**	**226**

	2015 - Restated						
	Royal London Corporate Bond Monthly Fund	Royal London 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
Investment income	18	33	-	1	11	77	140
Net gains/(losses) on investments	(12)	41	17	(1)	(8)	(13)	24
Other income/(expense)	(18)	(37)	-	(1)	(14)	(5)	(75)
Net income	(12)	37	17	(1)	(11)	59	89

The above tables have been represented in the current year to show all investment income in a single line. The 2015 comparative figures have been restated accordingly.

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. The registered addresses of the private equity funds are included in the table on page 134.

	% holding		
Name	2016	2015	Registered Office
SPL ARL Private Finance	**72.9**	99.4	K
WP Global Mezzanine Private Equity	**38.5**	38.5	L
Core Alpha Private Equity Partners	**29.8**	29.8	L
R.L. Private Equity Fund	**44.2**	44.2	M
KKR CIS Global Investor L.P.	**100.0**	100.0	N
Rising Star Growth Fund 2	**21.8**	21.8	O

(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'.

	2016 £m	2015 £m
Debt and fixed income securities		
Asset-backed securities	**1,640**	1,436
Unquoted equity securities		
Private equity funds	**193**	220
Land investment pools	**227**	206
Unit trusts and other pooled investments		
Investment in associates	**1,245**	801
Unit trusts	**2,232**	2,008
OEICs	**574**	1,413
Venture capital offshore funds	**434**	318
Other investment funds	**2,588**	944
Total	**9,133**	7,346

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.

	2016		2015	
Investment funds:	Assets under administration £m	Management fees £m	Assets under administration £m	Management fees £m
OEICs	10,464	26	6,009	24
Unit trusts	2,789	7	2,568	8
Total	13,253	33	8,577	32

22. Trade and other receivables

	Group		Parent company	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts due from customers	118	60	24	33
Receivables arising under reinsurance contracts	27	23	27	23
Investment income receivable	162	129	117	94
Amounts due from brokers	295	191	264	124
Finance lease receivables	10	11	10	11
Amounts due from other Group entities	-	-	22	16
Prepayments and accrued income	38	29	3	4
Other receivables	138	103	115	78
	788	546	582	383
Expected to be recovered within 12 months	779	536	573	373
Expected to be recovered in more than 12 months	9	10	9	10
	788	546	582	383

Trade and other receivables are carried in the balance sheet at amortised cost, which approximates fair value.

22. Trade and other receivables (continued)

Finance lease receivables

The Group and the Parent company have leased to third parties a number of properties under long-term leases, which are classified as finance leases. The average term of the finance leases entered into is 52 years.

	Group and Parent company	
	2016 £m	2015 £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	**4**	5
Later than five years	**20**	23
	25	29
Less: future charges	**(15)**	(18)
Present value of receivables under finance leases	**10**	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	**5**	6
	10	11

23. Cash and cash equivalents

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Bank balances	**2,120**	1,117	**1,038**	642
Short-term bank deposits	**1,123**	1,591	**770**	1,452
Short-dated debt	**49**	115	**48**	115
	3,292	2,823	**1,856**	2,209

The cash and cash equivalents for the purposes of the statements of cash flows are as follows:

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and cash equivalents	**3,292**	2,823	**1,856**	2,209
Bank overdrafts (note 31)	**(81)**	(11)	**(71)**	(11)
Cash and cash equivalents in the statements of cash flows	**3,211**	2,812	**1,785**	2,198

24. Insurance contract liabilities and reinsurance assets

	Group		Parent company	
	2016 £m	Restated 2015 £m	**2016 £m**	Restated 2015 £m
Gross				
Total participating insurance contract liabilities	**32,709**	28,708	**32,765**	28,783
Non-participating insurance contract liabilities				
General insurance contracts	**-**	1	**-**	-
Long-term insurance contracts	**7,860**	6,682	**7,860**	6,682
Total non-participating insurance contract liabilities	**7,860**	6,683	**7,860**	6,682
Total insurance contract liabilities	**40,569**	35,391	**40,625**	35,465
Reinsurers' share of insurance contract liabilities				
Total participating insurance contract liabilities	**(1,668)**	(1,350)	**(1,668)**	(1,350)
Non-participating insurance contract liabilities				
Long-term insurance contracts	**(4,239)**	(3,702)	**(4,239)**	(3,702)
Total non-participating insurance contract liabilities	**(4,239)**	(3,702)	**(4,239)**	(3,702)
Total reinsurers' share of insurance contract liabilities	**(5,907)**	(5,052)	**(5,907)**	(5,052)
Net of reinsurance				
Total participating insurance contract liabilities	**31,041**	27,358	**31,097**	27,433
Non-participating insurance contract liabilities				
General insurance contracts	**-**	1	**-**	-
Long-term insurance contracts	**3,621**	2,980	**3,621**	2,980
Total non-participating insurance contract liabilities	**3,621**	2,981	**3,621**	2,980
Total insurance contract liabilities, net of reinsurance	**34,662**	30,339	**34,718**	30,413

The 2015 figures have been restated for the change in accounting presentation, as set out in note 2.

25. 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 – 2016					
	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 - Restated	28,708	6,682	(1,350)	(3,702)	27,358	2,980
Expected changes during the year	(1,600)	(273)	187	150	(1,413)	(123)
Expected closing position	27,108	6,409	(1,163)	(3,552)	25,945	2,857
New business	202	141	-	(173)	202	(32)
Experience variations						
Demographic	316	42	8	(2)	324	40
Economic	3,180	230	(7)	(5)	3,173	225
	3,496	272	1	(7)	3,497	265
Changes in assumptions						
Demographic	(4)	27	(10)	15	(14)	42
Expense	15	(9)	-	-	15	(9)
Economic	1,470	717	(253)	(370)	1,217	347
Management actions	(12)	-	-	-	(12)	-
Methodology	(4)	(82)	6	48	2	(34)
	1,465	653	(257)	(307)	1,208	346
Other movements						
Claims outstanding	-	37	-	(20)	-	17
Other	438	348	(249)	(180)	189	168
	438	385	(249)	(200)	189	185
At 31 December	32,709	7,860	(1,668)	(4,239)	31,041	3,621

25. Long-term insurance contract liabilities and reinsurance assets (continued)

	Group 2015 - Restated					
	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	29,455	6,956	(1,466)	(3,708)	27,989	3,248
Expected changes during the year	(1,976)	(193)	191	104	(1,785)	(89)
Expected closing position	27,479	6,763	(1,275)	(3,604)	26,204	3,159
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	(146)	7	130	100	(16)
Management actions	103	9	-	-	103	9
Methodology	(57)	(59)	(1)	(38)	(58)	(97)
	30	(222)	13	120	43	(102)
Other movements						
Claims outstanding	-	(85)	-	(33)	-	(118)
Other	139	(5)	(96)	4	43	(1)
	139	(90)	(96)	(29)	43	(119)
At 31 December	28,708	6,682	(1,350)	(3,702)	27,358	2,980

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

25. Long-term insurance contract liabilities and reinsurance assets (continued)

	Parent company – 2016					
	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 - Restated	28,783	6,682	(1,350)	(3,702)	27,433	2,980
Expected changes during the year	(1,600)	(273)	187	150	(1,413)	(123)
Expected closing position	27,183	6,409	(1,163)	(3,552)	26,020	2,857
New business	202	141	-	(173)	202	(32)
Experience variations						
Demographic	316	42	8	(2)	324	40
Economic	3,180	230	(7)	(5)	3,173	225
	3,496	272	1	(7)	3,497	265
Changes in assumptions						
Demographic	(4)	27	(10)	15	(14)	42
Expense	15	(9)	-	-	15	(9)
Economic	1,470	717	(253)	(370)	1,217	347
Management actions	(31)	-	-	-	(31)	-
Methodology	(4)	(82)	6	48	2	(34)
	1,446	653	(257)	(307)	1,189	346
Other movements						
Claims outstanding	-	37	-	(20)	-	17
Other	438	348	(249)	(180)	189	168
	438	385	(249)	(200)	189	185
At 31 December	32,765	7,860	(1,668)	(4,239)	31,097	3,621

25. Long-term insurance contract liabilities and reinsurance assets (continued)

	Parent company 2015 - Restated					
	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	29,530	6,954	(1,466)	(3,708)	28,064	3,246
Expected changes during the year	(1,961)	(267)	191	178	(1,770)	(89)
Expected closing position	27,569	6,687	(1,275)	(3,530)	26,294	3,157
New business	124	181	-	(206)	124	(25)
Experience variations						
Demographic	380	6	7	1	387	7
Economic	552	118	1	(65)	553	53
	932	124	8	(64)	940	60
Changes in assumptions						
Demographic	(77)	(81)	7	46	(70)	(35)
Expense	(60)	37	-	-	(60)	37
Economic	95	(120)	7	77	102	(43)
Management actions	104	-	-	-	104	-
Methodology	(43)	(54)	(1)	-	(44)	(54)
	19	(218)	13	123	32	(95)
Other movements						
Claims outstanding	-	(85)	-	(33)	-	(118)
Other	139	(7)	(96)	8	43	1
	139	(92)	(96)	(25)	43	(117)
At 31 December	28,783	6,682	(1,350)	(3,702)	27,433	2,980

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

The Other movements for 2016, includes the impact of the change of basis. This includes £345m increase in participating liabilities gross of reinsurance, £290m increase in non-participating liabilities gross of reinsurance, £162m increase in the reinsurer share of participating liabilities and £145m increase in the reinsurer share of non-participating liabilities. These impacts, combined with the £9m reduction in acquired PVIF (see note 19), £10m reduction in non-participating VIF (see note 26) and £182m reduction in investment contract liabilities (see note 27) generate an overall impact from the basis change of £165m as reported in the income statement.

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 £37,388m for the Group (2015: restated £32,248m) and £37,444m for the Parent company (2015: restated £32,324m).

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 £5,285m (2015: restated £4,512m) for the Group and Parent company.

The amounts presented above for the Parent company represent the liabilities of the open and closed sub-funds.

26. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Parent company	
	2016 £m	2015 Restated £m	2016 £m	2015 Restated £m
At 1 January				
Non-participating value of in-force business included within participating contract liabilities - Restated	**910**	818	**910**	818
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 1 January - Restated	**1,161**	1,096	**1,146**	1,080
Expected changes during the year	**(333)**	(111)	**(327)**	(98)
Expected closing position	**828**	985	**819**	982
New business	**194**	138	**194**	129
Experience variations				
Demographic	**25**	3	**25**	3
Economic	**250**	33	**250**	33
	275	36	**275**	36
Changes in assumptions				
Demographic	**66**	1	**66**	1
Expense	**114**	6	**115**	6
Economic	**(81)**	(15)	**(81)**	(17)
Management actions	**(3)**	3	**(3)**	3
Methodology	**10**	5	**10**	5
	106	-	**107**	(2)
Other movements	**4**	2	**4**	1
	1,407	1,161	**1,399**	1,146
At 31 December				
Non-participating value of in-force business included within participating contract liabilities	**1,217**	910	**1,217**	910
Acquired PVIF	**131**	186	**123**	171
Adjusted deferred acquisition costs arising on investment contracts	**209**	236	**209**	236
Deferred fee income on investment contracts	**(150)**	(171)	**(150)**	(171)
Total value of in-force business at 31 December	**1,407**	1,161	**1,399**	1,146

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

26. Non-participating value of in-force business (continued)

The adjusted deferred acquisition costs arising on investment contracts shown on the previous page are equal to the deferred acquisition costs arising on investment contracts shown in note 19 less the element of those deferred acquisition costs that relates to future commission.

The other movements for 2016, includes a £10m reduction arising from the change in basis. This element of reduction in non-participating value of in-force is part of the overall £165m impact of the basis change as reported on the income statement.

The deferred fee income on investment contracts shown on the previous page is equal to the deferred fee income shown in note 33. For the Group only, this is adjusted to remove deferred fee income in relation to fund management contracts of £1m at 31 December 2016 (2015: £2m).

For the purposes of the disclosure required by IAS 1, the amount of the Group and Parent company balance of £1,217m (2015: restated £910m) 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 £1,155m (2015: restated £797m).

27. 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			
	2016		2015 - Restated	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January - Restated	2,232	24,984	2,206	22,693
Expected changes during the year	39	(1,459)	(71)	(1,388)
Expected closing position	2,271	23,525	2,135	21,305
New business	16	4,689	17	3,415
Experience variations				
Demographic	(4)	(2)	(4)	(295)
Economic	163	3,116	21	557
	159	3,114	17	262
Changes in assumptions				
Demographic	-	-	40	-
Expense	(18)	-	(2)	-
Economic	(89)	-	26	-
Management actions	(5)	-	8	-
Methodology	(2)	-	-	3
	(114)	-	72	3
Other movements	(178)	1	(9)	(1)
At 31 December	2,154	31,329	2,232	24,984

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

27. Investment contract liabilities (continued)

(a) Movement in investment contract liabilities (continued)

	Parent company			
	2016		2015 - Restated	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January - Restated	2,232	24,984	2,206	22,693
Expected changes during the year	39	(1,459)	(71)	(1,388)
Expected closing position	2,271	23,525	2,135	21,305
New business	16	4,689	17	3,415
Experience variations				
Demographic	(4)	(2)	(4)	(295)
Economic	163	3,116	21	557
	159	3,114	17	262
Changes in assumptions				
Demographic	-	-	40	-
Expense	(18)	-	(2)	-
Economic	(89)	-	26	-
Management actions	(5)	-	8	-
Methodology	(2)	-	-	3
	(114)	-	72	3
Other movements				
Other	(178)	1	(9)	(1)
	(178)	1	(9)	(1)
At 31 December	2,154	31,329	2,232	24,984

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

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 £30,730m (2015 restated £24,925m) for the Group and Parent company.

The Other movements for 2016, includes a £182m reduction in participating investment contract liabilities. This element of reduction in participating investment contract liabilities is part of the overall £165m impact of the basis change as reported on the income statement.

The amounts presented above represent the liabilities of the open and closed sub-funds.

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions

(a) Assumptions

The assumptions used to determine insurance and investment contract liabilities are set by the Board of Directors based on advice given by the Group Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used can be summarised as follows.

(i) Demographic

Mortality and morbidity

Mortality and morbidity risks are inherent in most lines of business. For protection business an increase in mortality and morbidity rates leads to increased claim levels and hence an increase in liabilities. For annuity business the risk is that policyholders live longer than expected. Reinsurance arrangements have been put in place to mitigate mortality and morbidity risks.

The rates of mortality and morbidity are set in line with recent company experience, where it is available in sufficient volume to provide reliable results. Where company experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured.

A margin is included to provide for potential adverse variations in experience. The margins are typically 2% for mortality risks, 4.8% morbidity risks with reviewable premiums and 8.9% for morbidity business with guaranteed premiums.

The principal mortality assumptions are shown in the following table.

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Class of business	2016 mortality	2015 mortality - Restated
Ordinary long-term assurances		
Royal London Mutual and Ex-United Assurance	**85.68% AMC00 and 111.18% AFC00**	85.68% AMC00 and 111.18% AFC00
Group non-linked		
Ex-Scottish Life	**56.10% AMC00 and 91.80% AFC00**	56.10% AMC00 and 91.80% AFC00
Ex-Royal Liver	**106.08% AMC00 and 111.18% AFC00**	106.08% AMC00 and 111.18% AFC00
RL Consumer non-linked term assurances		
› male non-smokers	**83.64% TMN00 sel**	83.64% TMN00 sel
› male smokers	**83.64% TMS00 sel**	83.64% TMS00 sel
› female non-smokers	**83.64% TFN00 sel**	83.64% TFN00 sel
› female smokers	**83.64% TFS00 sel**	83.64% TFS00 sel
RL Protection team assurances		
› male non-smokers	**53.04% TMN00 sel**	n/a
› male smokers	**71.40% TMS00 sel**	n/a
› female non-smokers	**68.34% TFN00 sel**	n/a
› female smokers	**84.66% TFS00 sel**	n/a
Ex-Bright Grey term assurances		
› male non-smokers	**53.04% TMN00 sel**	61.20% TMN00 sel
› male smokers	**71.40% TMS00 sel**	68.34% TMS00 sel
› female non-smokers	**68.34% TFN00 sel**	63.24% TFN00 sel
› female smokers	**84.66% TFS00 sel**	70.38% TFS00 sel
Ex-Self Assurance term assurances		
› male non-smokers	**53.04% TMN00 sel**	70.38% TMN00 sel
› male smokers	**71.40% TMS00 sel**	94.86% TMS00 sel
› female non-smokers	**68.34% TFN00 sel**	61.20% TFN00 sel
› female smokers	**84.66% TFS00 sel**	82.62% TFS00 sel
RL (CIS)		
› traditional with-profits, whole life	**66.30% AMC00**	66.30% AMC00
› traditional with-profits, endowment	**63.24% AMC00**	63.24% AMC00
› accumulating with-profits bond	**96.90% AMC00**	93.10% AMC00
Pensions – deferred annuities in deferment		
Ex-Refuge Assurance OB non-linked	**78.43% PPMD00 and 80.39% PPFD00**	88.20% PPMD00 and 94.08% PPFD00
Ex-Scottish Life – individual	**68.60% AMC00 and 71.54% AFC00**	68.60% AMC00 and 71.54% AFC00
Ex-Scottish Life – group	**59.80% AMC00 and 50.98% AFC00**	70.56% AMC00 and 69.58% AFC00
Pensions – immediate annuities and deferred annuities in payment		
Royal London Mutual and Ex-United	**117% PPMV00 CMI (2014) 1.75% pa[1]**	117% PPMV00 CMI (2014) 1.75%pa[1]
Assurance Group	**102% PPFV00 CMI (2014) 1.75% pa[1]**	102% PPFV00 CMI (2014) 1.75%pa[1]
Ex-Scottish Life	**107% PPMV00 CMI (2014) 1.75% pa[1]**	107% PPMV00 CMI (2014) 1.75%pa[1]
	97% PPFV00 CMI (2014) 1.75% pa[1]	97% PPFV00 CMI (2014) 1.75%pa[1]
RL (CIS)		
› Personal pensions in payment	**133.33% PPMV00 CMI (2014) 1.75% pa[1]**	136.22% PPMV00 CMI (2014) 1.75%pa[1]
	123.53% PPFV00 CMI (2014) 1.75% pa[1]	127.40% PPFV00 CMI (2014) 1.75%pa[1]
› Section 226 retirement annuity	**112.75% RMV00 CMI (2014) 1.75% pa[1]**	113.68% RMV00 CMI (2014) 1.75%pa[1]
	117.65% RFV00 CMI (2014) 1.75% pa[1]	118.58% RFV00 CMI (2014) 1.75%pa[1]

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Class of business	**2016 mortality**	2015 mortality - Restated
Industrial assurance		
Royal London Mutual	**60.18% ELT16 (males)**	56.10% ELT16 (males)
Ex-United Assurance Group	**74.46% ELT16 (males)**	74.46% ELT16 (males)
Ex-Royal Liver	**61.20% ELT16 (males)**	61.20% ELT16 (males)
RL (CIS)		
› endowment	**76.50% ELT16 (males)**	76.50% ELT16 (males)
› whole life	**66.30% ELT16 (males)**	66.30% ELT16 (males)

1 The mortality basis is displayed as a percentage of base table mortality in 2000 projected in line with the 2014 CMI model mortality improvements and a percentage per annum long-term improvement rate.

Persistency

Persistency is the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry.

The rates of persistency are set in line with recent company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience. The rates vary by product line, sales channel, duration in force and for some products by fund size.

A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A margin is included to provide for potential adverse variations in experience. The margin is typically 2%. For RL (CIS) and Royal Liver business covered by rate cards, margins of 0.7% and nil% are applied during the guaranteed period of the respective rate card.

Excluding RL (CIS), expenses are assumed to inflate in line with the change in the Retail Price Index plus 1%. Expenses for RL (CIS) business are assumed to inflate in line with the change in the Retail Price Index plus 0.6%.

28. 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.

	2016			2015 - Restated		
Class of business	Per policy £	Premium %	Reserve %	Per policy £	Premium %	Reserve %
Ordinary long-term						
RL OB WP life	**13.89**	**5.10**	**0.097**	14.14	5.10	0.0960
RL OB AWP pensions	**6.83**	**5.10**	**0.097**	14.32	5.10	0.0960
Ex-UAG OB WP pre 1998	**12.13**	**4.08**	**0.078**	9.35	4.08	0.0770
Ex-UAG OB WP pre 1998 pensions	**9.33**	**4.08**	**0.078**	9.35	4.08	0.0770
Ex-UF OB WP DWP pensions	**-**		**0.14**	-		0.1785
Ex-Scottish Provident business	**18.98**		**0.0612**	20.01		0.0612
Ex-Bright Grey	**14.24**		**0.0612**	13.78		0.0612
RL Consumer protection business	**14.13**		**0.0612**	19.43		0.0612
RL (CIS)						
OB Investments						
› premium paying	**21.25**			20.99		
› single premium/paid up	**18.27**			17.97		
OB Protection						
› premium paying	**19.60**			19.65		
› single premium/paid up	**17.20**			17.17		
› OB annuities in payment	**17.55**			17.57		
Pensions – deferred annuities						
Ex-Scottish Life – Individual RP	**40.40**		**0.0724**	44.14		0.0765
Ex-Scottish Life – Group RP	**28.22**		**0.0724**	32.52		0.0765
RL (CIS)						
› premium paying	**19.15**			17.89		
› paid up	**16.50**			15.29		
Industrial assurance						
Royal London Mutual	**7.30**	**5.10**	**0.097**	9.90	5.10	0.096
Ex-Refuge Assurance	**10.19**	**2.55**	**0.062**	7.06	2.55	0.062
Ex-Royal Liver	**10.92**	**-**	**0.260**	10.69	-	0.260
Ex-United Friendly	**9.83**	**2.55**	**0.073**	6.78	2.55	0.068
RL (CIS)						
› premium paying	**13.57**			13.52		
› paid up	**11.58**			11.44		

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(iii) Economic

> Non-participating liabilities

The non-participating liabilities have been calculated on a market consistent basis. Future investment returns and discount rates are set by reference to a risk-free rate from the forward swap curve adjusted for risk of default. A reduction in interest rates will increase the liabilities.

> Participating liabilities

The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market consistency by:

- deriving the underlying risk-free rate from the forward swap curve adjusted for risk of default (forward gilt curve for 2015 year end); 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.

28. 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 2016 year-end liabilities as if they had been calculated using the 2015 year-end assumptions.

	Group 2016					
		Impact of change in variable				
	Liability using 2015 assumptions £m	Demographic £m	Expenses £m	Economic £m	Other £m	Liability using 2016 assumptions £m
Long-term insurance contract liabilities, gross						
Participating insurance contracts	31,263	(4)	15	1,470	(35)	32,709
Non-participating insurance contracts						
› Unit-linked	1,743	25	1	84	(14)	1,839
› Non-profit, other than annuities	610	(29)	(2)	158	(25)	712
› Non-profit annuities	4,541	31	(8)	476	(43)	4,997
› Claims outstanding	312	-	-	-	-	312
	7,206	27	(9)	718	(82)	7,860
	38,469	23	6	2,188	(117)	40,569
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,411)	(10)	-	(253)	6	(1,668)
Non-participating insurance contracts						
› Non-profit, other than annuities	(249)	40	-	(21)	(1)	(231)
› Non-profit annuities	(3,576)	(25)	-	(349)	49	(3,901)
› Claims outstanding	(107)	-	-	-	-	(107)
	(3,932)	15	-	(370)	48	(4,239)
	(5,343)	5	-	(623)	54	(5,907)
Long-term insurance contract liabilities, net						
Participating insurance contracts	29,852	(14)	15	1,217	(29)	31,041
Non-participating insurance contracts						
› Unit-linked	1,743	25	1	84	(14)	1,839
› Non-profit, other than annuities	361	11	(2)	137	(26)	481
› Non-profit annuities	965	6	(8)	127	6	1,096
› Claims outstanding	205	-	-	-	-	205
	3,274	42	(9)	348	(34)	3,621
	33,126	28	6	1,565	(63)	34,662
Non-participating value of in-force business	(1,109)	(67)	(115)	81	(7)	(1,217)

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Changes in assumptions (continued)

	Group 2015 - Restated					
		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	28,689	(77)	(60)	95	61	28,708
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	459	(3)	39	38	(54)	479
› Non-profit annuities	4,289	(47)	(2)	(153)	-	4,087
› Claims outstanding	275	-	-	-	-	275
	6,901	(81)	37	(121)	(54)	6,682
	35,590	(158)	(23)	(26)	7	35,390
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,363)	7	-	7	(1)	(1,350)
Non-participating insurance contracts						
› Non-profit, other than annuities	(255)	4	-	(49)	-	(300)
› Non-profit annuities	(3,482)	42	-	125	-	(3,315)
› Claims outstanding	(87)	-	-	-	-	(87)
	(3,824)	46	-	76	-	(3,702)
	(5,187)	53	-	83	(1)	(5,052)
Long-term insurance contract liabilities, net						
Participating insurance contracts	27,326	(70)	(60)	102	60	27,358
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	204	1	39	(11)	(54)	179
› Non-profit annuities	807	(5)	(2)	(28)	-	772
› Claims outstanding	188	-	-	-	-	188
	3,077	(35)	37	(45)	(54)	2,980
	30,403	(105)	(23)	57	6	30,338
Non-participating value of in-force business	(912)	(1)	(6)	17	(8)	(910)

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Changes in assumptions (continued)

	Parent company 2016					
		Impact of change in variable				
	Liability using 2015 assumptions £m	Demographic £m	Expenses £m	Economic £m	Other £m	Liability using 2016 assumptions £m
Long-term insurance contract liabilities, gross						
Participating insurance contracts	31,319	(4)	15	1,470	(35)	32,765
Non-participating insurance contracts						
› Unit-linked	1,743	25	1	84	(14)	1,839
› Non-profit, other than annuities	610	(29)	(2)	158	(25)	712
› Non-profit annuities	4,541	31	(8)	476	(43)	4,997
› Claims outstanding	312	-	-	-	-	312
	7,206	27	(9)	718	(82)	7,860
	38,525	23	6	2,188	(117)	40,625
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,411)	(10)	-	(253)	6	(1,668)
Non-participating insurance contracts						
› Non-profit, other than annuities	(249)	40	-	(21)	(1)	(231)
› Non-profit annuities	(3,576)	(25)	-	(349)	49	(3,901)
› Claims outstanding	(107)	-	-	-	-	(107)
	(3,932)	15	-	(370)	48	(4,239)
	(5,343)	5	-	(623)	54	(5,907)
Long-term insurance contract liabilities, net						
Participating insurance contracts	29,908	(14)	15	1,217	(29)	31,097
Non-participating insurance contracts						
› Unit-linked	1,743	25	1	84	(14)	1,839
› Non-profit, other than annuities	361	11	(2)	137	(26)	481
› Non-profit annuities	965	6	(8)	127	6	1,096
› Claims outstanding	205	-	-	-	-	205
	3,274	42	(9)	348	(34)	3,621
	33,182	28	6	1,565	(63)	34,718
Non-participating value of in-force business	(1,109)	(67)	(115)	81	(7)	(1,217)

28. Long-term insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(b) Changes in assumptions (continued)

	Parent company 2015 - Restated					
		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	28,764	(77)	(60)	95	61	28,783
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	459	(3)	39	38	(54)	479
› Non-profit annuities	4,289	(47)	(2)	(153)	-	4,087
› Claims outstanding	275	-	-	-	-	275
	6,901	(81)	37	(121)	(54)	6,682
	35,665	(158)	(23)	(26)	7	35,465
Reinsurers' share of long-term insurance liabilities						
Participating insurance contracts	(1,363)	7	-	7	(1)	(1,350)
Non-participating insurance contracts						
› Non-profit, other than annuities	(255)	4	-	(49)	-	(300)
› Non-profit annuities	(3,482)	42	-	125	-	(3,315)
› Claims outstanding	(87)	-	-	-	-	(87)
	(3,824)	46	-	76	-	(3,702)
	(5,187)	53	-	83	(1)	(5,052)
Long-term insurance contract liabilities, net						
Participating insurance contracts	27,401	(70)	(60)	102	60	27,433
Non-participating insurance contracts						
› Unit-linked	1,878	(31)	-	(6)	-	1,841
› Non-profit, other than annuities	204	1	39	(11)	(54)	179
› Non-profit annuities	807	(5)	(2)	(28)	-	772
› Claims outstanding	188	-	-	-	-	188
	3,077	(35)	37	(45)	(54)	2,980
	30,478	(105)	(23)	57	6	30,413
Non-participating value of in-force business	(912)	(1)	(6)	17	(8)	(910)

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

29. Unallocated divisible surplus

The movement in the unallocated divisible surplus (UDS) during the year is shown in the table below.

	Group		Parent company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
At 1 January	**3,314**	3,139	**3,359**	3,183
Transfer from the statement of comprehensive income	**76**	125	**107**	126
Transfer from other comprehensive income	**(98)**	50	**(98)**	50
At 31 December	**3,292**	3,314	**3,368**	3,359

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.

30. Subordinated liabilities

	Group and Parent company			
			Effective interest rate	
	2016 £m	2015 £m	**2016 %**	2015 %
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	**396**	395	**6.20**	6.20
Guaranteed Subordinated Notes due 2028	**348**	348	**6.20**	6.20
	744	743		

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 2016 was £801m (2015: £773m).

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043

On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Parent company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all of the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023 the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

Guaranteed Subordinated Notes due 2028

On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly owned subsidiary of the Parent company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

31. Payables and other financial liabilities

	Group		Parent company	
	2016 **£m**	2015 Restated £m	**2016** **£m**	2015 Restated £m
Amounts due to customers	**164**	254	**162**	248
Payables arising under reinsurance contracts	**3,103**	2,804	**3,103**	2,804
Amounts due to brokers	**310**	96	**204**	80
Finance lease obligations	**20**	20	**20**	20
Cash collateral	**1,976**	380	**1,976**	380
Derivative liabilities (note 20 (d))	**1,586**	1,460	**1,574**	1,445
Amounts due to other Group entities	**-**	-	**60**	56
Bank overdrafts (note 23)	**81**	11	**71**	11
Other payables	**208**	131	**104**	63
	7,448	5,156	**7,274**	5,107
Expected to be settled within 12 months	**2,530**	2,001	**2,356**	1,952
Expected to be settled in more than 12 months	**4,918**	3,155	**4,918**	3,155
	7,448	5,156	**7,274**	5,107

In the prior year cash collateral received in respect of derivatives and held by a central clearing party was included within 'Amounts due to brokers'. In the current year these balances have been included in 'Cash collateral'. The 2015 figures have been restated for consistency resulting in £198m moving from 'Amounts due to brokers' to 'Cash collateral'.

The payables arising under reinsurance contracts include a financial liability of £3,069m (2015: £2,773m) 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. The Group and Parent company continue to recognise a financial liability to the extent that the premium has yet to fall due for payment. At inception of the contract, RL (CIS) also purchased a debt security, cash flows from which will fund the discharge of the financial liability as amounts fall due for payment. The movement in the fair value of the liability in the year was a gain of £371m (2015: gain of £45m) 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 (2015: 130 years) and 130 years for the Parent company (2015: 130 years). The interest rate inherent in the leases is fixed at the start of the lease.

31. Payables and other financial liabilities (continued)

	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £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	**182**	183	**182**	183
	189	190	**189**	190
Less: future charges	**(169)**	(170)	**(169)**	(170)
Present value of obligations under finance leases	**20**	20	**20**	20
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**	5	**5**	5
Later than five years	**14**	14	**14**	14
	20	20	**20**	20

(b) Cash collateral

	Group 2016 £m	Group 2015 Restated £m	Parent company 2016 £m	Parent company 2015 Restated £m
Cash collateral – contractual maturity analysis:				
Not later than one year	**1**	8	**1**	8
Later than one year and not later than five years	**13**	132	**13**	132
Later than five years	**1,962**	240	**1,962**	240
	1,976	380	**1,976**	380

32. Provisions

	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £m
Provision for future commission	**167**	148	**167**	148
Other provisions	**112**	76	**101**	71
	279	224	**268**	219
Expected to be settled within 12 months	**45**	29	**45**	26
Expected to be settled in more than 12 months	**234**	195	**223**	193
	279	224	**268**	219

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force.

Other provisions comprise amounts in respect of the long-term incentive plan, regulatory projects and rectification programmes.

32. Provisions (continued)

The movement in provisions during the year is shown in the following table.

	Group		Parent company	
	Provision for future commission £m	Other provisions £m	Provision for future commission £m	Other provisions £m
At 1 January 2016	148	76	148	71
Additional provisions	2	56	2	48
Experience variations	21	-	21	-
Utilised during the year	(22)	(20)	(22)	(18)
Unwind of the discount rate	1	-	1	-
Change in basis	17	-	17	-
At 31 December 2016	167	112	167	101

33. Other liabilities

	Group		Parent company	
	2016 £m	2015 £m	2016 £m	2015 £m
Deferred fee income	151	173	150	171
Accrued expenses	70	64	-	-
Other	58	49	59	49
	279	286	209	220
Expected to be settled within 12 months	151	136	80	72
Expected to be settled in more than 12 months	128	150	129	148
	279	286	209	220

Deferred fee income is front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

Other liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

34. Balances in respect of external unit holders

(a) Investment return attributable to external unit holders

The investment return attributable to external unit holders represents the portion of the investment return included within the Group statement of comprehensive income that relates to the consolidated funds that are owned by third parties.

(b) Liability to external unit holders

The liability to external unit holders represents the portion of the consolidated funds included within the Group balance sheet but which is owned by third parties. The balance is stated at fair value being the quoted bid price of the relevant fund on the last day of the accounting period on which investments in such funds could be redeemed.

For the purposes of the disclosure required by IAS 1, none of the balance (2015: none) is classified as being expected to be settled in more than 12 months from the balance sheet date.

35. 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 – 2016			
	1 Jan £m	Exchange differences £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(41)	-	11	(30)
Excess of management expenses carried forward	(51)	-	50	(1)
Revaluation of investments	183	3	72	258
Other short-term timing differences	-	-	(1)	(1)
Net deferred tax liability	**91**	**3**	**132**	**226**

	Group – 2015			
	1 Jan £m	Exchange differences £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

	Parent – 2016			
	1 Jan £m	Exchange differences £m	Recognised in the statement of comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(41)	-	11	(30)
Excess of management expenses carried forward	(51)	-	50	(1)
Revaluation of investments	171	-	73	244
Other short-term timing differences	8	-	(5)	3
Net deferred tax liability	**87**	**-**	**129**	**216**

	Parent – 2015			
	1 Jan £m	Exchange differences £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	175	-	(4)	171
Other short-term timing differences	3	-	5	8
Net deferred tax liability	91	-	(4)	87

35. Deferred tax (asset)/liability (continued)

(a) Net deferred tax balance (continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset as they all meet the criteria above.

(b) Unrecognised deferred tax balances

(i) Unrecognised deferred tax assets

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £1m (2015: £6m), of which £1m (2015: £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 (2015: less than £1m).

There are no other unrecognised deferred tax liabilities within the Group.

36. 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 2016 is £13m (2015: £6m) and is reported within staff costs (note 11(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. During the year, there was a consultation on the closure of RLGPS to future accrual of benefits from 31 March 2016. All employees are eligible to join the Royal London Group Personal Pension (RLGPP), the defined contribution scheme. 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 £13m (2015: £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. As the Scheme closed to future accrual in March 2016, the only contributions payable are, if RLGPS has insufficient surplus, in respect of costs of any augmentations including the award of discretionary pension increases. The results of the valuation as at 31 December 2016 are not yet available.

The Royal Liver schemes are supported in the first instance by the Royal Liver Assurance fund. Only in the event of that fund having insufficient assets to meet the needs of the Royal Liver schemes would the Royal London Open Fund be required to provide support. This structure is supported via guarantees from the Parent company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2015. As these schemes are closed to future accrual, no contributions are currently payable.

36. 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Fair value of plan assets	**3,223**	2,788	**2,611**	2,274	**376**	321	**236**	193
Pension scheme obligation	**(3,118)**	(2,611)	**(2,637)**	(2,203)	**(290)**	(248)	**(191)**	(160)
Net Pension scheme asset/(liability)	**105**	177	**(26)**	71	**86**	73	**45**	33
Reported as:								
Net Pension scheme asset	**131**	177	**-**	71	**86**	73	**45**	33
Net Pension scheme liability	**(26)**	-	**(26)**	-	**-**	-	**-**	-

No contributions are anticipated to be made to the RLGPS or to the Royal Liver schemes in the year to 31 December 2017.

In accordance with paragraph 64 of IAS 19, 'Employee Benefits' the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes, where applicable.

36. Pension schemes (continued)

(b) Reconciliation of pension scheme asset/(liability)

The movement in the net pension scheme asset and liability 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	Net pension Scheme Liability £m
At 1 January 2015	(2,719)	2,874	155	(27)	128	-
Costs recognised in result 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	-
RLGPS (net asset at 31 December 2015 to net liability at 31 December 2016)					(71)	71
Costs recognised in result for the year:						
Current service cost	(2)	-	(2)	-	-	(2)
Administration costs	-	(4)	(4)	-	(2)	(2)
Interest (expense)/income	(93)	99	6	-	4	2
Past service cost	18	-	18	-	(2)	20
	(77)	95	18	-	-	18
Remeasurements recognised in OCI:						
Return on plan assets in excess of interest income/(expense)	-	438	438	-	72	366
Changes in demographic assumptions	12	-	12	-	12	-
Changes in financial assumptions	(557)	-	(557)	-	(65)	(492)
Experience gains	9	-	9	-	1	8
Changes in the effect of the asset ceiling	-	-	-	-	-	-
	(536)	438	(98)	-	20	(118)
Other movements:						
Exchange differences	(25)	30	5	-	5	-
Employer contributions	-	3	3	-	-	3
Employee contributions	-	-	-	-	-	-
Benefit payments	131	(131)	-	-	-	-
At 31 December 2016	**(3,118)**	**3,223**	**105**	**-**	**131**	**(26)**

The negative past service cost of £(18)m includes a curtailment gain of £21m relating to the closure of RLGPS to future accrual of benefits from 31 March 2016. The remaining cost of £3m (2015: £2m) represents the increase in the pension scheme obligation due to the

36. Pension schemes (continued)

(b) Reconciliation of pension scheme asset/(liability) (continued)

granting of discretionary pension increases to certain categories of scheme members in both RLGPS and Royal Liver UK. There have been no other plan amendments, curtailments or settlements in the year.

	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/ (liability) £m
At 1 January 2015	(2,281)	2,329	48	-	48
Costs recognised in result 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
Costs recognised in result for the year:					
Current service cost	(2)	-	(2)	-	(2)
Administration costs	-	(2)	(2)	-	(2)
Interest (expense)/income	(80)	82	2	-	2
Past service cost	20	-	20	-	20
	(62)	80	18	-	18
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest income/(expense)	-	366	366	-	366
Changes in demographic assumptions	-	-	-	-	-
Changes in financial assumptions	(492)	-	(492)	-	(492)
Experience gains	8	-	8	-	8
Changes in the effect of the asset ceiling	-	-	-	-	-
	(484)	366	(118)	-	(118)
Other movements:					
Exchange differences	-	-	-	-	-
Employer contributions	-	3	3	-	3
Employee contributions	-	-	-	-	-
Benefit payments	112	(112)	-	-	-
At 31 December 2016	**(2,637)**	**2,611**	**(26)**	**-**	**(26)**

36. Pension schemes (continued)

(b) Reconciliation of pension scheme asset/(liability) (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 2015	(259)	336	77	(27)	50
Costs recognised in result 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
Costs recognised in result for the year:					
Current service cost	-	-	-	-	-
Administration costs	-	(1)	(1)	-	(1)
Interest (expense)/income	(9)	12	3	-	3
Past service cost	(2)	-	(2)	-	(2)
	(11)	11	-	-	-
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest income/(expense)	-	56	56	-	56
Changes in demographic assumptions	7	-	7	-	7
Changes in financial assumptions	(49)	-	(49)	-	(49)
Experience gains	(1)	-	(1)	-	(1)
Changes in the effect of the asset ceiling	-	-	-	-	-
	(43)	56	13	-	13
Other movements:					
Exchange differences	-	-	-	-	-
Employer contributions	-	-	-	-	-
Employee contributions	-	-	-	-	-
Benefit payments	12	(12)	-	-	-
At 31 December 2016	**(290)**	**376**	**86**	**-**	**86**

36. Pension schemes (continued)

(b) Reconciliation of pension scheme asset/(liability) (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 2015	(179)	209	30	-	30
Costs recognised in result 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
Costs recognised in result for the year:					
Current service cost	-	-	-	-	-
Administration costs	-	(1)	(1)	-	(1)
Interest (expense)/income	(4)	5	1	-	1
Past service cost	-	-	-	-	-
	(4)	4	-	-	-
Remeasurements recognised in OCI:					
Return on plan assets in excess of interest (expense)/income	-	16	16	-	16
Changes in demographic assumptions	5	-	5	-	5
Changes in financial assumptions	(16)	-	(16)	-	(16)
Experience gains	2	-	2	-	2
Changes in the effect of the asset ceiling	-	-	-	-	-
	(9)	16	7	-	7
Other movements:					
Exchange differences	(25)	30	5	-	5
Employer contributions	-	-	-	-	-
Employee contributions	-	-	-	-	-
Benefit payments	7	(7)	-	-	-
At 31 December 2016	**(191)**	**236**	**45**	**-**	**45**

36. Pension schemes (continued)

(c) Analysis of plan assets

	Total					
	2016			2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	257	-	257	156	-	156
High-yield bonds	135	-	135	121	-	121
Index-linked bonds	795	-	795	691	-	691
Corporate bonds	923	4	927	788	7	795
Equities	584	-	584	575	-	575
Equity investment funds	155	45	200	131	67	198
Diversified growth collective investment scheme	-	13	13	-	12	12
Property	-	1	1	-	3	3
Property investment funds	217	-	217	200	-	200
Derivative instruments:						
Foreign exchange forwards	-	(4)	(4)	-	(4)	(4)
Interest rate and inflation swaps	-	(2)	(2)	-	(7)	(7)
Total return swaps	(3)	13	10	-	(3)	(3)
Cash and other receivables	-	90	90	10	41	51
Fair value of plan assets	**3,063**	**160**	**3,223**	2,672	116	2,788

	RLGPS					
	2016			2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	64	-	64	13	-	13
High-yield bonds	135	-	135	121	-	121
Index-linked bonds	681	-	681	577	-	577
Corporate bonds	685	4	689	618	7	625
Equities	584	-	584	575	-	575
Equity investment funds	155	-	155	131	-	131
Diversified growth collective investment scheme	-	-	-	-	-	-
Property	-	-	-	-	-	-
Property investment funds	217	-	217	200	-	200
Derivative instruments:						
Foreign exchange forwards	-	(4)	(4)	-	(4)	(4)
Interest rate and inflation swaps	-	-	-	-	(5)	(5)
Total return swaps	(3)	14	11	-	(1)	(1)
Cash and other receivables	-	79	79	10	32	42
Fair value of plan assets	**2,518**	**93**	**2,611**	2,245	29	2,274

36. Pension schemes (continued)
(c) Analysis of plan assets (continued)

	Royal Liver UK					
	2016			2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	74	-	74	57	-	57
High-yield bonds	-	-	-	-	-	-
Index-linked bonds	114	-	114	114	-	114
Corporate bonds	163	-	163	105	-	105
Equities	-	-	-	-	-	-
Equity investment funds	-	19	19	-	41	41
Diversified growth collective investment scheme	-	-	-	-	-	-
Property	-	1	1	-	2	2
Property investment funds	-	-	-	-	-	-
Derivative instruments:						
Foreign exchange forwards	-	-	-	-	-	-
Interest rate and inflation swaps	-	(2)	(2)	-	(1)	(1)
Total return swaps	-	1	1	-	(2)	(2)
Cash and other receivables	-	6	6	-	5	5
Fair value of plan assets	**351**	**25**	**376**	276	45	321

	Royal Liver ROI					
	2016			2015		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	119	-	119	86	-	86
High-yield bonds	-	-	-	-	-	-
Index-linked bonds	-	-	-	-	-	-
Corporate bonds	75	-	75	65	-	65
Equities	-	-	-	-	-	-
Equity investment funds	-	26	26	-	26	26
Diversified growth collective investment scheme	-	13	13	-	12	12
Property	-	-	-	-	1	1
Property investment funds	-	-	-	-	-	-
Derivative instruments:						
Foreign exchange forwards	-	-	-	-	-	-
Interest rate and inflation swaps	-	-	-	-	(1)	(1)
Total return swaps	-	(2)	(2)	-	-	-
Cash and other receivables	-	5	5	-	4	4
Fair value of plan assets	**194**	**42**	**236**	151	42	193

36. 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 90% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk.

The schemes' exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. within RLGPS by allocations to property and to high-yield debt). Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection.

The schemes, and therefore the Group, are also exposed to longevity risk. 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:

	2016			2015		
	RLGPS %	UK %	ROI %	RLGPS %	UK %	ROI %
Discount rate	**2.7**	**2.7**	**1.8**	3.7	3.7	2.2
Price inflation (RPI)	**3.3**	**3.3**	**N/A**	3.0	3.0	N/A
Price inflation (CPI)	**2.2**	**2.2**	**1.8**	2.0	2.0	1.75

The salary growth assumption (only applicable to RLGPS) was CPI +1.0 in 2015. Following the closure of RLGPS to future accrual in 2016, the assumption is no longer required.

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			
	2016		2015	
	UK	ROI	UK	ROI
Pensioner				
Male	**26**	**26**	26	27
Female	**29**	**28**	29	29
Non-pensioner				
Male	**28**	**28**	28	29
Female	**30**	**30**	30	30

36. 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 discount rates	(641)	(557)	(56)	(28)
5% proportionate decrease in mortality and morbidity	42	35	4	3
100 basis point decrease in price inflation (RPI)	(363)	(333)	(30)	N/A
100 basis point decrease in inflation (CPI)	(380)	(333)	(30)	(17)

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 19 years (2015: 17 years).

37. 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.

38. 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	
	2016 £m	2015 £m
Investment property	45	79

38. 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 during the life of the fund to make investments and to pay approved costs of the fund. The total amount committed but undrawn at the balance sheet date for the Group and Parent company is £163m (2015: £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		Parent company	
	2016 £m	2015 Restated £m	**2016 £m**	2015 Restated £m
Total future minimum lease payments under non-cancellable leases:				
Not later than one year	**3**	3	**2**	2
Later than one year and not later than five years	**14**	14	**11**	10
Later than five years	**5**	7	**4**	7
	22	24	**17**	19
Less: total future minimum sub-lease payments under non-cancellable sub-leases expected to be received	**(2)**	(2)	**(2)**	(2)
	20	22	**15**	17

The 2015 comparative figures have been restated to include the operating lease commitments for properties used for operational activities.

39. 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:

	2016 £m	2015 £m
Management fees earned during the year	**67**	68

There were no amounts outstanding between the Group and the funds at the year end (2015: £nil). The total value of units held by the Parent company at 31 December 2016 in the funds that are not consolidated into the Group was £1,832m (2015: £1,083m). The acquisition and sale of units in the funds during the year were as follows:

	2016 £m	2015 £m
Acquisition of funds	**1,168**	224
Proceeds from sale of funds	**494**	137

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.

(ii) 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.

39. 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 2016 £m	Parent company 2015 £m
Administration fees	**276**	243
Investment management fees	**32**	33
	308	276

(i) Financing transactions undertaken with subsidiaries

The Parent company has provided loans to subsidiaries.

As set out in note 30, two subsidiaries have issued subordinated liabilities, lending the proceeds to the Parent company on the same terms as the original debt issue.

The following table summarises the interest income and expense incurred by the Parent company during the year in relation to these transactions.

	Parent company 2016 £m	Parent company 2015 £m
Interest income on loans to subsidiaries	**-**	3
Interest expense on subordinated liabilities	**(46)**	(42)

(ii) Other income received from subsidiaries

	Parent company 2016 £m	Parent company 2015 £m
OEIC management fee rebates	**65**	55
OEIC distributions	**367**	292
Other dividends receivable from subsidiaries	**57**	20
Rental income	**3**	3
	492	370

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.

(iii) 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 2016 £m	Parent company 2015 £m
Amounts due from Group entities	**22**	16
Loans to Group entities	**18**	29
	40	45
Subordinated liabilities	**(744)**	(743)
Amounts due to Group entities	**(60)**	(56)
	(804)	(799)

The amounts due to and from Group entities are due on demand and are not secured.

39. Related party transactions (continued)

(b) Related party transactions of the Parent company (continued)

(iv) 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	
	2016 £m	2015 £m
Acquisition of funds	**8,389**	4,263
Proceeds from sale of funds	**4,254**	1,569

(v) 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 11.

40. 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	
	2016 £m	2015 Restated £m	**2016 £m**	2015 Restated £m
Tax charge/(credit)	**249**	18	**221**	(12)
Depreciation of property, plant and equipment	**6**	5	**-**	-
Reversal of impairments on property, plant and equipment	**(6)**	-	**-**	-
Fair value loss/(gain) on investment property	**60**	(439)	**57**	(430)
Amortisation and impairment charges on acquired PVIF, goodwill and other intangible assets, including change in basis for Solvency II	**129**	40	**59**	35
Change in deferred acquisition costs	**43**	81	**44**	81
Change in reinsurers' share of insurance liabilities	**(855)**	122	**(855)**	122
Change in net pension scheme asset	**72**	(49)	**72**	(49)
Fair value (gain)/loss on financial investments	**(9,088)**	185	**(8,621)**	164
Net foreign exchange loss on financial investments	**184**	38	**70**	34
Change in participating insurance contract liabilities	**4,001**	(747)	**3,982**	(747)
Change in participating investment contract liabilities	**(78)**	26	**(78)**	26
Change in non-participating value of in-force business	**(307)**	(92)	**(307)**	(92)
Change in non-participating insurance contract liabilities	**1,177**	(273)	**1,178**	(272)
Change in non-participating investment contract liabilities	**6,345**	2,291	**6,345**	2,291
Change in provisions	**55**	(26)	**49**	(18)
Non-cash transfer of investments	**-**	36	**-**	36
Other non-cash items	**(153)**	544	**(130)**	538
	1,834	1,760	**2,086**	1,707

As set out in note 2, the 2015 comparatives in this note for both the Group and Parent company have been restated to reflect the changes in participating and non-participating insurance and investment contract liabilities and non-participating value of in-force business. There was no effect on the totals and hence the statements of cash flows are unchanged.

There were no non-cash transfers of investments related to assets transferred in by external clients (2015: transferred in £36m).

40. 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Fair value (gain)/loss on investments in Group entities	**-**	-	**75**	(31)
Dividends received from subsidiaries	**-**	-	**(57)**	(20)
Finance costs	**47**	44	**47**	43
	47	44	**65**	(8)

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Dividends received:				
› Operating cash flows (including Group OEICs)	**688**	608	**600**	526
› Investing cash flows	**-**	-	**57**	20
	688	608	**657**	546
Interest received:				
› Operating cash flows	**1,073**	1,021	**898**	912
Interest paid:				
› Operating cash flows	**2**	2	**2**	2
› Financing cash flows	**47**	44	**47**	43
	49	46	**49**	45

(d) Acquisition and disposal of Group entities

The Parent company's operating portfolio of investment assets includes OEICs and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows for the Parent company statement of cash flows. The amount included within 'Net acquisition of financial investments' relating to the acquisition and disposal of such funds was a net acquisition of £4,135m (2015: £2,693m).

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 in the Parent company of £71m relates to capital contributions and a share capital injection into Wrap IFA Services Limited during the year;
- the acquisition of Group entities in the Parent company in 2015 of £30m relates to a capital contribution to Wrap IFA Services Limited; and
- the Parent company proceeds of £25m relates to proceeds from the sale of RLGI (£12m) and proceeds from the liquidation of RL Cash Management (£9m) and the repayment of a loan by a subsidiary (£4m).The Group proceeds of £12m relate to the proceeds from the sale of RLGI.

41. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences which define the types of risk the Group views as being desirable, neutral towards or undesirable and which form a core part of the Group's risk management system and control techniques. The Group seeks to manage its exposures to risk through its risk management system ensuring that the residual risk exposures are within acceptable tolerances agreed by the Board. The risk management system established within the Group is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Group is well capitalised. The 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 within the Group from the inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities.

The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future experience, in particular mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks can be summarised as follows:

- mortality – the risk that 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, become incapacitated than expected or recover slower 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 ongoing oversight and effectiveness of the management of 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.

41. 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.

41. Risk management (continued)
(a) Insurance risk (continued)

	Group							
	2016				2015 - Restated			
		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	32,709	24	6	(21)	28,708	26	5	10
Non-participating insurance contracts								
› Unit-linked	1,839	(4)	(2)	(5)	1,841	7	2	(2)
› Non-profit, other than annuities	712	(165)	25	(38)	479	(142)	34	(34)
› Non-profit annuities	4,997	95	-	(7)	4,087	64	-	(13)
› Claims outstanding	312	-	-	-	275	-	-	-
	7,860	(74)	23	(50)	6,682	(71)	36	(49)
	40,569	(50)	29	(71)	35,390	(45)	41	(39)
Long-term insurance contract liabilities, net								
Participating insurance contracts	31,041	(10)	5	(21)	27,358	2	-	11
Non-participating insurance contracts								
› Unit-linked	1,839	(4)	(2)	(5)	1,841	7	2	(2)
› Non-profit, other than annuities	481	(7)	11	(38)	179	(21)	1	(34)
› Non-profit annuities	1,096	19	-	(7)	772	10	-	(7)
› Claims outstanding	205	-	-	-	188	-	-	-
	3,621	8	9	(50)	2,980	(4)	3	(43)
	34,662	(2)	14	(71)	30,338	(2)	3	(32)
Non-participating value of in-force business	(1,217)	(2)	(124)	(96)	(910)	(13)	(94)	(81)
Investment contract liabilities								
Participating investment contracts	2,154	(16)	(5)	2	2,232	(12)	(4)	(1)
Non-participating investment contracts	31,329	-	-	-	24,984	-	-	-
	33,483	(16)	(5)	2	27,216	(12)	(4)	(1)

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

41. Risk management (continued)
(a) Insurance risk (continued)

	Parent company							
	2016				2015 - Restated			
		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	**32,765**	**24**	**6**	**(21)**	28,783	26	5	10
Non-participating insurance contracts								
› Unit-linked	**1,839**	**(4)**	**(2)**	**(5)**	1,841	7	2	(2)
› Non-profit, other than annuities	**712**	**(165)**	**25**	**(38)**	479	(142)	34	(34)
› Non-profit annuities	**4,997**	**95**	**-**	**(7)**	4,087	64	-	(13)
› Claims outstanding	**312**	**-**	**-**	**-**	275	-	-	-
	7,860	**(74)**	**23**	**(50)**	6,682	(71)	36	(49)
	40,625	**(50)**	**29**	**(71)**	35,465	(45)	41	(39)
Long-term insurance contract liabilities, net								
Participating insurance contracts	**31,097**	**(10)**	**5**	**(21)**	27,433	2	-	11
Non-participating insurance contracts								
› Unit-linked	**1,839**	**(4)**	**(2)**	**(5)**	1,841	7	2	(2)
› Non-profit, other than annuities	**481**	**(7)**	**11**	**(38)**	179	(21)	1	(34)
› Non-profit annuities	**1,096**	**19**	**-**	**(7)**	772	10	-	(7)
› Claims outstanding	**205**	**-**	**-**	**-**	188	-	-	-
	3,621	**8**	**9**	**(50)**	2,980	(4)	3	(43)
	34,718	**(2)**	**14**	**(71)**	30,413	(2)	3	(32)
Non-participating value of in-force business	**(1,217)**	**(2)**	**(124)**	**(96)**	(910)	(13)	(94)	(81)
Investment contract liabilities								
Participating investment contracts	**2,154**	**(16)**	**(5)**	**2**	2,232	(12)	(4)	(1)
Non-participating investment contracts	**31,329**	**-**	**-**	**-**	24,984	-	-	-
	33,483	**(16)**	**(5)**	**2**	27,216	(12)	(4)	(1)

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

41. Risk management (continued)

(b) Market risk

Market risk arises from the possibility that fluctuations in the returns from the Group's assets, 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 system outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Capital Management Committee regularly monitors these processes.

The Group is not materially exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements constrain the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk, 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. The Group hedges some of its equity risk arising from investment guarantees and unit-linked charges using equity derivatives.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi).

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Parent company uses interest rate swaps to provide interest rate sensitivity matching.

A sensitivity analysis to interest rate risk is included in section (vi).

(iii) Inflation risk

Inflation risk is the risk that inflation results in the value of the Group's liabilities increasing by more than the value of its assets. It arises principally in the Group's defined benefit pension scheme, where higher inflation would result in higher increases in deferred pensions and would be expected to be associated with higher increases in pensions in payment.

The Group mitigates some inflation risk by the use of inflation swap derivatives.

(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 interest rate swaps increase from current levels, causing the value of the Group's holdings of non-sovereign bonds to reduce by more than the value of the associated liabilities. Swap spread risk is similar to credit spread risk but arises in respect of the Group's holdings of UK Government bonds.

The Group manages its exposures to spread risks through its hedging strategy and regular review of its hedging arrangements.

41. 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 system.

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	
	2016 £m	2015 Restated £m	**2016 £m**	2015 Restated £m
Non-linked assets denominated in GBP	**53,835**	44,881	**48,258**	41,836
Non-linked assets denominated in EUR	**919**	797	**863**	748
Non-linked assets denominated in USD	**2,240**	1,733	**2,238**	1,677
Non-linked assets denominated in JPY	**223**	169	**223**	169
Non-linked assets denominated in other currencies	**246**	251	**246**	251
	57,463	47,831	**51,828**	44,681
Linked assets not subject to currency risk	**33,168**	26,825	**33,168**	26,825
	90,631	74,656	**84,996**	71,506
Non-linked liabilities denominated in GBP	**56,364**	46,797	**50,729**	43,647
Non-linked liabilities denominated in EUR	**1,099**	1,034	**1,099**	1,034
	57,463	47,831	**51,828**	44,681
Linked liabilities not subject to currency risk	**33,168**	26,825	**33,168**	26,825
	90,631	74,656	**84,996**	71,506

The 2015 comparatives have been restated to reflect the change in accounting policy, see note 2.

At 31 December 2016, the Group and Parent company held currency forwards with a sterling notional value of £511m (2015: Group and Parent company £85m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

(vi) Market risk sensitivity analysis

The following table shows the impact on the unallocated divisible surplus (before tax) from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

Interest rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities increases when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

Currency rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and liabilities denominated in that currency. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the unallocated divisible surplus.

41. Risk management (continued)

(b) Market risk (continued)

(vi) Market risk sensitivity analysis (continued)

Equity/property capital values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. Consequently, the unallocated divisible surplus will be reduced by a fall in asset values.

Impact before tax on the UDS	Group 2016 £m	Group 2015 £m	Parent company 2016 £m	Parent company 2015 £m
Interest rates +100bp	**81**	28	**81**	28
Interest rates -100bp	**(139)**	(15)	**(139)**	(15)
10% increase in GBP/EUR exchange rate	**1**	(3)	**6**	2
10% decrease in GBP/EUR exchange rate	**(1)**	3	**(8)**	(2)
10% increase in GBP/USD exchange rate	**(147)**	(133)	**(147)**	(128)
10% decrease in GBP/USD exchange rate	**179**	163	**179**	157
10% increase in GBP/JPY exchange rate	**(17)**	(12)	**(17)**	(12)
10% decrease in GBP/JPY exchange rate	**20**	14	**20**	14
10% increase in GBP/other currencies exchange rates	**(22)**	(19)	**(22)**	(19)
10% decrease in GBP/other currencies exchange rates	**22**	20	**22**	20
Equity/property prices +10%	**248**	244	**248**	244
Equity/property prices -10%	**(285)**	(228)	**(285)**	(228)

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 a counterparty fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Group's exposure to credit risk arises principally from its investment portfolio, from its holdings in bonds, derivatives and cash in particular and from reinsurance arrangements. The credit risk policy and procedures and the investment management agreements stipulate approved counterparties, permitted investments and exchanges, as well as detailing specific asset class exposure limits. 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.

41. Risk management (continued)

(c) Credit risk (continued)

Exposures to individual counterparties are monitored against the agreed limits by the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Capital Management Committee. For bond holdings, exposures are also monitored by industry sector and by credit rating.

The Group is also exposed to credit risk in respect of its reinsurance arrangements. The credit exposures for reinsurance contracts are monitored by the Group's Capital Management and Insurance 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					
	2016			2015 - Restated		
	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	21,571	16,807	38,378	20,814	10,083	30,897
› Derivatives	4,322	-	4,322	2,544	1	2,545
Cash and cash equivalents (note 23)	1,819	1,473	3,292	1,450	1,373	2,823
Reinsurers' share of insurance liabilities (note 24)	5,907	-	5,907	5,052	-	5,052
Trade and other receivables (note 22)	448	340	788	341	205	546
	34,067	18,620	52,687	30,201	11,662	41,863

	Parent company					
	2016			2015 - Restated		
	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	21,511	6,820	28,331	20,747	6,445	27,192
› Derivatives	4,322	-	4,322	2,537	-	2,537
Cash and cash equivalents (note 23)	1,580	276	1,856	1,249	960	2,209
Reinsurers' share of insurance liabilities (note 24)	5,907	-	5,907	5,052	-	5,052
Trade and other receivables (note 22)	298	284	582	280	103	383
	33,618	7,380	40,998	29,865	7,508	37,373

The 2015 comparatives have been restated to reflect the change in accounting presentation see note 2.

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 2016 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.

41. 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 2016							
	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	2,676	13,588	1,636	3,005	414	7	245	21,571
> Derivatives	-	636	3,637	47	-	-	2	4,322
Cash and cash equivalents	48	935	222	601	13	-	-	1,819
Reinsurers' share of insurance liabilities	-	4,149	1,742	16	-	-	-	5,907
Trade and other receivables	-	-	-	-	-	-	448	448
	2,724	19,308	7,237	3,669	427	7	695	34,067

	Group 2015 - Restated							
	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	-	3,505	1,530	17	-	-	-	5,052
Trade and other receivables	-	-	-	-	-	-	341	341
	920	18,340	7,497	2,398	334	4	708	30,201

	Parent company 2016							
	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	2,676	13,528	1,636	3,005	414	7	245	21,511
> Derivatives	-	636	3,637	47	-	-	2	4,322
Cash and cash equivalents	48	934	-	591	7	-	-	1,580
Reinsurers' share of insurance liabilities	-	4,149	1,742	16	-	-	-	5,907
Trade and other receivables	-	-	-	-	-	-	298	298
	2,724	19,247	7,015	3,659	421	7	545	33,618

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

41. Risk management (continued)
(c) Credit risk (continued)

	Parent company 2015 - Restated							
	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	-	3,505	1,530	17	-	-	-	5,052
Trade and other receivables	-	-	-	-	-	-	280	280
	921	18,270	7,300	2,397	333	4	640	29,865

The 2015 comparatives have been restated to reflect the change in accounting presentation see note 2.

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 2016						
		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	**21,571**	**-**	**-**	**-**	**-**	**-**	**21,571**
› Derivatives	**4,322**	**-**	**-**	**-**	**-**	**-**	**4,322**
Reinsurers' share of insurance liabilities	**5,903**	**1**	**1**	**1**	**1**	**-**	**5,907**
Trade and other receivables	**437**	**6**	**-**	**-**	**5**	**-**	**448**
	32,233	**7**	**1**	**1**	**6**	**-**	**32,248**

	Group 2015 - Restated						
		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	5,047	2	1	1	1	-	5,052
Trade and other receivables	312	28	-	-	1	-	341
	28,717	30	1	1	2	-	28,751

The 2015 comparatives have been restated to reflect the change in accounting presentation see note 2.

41. Risk management (continued)
(c) Credit risk (continued)

	Parent company 2016						
		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	21,511	-	-	-	-	-	21,511
› Derivatives	4,322	-	-	-	-	-	4,322
Reinsurers' share of insurance liabilities	5,903	1	1	1	1	-	5,907
Trade and other receivables	291	6	-	-	1	-	298
	32,027	7	1	1	2	-	32,038

	Parent company 2015 - Restated						
		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	5,047	2	1	1	1	-	5,052
Trade and other receivables	252	28	-	-	-	-	280
	28,583	30	1	1	1	-	28,616

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

No collateral was held against assets that are past due or impaired (2015: £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 of liquidity exposures to the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Capital Management Committee.

41. 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 arises from insurance and investment contracts and the use of derivatives. 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 41 (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 2016						
		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	(32,709)	(10,938)	(8,966)	(8,905)	(5,106)	(2,508)	(36,423)
Participating investment contract liabilities	(2,154)	(625)	(431)	(372)	(257)	(378)	(2,063)
Non-participating insurance contract liabilities	(7,860)	(2,133)	(1,916)	(1,663)	(1,242)	(1,743)	(8,697)
Non-participating investment contract liabilities	(31,329)	(8,964)	(6,939)	(6,249)	(4,848)	(7,817)	(34,817)
	(74,052)	(22,660)	(18,252)	(17,189)	(11,453)	(12,446)	(82,000)
Derivative liabilities	(1,586)	(494)	(429)	(403)	(373)	(443)	(2,142)
Reinsurance liability	(3,069)	(456)	(582)	(638)	(604)	(1,576)	(3,856)

	Group 2015 - Restated						
		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	(28,708)	(10,142)	(7,960)	(7,584)	(5,878)	(4,037)	(35,601)
Participating investment contract liabilities	(2,232)	(743)	(564)	(469)	(347)	(570)	(2,693)
Non-participating insurance contract liabilities	(6,683)	(1,889)	(1,697)	(1,506)	(1,180)	(1,645)	(7,917)
Non-participating investment contract liabilities	(24,984)	(7,457)	(6,678)	(5,815)	(4,583)	(6,963)	(31,496)
	(62,607)	(20,231)	(16,899)	(15,374)	(11,988)	(13,215)	(77,707)
Derivative liabilities	(1,460)	(664)	(627)	(614)	(594)	(1,084)	(3,583)
Reinsurance liability	(2,773)	(437)	(573)	(654)	(636)	(1,740)	(4,040)

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

41. Risk management (continued)

(d) Liquidity risk (continued)

	Parent company 2016						
		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	(32,765)	(10,921)	(8,951)	(8,890)	(5,099)	(2,505)	(36,366)
Participating investment contract liabilities	(2,154)	(625)	(431)	(372)	(257)	(378)	(2,063)
Non-participating insurance contract liabilities	(7,860)	(2,132)	(1,916)	(1,663)	(1,242)	(1,743)	(8,696)
Non-participating investment contract liabilities	(31,329)	(8,964)	(6,939)	(6,249)	(4,848)	(7,817)	(34,817)
	(74,108)	(22,642)	(18,237)	(17,174)	(11,446)	(12,443)	(81,942)
Derivative liabilities	(1,574)	(470)	(429)	(403)	(373)	(443)	(2,118)
Reinsurance liability	(3,069)	(456)	(582)	(638)	(604)	(1,576)	(3,856)

	Parent company 2015 - Restated						
		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	(28,783)	(10,170)	(7,981)	(7,604)	(5,892)	(4,046)	(35,693)
Participating investment contract liabilities	(2,232)	(743)	(564)	(469)	(347)	(570)	(2,693)
Non-participating insurance contract liabilities	(6,682)	(1,888)	(1,697)	(1,506)	(1,180)	(1,645)	(7,916)
Non-participating investment contract liabilities	(24,984)	(7,457)	(6,678)	(5,815)	(4,583)	(6,963)	(31,496)
	(62,681)	(20,258)	(16,920)	(15,394)	(12,002)	(13,224)	(77,798)
Derivative liabilities	(1,445)	(664)	(627)	(614)	(594)	(1,084)	(3,583)
Reinsurance liability	(2,773)	(437)	(573)	(654)	(636)	(1,740)	(4,040)

The 2015 comparatives have been restated to reflect the change in accounting presentation, see note 2.

(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 36.

The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and are used in discussions with the Trustees, through whom any risk management activity must be conducted.

(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.

41. Risk management (continued)

(f) Operational risk (continued)

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 system, as well as being a regulatory requirement.

Stress and scenario testing in various forms is carried out on a regular basis as part of business as usual and in response to specific regulatory initiatives and can involve either:

- straightforward stress tests/sensitivity analysis: analyses of the sensitivity of financial and operational metrics and the risk profile to discrete changes in market values or demographic experience; or
- scenarios that involve a combination of changes in economic parameters or that concentrate on specific operational, non-market and/or market risks.

The following outputs are produced as part of business as usual and include results from one or both of the tests described above:

- Group Performance Reviews, produced monthly;
- Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- Capital Management Plan, produced bi-annually;
- Reports on the capital requirements of the Parent company, produced annually;
- ICAAP results for regulated non-insurance firms (where applicable), produced annually; and
- Medium-Term Plans, produced annually.

The stress testing performed includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

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 in which the Group operates, financial strength, long-term strategy and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

42. 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 Solvency II's capital requirements.

The Group's capital position is monitored on a regular basis and reviewed formally by the Capital Management Committee. The Group's capital requirements are forecast on a regular basis and those forecasts are compared against the available capital. Potential investments are measured against the Group's required minimum internal rate of return taking into account the risk associated with the investment.

From 1 January 2016, the Group has been 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 is calculating and reporting this SCR using the 'Standard Formula' specified within the Solvency II rules. In addition to the Standard Formula SCR the PRA has issued the Group with a 'capital add-on' increasing the SCR capital requirement, largely due to additional longevity and interest rate risk not captured in the Standard Formula SCR calculation.

The Group has not breached its Solvency II capital requirement at any point in 2016.

As well as calculating and reporting the Standard Formula SCR the Group manages capital using an internal basis because it believes that this is more appropriate for the Group's business than the Standard Formula. The Group's risk appetite is to hold an additional amount of capital on top of this internal required capital, to act as a 'buffer' and avoid breaching the regulatory capital requirement. The current position and the target level of capital are expressed as a capital cover ratio, this being the amount of available capital as a proportion of the internal capital requirement.

In the comparative period, up to and including 31 December 2015, the Group was subject to the capital requirements established in the UK by the PRA. The requirement was that the Group had to 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, 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. The Group did not breach these requirements at any point in 2015.

(b) Capital statement

The table below shows the Parent company's estimated Solvency II available own funds at 31 December 2016 and reconciles this to the IFRS unallocated divisible surplus. Figures for the comparative period produced using the previous PRA regime are shown below. Figures are presented for the Parent company only as the Group is not required to produce a Solvency II capital calculation at the level of the Royal London Group.

Solvency II available own funds - estimated	2016 £m
Unallocated divisible surplus	3,368
Adjustments onto a Solvency II basis:	
› Adjustment to the value of technical provisions and reinsurance assets	(178)
› Goodwill and other intangible assets	(251)
› Other valuation differences	(146)
› Own funds of closed funds[1]	1,691
Other sources of capital:	
› Subordinated liabilities	801
Solvency II available own funds – estimated	5,285

1 The adjustment for own funds of closed funds includes the ring fenced funds restriction of £2,609m which is unaudited.

42. Capital management (continued)

(b) Capital statement (continued)

The Solvency II own funds are determined using the Solvency II valuation rules. The adjustment to the value of technical provisions and reinsurance assets relates to the removal of the margins of prudence included in the IFRS values (so that assumptions are all best estimate), the inclusion of the Solvency II risk margin, the use of the Solvency II yield curve including the volatility adjustment for appropriate lines of business, the adoption of Solvency II contract boundary definitions (mainly affecting unit linked business) and also any benefit from the Solvency II transitional provisions.

The adjustment to goodwill and other intangible assets is to reduce the value of these assets to nil as required by Solvency II. The other valuation adjustments relate principally to the value of participations which are held at their Solvency II net asset value and to subordinated debt which is held at amortised cost for IFRS and at fair value for Solvency II.

The adjustment for the own funds of closed funds is the available own funds of the closed funds. For IFRS any excess of assets over liabilities within the closed funds is included within liabilities so the unallocated divisible surplus includes amounts relating to the Royal London open fund only. For Solvency II the excess within the closed funds is included within total available own funds, but only up to the value of the capital requirement (SCR) of the closed funds. Any excess value in the closed funds over and above the value of their SCR is excluded from total available own funds. This deduction is known as the ring fenced funds restriction. The amount of £1,691m shown in the table above is the total excess of assets over liabilities in the closed funds of £4,300m less the ring fenced fund restriction of £2,609m.

Shown below is the capital statement for 2015 showing available capital resources at 31 December 2015 calculated in accordance with the previous PRA regime.

Available capital resources	2015 £m
Unallocated divisible surplus	3,314
Adjustments onto a regulatory basis:	
› Inadmissible goodwill, other intangibles, pension scheme and deferred tax assets	(431)
› Other adjustments to the value of net assets	(176)
› Adjustments to liabilities on a regulatory basis	194
Total available capital resources	2,901

The available capital resources were determined using PRA valuation rules. The asset valuation rules were based on IFRS, adjusted to exclude certain assets not admissible for regulatory purposes and for other specific valuation differences.

(c) Movement in available capital

The table shown below presents the movement in estimated Solvency II own funds during 2016. Figures are presented for the Parent company as the Group is not required to produce a Solvency II capital calculation at the level of the Royal London Group.

	2016		
	Open funds £m	Closed funds £m	Total Parent company £m
At 1 January (after closed fund restrictions)	3,566	1,535	5,101
Closed fund restrictions (i.e. assets in excess of SCR) [1]	-	1,729	1,729
At 1 January (before closed fund restrictions)	3,566	3,264	6,830
Changes in assumptions	2	210	212
Investment performance	261	922	1,183
New business	159	-	159
Changes in management policy	(119)	(2)	(121)
Other movements	(275)	(94)	(369)
Movement	28	1,036	1,064
At 31 December (before closed fund restrictions)	3,594	4,300	7,894
Closed fund restrictions (i.e. assets in excess of SCR) [1]	-	(2,609)	(2,609)
At 31 December (after closed fund restrictions)	3,594	1,691	5,285

1 The closed fund restrictions are unaudited.

42. Capital management (continued)

(c) Movement in available capital (continued)

The comparative table shown below presents the movement in available capital resources during 2015 as analysed under the previous capital regime.

	2015		
	Open funds £m	Closed funds £m	Total Parent company £m
At 1 January (after closed fund restrictions)	2,764	-	2,764
Closed fund restrictions (i.e. assets in excess of liabilities)	-	3,052	3,052
At 1 January (before closed fund restrictions)	2,764	3,052	5,816
Changes in assumptions	53	565	618
Investment performance	69	71	140
New business	79	-	79
Changes in management policy	(61)	(89)	(150)
Other movements	(3)	(14)	(17)
Movement	137	533	670
At 31 December (before closed fund restrictions)	2,901	3,585	6,486
Closed fund restrictions (i.e. assets in excess of liabilities)	-	(3,585)	(3,585)
At 31 December (after closed fund restrictions)	2,901	-	2,901

The table above shows key elements of the movement in Solvency II own funds (available capital resources under the previous capital regime for 2015) analysed by open and closed funds within the Parent company. The impact from assumption changes includes the impact of changes to economic, persistency, mortality, and expense assumptions on the liabilities.

The investment performance impact comprises the after-tax return on opening capital and assets backing non-profit liabilities, the change in the value of future profits on unit-linked business from stronger than expected fund performance, the 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.

With the exception of economic assumptions, the value of new business is calculated on the basis used to value liabilities within the Solvency II balance sheet. For economic assumptions, the assumptions from the start of the period were used. The value was quoted net of development costs and tax.

Changes in management policy reflected actions taken by the Board which affected the value of liabilities set aside to meet future payments to with-profits policyholders.

Other movements included experience profits over the year including those earned on the non-life subsidiary and opening adjustments to reflect improved modelling, changes to the Solvency II risk margin and transitional provisions and residual items.

European Embedded Value supplementary information

Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information

The directors of Royal London have chosen to prepare supplementary information in accordance with the European Embedded Value Principles (the EEV Principles) issued in April 2016 by the CFO Forum. When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles. The directors have chosen not to adopt the Market Consistent Embedded Value Principles issued by the CFO Forum in April 2016.

In preparing the EEV supplementary information, the directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data and then applied them consistently;
- made estimates that are reasonable and consistent; and
- determined the basis on which business that is not covered business has been included in the supplementary information.

Independent auditors' report to the directors of The Royal London Mutual Insurance Society Limited on the 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 2016 which comprise the Consolidated income statement – EEV basis, Consolidated balance sheet – EEV basis and the related notes ("the supplementary financial statements") which have been prepared in accordance with the 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 director's 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 10 August 2016 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 and Accounts 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 2016 have been properly prepared in all material respects in accordance with the European Embedded Value basis set out in Note (a) – Basis of Preparation.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
29 March 2017

Footnotes:

(a) The supplementary financial statements are published on the website of the Royal London Group, www.royallondongroup.co.uk. The maintenance and integrity of the Royal London Group website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the supplementary financial 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 2016

	Notes	2016 £m	2015 £m
Operating activities			
Contribution from new business	(g) (i)	**223**	137
Profit from existing business	(g) (ii)		
› Expected return		**90**	76
› Experience variances		**4**	3
› Operating assumption changes		**50**	74
Expected return on opening net worth	(g) (iii)	**41**	27
(Loss)/Profit on uncovered business	(g) (iv)	**(44)**	7
Strategic development costs and other items	(g) (v)	**(82)**	(80)
Total operating profit before tax		**282**	244
Economic experience variances	(g) (vi)	**395**	21
Economic assumption changes	(g) (vii)	**(192)**	32
Movement in RLGPS pension scheme	(g) (viii)	**(118)**	23
Financing costs	(g) (ix)	**(46)**	(43)
EEV profit before tax, ProfitShare and change in basis for Solvency II		**321**	277
ProfitShare	(g)(x)	**(120)**	(74)
Change in basis for Solvency II	(g)(xi)	**(182)**	-
EEV profit before tax		**19**	203
Attributed tax charge	(g) (xii)	**(40)**	(26)
Total EEV profit after tax		**(21)**	181

Consolidated balance sheet – EEV basis
as at 31 December 2016

	2016 £m	2015 £m
Assets		
Assets held in closed funds	**37,033**	31,631
Assets backing non-participating liabilities	**29,882**	24,084
Reinsurance assets	**8,442**	7,528
Assets backing participating liabilities and net worth	**8,759**	7,666
Value of in-force business	**2,065**	2,034
Pension scheme surplus (RLGPS)	**-**	71
Total	**86,181**	73,014
Liabilities		
Liabilities in closed funds	**37,033**	31,631
Non-participating liabilities	**29,882**	24,084
Reinsured liabilities	**8,442**	7,528
Participating liabilities	**6,129**	5,363
Current liabilities	**1,523**	1,241
Pension scheme deficit (RLGPS)	**26**	-
Total	**83,035**	69,847
Embedded Value		
Net worth	**1,107**	1,062
Value of in-force business	**2,065**	2,034
Pension scheme (deficit)/surplus (RLGPS)	**(26)**	71
Total	**3,146**	3,167

Value of in-force business – EEV basis
as at 31 December 2016

	2016 £m	2015 £m
Value of in-force business before allowance for burn-through and capital costs	**2,105**	2,066
Burn-through cost	**(9)**	(3)
Cost of capital	**(31)**	(29)
Value of in-force business	**2,065**	2,034

(a) Basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the EEV Basis for Conclusions issued in April 2016 by the CFO Forum. They provide supplementary information for the year ended 31 December 2016 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. Following the introduction of Solvency II on 1 January 2016 the EEV Principles were revised to permit, but not require, the use of projection methods and assumptions consistent with Solvency II. The Group has made a number of changes to its EEV methodology as a result of Solvency II, as set out below.

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

EEV methodology – impact of Solvency II

The Group's EEV results were previously prepared using the PRA's realistic balance sheet regime. Although that regime was replaced by Solvency II with effect from 1 January 2016, the Group is continuing to apply a basis for preparing its EEV results which is consistent with the former realistic regime. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic regime.

As a result of the introduction of Solvency II, a number of changes have been made to the basis which is used to produce the EEV balance sheet to more closely align with the methodology used for Solvency II. The main changes are to use a swap curve to discount cash flows compared to a gilt curve used previously; a change in the methodology to reserve for reinsurer default; and consequential changes to the methodology for calculating the value of in-force business (VIF). Note that the swap curve includes an adjustment for the risk of default in line with the Solvency II credit risk adjustment but excludes the Solvency II volatility adjustment.

The effect of these adjustments has been recognised in the current period as a change in estimate with no restatement of prior periods. The total impact is a reduction in the VIF of £346m and an increase in the net worth of £164m, resulting in a net reduction in the Group's Embedded Value of £182m. This net impact has been included within the EEV income statement as a separate line item. Further detail is included within note (g)(xi) below.

EEV operating profit

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

(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 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 deficit/surplus) over and above those required to manage the business in line with the published Principles and Practices of Financial Management (PPFM).

It is based on the working capital, consistent with the previous realistic regime, in those funds within the Group that are open to new business and allows for the value of the subordinated debt.

The value of in-force business is the expected future profits from the existing business at the valuation date, on a realistic basis allowing for risk, adjusted for the cost of holding the required capital.

(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 former realistic balance sheet and Individual Capital Assessment regimes.

(c) Cost of capital

The EEV Principles require capital allocated to the covered business to be split between required capital, the future distributions of which are restricted, and free surplus. We have defined the amount of required capital to be that necessary to meet the Group's internal assessment of capital requirements.

The EEV VIF includes a deduction for the frictional cost of holding the required capital. Frictional costs, being the tangible costs of holding capital, have been allowed for on a market-consistent basis. These consist of the total taxation and investment expenses incurred on the required capital over the period it is anticipated to be required. They reflect the cost to a member of having an asset held within a mutual insurance company, rather than investing in the asset directly.

No allowance has been made for any agency costs. These represent the potential markdown to value that members might apply because they do not have direct control over their capital. Any adjustment would be subjective and different members will have their own views of what adjustment, if any, should be made.

(d) Burn-through cost

Under adverse conditions, the funds that remain open to new business may be required to make good any deficits that arise in the closed funds. The time value cost of this potential liability, known as the burn-through cost, is modelled stochastically, as it will only occur in adverse scenarios.

The burn-through cost is calculated as the average value of the capital support required in a large number of market-consistent scenarios. Allowance has been made under the different scenarios for management actions, such as altered investment strategy, consistent with the PPFM.

The stochastic models used to calculate this liability have been calibrated to market conditions at the valuation date. In addition, due to its asymmetric nature, an additional margin has been incorporated into the operating assumptions.

(e) Expenses

The EEV Guidance requires companies to perform an active review of expense assumptions, and include an appropriate allowance for corporate costs and service company costs.

Corporate costs

Corporate costs are those costs incurred at a corporate level that are not directly attributable to the covered businesses. To the extent that future corporate costs have not been anticipated within the EEV they are accounted for as they arise.

Service company costs

An in-house administration service company, which receives a fee in respect of each policy it administers, is responsible for the administration of the majority of the Group's policies. A similar arrangement exists for asset management services, although the fee is applied as a percentage of assets. The value of 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 RLAM in respect of investment management services have been capitalised within the EEV. These calculations result in the recognition of further value of in-force business. £6m (2015: £10m) is recognised in respect of the administration service company and £123m (2015: £87m) is recognised in respect of RLAM's investment management services.

No allowance has been made for future productivity gains.

(f) New business

New covered business includes:

- premiums from the sale of new contracts (including any contractual future increments on new contracts);
- non-contractual increments (both regular and single premium) on existing policies; and
- premiums relating to new entrants in group pension schemes.

(g) Analysis of EEV profit

(i) Contribution from new business

The contribution from new business is calculated using economic assumptions at the start of the period. It is shown after the effect of required capital, calculated on the same basis as for in-force covered business.

In the prior year the contribution from new business was calculated using economic assumptions at the end of the period. A change in approach was introduced during 2016, this change was made for consistency with other operating profit items. To indicate the impact of this change, the 2016 new business result below would have been £21.5m lower had the end of period economic assumptions been used. The 2015 new business result is shown on the previous approach of using the end period economic assumptions.

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% (2015: 20%). This is to aid comparability with proprietary companies which typically pay tax at the main corporation tax rate of 20% (2015: 20%).

The new business margin represents the ratio of the new business contribution to PVNBP.

2016	**Present value of new business premiums £m**	**New business contribution £m**	**New business margin %**
Intermediary			
Pensions	7,738	170.6	2.2
Protection	647	42.8	6.6
Consumer	301	4.3	1.4
Total life and pensions business	**8,686**	**217.7**	**2.5**
Wealth	6,741	37.7	0.6
Total	**15,427**	**255.4**	**1.7**

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)
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

Pension volumes have increased by 27% with strong growth observed in both the individual and group markets. The increase in margin is largely attributed to continued reductions in acquisition and maintenance unit costs resulting from the increase in volumes of business sold.

Protection comprises Royal London Intermediary Protection and Royal London Ireland. Overall, volumes have increased by 29% as a result of changes to our proposition increasing our market share. Lower margins are mainly due to the more challenging economic environment.

Consumer volumes have increased materially reflecting further significant growth in the Funeral Benefit Plan, linked to our distribution partnerships. The overall new business margin moved from negative to positive during 2016 as a result of changes to the proposition of this product.

RLAM's new business volumes from new asset management mandates increased significantly, more than doubling the PVNBP compared to 2015. For internal business this is largely due to strong performance on group pensions and drawdown products due to auto-enrolment and pension freedoms regulation changes respectively. For external business this is due to new funds on wholesale business.

(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 expected return reflects the opening risk-free rate which is unchanged at 2.00%.

The £50m impact of operating assumption changes primarily reflects changes to persistency assumptions on Pensions business.

(iii) Expected return on opening net worth
The expected return on opening net worth represents the expected investment return on the net worth over the period.

(iv) (Loss)/Profit on uncovered business
(Loss)/Profit on uncovered business has been valued on an IFRS basis, as used in the primary financial statements with the exception of goodwill which is not recognised in the EEV balance sheet. A breakdown of the (loss)/profit reported on uncovered business is shown in the table below:

	2016 £m	2015 £m
General insurance commissions	2	5
Annuity and other commissions	4	3
Ascentric	(50)	-
Royal London Asset Management	(1)	(1)
Total	(44)	7

The loss in the Ascentric item in the year is mainly as a result of an impairment loss on the carrying value of certain software.

(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:

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

The 'modelling and other changes' component reflects modelling and methodology changes. It also includes a one off gain of £21m resulting from the closure of the RLGPS to future accrual during 2016.

(vi) Economic experience variances
This shows the impact of actual investment returns relative to those expected. Economic experience variances have an impact on the VIF and on the net worth.

The economic experience variance on the VIF arises from the change in policy values in which the Group has an interest. The economic experience variance on the net worth represents the impact that investment returns, being different to those anticipated, have on:

- the value of the opening net worth;
- the value of financial options and guarantees (*); and
- the value of the assets backing the financial options and guarantees (*).

(*) Excluding those movements due solely to changes in the yield curve, which have been netted off against the movement in the value of assets caused by the shift in the yield curve.

The value of the second and third items above is generally far more significant for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profits funds is restricted typically to 10% of the distributable surplus.

For assets held within the Royal London Fund, private equity investments returned in excess of 11%, UK bonds and equities earned in excess of 14%, overseas bonds and equities returned in excess of 21% and property returned in excess of 3%. Returns on other asset categories were fairly flat during 2016.

(vii) Economic assumption changes
Long-term economic assumptions were revised to take into account the financial conditions at the end of the period including the impact of related management actions. The effect of these changes contributed a loss of £192m (2015: gain of £32m) to the pre-tax result. Further details of the economic basis used are provided in section (h).

(viii) Pension scheme (deficit)/surplus
The principal scheme is the Royal London Group Pension Scheme, a final salary scheme that closed to the future accrual of benefits during 2016. On an International Accounting Standard (IAS) 19 basis, the scheme had a deficit of £26m at 31 December 2016 (December 2015 surplus of £71m).

The surplus / deficit in the two pension schemes acquired as part of the Royal Liver transaction is part of the closed Royal Liver Sub-fund and so is not included in the EEV income statement.

(ix) Financing costs
Royal London has two tranches of subordinated debt in issue at 31 December 2016: £400m (before expenses) issued on 29 November 2013 and £350m (before expenses) issued on 13 November 2015, both of which carry a coupon of 6.125% per annum. There has been no change to the subordinated debt in issue over the year. The cost of servicing the debt over the year has increased to £46m (2015: £43m) due to the larger debt in issue over the whole of the year and is included as a financing cost.

(x) ProfitShare
In 2016, 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.

Also in 2016 we expanded the reach of ProfitShare to include the vast majority of our unit-linked pension customers by enhancing their unit holdings.

The total ProfitShare for 2016 is £114m as referred to in the Chairman's statement (£114m being the net of tax amount). In 2015, the corresponding figure was £70m.

(xi) Change in basis for Solvency II
As a result of the introduction of Solvency II on 1 January 2016 we have chosen to make a number of changes to the basis used to produce the EEV results. The purpose of these changes is to better align our EEV reporting to the approach taken to prepare our capital position under the new Solvency II regulations. The adjustments are treated as a change in estimate which is recognised in the current period with no restatement of prior periods. The main changes are to use a swap curve to discount cash flows compared to a gilt curve used previously, a change in methodology to reserve for reinsurer default and consequential changes in the methodology for calculating VIF. The total impact is a one-off charge of £182m to the Group's Embedded Value.

Note that the swap curve includes an adjustment for the risk of default in line with the Solvency II credit risk adjustment but excludes the Solvency II volatility adjustment.

The table below summarises the impact of the change in basis for Solvency II.

	£m
Change in yield curve	(168)
Change in reinsurance default reserve	(19)
Other changes	5
Change in basis for Solvency II	**(182)**

(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% (2015: 5%), the expected long-term rate of tax payable by the Group, although subsidiary companies may be subject to different rates of tax.

(h) EEV assumptions

(i) Principal economic assumptions – deterministic
Economic assumptions are reviewed actively and are based on the prevailing market yields on risk-free assets at the valuation date. Note that the risk free assumptions for 2016 are based on the Solvency II swap curve including the credit risk adjustment but with no allowance for the Solvency II volatility adjustment. The risk-free assumptions disclosed at 31 December 2015 are based on the previous PRA realistic balance sheet regime which used a gilt curve. Actual and indicative 2015 values are provided in the table below for comparison purposes:

	2016 %	2015[1] (swaps) %	2015[2] (gilts) %
15-year risk-free swap forward rate	**1.59**	2.39	2.40
15-year retail price inflation	**3.88**	3.85	3.00
15-year expense inflation	**4.88**	4.85	4.00

Notes:
[1]The quoted values are Solvency II assumptions for comparison purposes.
[2]The quoted values are Solvency I assumptions which were actually used at 31 December 2015.

(ii) Principal economic assumptions – stochastic
The value of financial options (including premium rate guarantees and guaranteed annuity options), smoothing costs and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation.

The economic scenarios achieve market consistency by:

- deriving the underlying risk-free rate from the forward swap curve;
- 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)				
2016	**5**	**10**	**15**	**20**	**30**
15-year risk-free zero coupon bonds	**9.9%**	**7.1%**	**5.3%**	**4.6%**	**5.7%**
15-year AA-rated corporate bonds	**11.5%**	**8.9%**	**7.4%**	**6.7%**	**7.3%**
Equities	**21.0%**	**23.3%**	**24.9%**	**26.4%**	**27.5%**

	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%

(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. Note that in 2016 a new scale of risk premia has been introduced following a review of the rates used.

	2016 %	2015 %
Risk premium – cash	**(1.00)**	0.00
Risk premium – corporate bonds	**1.00**	0.00
Risk premium – property	**3.00**	2.00
Risk premium – equities	**3.50**	2.50

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 2016 and the 2016 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		(160)	(29)
10% increase in market values of equities and property	1	275	-
10% proportionate decrease in lapse and paid-up rates		135	48
10% proportionate decrease in expenses		218	35
5% proportionate decrease in mortality and morbidity		(15)	3
50% increase in capital requirements		(16)	(1)

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

	2016 £m	Restated 2015 £m
IFRS unallocated divisible surplus	**3,292**	3,314
Valuation differences between IFRS and EEV		
› Goodwill and intangible assets	**(250)**	(280)
› Deferred tax valuation differences	**(2)**	(1)
› Subordinated debt at market value	**(52)**	(25)
› Capital requirements of subsidiaries and other valuation differences	**(8)**	(16)
Add items only included on an embedded value basis		
› Valuation of asset management and service subsidiaries	**137**	156
Other valuation differences	**29**	19
European Embedded Value	**3,146**	3,167

Notes:
[1]The 2015 comparatives have been restated to reflect the change in presentation as a result of the IFRS accounting policy change.

(j) Reconciliation of IFRS transfer to unallocated divisible surplus to EEV profit

	2016 £m	Restated 2015 £m
IFRS (deduction from)/transfer to unallocated divisible surplus	**(22)**	175
Amortisation and impairment of intangible assets	**30**	(7)
Differences in valuation of subsidiaries	**(12)**	(1)
Change in realistic value of subordinated debt	**(27)**	17
Movement in valuation differences for deferred tax assets	**(1)**	(4)
Other movements in valuation bases	**11**	1
EEV profit for the year	**(21)**	181

Notes:
[1] The 2015 comparatives have been restated to reflect the change in presentation as a result of the IFRS accounting policy change

Notice of Annual General Meeting

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

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and consider the Company's Annual Report and Accounts with the related auditor's report for the year ended 31 December 2016.
2. To approve the Directors' remuneration policy.
3. To approve the Annual report on remuneration for the year ended 31 December 2016.
4. To reappoint PricewaterhouseCoopers LLP as auditors of the Company until the conclusion of the next Annual General Meeting.
5. To authorise the Audit Committe to determine the remuneration of PricewaterhouseCoopers LLP.
6. To reappoint Sally Bridgeland as a director of the Company.
7. To reappoint Ian Dilks as a director of the Company.
8. To reappoint Tracey Graham as a director of the Company.
9. To reappoint Tim Harris as a director of the Company.
10. To reappoint Phil Loney as a director of the Company.
11. To reappoint Jon Macdonald as a director of the Company.
12. To reappoint Andrew Palmer as a director of the Company.
13. To reappoint Rupert Pennant-Rea as a director of the Company.
14. To reappoint David Weymouth as a director of the Company.

By order of the Board

Fergus MSpeight

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

The Royal London Mutual Insurance Society Limited

55 Gracechurch Street, London
EC3V 0RL

Registered in England and Wales, No.99064

Commentary on the resolutions

Resolution 1

Annual Report and Accounts 2016
Following changes introduced by the Companies Act 2006 (the Act), the Group is not required to lay its accounts before a general meeting.

The Board nonetheless considers it best practice to do so and will continue to present the Annual Report and Accounts to the Annual General Meeting (AGM).

Resolutions 2 and 3

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

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

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

The Act requires a listed company to include at the AGM a resolution to approve the Directors' remuneration policy. The resolution is advisory, but the requirement does not apply to the Company because it is a mutual and not a quoted company. The Board, however, believes that such a resolution has become a part of good corporate governance and accordingly has voluntarily included it as a resolution to be considered at this AGM.

Resolution 2 seeks approval for the Directors' remuneration policy and is subject to a vote of members at least every three years.

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

Resolution 3 seeks approval for the Annual report on remuneration.

The Directors' remuneration report appears on pages 62 to 79 of this report.

Resolutions 2 and 3 are advisory votes only.

Resolutions 4 and 5

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

PricewaterhouseCoopersLLP 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 6 to 14

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

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

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. See also Independent Financial Adviser in glossary.

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
A governmental law designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. The scheme also requires employers to contribute if their employees do.

B

Board
Royal London Mutual Insurance Society Board.

Burn-through cost
Under adverse conditions, the fund that remains open to new business may be required to make good any deficits that arise in the closed funds. This potential liability is known as the burn-through cost. It is modelled using stochastic techniques as it will only occur in adverse scenarios.

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 Cover Ratio
Own Funds divided by Solvency Capital Requirement.

Capital markets
Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

CFO Forum
A high-level discussion group formed and attended by the Chief Financial Officers of major European insurance companies to discuss and harmonise reporting standards.

CIS
The Co-operative Insurance Society Limited purchased by the Group on 31 July 2013. On 1 August 2013 it was renamed Royal London (CIS) Limited.

Company
The Royal London Mutual Insurance Society Limited.

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

Consumer Price Index (CPI)
A measure of changes in the price level of a basket of consumer goods and services purchased by households.

Covered business
The business covered by the EEV methodology. This includes life and pensions business defined as long-term business by UK and overseas regulators and asset management business (excluding cash management).

Critical illness cover
Cover that pays a lump sum if the insured person is diagnosed with a serious illness that meets the cover's definition.

D

Deferred acquisition costs (DAC)
The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

Deferred fee income
The method of accounting whereby up-front policy charges are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

Defined benefit scheme
A type of occupational pension scheme, where the benefits are based on the employee's salary and service.

Discounting
The process of expressing a future cash transaction in terms of its present value using a discount rate which reflects the time value of money.

Drawdown
Drawdown is a flexible way way of using your savings. With a defined contribution scheme, once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

E

Economic assumptions
Assumptions of future interest rates, investment returns, inflation and tax. The impact of variances in these assumptions is treated as non-operating profit or loss under EEV.

European Embedded Value (EEV)
The EEV basis of reporting attempts to recognise the true economic value added over a period and is calculated according to guidelines issued by the CFO Forum. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting but the timing of the recognition is different.

EEV operating profit
The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds.

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.

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 Capability Board (FCB)
The FCB has oversight of the Financial Capability Strategy, the aim of which is to improve financial capability across the UK. That means improving people's ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty.

Financial Conduct Authority (FCA)
An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

Financial options and guarantees
For Royal London business, 'financial options' refers principally to guaranteed annuity options. 'Guarantees' refers to with-profits business where there are guarantees that parts of the benefits will not reduce in value, or are subject to a minimum value.

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

FTSE 100
This is the share index of the 100 largest companies by market capitalisation listed on the London Stock Exchange.

Funds under management (FUM)
The total of assets actively managed or administered by, or on behalf of, the Group, including funds managed on behalf of third parties.

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 Mutual Insurance Society Limited and its subsidiaries.

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 delaying of 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 was 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.

Individual Savings Account (ISA)
An ISA is a tax efficient way to invest your money into cash, stocks and shares up to your yearly allowance.

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. Our Internal Model is used for Internal Capital management purposes and we are seeking formal approval in 2019 to use this to calculate our Capital Requirements.

Internal rate of return (IRR)
The discount rate at which the present value of the after-tax cash flows we expect to earn over the lifetime of the business written is equal to the total capital invested to support the writing of that business.

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

K

Key performance indicator (KPI)
An indicator used by a business to measure its development, performance or position.

M

Maintenance expenses
Expenses related to the servicing of the in-force book of business, including investment and termination expenses and a share of overheads.

Market-consistent basis
A basis of valuation in which assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets. An insurance contract combining savings and protection elements designed to repay the principal of a loan or mortgage.

Market Value Adjustment
An adjustment (positive or negative) that may be applied to a policy if a full or partial surrender is made before the end of the surrender charge period.

Money advice service
An independent body set up in 2010 with responsibility for improving people's money management. Previously known as the Consumer Financial Education Body.

Glossary continued

Mutual
A company owned by its members which is not listed on the stock market. A member of a mutual company can vote at its Annual General Meeting.

N

Net Promoter Score
An index used to measure the willingness of customers to recommend a company's products or services to others.

Net worth
The excess of assets over liabilities on the EEV basis of reporting, where assets exclude PVIF and the pension scheme surplus.

New business contribution
The expected present value on the EEV basis of reporting of all cash flows arising from new business.

New business margin
The new business contribution as a percentage of the present value of new business premiums.

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

O

Open-ended investment company (OEIC)
Investment funds which pool together investors' money and invest this in a broad range of shares and other assets. They are similar to unit trusts.

Operating assumptions
Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. The impact of variances in these assumptions is included within operating profits under EEV.

Operating experience variances
The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

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

Own Funds
The excess of assets over Technical Provisions, as measured by the PRA's regulatory reporting requirements under Solvency II.

Own Risk and Solvency Assessment (ORSA)
The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

P

Parent company
The Royal London Mutual Insurance Society Limited.

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 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.

Pillar III
Solvency II Pillar III regulatory reporting requirements that came into force on 1 January 2016. Insurers must produce two key reports, the Solvency and Financial Condition Report (SFCR) and the Regulatory Supervisory Report (RSR) in addition to a range of other specified templates.

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 is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

Protection
A policy providing a cash sum or income on the death or critical illness of the life assured.

Prudential Regulation Authority (PRA)
Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

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.

Regular premium
A series of payments for an insurance contract, typically monthly or annually.

Regular Supervisory Report (RSR)
A report required under Pillar III of the Solvency II directive. This is a private report to the PRA and is not disclosed publicly. Life insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

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
The Royal London Mutual Insurance Society Limited and its subsidiaries.

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 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.

Senior Insurance Managers Regime
A range of policy changes introduced by the FCA and PRA on 7 March 2016 that aim to increase individual accountability within the insurance sector.

Single premium
A single payment for an insurance contract.

Solvency II
A European Union directive which became fully applicable to European insurers and reinsurers on 1 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

Solvency Capital Requirement (SCR)
The amount of capital that the PRA requires a UK Life insurer to hold which is calculated using the European Union Solvency requirements, also known as Solvency II. This can be calculated using the Standard Formula or the Internal Model methods. We are seeking approval of the Royal London Internal Model in 2018. Until this approval has been confirmed we will continue to use the Standard Formula.

Solvency and Financial Condition Report (SFCR)
A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Standard formula
A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

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

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

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

T

Three lines of defence model
The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision making, risk and control to achieve effective governance, risk management and assurance.

U

UK Corporate Governance Code (the Code)
This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Unallocated divisible surplus
The amount of surplus which has not been allocated to policyholders at the balance sheet date.

Unit-linked policy
A policy for which the premiums buy units in a chosen investment fund.

Glossary continued

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.

Women in Finance charter
This is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this Charter are pledging to be the best businesses in the sector. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms.

Wrap platform
A trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

Wrap provider
An investment company, such as Ascentric, that offers investors the opportunity to consolidate their different investments under a single administrative account.

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

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