Press Release

31 March 2016

Royal London reports strong trading performance and operating profits

Royal London, the UK's largest mutual life, pensions and investment company, presents its results for the year ended 31 December 2015.

Trading Highlights (figures in brackets show movement compared to 2014)

- New life and pensions business (on a PVNBP basis)[2] £6,774m (+40%).

Excellent growth in new business sales reflects the strength of Royal London's pensions and insurance propositions.

- Improved overall margin of 2% up from 1.4% in prior year on new life and pensions business has been achieved as operating efficiency initiatives have been embedded across the business.

- EEV Operating profit before tax and exceptional items £244m (+11%).

This increase is driven by the success of our pensions and insurance businesses and the record new business figures. New business profits rose to £137m (+61%).

- Embedded value has exceeded the £3bn mark for the first time, reaching- £3.2bn (+6%) following good total profit performance.

- IFRS transfer to unallocated divisible surplus £175m (+31%)

Our IFRS results also benefit from Royal London's strong trading performance and improved margins.

- Group funds under management £84.5bn (+3%).

Increase due to net inflows and good underlying investment performance in difficult markets.

- Surplus regulatory (Insurance Groups Directive) capital £3,535m (+4%).

Our stronger capital position is a consequence of improved new business results and an increase in our subordinated debt.

- ProfitShare £70m (+17%)

ProfitShare allocated to eligible policyholders increased by 17% in 2015 as a result of the improved new business results and strong capital position. This brings the cumulative ProfitShare allocated to members to £536m since 2007.

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

"Our strategy of focusing on creating the best outcomes and the best experience for our customers reflects our position as the largest customer-owned company across our chosen markets. Our strategy continues to produce pleasing results and over the last four years Royal London has doubled its life and pension sales and has nearly doubled assets under management.

The last year saw a record breaking trading performance which brought with it a healthy increase in operating profit. New business growth was particularly strong with sales of group pensions and income drawdown products going from strength to strength. The fourth quarter of the year saw pension sales reach new highs which is especially satisfying as it follows on from the announcement that we will in future be sharing part of our profits with pension customers through our unique ProfitShare arrangement.

Following considerable investment in our protection proposition, sales of protection products through intermediaries are now surging ahead. Our direct-to-consumer division is now making significant headway in the market segments where it operates by providing better value for money and fairer products than the market incumbents. The strong growth in revenues has allowed a substantial increase in investment in the business at the same time as growing profits and strengthening the capital position of Royal London.

The main Royal London With-Profits Fund turned in another positive performance and is ahead of its benchmark over one, three and five years. The total bonuses paid to policyholders compare well with returns elsewhere in the industry. In addition, with-profits policyholders benefit from a ProfitShare; the average amount allocated to individual policies has been slightly increased (from 1.15% in 2014 to 1.4% in 2015) per policy this year. Over the last decade our profit sharing approach has boosted the value of policies held by qualifying customers to the tune of £536m.

Royal London remains well capitalised, with surplus regulatory capital increasing to £3,535m (£3,390m in 2014)."

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Editor's notes:

1) Royal London is the largest mutual life, pensions and investment company in the UK, with Group funds under management of £84.5 billion. Group businesses serve around 9.1 million policies and employ 2,988 people. (Figures quoted are as at 31 December 2015).

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

3) Financial calendar

31 March 2016	Financial results for 2015 and conference call*
12 May 2016	Interim management statement and first quarter new business results
9 June 2016	Annual General Meeting
18 August 2016	Interim financial results and second quarter new business results
4 November 2016	Interim management statement and third quarter new business results
13 November 2016	RL Finance Bonds No 3 plc Subordinated debt interest payment date
30 November 2016	RL Finance Bonds No 2 plc Subordinated debt interest payment date

*Royal London will hold an investor conference call to present its financial results for 2015 on Thursday 31 March 2016 at 09:30. Interested parties can register at:
https://cossprereg.btci.com/prereg/key.process?key=PGNFRUFJD

4) Forward-looking statements
This document may contain forward-looking statements with respect to certain of Royal London's plans, its current goals and expectations relating to its future financial position. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Royal London's control. These include, among others, UK economic and business conditions, market-related risks such as fluctuations in interest rates, the policies and actions of governmental and regulatory authorities, the impact of competition, the timing, impact and other uncertainties of future mergers or combinations within relevant industries.

As a result, Royal London's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Royal London's forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements.

Contents

1. Financial Review

Performance Overview

We have delivered a strong operating performance in 2015, with strong new business results, particularly in our pensions business, and an increase in underlying operating profits.

On the EEV basis, our operating profit before exceptional items for 2015 increased by 11% to £244m (2014: £220m). This was driven by strong new business profits that exceeded 2014 by 61% and good existing business profits that were broadly in line with 2014, offset by a number of one off costs from investment into the business, that we believe are important for our future competitiveness and we expect will deliver good returns.

Our total EEV profit was £181m which increased our Embedded Value to £3.2bn (2014: £3.0bn). This is the first time our Group Embedded Value has exceeded £3bn and is due to the strong operating performance and favourable economic variances, albeit lower than the variances seen in 2014 mainly due to the low gilt yield environment. The result also reflects a ProfitShare allocation of £70m (after tax), which is up 17% on 2014 ProfitShare of £60m.

Our Asset Management and Administration businesses have continued to grow, with total Group funds under management increasing from £82.3bn as at 31 December 2014 to £84.5bn at 31 December 2015. Ascentric, our wrap platform administrator saw gross sales increase to £2.5bn (2014: £2.2bn) and has increased its assets under administration by 13% during 2015 to £10.1bn (31 December 2014: £8.9bn).

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

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

Contribution from new business

New business profits are up 61% on 2014 at £137m which was driven by a strong performance across all of our propositions but in particular our Pensions products.

Intermediary Pension volumes are up 37% on 2014 due to our success in the group pensions market following the introduction of auto-enrolment and the strength of our individual pensions and drawdown propositions. The increase in margin from 1.2% in 2014 to 1.8% in 2015 is largely attributed to a reduction in unit costs resulting from the increase in volumes of business sold.

Intermediary Protection volumes have increased by 49% and margins have increased from 6.7% in 2014 to 8.4% in 2015. Sales were driven through changes to products to provide the right cover to our customers and through enhancing our digital and telephone based service propositions.

Consumer new business volumes more than quadrupled, up 385% to £165m on 31 December 2015 from £34m on 31 December 2014. There was strong recognition for the quality, fairness and value for money provided by our core direct to consumer products and funeral plan business lines.

Royal London Asset Management performed well in a year of turbulent market conditions. Gross new business inflows of £3.1bn were slightly down on the more buoyant period in 2014 (£3.8bn), but still a strong performance.

31 Dec 2015	**Present value of new business premiums**	**New business contribution**	**New business margin**
	£m	**£m**	**%**
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**

31 Dec 2014	Present value of new business premiums £m	New business contribution £m	New business margin %
Intermediary			
Pensions	4,454	55.6	1.2
Protection	338	22.7	6.7
Consumer	34	(12.9)	(37.9)
Total life and pensions business	4,826	65.4	1.4
Wealth	3,755	29.9	0.8
Total	8,581	95.3	1.1

Notes: The new business contribution in the table represents the new business contribution grossed up for tax at 20% (2014: 21%). This is to aid comparability with proprietary companies which typically pay tax at the main corporation tax rate of 20% (2014: 21%).
The new business margin represents the ratio of the new business contribution to PVNBP.

EEV operating profit before exceptional items

In 2015 the Group achieved an EEV operating profit before exceptional items of £244m (2014: £220m). This result reflects strong contribution from new business and good existing business profits, which were broadly in line with prior year. Existing business profits include benefits from operating efficiency projects to improve cost control across the business. The results also include additional non-recurring costs of investment into the business and costs in providing for remediation following the introduction of our Independent Governance Committee.

Embedded value

Embedded value exceeded £3bn for the first time this year following total EEV profit after tax in the year of £181m (+13%). The increase is due to the strong operating performance and favourable economic variances, albeit lower than the variances seen in 2014 mainly due to the low gilt yield environment. The result also reflects a ProfitShare allocation of £70m (after tax), which is up 17% on 2014 ProfitShare of £60m.

ProfitShare

In 2015, Royal London's Board exercised its discretion to allocate £70m (£74m gross of tax in EEV) of ProfitShare to qualifying policyholders (previously known as Mutual Dividend). In 2014, the corresponding figure was £60m (£64m gross of tax in EEV). This was due to the continued strong performance of the Group in the year and the stable capital position.

IFRS results

The main financial basis we use for assessing our results is the EEV basis. However, we also report our results on an IFRS basis. Our total transfer to unallocated divisible surplus in the year was £175m, an increase of 31% on 2014. Our IFRS results also benefit from Royal London's strong trading performance and improved margins.

IFRS Balance sheet

As a result of our performance in the year, the unallocated divisible surplus has increased from £3,139m at 31 December 2014 to £3,314m at 31 December 2015.

Our balance sheet remains robust and we experienced no significant asset impairments in the period. Our total investment portfolio (including investment property) was £65,165m at 31 December 2015, an increase on 31 December 2014 of 1.5%. Our financial investments portfolio remains high quality, with the majority (88%) of our bond investments in assets rated A or above. 51% (31 December 2014 53%) of our asset portfolio is in fixed income investments and cash.

The Group's exposure to sovereign debt from Portugal, Italy, Ireland, Greece and Spain amounted to less than 1.0% of the total assets of the total investment portfolio.

Investment performance

We measure our investment returns against benchmarks that we have constructed from market indices weighted to reflect the asset mix of each sub-fund. In 2015 the investments backing the asset shares of the Royal London With-Profits Fund achieved a return of 4.1%, which was behind the return achieved in 2014 of 10.9% but above our benchmark of 3.2%.

The Royal London with-profits investment performance for UK equities was 1.8% (benchmark 1.0%), overseas equities returned 6.1% (benchmark 6.6%), returns from corporate bonds were 1.2% (benchmark 0.5%), government bonds achieved a return of 0.5% (benchmark 0.0%), private equities 21.7% (benchmark 1.0%) and our property portfolio returned 15.3% (benchmark 13.8%).

Movement in staff pension scheme surplus

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

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

The Group continues to work closely with the Trustee Board to assess options for reducing the Scheme's exposure to market volatility.

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

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

2. Capital Strength

The Group's capital strength has continued to improve in 2015, as a result of the good operating profits and the increase our subordinated debt.

Issuing debt is a common way of raising additional capital and is particularly effective for companies that don't have shareholders. We raise debt in order to support our general business and commercial activities. In November we issued £350m of debt via subordinated notes, guaranteed by The Royal London Mutual Insurance Society Ltd. The notes carry a coupon of 6.125 % and were issued at par. The issue was heavily oversubscribed, indicating strong investor support. In December we went on to redeem in full our subordinated notes originally issued in 2005, at the first reset date. Maintaining our debt programme ensures that our capital position remains strong.

Our preparations for Solvency II have gone well and, as a Group, we are well positioned to cope with the increased reporting that this will necessitate. More importantly, we have the capital strength to support these new capital requirements. Solvency II transforms the way in which we report our capital – look out for further detail on this in our future press releases.

Our regulatory (Insurance Group Directive) capital position is summarised as follows:

		2015			2014	
£m	**Open Fund**	**Closed Funds**	**Total**	Open Fund	Closed Funds	Total
Available capital (including tier 2 capital)	**4,007**	**10,276**	**14,283**	3,917	9,449	13,366
Capital required	**(472)**	**(750)**	**(1,222)**	(527)	(814)	(1,341)
Surplus	**3,535**	**9,526**	**13,061**	3,390	8,635	12,025
Restriction on surplus of closed funds	**-**	**(9,526)**	**(9,526)**	-	(8,635)	(8,635)
Excess capital	**3,535**	**-**	**3,535**	3,390	-	3,390
Capital cover	**849%**	**100%**	**133%**	744%	100%	134%

Our total Group available regulatory capital increased from £13,366m at 31 December 2014 to £14,283m at 31 December 2015. Our IGD excess capital has increased by 4% and the Group has maintained a strong regulatory capital cover of 133% (31 December 2014 134%).

The available capital of the closed sub-funds is retained within those funds, as it is ultimately for the benefit of the closed sub-fund policyholders. Therefore only the surplus of the open fund counts towards our Group capital position. The excess regulatory capital of the Royal London Open Fund increased by 4% from £3,390m to £3,535m. The IGD capital cover for the Royal London Open Fund of 849% increased on 2014 (744%).

Our realistic capital position is summarised as follows:

	2015			2014		
£m	**Open Fund**	**Closed Funds**	**Total**	Open Fund	Closed Funds	Total
Available capital (including tier 2 capital)	**3,596**	**3,585**	**7,181**	3,407	3,052	6,459
Capital required	**-**	**-**	**-**	(15)	-	(15)
Surplus	**3,596**	**3,585**	**7,181**	3,392	3,052	6,444
Closed fund transfer commitments		**(3,585)**	**(3,585)**	-	(3,052)	(3,052)
Excess capital	**3,596**	**-**	**3,596**	3,392	-	3,392

Our excess realistic capital (the excess of assets over liabilities, as measured by the PRA's realistic reporting requirements) has increased from £3,392m to £3,596m. This increase is due to a strong operating result and an increase in our subordinated debt.

3. Other Matters

ProfitShare and Mutuality

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

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

The expansion of ProfitShare will allow our customers to get even more out of a scheme that has proved a big hit with members and has helped us secure our future as a mutual. Over the past decade we have allocated more than £530m to our eligible with-profits policyholders – and we remain as committed as ever to basing our business model on our mutual status, so as many of our customers as possible can profit from our growth and have their say in how we run our business. We're also dedicated to meeting our responsibility to ensure we give our customers and members good value, high-quality products and services.

Ratings agencies

Our capital strength and financial stability are reflected in our financial ratings from external ratings agencies. Our credit ratings remain unchanged in 2015 at 'A - stable outlook' from Standard and Poor's and 'A2 - Good Financial Security' from Moody's.

APPENDIX 1 and APPENDIX 2 include the Group's IFRS and EEV primary financial statements and basis of preparation notes. The full set of IFRS and EEV results will be available on the Royal London Group website in April 2016.

Appendix 1

Consolidated income statement – EEV basis for the year ended 31 December 2015

	2015	2014
	£m	£m
Operating activities		
Contribution from new business	**137**	85
Profit from existing business		
– Expected return	**76**	91
– Operating experience variances	**3**	56
– Operating assumption changes	**74**	12
Expected return on opening net worth	**27**	42
Profit on uncovered business	7	7
Strategic development costs and other items	**(80)**	(73)
Operating profit before tax and exceptional items	**244**	220
Exceptional cost arising from regulatory change	**-**	(61)
Total operating profit before tax	**244**	159
Economic experience variances	**21**	325
Economic assumption changes	**32**	(143)
Movement in RLGPS pension scheme surplus	**23**	(42)
Financing costs	**(43)**	(40)
ProfitShare	**(74)**	(64)
EEV profit before tax	**203**	195
Attributed tax charge	**22**	35
EEV profit after tax	**181**	160
Total EEV profit after tax	**181**	160

Consolidated Balance Sheet - EEV basis as at 31 December 2015

	2015	2014
	£m	£m
Assets		
Assets held in closed funds	**31,631**	32,927
Assets backing non-participating liabilities	**24,084**	21,938
Reinsurance assets	**7,528**	7,576
Assets backing participating liabilities and net worth		
– UK equities	**1,715**	1,781
– Overseas equities	**734**	687
– Land and buildings	**852**	776
– Approved fixed interest securities	**2,201**	2,313
– Other fixed interest securities	**1,415**	1,332
– Other assets	**749**	669
Value of in-force business	**2,034**	1,838
Royal London Group Pension scheme (RLGPS) surplus	**71**	48
Total	**73,014**	71,885
Liabilities		
Liabilities in closed funds	**31,631**	32,927
Non-participating liabilities	**24,084**	21,938
Reinsured liabilities	**7,528**	7,576
Participating liabilities	**5,363**	5,438
Current liabilities	**1,241**	1,020
Total	**69,847**	68,899
Embedded Value		
Net worth	**1,062**	1,100
Value of in-force business	**2,034**	1,838
Pension scheme surplus (RLGPS)	**71**	48
Total	**3,167**	2,986

Value of in-force business - EEV basis as at 31 December 2015

	2015	2014
	£m	£m
Value of in-force business before allowance for burn-through and capital costs	**2,066**	1,881
Burn-through cost	**(3)**	(9)
Cost of capital	**(29)**	(34)
Value of in-force business	**2,034**	1,838

(a) Basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the Additional Guidance issued in 2005 by the CFO Forum. They provide supplementary information for the year ended 31 December 2015 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union.

The EEV Principles and Guidance were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles and Guidance accordingly. With-profits policies held by members do not generally contribute to the value of in-force business. However, the liabilities associated with these contracts are deducted from total assets to arrive at net worth. Hence, any movement in liabilities not matched by a corresponding movement in assets will change the net worth and flow through the income statement. The reported embedded value provides an estimate of Royal London's value to its members.

EEV Operating profit follows the same principles, in terms of items to include and exclude, as Operating Profit with the exception of certain items which are recognised under IFRS but are excluded from EEV. This is because the basis of preparing the Group EEV results, are prepared by reference to the Realistic Balance Sheet (RBS). Some items recognised under IFRS are inadmissible in the RBS and are therefore not recognised in our EEV reporting. Most notably, Operating Profit includes amortisation of intangibles (and impairment if relevant) whereas in our EEV reporting, we exclude goodwill or other intangible assets arising on the acquisition of a subsidiary or business (other than Value of In-Force business) because such items are not permitted to be recognised in the RBS.

The RBS is produced at the level of the Parent company. In order to present the EEV balance sheet as a group balance sheet, the RBS is grossed up to include the assets and liabilities of subsidiaries which are included in the RBS at the value of the Parent company's net investment.

A further presentation adjustment is made to the EEV balance sheet in respect of reinsurance. The RBS shows reinsured liabilities net of the related reinsurance asset. The EEV balance sheet is grossed up to show the reinsured liabilities and assets separately.

Appendix 2

IFRS consolidated statement of comprehensive income for the year ended 31 December 2015

	2015	2014
	£m	£m
Revenues		
Gross earned premiums	**1,194**	1,218
Premiums ceded to reinsurers	**(400)**	(1,794)
Net earned premiums	**794**	(576)
Fee income from investment and fund management contracts	**255**	243
Investment return	**2,122**	7,796
Other operating income	**44**	47
Total revenues	**3,215**	7,510
Policyholder benefits and claims		
Claims paid, before reinsurance	**2,725**	2,569
Reinsurance recoveries	**(470)**	(432)
Claims paid, after reinsurance	**2,255**	2,137
(Decrease)/increase in insurance contract liabilities, before reinsurance	**(948)**	3,749
Reinsurance ceded	**160**	(1,515)
(Decrease)/increase in insurance contract liabilities, after reinsurance	**(788)**	2,234
(Increase)/decrease in non-participating value of in-force business	**(194)**	3
Increase in investment contract liabilities	**903**	1,846
Total policyholder benefits and claims	**2,176**	6,220
Operating expenses		
Administrative expenses	**477**	486
Investment management expenses	**238**	190
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	**40**	72
Investment return attributable to external unit holders	**22**	101
Other operating expenses	**75**	42
Total operating expenses	**852**	891
Finance costs	**44**	43
Result before tax before transfer to unallocated divisible surplus	**143**	356
Tax charge	**18**	207
Transfer to the unallocated divisible surplus	**125**	149
Profit for the year	**-**	-

IFRS consolidated statement of comprehensive income for the year ended 31 December 2014 (continued)

	2015	2014
	£m	£m
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension schemes	**50**	(15)
Transfer to/(from) the unallocated divisible surplus	**50**	(15)
Other comprehensive income for the period net of tax	**-**	-
Total comprehensive income for the year	**-**	-

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

IFRS Consolidated Balance Sheet as at 31 December 2015

	Group		Parent company	
	2015	2014	**2015**	2014
ASSETS	**£m**	£m	**£m**	£m
Property, plant and equipment	**42**	46	**-**	-
Investment property	**5,036**	4,727	**4,936**	4,633
Intangible assets	**832**	931	**777**	893
Reinsurers' share of insurance contract liabilities	**5,302**	5,462	**5,302**	5,462
Pension scheme asset	**177**	128	**177**	128
Current tax asset	**19**	-	**22**	-
Financial investments	**60,129**	59,492	**42,629**	44,231
Investments in Group entities	**-**	-	**15,321**	12,894
Trade and other receivables	**546**	412	**383**	285
Cash and cash equivalents	**2,823**	2,736	**2,209**	2,259
Total assets	**74,906**	73,934	**71,756**	70,785

IFRS Consolidated Balance Sheet as at 31 December 2015

	Group		Parent company	
	2015	2014	**2015**	2014
LIABILITIES	**£m**	£m	**£m**	£m
Participating insurance contract liabilities	**28,874**	29,607	**28,949**	29,682
Participating investment contract liabilities	**2,326**	2,308	**2,326**	2,308
Unallocated divisible surplus	**3,314**	3,139	**3,359**	3,183
Non-participating value of in-force business	**(1,526)**	(1,332)	**(1,526)**	(1,332)
	32,988	33,722	**33,108**	33,841
Non-participating insurance contract liabilities	**7,291**	7,506	**7,290**	7,504
Non-participating investment contract liabilities	**24,982**	22,691	**24,982**	22,691
	32,273	30,197	**32,272**	30,195
Subordinated liabilities	**743**	640	**743**	640
Payables and other financial liabilities	**5,156**	5,544	**5,107**	5,486
Provisions	**224**	250	**219**	237
Other liabilities	**286**	316	**220**	244
Liability to external unit holders	**3,145**	3,122	**-**	-
Current tax liability	**-**	52	**-**	51
Deferred tax liability	**91**	91	**87**	91
Total liabilities	**74,906**	73,934	**71,756**	70,785

IFRS Consolidated Statement of cash flows for the period ended 31 December 2015

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

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

(a) Basis of preparation

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

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

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

New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time in these financial statements:

- IFRS 9, 'Financial Instruments', final version issued July 2014. This new standard was issued in several phases and will replace IAS 39, 'Financial Instruments: Recognition and Measurement' when it becomes effective on 1 January 2018. IFRS 9 covers the classification and measurement of financial instruments, impairment and hedge accounting. The impact on the financial statements will continue to be assessed and the

Group will also take into account the interaction between IFRS 9 and the requirements of the replacement for IFRS 4, when the latter is issued.

- IFRS 15, 'Revenue from contracts with customers', effective from 1 January 2018. This standard establishes a single comprehensive model for revenue arising from contracts with customers. The Group is considering how this standard will impact the reporting of investment contract revenue and has yet to complete its final assessment.

- Amendments to IAS 1, 'Disclosure Initiative', effective from 1 January 2016. These amendments may result in some minor changes to the financial statements disclosures.

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

Appendix 3

Reconciliation of the IFRS unallocated divisible surplus to the European Embedded Value

	2015 £m	2014 £m
IFRS unallocated divisible surplus	**3,314**	3,139
Valuation differences between IFRS and EEV		
- Goodwill and intangible assets	**(277)**	(273)
- Deferred tax valuation differences	**-**	3
- Subordinated debt at market value	**(25)**	(42)
- Capital requirements of subsidiaries and other valuation differences	**(18)**	(46)
Add items only included on an embedded value basis		
- Valuation of asset management and service subsidiaries	**172**	187
Other valuation differences	**1**	18
European embedded value	**3,167**	2,986

Reconciliation of the IFRS transfer to unallocated divisible surplus to EEV profit for the year

	2015 £m	2014 £m
IFRS transfer to unallocated divisible surplus	**175**	134
Amortisation of intangible assets	**(3)**	11
Differences in valuation of subsidiaries	**13**	17
Change in realistic value of subordinated debt	**17**	(26)
Movement in valuation differences for deferred tax assets	**(3)**	24
Other movements in valuation bases	**(18)**	-
EEV profit for the year	**181**	160