Press Release

30 March 2017

ROYAL LONDON REPORTS STRONG NEW BUSINESS AND PROFITS GROWTH

Financial highlights

- New life and pensions business (PVNBP basis)[1] up by 28% to £8,686m (2015: £6,774m);
- Funds under management[2] up by 18% to £100bn (31 December 2015: £85bn);
- European Embedded Value (EEV) operating profit before tax up by 16% to £282m (2015: £244m);
- IFRS transfer to the unallocated divisible surplus[3] (before change in basis for Solvency II) increase of £116m to £241m (2015: £125m);
- Margin for new life and pensions business of 2.5% (2015: 2.0%);
- ProfitShare (after tax) up by 63% to £114m (2015: £70m); and
- Solvency II Standard Formula basis Investor View[4] surplus of £4.5bn (1 January 2016: £3.8bn) and a capital cover ratio of 232% (1 January 2016: 226%) before closed fund restrictions.

New business review

Intermediary new life and pensions business

- Intermediary Protection business up by 29% to £647m (2015: £502m) following the programme last year to bring all of our protection business under the Royal London brand, and the introduction of online underwriting.
- Group Pensions up by 38% to £3,872m (2015: £2,798m) reflecting buoyant sales in the market for workplace pensions.
- Individual Pensions and Drawdown up by 17% to £3,778m (2015: £3,227m) due to the continued popularity of the Governed Retirement Income Portfolios (GRIPs) and the introduction of the drawdown governance tools for advisers.

Consumer new life and pensions business

- Consumer sales up by 82% to £301m (2015: £165m) reflecting the strength of the direct to consumer propositions and growth in distribution partnerships.
- Consumer new business has made a profit for the first time in 2016 and new business margins have increased to 1.4% (2015: (8.8)%) driven by our prepaid Funeral Plans offered through Co-operative Funeralcare and Ecclesiastical Insurance.
- Over 50s Life Cover and Life Insurance products both continued to perform well; in the three years since launch the Over 50s proposition has achieved a top three position in the direct-to-consumer market.
- A key part of our strategy in the Consumer market is to broaden our distribution networks through partnerships with other like-minded organisations, and the latest example is our major new partnership with the Post Office announced in January 2017. We have become the sole provider of life insurance products to be sold through 11,500 Post Office outlets and online.

Wealth

- **Royal London Asset Management (RLAM)** continued to perform well, attracting gross inflows of £6.7bn (2015: £3.1bn) arising from both Institutional and Wholesale markets. Funds under management increased to £100bn (31 December 2015: £85bn), a new Group record. The increase has in part been helped by rising bond values reflecting a reduction in interest rates. This is a particularly strong result in a period of market uncertainty following the UK referendum on European Union (EU) membership.
- The **Ascentric** wrap platform saw assets under administration[5] increase by 22% to £12.3bn (31 December 2015: £10.1bn). The business recorded gross sales of £2.3bn (2015: £2.5bn), which maintained its market share.

Review of financial performance

EEV operating profit

Group EEV operating profit before tax increased by 16% to £282m (2015: £244m), despite the reduction in market interest rates, assisted by strong new business profit of £223m (an increase of 63%) particularly in Pensions, Consumer and RLAM, offset by an impairment to intangible assets of £44m. The impairment charge related to ongoing IT projects to enhance the Group's service offering through investment in back office systems.

Margin for new life and pensions business increased to 2.5% in 2016 (2015: 2.0%), due to continued reductions in acquisition and maintenance unit costs resulting from the increase in volumes of business sold, and ongoing focus on operational efficiency.

IFRS transfer to unallocated divisible surplus

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus. The IFRS transfer to the unallocated divisible surplus for the year ended 31 December 2016 (before change in basis for Solvency II and other comprehensive income) was £241m (2015: £125m). The IFRS transfer to unallocated divisible surplus was £76m (2015: £125m). Our IFRS result also benefits from the strong trading performance of the Group but was impacted by the low interest rate environment during 2016.

Capital

Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. We have a Solvency II Standard Formula basis Total Company ('Investor View')[4] surplus of £4.5bn (1 January 2016: £3.8bn) and a capital cover ratio of 232% (1 January 2016: 226%) before Royal London Closed Fund ('closed funds') restrictions. After closed fund restrictions of £2.6bn the capital cover ratio was 155% at 31 December 2016 (1 January 2016: 169%). The Royal London Open Fund ('open fund') had an excess surplus of £1.9bn (1 January 2016: £2.1bn) and a capital cover ratio of 209% at 31 December 2016 (1 January 2016: 239%).

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

ProfitShare

Reflecting the positive performance of the Group in 2016, the Board has decided to increase ProfitShare (after tax) from £70m in 2015 to £114m in 2016.

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-profits members will benefit from an enhanced annual bonus. We have allocated a healthy ProfitShare to our with-profits members (a 1.4% addition to asset share) and honoured our commitment to commence ProfitShare allocations to our pension members. The first allocation to pension members will be equivalent to 0.18% of the current value of their pensions.

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

These results reflect the continued excellent progress of Royal London in 2016, performing well despite the backdrop of a turbulent year in politics and markets. It is clear from the sustained track record of growth that our strategy is working: we are delivering high-quality products and service; we are investing in our capabilities, making it easier for advisers to do business with us; and we are entering new consumer markets to offer better value where we see that the market is delivering a poor deal for consumers. As a result, our customers and financial advisers are increasingly recommending us to others. Our strategy to broaden distribution networks through partnerships with other like-minded organisations is coming to fruition. Following our successful partnerships with the Co-operative and Ecclesiastical, we were able to announce an important strategic deal with Post Office Money in January 2017. Royal London is now the sole provider of life insurance products to the Post Office selling through 11,500 outlets and online.

Royal London is 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 several key areas and Group funds under management grew to £100bn, which is 18% higher than the previous year. 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 which will enable the business to remain agile and competitive into the future.

Royal London's operating profit has also showed strong growth despite operating in a low interest rate environment which tends to depress the profitability of insurance products.

This performance has translated into a 63% increase in the ProfitShare for 2016, to £114m enabling us to allocate a healthy ProfitShare to our with-profits members (a 1.4% addition to asset share) and to deliver on our commitment to start allocating ProfitShare to pension members. More than 700,000 pension members will be receiving a share of the profits that we are announcing today. This is a feature that is unique to Royal London and one of which we are justifiably proud.

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

For quarter of a million Royal London pension savers the allocation of ProfitShare will effectively wipe more than a third off their annual management charges. This is a helpful boost to growth for Royal London customers but it remains the case that, across the whole of the workplace pensions market, contributions to pensions are too low. Automatic Enrolment has been an undoubted policy success but there is no coherent plan to increase contributions to levels that will produce an adequate income when those workers retire. The Government has just concluded a review of the detail of its Auto Enrolment policy, but this key issue was ignored. We know that for most people an 8% pension contribution, made by themselves and their employers, falls well short of providing an adequate level of income in retirement. It is time for Government to bite the bullet and adopt a clear policy about saving at realistic levels beyond 8%. Doing so would help to secure an appropriate level of income in retirement for generations of pensions savers.

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Editor's notes:

Royal London is the largest mutual life, pensions and investment company in the UK, with Group funds under management of £100 billion, around 9.0 million policies in force and 3,253 employees. Figures quoted are as at 31 December 2016.

1) 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. The rate used to discount the cash flows in the reported 2016 results have been derived from the swap curve, whereas the rate used in the 2015 reported results was derived from the gilt curve.

2) Funds under management represent the total of assets managed or administered by the Group on behalf of institutional and wholesale clients, and on behalf of the Group.

3) The IFRS 2016 result consists of IFRS transfer to the unallocated divisible surplus from the income statement of £76m (2015: £125m) plus the change in basis for Solvency II of £165m (2015: £nil), and excludes the transfer from the statement of comprehensive income of £(98)m (2015: £50m). The change in basis for Solvency II reflects a one-off charge on the adoption of Solvency II which is explained on page 20.

4) We have presented a Total Company ('Investor View'), which comprises the Royal London Open Fund, into which all new business is written, and seven closed ring-fenced funds from previous acquisition activity. The Investor View includes the surplus from the closed funds. Total Company ('Regulatory View') includes a restriction of £2.6bn as a deduction to total Own Funds of £7.9bn, because excess capital in the closed funds is ultimately for the benefit of those closed fund policyholders. Therefore closed funds report a zero surplus, with Total Company surplus equal to the open fund surplus. After the £2.6bn restriction, the Total Company ('Regulatory View') has a capital cover ratio of 155% at 31 December 2016 (1 January 2016: 169%).

5) Assets under administration represent 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 when the customer has selected an external third-party investment manager.

6) Solvency II basis of preparation
The Solvency II position has been prepared in accordance with the Solvency II Directive which came into effect on 1 January 2016 for all insurance entities operating in Europe. Initially we are using the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. However, we are preparing an internal model that we plan to seek approval to adopt in 2019. We already use an internal model for the purposes of monitoring our capital and decision making across the Group. Royal London received approval for the use of both the Transitional Measure on Technical Provisions and the Volatility Adjustment. The 2016 Solvency II results are estimated and not subject to an external audit opinion.

7) Financial calendar

Royal London will hold an investor conference call to present its 2016 financial results on Thursday 30 March 2017 at 09:00. Interested parties can register at:
https://cossprereg.btci.com/prereg/key.process?key=PBF7BEFFL

8) 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.

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1. New business review

Intermediary

	PVNBP		New business contribution[1]		New business margin	
	2016	2015	**2016**	2015	**2016**	2015
	£m	£m	**£m**	£m	**%**	%
Intermediary						
Pensions	**7,738**	6,107	**170.6**	107.9	**2.2**	1.8
Protection	**647**	502	**42.8**	42.3	**6.6**	8.4

Consumer

	PVNBP		New business contribution[1]		New business margin	
	2016	2015	**2016**	2015	**2016**	2015
	£m	£m	**£m**	£m	**%**	%
Consumer	**301**	165	**4.3**	(14.6)	**1.4**	(8.8)

Wealth

	PVNBP[2]		New business contribution[1]		New business margin	
	2016	2015	**2016**	2015	**2016**	2015
	£m	£m	**£m**	£m	**%**	%
RLAM	**6,741**	3,146	**37.7**	22.2	**0.6**	0.7

	2016 £m	2015 £m	Change %
RLAM Net new business, excluding external cash mandates:			
Inflows	**6,741**	3,146	114%
Outflows	**(4,420)**	(2,614)	69%
Net	**2,321**	532	336%

Ascentric	**2016**	2015	Change %
Gross sales	**£2.3bn**	£2.5bn	(8)%

Notes on the new business review

1 The new business contribution in the tables 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%).
2 PVNBP for Wealth relates to gross sales inflows in the year.

2. Review of financial performance

Consolidated income statement – EEV basis for the year ended 31 December 2016

	2016 £m	2015 £m
Operating activities		
Contribution from new business	**223**	137
Profit from existing business		
– Expected return	**90**	76
– Operating experience variances	**4**	3
– Operating assumption changes	**50**	74
Expected return on opening net worth	**41**	27
(Loss)/profit on uncovered business	**(44)**	7
Strategic development costs and other items	**(82)**	(80)
Total operating profit before tax	**282**	244
Economic experience variances	**395**	21
Economic assumption changes	**(192)**	32
Movement in Royal London Group Pension Scheme surplus	**(118)**	23
Financing costs	**(46)**	(43)
EEV profit before tax, ProfitShare and change in basis for Solvency II	**321**	277
ProfitShare	**(120)**	(74)
Change in basis for Solvency II	**(182)**	-
EEV profit before tax	**19**	203
Attributed tax charge	**(40)**	(22)
Total EEV (loss)/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
Royal London Group Pension Scheme surplus	**-**	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
Royal London Group Pension Scheme deficit	**26**	-
Total	**83,035**	69,847
Embedded value		
Net worth	**1,107**	1,062
Value of in-force business	**2,065**	2,034
Royal London Group Pension Scheme (deficit)/surplus	**(26)**	71
Total	**3,146**	3,167

EEV operating profit

The Group achieved an EEV operating profit before tax of £282m, an increase of 16% (2015: £244m) which was driven by 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. Overall new business margins held up well at 1.7% (2015: 1.6%), benefiting from our increased sales despite the challenging economic environment. This includes the margins for new life and pensions business which increased to 2.5% (2015: 2.0%).

Profits from managing existing business increased by £5m to £185m. This mainly consists of a £28m (27%) increase in expected return on VIF and net worth due to a change in the risk-free rate, offset by a profit decrease of £24m (32%) from changing our operating assumptions. We have also changed the assumptions we use to calculate the profit on our existing business. This is to reflect our expectation of lower future costs driven by our effective cost management strategies and the expectation that we will see a positive impact in the future from our focus on improving policyholders' experience of dealing with Royal London. These positive changes have been offset by provisions for future investment in the business, including a significant provision for developing our Pensions platform, a change which we think will enable us to deliver a market leading digital proposition and deliver better outcomes and experiences for our customers.

Profit from uncovered business has moved from a profit into a loss of £44m due to significant cost being incurred in 2016 relating to the development of new back office software in Ascentric. We have recognised an impairment of £44m in the year.

Other items remain broadly consistent with 2015 and include corporate and other development costs of £117m (2015: £78m), strategic development costs of £16m (2015: £21m) relating to investment for the future across a number of projects, offset by positive modelling and other changes of £51m (2015: £19m). Corporate and other development costs include provisions of £57m (2015: £40m) mainly relating to the cost of servicing historic remediation and costs we expect to incur meeting the requirements of regulatory developments. Modelling and other changes include a £21m one-off gain from the closure of the Royal London Group Pension Scheme (RLGPS) to future accrual.

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

EEV profit before tax, ProfitShare and change in basis for Solvency II 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 (2015: increase of £23m) during the year due to a decrease in the rate used to discount the scheme liabilities. Low interest rates have also resulted in adverse economic assumption changes of £192m (2015: positive £32m), which has been more than offset with positive economic experience variances of £395m (2015: £21m) from investment returns being better than expected.

The introduction of Solvency II during the year resulted in a change to the basis used to produce the EEV balance sheet leading to a £182m one-off charge to our embedded value during the year. The change in basis is explained further in Appendix 1. This charge has led to an EEV profit before tax of £19m for the year (2015: £203m).

IFRS consolidated statement of comprehensive income for the year ended 31 December 2016

	2016 £m	2015 Restated £m
Revenues		
Gross earned premiums	**1,291**	1,194
Premiums ceded to reinsurers	**(730)**	(400)
Net earned premiums	**561**	794
Fee income from investment and fund management contracts	**254**	255
Investment return	**10,864**	2,122
Other operating income	**76**	44
Total revenues	**11,755**	3,215
Policyholder benefits and claims		
Claims paid, before reinsurance	**2,703**	2,725
Reinsurance recoveries	**(507)**	(470)
Claims paid, after reinsurance	**2,196**	2,255
Increase/(decrease) in insurance contract liabilities, before reinsurance	**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	**(317)**	(92)
Increase in investment contract liabilities	**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	**165**	-
Total policyholder benefits and claims	**10,015**	2,176
Operating expenses		
Administrative expenses	**561**	477
Investment management expenses	**266**	238
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	**120**	40
Investment return attributable to external unit holders	**308**	22
Other operating expenses	**113**	75
Total operating expenses	**1,368**	852
Finance costs	**47**	44
Result before tax and before transfer to unallocated divisible surplus	**325**	143
Tax charge	**249**	18
Transfer to the unallocated divisible surplus	**76**	125
Result for the year	**-**	-

IFRS consolidated statement of comprehensive income for the year ended 31 December 2016 (continued)

	2016 **£m**	2015 Restated £m
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension schemes	**(98)**	50
(Deduction from)/transfer to the unallocated divisible surplus	**(98)**	50
Other comprehensive income for the year net of tax	**-**	-
Total comprehensive income for the year	**-**	-

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

IFRS consolidated balance sheet as at 31 December 2016

ASSETS	**2016** **£m**	2015 Restated £m	1 January 2015 Restated £m
Property, plant and equipment	**51**	42	46
Investment property	**5,297**	5,036	4,727
Intangible assets	**683**	832	931
Reinsurers' share of insurance contract liabilities	**5,907**	5,052	5,174
Pension scheme asset	**131**	177	128
Current tax asset	**3**	19	-
Financial investments	**74,479**	60,129	59,492
Trade and other receivables	**788**	546	412
Cash and cash equivalents	**3,292**	2,823	2,736
Total assets	**90,631**	74,656	73,646
LIABILITIES			
Participating insurance contract liabilities	**32,709**	28,708	29,455
Participating investment contract liabilities	**2,154**	2,232	2,206
Unallocated divisible surplus	**3,292**	3,314	3,139
Non-participating value of in-force business	**(1,217)**	(910)	(818)
	36,938	33,344	33,982
Non-participating insurance contract liabilities	**7,860**	6,683	6,956
Non-participating investment contract liabilities	**31,329**	24,984	22,693
	39,189	31,667	29,649
Subordinated liabilities	**744**	743	640
Payables and other financial liabilities	**7,448**	5,156	5,544
Provisions	**279**	224	250
Other liabilities	**279**	286	316
Liability to external unit holders	**5,502**	3,145	3,122
Pension scheme liability	**26**	-	-
Deferred tax liability	**226**	91	91
Current tax liability	**-**	-	52
Total liabilities	**90,631**	74,656	73,646

IFRS results

The IFRS transfer to the unallocated divisible surplus for the year ended 31 December 2016, before change in basis for Solvency II and other comprehensive income, was £241m (2015: £125m). 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 in 2016. The IFRS result is also impacted by the change in basis for Solvency II of £165m and the adverse movement in the RLGPS of £98m. Including the impact of changing basis to Solvency II and other comprehensive income, the total deduction from the unallocated divisible surplus for the year ended 31 December 2016 was £22m (2015: transfer to the unallocated divisible surplus of £175m).

Consistent with previous periods and as set out in Appendix 3, there are some differences between the EEV and IFRS results which include the value of our asset management and service company subsidiaries (2016 IFRS result higher by £12m) and an increase in the fair value of our subordinated debt (2016 IFRS result higher by £27m). These items were offset slightly by the amortisation of certain intangibles recognised in IFRS and not EEV (2016 IFRS result lower by £30m).

IFRS balance sheet

Our balance sheet remains strong. Our total investment portfolio, including investment property, grew by 24% to £74.5bn, 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.

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. At 31 December 2016 the investments backing the asset shares of the open 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 meet the benchmark of 14.8%. This reflects the fact that our investment strategies at the beginning of 2016 were based 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.

Staff pension

We announced in 2015 the RLGPS was to close to future accrual from 31 March 2016. The closure resulted in a one-off gain of £21m that is recognised in our operating profit. The RLGPS scheme was negatively impacted by the low interest rate environment. A significant decrease in corporate bond yields used to discount RLGPS's 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 (31 December 2015: £71m surplus).

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 open fund had an excess surplus[1] of £1.9bn (1 January 2016: £2.1bn) 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 (1 January 2016: £1.7bn) and a capital cover ratio of 254% (1 January 2016: 213%). The average capital cover ratio for Royal London is 232% including surplus in the closed funds (1 January 2016: 226%).

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

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

31 December 2016 **£bn**	**Royal London Open Fund**	**Royal London Closed Funds**	**Total Company (Investor View)**	**Closed Fund Restriction**	**Total Company (Regulatory View)**
Own Funds:					
Tier 1	2.8	4.3	7.1	-	7.1
Tier 2	0.8	-	0.8	-	0.8
Total Own Funds	3.6	4.3	7.9	-	7.9
Closed funds restriction[1]	-	-	-	(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[2] (A/B)	209%	254%	232%	n/a	155%
1 January 2016 Capital cover ratio (A/B)	239%	213%	226%	n/a	169%

Notes

The 31 December 2016 figures are estimated and have not been subject to an external audit opinion.

The 31 December 2016 figures assume the Transitional Measures on Technical Provisions (TMTP) has not been recalculated at 31 December 2016.

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.

[1] After Risk Margin and Solvency Capital Requirement (SCR), but including TMTP.
[2] Figures presented in the table are rounded, and the capital cover ratio is calculated based on exact figures.

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

The Solvency II position has been prepared in accordance with the Solvency II Directive which came into effect on 1 January 2016 for insurance entities operating in Europe. We have adopted the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. Royal London received approval for the use of both the Transitional Measure on Technical Provisions and the Volatility Adjustment.

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

The Investor View cover ratio has increased over the year from 226% to 232%, largely as a result of an improvement in the closed funds. The improvement in the closed fund surplus is not recognised in the Regulatory View.

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

3. Other matters

UK referendum on EU membership

We have considered the impact of the UK's decision to leave the European Union and are confident that there is no significant impact to the operations or the capital of the Group. The Group maintains a very strong capital position. We will continue to monitor the implications of the vote to leave, but expect to continue to trade as normal.

Since the vote outcome, we have seen a period of market and currency volatility for the UK. We continue to work on behalf of our customers to provide them with the best possible long-term returns.

Ratings agencies

Following the referendum vote in favour of the UK leaving the EU and the change in the outlook of the UK's Aa1 sovereign rating to negative from stable in June 2016, Moody's took ratings actions 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 and Poor's went on to reaffirm Royal London's counterparty credit rating of A, with a stable outlook.

Appendix 1 - EEV basis of preparation

The EEV results presented in this document have been prepared in accordance with the European Embedded Value Principles (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 have been 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 with no restatement of prior periods as the adjustments are treated as a change in estimate. 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.

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.

Appendix 2 - IFRS 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 are reviewed for appropriateness each year. These policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

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.

ii. 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) 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.

iii. 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. 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 adjustment 1 in the table on page 22.

- 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 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 adjustment 2 in the table on page 22.

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 23. There is no net impact on the statement of comprehensive income or the result for the period.

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

IFRS consolidated 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**

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.

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 contract liabilities	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 transfer to the unallocated divisible surplus	**143**	**-**	**143**
Tax	18	-	18
Transfer to the unallocated divisible surplus	125	-	125
Result 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. The net effect on both balance sheets is nil and therefore there is no overall net effect on the consolidated statement of comprehensive income.

Appendix 3 Reconciliation of the IFRS unallocated divisible surplus to EEV

	2016 £m	2015 Restated £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)
- Subsidiaries 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
EEV	**3,146**	3,167

Reconciliation of the IFRS (deduction from)/transfer to unallocated divisible surplus to EEV (loss)/profit for the year

	2016 £m	2015 Restated £m
IFRS (deduction from)/transfer to unallocated divisible surplus	**(22)**	175
Amortisation 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 (loss)/profit for the year	**(21)**	181