Interim Results Announcement 2020 — 10 August 2020

Royal London continues to support customers through challenging times

Financial Highlights

		Six months ended 30 June 2020	Six months ended 30 June 2019
UK GAAP[a]	Operating profit before tax[2]	**£36m**	£90m
	(Loss)/profit before tax[3]	**£(181)m**	£397m
New business	Life and pensions new business sales[4]	**£4,747m**	£5,822m
Flows	Gross inflows[5]	**£14,419m**	£12,618m
	Net inflows[5]	**£997m**	£5,473m
		30 June 2020	31 December 2019
Funds	Assets under management[6]	**£139bn**	£139bn
Capital cover ratio (Solvency II)[b]	Regulatory View[7]	**149%**	159%
	Investor View[8]	**212%**	219%

- UK GAAP operating profit before tax[2] decreased to £36m (H1 2019: £90m), reflecting reduced new business sales and increased digital investment.
- Loss before tax[3] of £(181)m (H1 2019: profit of £397m) following falls in real asset values and a reduction in bond yields.
- Life and pensions new business sales[4] 18% lower reflecting difficult trading conditions experienced during lockdown in Q2 2020, as companies deferred decisions to move pension scheme providers and individuals delayed investment decisions.
- Net inflows[5] were £997m in H1 2020 (H1 2019: £5,473m) as strong internal flows and growth in demand for sustainable funds were partially offset by external Institutional outflows, particularly in the segregated fixed income and cash funds.
- Assets under management[6] stable at £139bn (31 December 2019: £139bn).
- Group Regulatory View capital cover ratio[7] of 149% (31 December 2019: 159%) and Investor View capital cover ratio of 212% (31 December 2019[8]: 219%).

a The Group changed its reporting basis to UK GAAP with effect from 1 January 2020. Further information is set out in Editor's note 1. Further detail of the change in accounting basis is set out in Appendix 1 - Basis of preparation.

b The Group changed the Solvency II 'Investor View' metric in H1 2020 to equal the Royal London Main Fund (RL Main Fund) capital position (excluding ring-fenced funds). Further detail is set out in Editor's note 8.

Barry O'Dwyer, Group Chief Executive, commented:

"Our focus has been on supporting customers and advisers through the challenges associated with Covid-19. In particular, we have supported policyholders who have difficulty paying premiums due to their personal circumstances by encouraging them to contact us to arrange a practical way forward to maintain cover. There has been no disruption to our award-winning customer service which was due to the immense effort from colleagues.

"Despite market volatility and economic uncertainty assets under management were stable at £139bn. Our capital position remains strong. New business sales for protection products grew by 15%, which was partly as a result of the pandemic reminding customers of the importance of life insurance, critical illness and income protection. Pension sales were lower as a consequence of the disruption to advisers' ability to do business during lockdown.

"In the first half of the year and despite the pandemic, we made progress on our strategic agenda, with the agreement to sell our platform business, Ascentric. We were also pleased to announce that Police Mutual would become part of Royal London. Both transactions are subject to regulatory approval.

"Covid-19 will inevitably continue to have an impact on new business prospects. Looking further ahead, our strong capital position and unrivalled reputation with advisers and customers will stand us in good stead as we continue to help customers meet their protection, investment and long-term savings needs."

Kevin Parry, Chairman, commented:

"Royal London has successfully transitioned to 98% of our people working from home, enabling us to continue to provide our normal high level of service to customers. We remained open for business without needing to ask customers to delay interaction with us and we did this without taking any Government support.

"The professionalism of our people has been outstanding. A phased return to work has been introduced for a small number of key workers and we continue to put plans in place so more of our people can revert to office based working in a safe and measured way.

"We have paid out claims to the families of more than 1,200 customers as a result of deaths attributable to Covid-19. Our thoughts are with all our customers and their families at this time.

"Recognising the important role we play in protecting the UK and Irish population, we made total charitable contributions of £400,000 to the National Emergencies Trust in the UK and to Feileacain, our local partner in Ireland. The amount will support people throughout the United Kingdom and Ireland who suffer hardship due to Covid-19."

About Royal London

Royal London is the UK's largest mutual insurer providing life, protection, pensions and savings policies to approximately 8 million people in the UK and Ireland. The importance of having such insurance coverage has been reinforced by the Covid-19 virus. We are committed to delivering the best value for our customers and members.

Financial Review

Performance

New business sales were down 18%, primarily due to reduced pensions volumes particularly in Q2. Pension volumes decreased as economic uncertainty, stock market volatility and the national lockdown caused disruption to the services provided by intermediaries to their clients. Workplace pension volumes were also lower as companies deferred decisions to move scheme providers. Intermediated Protection new business sales increased 15% in H1 2020 following investments in our proposition and service as well as more customers seeking financial protection as a result of the pandemic.

Operating profit reduced to £36m in H1 2020 (H1 2019: £90m), primarily driven by the reduction in new business volumes and increased investment in digital infrastructure. Loss before tax of £(181)m in H1 2020 (H1 2019: profit of £397m) due to lower investment returns in the period and a reduction in discount rates used to value long-term business provisions leading to higher liability valuations.

There has not been any material adverse experience in the first half of the year as a result of the Covid-19 pandemic. A £10m reserve for Covid-19 related claims was charged in the first half of the year to allow for potential higher claims in the future. There remains uncertainty over the eventual impact of the pandemic including both future rates of mortality, as well as the wider health impacts from the deferral of non Covid-19 related medical treatments.

Financial Reporting

The Group has previously communicated that it would discontinue reporting under European Embedded Value (EEV), consistent with most UK insurers. In addition, the Group has changed its statutory reporting basis from International Financial Reporting Standards (IFRS) to UK GAAP with effect from 1 January 2020. Accordingly, the interim results for the six months ended 30 June 2020, including the related comparatives, are prepared in accordance with UK GAAP.

To facilitate comparison of the Group's performance, an Alternative Performance Measure (APM) 'UK GAAP operating profit before tax'[2] is included within the key financial highlights. Appendix 1 provides further information on the measurement differences arising on the transition to UK GAAP.

Capital

The Group has changed the 'Investor View' capital metric to equal the Royal London Main Fund (RL Main Fund) capital position, which excludes the ring-fenced funds' capital position. This definition is considered more appropriate as ring-fenced closed funds are run on a standalone basis. The 31 December 2019 Group Investor View comparatives have been restated. Consistent with previous periods, we continue to report the Group Regulatory capital cover ratio which restricts the closed funds' surplus to the value of the solvency capital requirement of that fund.

	Group	
Key metrics	**30 June 2020**	**31 December 2019**
Regulatory solvency surplus[7]	**£2,509m**	£2,632m
Regulatory capital cover ratio[7]	**149%**	159%
Investor view solvency surplus[8]	**£2,509m**	£2,632m
Investor view capital cover ratio[8]	**212%**	219%

The Group's capital position remains strong with an estimated Solvency II Group Investor View capital cover ratio of 212% (31 December 2019 restated: 219%) and solvency surplus of £2,509m (31 December 2019 restated: £2,632m). The estimated Solvency II Regulatory capital cover ratio was 149% at 30 June 2020 (31 December 2019: 159%). The Group's use of equity and interest rate hedging strategies has operated as intended and has allowed the Group to maintain its strong capital position despite the market turmoil in H1.

Life and Pensions

Life and Pensions new business sales on a PVNBP[4] basis decreased 18% to £4,747m in 2020 (H1 2019: £5,822m), reflecting reduced sales volumes and contracting markets, particularly within pensions. This was partially offset by Intermediated Protection new business sales, which increased 15% in H1 2020.

Life and Pensions new business margins were 2.0% (H1 2019 restated: 2.2%) in part reflecting a change in mix of pensions new business sales from Individual to Workplace. We continue to take actions across the business to manage costs whilst maintaining our levels of customer service during the uncertainty caused by Covid-19.

	New business contribution		PVNBP[3]		New business margin[4]	
	6 months ended 30 June 2020	6 months ended 30 June 2019 (Restated)[4]	**6 months ended 30 June 2020**	6 months ended 30 June 2019[4]	**6 months ended 30 June 2020**	6 months ended 30 June 2019 (Restated)[4]
	£m	£m	**£m**	£m	**%**	%
Pensions	**71**	98	**4,103**	5,162	**1.7%**	1.9%
Intermediated Protection	**21**	18	**407**	354	**5.1%**	4.9%
Ireland Protection	**5**	7	**63**	65	**8.6%**	10.7%
Consumer	**(4)**	7	**174**	241	**(2.0)%**	2.9%
Life and pensions business	**93**	130	**4,747**	5,822	**2.0%**	2.2%

Pensions

- Individual Pensions new business sales have decreased with PVNBP reducing by 18% to £2,662m (H1 2019 2019: £3,232m). The reduction is mainly due to the impact of reduced new business volumes as individuals delay investment decisions.
- Workplace Pensions new business sales have decreased with PVNBP down by 25% to £1,441m (H1 2019: £1,930m). Total volumes of new regular contributions in H1 2020 are comparable to those in H1 2019 however transfer activity was reduced. New scheme activity is now increasing as the economy slowly progresses out of lockdown.
- Pensions new business margin fell to 1.7% (H1 2019: 1.9%) primarily due to a change in mix.
- The business was again voted “Company of the Year” by financial advisers at the 2020 Money Marketing Awards. Royal London also received “Provider of the Year 2019” at the SimplyBiz Group’s Annual Partnership Event 2020 in May 2020 and in February 2020 the Group’s Pension Portfolio and Retirement Solution Group Personal Pension products maintained their 5 star ratings from Defaqto. Pensions continued to be rated Gold for customer service, with an overall satisfaction score of 83%.

Intermediated Protection

- Intermediated Protection new business sales increased by 15% to £407m (H1 2019: £354m) following the investments we have made in product proposition and service delivery, and more customers seeking financial protection as a result of the pandemic. The growth in sales combined with a focus on cost management increased the new business margin to 5.1% (30 June 2019: 4.9%).
- The Group remained committed to offering cover to as many people as possible and put in place a number of temporary changes to the proposition, such as the introduction of a premium deferral option to help customers retain their cover; increasing underwriting non-medical limits so that more customers could obtain protection without medical evidence, thus avoiding placing an additional burden on the NHS; and offering free access to mental and physical wellbeing apps to all customers through the Helping Hand service.
- Intermediated Protection’s reputation was recognised by the award of “Protection Provider of the Year 2020” by Money Marketing.

Ireland Protection

- New business contribution decreased to £5m (30 June 2019: £7m) as the market contracted following Covid-19 restrictions. Notwithstanding the reduction in sales volumes, PVNBP of £63m (H1 2019: £65m) benefitted from a higher proportion of sales of longer-term products. New business margin has decreased from 10.7% to 8.6%.
- Royal London won the "2019 Service Excellence Award" at the Brokers Ireland Excellence Awards. This service dedication has continued into 2020 with services to both customers and brokers remaining fully operational throughout the Covid-19 restrictions. Royal London also won "Best Value Mortgage Protection" and "Best Value Term Insurance" awards at both the National Consumer Awards 2019 and the Association of Irish Mortgage Advisers Awards 2019.

Consumer

- New business sales were negatively impacted by the pandemic with both direct and partner sales slowing during Q2 2020, reflecting the interruption from Covid-19 and that our partners' businesses experienced reduced activity during lockdown. Total PVNBP decreased by 28% to £174m (30 June 2019: £241m). New business margin reduced to (2.0)% (30 June 2019: 2.9%) as a result of lower volumes. Through a review of our propositions and costs, actions have been taken to improve profitability of new business in H2 including changes to our core products.
- Support was provided to existing customers experiencing temporary financial difficulty through the premium holiday feature. The opportunity to defer payments for a period whilst maintaining protection has provided much-needed additional financial security for our customers.

Royal London Asset Management (RLAM)

	Gross inflows[5]		Net inflows[5]	
	6 months ended 30 June 2020 £m	6 months ended 30 June 2019 £m	**6 months ended 30 June 2020 £m**	6 months ended 30 June 2019 £m
Internal flows	**4,325**	4,478	**1,531**	1,540
External flows	**10,094**	8,140	**(534)**	3,933
Total	**14,419**	12,618	**997**	5,473

- Internal net inflows remained stable in H1 2020 at £1,531m (H1 2019: £1,540m).
- External net outflows of £534m in H1 2020 (H1 2019: inflows of £3,933m) were largely driven by Institutional outflows of £1.9bn, partly mitigated by the Sustainable Fund range in the Wholesale sector performing well in in the first half, generating £1.3bn of net inflows. These flows follow the delivery of strong fund sales in Q2, resulting in achieving top position for net retail sales[9].
- Assets under management remained at £139bn at 30 June 2020 (YE19: £139bn) with net inflows of £997m offset by adverse market movements of £492m.
- 60%[10] of active funds outperformed their three-year benchmark (H1 2019: 97%). Our multi asset funds were not positioned for the sharp correction in equity markets and this has impacted performance in terms of adverse asset allocation in the first half.
- Investment performance in RLAM's actively managed OEICS in H1 2020 of 82%[11] (H1 2019: 82%) was above their respective medians over a three year period, on a money-weighted basis. This helped RLAM win a number of industry awards during H1 2020 with the Sustainable Fund range continuing to receive plaudits, and in particular the Royal London Sustainable World fund winning the best ethical/socially responsible investing (SRI) mixed asset award for the seventh year running at the Money Observer Fund Awards, while the Royal London Sustainable Leaders Trust won Best UK Equity Fund at the Morningstar UK Fund Awards.

Investment Funds Direct Limited (IFDL)

- Marketed as Ascentric, IFDL is the Group's wrap platform, supporting approximately 4,000 financial advisers in managing c.95,000 customers' pensions and savings in tax-efficient wrappers.
- Assets under Administration decreased 4.3% to £15.5bn (YE19: £16.2bn) primarily due to volatile market conditions arising from the Covid-19 pandemic.
- In May 2020 the sale of IFDL to M&G plc was announced. The sale is expected to be completed in H2 2020, subject to regulatory approval.

Non-adjusting events after the balance sheet date

The transfer of Police Mutual Assurance Society Ltd (PMAS) into the Group and the sale of IFDL are both expected to complete in the second half of 2020 following regulatory approval. Both transactions are non-adjusting post balance sheet events and, subject to the required approvals being obtained, are expected to be accounted for and disclosed in the 2020 Annual Report and Accounts.

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Editor’s notes

1. The interim financial results of the Group (The Royal London Mutual Insurance Society Limited (RLMIS) and its subsidiaries) have been prepared in accordance with UK accounting standards, under FRS 102 ’The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland’ and FRS 103, ’Insurance contracts’. The Group previously reported under International Financial Reporting Standards (IFRS). Comparative information has been presented on a UK GAAP basis where appropriate. Key measurement differences between UK GAAP and IFRS are set out in Appendix 1.
2. UK GAAP operating profit before tax is represented as profit (transfer to Fund for Future Appropriations before Other Comprehensive Income) excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers & acquisitions; ProfitShare; tax; and one off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore UK operating profit represents the result of the RL Main Fund (including transfers to RL Main Fund from the closed funds). This key performance indicator is an Alternative Performance Measure (APM) which replaces European Embedded Value (EEV) operating profit. A comparison between the UK GAAP and EEV operating profit APMs is set out in Appendix 1.
3. Loss before tax represents the ‘(Loss)/profit before tax and before (deduction from)/transfer to the fund for future appropriations’ in the statement of comprehensive income.
4. 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 results has been derived from the 30 June 2020 swap curve calculated in accordance with specification provided by the European Insurance and Occupational Pensions Authority (EIOPA). New business contribution and margin for 2019 have been restated to reflect the removal of the tax gross up of 19% that was applied in EEV reporting. Removing the tax gross up reduced H1 2019 new business contribution by £16m as set out in Appendix 1.
5. Gross and net inflows incorporate flows into RLAM from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, non-linked Protection business is not included.
6. Assets under management represent the total of assets actively managed by, or on behalf of, the Group, including funds managed on behalf of third parties. Figures are stated as at 30 June, and exclude assets administered through IFDL, the Group’s platform business.
7. The ‘Regulatory View’ capital cover ratio restricts each closed funds’ surplus to the value of the Solvency Capital Requirement (SCR) of that fund.
8. The Group has changed the ‘Investor View’ capital cover ratio metric in 2020 to equal the Royal London Main Fund (RL Main Fund) capital position (excluding ring-fenced funds). The definition is considered to be more appropriate given the RL Main Fund is the primary source of capital for the group, and that the closed funds are ring-fenced and run on a standalone basis. The 31 December 2019 Group Investor View comparatives have been restated, excluding the capital surpluses of the closed funds of £3.2bn reported in 2019. The 31 December 2019 Group Investor view comparatives have been restated from £5,810m solvency surplus to £2,632m and the capital cover ratio from 231% to 219%. All Group capital figures are stated on a Partial Internal Model basis.
9. RLAM achieved top position for net retail sales in Q2 2020, according to the Pridham report. Established in 1997, the report is produced on a quarterly basis in order to give valuable industry insight into trends and peer performance. This achievement is an important barometer of success among asset managers.
10. Investment performance has been calculated using a weighted average of active assets under management. Benchmarks differ by fund and reflect their mix of assets to ensure direct comparison. Passive funds are excluded from this calculation as, whilst they have a place as part of a balanced portfolio, Royal London believes in the long-term value added by active management.
11. Percentage of OEICS performing above their median has been calculated using a weighted average of active assets under management. Each OEIC in scope is ranked against their respective peer groups using Lipper benchmarking data over a three year period to 30 June 2020, reflecting their mix of assets to ensure direct comparison. If an OEIC does not have a peer group with a direct comparison they are out of scope for the calculation.
12. Figures presented in tables throughout are rounded. The capital cover ratios and new business margins are calculated based on unrounded figures.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the 'Principal risks and uncertainties' section of the strategic report in Royal London's 2019 Annual Report and Accounts (ARA) (https://www.royallondon.com/siteassets/site-docs/about-us/annual-reports/royal-london-annual-report-2019.pdf). Since the publication of the 2019 ARA, the effects of Covid-19 continue to impact global economies and investment markets, increasing future uncertainty and in particular market risk, insurance risk (including assumptions in relation to mortality and persistency) and operational risk. These risks continue to be monitored and mitigated through our risk management system. Activity in the first half has focused on ensuring continuity of business services, with no significant interruptions experienced, and enhanced monitoring of the capital and liquidity position of the Group.

Financial calendar:

- 10 August 2020 – Interim Results Announcement 2020 conference call
- 7 October 2020 – RL Finance Bonds No 4 plc subordinated debt interest payment date
- 13 November 2020 – RL Finance Bonds No 3 plc subordinated debt interest payment date
- 30 November 2020 – RL Finance Bonds No 2 plc subordinated debt interest payment date

*Royal London will hold an investor conference call to present its 2020 Interim results on Monday 10 August 2020 at 09:00. Interested parties can register at: **https://cossprereg.btci.com/prereg/key.process?key=PXGUWLBPC**. A copy of the presentation to investors is available on the Investor Relations page on the Group website at https://www.royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/.

Forward-looking statements:

This announcement contains, and Royal London may make other verbal or written, 'forward-looking statements' with respect to certain Royal London's plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about Royal London's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them.

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. Royal London believes factors that could cause actual financial condition, performance or other indicated results to differ materially from those indicated in forward-looking statements in the announcement include, among others, the ongoing effects of the Covid-19 pandemic; UK and Ireland economic and business conditions; future market-related risks such as fluctuations in interest rates, the continuance of a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of governmental and regulatory authorities, including, for example, new government initiatives; the actual or anticipated political, legal and economic ramifications of the UK's withdrawal from the European Union; the impact of competition; the effect on Royal London's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates and the timing, impact and other uncertainties of future mergers or combinations within relevant industries. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits.

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 in this announcement or any other forward looking statements Royal London may make. Forward-looking statements in this presentation are current only at the date on which such statements are made. This report has been prepared for the members of Royal London and no one else. Royal London, its employees, or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

The Royal London Mutual Insurance Society Limited is registered in England and Wales (99064) at 55 Gracechurch Street, London, EC3V 0RL
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Appendix 1 – Basis of preparation

The Group has prepared the Interim Results using Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and FRS 103, 'Insurance contracts' (UK GAAP). These Interim Results for the six months ended 30 June 2020 are the Group's first results prepared in accordance with UK GAAP, which was adopted effective 1 January 2020. The Group previously prepared its financial statements using International Financial Reporting Standards (IFRS). The last financial statements under IFRS were for the year ended 31 December 2019 and the last interim results under IFRS were for the six months ended 30 June 2019.

In order to provide comparative figures to the 2020 results on a comparable basis, the financial statements for the year ended 31 December 2019 and the interim results for the six months ended 30 June 2019 have been restated onto a UK GAAP basis.

The interim results have been prepared on a going concern basis under the historical cost convention, as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by FRS 102. The emerging and potential impacts on the Group's performance, liquidity and capital position from Covid-19 and the associated market uncertainty have been considered. The Group regularly performs sensitivities and stress testing on a range of severe but plausible scenarios, including but not limited to global pandemics, and stress testing has been performed on the capital position for severe adverse economic and demographic impacts arising over the short to medium term. There are a range of actions available to the Directors in stress scenarios which could also be considered if there was deterioration in the capital position of the Group. The capital position remains sufficient to cover capital requirements in these scenarios, and the Directors have therefore concluded that no material uncertainty exists over the going concern assumption.

Key differences between IFRS and UK GAAP impacting the Group's accounting policies and financial results are set out below. The full UK GAAP accounting policies that have been applied in the preparation of the Interim Results can be found on the Royal London website at https://www.royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/.

(a) Changes in accounting policy arising on the transition from IFRS to UK GAAP

Changes in accounting policies that have an impact on the balance sheet or statement of comprehensive income on transition

- **Goodwill**
  Under IFRS a goodwill asset (goodwill) is not amortised but is subject to an annual impairment test. Under UK GAAP a goodwill asset is amortised over its estimated useful life. An impairment test is performed only if there is an indication of impairment.

- **Negative goodwill**
  Under IFRS a 'bargain purchase' gain is recognised immediately in profit or loss for any excess of the fair value of the net assets acquired in an acquisition over the fair value of the consideration paid. Under UK GAAP, this value is capitalised as a negative asset (negative goodwill). Subsequently the value of negative goodwill up to the fair value of non-monetary assets acquired in the business combination is amortised in the periods in which those non-monetary assets are realised. The value of negative goodwill in excess of the value of non-monetary assets acquired is amortised in the statement of comprehensive income in the periods expected to benefit, as set out in section (b) note 2 below.

- **Financial assets and liabilities**
  FRS 102 provides entities with an accounting policy choice in respect of the recognition and measurement of financial assets and liabilities between applying:
  a. the provisions of both Section 11 and Section 12 of FRS 102 in full (a simplified version of the requirements in IAS 39 'Financial Instruments: Recognition and Measurement');
  b. the recognition and measurement provisions of IAS 39, (prior to its amendment on the publication of IFRS 9 'Financial Instruments'); or
  c. the recognition and measurement provisions of IFRS 9, and IAS 39 (as amended following the publication of IFRS 9).

  The Group has taken the option to apply the recognition and measurement requirements of IFRS 9 and IAS 39 (as amended following the publication of IFRS 9). The impact of this is described further in section (d) below.

- **Leases – accounting by lessees**

  IFRS 16 requires lessees to recognise all leases on the balance sheet (other than certain low value or short-term leases). Under UK GAAP, leases are classified as either operating or finance leases. Leases classified as operating leases are not included on the balance sheet but the lease rentals are recognised as an expense as incurred. This change mainly impacts operational properties leased by the Group as set out in section (b) below.

Changes in accounting policy that have no net impact on the balance sheet or statement of comprehensive income on transition

- **Consolidation of investment funds**

  Under IFRS all entities that are classified as subsidiaries are consolidated in the group financial statements, including OEICs and other investment funds. FRS 102 excludes interests held as part of an investment portfolio from consolidation, requiring them to be held in the group financial statements as an investment at fair value through profit and loss. All of the Group's interests in OEICs and other investment funds are within investment portfolios and consequently the Group no longer consolidates those interests even when they are classified as subsidiaries. There is no net impact on the Group balance sheet or statement of comprehensive income from this change.

- **Classification of investment funds as subsidiaries**

  An entity is classified as a subsidiary when it is controlled by the Group. UK GAAP has a different definition of control from IFRS resulting in fewer OEICs and other investment funds being classified as subsidiaries under UK GAAP. Those funds no longer classified as subsidiaries are instead classified as associates. There is no impact on either the Group balance sheet or the Group statement of comprehensive income as all the affected entities are investment funds which are not consolidated under UK GAAP. The value of the Group's investment in those funds and the investment return related to them are included within the same lines of the balance sheet and the statement of comprehensive income respectively, regardless of whether they are classified as subsidiaries or associates.

- **Acquired value of in-force business (Acquired VIF)**

  A presentational change has been made to the acquired VIF on insurance contracts, reducing to £nil the balance that was included in the IFRS balance sheet with an offsetting reduction in the long-term business provision in respect of the related non-profit insurance contracts.

(b) Reconciliation of the Fund for Future Appropriations (FFA)

FRS 102 Section 35.13 (b) requires a reconciliation of the Group's equity under its previous financial reporting framework to its equity under UK GAAP. As the Group is a mutual entity it does not have equity. The closest approximation to equity is the surplus within the Royal London Open fund, which is disclosed as the Unallocated Divisible Surplus (UDS) for IFRS and as the Fund for Future Appropriations (FFA) for UK GAAP. The table below shows a reconciliation of the UDS under IFRS to the FFA under UK GAAP at 31 December 2019, 30 June 2019 and at 1 January 2019.

	Group		
	31 December 2019	30 June 2019	1 January 2019
	£m	£m	£m
Unallocated Divisible Surplus reported under IFRS	3,998	4,116	3,813
Goodwill (note i)	(229)	(229)	(229)
Negative goodwill (note ii)	(64)	(69)	(75)
Other items (note iii)	(5)	(9)	(12)
Fund for Future Appropriations reported under UK GAAP	**3,700**	**3,809**	**3,497**

Notes to the reconciliation of the FFA

i. Removal of goodwill previously recognised under IFRS on the acquisition of the former Resolution businesses and assets in 2009 (£119m) and Scottish Life in 2001 (£110m). The Group has chosen to retrospectively restate these acquisitions. The useful economic life of the goodwill from both acquisitions was determined to be 10 years from the original acquisition dates. Consequently the goodwill was fully amortised on a UK GAAP basis at the date of transition resulting in a reduction in FFA of £229m at 31 December 2019, 30 June 2019 and 1 January 2019.

ii. When the retrospective approach to historic acquisitions is adopted it has to be applied to all acquisitions from the earliest acquisition that is restated. All acquisitions from 2001 onwards have been restated, resulting in the recognition of negative goodwill from the acquisitions of Royal Liver (2011) and RL (CIS) (formerly Co-operative Insurance Society Limited (CIS) at acquisition in 2013) which were previously recognised as 'bargain purchase' gains under IFRS. The negative goodwill recognised (net of amortisation) was £64m at 31 December 2019, £69m at 30 June 2019 and £75m at 1 January 2019.

iii. Other items comprise the impact of removing the right of use assets and lease liabilities recognised in accordance with IFRS 16 for leases treated as operating leases under UK GAAP; the recognition of an expected credit loss provision; and an adjustment to the value of outstanding claims.

(c) Reconciliation of the Technical Account for 2019

FRS 102 Section 35.13 (c) requires a reconciliation of the profit or loss determined under the Group's previous financial reporting framework in its most recent financial statements to the equivalent profit or loss using UK GAAP. As the Group is a mutual entity its profit or loss, after the transfer to the UDS (under IFRS) or transfer to the FFA (under UK GAAP), is always £nil. To provide more meaningful information the table below shows a reconciliation of the total transfer to UDS (including other comprehensive income) from the 30 June 2019 half-year condensed financial statements and the 31 December 2019 IFRS financial statements to the equivalent total transfer to FFA (including other comprehensive income) under UK GAAP.

	Group	
	31 December 2019	30 June 2019
	£m	£m
Transfer to the Unallocated Divisible Surplus for the period under IFRS	185	303
Amortisation of negative goodwill	11	6
Other items (note i)	7	3
Transfer to the Fund for Future Appropriations for the period under UK GAAP	**203**	**312**

Notes to the reconciliation of the Technical Account for 2019

i. Other items comprise the removal of the depreciation of the right of use assets recognised under IFRS 16, interest on the related lease liabilities and the recognition of operating lease rentals in accordance with FRS 102.

(d) Adoption of IFRS 9

As set out in section (a) above, the Group has chosen to adopt IFRS 9 on transition to UK GAAP, as permitted by FRS 102.

(i) Financial assets

The classification of financial assets has changed such that the assessment is based on the Group's business model for managing the financial assets, and whether cash flows represent solely payments of principal and interest, with the exception of derivative financial instruments, which are required to be held at fair value through profit or loss (FVTPL). All financial assets held in a business model that is managed and whose performance is evaluated on a fair value basis are held at FVTPL. Financial assets that are held in a business model that is held to collect contractual cash flows are classified as assets held at amortised cost. The tables below show the classification of financial assets on adoption of IFRS 9 and their previous classification under IAS 39, 'Financial Instruments: Recognition and Measurement'.

	Group			
	IAS 39 – 31 December 2018		IFRS 9 – 1 January 2019	
	Classification	Carrying value £m	Classification	Carrying value £m
Financial assets				
Derivative assets	FVTPL (mandatory)	3,168	FVTPL (mandatory)	3,168
Other financial investments	FVTPL (designated)	36,652	FVTPL (mandatory)	36,652
Assets held to cover linked liabilities (derivative assets)	FVTPL (mandatory)	2	FVTPL (mandatory)	2
Assets held to cover linked liabilities (other financial investments)	FVTPL (designated)	40,115	FVTPL (mandatory)	40,115
Assets held to cover linked liabilities (cash and debtors)	Amortised Cost	492	FVTPL (mandatory)	492
Debtors	Amortised Cost	496	Amortised Cost	495
Cash at bank and in hand	Amortised Cost	802	Amortised Cost	802
Transfer to the Fund for Future Appropriations for the period under UK GAAP		**81,727**		**81,726**

The cash at bank and in hand and debtor balances included within 'Assets held to cover linked liabilities' were previously held at amortised cost and are now held at FVTPL. This is the result of identifying these assets as being part of a business model that is managed and whose performance is evaluated on a fair value basis. At 1 January 2019, the amortised cost of these assets was equal to their fair value, resulting in no impact on the FFA on transition.

Other financial investments that were previously designated at FVTPL under IAS 39 (including those within unit-linked funds) are now mandatorily at FVTPL due to them being part of a business model that is managed and whose performance is evaluated on a fair value basis or where the cash flows do not represent solely payments of principal and interest.

There are no differences between the IAS 39 carrying amounts for financial assets at 31 December 2018 and the IFRS 9 carrying amounts at 1 January 2019, with the exception of other debtors for which the change in carrying amount is the result of the recognition of the impairment loss allowance, as set out below.

IFRS 9 results in changes to the impairment approach for financial assets held at amortised cost. Under IAS 39, an 'incurred loss' approach was used, which required a charge for impairment when events or circumstances indicated that amounts were not recoverable. The approach under IFRS 9 is an 'expected credit loss' approach, which requires an assessment of expected future losses on initial recognition.

At 31 December 2018, the IAS 39 allowance for impairment losses for other debtors was £1m and at 1 January 2019, the IFRS 9 loss allowance was £2m. The movement was due to a transitional adjustment in loss allowance.

(ii) Financial liabilities

Under IFRS 9 financial liabilities are held at amortised cost, except for liabilities which are designated at FVTPL and for derivative liabilities which are required to be held at FVTPL. A financial liability can be designated at FVTPL if that 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. Alternatively a FVTPL designation can be used if the liability is part of a group of financial liabilities or a group of financial assets and financial liabilities that is managed and whose performance is evaluated on a fair value basis.

On transition to IFRS 9, creditors of £141m, included within 'Assets held to cover linked liabilities', were reclassified from amortised cost to FVTPL. This is the result of identifying these liabilities as being part of a group of financial assets and financial liabilities that is managed and whose performance is evaluated on a fair value basis. At 1 January 2019, the amortised cost of these assets was equal to their fair value, resulting in no impact to the FFA on transition. There were no other changes in classification or carrying value of financial liabilities on transition to IFRS 9.

(e) Reconciliation of the EEV operating profit before tax to UK GAAP operating profit before tax

The Group has discontinued its reporting using European Embedded Value (EEV) and as a result no longer reports EEV operating profit as an Alternative Performance Measure (APM). A new APM of UK GAAP operating profit will be presented. The Board considers that this APM provides a more meaningful indication of the underlying trading of the Group.

UK GAAP operating profit is defined as the transfer to FFA before Other Comprehensive Income, excluding the following:

- Short-term investment return variances and economic assumption changes;
- Amortisation and impairment of goodwill and other intangibles arising from mergers & acquisitions;
- ProfitShare and tax; and
- One off items of an unusual nature that are not related to the underlying trading of the Group.

The table below shows a reconciliation of the previously reported EEV operating profit to the UK GAAP operating profit.

	Group	
	Year ended 31 December 2019 £m	6 months ended 30 June 2019 £m
EEV operating profit	416	187
Remove tax gross up (note i)	(33)	(16)
Treatment of asset management businesses (note ii)	(66)	(45)
Cost recognition (note iii)	(92)	(7)
Finance costs (note iv)	(56)	(24)
Other items	(4)	(5)
UK GAAP operating profit	**165**	**90**

Notes to the reconciliation of EEV operating profit to UK GAAP operating profit:

i. **Remove tax gross up**
Under EEV, the operating profit for the Group's life and pensions business was calculated net of tax and then grossed up at a notional tax rate. This gross up was previously made to increase comparability with non-mutual entities. Royal London has taken the opportunity to simplify disclosures under UK GAAP by removing this gross up.

The 0% tax rate for the life and pensions business reflects the fact that the majority of business and nearly all new business is non-taxable, and the small amount of taxable life business is in run off.

ii. Treatment of asset management businesses

For EEV reporting the Group's asset management businesses were treated as covered business. The reported embedded value comprised the sum of their net assets and the value of in-force business. The value of in-force business represents the expected future profits from existing business at the balance sheet date. Within the UK GAAP operating profit the results of the asset management businesses are included on a statutory UK GAAP basis, which includes the profit arising in the current period only.

iii. Cost recognition

Within the EEV operating profit the Group previously recognised provisions for future costs, for example for large strategic developments that would be incurred in future periods. The UK GAAP operating profit includes such costs as they are incurred. The 2019 UK GAAP results include costs incurred in the period but that had been provided for in previous periods under EEV.

iv. Finance costs

Finance costs were excluded from operating profit under EEV but have been included within UK GAAP operating profit.