The Royal London Mutual Insurance Society Limited Results announcement for the year ended 31 December 2018

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Royal London Group 2018 Results Announcement

21 March 2019

ROYAL LONDON ANNOUNCES RECORD EEV OPERATING PROFIT FOR 2018

Commenting on Royal London's 2018 financial results, Phil Loney, Group Chief Executive, said:

"It has been a record year for Royal London with EEV operating profit before tax reaching an all-time high of £396m. This success has been shared with our members who will receive a ProfitShare of £150m for 2018, taking our total ProfitShare distribution to £942m since 2007. Adding investment growth to that has allowed us to contribute over £1bn to our members' policies since 2007, a real demonstration of the added value of mutuality. When we do well, so do our members."

"In 2018 the end of the auto-enrolment roll-out, turbulent market conditions as a result of ongoing Brexit uncertainty and the continuing low interest rate environment presented challenges to our sector. However I am pleased to report that we saw strong life and pensions new business sales with strong individual pension sales and increases in protection sales from our intermediary businesses both in the UK and Ireland and also our direct to consumer business."

"We are among the market leaders in improving access to products and ensuring better customer outcomes, most notably through our Over 50s life product which we believe offers a fairer deal than the market norm and now commands a 23% market share. We were also first to the UK market with an insurance product tailored specifically for people with either type 1 or type 2 diabetes."

"Our asset management business delivered record net external inflows of £4.1bn (2017: £2.8bn) with funds under management remaining constant at £114bn, due both to the sale of our Channel Islands business and the backdrop of volatile market conditions[1]. Assets under Administration at Ascentric remained steady at £14.5bn, showing a small uplift from £14.4bn in 2017."

"Looking ahead to 2019, our pensions business will continue to focus on helping customers to maximise their retirement income and more actively engaging our customers in the value of saving, encouraging them to make decisions about their financial futures. Our intermediary protection business will introduce more flexible options for customers with different needs, continue to make further improvements to the Diabetes Life Cover product and introduce a decreasing term option. In our direct to consumer business we will invest in our core Over 50s product to deliver even more value for money, continue to grow our direct funeral plan sales and help improve consumer understanding of funeral insurance products. Our policy work will continue to highlight the many potential gaps in the state pension system that can impact carers, people taking a career break and those with low retirement income. We will also continue to campaign to highlight the growing funeral poverty problem in the UK."

"Our asset management business is focused on building broader and more diversified solutions to meet customer need through a range of product enhancements and new propositions. Royal London will continue to demand high governance standards from the companies in which we invest our members' money and to expand our focus on socially responsible investment. We will continue to consolidate, strengthen and build on the new technology in our platform business."

"Being the UK's largest insurance, pensions and investment mutual allows us the freedom to address issues that genuinely improve the lives of our consumers, members and wider society in the areas where we have expertise. 2019 will also see us focus our efforts on three social impact issues: taking on the long-term savings crisis by working to ensure everyone can enjoy a secure retirement; building financial resilience to help consumers survive the unpredictable income shocks that we all face from time to time; and strengthening responsible business to ensure we push the companies we invest in to do the right thing."

[1] Total Funds under Management were reduced by £2bn due to the sale of RLAM C.I., sold to Ravenscroft Holding Ltd on 31 October 2018.

Trading, Financial and Capital Highlights

Royal London announces record **EEV operating profit before tax** of £396m (2017: £329m), representing an increase of 20%.

- **New business sales** (PVNBP basis) remained strong at £11,308m (2017: £12,002m). The expected decrease in Workplace Pensions following the end of auto-enrolment roll-out was offset by an 8% increase in Individual Pensions to £6,818m (2017: £6,339m);
- **IFRS deduction from Unallocated Divisible Surplus (UDS) before Other Comprehensive Income (OCI)** was (£48m) (2017: £352m transfer to UDS). This includes the impact of the continued low interest rate environment and negative investment returns experienced in 2018. Despite the challenging economic conditions, our investment returns still performed well against benchmark;
- **EEV profit before tax** reduced to £351m (2017: £594m), a decrease of 41%. The EEV profit before tax was driven by strong new business sales with a reduced cost base, offset by negative investment returns which were positive in 2017;
- Record external net flows of £4.1bn (2017: £2.8bn) generated by RLAM, delivered another year of strong performance and maintained **Funds under Management** at £114bn (2017: £114bn) despite volatile market conditions and the sale of RLAM C.I. which resulted in a net outflow of £2.0bn;
- Record **ProfitShare** (after tax) distribution to eligible members of £150m (2017: £142m), bringing total ProfitShare payments to members to £942m since 2007; and
- Our estimated **capital** position under Solvency II (SII) remained strong, with an Investor View solvency surplus of £4.6bn (31 December 2017: £5.4bn) and a capital cover ratio at 31 December 2018 of 202% (31 December 2017: 228%). Our solvency surplus was adversely affected by difficult market conditions during 2018, but we have been able to continue to invest in transforming the business and deliver ProfitShare, whilst maintaining a strong capital position.

Key Financials

		31 December 2018	31 December 2017	Change[1]
EEV	**Life and pension sales** PVNBP[2]	**£11,308m**	£12,002m	(£694m)
	Total new business margin	**1.8%**	1.7%	0.1%
	EEV operating profit before tax	**£396m**	£329m	£67m
	EEV profit before tax	**£351m**	£594m	(£243m)
	EEV embedded value	**£3,739m**	£3,560m	£179m
IFRS	**IFRS (deduction from) / transfer to the UDS** before OCI	**(£48m)**	£352m	(£400m)
Flows	**Gross inflows**[3]	**£21,196m**	£18,852m	£2,344m
	Net flows[3]	**£7,652m**	£6,316m	£1,336m
Funds	**Funds under Management**[4]	**£114bn**	£114bn	-
Capital (SII)	**Parent company solvency surplus** (Investor view)[5]	**£4.6bn**	£5.4bn	(£0.8bn)
	Parent company capital cover ratio (Investor view)[5]	**202%**	228%	(26%)

[1] Change is increase or decrease compared to 31 December 2017.

[2] Present value of new business premiums (PVNBP) is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the year. The rate used to discount the cash flows in the reported results has been derived from the YE18 swap curve.

[3] Gross and net flows incorporate The Royal London Mutual Insurance Society (RLMIS) and Royal London Asset Management (RLAM). Net flows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, Protection business is not included. RLAM net flows represent external inflows less external outflows, including cash mandates.

[4] Funds under Management represents the total of assets actively managed by, or on behalf of, the Group, including funds managed on behalf of third parties. It excludes assets administered through Ascentric, our platform business.

[5] The 'Investor View' does not restrict the surplus in the closed funds. The 'Regulatory View' includes the restriction on closed funds' surplus in excess of the SCR, which is treated as a liability and is excluded from total available own funds. Comparative figures have been restated in line with the final regulatory returns which were presented in the 2017 Solvency and Financial Condition Report (SFCR). 2018 Solvency II figures are estimated, final amounts will be disclosed in the SFCR in April 2019.

1. Overview

Royal London is the largest mutual life, pensions and investment company in the UK, with 8.7 million policies in-force and 3,898 employees.

Royal London achieved another strong performance in 2018, despite challenging market conditions and the end of the auto-enrolment roll-out. Life and pensions new business sales remained strong at £11,308m (2017: £12,002m), driven by higher Individual Pension and Protection sales offsetting the expected reduction in Workplace Pension sales.

Group EEV operating profit increased by 20% to £396m (2017: £329m, which included a £30m one-off benefit from a restructuring of an arrangement with BlackRock). Excluding this from the 2017 comparative, our EEV operating profit increased by £97m, or 32%.

RLAM saw total net inflows of £7.7bn (which comprised of net internal inflows of £3.6bn from the RLMIS life and pension business and net external inflows of £4.1bn, which arose through Institutional and Wholesale markets). The total Funds under Management were reduced by the sale of RLAM C.I. Limited to simplify our investment management operations, which resulted in a net outflow of £2.0bn. Combined with difficult trading conditions in Q4 2018, this led to Funds under Management remaining stable at £114bn (2017: £114bn).

When Royal London does well, so do our members. We always put our members' and customers' interests first. As well as generating value for our members through investment returns, bonuses and ProfitShare, we also play an active role in shaping the future of the industry.

During 2018, we changed our focus from Corporate Responsibility to Social Responsibility to enable us to have a wider view of our societal impacts. We have aligned ourselves to focus our efforts on three social impact issues in 2019: taking on the long-term savings crisis by working to ensure everyone can enjoy a secure retirement; building financial resilience to help consumers survive the unpredictable income shocks that we all face from time to time; and strengthening responsible business to ensure we push the companies we invest in to do the right thing.

ProfitShare increased by 6% to £150m (£158m gross of tax), bringing the total ProfitShare distribution to £942m since 2007. This will result in an uplift of 1.4% (2017: 1.4%) to the value of eligible with-profits policies with Royal London, and 0.18% to the value of unit-linked policies (2017: 0.18%).

2. New Business Results

Sales of new business on a PVNBP basis remained strong, with the expected reduction in Workplace Pensions sales as auto-enrolment staging came to an end, largely offset by the increase in Individual Pension and Life Assurance new business, resulting in sales 6% lower than 2017 at £11,308m, whilst continuing to improve margins on Life and Pensions business to 2.5% (2017: 2.3%).

	New business contribution[1]		PVNBP		New business margin	
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	**£m**	£m	**%**	%
Pensions	**239.1**	241.6	**10,042**	10,787	**2.4**	2.2
Protection[2]	**45.1**	43.0	**847**	807	**5.3**	5.3
Consumer	**(3.3)**	(5.3)	**419**	408	**(0.8)**	(1.3)
Life and pension business	**280.9**	279.3	**11,308**	12,002	**2.5**	2.3
RLAM[3]	**61.2**	46.8	**7,300**	6,906	**0.8**	0.7
Total	**342.1**	326.1	**18,608**	18,908	**1.8**	1.7

[1] The new business contribution in the tables above has been grossed up for tax at 19% (2017: 19%). We have done this to help compare our results with the results of shareholder-owned life insurance companies which typically pay tax at 19% (2017: 19%). The EEV Consolidated Income Statement has been grossed up at the applicable tax rates.

[2] The 2017 new business contribution and new business margin for Intermediary Protection have been restated to reflect revised cost allocation.

[3] PVNBP for RLAM relates to gross sales inflows in the period, excluding external cash mandates which are treated as uncovered business and not valued on an EEV basis.

Intermediary Pensions

- The workplace pensions market changed dramatically in 2018 with the end of the auto-enrolment roll-out. Total Workplace Pension new business sales reduced from £4,345m to £3,131m; a decrease of 28%. The previous growth in this area was driven by our success in winning a large number of new schemes. While new workplace scheme sales have reduced, as expected, the secondary market is continuing to develop. As we come to terms with this new normal post auto-enrolment environment, it is increasingly important to build a higher level of understanding, intimacy and engagement with employers and members of workplace schemes;
- Individual Pensions sales were strong in 2018, increasing from £6,339m in 2017 to £6,818m in 2018. The original intention of the pensions freedoms was to enable flexible retirement plans based on individual needs, and this is starting to play out. Transfers from defined benefit schemes boosted sales, as low interest rates and healthy transfer values prompted people to switch to personal schemes with greater flexibility;
- The margin in Intermediary Pensions has increased in 2018 to 2.4% from 2.2% in 2017, with switches from existing pension schemes helping to uphold the margin, despite the end of auto-enrolment and the significant changes experienced in the market outlined above; and
- We improved member communications in 2018 by developing new annual statements for all pension customers that reinforces the benefits of pension saving in a clear and engaging style. We also introduced a new suite of 'at retirement' documents, which are specifically designed to build understanding and help our members make key decisions in the five years leading to retirement, enabling tailoring for each member, such as importancy of income certainty, along with minimum and aspirational levels of income.

Intermediary Protection

- New business sales for Protection increased year-on-year, up by £40m to £847m, continuing our trend of sales growth in protection. This is against a back drop of a sustained period of flat markets for Protection;
- We've worked to revitalise the market by improving access to products, challenging industry practice and improving customer outcomes. This is evident in our Diabetes Life Cover product, which launched in June 2018. Diabetics had been virtually excluded from life insurance cover due to high premiums. Our tailored product rewards good control of diabetes with premium reductions of up to 40%;
- Critical Illness Cover was extended in 2018 to include a child coverage option giving customers peace of mind over their finances at a difficult time. Our streamlined mortgage protection service, which uses technology to make application simpler, continued to advance in its first year;
- It has been another outstanding year for our business in Ireland, with new business sales exceeding the previous year by 18%, achieving £112m for 2018 (2017: £95m), ending with 18% market share (2017: 17%); and
- The Protection margin remained consistent with 2017 at 5.3%.

2. New Business Results (continued)

Consumer

- Total new business sales were 3% ahead of last year at £419m (2017: £408m). We are one of the principal providers of high-quality, value for money products in markets poorly served by established providers;
- Our Over 50s Life product is now one of the leading propositions, with 23% market share in our chosen market (2017: 20%). Sales of our Over 50s Life product grew by 20% during the year, and we welcomed over 35,000 new customers into Royal London (2017: over 10,000). We also saw the successful launch of a new simplified life insurance proposition (Easy Life), offering one type of cover with simplified acceptance, streamlining the process by enabling sales through the Post Office;
- The partnership we launched in 2017 with the Post Office performed well in its first full year. The Post Office distributes guaranteed whole of life and term insurance policies to its customers, provided by Royal London. The partnership has help us to broaden our distribution, giving many more consumers access to our products;
- Our collaboration with CYBG plc, owners of Clydesdale Bank and Yorkshire Bank, was announced towards the end of 2017 to sell Royal London products, and in 2018 was successfully rolled out across branches of both banks;
- The launch of our own new direct-to-consumers Royal London branded funeral plan product in 2018 has been well received in the market, securing a five star rating from Fairer Finance. Our partnerships with Ecclesiastical Insurance, Co-operative Funeral Care and 11 other independent Co-operatives continued to flourish. We are now one of the market leaders in providing business-to-business funeral plan;
- Combined, these partnerships have contributed £316m in new business sales for 2018 (2017: £318m); and
- The Consumer margin has improved from (1.3%) to (0.8%) in 2018. Our Consumer business was launched four years ago and continues to make good progress towards achieving the critical scale required to trade profitably.

Royal London Asset Management – Flows

	Gross flows		Net inflows	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Internal flow	**8,879**	8,456	**3,552**	3,514
External flow	**12,317**	10,396	**4,100**	2.802
Total	**21,196**	18,852	**7,652**	6,316

- RLAM had another year of strong performance, generating record external net inflows of £4.1bn and maintaining Funds under Management of £114bn despite volatile market conditions and the sale of RLAM C.I. which resulted in a net outflow of £2.0bn;
- Our reputation in fixed income helped to win new mandates. Our experienced team and proven track record continued to be the predominant reason for such wins;
- Diversification of capabilities continued successfully and we saw a 23% increase in assets held in our award-winning Sustainable Range on 2017, attracting flows from both wholesale and instutitional clients, along with increased flows into the Global Multi-Asset Portfolios, with the latter benefitting from a growing awareness and understanding of the range with Independent Financial Advisers; and
- RLAM continued to win a broad range of industry awards at a firm and fund level, accumulating 24 awards over the year.

3. Financial Review

EEV Operating Profit
The profit measure used by the Group Board of Directors to monitor performance is EEV operating profit before tax, which can be seen by segment below.

	2018 £m	2017 Restated[1] £m
Intermediary		
Pensions	**388**	363
Protection	**5**	54
Consumer	**25**	(8)
RLAM	**105**	76
Legacy	**80**	82
Other items	**(207)**	(238)
EEV operating profit before tax	**396**	329

[1] The 2017 comparative amount has been represented following the restructure of internal reporting.

EEV operating profit before tax rose by 20% to £396m (2017: £329m), driven mainly by continued new business contribution and lower costs, predominantly from the reduction in strategic development costs and other items.

Profit contribution from new business increased by 3% to £301m (2017: £292m), for the reasons outlined in the previous New Business Review section.

Profit from managing existing business decreased by £24m to £228m (2017: £252m). Current year profit was driven by positive demographic assumption changes due to a reduction in unit costs, through increased policy volumes, and updated future expense inflation assumptions. These positive assumption changes were offset by updated mortality and morbidity assumptions, with Intermediary Protection adversely impacted by the update. Expected return was higher through strong pensions new business sales and RLAM fund performance.

The £39m loss on uncovered business (2017: £33m) mainly comprises an impairment of £28m (2017: £31m) relating to the new Ascentric platform.

Strategic development costs and other items decreased to £111m (2017: £208m included a one-off £30m benefit arising from the restructure of an arrangement with BlackRock). Excluding this, strategic development costs and other items reduced by £127m. This demonstrates a reduction in our change costs as we make progress in transforming the business.

Since the start of our transformation journey, we have invested over £800m in people, systems and capacity to ensure we can take advantage of the continuous change and regulation in our markets. Our main strategic development cost relates to a long-term project, which will continue over the next few years, implementing our new pension platform and IT systems across the Group. This project will enable us to deliver a market-leading digital proposition, and better outcomes and experiences for our customers.

IFRS transfer to unallocated divisible surplus
As a mutual, the transfer to the UDS is a key measure of accumulation of funds available for us to share, at our discretion, with eligible customers and members.

Our total transfer to UDS, including other comprehensive income of £53m (2017: £82m), was £5m (2017: £434m). The decrease from 2017 was a result of challenging economic conditions in 2018. This was driven primarily by equity market losses as a result of continued political and economic uncertainty impacting global stock markets and monetary policy.

IFRS balance sheet
Our balance sheet remains robust and well diversified. Our total investment portfolio, including investment property, reduced slightly to £89,401m (2017: £89,431m), with property purchases arising from the net inflow of funds in the year offsetting the declining market returns.

Our financial investment portfolio remains well diversified across a number of financial instruments, with the majority invested in equity securities and fixed income assets.

3. Financial Review (continued)

Investment Returns

Global equity markets experienced an increased level of volatility in 2018, driven by continued political and economic uncertainty as well as talk of trade wars. Initial gains on both the UK and US equity markets were eroded by market losses in the last quarter of the year, for example the FTSE 100 down 12.5% on 2017.

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

During the year our investments backing the asset shares of the Royal London Open Fund, our largest fund, achieved a return of (2.2%) against a benchmark of (2.4%) (2017: return of 9.5%, against a benchmark of 9.0%). Returns on key asset classes such as equities and bonds were negative following positive returns in 2017; albeit still out performing benchmark returns in 2018.

4. Capital Position

Estimated SII capital position on a Standard Formula basis

Our estimated capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. The Parent company had an Investor View solvency surplus of £4,552m (2017: £5,380m) and an Investor view capital cover ratio of 202% at 31 December 2018 (2017: 228%).

	Investor View	
£m	**31 December 2018**[1]	31 December 2017[2]
Own Funds:		
Tier 1	**8,205**	8,693
Tier 2	**806**	883
Total Adjusted Own Funds (A)	**9,011**	9,576
Solvency Capital Requirement (B)	**4,459**	4,196
Solvency surplus (A-B)	**4,552**	5,380
Capital cover ratio (A/B)[3]	**202%**	228%

[1] The 31 December 2018 figures are estimated and are unaudited. The final figures will be presented in the 2018 RLMIS SFCR.

[2] The 31 December 2017 figures have been restated in line with the final regulatory returns which were presented in the 2017 SFCR.

[3] Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.

Our estimated solvency surplus was adversely impacted by difficult market conditions during 2018, but we have been able to continue to invest in transforming the business and deliver ProfitShare, whilst maintaining a strong capital position. The following table sets out a movement analysis of the Investor View solvency surplus between 31 December 2017 and 31 December 2018.

£m	**Solvency Surplus (Investor View)**	
31 December 2017	5,380	
Sources of capital		
Economic assumption changes and experience variances	(457)	Adverse economic experience was driven by difficult investment market conditions, particularly in the last quarter of 2018.
Operating assumption changes and experience variances	86	Positive demographic assumption changes were made in 2018.
Financing and other costs	(65)	Financing and other costs predominantly relates to the payment of interest on our subordinated debt.
Existing business	101	Reflecting the capital benefit from the run-off of existing business.
Uses of capital		
New business	(118)	Significant new business sales were achieved in 2018, which had a strain on capital.
One-off projects and investment in the business	(225)	Key projects and investment in the business in 2018 included the ongoing transformation of our pensions business (#thinkbeyond) and the Guaranteed Annuity Rate (GAR) Compromise Scheme, which allowed certain policyholders to exchange guarantees for a cash uplift in order to more effectively manage the run-off of the Scottish Life (SL) fund and resulted in a one-off decrease in the capital position.
ProfitShare	(150)	We were able to deliver a record 2018 ProfitShare, following membership growth.
31 December 2018	**4,552**	

The 2018 RLMIS SFCR will be available on our website on 18 April 2019 and will contain further information about our solvency and capital position.

In common with the rest of the industry, we present two cover ratios: an Investor View for analysts and investors in our subordinated debt (which does not restrict the surplus in the closed funds), and a Regulatory View where the closed funds' surplus is treated as a liability. The Regulatory View is disclosed in note 41 of the IFRS financial statements.

4. Capital Position (continued)

Impact of post balance sheet events on our capital position

Royal London Insurance DAC (RLI DAC) was authorised to write new life insurance business in the Republic of Ireland by the Central Bank of Ireland with effect from 1 January 2019. The establishment and authorisation of RLI DAC enables the Group to continue to sell new business in Europe following the UK's proposed departure from the EU, and enables the Irish and German life insurance business previously underwritten by RLMIS to continue to be serviced.

Certain technical provisions and related assets and liabilities were transferred from the Parent company to RLI DAC by way of a transfer made under Part VII of the Financial Services and Markets Act 2000 (the 'Part VII transfer'). The Part VII transfer allows Royal London to continue to service existing policyholders whose policies had been previously written in the EU. Specifically this results in the creation of two new closed funds within RLI DAC, relating to contracts previously written by RLMIS in the Republic of Ireland and Germany.

Following High Court approval, the Part VII transfer took place on 7 February 2019, and was effective for accounting purposes on 1 January 2019. As this occurred after the balance sheet date, the Annual Report and Accounts have not been adjusted to reflect the transfer.

The IFRS impact of the Part VII transfer on the Parent company is disclosed in note 42 of the IFRS Financial Statements.

5. Financial Statements

Consolidated income statement – EEV basis for the year ended 31 December 2018

	2018 £m	2017 £m
Operating activities		
Contribution from new business	301	292
Profit from existing business		
Expected return	122	104
Experience variances	16	37
Operating assumption changes	90	111
Expected return on opening net worth	17	26
Loss on uncovered business	(39)	(33)
Strategic development costs and other items	(111)	(208)
Total operating profit before tax	396	329
Economic experience variances	(111)	159
Economic assumption changes	86	79
Movement in Royal London Group Pension Scheme	27	73
Financing costs	(47)	(46)
EEV profit before tax and ProfitShare	351	594
ProfitShare	(158)	(150)
EEV profit before tax	193	444
Attributed tax charge	(14)	(30)
Total EEV profit after tax	179	414

Consolidated balance sheet – EEV basis as at 31 December 2018

	2018 £m	2017 Restated[1] £m
Assets		
Assets held in closed funds	33,289	37,056
Assets backing non-participating liabilities	43,514	39,726
Reinsurance assets	5,088	5,384
Assets backing participating liabilities and net worth	9,112	9,315
Value of in-force business	2,726	2,544
Pension scheme surplus (RLGPS)	74	47
Total	93,803	94,072
Liabilities		
Liabilities in closed funds	33,289	37,056
Non-participating liabilities	43,514	39,726
Reinsured liabilities	5,088	5,384
Participating liabilities	6,284	6,526
Current liabilities	1,889	1,820
Total	90,064	90,512
Embedded Value		
Net worth	939	969
Value of in-force business	2,726	2,544
Pension scheme surplus (RLGPS)	74	47
Total	3,739	3,560

[1] The 2017 EEV Balance Sheet has been restated following a reclassification of liability amounts which were previously held within 'Assets backing non-participating liabilities and net worth' to 'Other Liabilities'.

5. Financial Statements (continued)

IFRS consolidated statement of comprehensive income for the year ended 31 December 2018

	2018 £m	2017 £m
Revenues		
Gross earned premiums	1,171	1,239
Premiums ceded to reinsurers	(180)	(265)
Net earned premiums	991	974
Fee income from investment and fund management contracts	327	297
Investment return	(2,679)	6,031
Other operating income	58	64
Total revenues	(1,303)	7,366
Policyholder benefits and claims		
Claims paid, before reinsurance	(2,721)	(2,665)
Reinsurance recoveries	506	519
Claims paid, after reinsurance	(2,215)	(2,146)
(Decrease) in insurance contract liabilities, before reinsurance	2,918	114
Reinsurance ceded	(256)	(581)
(Decrease)/increase in insurance contract liabilities, after reinsurance	2,662	(467)
Increase in non-participating value of in-force business	137	271
(Decrease)/increase in investment contract liabilities	1,558	(3,215)
Total policyholder benefits and claims	2,142	(5,557)
Operating expenses		
Administrative expenses	(588)	(561)
Investment management expenses	(361)	(321)
Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets	(62)	(92)
Investment return attributable to external unit holders	285	(192)
Other operating expenses	(176)	(141)
Total operating expenses	(902)	(1,307)
Finance costs	(48)	(47)
Result before tax and before transfer to the unallocated divisible surplus	(111)	455
Tax credit / (charge)	63	(103)
(Deduction from) / transfer to the unallocated divisible surplus	(48)	352
Result for the year	-	-
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension schemes	53	82
Transfer to the unallocated divisible surplus	53	82
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	-	-

5. Financial Statements (continued)

IFRS consolidated balance sheet as at 31 December 2018

	2018 £m	2017 £m
ASSETS		
Property, plant and equipment	75	53
Investment property	6,834	6,103
Goodwill	229	232
Acquired PVIF on insurance contracts	54	81
Other intangible assets	101	31
Total intangible assets	384	344
Deferred acquisition costs on investment contracts	304	262
Reinsurers' share of insurance contract liabilities	5,070	5,326
Pension scheme asset	213	186
Current tax asset	37	5
Financial investments	82,567	83,328
Trade and other receivables	895	651
Cash and cash equivalents	2,881	3,061
Total assets	99,260	99,319
LIABILITIES		
Participating insurance contract liabilities	30,628	33,154
Participating investment contract liabilities	2,061	2,214
Unallocated divisible surplus	3,813	3,726
Non-participating value of in-force business	(1,625)	(1,488)
	34,877	37,606
Non-participating insurance contract liabilities	6,909	7,301
Non-participating investment contract liabilities	42,652	38,847
	49,561	46,148
Subordinated liabilities	745	745
Payables and other financial liabilities	5,968	7,225
Provisions	294	282
Other liabilities	261	271
Liability to external unit holders	7,428	6,785
Deferred tax liability	125	222
Current tax liability	1	35
Total liabilities	99,260	99,319

Appendix 1 - EEV basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the "EEV Basis for Conclusions" issued in April 2016 by the CFO Forum. They provide supplementary information for the year ended 31 December 2018 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union.

The EEV Principles 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 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, EEV operating profit includes the revaluation of VIF arising on the asset management and service subsidiaries, and IFRS operating profit includes accounting amounts such as amortisation of goodwill and intangible assets which are excluded under EEV as 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 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.

IFRS 15

'Revenue from contracts with customers' replaced IAS 18 with effect from 1 January 2018. Adoption of the Standard has resulted in a change in the way the Group measures the 'Deferred acquisition costs on investment contracts' asset recognised in respect of future commission payable on relevant non-participating investment contracts. The Group has adopted the modified retrospective approach allowed by IFRS 15, whereby the cumulative effect of implementation is recognised in the opening balance as at 1 January 2018. Consequently the impact of the change has been to increase the opening balance of the 'Deferred acquisition costs on investment contracts' asset and the unallocated divisible surplus by £82m. As permitted by the modified retrospective approach the comparatives for the year ended 31 December 2017 have not been restated.