

## Financial Review

The start of 2009 brought with it the deepest economic recession in decades. During the course of the year, financial markets have been recovering and there are early positive signs of economic recovery.

Against this background, our primary financial focus in 2009 was again to protect the Group's capital position and so provide security for our members and policyholders.

It is pleasing to note that the Group has both improved its strength under all capital measures and reported healthy profits for the year. From the economic position in which we started 2009 this is a satisfying result. That said, we are not complacent and believe that it makes financial sense to continue focusing on improving the capital strength and structure of the Group to provide even greater protection for our members and policyholders.

During 2009 funds under management rose to £37.5bn, which means that Royal London remains the largest mutual life and pensions company in the UK. Mutuality is important to Royal London. It informs our long-term strategy, making sure that we operate in the interests of members.

We introduced the concept of a 'mutual dividend' in 2007, which allows with-profits members to share directly in the success of our business. The dividend is discretionary and for 2008, due to the uncertain state of the stock market, no dividend was allocated. We are pleased to announce that we will be allocating a mutual dividend again for 2009, totalling £25m.

## Financial Strength

The Group's capital strength has been improved significantly in 2009. This follows a decrease in the previous year which was due to the deteriorating economic position and the effect on capital measures of the acquisition of Resolution businesses from Pearl.

A number of actions were taken in the year by management to improve the capital position including changes to the investment strategy of the Royal London Long Term Fund and implementing "lifestyling". This is an approach under which investment objectives are tailored for different groups of policyholders within the fund dependent on the period to policy maturity/vesting.

These actions, taken together with the benefits of the investment market recovery seen in the second half of 2009, have produced an increase in surplus realistic capital of 58% to £1,863m (2008 £1,182m) and an increase in surplus regulatory capital of 33% to £1,026m (2008 £773m).

The Group has maintained a strong regulatory capital cover at the balance sheet date of 160% (2008 184%). The reduction in cover from the previous year-end, despite the significant increase in available regulatory capital, is due to the way in which the calculation is performed. In the closed funds, the capital required must equal the available capital as all assets are ultimately for the benefit of the policyholders in those funds. Consequently, as the available capital increases, so does the capital required. As illustrated in the table below, this results in a reduction in the overall regulatory capital cover for the Group.

£m	2009			2008		
	Open Funds	Closed Funds	Total	Open Funds	Closed Funds	Total
Available capital	1,461	1,273	2,734	1,213	485	1,698
Capital required	(435)	(229)	(664)	(440)	(255)	(695)
<b>Surplus</b>	<b>1,026</b>	<b>1,044</b>	<b>2,070</b>	773	230	1,003
Planned enhancements	-	(1,044)	(1,044)	-	(230)	(230)
<b>Excess capital</b>	<b>1,026</b>	-	<b>1,026</b>	773	-	773
<b>Capital cover</b>	<b>336%</b>	<b>100%</b>	<b>160%</b>	276%	100%	184%

## Results on EEV basis

EEV operating profits in 2009 are down to £171m (2008 £213m). Within this result, an increased contribution from new business together with increases in the expected return for the year and positive benefits of modelling improvements have been offset by adverse operating experience and adverse assumption changes.

The contribution from new business has improved to £63m (2008 £52m) an increase of 21%. With sales in 2009 up by 10%, on a PVNBP basis, the overall margin has improved. Whilst the margin has benefited from the inclusion of the Scottish Provident business for the full year, this has been partly offset by the impact of a more prudent approach to accounting for development expenses.

The EEV results are reported gross of the effective tax rate for the Group. For comparability with proprietary companies, the contribution from new life and pensions business has increased by 39% to £71m (2008 £51m) if reported gross of tax at 28%. On this basis, the life and pension margin on sales on a PVNBP basis is 2.9% (2008 2.3%).

In 2009, the maintenance expense assumptions have been increased to include a more prudent assessment of ongoing development expenses and ongoing corporate costs which were previously excluded from the maintenance unit costs. This operating assumption change has reduced operating profit by circa £48m.

There are also charges for operating experience and assumption changes related to persistency which are largely related to experience on the protection business acquired in 2008.

Included within operating profit are 'Other items', which comprise, exceptional development expenditure of £16m (2008 £20m), corporate costs of £25m (2008 £8m) and a benefit from modelling and other changes of £116m (2008 £42m).

The Group has produced an EEV profit after tax of £404m (2008 loss £762m). The increase over 2008 of £1,166m is mainly due to changes in investment return in the year compared to the previous year and changes to the economic assumptions underlying the calculation of the EEV. The improvement also reflects the benefits of capital management actions implemented during the year and the goodwill on the acquisition of the former Resolution businesses not given value under EEV principles in the 2008 result.

As a mutual insurance company, the overall results reflect the full impact of the investment return on the with profits funds and so have the potential to be volatile from period to period. This is different to proprietary companies, where the EEV results attributable to shareholders in respect of with profits business would typically only reflect 10% of the return on the fund in the period.

### **Results on IFRS basis**

The IFRS profit after tax was £410m (2008 loss £432m). As explained above the overall results for the Group are affected by the investment return on the with profits fund and the principal driver behind the £842m increase in after-tax profits is the improved investment return compared to 2008.

As a result of this performance, the Unallocated Divisible Surplus for the Group has increased significantly to £2,111m (2008 £1,701m), up by more than 24% in the year.

### **Investment performance**

A key driver of the results for the Royal London Group is its investment performance. The investment markets have exhibited significant volatility in 2009, as in 2008. The first quarter of the year saw further falls in markets, continuing where 2008 left off. During the second quarter of the year markets began to show signs of stabilising and even some improvement, with markets further improving as the year progressed.

Equity markets recorded increases for the year overall with the FTSE 100 index finishing at 5,413, an increase of 22% over the opening level of 4,434. This improvement is welcome, but compared to the level of the index of 6,457 at the end of 2007, there is still some way to go before we see a return to the historic equity values previously witnessed.

Government bond yields increased in 2009, resulting in falls in the value of government bond assets held. By contrast, the yield obtainable on corporate bonds reduced during the year, resulting in capital gains on our corporate bond portfolios.

### ***Royal London with-profits fund investment performance***

The Royal London with-profits fund investments backing the asset shares delivered a strong pre-tax return of 12.4% in 2009 (2008 negative 16.1%), 1.8% above the benchmark (2008 2.8% below benchmark). All major asset classes matched or out-performed their sector benchmarks.

During the year we undertook two equity disposals, each of circa £400m, to improve the capital position of the fund. The first of these was the result of a capital management action in the first quarter and the second was in December 2009 in preparation for the implementation of the new investment strategy noted above.

The UK equity performance of the fund of 30.0% is in line with the benchmark performance of 30.1% (2008 return and benchmark negative 29.9%). Overseas equities performed well over the year with significant growth in US, Far East and European markets.

Commercial property markets performed in a similar way to equity markets with a return to positive growth in the period of 5.4% compared to a benchmark of 2.2% (2008 return negative 21.5%, benchmark negative 22.5%). However, this improved performance lagged the equity markets with gains only materialising towards the end of the third quarter of 2009.

The Government bond market suffered during 2009 with increasing yields translating into reductions in asset values.

Our corporate bond portfolio outperformed the benchmark by 2.2% (2008 underperformed 8.1%). This is in part due to our overweight holding in financial corporate bonds, reflecting our view that they were under-valued during 2008 and early 2009. The buybacks and exchanges in these sectors in the year have contributed to the out-performance.

### **2010 Developments**

The Group has confirmed that it is at an early stage of discussions about a combination of Royal Liver's business with Royal London's. Royal Liver is an incorporated friendly society. It is the sixth largest mutual insurer in the UK based on assets of £3.7bn and gross written premiums of £212m as at 31 December 2008. There is no guarantee that any transaction will take place.

## European Embedded Value supplementary information

### Consolidated income statement – EEV basis for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Contribution from new business	(h)(i)	63	52
Profit from existing business	(h)(ii)		
Expected return		114	85
Operating experience variances		(34)	7
Operating assumption changes		(66)	(22)
Expected return on opening net worth	(h)(iii)	4	66
Profit on uncovered business	(h)(iv)	15	11
Other items	(h)(v)	75	14
<b>Operating profit before tax</b>		<b>171</b>	<b>213</b>
Economic experience variances	(h)(vi)	234	(767)
Economic assumption changes	(h)(vii)	183	18
Movement in pension scheme surplus	(h)(viii)	(30)	(47)
Financing costs	(h)(ix)	(35)	(40)
Mutual dividend	(h)(x)	(26)	-
Impact of acquisition of Resolution businesses	(h)(xi)	(62)	(198)
Other items		-	11
<b>EEV profit before tax</b>		<b>435</b>	<b>(810)</b>
Attributed tax (charge)/credit	(h)(xii)	(31)	48
<b>EEV profit after tax</b>		<b>404</b>	<b>(762)</b>

## Consolidated Balance Sheet - EEV basis as at 31 December 2009

	2009 £m	2008 £m
<b>Assets</b>		
Assets held in closed funds	7,064	7,364
Assets backing non-participating liabilities	14,472	11,453
Reinsured liabilities	646	574
Assets backing participating liabilities and net worth		
UK equities	1,489	1,467
Overseas equities	315	274
Land and buildings	825	811
Approved fixed interest securities	1,524	1,231
Other fixed interest securities	1,145	1,302
Other assets	1,026	1,398
Value of in-force business	1,283	1,231
Pension scheme surplus	60	90
<b>Total assets</b>	<b>29,849</b>	<b>27,195</b>
<b>Liabilities</b>		
Liabilities in closed funds	7,064	7,364
Non-participating liabilities	14,472	11,453
Reinsured liabilities	646	574
Participating liabilities	4,679	4,857
Current liabilities	1,148	1,511
<b>Total liabilities</b>	<b>28,009</b>	<b>25,759</b>
<b>Embedded Value</b>		
Net worth	497	115
Value of in-force business	1,283	1,231
Pension scheme surplus	60	90
<b>Total embedded value</b>	<b>1,840</b>	<b>1,436</b>
<b>Total liabilities and embedded value</b>	<b>29,849</b>	<b>27,195</b>

## Value of in-force business - EEV basis as at 31 December 2009

	2009 £m	2008 £m
Value of in-force business before allowance for burn-through and capital costs	1,315	1,266
Burn-through cost	(8)	(16)
Cost of capital	(24)	(19)
<b>Value of in-force business</b>	<b>1,283</b>	<b>1,231</b>

**(a) Basis of preparation**

The EEV results presented in this announcement have been extracted from the unqualified, audited EEV Supplementary Information prepared in accordance with the EEV Principles and the Additional Guidance issued in 2005 by the CFO Forum. They provide supplementary information for the year ended 31 December 2009 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union.

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

In 2008, the values of the former Resolution businesses acquired from Pearl were incorporated into the reported embedded value as, apart from Scottish Provident International Life Assurance Limited (SPILA), they were transferred into Royal London on 29 December 2008 under Part VII of the Financial Services and Markets Act 2000.

Phoenix Life Assurance Limited (PLAL) and SPILA were acquired by Royal London on 1 August 2008 and 3 June 2008 respectively and operating experience since those dates was incorporated into the EEV consolidated income statement. To the extent that the credit taken for the values of all the acquired businesses in the EEV differed from the price paid, largely as a result of goodwill and other intangible assets which cannot be included under EEV principles, the impact was shown in a separate line of the consolidated income statement.

In 2009, consistent with this approach, where modelling and methodology changes have been required to align them with Royal London Group standards, the impact on EEV income has been, similarly, shown separately.

**(b) EEV methodology**

**(i) Overview**

The EEV basis of reporting is designed to recognise profit as it is earned over the term of the policy. The total profit recognised over the lifetime of the policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

*For the purposes of EEV reporting, the Group has adopted a market-consistent methodology. Within a market-consistent framework, assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.*

## **(ii) Covered business**

The EEV Principles require an insurance company to distinguish between covered and uncovered business according to whether the business is valued on EEV Principles. The covered business, in the case of Royal London, incorporates:

- life and pensions business defined as long-term business by UK and overseas regulators; and
- asset management business; both that derived from the life and pensions business and that arising from external clients (except that arising from cash mandates, which is treated as uncovered).

This business, which represents the vast majority of the Group's total business, is valued on an EEV basis.

## **(iii) Embedded Value**

The reported embedded value provides an estimate of the value of the covered business, including future cash flows expected from the existing business, but excluding any value that may be generated from future new business. For covered business, it comprises the sum of the net worth calculated on an EEV basis and the value of the in-force business. For uncovered business, it comprises the IFRS net worth.

The net worth is the market-consistent value of the net assets (excluding the value of in-force business and pension scheme surplus) over and above those required to manage the business in line with the published Principles and Practices of Financial Management (PPFM). It is based on the Realistic Balance Sheet (RBS) working capital in those funds within the Group that are open to new business. It also comprises the net worth of the uncovered businesses on an IFRS basis and allows for the value of the debt issued, which is valued on a market-consistent basis.

The value of in-force business is the present value of the projected streams of future cash flows available from the existing business at the valuation date, on a best estimate basis allowing for risk, adjusted for the cost of holding the required capital.

## **(iv) Allowance for risk**

The allowance for risk is a key feature of the EEV Principles. The table below summarises how each item of risk has been allowed for:

<b>Type of risk</b>	<b>EEV methodology</b>
Market related risks	Allowed for explicitly in the EEV calculations
Non-market risks which are symmetrical in terms of the impact on EEV	Allowed for within the estimates of future operating experience
Non-market risks which are asymmetrical in terms of the impact on EEV	Allowed for in the calculation of VIF and financial options by way of an additional margin in the estimates of future operating experience

- **Market risk**

The approach adopted to calculate the Market-Consistent Embedded Value combines deterministic and stochastic techniques. Deterministic techniques have been used to value 'non-option cash flows'; that is, cash flows whose values vary linearly with market movements. Stochastic techniques have been used to value cash flows with an asymmetric effect on profit, such as investment guarantees on with-profits products.

In principle, each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate and a bond cash flow is valued using a bond risk discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate. In practice, it is not necessary to discount each cash flow at a different rate. For cash flows that are either independent or move linearly with the market, a method known as the 'certainty equivalent approach' will achieve the same results. Under this method all assets are assumed to earn the risk-free rate of return and all cash flows are discounted using the risk-free rate. This approach has been adopted to value the 'non-option cash flows' within a deterministic model.

- **Non-market risk**

In general, the allowance for non-market risk is covered by the margin incorporated into the Group's estimates of future operating experience assumptions. However, there are certain situations in which the impact of fluctuations in experience is asymmetric, namely that adverse experience can have a higher negative impact on value than the positive impact generated by favourable experience.

In these cases, an additional margin over best estimate is incorporated into the experience assumptions. The methodology used to determine the appropriate allowance for non-market risk is based on the analyses undertaken as part of the development of the RBS and the Individual Capital Assessment.

### **(c) Cost of capital**

The EEV Principles require capital allocated to the covered business to be split between required capital, the future distributions of which are restricted, and free surplus. We have defined the amount of required capital to be that necessary to meet the more onerous of the FSA Pillar 1 and Pillar 2 capital requirements, which for Royal London is currently Pillar 2.

The EEV includes a deduction for the frictional cost of holding the required capital. Frictional costs, being the tangible costs of holding capital, have been allowed for on a market-consistent basis. These consist of the total taxation and investment expenses incurred on the required capital over the period it is anticipated to be required. They reflect the cost to a member of having an asset held within a mutual insurance company, rather than investing in the asset directly.

No allowance has been made for any agency costs. These represent the potential markdown to value that members might apply because they do not have direct control over their capital. Any adjustment would be subjective and different members will have their own views of what adjustment, if any, should be made.

#### **(d) Burn-through cost**

Under adverse conditions the funds that remain open to new business may be required to make good any deficits that arise in the closed funds. The time value cost of this potential liability, known as the burn-through cost, is modelled stochastically, as it will only occur in adverse scenarios.

The burn-through cost is calculated as the average value of the capital support supplied in a large number of market-consistent scenarios. Allowance has been made under the different scenarios for management actions, such as altered investment strategy, consistent with the PPFM.

The stochastic model used to calculate this liability has been calibrated to market conditions at the valuation date. In addition, due to the asymmetric nature of this liability, an additional margin has been incorporated into the operating assumptions.

#### **(e) Taxation**

EEV profits are calculated on a net of tax basis. These are then grossed up at the appropriate rate of tax. In general, this will be 6%, the expected long-term rate of tax payable by Royal London, although subsidiary companies may be subject to different rates of tax.

#### **(f) Expenses**

The EEV Guidance requires companies to review expense assumptions actively and include an appropriate allowance for corporate costs and service company costs.

- *Corporate costs*

Corporate costs are those costs incurred at a corporate level that are not directly attributable to the covered businesses. To the extent that future corporate costs have not been anticipated within the EEV they are accounted for as they arise.

- *Service company costs*

An in-house administration service company, that receives a fee in respect of each policy it administers, is responsible for Royal London's administration. A similar arrangement exists for asset management services, though the fee is applied as a percentage of assets. The value of the in-force life and pensions business has been calculated using the service company (including asset management) fees.

Costs within the in-house administration service company have been classified as either ongoing (including an element of development expenditure) or exceptional development costs. Exceptional development costs have not been anticipated within the EEV and instead are accounted for as they arise. For 2009, £16m (2008 £20m) of development costs were classified as exceptional.

The profits expected to arise from life and pensions business within the administration service company from activities related to the maintenance of existing business and within RLAM in respect of investment management services have been capitalised within the EEV. These calculations result in the recognition of further value in the in-force business. £40m (2008 £71m) is recognised in respect of the administration service company and £17m (2008 £8m) is recognised in respect of RLAM's investment management services.

No allowance has been made for future productivity gains.

**(g) New business**

New covered business includes:

- premiums from the sale of new contracts, (including any contractual future increments on new contracts);
- non-contractual increments (both regular and single premium) on existing policies;
- premiums relating to new entrants in group pension schemes; and
- rebate premiums received from the Department of Work and Pensions.

**(h) Analysis of EEV profit**

**(i) *Contribution from new business***

The contribution from new business is calculated using economic assumptions at the end of the period. It is shown after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as total single premium sales received in the year plus the discounted value, at point of sale, of regular premiums expected to be received over the term of the new contracts. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate the new business contribution, so the components of the new business margin are on a consistent basis.

The new business contribution shown in the table below represents the net contribution from new business but grossed up at 28% to make it more comparable to results published by proprietary companies. The new business margin represents the ratio of the new business contribution to PVNBP.

<b>2009</b>			
	<b>Present value of new business premiums</b>	<b>New business contribution</b>	<b>New business margin</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Scottish Life	<b>1,578</b>	<b>16.7</b>	<b>1.1</b>
Bright Grey	<b>167</b>	<b>11.0</b>	<b>6.6</b>
Scottish Provident	<b>203</b>	<b>19.1</b>	<b>9.4</b>
Royal London 360°	<b>237</b>	<b>(1.0)</b>	<b>(0.4)</b>
Royal London Administration Services	<b>171</b>	<b>18.1</b>	<b>10.6</b>
Royal London (Retail)	<b>105</b>	<b>7.4</b>	<b>7.0</b>
<b>Total Life and Pensions</b>	<b>2,461</b>	<b>71.3</b>	<b>2.9</b>
Royal London Asset Management	<b>1,503</b>	<b>9.0</b>	<b>0.6</b>
<b>Total</b>	<b>3,964</b>	<b>80.3</b>	<b>2.0</b>

<b>2008</b>			
	<b>Present value of new business premiums</b>	<b>New business contribution</b>	<b>New business margin</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
Scottish Life	1,522	23.1	1.5
Bright Grey	181	12.6	7.0
Scottish Provident	-	-	-
Royal London 360°	266	0.2	0.1
Royal London Administration Services	168	13.9	8.3
Royal London (Retail) (from 1 August 2008)	100	0.7	0.7
Total Life and Pensions	2,237	50.5	2.3
Royal London Asset Management	1,540	13.7	0.9
Total	3,777	64.2	1.7

Although new business margin was, in aggregate, up on 2008, the result for Scottish Life illustrates the continuing pressure on new business margins in the pensions market, particularly from group pensions. The new business margin is also adversely affected by the inclusion of certain, previously excluded, costs within the assumed maintenance expenses.

Protection margins from both Bright Grey and Scottish Provident were at similar levels to 2008, despite the difficult economic conditions, with improved reinsurance terms offsetting strengthened persistency assumptions and competitive pressures on margin.

The 2009 result for Royal London 360° incorporates the full integration of the Scottish Provident International Life Assurance business acquired in 2008. Volumes of new international unit linked life assurance business were adversely affected by the weak economic sentiment in 2009, leading to an acquisition expense overrun.

The Royal London Administration Services business is largely incremental income to the legacy book, with low attaching expenses of acquisition, making it relatively profitable business. The increased profit in the year follows a reassessment of servicing income from the DWP rebate business.

Royal London (Retail) business is sold via Santander's retail network and the contribution from new business in 2009 is significantly improved. Certain investment products sold in 2008, which were only appropriate to the corporate structure and tax position prior to acquisition by Royal London, have been withdrawn.

Despite the challenging investment environment, the volume of new asset management mandates acquired by RLAM was only slightly lower than in 2008, although margins were affected by a change in the mix of those new mandates.

**(ii) Profit from existing business**

Profit from existing business comprises:

- the expected return on the value of in-force business at the start of the period, plus
- profits and losses caused by differences between actual experience for the period and that assumed in the embedded value calculations at the start of the period, plus
- the impact of any changes in the assumptions regarding future operating experience.

	<b>2009</b>	2008
	<b>£m</b>	£m
Expected return	<b>114</b>	85
Operating experience variances	<b>(34)</b>	7
Operating assumption changes	<b>(66)</b>	(22)
<b>Total</b>	<b>14</b>	70

The expected return is less stable for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profits funds is restricted, typically to 10% of the distributable surplus. This is due to a stochastic component of the valuation which can be expected to be released into profit each period but contains an element of volatility.

Experience variances include the impact of the difference between demographic, expense and persistency assumptions and the actual experience incurred in the year. The 2009 operating experience variance arises mainly due to adverse persistency on some elements of the protection business. As a result, we have reviewed our assumptions and have taken the decision to strengthen the operating assumption bases to reflect this experience. In addition, a more prudent approach has been adopted to capitalise certain expenses, previously treated as exceptional, into ongoing expenses.

**(iii) Expected return on opening net worth**

The expected return on opening net worth represents the expected investment return on the net worth over the period. The decrease in this item arises because of the decrease in opening net worth in 2009, as compared to 2008.

**(iv) Profit on uncovered business**

Profit on uncovered business has been valued on an IFRS basis, as used in the primary financial statements. A breakdown of the profit reported on uncovered business is shown in the table below:

	<b>2009</b>	2008
	<b>£m</b>	£m
General Insurance	<b>15</b>	12
Annuity Commissions	<b>4</b>	3
Ascentric	<b>(5)</b>	(5)
Cash Management	<b>1</b>	1
<b>Total</b>	<b>15</b>	11

**(v) Other items**

Other items represent a combination of:

- exceptional development costs, which are typically investments made to improve future EEV profits (for example by reducing on-going expense levels or increasing new business volumes);
- corporate costs; and
- other exceptional items. For example, the impact of any changes in the way the business is modelled and improvements to valuation techniques.

A breakdown of these items is shown in the table below:

	<b>2009</b>	2008
	<b>£m</b>	£m
Exceptional development costs	<b>(16)</b>	(20)
Corporate costs	<b>(25)</b>	(8)
Modelling and other changes	<b>116</b>	42
<b>Total</b>	<b>75</b>	14

The main reason for the increased corporate costs is the increase in provision for the Long Term Incentive Plan.

The 'modelling and other changes' component includes a number of partly offsetting items that are expected to be non-recurring. Included in these items that net to £116m are: the benefit of implementing the new investment strategy in the with-profits funds; a reattribution of assets between the open fund and the closed Scottish Life fund; a review of liability allocations across sub funds and a number of other changes to improve the modelling of policy related liabilities.

**(vi) Economic experience variances**

This shows the impact of actual investment returns relative to those assumed. Economic experience variances have an impact on the value of in-force (VIF) business and on the net worth.

The economic experience variance on the VIF arises from the change in policy values in which Royal London has an interest. The economic experience variance on the net worth represents the impact that investment returns, being different to those anticipated, has on:

- the value of the opening net worth;
- the value of financial options and guarantees (\*); and
- the value of the assets backing the financial options and guarantees (\*).

(\*) Excluding those movements due solely to changes in the yield curve, which have been netted off against the movement in the value of assets caused by the shift in the yield curve.

The value of the second and third items above is generally far more significant for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profits funds is restricted, typically to 10% of the distributable surplus.

Overall, despite the very weak first quarter, the returns achieved on the underlying assets in 2009 were higher than those assumed. Equities provided strong gains, property results were modestly positive, while the yields available on UK government bonds increased and the spread on corporate bonds tightened considerably. As a result, economic experience was a main contributor to the overall EEV profit reported for 2009. The 2008 contribution from economic experience was significantly negative.

**(vii) Economic assumption changes**

Long term economic assumptions were revised to take into account the financial conditions at the end of the period. The changes include increases to future interest rates used to value financial options and smoothing costs, increases to the assumed rates of future retail price and expense inflation and decreases to the implied asset volatilities. The effect of these changes contributed £183m (2008 £18m) to the pre-tax result. Further details of the economic basis used are provided in section (i).

**(viii) Pension scheme surplus**

The principal scheme is the Royal London Group Pension Scheme, a final salary scheme that is closed to new entrants. On an IAS 19 basis, the scheme had a surplus of £60m at 31 December 2009 (2008 £90m).

**(ix) Financing costs**

In December 2005, Royal London raised £395m (after expenses) of subordinated debt, which carries a coupon of 6.125% per annum. The cost of servicing the debt over the year is £25m (2008 £25m) and is included as a financing cost.

Royal London (Retail) has a closed block of guaranteed investment bond business which is backed by structured products. Cash collateral is held against these structured products. The interest of £10m (2008 £15m) payable on this cash collateral during the year is included as a financing cost. This cost is offset by interest income earned on the related cash deposits which is included within the investment return earned on the fund.

**(x) Mutual dividend**

The embedded value has been calculated as the value of the assets in excess of those required to manage the business in line with the PPFM. In 2009, Royal London's Board exercised its discretion to allocate to certain asset shares an investment return in excess of the rate earned on the underlying assets, thereby directly increasing the value of the liabilities set aside to meet future payments to with-profits policyholders.

In 2008, no such additional returns were credited to asset shares because of the adverse investment markets.

**(xi) Impact of acquisition of Resolution businesses**

The acquisition of the Resolution businesses in 2008 included a significant payment for goodwill and other intangible assets in respect of covered business which is not allowable under the EEV Principles. The difference between the price paid for the Resolution businesses and the value taken credit for under EEV Principles was £198m. The amount for 2009 includes various amendments to the methodology and models previously used by Resolution to value the acquired business in order to bring them in line with Royal London's practices.

**(xii) Attributed tax charge**

EEV profits are calculated net of tax and then grossed up at an appropriate tax rate. In general, this will be 6%, the expected long-term rate of tax payable by Royal London, although subsidiary companies may be subject to different rates of tax.

**(i) EEV assumptions**

**(i) Principal economic assumptions – deterministic**

Economic assumptions are reviewed actively and are based on the prevailing market yields on risk-free assets at the valuation date.

	<b>2009</b>	2008
	%	%
Risk-free rate	<b>4.45</b>	3.75
Retail Price inflation	<b>3.75</b>	2.50
Expense inflation	<b>4.75</b>	3.50

**(ii) Principal economic assumptions – stochastic**

The value of financial options (including premium rate guarantees and guaranteed annuity options), smoothing costs and future deductions from asset shares are calculated using market-consistent techniques. Market-consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market-consistency by:

- deriving the underlying risk-free rate from the forward gilt curve, with a margin of 10 basis points to reflect empirical evidence that gilt yields may understate the true risk-free rate;
- calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist. We attempt to achieve the best possible fit, though modelling restrictions prevent this from being perfect.

The tables below show the implied volatilities used in the modelling by asset class:

	2009				
	Term (years)				
	5	10	15	20	30
15-year risk-free zero coupon bonds	6.2%	4.2%	3.8%	4.5%	6.6%
15-year AA-rated corporate bonds	11.6%	8.7%	6.8%	6.1%	6.3%
Equities	26.3%	27.2%	27.7%	28.2%	28.9%

  

	2008				
	Term (years)				
	5	10	15	20	30
15-year risk-free zero coupon bonds	15.1%	13.0%	8.2%	5.4%	9.5%
15-year AA-rated corporate bonds	16.9%	15.3%	11.1%	8.2%	11.2%
Equities	32.3%	32.8%	31.5%	31.0%	30.9%

**(iii) Expected returns in reporting period**

For the purposes of calculating the expected returns over the period, allowance is made for a risk premium as set out in the following table:

	2009	2008
	%	%
Risk premium – equities	2.50	2.50
Risk premium – property	2.00	2.00

All other assets are assumed to earn the risk-free rate.

**(iv) Other assumptions**

Demographic assumptions are reviewed regularly having regard to past, current and expected future experience and any other relevant data. These are generally set as best estimate with an appropriate margin for adverse deviations.

**(j) Sensitivity analyses**

The table below shows the sensitivity of the embedded value at 31 December 2009 and the 2009 contribution from new business to changes in assumptions.

	Notes	Change in embedded value £m	Change in new business contribution £m
100 basis point increase in risk discount rates	1	-	-
100 basis point increase in equity and property returns	2	-	-
100 basis point reduction in risk-free rates		<b>(188)</b>	<b>2</b>
10% increase in market values of equities and property	3	<b>211</b>	-
10% proportionate decrease in lapse and paid-up rates		<b>40</b>	<b>9</b>
10% proportionate decrease in expenses		<b>76</b>	<b>9</b>
5% proportionate decrease in mortality and morbidity		<b>(24)</b>	<b>3</b>
50% increase in capital requirements		<b>(12)</b>	-

Notes:

1. As a market-consistent approach is used, changes in the risk discount rate would be matched by changes in the expected returns used when calculating these cash flows. Therefore, there is no overall impact on the embedded value.
2. As a market-consistent approach is used, changes in the expected returns under equity and property would be matched by changes in their associated discount rates. Therefore, there is no overall impact on the embedded value.
3. The value of new business is assessed at the point of sale. Increases in the value of equities and property at this date have no impact on the value of new business.
4. The sensitivities presented in the table include the impact of stress-testing the Royal London Group Pension Scheme.

## IFRS Statement of comprehensive income for the year ended 31 December 2009

	2009	2008
Notes	£m	£m
<b>Revenues</b>		
Gross earned premiums	1,099	847
Amounts (paid to)/received from reinsurers	(317)	616
Net earned premiums	782	1,463
Fee income from investment and fund management contracts	142	141
Investment return	3,071	(3,103)
Other operating income	47	54
<b>Total revenues</b>	<b>4,042</b>	<b>(1,445)</b>
<b>Policyholder benefits and claims</b>		
Claims paid, before reinsurance	1,646	1,526
Reinsurance recoveries	(178)	(80)
Claims paid, after reinsurance	1,468	1,446
Decrease in insurance contract liabilities, before reinsurance	(334)	(1,963)
Reinsurance ceded	(84)	833
Decrease in insurance contract liabilities, after reinsurance	(418)	(1,130)
(Increase)/decrease in non-participating value of in-force	(187)	76
Increase/(decrease) in investment contract liabilities	1,816	(1,707)
<b>Total policyholder benefits and claims</b>	<b>2,679</b>	<b>(1,315)</b>
<b>Operating expenses</b>		
Administrative expenses	411	268
Investment management expenses	142	86
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	166	136
Investment return attributable to external unit holders	97	(57)
Other operating expenses	42	76
<b>Total operating expenses</b>	<b>858</b>	<b>509</b>
<b>Finance costs</b>	<b>44</b>	<b>48</b>
<b>Result before tax</b>	<b>461</b>	<b>(687)</b>
<b>Tax charge/(credit)</b>	<b>3</b>	<b>51</b>
<b>Transfer to/(from) the unallocated divisible surplus</b>	<b>410</b>	<b>(432)</b>
<b>Profit and other comprehensive income for the year</b>	<b>-</b>	<b>-</b>

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

**IFRS Balance sheets as at 31 December 2009**

	Notes	Group		Parent company	
		2009 £m	2008 restated £m	2009 £m	2008 restated £m
<b>ASSETS</b>					
Property, plant and equipment		38	40	-	-
Investment property		1,791	1,868	1,697	1,783
<b>Intangible assets</b>					
Goodwill		254	254	232	232
Acquired PVIF on investment contracts		133	168	125	154
Acquired PVIF on insurance contracts		286	386	266	361
Deferred acquisition costs on investment contracts		330	280	307	262
Other intangible assets		158	189	110	130
<b>Total intangible assets</b>		<b>1,161</b>	<b>1,277</b>	<b>1,040</b>	<b>1,139</b>
<b>Reinsurers' share of insurance contract liabilities</b>		<b>658</b>	574	<b>658</b>	574
<b>Pension scheme asset</b>	4	<b>60</b>	90	<b>60</b>	90
<b>Deferred tax asset</b>		<b>77</b>	108	<b>68</b>	102
<b>Financial assets</b>					
Financial investments		24,137	22,734	13,669	14,539
Investments in Group entities		-	-	6,739	5,359
Loans and receivables, including insurance receivables		323	559	211	455
Cash and cash equivalents		3,132	1,682	2,392	1,020
<b>Total financial assets</b>		<b>27,592</b>	24,975	<b>23,011</b>	21,373
<b>Total assets</b>		<b>31,377</b>	28,932	<b>26,534</b>	25,061
<b>LIABILITIES</b>					
Participating insurance contract liabilities		9,685	10,063	9,685	10,063
Participating investment contract liabilities		1,520	1,490	1,520	1,490
Unallocated divisible surplus		2,111	1,701	2,111	1,701
Non-participating value of in-force business		(625)	(438)	(609)	(431)
<b>Participating contract liabilities</b>		<b>12,691</b>	12,816	<b>12,707</b>	12,823
Non-participating insurance contract liabilities		3,927	3,883	3,443	3,451
Non-participating investment contract liabilities		12,089	9,949	8,891	7,027
<b>Non-participating contract liabilities</b>		<b>16,016</b>	13,832	<b>12,334</b>	10,478
<b>Subordinated liabilities</b>	5	<b>397</b>	397	<b>397</b>	397
<b>Payables and other financial liabilities</b>		<b>1,036</b>	1,284	<b>840</b>	1,141
<b>Provisions</b>		<b>83</b>	52	<b>79</b>	49
<b>Other liabilities</b>		<b>208</b>	196	<b>176</b>	152
<b>Liability to external unit holders</b>		<b>943</b>	335	-	-
<b>Current tax liability</b>		<b>3</b>	20	<b>1</b>	21
<b>Total liabilities</b>		<b>31,377</b>	28,932	<b>26,534</b>	25,061

**IFRS Statements of cash flows for the year ended 31 December 2009**

	Group		Parent company		
	2009	2008	2009	2008	
	Notes	£m	£m	£m	
<b>Cash flows from operating activities</b>					
Transfer to/(from) the unallocated divisible surplus		410	(432)	410	(432)
Adjustments for non-cash items		(178)	1,629	(144)	723
Adjustments for non-operating items		44	48	12	18
Acquisition of investment property		(130)	(37)	(130)	(37)
Net proceeds from disposal/(acquisition) of financial investments		661	(969)	1,185	156
Proceeds from disposal of investment property		125	108	125	108
Changes in operating receivables		236	257	244	232
Changes in operating payables		(226)	81	(270)	(96)
Change in liability to external unit holders		608	34	-	-
Net cash from operating activities before tax		1,550	719	1,432	672
Tax paid		(37)	(10)	(29)	7
<b>Net cash flows from operating activities</b>		<b>1,513</b>	<b>709</b>	<b>1,403</b>	<b>679</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(9)	(17)	-	(10)
Acquisition of Group entities		-	(1,012)	(5)	(1,282)
Proceeds from disposal of property, plant and equipment		-	13	-	13
Proceeds from disposal of Group entities		-	-	2	-
Dividends received from Group entities		-	-	18	7
<b>Net cash flows from investing activities</b>		<b>(9)</b>	<b>(1,016)</b>	<b>15</b>	<b>(1,272)</b>
<b>Cash flows from financing activities</b>					
Repayments of other debt and finance lease liabilities		(3)	(3)	(1)	(1)
Interest paid		(44)	(48)	(38)	(28)
<b>Net cash flows from financing activities</b>		<b>(47)</b>	<b>(51)</b>	<b>(39)</b>	<b>(29)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,457</b>	<b>(358)</b>	<b>1,379</b>	<b>(622)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>1,667</b>	<b>2,025</b>	<b>1,005</b>	<b>1,627</b>
<b>Cash and cash equivalents at 31 December</b>	6	<b>3,124</b>	<b>1,667</b>	<b>2,384</b>	<b>1,005</b>

An integral part of the operations of the Group is the management of a portfolio of investment assets. Cash flows relating to the purchase and sale of these assets have been treated as operating cash flows for the purposes of the statements of cash flows. In the Parent company, unit trusts and other investment funds that are classified for financial reporting

purposes as subsidiaries are also part of this operating portfolio of investment assets and hence cash flows in relation to these assets are also classified as operating cash flows for the Parent company statement of cash flows.

## **1. Basis of preparation**

The IFRS financial information contained within this announcement has been extracted from the unqualified, audited financial statements of the Group and the Parent company ('the financial statements'), which have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by 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 used by the Group and Parent company are reviewed for appropriateness each year. These policies have been applied consistently to all periods presented in the financial statements.

As permitted under IFRS 3, 'Business Combinations', the Group has reassessed the provisional values for its 2008 acquisition of former Resolution business and assets presented in the Group's 2008 report and accounts. The comparative figures have been restated accordingly. The change impacted on the balance sheet only and did not affect the statement of comprehensive income.

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

- IFRS 7, 'Financial Instruments- Disclosures' (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of fair value measurement hierarchy.
- IFRS 8, 'Operating Segments', which replaces the disclosure requirements of IAS 14, 'Segment Reporting'. The new standard requires segmental disclosures that reflect how the business is managed. Further detail is set out in note 2 below.
- IAS 1 (revised), 'Presentation of Financial Statements'. Under these revised presentation requirements the Group has elected to replace the consolidated income statement and the consolidated statement of recognised income and expenses with a single consolidated statement of comprehensive income.
- 'Improvements to IFRSs', issued May 2008. This IFRS introduces minor changes to a number of standards. The only notable change is an amendment to IAS 40, 'Investment Property'. This has resulted in a reclassification of Properties Under Construction previously shown within Property, Plant and Equipment into Investment Property. In accordance with this amendment, this change has been made prospectively, with effect from 1 January 2009, and comparatives have not been restated.

Of the other new and amended standards, none have had a material impact on the financial statements.

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

## 2. Segmental information

IFRS 8 has been implemented in the financial statements. This standard requires segmental disclosures to be based on the Group's internal reporting. Under the new requirements, the Group's segments are UK and International. These segments comprise life insurance, long-term health and accident insurance, savings and pensions business written in the UK and in territories outside the UK respectively.

The segmental profit and loss and segmental assets and liabilities are reconciled to the Group's statement of comprehensive income and balance sheet in the tables below.

### (a) Segmental profit and loss information

	2009		
	UK £m	International £m	Total £m
<b>Revenues</b>			
Net earned premiums	741	41	782
Fee income	134	8	142
Investment income	2,929	142	3,071
Other income	45	2	47
	<b>3,849</b>	<b>193</b>	<b>4,042</b>
Claims paid, after reinsurance	1,429	39	1,468
Change in insurance contract liabilities, after reinsurance	(478)	60	(418)
Change in non-participating value of in-force business	(179)	(8)	(187)
Change in investment contract liabilities	1,766	50	1,816
Depreciation of property, plant and equipment	4	-	4
Amortisation charges and impairment losses on intangible assets	154	12	166
Other operating expenses	653	35	688
Finance costs	44	-	44
<b>Total net expenses</b>	<b>3,393</b>	<b>188</b>	<b>3,581</b>
<b>Result before tax</b>	<b>456</b>	<b>5</b>	<b>461</b>
<b>Tax</b>	<b>51</b>	<b>-</b>	<b>51</b>
<b>Transfer to the UDS</b>	<b>405</b>	<b>5</b>	<b>410</b>

(a) Segmental profit and loss information (continued)

	<b>2008</b>		
	UK £m	International £m	Total £m
<i>Revenues</i>			
Net earned premiums	1,410	53	1,463
Fee income	130	11	141
Investment income	(2,993)	(110)	(3,103)
Other income	48	6	54
	<b>(1,405)</b>	<b>(40)</b>	<b>(1,445)</b>
Claims paid, after reinsurance	1,409	37	1,446
Change in insurance contract liabilities, after reinsurance	(1,084)	(46)	(1,130)
Change in non-participating value of in-force business	83	(7)	76
Change in investment contract liabilities	(1,620)	(87)	(1,707)
Depreciation of property, plant and equipment	3	1	4
Amortisation charges and impairment losses on intangible assets	130	6	136
Other operating expenses	329	40	369
Finance costs	48	-	48
Total net expenses	<b>(702)</b>	<b>(56)</b>	<b>(758)</b>
Result before tax	<b>(703)</b>	<b>16</b>	<b>(687)</b>
Tax	<b>(255)</b>	<b>-</b>	<b>(255)</b>
Transfer to the UDS	<b>(448)</b>	<b>16</b>	<b>(432)</b>

(b) Segmental assets and liabilities

	2009		
	UK £m	International £m	Total £m
Total assets	<b>29,562</b>	<b>1,815</b>	<b>31,377</b>
Total liabilities	<b>29,562</b>	<b>1,815</b>	<b>31,377</b>
	2008 Restated		
	UK £m	International £m	Total £m
Total assets	27,232	1,700	28,932
Total liabilities	27,232	1,700	28,932

### 3. Tax charge / (credit)

	<b>Group</b>	
	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Tax has been provided as follows:</b>		
UK corporation tax charge		
- Current year	<b>3</b>	31
- Adjustments in respect of prior periods	<b>9</b>	(3)
	<b>12</b>	28
Foreign tax partially relieved against UK corporation tax	<b>8</b>	8
Deferred tax	<b>31</b>	(291)
	<b>51</b>	(255)

### 4. Pension scheme

The Group operates one main funded defined benefit scheme, Royal London Group Pension Scheme ('RLGPS'). On 1 September 2005, this scheme was closed to new entrants. The Group has established a contributory, defined contribution arrangement for new employees joining the Group after that date.

(a) Amounts recognised in the balance sheet

	<b>Group and Parent company</b>	
	<b>2009</b>	2008
	<b>£m</b>	£m
Fair value of plan assets	<b>1,725</b>	1,576
Pension scheme obligation	<b>(1,665)</b>	(1,486)
<b>Net pension scheme asset</b>	<b>60</b>	90

(b) Amounts recognised in the income statement

	<b>Group and Parent company</b>	
	<b>2009</b>	2008
	<b>£m</b>	£m
Current service cost	<b>10</b>	13
Interest cost on pension scheme liabilities	<b>95</b>	95
Expected return on plan assets	<b>(85)</b>	(103)
Actuarial losses	<b>128</b>	42
Past service cost	<b>(106)</b>	-
<b>Net expense recognised in the statement of comprehensive income</b>	<b>42</b>	47

The net expense of £42m (2008 £47m) recognised in the statement of comprehensive income is included within 'other operating expenses' (£30m; 2008 £47m) and within 'staff costs' (£12m; 2008 £nil).

## 5. Subordinated liabilities

	<b>Group and Parent company</b>			
	<b>2009</b>	<b>2008</b>	<b>Effective interest rate</b>	
	<b>£m</b>	<b>£m</b>	<b>2009</b>	<b>2008</b>
			<b>%</b>	<b>%</b>
<b>Perpetual Cumulative Step-up Subordinated Guaranteed Notes</b>	<b>397</b>	397	<b>6.28</b>	6.28

### **Perpetual Cumulative Step-up Subordinated Guaranteed Notes**

On 14 December 2005 RL Finance Bonds plc, a wholly owned subsidiary of the Parent company, issued the Perpetual Cumulative Step-up Subordinated Guaranteed Notes. The issue price of the Notes was 99.676% of the principal amount of £400m. The discount and the directly related costs incurred to issue the Notes of £4m have been capitalised as part of the carrying value and will be amortised on an effective interest basis over the period to the first possible redemption date. The Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the Notes.

The Notes have no maturity date but the issuer has the option to redeem all of them at their principal amount on 15 December 2015 and at three monthly intervals thereafter. Interest is payable at a fixed rate of 6.125% per annum for the period to 15 December 2015, payable annually in arrears on 15 December each year. If the Notes are not redeemed on 15 December 2015 the interest rate will be re-set on that date and at three monthly intervals thereafter, at a rate equal to the offered three-month sterling deposit rate quoted on the interest re-set date, plus 2.45%. Following the first interest re-set date, interest becomes payable three monthly in arrears on 15 March, 15 June, 15 September and 15 December in each year.

## 6. Cash and cash equivalents

The cash and cash equivalents for the purposes of the statements of cash flows are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management, as shown in the table below.

	<b>Group</b>		<b>Parent company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	<b>3,132</b>	1,682	<b>2,392</b>	1,020
Bank overdrafts	<b>(8)</b>	(15)	<b>(8)</b>	(15)
<b>Cash and cash equivalents in the statements of cash flows</b>	<b>3,124</b>	1,667	<b>2,384</b>	1,005

## 7. Contingent liabilities

### *Regulatory reviews*

During the year, the Group and Parent company continued to address issues from past inappropriate selling practices and other regulatory matters. The directors consider that they have made prudent provision for any liabilities arising and, as and when the circumstances calling for such provision arise, that the Group and Parent company have adequate reserves to meet all reasonably foreseeable eventualities.

## 8. Reconciliation of the IFRS unallocated divisible surplus to the European embedded value

	2009 £m	2008 £m
<b>IFRS</b>		
<b>unallocated divisible surplus</b>	<b>2,111</b>	<b>1,701</b>
Valuation differences between IFRS and EEV		
- Goodwill	<b>(342)</b>	(310)
- Deferred tax valuation differences	<b>(68)</b>	(102)
- Subordinated debt at market value	<b>131</b>	112
- Capital requirements of subsidiaries and other valuation differences	<b>(100)</b>	(91)
Add items only included on an embedded value basis		
- Valuation of asset management and service subsidiaries	<b>98</b>	127
Other valuation differences	<b>10</b>	(1)
<b>European embedded value</b>	<b>1,840</b>	<b>1,436</b>