Mutually responsible

Annual Report and Accounts for the year ended 31 December 2020

The Royal London Mutual Insurance Society Limited Registered Number 99064

ROYAL LONDON

Contents

Strategic report

06 Our Purpose
08 Group overview and 2020 highlights
10 Chairman's statement
12 Group Chief Executive's review
14 Covid-19: Our response
16 Our business model: creating value for stakeholders
18 Measuring our performance
20 The world we live in
22 Our strategy
25 Our social impact
29 Section 172 statement
30 Engaging with our stakeholders
38 Responsible investment and stewardship
40 Climate change
44 Non-financial information statement
45 Business review
52 Financial review
58 Risk overview
61 Principal risks and uncertainties
66 Longer-term viability statement

Corporate governance

70 Governance overview
71 Board of directors
74 Group Executive Committee
75 Corporate governance statement
83 Board Committee reports
102 Directors' remuneration report
121 Overview of directors' responsibilities for the year ended 31 December 2020

Financial statements

126 Report on the audit of the financial statements
136 Financial statements and notes

Other information

224 Glossary
228 2021 financial calendar, registered office and contact offices information

We are Royal London and we are proud to be a mutual. Founded in 1861, we are the UK's largest mutual life, pensions and investment company.

Driven by our Purpose
Protecting today, investing in tomorrow. Together we are mutually responsible.

Customer-focused
Being an insight-led modern mutual with a focus on customer service means we can give members and customers that little bit more, and you can trust us to be there for you when it counts.

At Royal London, we have reframed our Purpose and strategy to respond to the changes being experienced by our members and customers and those who advise them. This has proved even more important during the events of 2020, when the Covid-19 pandemic affected us all and presented a challenging financial environment.

Read more about our Purpose on pages 6 and 7

Strategic report

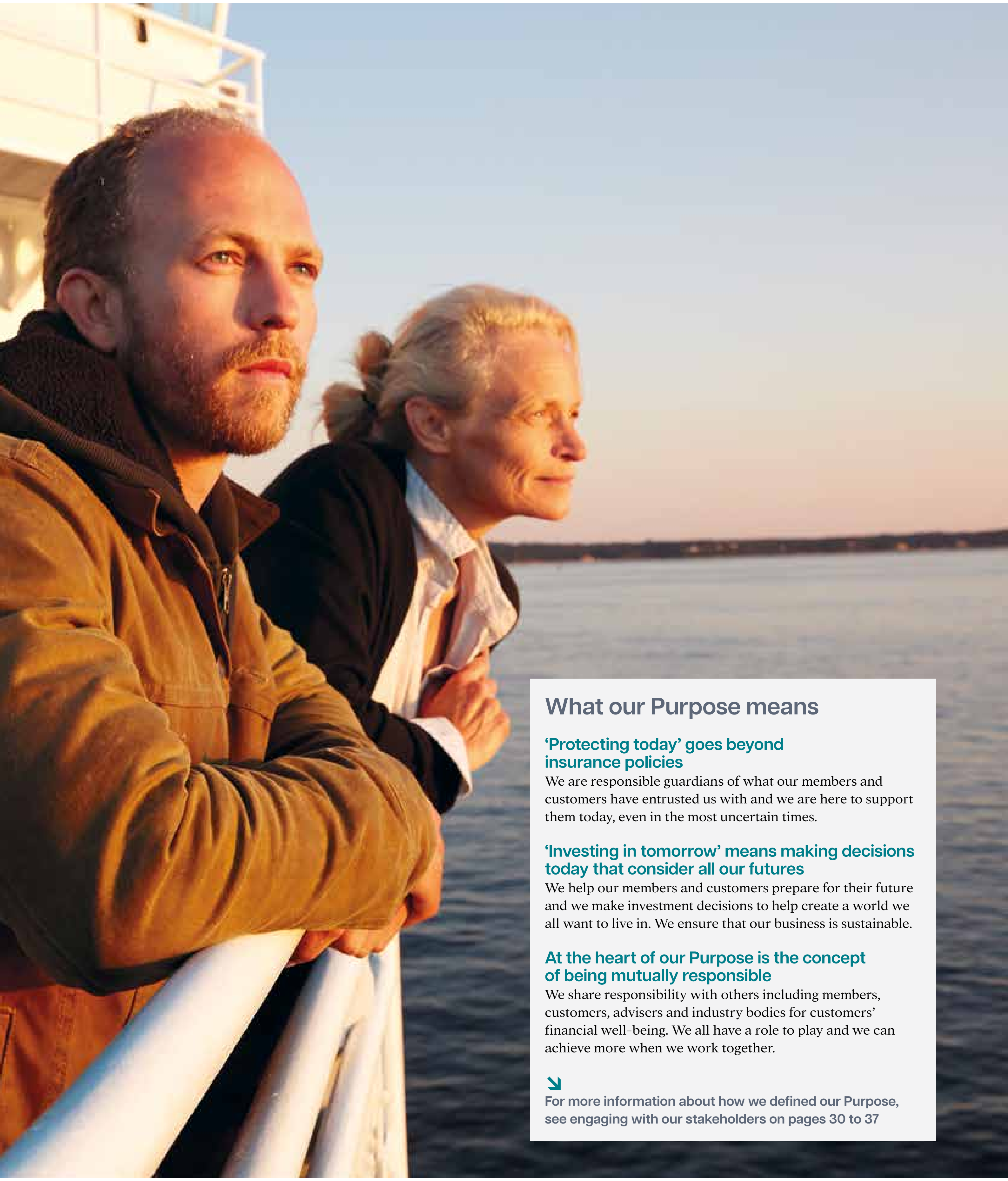
Protecting today, investing in tomorrow.

Together we are mutually responsible.

Ever since we began our business in a London coffee shop in 1861, we have been helping people to help themselves; we innovate and focus on ambitious commitments to make a positive impact in society.

Our Purpose is a reflection of why we exist based on who we are, who we wish to be and the role we fulfil in society.

Our Purpose helps us to think about what is most important when we make decisions and focus on doing the right thing in the face of increasing uncertainty, complexity and choice.



What our Purpose means

'Protecting today' goes beyond insurance policies

We are responsible guardians of what our members and customers have entrusted us with and we are here to support them today, even in the most uncertain times.

'Investing in tomorrow' means making decisions today that consider all our futures

We help our members and customers prepare for their future and we make investment decisions to help create a world we all want to live in. We ensure that our business is sustainable.

At the heart of our Purpose is the concept of being mutually responsible

We share responsibility with others including members, customers, advisers and industry bodies for customers' financial well-being. We all have a role to play and we can achieve more when we work together.

For more information about how we defined our Purpose, see engaging with our stakeholders on pages 30 to 37

We are the UK's largest mutual life, pensions and investment company. We provide pensions, protection and wealth management products and services in the UK, and protection in Ireland. We work with advisers and customers to deliver long-term growth, income and protection.

Royal London is a mutual company, meaning many of our customers are also members. As members, they are really important to us because they own the business. We are committed to giving higher levels of service and great experiences, and making sure members' voices are heard.

Our structure and products

The divisions we operated in 2020 and the products they provide are briefly explained below. From 2021, we will simplify the way we organise ourselves internally and we will have three business divisions: UK, Ireland and Asset Management.

Intermediary

Distributes savings and protection products through independent financial advisers. This includes individual and workplace pensions and, at retirement, our income drawdown and income release products. Protection products include life cover, critical illness and income protection plans.

Total policies

2,712,379

(2019: 2,525,098)

Consumer

Sells life insurance, investment and retirement products directly to consumers who do not want or cannot afford financial advice. Products include over-50s life assurance, term insurance and funeral plans.

Total policies

560,024

(2019: 486,216)

Asset Management

Manages investments for a wide range of Royal London customers with life or pension policies. We also look after investments from clients recommended by independent financial advisers and wealth managers, as well as for pension funds, local authorities and charities.

Assets under management

£148bn

(2019: £139bn)

Legacy

Serves long-standing customers, many of whom do not have access to financial advice, and helps them manage their money. Legacy provides protection, life and pension policies, along with annuities and tax-efficient savings plans including ISAs.

Total policies

5,571,718

(2019: 5,621,868)

Read more about the performance of each of our divisions in the business review on pages 45 to 51

Highlights 2020

Financial highlights

Operating profit before tax[1]

£41m

(2019: £165m)

Assets under management

£148bn

(2019: £139bn)

Profit before tax[1]

£131m

(2019: £414m)

Group Solvency II capital cover ratio (Investor View)[2]

190%

(2019: 219%)

1 Royal London changed its statutory reporting basis to UK GAAP with effect from 1 January 2020; more detail can be found in the Financial review.
2 The Group changed the Investor View capital metric to equal the Royal London Main Fund capital position, which excludes the ring-fenced funds' (closed funds) capital position. 2020 capital figures are estimated.

Read more about our key performance indicators (KPIs) in Measuring our performance on pages 18 and 19, and see page 220 for details on our alternative performance measures (APMs)

Operational highlights

Total number of members

1.7m

(2019: 1.6m)

Total number of policies held[1]

8.8m

(2019: 8.6m)

Employee engagement score

81%

(2019: 83%)

Net Promoter Score

63%

(2019: 63%)

Total charitable contributions in the UK and Ireland during 2020

£1.1m

Donations made to local communities impacted by Covid-19, to our strategic partnerships and to support our colleagues' fundraising.

Growth in the value of assets in our sustainable funds

128%

(2019: 80%)

1 There are 149,917 general insurance policies where Royal London acts as an intermediary via a subsidiary company and 14,546 policies as part of a discretionary healthcare scheme via a subsidiary company that are not included in these numbers.

We transitioned to 98% of our colleagues working from home during the first lockdown, which enabled us to continue to provide our normal high level of service to customers

Kevin Parry OBE
Chairman

The dedication of our colleagues has been outstanding in 2020. Their engagement with and support for our customers has been exemplary and the Board is extremely grateful for their flexibility and professionalism in the face of adversity.

Covid-19 and stakeholders

Royal London successfully transitioned to 98% of our colleagues working from home during the lockdowns of 2020, which enabled us to continue to provide our normal high level of service to customers. Throughout these lockdowns and continued working from home we have maintained high levels of engagement with our colleagues, evidenced by ongoing surveys confirming colleague well-being was front of mind. Our colleagues' professionalism meant that we stayed open for business without needing to ask customers to delay interactions with us. We have sadly paid out claims to the families of more than 2,100 customers as a result of deaths attributable to the Covid-19 pandemic and continue to support our customers through difficulties.

As a mutual, we put customers first. What is in the best interests of our customers is normally in the best interests of their communities and society, and we work with other important stakeholders to tackle big social issues.

Both pension and protection products allow people to take control of their circumstances, prepare them for the unexpected and provide peace of mind. This has been emphasised by the uncertainty caused by the Covid-19 pandemic. Royal London works to remove barriers that may lead to many people and families being underinsured or not insured at all. We believe that it is important to support people to build financial resilience with affordable, accessible and reliable products.

In 2020, we took a more strategic approach to our social impact activities, significantly increasing our strategic giving and directing all our social impact activities to drive change on our life shocks agenda. We have chosen Turn2us as our flagship charity partner. Their work is focused on financial resilience and helping people to help themselves.

Recognising the importance we place on protecting the most vulnerable and challenged members of society, we made total charitable contributions of £1.1m in the UK and Ireland, including £500,000 to the National Emergencies Trust in the UK, to our local charity partners and through our colleagues' fundraising.

Environmental, social and governance focus

We have continued to embed environmental, social and governance (ESG) capabilities into our investment activities. Royal London Asset Management (RLAM), as an asset manager, has been a signatory of the United Nations Principles for Responsible Investment since 2008. More recently, the onus of that protocol has been extended beyond fiduciary duties to the duties of asset owners and we were pleased to sign up as such in January 2020. We support the expectations set out by the Financial Reporting Council in the revised UK Stewardship Code 2020. We are a signatory of Climate Action 100+, the Institutional Investors Group on Climate Change and a participant in HRH The Prince of Wales's Accounting for Sustainability project.

RLAM engages with corporates on behalf of Royal London and its third-party clients to influence positive corporate changes. We prioritise environmental engagement with those corporates that currently cause the highest detriment to the environment. We push management to deliver stretching carbon reduction targets at a realistic scientific pace and in such a way that does not cause adverse social impact. We believe this balances necessary environmental changes with the ability of people, particularly in developing nations, to adapt. We also continue our long-standing focus on high levels of corporate governance. We fully support the Parker review targets for ethnic diversity on the boards of the UK's largest companies and are engaging with chairs of boards on how they can support and embrace ethnic diversity. In the current reporting season we have a sharp focus on levels of variable remuneration, particularly in companies that have cut dividends, raised capital from shareholders and/or received furlough monies from governments during the Covid-19 crisis.

Royal London's own standards on ESG issues, including details of what we are doing to reduce our carbon emissions and to address climate change, are described in the responsible investing and climate change sections of this annual report. We continue to focus on making even more progress, particularly on our indirect environmental and social impacts.

A strategic review

Following a strategic review, we decided to refine our portfolio of businesses and, as a result, in May, we announced the sale of Ascentric, our IFA investment platform business, to M&G. In June, we announced that Police Mutual joined Royal London. Police Mutual is another mutual that is committed to providing the best value for its members and customers, comprising police officers, members of the armed forces, staff and their families. The men and women in the police and the armed services play a vital role in protecting society and we welcome them all to Royal London. The ethos of this mutual fits well with our values and culture.

The business provides insurance and savings products for the police, the armed services and the staff that support their frontline duties. They do so much for society and Royal London welcomes them wholeheartedly as customers.

Our strategic review emphatically emphasises our Purpose: **Protecting today, investing in tomorrow. Together we are mutually responsible.** We aspire to be an insight-led, modern mutual growing sustainably by deepening customer relationships. Our ambition is to manage costs and capital effectively, investing carefully with a clear commercial focus, whilst managing our own imprint on the planet and having a meaningful social impact.

Capital

Our capital base has remained resilient throughout the year with a Solvency II Group Investor View capital cover ratio of 190% (2019: 219%). This has allowed us to continue to protect all of our customers during an extraordinary, uncertain period as well as providing the foundation for future, long-term success.

ProfitShare

ProfitShare enhances the return on eligible life and pension policies. During the year, we reviewed the principles that inform the Board's annual decision on the rate of ProfitShare. We confirmed that sustainability should be core to each year's decision, based on our business plan. Accordingly, I am pleased to report that, in spite of the difficult trading conditions in 2020 linked to the pandemic, we can maintain the rate from last year. It is a unique benefit of mutuality. I am very pleased to report that this year's total ProfitShare allocation to eligible customers has grown in line with the aggregate value of eligible policies and is £146m (2019: £140m). This clearly demonstrates Royal London's resilience in difficult times and our commitment to delivering value.

Board

Your Board continues to evolve as we shift the focus towards the future needs of the business, with a mix of new and long-serving directors. Daniel Cazeaux joined as Group Chief Financial Officer in June. We appointed Kal Atwal as a non-executive director in January and Tim Tookey as a non-executive director and Chairman of the Audit Committee in April. Mark Rennison joined us as a non-executive director in September, in anticipation of David Weymouth retiring from the Board, with a view to becoming Chairman of the Risk and Capital Committee later this year. In December we appointed Shirley Garrood as a non-executive director and it is our intention that she will chair our asset management business.

We were delighted that Ian Dilks was awarded an OBE in the Queen's Birthday Honours List in recognition of his work as Chairman of NHS Resolution.

Outlook

We are more committed than ever to our Purpose and values, generating profit, growth and strong investment results in a sustainable and responsible way. I believe that our mutual culture, our proven resilience and the commitment and strength of our colleagues will help us to continue to create value for our members, customers and society.

Kevin Parry

Kevin Parry OBE
Chairman
4 March 2021

We are doing what every successful business does: making sure we stay focused on what our customers want and need

Barry O'Dwyer
Group Chief Executive

2020 was marred by the tragic societal and economic consequences of the pandemic. Through these difficult times, our focus has remained on the health and well-being of our colleagues so that they can continue to deliver, supporting our members and customers.

The year was also one of change for Royal London. Even before the pandemic struck, our industry was facing a period of transformation in response to changing customer needs and demands. To respond to emerging trends, I initiated a review of our Purpose and strategy with the support of the Board.

Purpose

Since we opened our doors in 1861, we have helped people to help themselves. That has been our way of thinking ever since. The articulation of our Purpose in 2020 has been shaped by colleagues, members, customers and our partners to reflect different perspectives, and also to recognise the impact of our business on wider society. We are proud to unveil our Purpose as: **Protecting today, investing in tomorrow. Together we are mutually responsible.** The words we use to describe our Purpose may have evolved, but the sentiment behind it has always stayed true to our roots as a mutual. Our Purpose will continue to guide our decision-making, from the way we transform our business to the positive impact we want to have on society.

We are also changing the way we manage our business to align to our Purpose. From the start of 2021 we will be structured into three business units: UK, Ireland and Asset Management. Within the UK, we will be organised by customer life stage, allowing us to focus on offerings to meet the needs of customers at earlier and later stages of life.

Strategic review

Royal London has many strengths: loyal members, customers and distribution partners, fantastic people and a strong brand with leading products. However, there is always more to be done in building mutually beneficial relationships with our customers and other key stakeholders. Coupled with our great service, we want to provide our customers with unique and innovative solutions which meet their needs at the different stages of their lives. We need to anticipate how we can be of additional help to customers and continuously work to improve their experience with us. To enable this to happen, we have made some changes to our organisational shape. After a careful review of the types of products and services that will best meet our customers' needs, we decided to sell our IFA investment platform business, Ascentric. We are continuing to invest in the technology that underpins our long-term savings products and we believe this will provide better functionality for both customers and their advisers in the years ahead.

We have also looked for opportunities to supplement growth by acquisition and, in October, welcomed Police Mutual into Royal London. We continued to strengthen and broaden our propositions and in September we entered the equity release market with an Introducer Model whereby we offer customers the opportunity to access impartial financial advice on later life lending from our partner Responsible Life. We are building on strong foundations and we are doing what every successful business does: making sure we stay focused on what our customers want and need, selling parts of our business that do not fit with our long-term vision and investing in growing the capabilities that will make the most difference to the lives of our customers.

Power of mutuality

At Royal London, we strongly believe in the benefits of mutuality. We are uniquely positioned to put the needs of our customers above all else and take a long-term approach despite the short-term uncertainties. As a mutual, we can use our profits to invest in the things we believe benefit our customers most, such as our systems and services, as well as enhancing returns on eligible life and pensions policies, through ProfitShare. Since the introduction of ProfitShare in 2007, we have added more than £1bn to the value of eligible customers' savings.

I am delighted to report that we have exceeded all of our target metrics for customer service and we are seeing positive trends in customer advocacy. We want to support our customers beyond providing a financial payout, so we launched a financial well-being portal on the Royal London mobile app. Our Helping Hand service also provides our protection customers with valuable, additional support that they may need during a life shock.

This year more than ever we have all seen how financial hardship can happen to anyone, at any time, and a life shock can turn into a deep crisis for people who do not have a financial cushion to fall back on. In 2020, we launched our first strategic partnership with Turn2us, a charity which is at the forefront of the fight against UK poverty. Through our work we help people who help themselves, but through this charity partnership we want to help provide a safety net for people who cannot help themselves because of a life shock.

After years of campaigning by Royal London on funeral poverty, the Government announced a 43% increase in the funeral grant paid to low-income families, effective from April 2020. We will continue to campaign for the grants to be increased annually, at least in line with inflation, and call for the Government to take urgent action on introducing minimum standards for public health funerals.

We have redirected our brand spend in support of our Purpose. We often see families when they are at their most vulnerable, having just lost a loved one. We know the difference it can make to a grieving family to have had some basic discussions about death before it happens. We ran a successful campaign, Lost for Words, in partnership with renowned photographer Rankin, which was created to inspire an open conversation about death, grief and how to be more prepared for it.

The pandemic may have dominated the news, but we will not lose sight of the environmental issues facing the world. We listen to our members and we know that you want to make a collective difference to the climate challenge. Royal London Asset Management (RLAM) has an outstanding track record in sustainable investment, recognised by winning five awards in this space in 2020. We have also evolved our investment framework to put environmental, social and governance (ESG) issues at the heart of our investment decisions. We are committed to achieving net zero by 2050 across our investments and are signatories to the Institutional Investors Group on Climate Change Net Zero Commitment.

Our trading performance

2020 has no doubt been a uniquely challenging year and our operating profit before tax for the year ended 31 December 2020 was lower at £41m (2019 restated: £165m).

RLAM, which manages the funds for our customers and external clients, has successfully navigated the volatile financial markets. Assets under management increased to £148bn (31 December 2019: £139bn), driven by positive market movements and net inflows of £3.9bn due to the growth in sustainable funds in the wholesale market which mitigated outflows from institutional investors. Our investment performance remained strong with 95% (2019: 98%) of actively managed funds outperforming their benchmark over three years.

In 2020, we increased sales across our intermediated protection products in the UK and Ireland, with present value of new business premiums (PVNBP) increasing by 18% to £962m (2019: £815m). Whilst the virus may have brought home to society the importance of life insurance, critical illness cover and income protection, our success was driven by high-quality propositions, strong service and excellent underwriting capabilities. As a result, our market share in the UK and Ireland intermediated protection business has increased to 14% (2019: 11%) and 23% (2019: 22%) respectively.

Our pension sales fell in 2020, with PVNBP reducing by 24% to £7,206m as economic uncertainty, market volatility and the national lockdowns caused disruption to the services provided by intermediaries to their customers. Consequently, individual pension sales have decreased, with PVNBP reducing by 25% to £4,753m. Workplace pension volumes were also lower as companies deferred decisions to move scheme providers.

Sales in our Consumer division have been impacted by the national lockdowns and declined to £376m (2019: £423m). Margins were also impacted by the ultra-low interest rate environment.

Our outstanding propositions and service performance was recognised by winning a number of awards in 2020, including the Company of the Year 2020 from Money Marketing (including the individual award of Protection Provider of the Year 2020), Best Underwriting Team from the COVER Customer Care awards, Provider of the Year 2019 at the Simply Biz Group Annual Partnership Event 2020 and Best Mortgage Protection award at the 2020 National Consumer Awards in Ireland.

Looking ahead

We made good progress against our strategic agenda in 2020. There is more to do in 2021 but we have all the ingredients to succeed. Royal London has been around for almost 160 years and our foundations are incredibly strong. Our robust capital position provides us with the flexibility to pursue growth opportunities and to continue to invest in digital innovation and technology.

Underpinning our success in 2020 is the loyalty and hard work of our colleagues. The whole Board joins me in thanking colleagues across the Group. They faced many operational changes arising from the pandemic but their continued high levels of engagement and focus on supporting our customers throughout demonstrated commitment to seizing every opportunity available to make Royal London a purpose-led modern mutual.

Covid-19 has undoubtedly had an impact on new business prospects. However, it is a stark reminder that our purpose is wider than the generation of short-term profits. As we embark on the next chapter in the Royal London story, our success will be our part in society's success.

Barry O'Dwyer
Group Chief Executive
4 March 2021

Covid-19: Our response

As well as the heavy human cost, Covid-19 presents a huge and ongoing challenge for many businesses. Royal London responded to the impact of the pandemic by taking a proactive approach to serve our customers and our colleagues.

When the first lockdown came in, we adapted swiftly so that our colleagues could operate effectively whilst working from home. By putting a high priority on our colleagues' well-being, we ensured they could maintain an uninterrupted service to customers, and we remain committed to do what we can to support our customers, colleagues and communities through this period of uncertainty.

Tracey Kneller, Group Chief People Officer at Royal London, says: "I am extremely proud of the way our colleagues have responded throughout 2020 in response to the pandemic. They have continued to put customers first and demonstrated our values at every turn; their support for each other has been exceptional."

Employees working from home

98%

Total charitable contributions in the UK and Ireland during 2020

£1.1m

Our customers

Covid-19 highlighted the fact that people need help in difficult times, underlining more than ever the importance of our products and services. We upheld the strong customer service our customers expect from us, maintaining or improving our performance on customer service indicators. We implemented a number of specific measures to help customers.

Support for our customers

- We permit a payment holiday of up to six months on insurance products, so customers can pause monthly payments without losing cover.
- We offer a discounted Will service to enable customers to feel more in control of their affairs and better protected in the face of bereavement.
- We accelerated the digitisation of our services, including new online forms to help customers complete key tasks. These include a change of address, and letting us know someone has died, which starts the claims process through our website rather than over the phone.
- We now offer our customers access to health and well-being apps: Thrive (for mental health) and TrackActiveMe.
- We created a dedicated Covid-19 webpage, collating information and FAQs.

Our colleagues

At the heart of our business are our colleagues. That is why we take care of them and why our approach is designed with their health and well-being at its core. We took a number of steps to make sure they felt supported and connected.

Practical support for our colleagues

- Decisive action at an early stage enabled 98% of colleagues to move to remote working.
- We developed a bespoke reporting system to track the health of our colleagues.
- We developed a Return to the Workplace (RTW) approach.

Staying connected with colleagues

- We kept everyone informed of our plans and policies and created a working from home guide.
- Our Employee Representative Forum met virtually to share colleagues' views and best practices.
- We supported colleague connections using digital solutions, increased phone calls and other engagement tools.

Caring for colleagues' well-being

- We created guidance on flexible working.
- Qualified staff continue to offer mental health support to colleagues.

Our community

We recognise the need to support the communities our customers and colleagues live in – something that's been even more apparent during the pandemic. Our involvement in charity work and volunteering is part of this commitment.

Charitable donations

- We made total charitable contributions of £1.1m, including donations to our local charity partners and supporting our colleagues with their fundraising.
- We worked with our local charities and community champions to design virtual lunch and learn sessions and fundraisers.
- We maintained all of our existing charitable relationships.

Supporting the wider community

- We helped ease the burden on the NHS by finding alternative sources of information for our life insurance business. We took measures to reduce the number of cases requiring medical evidence from the NHS.
- We shared guidance with our colleagues on remote volunteering options.
- Although Covid-19 significantly impacted our England Cricket partnership in 2020, we remain committed to our sponsorship at all levels particularly the England and Wales Cricket Board's Inspiring Generations strategy, which aims to build and grow the grassroots game.

Our business model: creating value for stakeholders

Now guided by our Purpose, we deliver better outcomes for our members and customers whilst considering the impact on wider society and the environment.

We are influenced by

The world we live in

The world is changing rapidly but we are well placed to respond to the challenges that face the UK and Ireland.

Read more about the big issues impacting our business on page 20

The views of our stakeholders

Doing the best by our members and customers, creating partnerships with intermediaries and listening to the views of our colleagues all contribute to building a better business.

Read about stakeholder engagement on page 30

We are driven by our Purpose, which guides our strategy and behaviours

Our Purpose

Protecting today, investing in tomorrow.
Together we are mutually responsible.

Our strategy

To become an insight-led, modern mutual growing sustainably by deepening customer relationships.

Our strategic shifts

- Purpose driven
- Data-led and digitally nimble
- Customer focus
- Broader solutions
- Mutually valued relationships
- Sustainable financials

Underpinned by our values

By living our values, we achieve great outcomes together for our members and customers.

We are empowered
We support. We challenge. We are responsible.

We are trustworthy
We are reliable. We are honest. We build relationships.

We achieve
We improve. We adapt. We deliver for customers.

We collaborate
We are inclusive. We connect. We are one team.

Connected reporting

We use our six strategic shifts throughout the report to illustrate how we are delivering value.

Read more about the strategic shifts on pages 22 to 24

We create value across our business through our distinctive strengths

Vital to our efforts to generate the right results for stakeholders are the distinctive strengths we bring to bear across our business divisions.

Service
We consistently provide award-winning service levels.

Investment
We aim to generate strong investment returns whilst also making a positive contribution to society and the environment.

Proposition
We develop innovative products and services to deliver value for money and improve customers' lives.

Distribution
We utilise the strength of our adviser, partnership and direct distribution model to reach more customers.

People
We ensure our colleagues have the expertise and capabilities to deliver the best outcomes for our members and customers.

Culture
We create a positive, inclusive and flexible culture for our colleagues.

Read more about our strengths in the business review on pages 45 to 51

We deliver value for all our stakeholders

Members and customers
Understanding our customers is vital to knowing what they need today and tomorrow and supporting them through the journey. Our Think Customer programme helps us measure how well we are delivering what our members and customers want from us and provides us with insight on what we could do better.

Society and communities
Giving back to society means making a positive difference to our local communities. We are at the forefront of improving standards in our markets and influencing on a wider stage in areas such as governance and climate change.

Our colleagues
Our employee engagement scores demonstrate the care we take to listen to our colleagues and reflect their feedback and views in how we run the business. Our future success continues to rely on our colleagues.

Advisers
We value impartial financial advice and align our colleagues, tools and services to the needs of financial advisers and their clients. We believe working in partnership with advisers helps customers enjoy brighter financial futures.

Read more about how we support stakeholders on pages 30 to 37

Financial KPIs

Our key performance indicators (KPIs) show how we are delivering – from profitability and growth to customer advocacy and employee engagement.

We use a range of financial and non-financial metrics to measure and assess our performance, financial strength, customer advocacy and employee engagement. These include alternative performance measures (APMs). The measures are reviewed annually and updated to ensure they remain an effective method of gauging delivery against our objectives.

Profitability – operating profit before tax[1]

£41m

(2019: £165m)

Why it is important

Presentation of operating profit facilitates comparison of the Group's performance over the reporting periods.

Our performance

Operating profit before tax was lower at £41m, impacted by a lower contribution from new business, reduced experience variances and assumption changes and higher financing costs, partially offset by higher profitability in our AUM businesses and lower levels of losses on other businesses following the disposal of Ascentric.

Strategic shifts:

Profitability – profit before tax[2]

£131m

(2019: £414m)

Why it is important

Profit before tax reflects the operating profit from our primary business operations, and also includes non-operating items such as economic movements, amortisation of goodwill, profit on sale of subsidiaries and ProfitShare.

Our performance

Profit before tax decreased to £131m due to the reduction in operating profit and lower economic effects compared to the prior year.

Strategic shifts:

ProfitShare[1]

Why it is important

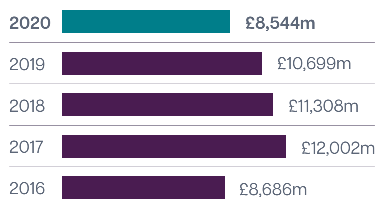
Our mutual status means that when Royal London does well, so do our members.

Our performance

The ProfitShare rate was maintained with the amount increasing to £146m, growing in line with the aggregate value of eligible policies, despite the lower profitability experienced during 2020. Maintaining the level of allocations demonstrates Royal London's resilience in difficult times and our commitment to delivering value.

Strategic shifts:

New business – present value of new life and pension business premiums (PVNBP)[1]



Why it is important

We monitor new business sales as the Group's measure of the future value delivered through the writing of new business.

Our performance

New life and pension business sales on a PVNBP basis decreased 20% in 2020 to £8,544m, as a result of economic uncertainty, market volatility and the national lockdowns disrupting services provided by intermediaries, and companies deferring decisions to change provider.

Strategic shifts:

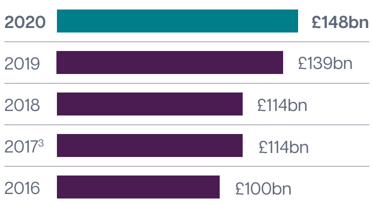
Strategic shifts

- Purpose driven
- Data-led and digitally nimble
- Customer focus
- Broader solutions
- Mutually valued relationships
- Sustainable financials

Read more in the Financial review on pages 52 to 57

Non-financial KPIs

Funds – assets under management (AUM)[1]



Why it is important
A higher level of AUM leads to economies of scale, and higher profitability in our asset management business, meaning Royal London can continue to offer competitive management fees to our customers.

Our performance
The Group's AUM increased to £148bn, net inflows driven by the continued growth in our sustainable funds range and positive market movements.

Strategic shifts:

Capital – Solvency II (Investor View) capital cover ratio[1 4]

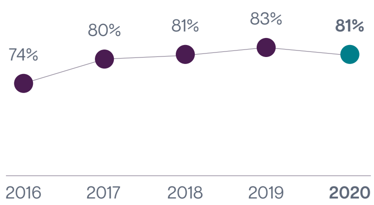
190%
(2019: 219%)

Why it is important
The strength of our capital base is essential to our business, both to ensure we have the capital to fund further growth and to give peace of mind to our customers that we can meet commitments to them.

Our performance
At 31 December 2020, our Group Investor View capital cover ratio was 190%, reflecting continued strategic investment in our business and maintaining ProfitShare allocations. Economic variances were in line with expectations, with our hedging strategies operating as intended through the market volatility in 2020.

Strategic shifts:

Colleagues – employee engagement

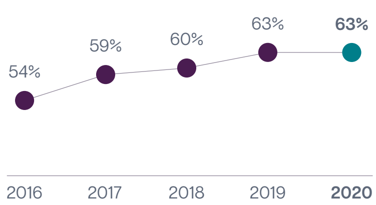


Why it is important
We monitor employee engagement as we believe that creating a culture where everyone feels welcome, that fosters talent and allows colleagues to achieve their full potential is important to our business and is the right thing to do.

Our performance
Royal London's employee engagement survey enables colleagues to provide continuous feedback on different elements of their experience. The results are reviewed by management on a monthly basis and the Board on a biannual basis. 92% of colleagues participated in the 2020 survey, with an employee engagement score of 81%. This reflects a slight reduction on last year's score but nevertheless remains a stable engagement score within a challenging and changing environment, showing a year of hard work and collaboration. In 2021, we will be including a new broader measure of customer engagement.

Strategic shifts:

Customers – Net Promoter Score (NPS)



Why it is important
NPS is our measure of customer advocacy and articulates the likelihood of a customer recommending Royal London.

Our performance
NPS scores of +50 are widely considered to be 'excellent' so these consistently high advocacy scores are a positive indicator of our performance against a backdrop of an expanding customer base and ongoing developments in the pensions market. Our 2020 performance is strong in a challenging period of disruption to working environments and increased customer contact.

Strategic shifts:

1 These metrics are classed as our APMs; see page 220 for more details.
2 Profit before tax represents the 'Profit before tax and before transfer to the fund for future appropriations' in the statement of comprehensive income.
3 2017 AUM includes amounts held in RLAM C.I. Limited, which was sold in 2018 with AUM of £2.0bn.
4 The Group changed the Solvency II 'Investor View' metric in 2020 to equal the Royal London Main Fund (RL Main Fund) capital position (excluding ring-fenced funds). 2020 capital figures are estimated.

The world we live in

2020 reminded us all that the world can change quickly and unexpectedly. Royal London's combination of financial strength, long-term thinking and our ability to adapt quickly make us well placed to meet the demands of this fast-changing world.

We responded swiftly and effectively in light of the enormous challenges presented by the Covid-19 pandemic, but clearly it is a development with profound implications for our members and customers, our colleagues and our business. More than half (53%) of our customers have indicated that they are concerned about some aspect of their financial situation because of the pandemic, and whilst we are pleased that 62% of our customers feel they are getting the support they need with their finances, we have an opportunity to do more and support even more customers. We continue to look at how we can communicate more effectively with our customers to support them through the pandemic and beyond.

Beyond Covid-19, concern for the environment continues to grow. We are facing the prospect of global temperatures rising by more than 3°C by 2100 if immediate action is not taken to curb global carbon emissions, according to the Intergovernmental Panel on Climate Change.

Responding to external influences

Trend/issue	Uncertain economic environment	Covid-19	Climate change
The challenge	Covid-19 has caused deep economic damage, with unemployment rising sharply and some sectors facing severe hardship. The impact of Brexit on different industries is not yet established	The pandemic has brought many challenges. Looking after our members, customers, colleagues, independent financial advisers and other stakeholders is a priority	Businesses around the world have a crucial role to play in reducing emissions and enabling the transition to a low-carbon economy
Our response	Our products are designed to protect our members' and customers' financial futures and Royal London Asset Management (RLAM) has long-standing expertise in navigating financial markets. We use this expertise to help people protect themselves against economic uncertainty In preparation for Brexit we protected our Irish position through a Part VII transfer, and we continue to keep a close eye on developments as we mitigate risks through our normal risk management process	We responded quickly and continue to support our customers, colleagues and communities through a range of measures, whilst our focus on financial resilience and vulnerability is highly relevant in a Covid-19 world	This is the second year we have included climate change disclosures We are signatories to the Institutional Investors Group on Climate Change (IIGCC) Net Zero Commitment and we are committed to achieving net zero by 2050 across our investments In 2020 we achieved net zero emissions across our operational estate via carbon offsetting
Read more	**Our Purpose** See pages 6 and 7 **Our strategy** See pages 22 to 24 **Principal risks and uncertainties** See pages 61 and 62	**Covid-19 response** See pages 14 and 15	**Climate change** See pages 40 to 43
Strategic shifts			

There is also an increasing focus on diversity and inclusion, and growing appreciation of the need for, and advantages of, a more diverse workforce.

As the demand for responsible investing increases, we have made it a core part of our business. We plan to integrate environmental, social and corporate governance (ESG) factors across our passive equity investments and reduce the carbon intensity of our customers' investments.

We are better able to address these issues and trends through our reframed Purpose and strategy, which helps to guide our response to these external influences.

Proportion of people frequently running out of money before the end of the month/week

>20%

Source: Turn2us insight report

How much hotter the planet's average temperature was in 2020, compared to pre-industrial revolution levels

1.25°C

Source: ERA5 / Copernicus Climate Change Service

Demands for greater inclusivity and diversity	Rapidly changing financial services industry	Responsible investing	Growth in purpose-led businesses
Businesses and their leaders need to reflect wider society and create a culture of diversity and inclusion, both at boardroom level and throughout their organisations. Indeed, customers now demand companies respond to social issues	The industry is ever-changing, driven by new technology and evolving regulations. Issues such as data protection and cyber security are increasing complexity whilst new business models are challenging established industry players	We recognise the importance of using our power as investors to make the world a better place. Encouraging businesses to focus on climate and social issues, and to govern themselves responsibly	People are increasingly expecting the companies they buy from to contribute positively to society
As an investor, we push businesses to become inclusive and diverse because it is the right thing to do and it improves performance. As a Group, we are working to recruit and nurture diverse talent We launched a campaign to encourage our colleagues to provide their demographic data so we can accurately measure the diversity of our workforce. We have also mandated colleague training on diversity and inclusion, and our employee networks published articles relating to LGBT+ History Month and Black History Month To build on our progress, focus on improving our diversity demographics Group-wide will continue	Our strategy recognises the need for constant evolution. We embrace technology to improve our business, for example, through the development of our mobile pension app and digitising many customer services (such as personal details change requests), and we work with regulators to ensure fair and safe markets for customers As part of our Helping Hand service, we launched two apps that improve physical and mental well-being, and we continued to work with RedArc, which provides a dedicated nurse to help people cope with illness or bereavement	We are already leaders in responsible investing but have developed our capacity further to meet the burgeoning demand from customers and clients We have agreed how to integrate ESG factors across our corporate pension default fund, including within our passive equity investments	We have always addressed social issues, but in 2020 we articulated our refreshed Purpose and used it to focus our social impact agenda. We are committed to helping society deal with financial vulnerability and life shocks through our partnership with Turn2us, a national charity fighting UK poverty
Engaging with stakeholders See pages 30 to 37	**Our Purpose** See pages 6 and 7 **Our strategy** See pages 22 to 24	**Responsible investment** See pages 38 and 39	**Our Purpose** See pages 6 and 7 **Our strategy** See pages 22 to 24 **Our social impact** See pages 25 to 28

We recently refreshed our strategy in line with our Purpose, and to respond to the changes being experienced by our members, customers and advisers in our markets and in the wider world

Royal London's strategy is to become an insight-led, modern mutual growing sustainably by deepening customer relationships, which means:

- we will nurture mutually beneficial two-way relationships with our members, customers, distributors, partners and our colleagues;
- we will be driven by member and customer needs and ensure we are informed by this insight to deliver the best outcomes;
- we will invest in sustainable growth, deploy our capital effectively and manage our cost base to run Royal London better; and
- we will continue to invest in our digital capabilities and technology so that we can offer a simple and efficient service and adapt swiftly to future needs.

Our strategy builds on the strengths that have helped us get to where we are today. For more detail on how this is put into practice, please see our business model on pages 16 and 17.

We are determined to live our Purpose by embedding it in all we do. Our strategic initiatives help us to deliver our Purpose and we provide more detail on our six strategic shifts, being areas where we need to drive transformational change in order to deliver our Purpose and strategy, right and overleaf.

Purpose driven

We will align our organisation and decision-making with our Purpose, signalling the impact we want to have on society.

We have a Purpose and we are driven to have a meaningful impact on the lives of our members, customers, partners, colleagues and wider society. Everything at Royal London, including our culture is guided by our Purpose. We are better positioned to adapt to the ever-changing external environment with this focus.

Key objectives
- Be a Purpose-driven brand, demonstrating our modern mutual culture to members and customers.
- Make responsible investment and climate change core to our Purpose and brand as we grow responsibly and sustainably.
- Embed our social impact approach and strategic focus on life shocks, working with experts like our flagship partner Turn2us, to drive long-term societal change.

Data-led and digitally nimble

We will use insight to drive the best customer outcomes and solutions, continuously increasing agility, engagement and efficiency.

Technology is enabling fundamental shifts within our industry and wider society, influencing how we work, spend and save. Customers expect more tailored and digital experiences and Covid-19 has accelerated this trend.

Key objectives
- Invest in our technology architecture, our data and digital capability, automating where we can to drive a much richer and leading customer experience.
- Deliver new technology solutions for our colleagues to communicate, collaborate and connect better with customers.

Customer focus

We will continue to put the needs of our members and customers first.

We have always been proud of how much attention we pay to our members and customers and how we are there when it matters the most. This is about how we prioritise their needs before anything else. By deepening our understanding of our existing and future members and customers, we will create tailored solutions and experiences for them through the channels best suited to them.

Key objectives
- Use deep insight to help create the best solutions for our members and customers.
- Continue to deliver high levels of customer service.

Mutually valued relationships

We will build trusted relationships with our members, customers, colleagues and communities, enhancing engagement and support.

We want our customers to feel empowered to make informed decisions as we build stronger emotional connections with them. This is particularly important in these challenging times. We will also seek to enhance our customer engagement, support and experience to improve customer outcomes before and after retirement.

Key objectives
- Ensure we offer customers the right information and access to guidance and advice at the right point.
- Maintain our inclusive culture, engaging and providing support to our colleagues.
- Increase our social impact through partnering and supporting local communities.

Broader solutions

We will bring together our best solutions to meet a broader range of customer needs, exploring opportunities to target new markets and innovate.

It is no secret that customers' needs evolve as they move through different life stages, which means the financial products and services they need also change over time. By widening what we offer, we will give our members and customers more options to help fund a more comfortable financial future.

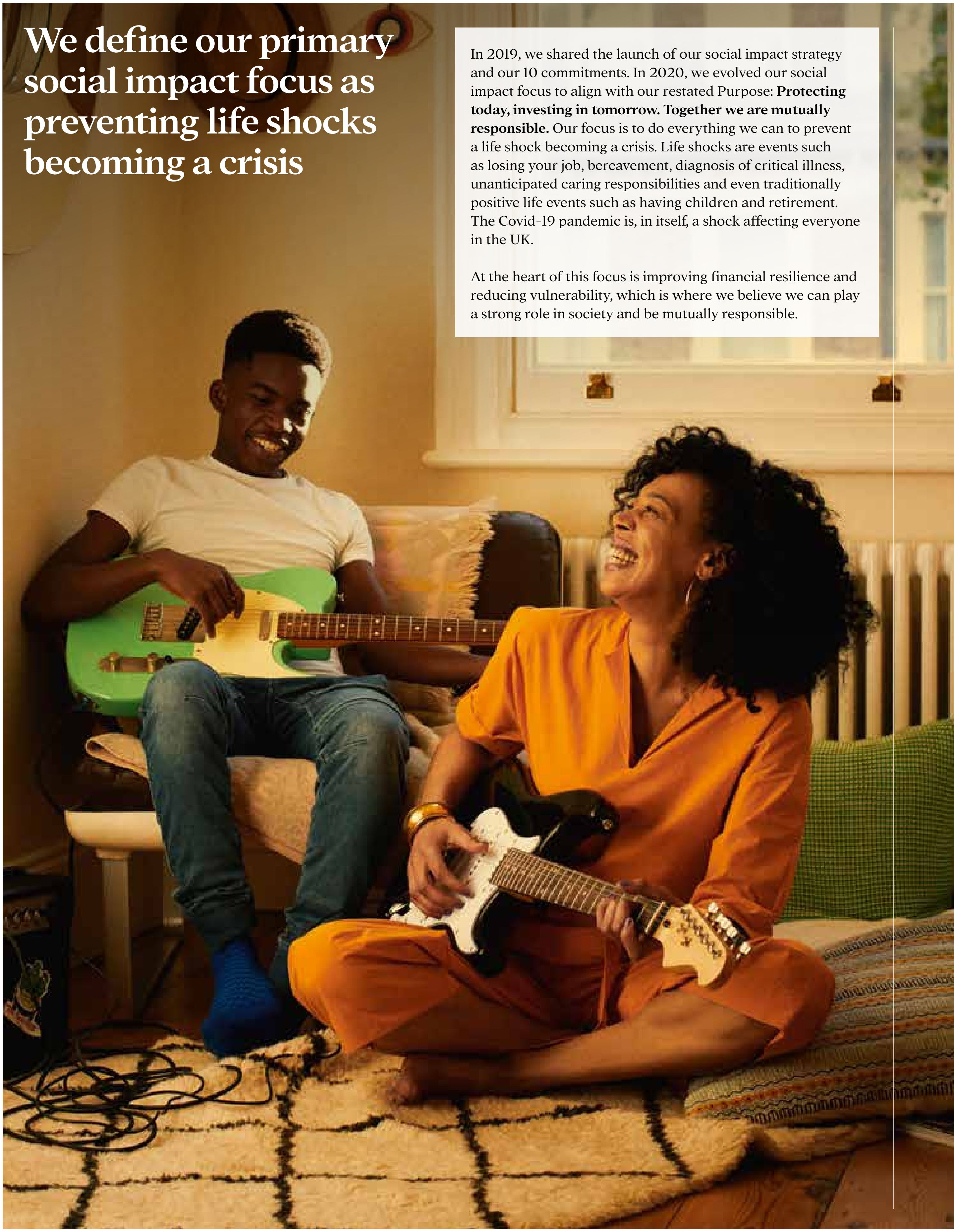
Key objectives
- Selectively invest in new products and channels where we have the skills and capabilities to meet customer needs.
- Support the wider financial well-being of members and customers.

Sustainable financials

We will maintain a strong commercial position, growing our business sustainably whilst continuously improving the customer experience.

It is as vital as ever that we remain financially strong so our members and customers can be confident that we are keeping their money safe for the long term. This means we need to manage our costs effectively and focus our investments on the best places to generate good returns.

Key objectives
- Maintain a strong capital ratio and deliver operational efficiency cost savings.
- Build a sustainable business whilst continuing to return considerable value to our members via ProfitShare.



We define our primary social impact focus as preventing life shocks becoming a crisis

In 2019, we shared the launch of our social impact strategy and our 10 commitments. In 2020, we evolved our social impact focus to align with our restated Purpose: **Protecting today, investing in tomorrow. Together we are mutually responsible.** Our focus is to do everything we can to prevent a life shock becoming a crisis. Life shocks are events such as losing your job, bereavement, diagnosis of critical illness, unanticipated caring responsibilities and even traditionally positive life events such as having children and retirement. The Covid-19 pandemic is, in itself, a shock affecting everyone in the UK.

At the heart of this focus is improving financial resilience and reducing vulnerability, which is where we believe we can play a strong role in society and be mutually responsible.

Financial resilience and vulnerability is a big issue in the UK that will not be resolved without intervention. 11.5 million people have less than £100 in savings to fall back on and would struggle to manage without their income or cope in the event of some other kind of life shock.

According to the Financial Conduct Authority, half of adults in the UK could be considered vulnerable at some point during their lives, whether because of physical or mental health issues, life events or simply an inability to manage their finances. So, in 2020, we continued on our journey to drive change on life shocks:

- **Turn2us** – We launched our flagship partnership with Turn2us. Teaming up with a leading poverty charity already working in this area will help us drive change on the issue of life shocks. Read more on page 33.
- **Support for local charities** – Each of our five offices supported local charities focused on life shocks.
- **Charitable donations** – A total of £1.1m was donated to organisations making a difference on life shocks.

Developing our 10 commitments

Our social impact commitments are how we drive positive change and help our members, customers and wider society to plan and prepare for and recover from life shocks. These commitments are across all key areas of our business, where we have the biggest impact.

We introduced the commitments in 2019, and in 2020 identified a key performance indicator (KPI) for each one. As 2020 is our baseline year, we are presenting our current progress for these, and sharing our approach to develop each one.

We will continue to develop robust targets, plans and long-term goals for each one. We have expanded more on what each of our commitments mean and the context of our performance at royallondon.com/mutuality/social-impact

You can read more about the commitments online at royallondon.com/mutuality/social-impact/

Progress against our 10 commitments

	Commitment
1	**Protection** Remove barriers preventing people from getting the protection they need through innovation and driving up standards
2	**Funeral Poverty** Lead, support and influence the Government and industry to ensure affordable, dignified funerals
3	**Financial Capability** Drive up knowledge and skills for people to prepare better for life's challenges
4	**Positive Financial Future** Create solutions, products and services to enable a positive financial future
5	**Championing** Advocate better retirement outcomes through championing access to advice and guidance and lobbying the Government for change
6	**Engagement** Increase engagement in planning for later life through improved customer communications and support
7	**Responsible Investment** Continuously embed advanced environmental, social and governance (ESG) capabilities into our investment activities and influence positive corporate changes via Royal London Asset Management (RLAM)
8	**Environment and Sustainability** Build sustainability into the Royal London operational estate and supply chain
9	**Community** Strengthen our local communities and help build people back up after life's shocks through volunteering, partnerships and financial support
10	**Colleagues** Develop a meaningful, inclusive and engaging workplace for our colleagues and their well-being

Progress	Performance	UN SDGs
Number of customers who could not previously access cover **136**	As of Dec 2020, 136 new customers took up insurance policies. These are people who would have been unable to get cover previously, but for our propositions, including Multi-Claim Protection Cover in Ireland. We will continue to look for ways to expand access to cover to those who need it	1, 3, 8, 10
Number of people facing funeral poverty directly supported **29**	We aim to support 160 people facing funeral poverty each year through our partnership with Quaker Social Action. The partnership launched in October and up to December they took on 150 new cases. Our support enabled 29 of those	1, 10
Number of people directly supported by our 2020 Telephone Guidance **193**	Through our pilot in 2020, 93% of those surveyed said they felt more confident about making decisions as a result. We will continue to use the service to support non-advised customers	1, 4, 10
Number of customers using our guidance and advice tools at retirement **27,851**	We develop tools to help customers at retirement make better-informed decisions. As of Oct 2020, 27,851 customers were using our Drawdown Governance Service via their adviser. We will continue to develop new tools to help more customers make the right decisions for them	1, 10
Number of customers receiving impartial advice **347,868**	Good quality financial advice can help people maximise their savings. As of 2020, nearly 350,000 of our pension customers have seen an adviser	1, 5, 8, 10
Number of mobile pension app users **81,213**	50,000 new users registered to use our mobile pension app in 2020. Interaction with push notifications was well above the industry average of 9.8%, suggesting the app is helping customers to engage with their pensions	1, 10
UN Principles of Responsible Investment rating for RLAM **A+**	Our target was an A+ rating. This performance, which was above the score median average (A) and was an improvement on last year's rating (A), demonstrates improvements in how we embed ESG factors across our investments	7, 8, 12, 13
Scope 1 emissions reduction against 2019 baseline **48%**	Our target is to reduce scope 1 emissions by 60% by 2025. The 48% reduction in 2020's scope 1 emissions (643 tCO2e) against the 2019 baseline was heavily impacted by the pandemic forcing remote working for many of our colleagues	7, 8, 12, 13
Community investment total (charitable donations, fundraising) **£1,107,328**	Our total charitable contributions include £500,000 to the National Emergencies Trust in the UK, donations to our local charity partners, supporting our colleagues with their fundraising, and a donation to our social impact charity partner Turn2us	1, 10
Employee engagement scores for well-being and inclusion **82%**	This is a new measure within our overall engagement scores representing our colleagues' views on how we have delivered our well-being and inclusion commitments. This is above the benchmark of 78% so we are pleased with our performance, but accept there is still work to do	5, 8, 10

Mapping our commitments against UN Sustainable Development Goals
We undertook a mapping exercise against the United Nations Sustainable Development Goals (SDGs) to identify where we will have the most material impact. The UN SDG icons above highlight where we believe we can have a positive effect

Social impact in action

Funeral poverty

Royal London began life in order to work on funeral poverty in Victorian England, and it remains an issue close to our heart. Many people struggle with the rising costs of funerals, with people who are forced to borrow money for funerals now borrowing £1,700 on average. That is why tackling funeral poverty is the second of our 10 social impact commitments.

In 2020, we campaigned for change on several fronts, from raising awareness of funeral poverty with our National Funeral Cost Index to campaigning for more support from the Government for those on low incomes having to deal with bereavement, with a focus on improving the Funeral Expenses Payment and public health funerals. In 2019, the Government announced that the funeral grant paid to low-income families would be increased by 43% to £1,000, a change that took effect in April 2020. However, we don't believe this is enough and continue to campaign for annual increases to this payment in line with inflation.

During the year we campaigned for the introduction of minimum standards for public health funerals and published a report highlighting that some councils would not allow relatives access to the ashes of their loved one if they had received a public health funeral. This campaign received mainstream media coverage and as a result of our work at least one council has now changed its policy.

This year we have also deepened our relationship with the charity Quaker Social Action, funding work on its Down to Earth service to enable it to reach more people facing funeral poverty.

We advocate for consumers through contributing to the Competition and Markets Authority review of the funeral market, both through provision of insight and by participating in consultations.

"Partnering with Royal London will help us to continue and further our work. Our clients, those on low incomes and benefits, are especially vulnerable to funeral costs and without us they would often experience much longer delays to hold their loved one's funeral and be left thousands of pounds more in debt."

Lindesay Mace
Manager of Down to Earth

Providing a helping hand

Helping Hand offers a range of support services to aid customers in preventing, preparing for and recovering from the practical and emotional impacts of life shocks.[1] Helping Hand is one way we try to fulfil the first of our 10 social impact commitments – removing the barriers preventing people from getting the protection they need.

As part of our response to the Covid-19 pandemic we fast-tracked access to two new well-being apps. TrackActive Me helps manage musculoskeletal pain by providing exercise programmes and was actively used by 236 customers. Thrive, an app to help manage mental well-being, was actively used by 399 customers, many of whom experienced moderate to severe depression or anxiety.

To help customers cope with life shocks such as critical illness, chronic conditions or bereavement, we work with a company called RedArc, which provides a dedicated nurse able to give tailored and personal support whenever it is needed, for as long as it is needed. In 2020, over 650 cases were referred to RedArc.

RedArc's service was rated as good or excellent by 99% of people who used it in 2020. Here is some of their feedback:

"I feel incredibly blessed to have my personal RedArc nurse – she is like a fairy godmother who pops up and rings just when she is needed most!"

"Following my husband's diagnosis with Parkinson's, contact from the RedArc nurse was the first opportunity for me to talk with a health professional about the diagnosis. The RedArc nurse was the first to provide any literature and signposting."

1 This service is only currently available to customers who have bought an insurance product via an adviser.

Engaging with our stakeholders

Section 172 statement

When making decisions, the directors recognise that the long-term success of our business is dependent on the way the Group interacts with a large number of stakeholders

When discharging their duties and making decisions, section 172 of the Companies Act 2006 requires the directors to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

The directors have regard to the views and interests of a wide set of stakeholders. Royal London's largest stakeholder groups are our members and customers and the financial advisers that support them, our colleagues, our suppliers and the society and communities in which we work. We also engage with other stakeholders including our pensioners and deferred pensioners, regulators including the Prudential Regulation Authority, Financial Conduct Authority, Central Bank of Ireland, and Government departments including HMRC. The directors acknowledge that each decision made will not necessarily lead to a positive outcome for all stakeholders. However, through wide-ranging engagement in the context of the strategy and Purpose the Board aims to ensure a consistent approach to its decision-making and consideration of stakeholders.

Police Mutual
When preparing for Police Mutual to join Royal London, engagement with employees, police forces, Government and regulators helped us to understand their views and to consider the challenges that would impact the Group's long-term success. Both companies have complementary values and culture as well as being mutual societies committed to delivering the best value for their members and customers. The transaction was an opportunity for Royal London to play its part in the welfare of the families of current and former officers and staff.

The Board decided that the transaction would provide a more secure future for Police Mutual members as well as benefits in the longer term for Royal London members.

During 2020, we increased our dialogue and engagement with stakeholders, which helped the Board to understand their views whilst responding to the long-term and short-term challenges facing Royal London. This engagement helped to shape the Board's consideration of a number of decisions of material or strategic importance to Royal London to address challenges and create value in the long term:

- When the Covid-19 pandemic first struck, Royal London successfully transitioned 98% of colleagues to home working during the first lockdown of 2020, which enabled us to continue to provide our normal high level of service to customers. Having considered the impact of the new working arrangements and recognising the commitment demonstrated in response to the pandemic, Royal London committed to maintain full workforce benefits and not to furlough anyone.
- We have significantly reduced our operational emissions by 48% and we have launched an internal programme to embed climate risk management across Royal London.
- We sold Ascentric, our IFA investment platform business, to M&G, following a careful review of the types of products and services that will best meet our customers' needs. We have also looked for opportunities to grow and have acquired Police Mutual.
- In considering the evolving needs of our customers, we entered the equity release market through a partnership with Responsible Life.
- We made total charitable contributions of over £1.1m in the UK and Ireland. To help meet the immediate difficulties created by the pandemic in the communities in which we work, the Board decided to donate £500,000 to the National Emergencies Trust to provide support to local charities and organisations providing vital help to people and communities.

Page 78 provides more details of how the Board considered our key stakeholders' views when making decisions during the year.

You can find more information about stakeholder engagement throughout the report:

Members and customers	• Members and customers on page 30 • Covid-19 response on page 14 • Board stakeholder engagement on page 80
Our colleagues	• Covid-19 response on page 15 • Our colleagues on pages 31 to 33 • Board stakeholder engagement on page 80
Society and communities	• Covid-19 response on page 15 • Society and communities on pages 33 to 36 • Board stakeholder engagement on page 81
Financial advisers	• Financial advisers on page 37 • Board stakeholder engagement on page 81
Long term	• Our business model on pages 16 to 17 • Engagement with stakeholders on pages 30 to 37 • Responsible investment on pages 38 and 39 • Climate change on pages 40 to 43 • Board stakeholder engagement on page 81

Members and customers

Our members and customers are at the heart of everything we do. We put their needs first and achieve their outcomes by ensuring that customer-focused insight, data and measurement inform all our decision-making. Quite simply, our members and customers are why we exist and we want to create mutually beneficial two-way relationships with them all.

Members

As at 31 December 2020, 1.7 million of our customers were also members of Royal London (31 December 2019: 1.6 million). As owners of Royal London, members have a say in how the company is run through our Annual General Meeting (AGM).

Our 2020 AGM in June was held as a closed meeting with the minimum legal number of members present due to the Covid-19 pandemic and the Government's stay-at-home guidance. In lieu of the physical meeting for members, the Chairman and Group Chief Executive recorded video messages which were hosted on royallondon.com. These messages gave an overview of our financial performance as well as information on how the business was dealing with the pandemic. The AGM section of the website also provided further information for our members on our social impact commitments, our approach to responsible investment and what we are doing for our colleagues. Whilst the percentage of overall votes remained broadly in line with the previous year, 2.6% compared to 3.0% for 2019, we achieved our highest online voting volumes to date.

We also engage directly with all members we hold email addresses for and who have opted into marketing through our quarterly member email newsletter. The emails keep our members up to date on Royal London news and allow us to share our knowledge and expertise on economic changes which could impact them, provide helpful guidance on personal finance topics and explain how they can make use of their membership benefits. In 2020, these newsletters included content to support members through Covid-19 and highlighted the topics being discussed on our 'The penny drops' podcast.

Our Insight into Work programme was designed to invite members and their direct families to gain work experience at Royal London. Following the restrictions imposed to manage the Covid-19 pandemic, we paused the programme in 2020. We are reviewing the programme and will relaunch Insight into Work when possible.

Customers

We welcomed more than 250,000 new customers in 2020 when Police Mutual became part of Royal London. As always, we provided solutions that enable all our customers to protect and look after their future and their families' future. Anyone can be vulnerable to a financial shock and we worked proactively to support our members and customers.

Our monthly members' podcast series, 'The penny drops', sets out to simplify finance and help more people understand their money, so they can make better-informed financial decisions. Host Andrea Fox has covered subjects such as family finances, featuring Rich Edwards from Instagram's Two Dads in London, and preparing for death, featuring photographer Rankin and TV personality Jeff Brazier – part of our wider campaign to encourage society to talk more openly about death. The series has proved successful with members and subscribers, with almost 12,000 downloads, and can be accessed by the major podcast apps.

Royal London's mobile app continues to give members access to details about their pension plan such as fund value, money in and out, investment choice and growth, and retirement projections. It also has a wide range of information available on financial well-being and topical money articles. Over 81,000 customers had registered to use the app as of December 2020.

We know that 2020 was a difficult year and 2021 continues to be challenging, so we made changes to support our customers through the Covid-19 pandemic, including:

- introducing a payment holiday of up to six months on several insurance products, so that customers could pause monthly payments without losing cover;
- developing new online forms to help customers complete key tasks through our website, rather than over the phone (such as changing personal details and starting the claims process by informing us of a death);
- making sure our customer service teams are available to help and support customers as usual; and
- creating an online Covid-19 hub with key information to help customers understand how the outbreak and its consequences, such as redundancy, might impact them.

The Group Insight team engaged with more than 400 members and customers during early stages of the initiative to refresh our Purpose. This stakeholder group preferred 'It's Everyone's Business' as the message over alternatives. The Board approved our refreshed Purpose and strategy which incorporated the message that was preferred by our members and customers.

Our colleagues

'The penny drops' podcast host Andrea Fox talks to Jeff Brazier about his experience of bereavement

Downloads of 'The penny drops' podcast

12,000

The series aims to help people better understand their money

New customers

250,000+

Police Mutual became part of Royal London in 2020

Customers registered to use the mobile phone app

81,000

(as of December 2020)

Our strength comes from within – it is through collaboration, trusted relationships and empowered colleagues that we achieve great outcomes for our customers. That is why we are committed to creating an experience that is inclusive, responsible, enjoyable and fulfilling for all our colleagues, delivering on our People Promise: your difference is our strength.

We always prioritise the well-being of our colleagues, especially in 2020 when their well-being has been key. In return, our colleagues rose to the occasion, being dedicated to ensuring our customers received the service, care and attention they needed.

Our colleagues faced enormous challenges in 2020, so we made sure they felt empowered and supported. When the Covid-19 pandemic first struck, we committed to pay all colleagues 100% of their salary regardless of their situation and we made the decision not to furlough anyone.

Inclusion and diversity

Attracting diverse talent hinges on how well we tell our story and increasing the visibility of our brand is part of this. To do this, we ran social media and video campaigns communicating our response to the pandemic and featuring colleagues who reflect our values, diversity and Purpose.

Feedback from our colleagues consistently highlights the importance of championing inclusion and diversity. During 2020, we developed further our focus on black, Asian and minority ethnic (BAME) inclusion, and in late 2020 we launched a prioritisation plan aimed at improving the attraction and appointment for BAME candidates.

Other positive actions include:

- We became a certified Disability Confident Employer, supporting us to recruit, retain and develop disabled people more effectively.
- We completed the Employers' Network for Equality & Inclusion (ENEI) Talent, Inclusion & Diversity Evaluation benchmark, placing 11th out of 98 submissions and receiving a Gold Award. We were also highly commended in the ENEI Awards 2020.
- We signed up to Business in the Community's Race at Work Charter and also signed up to the #100BlackInterns initiative.
- We launched a campaign to encourage our colleagues to volunteer their demographic data so we can accurately measure the diversity of our workforce. As a result, we have captured 40% of our colleagues' data.
- We organised and supported activities for International Women's Day, Pride Month and Black History Month. We also joined more than 3,000 businesses and organisations in celebrating National Inclusion Week.
- We have made good progress in 2020, with Inclusion continuing as one of our People Commitments for 2021. To build on our progress, we will have particular focus on our gender balance across senior levels and improving our diversity demographics Group-wide.

Our colleagues continued

- Four employee networks are now in place:
  - Women's Network, with more than 750 members
  - BAME Network, with more than 150 members
  - Pride Network, (lesbian, gay, bisexual, transgender and related communities) with more than 280 members
  - EARL (Enabling disability confidence At Royal London) Network, with more than 100 members.

Well-being

To support our colleagues' well-being during the pandemic, an early decision enabled 98% of colleagues to transition to working from home. To ensure our colleagues received the right level of support we facilitated 1,400 requests for equipment. For key workers, our office environments were adapted to accommodate social distancing, with additional protocols such as increased cleaning and mandatory training to assist their personal safety and our policies have been temporarily updated to allow greater flexibility in working patterns whilst caring for dependants.

We provided our People Leaders with additional guidance on how best to manage teams remotely. Our April learning campaign focused on resilience. Throughout the year, we provided practical and emotional advice on coping with the varied impacts of working at home via our publications and local circulars. We developed bespoke reporting functionality to make sure that we could track the health of our colleagues and continue to recruit for business critical roles using telephone and video interviewing.

Following an extension to the eligibility criteria, 75% of colleagues are signed up to our healthcare benefit and over half completed a voluntary health review in 2020. We achieved above-benchmark results of 78% in our Employee Engagement Index for supporting a physically healthy lifestyle and 79% for mental well-being. The community of Mental Health First Aiders at Royal London is well established, providing confidential listening, signposting support and championing good practice.

We also supported the establishment of a network of Menopause Champions and funded their training. We are now funding menopause awareness training sessions for our People Leaders.

Talent and reward

Against the backdrop of Covid-19, talent retention remained high, with annualised turnover at 8.1%, and 81% of our colleagues said they were proud to work at Royal London. Almost 100 colleagues changed their roles during the year through promotions and lateral moves.

In 2021 we will carry out a review of remuneration to ensure it supports our new Purpose and strategy. Our remuneration policy:

- is designed to ensure fair outcomes for key stakeholders;
- aligns executives' interests with those of our members and customers;
- supports the delivery of Group strategy; and
- ensures remuneration is sufficiently competitive to attract and retain talent.

Society and communities

Learning and developing skills

In 2020, we moved to virtual learning for colleagues and targeted areas that our colleagues felt were important: working remotely, resilience, inclusivity and personal growth. We created monthly learning campaigns to suit different learning styles. More than 800 people took part in the new virtual workshops.

We continued to build capability for the future and invested in colleagues taking professional qualifications. We also used our apprenticeship levy for 47 apprentices in a range of subjects, including technology, leadership and risk.

Engagement

As a result of the Covid-19 pandemic, engaging our colleagues – and doing this frequently – was more important than ever in 2020. 98% of our colleagues began working from home from April onwards and we began communicating primarily through digital channels. We recognised the importance of getting regular feedback from colleagues and moved from a biannual engagement survey to a monthly pulse survey. This meant we could continuously listen to our colleagues.

- At a team level, engagement dashboards were an empowering and inclusive tool, enabling each team to discuss what was driving engagement and agree actions together.
- At a Group level, engagement insight helped to inform how we supported our colleagues, what we communicated to them and how we approached a return to the workplace for those colleagues who needed to go back into our offices.

Communicating our Purpose and strategy and how we position the Group for the next phase of growth and change was a priority. Our aim was to have a clear narrative of change, to engage our colleagues and encourage two-way communication.

In addition to our regular channels (CEO blog, podcast, Leaders eBulletin, news content on our intranet), we delivered frequent messaging on our response to the Covid-19 pandemic, keeping our colleagues up to date on what we were doing to ensure their health and well-being were our top priority. We also introduced Group executive and Board Q&A sessions, as well as digital events to replace face-to-face events and conferences, both at Group and business level.

Our colleagues are really involved with our new communications channels, with almost 90% engaging with the launch of our Purpose and strategy in June. With a refreshed Purpose and strategy in place, 79% of our colleagues feel inspired by our Purpose, and embedding this into how we work at Royal London is our focus for 2021.

In 2020, we increased our strategic approach to our social impact activities, aligned to our Purpose, significantly increasing our strategic giving and directing all our social impact activities to drive change on our life shocks agenda. Overall, we gave more than £1m to charities focusing on life shocks, financial vulnerability and resilience, and supporting those in local communities affected by the impact of Covid-19.

In keeping with our new strategic approach, we also launched our first social impact flagship partnership with national charity Turn2us. Turn2us are experts in financial resiliency issues and are at the forefront of the fight against poverty in the UK, supporting millions of people each year. The charity offers support and guidance and helps people in need gain access to welfare benefits and other financial help.

This strategic partnership links directly to our social impact and Purpose, and will enable us to demonstrate the power of a mutually responsible collaboration. Our aim is to share insight, and to collaborate, campaign and innovate together, enabling us to reach more people and have a longer-lasting impact on communities and people across the UK.

You can find more on our social impact pages online at royallondon.com/mutuality/social-impact

Supporting communities through Covid-19

In light of the Covid-19 pandemic, we decided we had to do things differently this year, so rather than asking members to nominate local causes, we donated to the National Emergencies Trust, which helps those people and communities most affected by the pandemic across the UK.

Supply chain

Throughout 2020, we continued to share guidance and engage with suppliers on their Covid-19 pandemic actions, including ensuring that contractors topped up salaries to the full 100% for staff on furlough.

Society and communities continued

Local charity partners

In 2020, we began to support five local charity partners – one for each office – which focus on our issue of life shocks. These initiatives focus on smaller, local organisations, ensuring that we have a positive impact on local groups and people.

We worked closely with Business in the Community to identify mutual priorities and agree how to deliver the best support for our charity partnerships during the year, and have continued to engage with these charities throughout the pandemic and adjusted our support to meet their changing needs.

Glasgow
Our virtual coffee morning in July raised money for PETAL, which supports people affected by homicide or suicide in Scotland

Edinburgh
Held In Our Hearts provides baby loss counselling and support to families

Our colleagues added to funds raised through efforts like the above fun run by knitting angel snow capes, elephant ladybugs and Moses baskets for sick children

Wilmslow
The Booth Centre exists to bring about positive change in the lives of people who are homeless or at risk of homelessness

We have encouraged our colleagues to fundraise for The Booth Centre by running a virtual 10k and attending other events such as a virtual Big Sleepout

Dublin
Virtual events in October and December, including a virtual Christmas gallery, raised funds for Féileacáin, which supports anyone affected by the death of a baby, during pregnancy or shortly after

London
The Food Chain provides groceries and hot meals for the most vulnerable people living with HIV in London

We offered links to our Money Guides and provided printed versions for The Food Chain to share with its service users

Total raised for our local charities via virtual coffee mornings

£5,000

Our colleagues' fundraising total (plus matched funding) for charities

£93,622

Supply chain

In October, we signed a five-year facilities management agreement with Mitie, a leading UK facilities management firm. As part of that deal, Mitie has committed to saving £500,000 on our energy bills over the term of our agreement. The contract includes commitments on zero waste to landfill, minimising single-use plastics and reducing the time and quantity of harmful chemicals in the cleaning service. We will explore how to employ Mitie's large electrical vehicle fleet across our sites in the future.

Mitie is also supporting us in our role as a certified Disability Confident Employer and is developing actions accordingly.

Modern slavery statement and approach

Modern slavery and human trafficking are still problems in modern society and we take firm action to ensure they do not take place in our business or supply chain. We seek assurance of compliance with the Modern Slavery Act 2015 and potential suppliers have to submit evidence of compliance when bidding for business. Any instances of modern slavery in our supply chain would be reported to our Executive Risk Committee. None were reported in 2020.

Volunteering

The Covid-19 pandemic restrictions curtailed our in-person volunteering, but we have continued to work with charities virtually to provide mentoring and support. Our volunteering partnership with The Silver Line continued with volunteers talking to vulnerable older people over the phone to provide companionship and support.

Sponsorship

Despite the challenges of live sport in 2020, including of course the absence of ticket-holding spectators because of Covid-19 restrictions, we remain committed to our partnership with the England and Wales Cricket Board (ECB).

It's important for Royal London to support cricket at all levels, and more so than ever with grassroots development, given the lack of opportunity to play at times during 2020. We look forward to our ongoing partnership in strengthening the growth of cricket.

Our involvement with cricket fits with our redefined Purpose: **Protecting today, investing in tomorrow. Together we are mutually responsible.** We are protecting today by safeguarding cricket in difficult times, we are investing in tomorrow to grow the game and we are working with the ECB for the good of the game.

Royal London remains committed to supporting cricket at all levels

Police Mutual

On 1 October 2020, the Police Mutual Assurance Society (Police Mutual), which includes Police Mutual and Forces Mutual businesses, became part of Royal London. These businesses are focused on improving the financial and overall well-being of serving and retired police officers, police staff, military personnel and their families, and will continue to provide this range of vital services.

As well as a wide range of products and services, Police Mutual continues to deliver a significant programme of financial education for police services up and down the country. Our Land Rover Hercules also travels to police stations all over the country providing a hot drink and snack to police officers and staff, as well as an opportunity to talk to our financial well-being consultants about their finances. Through the Police Mutual Foundation we also provide access to a debt advice service via PayPlan, a care line counselling service, and respite breaks for those in need within the police family.

We sponsor the Police Federation of England and Wales Bravery Awards as well as the Police Bravery Awards in Scotland and Northern Ireland. We also sponsor the UK Police Unity Tour, honouring police officers who have died in the line of duty.

Forces Mutual provides access to a range of insurance products to support military life, including kit insurance and personal accident and life cover, as well as more mainstream financial services products. Forces Mutual places a huge emphasis on financial education through briefings delivered on camps and bases by our sales advisers. We also have a Forces Mutual Foundation, which provides access to respite breaks for those in need. In addition, Forces Mutual delivers activities specifically focused on improving the well-being of military personnel, including sponsoring sports teams and installing well-being rooms on camps and bases.

Image: Police Federation of England and Wales

Society and communities continued

Campaigning

Royal London has a long history of campaigning about issues that affect our customers and wider society. We identify areas where people are disadvantaged or missing out on opportunities and push for positive change. We work with the media to raise awareness of these issues and press governments to act. Below are some of the areas where we made a difference in 2020.

Families	The Covid-19 pandemic affected millions of families' finances, so we campaigned to raise awareness of ways to maximise their income. We highlighted the millions of pounds available to parents in tax-free childcare accounts. When nurseries, childminders and after-school clubs were forced to close, many tax-free childcare accounts remained unused. We urged parents to check their accounts and reminded them that they could transfer any unused balance back into their current account. When thousands of people's incomes fell during the pandemic, we reminded them that they might be able to reclaim child benefit, which they may not claim in normal times.
Pension credits	Our campaign to ensure that grandparents caring for their grandchildren don't miss out on National Insurance (NI) credits made good progress in 2020. We continue to raise awareness of this benefit, which enables family members – often grandparents – to claim NI credits for looking after young relatives. Thousands have taken up the benefit since we began campaigning several years ago, but we believe thousands more are still missing out. We have repeatedly called for the Government to address the poor take-up of pension credit, which remains low at about 60% of those eligible. Given that pension credit is aimed at the poorest in society, it is vital that those who are entitled to it claim it. It also acts as a gateway to other benefits such as a free TV licence.
Social care system	We have also been campaigning for the Government to allow people to dedicate a proportion of their private pension into a product that would contribute to the support they may need in later life.

Campaign to help people prepare for death

Royal London ran a campaign in support of helping people understand, plan and prepare for death. It launched our new brand creative platform, 'It's everyone's business'. The campaign aimed to put a spotlight on what is often a taboo subject, encourage people to have conversations and support them to engage proactively on preparing for death. We have produced a range of informative and helpful content, including a podcast featuring TV presenter Jeff Brazier and renowned photographer Rankin, on how they have dealt with loss and the support they wish they had known about. We have created an online exhibition, called Lost for Words, sharing photography, stories and experiences. A book, titled *How to Die Well, a practical guide to death and dying*, will be shared with libraries and charities in the first half of 2021.

TV presenter Gloria Hunniford, who lost her daughter Caron Keating to breast cancer, features in our online exhibition, called Lost for Words.

Further resources are available on royallondon.com as we look to build continuing, long-lasting relationships with our customers

Financial advisers

Many of our customers come to us through financial advisers, as a result of when a Royal London product is recommended at the end of a professional and impartial advice service.

We work in partnership with financial advisers because they play an integral role in helping customers to achieve their long-term financial goals, ensuring they enjoy the best possible outcomes and experiences. We believe it also builds trust in our products and services.

Our recent research on the value of financial advice backs this up. For example:

- customers who take financial advice are, on average, £47,000 better off after 10 years than those who choose to look after their own financial affairs;
- advised customers feel more confident and financially resilient, especially in times of crisis, which helps to improve their overall emotional and mental well-being;
- advised customers feel up to three times more knowledgeable about financial matters and products, so they're able to make better financial decisions;
- where the customer has an ongoing relationship with their adviser, the key financial and emotional benefits are significantly amplified.

So, whilst other providers make moves into the advice space, we prefer to form close working relationships with the adviser community. We do this because we believe that a customer's interests are best served through a combination of professional impartial advice and value-for-money products and services. In this model, everyone is fully aligned behind the same common goal – to do what is right by the customer.

We share a mutual responsibility

Whilst we know customers are better off when they talk to an adviser, just 26% of the UK population have taken financial advice. Clearly, if we are all committed to helping customers enjoy better outcomes and experiences, we are falling a long way short of making sure everyone can access the right level of professional support.

Indeed, this advice gap is one of the most pressing issues we need our industry to resolve. We believe we all have a role to play.

As a provider, we look to raise awareness and education among customers about the benefits of financial advice. We are also continuously developing new tools and resources that are designed to help advisers deliver their services more efficiently. The more cost and risk we can help to remove from an adviser's business, the more customers they will be able to help.

For pensions advisers we have launched our financial planning tool and client review service. Both of these are designed to help advisers quickly create plans to match their client's income aspirations, and then guide their conversations on the progress that is being made.

We also know that talking to customers about protection can be a challenge. That is why we have developed tools such as online calculators and approach letters to help facilitate the protection conversation. And the suite of risk reports within our Marketing Studio helps advisers to discuss the value of protection and make sure that more people have the right cover in place.

Helping every client achieve their goals

To further increase access to advice, we believe as a modern mutual that we need to take a more active interest in the customer's day-to-day needs, which means providing them with high-quality, timely and relevant information that will guide and support them. Through initiatives like our mobile app, we are giving customers better tools to help them make more informed decisions about their money and their financial futures. We recognise that in the future we need to build on our ability to engage with customers by creating value-adding digital interactions with them.

We will do this whilst ensuring there are touch points and conduits that give customers access to financial advisers when they need them – at moments of truth and critical stages in their lives. A good example of this would be in the workplace channel, where we take responsibility for the customer relationship throughout the life of the plan, and the adviser can use tools like our scheme governance service to identify those clients they believe would benefit from individual advice.

We will continue to champion the role of advisers and financial advice. We believe that a dynamic and progressive adviser market offering high-quality, affordable financial advice is a key element for many customers in achieving their long-term financial goals.

The Board approved ongoing investment in a major digital IT infrastructure project and our financial advisers were involved in development and testing relevant systems for #thinkbeyond. Following their feedback, the Adviser systems for #thinkbeyond were enhanced to meet customer needs and demands.

> "We continue to set the standard in terms of adviser engagement and support. If we combine this with a superior level of insight of customer needs, then we can become even more relevant to advisers and their businesses."

Barry O'Dwyer
Group Chief Executive

Royal London is committed to our stewardship responsibilities in allocating, managing and monitoring customers' assets responsibly by considering environmental,social and governance (ESG) issues.

Royal London supports the expectations of UK Stewardship Code 2020 from both an asset owner and an asset manager perspective.

During the year we communicated with our customers about responsible investment using videos and articles, mobile app notifications and social media to understand their views and preferences. In 2020 we have significantly enhanced our capacity and capability to make responsible investment a core part of what we do, for all of our customers.

During 2020, we carried out extensive customer research which showed that whilst only 16% of UK consumers have any awareness of responsible investing, 83% would welcome the opportunity to discuss it with an adviser. Our key findings were:

Trust
Most customers expect product providers like Royal London to determine what a responsible investment is and how their savings should be invested.

Customer views
56% of UK consumers believe responsible investment is important, but this rises significantly, to 81%, for Royal London customers.

ESG issues
Environmental concerns are the single most important ESG issue for our customers.

Our responsible investment activities can be considered under the following three pillars:

1. ESG integration

2. Governance and voting

3. Engagement and advocacy

1. ESG integration

We closely monitor our approach and practice to ensure the asset managers we appoint to invest our customers' money act in a way that is consistent with our investment philosophy, our customers' investments are managed responsibly and ESG issues are integrated into investment decision-making.

Royal London Asset Management (RLAM), which manages most of our customers' investments, invests significant time and resources into enhancing its ESG integration across asset classes (rlam.co.uk/institutional-investors/our-solutions/responsible-investment/esg-in-investment-solutions/). In 2020, RLAM established an ESG dashboard, which provides a common platform with smart search technology to easily share powerful insights across investment teams. This ensures ESG factors are consistently reflected and fully embedded in investment decision-making. For example, we plan to integrate ESG factors across all our passive equity investments by initially applying an environmental factor and a governance factor in 2021, which will reduce the carbon intensity of our customers' investments.

In conjunction with EY, a leading global consultancy firm, Royal London published a paper that demonstrated that applying ESG principles delivers financial benefits.

2. Governance and voting

Royal London has developed a voting policy to guide our asset managers' voting recommendations on behalf of customers. The voting policy sets out the principles, guidelines and ESG considerations we expect our appointed asset managers to follow when voting. We believe that if our asset managers monitor their investments, engage with the companies they invest in and vote with due care and consideration, it will lead to better investment returns and outcomes for Royal London customers. We expect all our appointed asset managers to:

- vote on all eligible shares;
- carefully consider ESG issues when voting;
- support boards and management where their actions support long-term corporate value as opposed to short-term profits; and
- publicly disclose all their voting activity.

The RLAM voting record over 2020 is shown below:

- 28,992 shareholder votes (86% for, 13% against, 1% either abstain or take no action) – an 85% increase from 2019.

Other facts about our voting policy:

- 91 letters sent to companies to explain our voting rationale.
- 413 engagements with 230 companies to explain our voting rationale, which is a 59% increase from 2019.

3. Engagement and advocacy

Royal London is focusing on three key engagement themes on behalf of customers: climate change, inclusion and governance.

These themes, which align to our Purpose, are used to focus our activity and were informed by our recent customer research. RLAM is focused on these three engagement themes on behalf of our customers and we will monitor the effectiveness of these engagements. In addition, we monitor the engagement activities of external asset managers using our asset manager monitoring framework.

Royal London, as asset owner, has joined the UN Principles for Responsible Investment (PRI) and the International Corporate Governance Network (ICGN), two leading global organisations that support the incorporation of ESG factors into investment decision-making. RLAM has been a signatory to the UN PRI since 2008, and in its 2020 PRI assessment received a top-level score of A+ for strategy and governance.

An example of what this means in practice and how we live our Purpose, can be seen in our engagement on climate change and social inclusion themes with Scottish and Southern Energy (SSE).

CASE STUDY: Scottish and Southern Energy PLC

Purpose: collaborative engagement for change (climate risk and social inclusion)

Partnering with Friends Provident Foundation, RLAM met with several electricity utility companies during 2020 to discuss how they could contribute to working towards a so-called Just Transition to a UK economy with net zero greenhouse gas emissions. Just Transition is a framework of ideas around maximising the benefits of moving to a low-carbon economy whilst minimising the possible negative socio-economic impacts for workers, communities and consumers.

One of these meetings was with SSE, a company focused on power generation whose business includes electricity and gas distribution and transmission systems. RLAM scrutinised the company's targets and alignment to the UK's commitments to be net zero by 2050. RLAM questioned SSE's assumptions on the role of natural gas, hydrogen, energy demand and carbon capture and storage. RLAM also requested details about its contributions to flexibility, storage and demand side response (methods of reducing energy use at peak times). Furthermore, RLAM discussed the company's strategies to influence public policy, and its views on OFGEM's recent regulatory consultation.

RLAM proposed that SSE develop a Just Transition strategy to be embedded into its existing decarbonisation plans. SSE welcomed that suggestion and made a commitment at its August AGM to develop a Just Transition strategy – the first of its kind in the sector and a testament to the successful outcomes that can be achieved by introducing responsible investing as a key business driver.

Sustainable fund range

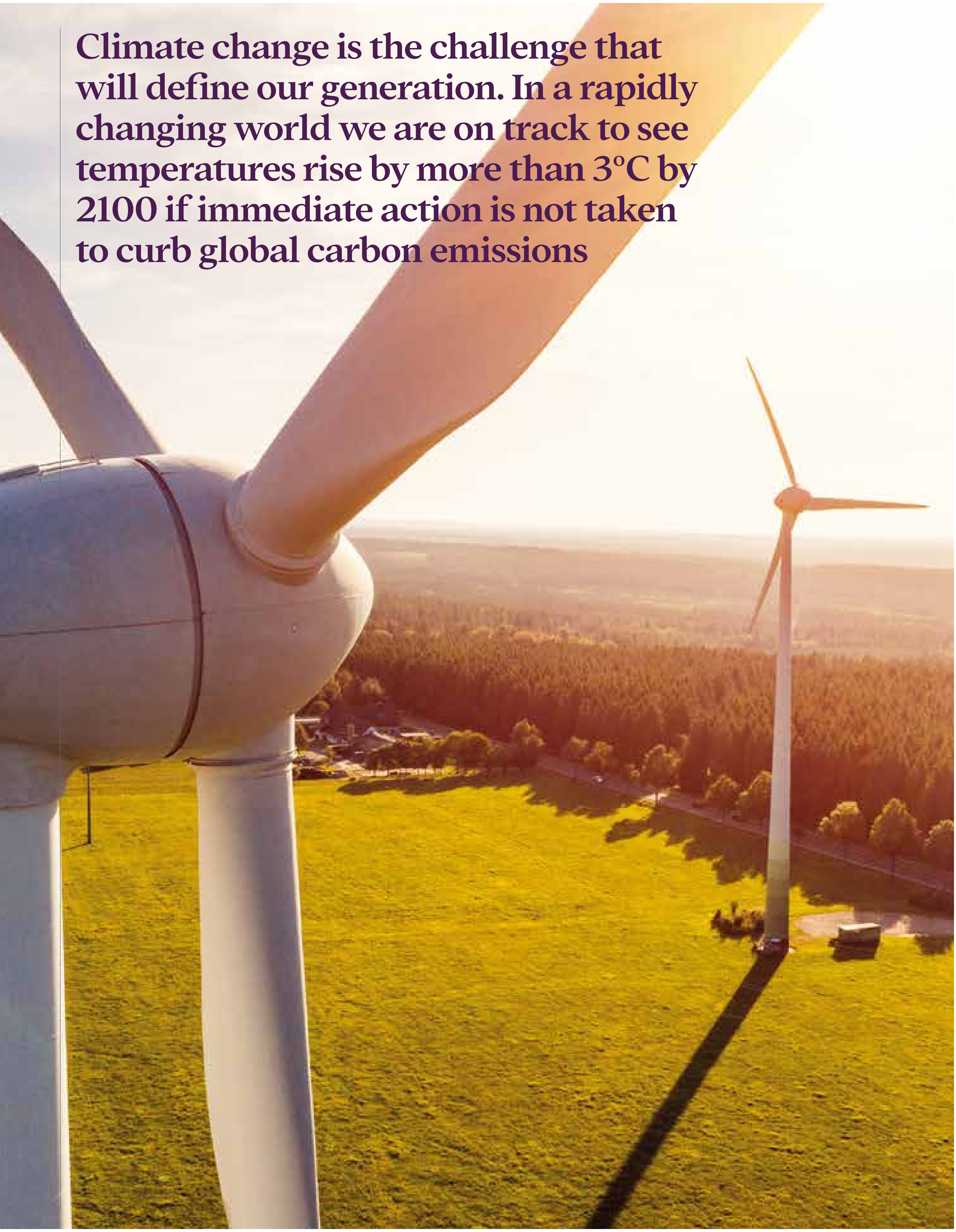
£8.2bn

(2019: £3.6bn)

A key element of Royal London's approach to responsible investment has been in the development of its sustainable funds. Sustainable investing is where the fund manager invests in companies that meet sustainability criteria. RLAM uses positive screening to invest in companies which are leaders in their fields and provide a net benefit to society through their products and services. These bespoke funds take responsible investment a stage further and have proved highly successful. Consequently, we have expanded the fund range with the launch of the Global Sustainable Equity Fund in February 2020 and the Global Sustainable Credit Fund in February 2021.

The range now includes eight funds which are available to most of our customers at no additional cost. Interest in these funds has grown significantly, with assets under management having increased from £3.6bn to £8.2bn over 2020.

Climate change is the challenge that will define our generation. In a rapidly changing world we are on track to see temperatures rise by more than 3°C by 2100 if immediate action is not taken to curb global carbon emissions



At Royal London we want to create a better future and tackling climate change is a key priority, both in the way we manage our impact as a business and in the way we invest our customers' money.

Our progress

In 2019, we published our climate change commitments and our progress is outlined in the table, right.

In 2020, we focused on better understanding the possible futures that are facing us, the areas where we face the most risk and driving down our carbon footprint in our own operations.

Our Climate Change Strategy

Our strategy is to consider how our investment choices can impact the climate and how climate change will impact our business.

As at 31 December 2020, our asset managers invested over £101bn on behalf of the Group, across more than eight million policies. We are long-term investors; to put this in perspective, our average pension customer is expected to retire in 2040 and our youngest customers are projected to retire well beyond 2050.

Our research shows that our customers care about climate change and we believe that the best outcome for our customers is that, collectively, we achieve the goals of the Paris Agreement and this informs our strategic goals. That is why we have committed to aligning our investments to net zero by 2050.

The impact of our investment goals on climate change

We believe the right policy framework supports the identification of investment opportunities and can encourage the flow of low carbon-focused capital to address climate change.

Public policy intervention and advocacy

We contribute to public policy interventions around climate change through membership of trade associations such as the Institutional Investors Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI) amongst others.

We are signatories of the IIGCC Net Zero Commitment. This commitment reflects our view that institutional investors must aim to achieve real economy emission reductions, and the collective responsibility for realising the goals of the Paris Agreement.

The Covid-19 pandemic imposed unprecedented duress on society, governments and companies and, with the deferral of the climate change conference in 2020, had the potential to derail an emerging consensus on climate as a global policy priority.

Our Group Chief Executive, Barry O'Dwyer, alongside members of the Corporate Leaders Group, called on the Government to ensure that the economic recovery plans deliver a clean, just recovery that creates quality employment and builds a more sustainable, inclusive and resilient UK economy for the future.

Stewardship, engagement, voting and investor advocacy

As an asset owner and investor, we can engage, influence and advocate on climate change, including both the transition and physical impacts.

Progress against our climate change commitments

Our climate change commitments	Summary of 2020 activity
Climate risk policies We require our asset managers to develop and put in place climate risk policies	We have analysed their policies as part of our assessment of their overall score in our asset manager reviews
Low-carbon economy We will promote the case for moving to a low-carbon economy to policymakers and influential stakeholders	We have worked with the Corporate Leaders Group to promote the case for a sustainable recovery from the impact of the Covid-19 pandemic
Risk management We will consider climate change risk within our risk management and business planning	We have launched a programme to embed climate risk management across Royal London and engaged with high-risk sectors on their transition plans
Operating efficiently We will consider climate change risk and opportunities in our own operations	We have significantly reduced our operational emissions by 48% over 2020 and have introduced a range of targets for 2021 and beyond, such as reducing our business travel emissions by 50% against our 2019 baseline
Keeping you up to date We will report on our progress in our Annual Report and on our website at least once a year, in line with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)	Our progress is reported here and RLAM's 2020 TCFD report will be available in May 2021

> "We believe we must use the economic recovery to accelerate the transition to net zero."

Barry O'Dwyer
Group Chief Executive

Climate change continued

We focus our efforts on the sectors and companies where the greatest impact can be made. One of our areas of focus during 2020 is our investment in the utilities sector and how we generate power, which must be tackled to enable the transition to a low-carbon economy.

In 2020 we continued our climate change engagement with investors and stakeholders as set out in the table below:

Organisation	Participant of
Investment Association	• Sustainability Committee member • Participant of the Climate Change working group
Institutional Investors Group on Climate Change	• Co-ordinator of the Utilities Sector working group • Participant of the development of the Paris Aligned Investment Initiative • Participant of the Banking working group
Climate Financial Risk Forum	• The CFRF builds capacity and shares best practice to advance the financial sector's response to climate change and is co-led by the FCA and PRA. RLAM is part of the CFRF Disclosure working group
Financing the Just Transition Alliance	• We have supported the Just Transition investors' initiative since 2019 and have recently joined the Financing the Just Transition Alliance, with the intention of addressing social externalities associated with the low-carbon transition

The impact of climate change on our business

Governance

The Board has ultimate responsibility over the way we manage our response to climate change, monitoring business performance and ensuring that climate, legal and compliance standards are achieved.

Our Group Chief Financial Officer (Group CFO), Daniel Cazeaux, has regulatory responsibility for managing the financial risks arising from climate change and performance against the objectives set by the Board.

To support the Group CFO in fulfilling these responsibilities, an organisation-wide programme is underway to embed climate risk management. During 2020, the terms of reference for each Board committee have been reviewed and changes have been made to incorporate climate responsibilities where appropriate.

Education and training

We are committed to raising awareness and educating our colleagues on climate change, using a combination of training sessions and workshops, including two Board-specific climate change development sessions. These ensure that our colleagues have the relevant skills to identify, measure, manage, monitor and report both climate-related risks and opportunities.

Managing climate change risk

The financial risks from climate change are far-reaching in breadth and magnitude, but the scale of its future impact is dependent on the actions we collectively take in the short term.

We have incorporated climate risk within our strategic risk framework and our own risk and solvency assessment (ORSA).

Our assessment of the risks indicates a broadly even split across physical and transition risks. Physical risks predominantly relate to our own operations, property investments and supply chain risks. Transition risks are representative of policy and market failure to respond to climate change and the impact this will have on our investments.

Our focus during 2020 has been to understand better the futures that are facing us using scenarios in line with those outlined by the Prudential Regulation Authority (PRA). Our work illustrates that not only is addressing climate change the right thing to do, it is also financially prudent.

We have reviewed the potential impact of our climate risk analysis on our most popular funds and considered how we can mitigate the risks and reduce the carbon intensity of our most popular funds to provide better customer outcomes.

Reducing our carbon footprint

We are determined to address the structural challenges we and society face in transitioning to net zero through the following initiatives:

- We have moved out of our energy-intensive Wilmslow estate into a new site, New Royal London House. The original building was taken back to shell and core and received a full building refurbishment and fit-out, enabling us to achieve the targeted BREEAM[1] (Very Good) certification.
- We are committed to sourcing 100% renewable electricity across the operational estate by 2025.
- We will reduce company car emissions by 50% by 2025 from our 2019 baseline year, through less travel and transitioning to all-electric vehicles.
- We have appointed a new integrated facilities partner, Mitie, to support the delivery of our workplace services, and this includes an energy performance contract to drive our energy use down further.
- We have achieved net zero in our scope 1 and 2 greenhouse gas emissions by reducing energy use and offsetting our remaining emissions. We have also set stretching targets for 2025 and have an action plan to reduce our need to offset year on year.
- We have significantly reduced our paper usage in 2020 and will build on this by committing to a reduction of 90% in internal paper and 50% in external paper by 2025 (from our 2019 baseline). This will be achieved through increasing our digital capabilities and digital customer offering.

1 Building Research Establishment Environmental Assessment Method: an international method of assessing, rating, and certifying the sustainability of buildings.

Enabling low-carbon ways of working

As a result of the lockdown restrictions during the Covid-19 pandemic, we implemented significant efficiencies across the operational estate such as shutting down heating and cooling systems on unoccupied floors to reduce energy use. We also reduced the emissions from rail and air travel by more than 75% in 2020 when compared to 2019.

This has demonstrated that we can continue to operate effectively with significantly less travel as an organisation. We have therefore introduced a 50% target reduction from 2021 onwards measured against our 2019 baseline, recognising this target may well be exceeded in 2021 if Covid-19 restrictions continue. We have also set a range of other targets to reduce our impact from across our operations which are shown in table 1 below.

In line with the Government's Streamlined Energy and Carbon Reporting (SECR) requirements, we are reporting our organisation's carbon emissions using a financial control boundary, which includes both our operational estate and investment properties. We have used 2019 as our baseline year and our methodology aligns with both the Greenhouse Gas Protocol – Corporate Standard methodology and the requirements as set out in the Government's Environmental Reporting Guidelines 2019. See table 2 below.

Renewable energy for electricity contracts within our control

100%

(2019: 100%)

Operational energy consumption

Net zero

emissions achieved for our operational estate (including carbon offsetting)

1. Operational metrics and targets

		2020[1]	2019[1] (baseline year)	Target
Scope 1 emissions (tCO_2e)[2]		643	1,227	60% absolute reduction by 2025.
Scope 2 emissions (tCO_2e)[3]	Market-based	180	1,815	Purchase 100% renewable energy for electricity by 2025.
	Location-based	1,455	2,085	
Total Scope 1 & 2 (market-based) per FTE[4] (tCO_2e)		0.17	0.61	
Scope 3 (rail and air) emissions (tCO_2e)[5]	Total	284	1,284	Reduce business travel (rail & air) by 50% per FTE from 2021.
	Per FTE	0.06	0.26	
Paper use	Total (tonnes)	697	768	
	Internal (per policy) (g)	0.44	5.89	Reduction of 90% per policy by 2025.
	External (per policy) (g)	78	83	Reduction of 50% per policy by 2025.
Waste (tonnes)[6]	Total	378	727	Reduction of 50% per FTE by 2025 and continue to send zero waste to landfill.
	Waste per FTE	0.08	0.15	
Water consumption (cubic metres)[7]	Total	24,123	35,995	Reduction of 15% per FTE by 2025.
	Water consumption per FTE	5	7	

2. Streamlined energy and carbon reporting: operations and investment properties[8]

	2020	2019 (baseline)
Scope 1 (tCO_2e)[2]	3,158	4,359
Scope 2 (market-based) (tCO_2e)[3]	180	1,815
Scope 2 (location-based) (tCO_2e)[3]	9,072	10,730
Scope 1 and 2 (market-based) emissions per sqm (tCO_2e)	0.025	0.032

1 Our Scope 1 and 2 emissions for 2019 and 2020 shown in the operational metrics table have been assured by ERM CVS, an independent external assurance provider, to a Limited level of assurance. This assurance included a review of activity data and the calculation of emissions. Full details of the scope, activities, limitations and conclusions of ERM CVS's assurance engagement are included in their Assurance Statement at royallondon.com/mutuality/responsible-investment/climate-change-commitments/. The 2019 baseline figures have been adjusted following review and further data becoming available. We have excluded carbon emissions and energy consumption data for PMAS. Royal London acquired PMAS in the approach to the 2020 reporting cycle and therefore will report the PMAS 2020 carbon and energy information in the following year.
2 Reported Scope 1 emissions: covers emissions generated from the gas and oil used in buildings, emissions generated from Group-owned vehicles and company cars used for business travel, and fugitive emissions arising from the use of air-conditioning and chiller/refrigerant equipment.
3 Reported Scope 2 emissions: covers emissions generated from the use of electricity in buildings and have been calculated in accordance with GHG Protocol guidelines in both Location and Market Based methodologies.
4 Full-time equivalent
5 Reported Scope 3 emissions: covers emissions generated from Group rail and air business travel. Data excludes PMAS travel.
6 Paper data is based on actual volumes from suppliers, where available, and estimations based on invoice data. Data excludes PMAS paper usage.
7 Waste and water data is based on actual volumes, where available, estimations and invoice data. Data excludes PMAS sites and offices where provision is covered by service charge.
8 The operational reporting period is 1 January to 31 December but the investment property reporting period is 1 October to 30 September due to a lag in data availability.

Non-financial information statement

In accordance with sections 414CA and 414CB of the Companies Act 2006, which outline requirements for non-financial reporting, the table below is intended to provide our stakeholders with the content they need to understand our development, performance, position and the impact of our activities with regard to specified non-financial matters.

Reporting requirement	Relevant policies and disclosures on website[1]	Annual Report and Accounts page reference
Environmental matters	Our climate change commitments	• Chairman's statement on pages 10 to 11 • Climate change on pages 40 to 43 • Strengthening responsible business on pages 38 to 39 • Streamlined energy and carbon reporting on pages 40 to 43
Employees	Inclusion and diversity – Royal London	• Chairman's statement on pages 10 to 11 • Strengthening responsible business on pages 38 to 39 • Engaging with, and delivering value for, our stakeholders on pages 30 to 37 • Corporate governance on page 90
Social matters	Our social impact commitments	• Group overview on page 8 • Chairman's statement on pages 10 to 11 • Our business model on pages 16 to 17 • Our social impact themes on pages 25 to 28 • Engaging with, and delivering value for, our stakeholders on pages 30 to 37
Human rights	Modern Slavery Act – Royal London	• Engaging with, and delivering value for, our stakeholders on pages 30 to 37
Anti-bribery and corruption		• Risk management and internal control on pages 58 to 60
Business model		• Business model on pages 16 to 17
Non-financial key performance Indicators (KPIs)		• KPIs on pages 18 to 19
Principal risks and uncertainties		• Principal risks and uncertainties on pages 61 to 65 • Viability statement on pages 66 to 67 • Report of the Risk and Capital Committee on pages 92 to 94

1 Policies, statements and codes are available at royallondon.com

Our rapid response to Covid-19 challenges enabled us to continue to support members, customers and advisers with uninterrupted service and proposition flexibility. Whilst the operating environment in 2020 has impacted new business volumes in UK Pensions, our UK and Irish Protection sales and RLAM sustainable range of funds have performed well.

Our four divisions:

Intermediary responded to Covid-19 challenges with support and communication to members, customers and advisers via traditional and digital channels. UK Pensions was particularly impacted by the lockdown environment with reduced volumes, whilst UK Protection sales and market share grew through the strength of propositions and customer service. Royal London in Ireland gained further market share and continued to innovate with enhanced propositions in a strong response to the market contracting in 2020.

pages 46 to 48

Asset Management delivered strong performance maintaining a consistent record of successfully navigating financial markets and safeguarding clients' funds with the sustainable range of funds being a star performer.

pages 49 to 50

Consumer retained a position as one of the largest providers of over-50s cover in the market, against the challenging backdrop presented by the pandemic, and continued to welcome thousands of new direct customers.

page 50

Legacy achieved major milestones in simplifying legacy systems whilst continuing to improve customer communications and digital interactions, all improving customer experience.

page 51

Intermediary

2020 highlights

- Strong Protection sales from increased market share to 14% partially counteracting reduced volumes in both individual and group pensions due to the effects of lockdown and economic uncertainty
- Increased digital adviser and customer engagement with 81,000 customers now using our pensions app
- Careful revisions to underwriting limits during the pandemic relieved some NHS pressures through reduced medical report demands whilst retaining customer access to protection

Awards

- Company of the Year 2020 at the Money Marketing Awards
- Protection Provider of the Year 2020 at the Money Marketing Awards
- Best Underwriting Team at the COVER Customer Care Awards
- Provider of the Year 2019 at the Simply Biz Group Annual Partnership Event 2020

The value of impartial advice

Customers are facing an increasingly complex environment as they seek to navigate a route to long-term financial security for themselves and their loved ones.

Even before considering the impacts of Covid-19, customers are looking into a world that has become far less certain when making financial decisions. Given the multitude and complexity of options available to customers and the choices they face, there has never been a greater need for impartial financial advice.

That is why we continue to be fully supportive of our relationship with advisers. We have demonstrated over time a deep understanding of the advisers' business and have helped their business model support good customer outcomes. We believe in the valuable role that advisers play for customers, combining professionalism, impartiality and the value of long-term relationships.

Impartial advice is critical to achieving good customer outcomes, but it must be increasingly affordable and accessible to more people. Our solutions are designed to align with the advice process and the supporting business processes of advisers. We will stimulate and support a sustainable advice model that maximises the number of customers who get access to advice, and within the broader group we will support those who do not by building on our own ability to engage with customers.

In 2020, we undertook research which showed that professional advice delivers so much more to customers than just the expected financial benefits. It also helps to improve the emotional well-being of customers by making them feel more confident and financially resilient compared with those who have not received advice.

2020 – a uniquely challenging year

The intermediary pensions market was significantly affected by the Covid-19 pandemic. Research has shown that many people have simply deferred making long-term retirement decisions in the current environment. This is not surprising given stock market volatility, concerns about redundancies and the stark reality that peoples' minds were understandably focused on other things. We will continue to work closely with our customers, now and in the future, providing them with the help and support they need to make well-informed and timely long-term savings decisions.

Covid-19 has fundamentally affected our customers' lives in many ways. We responded positively to the challenge, opening new channels of communication and providing rapid, practical help and support to our many advisers and customers.

During the early stages of the pandemic we saw a dramatic and likely permanent move to online activities across all age groups, increasing customers' expectations in terms of dealing with companies online and being able to do things digitally. We responded to this customer trend decisively, and also saw our advisers enthusiastically embrace the digital events we offered to replace traditional meetings. In 2020, we had more than 30,000 adviser registrations for over 50 online events that we hosted.

We now have more than 81,000 users of our app for pensions customers and, of these, around two-thirds have been regular users. We launched push notifications in March 2020 and over 40,000 customers have opted in to receive these notifications.

We have continued to focus on closing the engagement gap by supporting our customers, employers and employees in our workplace pension schemes through these difficult and challenging times. We have evolved our programme of communications, delivering both by email and via our app, and are incorporating what we have learnt from these into our communications and future proposition developments. Engagement remains a key focus and we have a range of initiatives planned to help support improved customer outcomes.

We go into 2021 with a renewed sense of purpose and responsibility in supporting our customers to achieve their financial outcomes.

Our Pensions business performance

Our Pensions sales fell in 2020 as economic uncertainty, stock market volatility and the national lockdowns caused disruption to the services provided by intermediaries to their clients.

Individual Pensions new business sales decreased by 25% to £4,753m (2019: £6,334m). The reduction was mainly due to individuals delaying the decision to consolidate their pension holdings and advisers having to work to adapt their business models early in the pandemic. We remain a market leader in drawdown and our strengths in the individual pension market continue to be the quality of the customer experience and investment proposition, the strong service and our our sales distribution strategy.

Workplace Pensions new business sales also decreased by 21% to £2,453m (2019: £3,127m). Volumes were lower as companies deferred decisions to move scheme providers and fewer people moved employer, resulting in lower new entrants to existing schemes. New regular contributions from existing members were comparable to 2019, but transfer activity was lower. New scheme activity was significantly reduced, although it did show signs of improvement in the period following the initial lockdown as the economy slowly recovered. Our strength in the workplace pensions market comes from the service experience we provide to scheme members, employers and advisers and the support we provide through people, with implementation managers responsible for each scheme.

The investment conditions were challenging and our performance relative to some peers was impacted by our higher allocation to UK equities. In 2020, the UK stock market underperformed against other global markets, particularly as a result of the lower exposure to the technology sector. We reviewed our allocations and early in 2021 transitioned to a new strategic allocation for our multi-asset funds, with higher proportions of global developed and emerging market equities.

Responsible investment is becoming increasingly important and relevant in pensions investments. We are committed to acting and investing responsibly and we have worked hard to educate advisers, employers and customers. We have partnered with many industry bodies throughout 2020 to help educate advisers about responsible investment through round-table events, webinars and seminars.

We delivered a customer-focused campaign, 'The Secret Life of Pensions', which aims to educate, engage and inspire customers to find out more about their pension investments and how their money is being invested responsibly. We also partnered with FT Adviser on the 'Responsible investing: the new normal' content hub, which features helpful articles, podcasts and continuing professional development papers to help advisers to get to grips with the regulations, as well as understand the customer demands and the opportunities responsible investment can offer.

During a period of extreme uncertainty in investment markets, we significantly increased support for advisers, employers and customers. We launched a financial well-being portal on the Royal London mobile customer app, supported employers through changes to and deferral of contributions, introduced online acceptance of application forms without the need for a client wet signature and supported advisers with guidance on how to work effectively beyond their traditional face-to-face model.

Our Protection business performance

Sales of our intermediated protection products grew 22% to £825m (2019: £678m), following market share increases due to enhancements to our proposition, alongside maintaining strong customer service throughout the Covid-19 pandemic.

We also made a number of improvements to our Critical Illness Cover, one of which was the inclusion of a Children's Critical Illness Cover conversion option with our Enhanced Children's Critical Illness Cover, available through our Menu Plan. This option enables the child to continue cover in a new policy, within six months of the child's cover ending, without any medical underwriting. Advanced surgery benefit has also been added to Critical Illness Cover, which allows a payout to be made as soon as a customer is on an NHS waiting list for surgery, rather than after it is performed. These developments are part of Royal London's focus on providing cover where it matters and paying claims faster.

To help our protection customers during the pandemic, we made a number of temporary changes to our protection proposition. This included the introduction of a premium deferral option to help customers retain their cover and increased underwriting non-medical limits, so that more customers could obtain protection without medical evidence, hence avoiding placing any additional burden on the NHS.

We are also offering free access to mental and physical well-being apps, as well as discounted will-writing services to all customers through the Helping Hand service.

We initiated contact via email with 148,700 Protection customers to make them aware of these well-being apps and the wider support available. We are now able to communicate with them separately and we are looking to expand this to a wider group of our customers in the near future.

We paid out claims to families of more than 2,100 customers as a result of deaths due to Covid-19, with the value of the claims totalling around £13.1m. Whilst receiving a payout can help to ease the financial strain of bereavement, we understand that money cannot ease the emotional burden. Our Helping Hand service, available to all our protection customers (including their partner and children) who bought a policy through an intermediary, played a particularly important role in 2020 in providing emotional support through this uniquely difficult time.

Protection customers contacted by email

148,700

to make them aware of well-being support available to them

Value of claims paid to customers as a result of deaths due to Covid-19

£13.1m

Royal London in Ireland

2020 highlights

- New business applications at record-level highs – 10% increase on 2019
- Achieved 23% market share[1]
- Improved, innovative services added such as Instant Temporary Life Cover (TLC) and Digital Nurse Medicals

Awards

- Best Mortgage Protection award at the 2020 National Consumer Awards

During 2020, the Irish business performed well, gaining further market share as we continued to innovate with enhanced propositions. Despite this, due to the market severely contracting over 2020 and policy cover sizes reducing, new business sales remained stable at £137m (2019: £137m).

Our Irish business sells protection products through financial brokers. The broker protection market in Ireland suffered an estimated fall of 16% as a result of the Covid-19 pandemic, but our response meant we outperformed our peers. Our market share increased to 23% at Q3 2020, up from 22% at the end of 2019.

The two main drivers of success were our strong relationships with financial brokers across the country and consistent commitment to service excellence. We very quickly enabled the majority of our colleagues to work from home remotely and maintained a full and accessible service throughout the lockdown period. As a result, we have received our highest application levels ever.

We continued to innovate and enhance our products and services, offering customers greater flexibility, such as our Instant TLC, explained in more detail in the case study right.

2020 was the second year operating as a subsidiary rather than a branch. Our status means that we can operate fully in Ireland post-Brexit. We have reaffirmed our commitment to distributing our valuable products through financial brokers, who we believe have a vibrant future, and intend to enter adjacent markets over the coming years, building on our strong reputation within the broker community.

1 Royal London analysis of Milliman report: September 2020 Temperature Gauge report.

A dose of instant TLC

During 2020, we brought in Instant TLC to enhance our protection plans. When people apply for protection products, they usually remain uninsured until all outstanding requirements are completed. Instant TLC gives applicants temporary life cover from when the application is initially accepted by us, covering the gap whilst paperwork or medical reports are completed. This gives customers peace of mind and an incentive to complete the process during the temporary cover window.

Asset Management

2020 highlights
- Third-largest sales of net retail funds in the UK
- £148bn assets under management, £101bn internal and £47bn external
- Significant growth in sustainable funds in the UK

Awards
- Financial Adviser Service Awards – Investments, five-star winner
- Investment Week Fund Manager of the Year Awards:
  - Royal London Sustainable Leaders Trust, winner of UK Growth category
  - Royal London Sustainable Managed Growth Trust, winner of Managed Cautious category
  - RLAM highly commended as Global Group of the Year
- UK Lipper Fund Awards:
  - Overall Large Group award and Bond Large Group award
  - Individual fund awards for the Royal London Sustainable World, Diversified and Managed Growth funds in their sectors
- MoneyAge Asset Management Awards Fixed Income Manager of the Year (up to €100bn AUM)

2020 was another good year for Royal London Asset Management (RLAM). In an uncertain period, we maintained our consistent record of successfully navigating financial markets and safeguarding clients' funds. Our position at the forefront of the fast-growing ethical and sustainable investment sector was a key source of success. Our sustainable range of funds was a star performer, not only within RLAM but across the whole industry.

Assets under management grew to £148.4bn (31 December 2019: £138.9bn) driven by net inflows of £3.9bn, the inclusion of £0.7bn of assets under management from Police Mutual, and £4.9bn of positive market movements.

RLAM UN PRI assessment

A+

RLAM was originally created to manage the investments we make on behalf of the Group's customers, but our successful track record has also attracted funds from external clients. Historically, our success was built on working with institutional clients such as pension schemes and local authorities. However, for the past five years we have placed a strategic emphasis on expanding into the wholesale market, to platforms, independent financial advisers and wealth managers.

During 2020, this strategy has been very successful, providing a strong source of sales, with our sustainable funds being a particular draw. Gross inflows from institutional investors reduced marginally during the year to £6.8bn (2019: £8.0bn). However, outflows were larger, predominantly due to the overall decline in defined benefit pension funds, an ongoing trend exacerbated by the economic fall-out from the Covid-19 pandemic. Within the Wholesale market, we increased our share of the market, with positive net sales in 2020 placing us third in the sector for the year as a whole.

Financial stress caused by the pandemic also led to a reduction in cash holdings by organisations such as universities and charities. As a result, we saw a reduction in the cash funds we manage on their behalf. We were also affected by the trend towards global credit products, as many institutional investors moved away from sterling-based credit products. Although we have expanded into global credit, it will take time to establish the three-year track record buyers look for to then see results in this area. This is the same process we have been through with strategies such as global equities and multi-asset credit – two areas in which we are now seeing strong sales.

Sustainable funds success

We continue to build on the success of our sustainable investment funds, which offer the advantages of longevity and superior performance. We have for some years promoted sustainable investment. One of our funds passed its 30-year anniversary in 2020 – a rare achievement in the world of sustainability. We continue to look at ways to expand our offering, with a Global Sustainable Equity Fund launched in February 2020 and a Global Sustainable Credit Fund launched in February 2021.

Our sustainable funds delivered strong investment performance, based around substantial holdings in technology and healthcare stocks, and our decision to have no exposure to the oil and gas sector. The funds invest to give exposure to a number of social and environmental trends that we see as key investment areas for the foreseeable future, such as decarbonisation, digitalisation and healthcare.

Whilst it is too early to draw conclusions about any possible structural and societal shifts resulting from the pandemic, we believe it could lead to an acceleration in the sustainable investing trend, and that sustainable strategies will be a net beneficiary over the longer term. This was something already being seen as investors realised that investing in these funds can not only deliver strong returns, but also be a part of the wider societal focus on companies 'doing the right thing'.

Responsible investment

Responsible investment is a philosophy that flows through everything we do. It involves being a responsible steward of assets, promoting responsible investment and offering a range of sustainable and ethical investment options.

Asset Management continued

In 2020, RLAM's Responsible Investment team continued to engage with a wider range of issues and audiences. We collaborated with investment teams to ensure environmental, social and corporate governance (ESG) integration is carried out everywhere, not just within areas labelled for ethical and sustainable investment.

We also continue to work closely with the wider Royal London business to enable us to be a leader in the ESG field. Details of our activities are included in the Responsible Investment section of this report, on pages 38 to 39.

Volatile markets

Although financial markets fell sharply during the first phase of the pandemic, they have since recovered a large part of those losses and remained upbeat for much of the year. Low interest rates and central banks' willingness to ensure liquidity helped financial markets to maintain a positive outlook. However, longer-term questions remain about the viability of business models in areas such as travel and high-street retailing as it is unclear whether consumers will return to old behaviours once a vaccine has been rolled out and various restrictions lifted.

Property

Our Property team's material exposure to areas such as distribution centres was helpful in 2020, as was our relatively low exposure to shopping centres, given that not all of the property sector benefitted, with many businesses forced to close temporarily. Whilst we look to provide strong returns for investors, this sometimes means taking the longer-term view. We also worked with tenants to agree rental holidays where the pandemic and the associated restrictions impacted their businesses.

Our property funds remained steady, despite the precariousness of valuations, with few outflows and equally low inflows. Prime property assets remain attractive to international investors, but shopping centres in secondary towns, where many retailers have not paid rent during the pandemic, now face uncertainty over their longer-term value.

Communication

Transparency and effective communication are crucial to the way we do business and became even more important in 2020. The initial national lockdown period was a time of huge uncertainty, so we made sure advisers had the information needed to advise clients appropriately.

In April and May alone, we issued more than 30 updates covering economic views, individual strategies and how we are continuing to properly manage their assets.

Setting an example

RLAM featured prominently in the Financial Reporting Council's review of the UK Stewardship Code 2020, which measures how well investment companies are reporting on their stewardship of customers' assets. We featured in a series of examples showing best practice, including areas such as engaging with companies on executive pay packages (rlam.co.uk/globalassets/media/literature/reports/69348-stewardship-and-responsible-investing-report-2020.pdf).

Consumer

2020 highlights

- More than 50,000 new direct customers
- Over 250,000 customers welcomed following Police Mutual integration

New business sales were down by 11% to £376m (2019: £423m) in our Consumer division. This impacted new business contribution, which reduced to £(5)m (2019: £5m), as despite action taken to reduce variable costs, fixed acquisition costs were spread across fewer policies. However, there were still more than 50,000 new direct customers to the Group in 2020.

Our marketing plans continued to progress in 2020, despite the adjustments we had to make to reflect the reduced purchasing confidence as a result of the pandemic. In the first few weeks of the national lockdown, we saw responses to our marketing decline considerably, so we made the decision to pause the vast majority of our marketing programme. Working together with Sky and ITV, our television partners, we were able to find the balance between demand decline and television pricing to allow us to continue advertising. During the last quarter, we saw demand across all channels returning to normality.

Our business partnerships continued to deliver sales over 2020. We expanded our product range in current partnerships across life insurance and over-50s, and joined forces with four new partners to increase our footprint throughout the year. In September we entered the equity release market with our partner Responsible Life, offering customers the opportunity to access independent financial advice on later-life lending.

Police Mutual was successfully integrated into Royal London on 1 October 2020, bringing more than 250,000 new customers to the Group, through savings, general insurance and healthcare products, as well as new distribution channels.

Our upwardly mobile sales

More than 50% of our direct sales in 2020 were digital, a large proportion of which were made by customers using a mobile phone or tablet. Our products were designed from launch to be mobile-first, supporting our sales performance through the pandemic. Mobile sales have increased by 14% from 2019, now making up 46% of our direct digital sales. Our products can be bought using simple steps and avoid complex information requests.

For customers who prefer to talk to a person, we have a direct call centre usually based in our Wilmslow office, so we can serve people in the way they prefer. Post-sale research shows very high levels of satisfaction from customers who have called the centre, and a very high level of customer understanding of the product they have bought. In an industry where mis-selling has been an issue, it is important to know customers understand what they have bought and why.

Legacy

2020 highlights

- Supported our policyholders through the uncertainties created by the pandemic
- Major milestone achieved in simplifying legacy systems to improve customer experience
- New and improved statements now available to over 1.8 million customers
- Enhancements made to digital portal so customers can change personal details by registering online

The Legacy division is focused on looking after the interests of Royal London's long-standing customers by ensuring they continue to receive superior service and value for money from their products. We do this by reviewing all our products on an ongoing basis.

During 2020, our efforts were directed at supporting our customers through the pandemic by giving options to help policyholders manage their regular payments if they were facing financial difficulties. We also adapted quickly to Covid-secure working environments to keep our servicing at optimum levels and help customers with their claims.

In spite of the uncertainties posed by the pandemic, the business achieved a key milestone on the road to simplifying and reducing the technology risk within our older systems. We have migrated a substantial number of customers' records to a better platform that will help us provide them with more streamlined servicing and claims journeys. In addition, we have developed capability to provide our customers with guaranteed annuity rates with a Royal London annuity. This became available in early 2021.

We are in consultation with the with-profits policyholders in four of our with-profits funds that are closed to new business, with the aim of consolidating these funds into the open Royal London With-Profits Fund by the end of 2021, subject to regulatory and legal approvals. This consolidation activity will help us to distribute the surplus in each closed fund to those with-profits policyholders more quickly and with more certainty. This will give immediate increases to their policy values. This work is part of our broader simplification strategy that is designed to simplify and modernise the way we do things for the benefit of our long-standing customers.

We have continued with enhancements to our communications to help better inform customers about their products. As part of this, changes have now been made to provide clearer information on policy performance, valuations and charges. This activity aligns to the guidance issued by the Financial Conduct Authority (FCA) for long-standing customers and we have engaged the regulator on the positive progress which has been made.

Our digital service, which is now live, provides customers with the ability to view their statements and make changes to personal details online. We also have plans in place to enhance the service so that customers can correspond with us digitally where they want to.

Customers with improved statements to provide clearer policy information

1.8m

We have maintained our financial discipline throughout the volatility of 2020, whilst continuing to invest in the business

Daniel Cazeaux
Group Chief Financial Officer

Change in reporting basis
The Group has changed its statutory reporting basis from IFRS to UK GAAP with effect from 1 January 2020. Accordingly, the financial results for the year ended 31 December 2020, including the related comparatives, are prepared in accordance with UK GAAP. Details of the change in reporting basis are included in note 39 to the financial statements.

In addition, the Group previously communicated that it would discontinue reporting under European Embedded Value (EEV), consistent with most UK insurers. As a result, and to facilitate comparison of the Group's performance, an alternative performance measure (APM), 'Group operating profit before tax', has been added as a key performance indicator (see page 220 for more details), to replace the previously reported 'EEV operating profit before tax'.

Throughout this review we will explain the key drivers of our 2020 financial performance.

Our aim is always to be as clear as possible with explanations. There are certain complexities in the nature of accounting and regulation in our industry; however, a glossary on page 224 will help explain some of the terminology.

2020 has been an unprecedented financial year. Covid-19 has caused extensive global economic impacts including significant volatility in financial markets. In this context, we have been disciplined in our management of the business whilst continuing to invest.

Group operating profit before tax for the year ended 31 December 2020 was lower than the previous year at £41m (2019: £165m), with statutory profit before tax for the year of £131m (2019: £414m). Our pension new business volumes were impacted by the uncertain economic environment and disruption to services provided by intermediaries, however protection sales grew through enhancements to our proposition and service delivery. Operating profit on assets under management (AUM) increased, driven by revenue growth from higher assets under management of £148bn at 31 December 2020 (31 December 2019: £139bn), including strong performance in the sustainable funds.

Our capital position remains robust. This has allowed us to continue our investments in our pensions business and new propositions. ProfitShare allocation rates were maintained, with total ProfitShare for 2020 increasing to £146m (2019: £140m) in line with the growth in the aggregate value of eligible policies. Maintaining the level of allocation demonstrates Royal London's resilience in difficult times and our commitment to delivering value.

Financial performance

Group operating profit before tax

Group operating profit before tax of £41m (2019: £165m) was lower in 2020, impacted by a lower contribution from new business, reduced experience variances and assumption changes compared to the previous year and higher financing costs. These items more than offset higher profitability in our AUM businesses and lower levels of losses on other businesses following the disposal of Ascentric.

Key components of Group operating profit before tax

	2020 £m	2019 £m	Change £m
Contribution from new business[1]	149	217	(68)
Profits from existing business:	117	194	(77)
Expected return	*116*	*102*	*14*
Experience variances and assumption changes	*22*	*92*	*(70)*
Modelling and other changes	*(21)*	*–*	*(21)*
Operating profit on assets under management (AUM) businesses	80	66	14
Operating loss on other businesses	(6)	(24)	18
Strategic development costs and other items (including amortisation and impairment of other intangibles)	(224)	(232)	8
Financing costs	(75)	(56)	(19)
Group operating profit before tax	**41**	**165**	**(124)**

1 New business contribution for 2019 has been restated to reflect the removal of the tax gross up of 19% on transition to UK GAAP, which was applied in EEV reporting.

Contribution from new business

Contribution from new business reduced to £149m (2019: £217m) due to a reduction in sales of new life and pension business as economic uncertainty, stock market volatility and the national lockdowns caused disruption to the services provided by intermediaries to their clients. Life and pensions new business margin reduced to 1.7% (2019 restated: 2.0%) as a result of lower sales volumes, mitigated in part by cost management measures taken whilst ensuring high levels of customer service were maintained.

	New business contribution		PVNBP		New business margin	
	2020 £m	2019 (Restated[1]) £m	2020 £m	2019 £m	2020 %	2019 (Restated[1]) %
Pensions	111	166	7,206	9,461	1.5	1.8
Intermediated Protection	31	33	825	678	3.8	4.9
Ireland Protection	12	13	137	137	8.8	9.5
Consumer	(5)	5	376	423	(1.3)	1.2
Life and pensions business	149	217	8,544	10,699	1.7	2.0

1 New business contribution and margin for 2019 have been restated to reflect the removal of the tax gross up of 19% on transition to UK GAAP, which was applied in EEV reporting.

Pensions sales reduced to £7,206m (2019: £9,461m) leading to a reduction in new business margin to 1.5% (2019: 1.8%). Individual pension sales were lower as customers delayed the decision to consolidate their pension holdings and advisers had to adapt their business models early in the pandemic. Workplace new business volumes also reduced as companies deferred decisions to move scheme providers, and lower employee turnover resulted in lower new entrants to existing schemes compared to 2019.

Sales of Intermediated Protection in the UK grew as we increased market share following enhancements to our proposition and service delivery. Ireland Protection margins were impacted as we increased our spend to support proposition development and maintain our service levels in the challenging operating environment.

Consumer new business sales and margin also reduced as we restricted direct marketing spend and partner sales slowed as our partners' businesses experienced lower levels of activity during lockdowns. Margins were impacted by the significant reduction in sales volumes, despite savings in variable costs.

Profit from existing business

Profit from existing business reduced to £117m (2019: £194m). The expected return on the in-force book increased, reflecting the growth in the book and a higher proportion of surplus assets invested in higher yielding corporate bonds, offset by the impact of lower risk-free rates compared to 2019.

Experience variances and assumption changes reduced to £22m (2019: £92m), primarily as positive expense effects from high new business sales in prior years have not repeated. We have seen positive persistency experience variances in 2020 as fewer people changed employers and transferred policies during the lockdown period. We expect this trend to reverse in 2021 and therefore have made specific allowance in our assumptions of £30m for the expected adverse impacts on our pensions business of higher unemployment caused by the economic slowdown and the end of the Government's furlough scheme. We have also provided £7m at 31 December 2020 for higher mortality claims expected to arise from Covid-19.

As part of our ongoing activities to ensure our actuarial models remain as reliable as possible and take account of the most recent experience data, we continue to make minor modifications and modelling changes, particularly to our legacy protection books of business. In 2020, the effect was a charge of £21m.

Operating profit on AUM business

Operating profit on AUM businesses increased to £80m (2019: £66m) following a rise in revenues generated primarily through higher assets under management of £148bn (31 December 2019: £139bn), dampened by higher operating costs as a result of the continued growth of and investment in the RLAM team. Sustainable funds in particular performed strongly during 2020.

Internal and external flows

	Gross inflows		Net inflows	
	2020 £m	2019 £m	2020 £m	2019 £m
Internal flows	8,089	9,371	2,205	3,196
External flows	18,318	15,760	1,665	6,696
Total	26,407	25,131	3,870	9,892

Internal net inflows reduced to £2.2bn in 2020 (2019: £3.2bn), due to reduced pension new business. External net inflows reduced to £1.7bn in 2020 (2019: £6.7bn), driven primarily by net outflows from institutional investors, which was partly due to the overall decline in defined benefit pension funds. The outflows were mitigated by inflows into the sustainable fund range in the wholesale channel.

Financial stress caused by the pandemic also led to a reduction in cash holdings by organisations such as universities and charities. As a result, we saw a reduction in the cash funds we manage on their behalf. We were also affected by the trend towards global credit products, as many institutional investors moved away from sterling-based credit products. Although we have expanded into global credit, it will take time to establish the three-year track record buyers look for to then see results in this area. This is the same process we have been through with strategies such as global equities and multi-asset credit – two areas in which we are now seeing strong sales.

Strategic development costs and other items

Strategic development costs and other items (including amortisation and impairment of other intangibles) were broadly maintained at £224m (2019: £232m).

	2020 £m	2019 £m
Strategic development costs	(90)	(135)
Corporate and other development costs	(134)	(97)
Total	(224)	(232)

Strategic development costs of £90m (2019: £135m) represent investments that we believe are important for our future competitiveness and we expect will deliver good returns in the future. This includes investment in our pensions business to drive digital transformation and improve our customer experience. We have also continued our investment in enhancements to legacy systems and migrated a substantial proportion of customers to a better platform during 2020. The Group has also invested to develop the capability to provide customers with guaranteed annuity rates with a Royal London Annuity, a proposition which became available in early 2021.

Corporate and other development costs of £134m (2019: £97m) included costs to realise efficiencies in our cost base, the costs of developments arising from regulatory change, the costs to strengthen IT security and the cost of rectifications from past sales and other corporate activity.

Financing costs

Financing costs increased to £75m (2019: £56m), with 2020 reflecting a full year of interest costs following the issuance of £600m of subordinated debt in October 2019.

Reconciliation of operating profit before tax to statutory profit before tax

Profit before tax

Profit before tax for the year was £131m (2019: £414m), impacted by the reduction in operating profit and lower economic effects compared to the prior year.

	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m	Change £m
Group operating profit before tax	41	165	(124)
Economic movements	210	378	(168)
Amortisation of goodwill arising from mergers and acquisitions	12	11	1
Profit on sale of subsidiaries	14	–	14
ProfitShare	(146)	(140)	(6)
Statutory profit before tax[1]	131	414	(283)

1 Profit before tax is the statutory transfer to / from the Fund for Future Appropriations for members of the Royal London Main Fund.

Economic movements

Economic movements reduced to £210m reflecting lower relative returns on UK investments in 2020 and further reductions in yields during 2020 to historic lows which increased liability valuations. A significant amount of the 2020 yield movement has been offset by the effective operation of hedges in place.

Amortisation of goodwill arising from mergers and acquisitions

Amortisation of goodwill arising from mergers and acquisitions of £12m (2019: £11m) relates to negative goodwill (capitalised under UK GAAP) being amortised over its estimated useful life. This occurs where the fair value of net assets acquired in an acquisition exceeds the fair value of consideration paid.

Profit on sale of subsidiaries

Profit on sale of subsidiaries of £14m was generated from the disposal of the Ascentric[1] platform. The business was sold on 1 September 2020 to M&G plc for total cash consideration of £86m.

ProfitShare

ProfitShare allocation rates were maintained, with total ProfitShare increasing to £146m (2019: £140m) in line with the growth in the aggregate value of eligible policies. The enhancements to qualifying policies from ProfitShare were 1.2% for with-profits policies and 0.15% for unit-linked policies (2019: 1.2% and 0.15% respectively). Maintaining the level of allocations demonstrates Royal London's resilience in difficult times and our commitment to delivering value.

Balance sheet

Our balance sheet position remains robust. Our total investment portfolio, including investment property, increased to £107.9bn (2019: £99.4bn), driven through low yields which increase the value of bonds, net external inflows (mainly from strong inflows on the sustainable funds) and recovery in equity markets, particularly outside the UK, during the year. Increases in investment asset values have been offset in the balance sheet by an increase in policyholder liabilities through low risk-free rates used to discount liabilities.

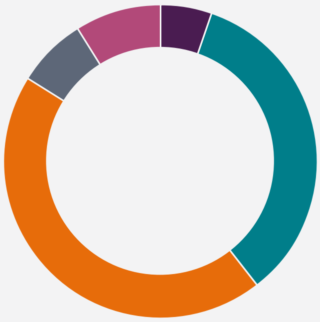
1 Ascentric is a financial adviser platform and is the trading name of Investment Funds Direct Limited (IFDL).

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

Of the total investment portfolio of £107.9bn, £60.2bn of assets back unit-linked business and £47.7bn are non-linked.

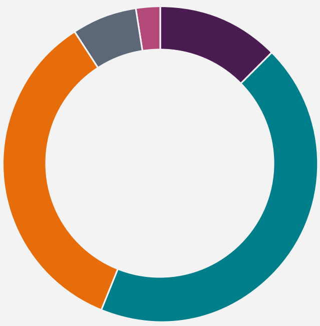
A significant portion of our investment portfolio is in high-quality assets with a credit rating of 'A' or above. In our non-linked portfolio, 91% of our non-linked debt securities and 81% of our non-linked corporate bonds had a credit rating of 'A' or better at 31 December 2020. There have been no significant defaults in our corporate bond portfolio.

Investment portfolio



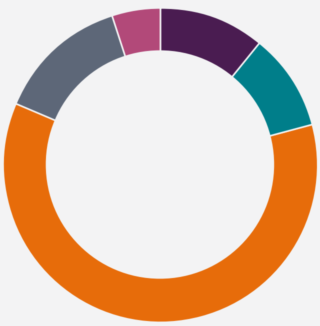
Derivatives	£5.8bn
Equities	£37.0bn
Debt securities	£47.8bn
Investment property	£7.8bn
Unit trusts and other assets	£9.5bn
Total	£107.9bn

Non-linked debt security portfolio: 31 December 2020



AAA	£2.2bn
AA	£7.7bn
A	£6.1bn
BBB	£1.2bn
BB and below (incl. NR)	£0.4bn
Total	£17.6bn

Non-linked corporate bonds: 31 December 2020



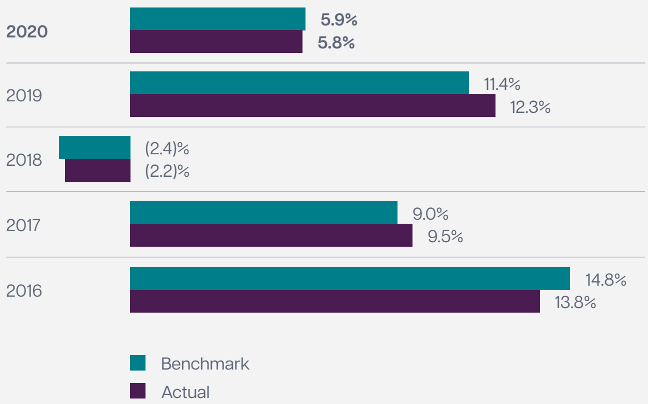
AAA	£0.9bn
AA	£0.8bn
A	£4.9bn
BBB	£1.1bn
BB and below (incl. NR)	£0.4bn
Total	£8.1bn

Investment returns

The Covid-19 outbreak and resulting lockdown measures meant that global stock markets fell sharply in March, with most leading markets falling between 15% and 20%. In the period since, financial markets have largely been in recovery as investors have generally been able to look through the short-term disruption, buoyed by central bank support, albeit with periods of volatility around renewed Covid-19 outbreak spikes, and positive news on potential vaccines.

The Royal London Main Fund slightly underperformed against the benchmark over 2020; however, 95% of active funds outperformed their three-year benchmark (2019: 98%). The multi-asset funds were not positioned for the sharp correction in equity markets during Q1 2020, which impacted investment performance across the period despite a slow recovery in markets and positive investment performance across the rest of 2020. The majority of funds, including the Royal London Main Fund, experienced positive returns on key asset classes such as equities and bonds during the year.

Royal London Main Fund with-profits performance



Pension schemes

The Group operates three defined benefit pension schemes. The net surplus of the three schemes at 31 December 2020 was £84m (31 December 2019: surplus of £169m). The largest scheme, the Royal London Group Pension Scheme (RLGPS), which closed to future accrual of benefits on 31 March 2016, had a deficit of £44m as at 31 December 2020 (31 December 2019: surplus of £38m). This deficit was due to a reduction in the discount rate reflecting lower yields which significantly increased the value of scheme liabilities, partially offset by positive investment returns. RLGPS includes the PMAS pension scheme assets and liabilities which were transferred in following the acquisition of the business on 1 October 2020.

The two remaining schemes operate for former Royal Liver employees. The combined Royal Liver schemes' surplus as at 31 December 2020 was £128m (31 December 2019: £131m).

Strength of our capital base

The strength of our capital base is essential to our business, both to ensure we have the capital to fund further growth and to give peace of mind to our customers that we can meet commitments to them.

Managing our capital base effectively is a key priority for us. In common with the rest of the industry, we present two views of our capital position: an Investor View for analysts and investors in our subordinated debt and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

At 31 December 2020, the estimated Solvency II Group Investor View capital cover ratio was 190% (31 December 2019 restated: 219%) and solvency surplus was £2,258m (31 December 2019 restated: £2,632m). The estimated Solvency II Regulatory View capital cover ratio was 147% at 31 December 2020 (31 December 2019: 159%).

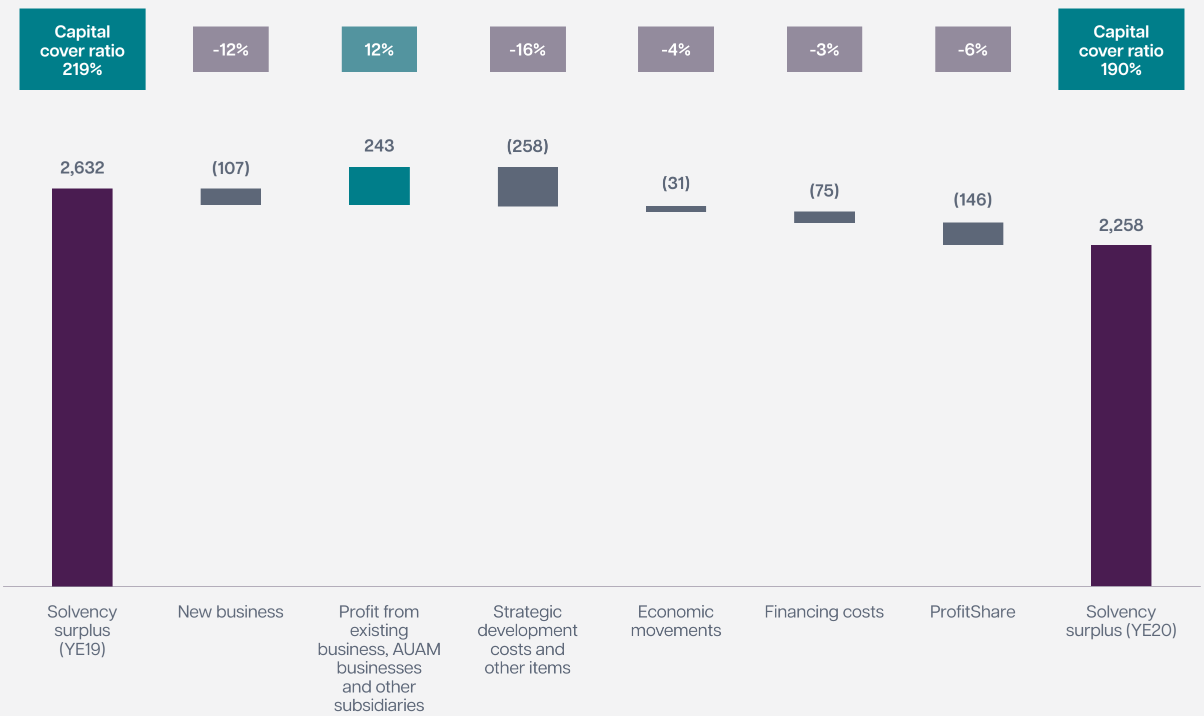
The Group solvency surplus (Investor View) has reduced from £2,632m at 31 December 2019 to £2,258m at 31 December 2020. The 2019 capital position included the issuance of £600m of subordinated debt in October 2019. The reduction in 2020 reflects the continued strategic investment in our pensions business and enhancements to our legacy systems, as well as maintaining ProfitShare allocations. We also invested in a matching adjustment portfolio ahead of the launch of our annuity proposition, which has led to a short-term increase in capital requirements pending regulatory approval. Economic variances have been in line with expectations, with our equity and interest rate hedging strategies operating as intended through the market volatility in the year.

Capital position and key Solvency II metrics (estimated)

Group basis	Investor View[1] £m	Closed funds £m	Regulatory View £m
Own funds			
Tier 1	3,162	4,830	7,992
Tier 2	1,604	–	1,604
Tier 3	8	–	8
Total own funds	**4,774**	**4,830**	**9,604**
Closed funds restriction	–	(2,512)	(2,512)
Deferred tax asset restriction	(8)	–	(8)
Adjusted own funds	**4,766**	**2,318**	**7,084**
SCR	**2,508**	**2,318**	**4,826**
Solvency surplus – 31 December 2020	**2,258**	**–**	**2,258**
Solvency surplus – 31 December 2019	2,632	–	2,632
Capital cover ratio – 31 December 2020	**190%**	**208%**	**147%**
Capital cover ratio – 31 December 2019	219%	243%	159%

1 The Group changed the Investor View capital cover ratio metric in 2020 to equal the Royal London Main Fund (RL Main Fund) capital position, which excludes the capital position of the ring-fenced closed funds. This metric is considered more appropriate as closed funds are run on a standalone basis.

Movement in Group Investor View solvency surplus (£m)



Sensitivity analysis of Group Solvency II capital position

Our capital position is sensitive to changes in economic and non-economic assumptions. The 'Solvency II Investor View sensitivities' chart sets out various sensitivities of the capital cover ratio and the solvency surplus based on possible different scenarios. The results of the sensitivities show that the Group capital position is not materially impacted even in the event of significant external market volatility.

The 2020 Single Group Solvency and Financial Condition Report (SFCR) will be published on our website in April 2021 (royallondon.com/about-us/corporateinformation/corporate-governance/investor-relations/) and will meet disclosure requirements for both the Group and Parent company.

Solvency II Investor View sensitivities

Scenario[1]	Capital cover ratio (%)	Impact on solvency surplus (£bn)
Base: 31 December 2020	190%	2.3
25% decrease in equity investments	(8)%	(0.4)
15% decrease in property prices	(3)%	(0.1)
100bps fall in interest rates[2]	3%	0.1
100bps fall in interest rates[2]	(7)%	(0.1)
25bps increase in government bond yields[3]	(3)%	0.0
200bps widening in credit spreads[4]	1%	(0.1)
15% fall in GBP exchange rates[5]	4%	0.2

1 Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was last formally recalculated at YE19. The economic sensitivities presented reflect 1-in-20-year events. For equity and interest rate sensitivities, these stresses are consistent with the PRA's SS7/17: Solvency II: Data collection of market risk sensitivities, which is available at bankofengland.co.uk/pra/Documents/publications/ss/2017/ss717.pdf
2 Interest rate sensitivities assume that government and other bond yields and risk-free rates all move by the same amount. Interest rates are allowed to be negative.
3 The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Volatility Adjustment has been reassessed in the stressed scenario.
4 The widening in credit spreads stress assumes a widening in all ratings and an associated increase in the discount rate for the Royal London Group Pension Scheme and Liver pension schemes at 25% of the asset spread stress. The Volatility Adjustment has been reassessed in the stressed scenario.
5 The fall in GBP exchange rates stress assumes an increase to the value of assets held in currencies other than GBP by 17.5% in GBP terms.

Rating agencies

Assessing the financial strength and stability of financial services companies is a complex undertaking, and rating agencies are one way of providing an independent assessment of Royal London and its financial position. Two leading agencies, Standard & Poor's and Moody's, regularly issue ratings on us.

In June 2020, Standard & Poor's affirmed Royal London's counterparty credit rating of 'A', with a stable outlook. Moody's rated Royal London A2 for insurance financial strength with a stable outlook in December 2020.

Tax

We are a major taxpayer and recognise that taxation is an essential way businesses and citizens contribute to society.

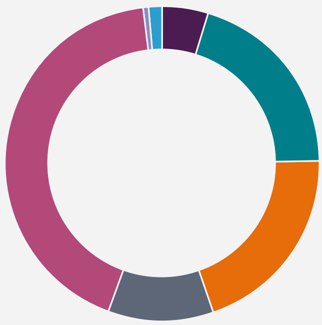
How Royal London is taxed

We are subject to various taxes, including corporate taxes, employment taxes on salaries and indirect taxes such as VAT. The corporation tax that the Group pays is a proxy for policyholder tax liabilities, paid on behalf of certain life assurance policyholders. For these life policies, tax is charged on taxable income, less expenses, and is largely driven by market movements. This tax is paid directly to HMRC by the Group as corporation tax on behalf of policyholders.

For pension policies, returns to the policyholder accumulate without incurring a similar corporation tax charge. This is part of the UK Government's strategy of incentivising saving for retirement. Tax is paid directly by the pension policyholder when they receive their pension.

In 2020, the total tax contribution of the Group was £585m (2019: £690m).

Tax paid by Royal London



UK and Irish transaction taxes	£28m
UK and Irish corporation tax	£118m
UK and Irish employment taxes	£116m
UK and Irish VAT	£64m
UK and Irish tax deducted at source	£249m
Other UK and Irish taxes	£3m
Overseas withholding taxes	£7m
Total	£585m

The Group's total tax contribution is made up of the taxes borne and collected in the period. Taxes borne are the taxes incurred by the Group, in the period, that impact on our results. Taxes collected are those administered by the Group and collected from others for onward payment to HMRC and other tax authorities. In 2020, taxes of £241m (2019: £256m) were borne by the Group and the Group collected £344m (2019: £434m) of taxes on behalf of the tax authorities.

Daniel Cazeaux
Group Chief Financial Officer
4 March 2021

Effective risk management is fundamental to our Purpose, delivering our strategy, serving our customers and growing our business safely

The Board is responsible for the Group's risk management and internal control system, and for reviewing its effectiveness. The system is designed to manage and mitigate risks to achieving our business objectives. Our risk appetite defines the level of risk we are willing to take, aligns to our Group Purpose and strategy, and is approved by the Board.

Our framework drives a risk culture where employees at all levels have risk management responsibilities. We operate a 'three lines of defence' model, which defines the responsibilities for risk management (see page opposite).

Our process

Royal London aims to balance risk and reward in order to achieve its business objectives safely. We use an ongoing process for identifying, measuring and managing the significant risks faced by the Group.

Robust governance with the activity of the Board and its committees in overseeing the work of all three lines of defence is critical to our approach. Our structure and governance aims to support us in managing risk in the changing economic, political and market environments. We have a formal governance structure of committees to manage risk reporting to the Board. Accountability has been strengthened further through embedding of the Senior Managers & Certification Regime (SMCR).

Managing risks

Our risk management system has been in place throughout the period under review and meets the requirements of the UK Corporate Governance Code. Effective risk management is central to Royal London's strategy. Our system of governance comprises risk management, risk appetite, risk policies, internal control activities, and the internal environment such as culture. Taken together these elements are designed to:

- facilitate the effective and efficient operation of the Group by enabling us to respond appropriately to significant risks and uncertainties that could affect our customers and the delivery of our objectives;
- reduce the risk of material loss to the Group;
- promote the preparation of reliable published financial statements and selected financial data; and
- facilitate compliance with applicable laws, regulations and internal policies.

Our primary objective is to manage risks so that the achievement of the Group's strategy, performance and objectives is not undermined by unexpected events, and that sufficient capital is maintained.

We use our risk management system alongside our capital management framework to manage the significant risks we are exposed to, so that our business remains sustainable to protect our customers.

This approach facilitates the early identification of risks. Through an assessment of likelihood and impact, we seek to understand fully the dimensions of the exposures the Group faces. We respond to unacceptable exposures by creating robust action plans to address those risks. Regular risk reporting is brought to the Risk and Capital Committee, via the Executive Risk Committee, which includes detailed mitigating actions undertaken by the individual business units.

We have a strong risk management culture and our risk management system is embedded across all business areas. During 2020, we continued to strengthen our internal control system, standards and processes. This included establishing control standards in risk policies and delivering our education programme to build business capabilities within a sustainable model.

The management of each business unit and support function is responsible for identifying, measuring, assigning responsibility for, reporting, managing and mitigating all risks relevant to its area of business. This includes the design and operation of suitable internal controls.

Three lines of defence

Royal London operates a 'three lines of defence' model that defines the ownership of and responsibilities for risks:

1. Customer and internal-facing areas

Primary responsibility for risk management.

Executive management establishes and implements systems and controls, and manages the risks affecting their areas of responsibility. This includes identifying and assessing material risks, their likelihood and severity and the mitigating controls or actions.

2. Risk and Compliance

An independent function within Royal London, which provides specialist advice, oversight, challenge and assurance.

This risk management system allows us to assess our overall risk exposure and to create a map of major risk exposures and actions. These matters are monitored, refreshed and reported to the business risk committees, the Executive Risk Committee and the Risk and Capital Committee.

These processes are supported by Group Risk and Compliance, which reports to the Group Chief Executive via the Group Chief Risk Officer. Group Risk and Compliance provides specialist knowledge, review, challenge and quality assurance, and co-ordinates reporting to appropriate committees and the Board.

3. Group Internal Audit

A Group-wide internal audit function, which provides independent assurance and has a reporting line independent of executive management.

Appetite for risk

We have built a risk appetite framework that supports our corporate strategy, explains how much and what kind of risk Royal London is prepared to be exposed to, and measures our resulting risk exposure (see page 60 for more details).

The Group's risk governance structure

Risk responsibilities of the Board

Board
Responsible for the Group's risk strategy, risk preferences and risk appetite statements. It approves and has oversight of the plans and resources in place to support Royal London in achieving its strategic objectives within the risk appetite framework. It is also responsible for establishing and maintaining a framework of prudent and effective controls.

Risk responsibilities of sub-board committees

Risk and Capital Committee
Supports the Board and the Group's subsidiary boards in managing risk and capital, and in complying with prudential and conduct regulations.

Group Audit Committee
Supports the Board and the Group's subsidiary boards in overseeing financial reporting, regulatory reporting, financial controls, internal and external audit, treasury operations, actuarial operations and tax policy.

Risk responsibilities of management

Executive Risk Committee
Supports the Group Chief Executive by giving consideration to, and developing proposals and recommendations in respect of, the risk management system.

Capital Management Committee
Supports the Group Chief Financial Officer by giving consideration to, and developing proposals and recommendations in respect of, economic and regulatory requirements; balance sheet risk; derivatives; and risk appetite related to market, credit and liquidity risks, policies and reporting.

Customer Standards Committee
Supports the Group Chief Executive in overseeing customer outcomes and managing conduct risk management responsibilities. It provides challenge to business practices relevant to our strategic customer objectives and conduct regulatory requirements.

Internal Model Governance Committee
Supports the Group Chief Risk Officer by developing proposals and recommendations designed to deliver an internal model that accurately reflects the structure and risk profile of the business.

Group risk policies
Our risk policies are the high-level standards and requirements that determine the way in which risks are to be managed and controlled. We review our policies regularly to establish whether they reflect the changing commercial and regulatory environment, as well as the Group's organisational structure.

Anti-corruption and anti-bribery
The Group is committed to the highest standards of governance, personal and corporate ethics, compliance with all laws and regulations, integrity and honesty in dealings with employees, customers, suppliers and other stakeholders.

The Group has a financial crime policy, which sets out the framework for managing crime arising from bribery and corruption, fraud, money laundering and market abuse. A Financial Crime unit operates within our Group Risk and Compliance team to monitor adherence to this policy.

Cyber crime
We continue to invest in our threat intelligence, cyber security controls and our response capabilities. Cyber security awareness is regularly reinforced through training our colleagues. Our Principal risks and uncertainties section provides more information on our cyber security and breach management processes.

Climate risk
We have been integrating climate change considerations into our risk management system during 2020 and this work will continue in 2021. We also have a responsible investment programme, which considers how the climate will affect our business and how our investment choices can adversely affect the environment.

Solvency II
Our Prudential Regulation Authority-approved internal model enables us to make more effective decisions by integrating risk and capital management, building on our existing strong capital modelling and control capabilities.

The Board's review of our system of internal control
The Board is responsible for the system of internal control as well as for reviewing its effectiveness. It conducted a review of the Group's risk management system and internal control system effectiveness during the year ended 31 December 2020. This review took into account matters arising up to the date of approval of this Annual Report and Accounts.

The review covered all material controls across business, financial, compliance and risk management processes. It was conducted through reports submitted to the Board, the Risk and Capital Committee and the Group Audit Committee and by reports prepared as part of the year-end process.

Group risk appetite framework

Risk appetite framework
Our risk appetite framework consists of three components:

1. The risk strategy
The strategy, along with risk preferences, defines the risks we aim to take or avoid in the pursuit of our business objectives. It also sets the boundaries within which our risk appetite will operate.

2. Risk appetite statements
These explain how much risk we are prepared to be exposed to – and why – in relation to each risk category outlined in the risk strategy.

3. Risk metrics
The metrics help to measure the amount of risk we are exposed to against risk appetite. Each metric has inbuilt threshold limits designed to provide an early warning of when we are approaching our risk appetite limits.

High-level risk categories
The risk appetite statements and metrics have been constructed around the five high-level risk categories below, which are considered core to our business:

Capital
We will maintain a strong and credible capital position supported by good quality assets.

Liquidity
We will maintain sufficient liquidity to retain customer and member confidence, even in extreme but foreseeable circumstances.

Insurance
We will apply strong insurance risk management disciplines for new and existing business.

Strategic
We will deliver on a strategy that is aligned with our Purpose and responds to our operating environment.

Operational
We will operate strong controls to minimise impacts on customers, reputation and capital, and make risk-based decisions that are aligned to our Purpose.

Principal risks and uncertainties

The Board confirms the principal risks and uncertainties facing the Group are as set out on the following pages, along with the actions taken to mitigate and manage them. The Risk and Capital Committee monitors principal risks and uncertainties quarterly and completes a full review annually. Our approach to risk management, including the process of assessing and reviewing these risks, is set out below and overleaf.

Although most of the principal risks and uncertainties set out last year are still relevant, the nature of the exposures has changed over time based on new and evolving external influences. We are monitoring the Covid-19 pandemic impacts and Brexit developments closely within our risk profiles.

A separate principal risk and uncertainty has been created to cover the wider-ranging potential impacts associated with Covid-19. We have continued to progress with a number of activities to manage and reduce our exposure to certain risks.

Covid-19 impacts We have included a new principal risk and uncertainty to aggregate the external Covid-19 developments that correlate to exposures across our risk profile.

Uncertainty and volatility from long-term effects of the pandemic

Emerging Covid-19 impacts and prevention measures could affect the Group's financial position, profitability, operations and ability to deliver for our customers. These effects could arise through:

- change in consumer behaviours resulting in lower business volumes, investments and profitability;
- potential demographic shifts (e.g. changing nature of employment) resulting in changes in social policy;
- disruption to operations and change delivery leading to operational loss and/or reputational damage;
- further increases in mortality and persistency, affecting funding commitments; and
- the length of time to recover prolonging market volatility coupled with uncertainty around Brexit.

The Covid-19 pandemic has affected financial markets across the world severely during 2020. Although there has been some recovery, there remains significant market volatility. This could affect the life and pensions sector further.

Mitigation and management

We have made provisions for the potential increase in mortality and support for our customers.

We monitor longer-term developments regularly such as those from Covid-19 through our emerging risk profile. These emerging risks include consumer behaviours, demographic shifts and economic uncertainty.

Our regular monitoring enables us to focus on the risks relating to the Covid-19 pandemic when they develop and take action. Monitoring includes considering incident management and planning, and regulatory focus at the outset of the pandemic. The Group Risk and Compliance function facilitated a new change management process to support our operations in:

- responding effectively to the external challenges presented; and
- taking appropriately controlled levels of risk, and assessing the control environment as the Group adapted its processes and practices as a result of Covid-19.

This change control activity will continue into 2021.

During periods of market volatility, we increase the frequency of monitoring our capital and liquidity positions. We also complete stress and scenario testing and, as part of our own risk and solvency assessment (ORSA) process, we have run a qualitative pandemic scenario to understand better the impacts on the wider business as well as capital.

Change

Increased risk (new)

We are monitoring Covid-19 developments and taking action across our risk profile, and aggregated this as a new principal risk and uncertainty for the Group.

The economy and Royal London's key markets We review our business to ensure we have plans in place to tackle today's challenges – including projected low growth, market volatility and changing socio-economic trends.

Uncertainty in the economic environment caused by health or other issues

Our business is subject to risks arising from economic conditions in the markets in which we operate.

Low or negative interest rates continue to affect the insurance sector significantly. Fluctuations in both asset and liability values can arise from:

- volatility in the global capital markets;
- the economy of the UK; and
- the global economy generally.

This may affect the Group materially where such a market change has differing impacts on the value of assets and liabilities.

Mitigation and management

We monitor exposures regularly by risk class and consider possible risk concentrations, measured with reference to counterparty exposure limits. This enables us to evaluate scenarios where we may be exposed to asset and liability values moving differently. This in turn allows us to have a good understanding of the impact these may have on our risk profile.

Through regular review and discussion at executive and Board level, decisions are made to minimise risks where these do not align to our business strategy and risk preferences. Mitigation is also undertaken by hedging to offset adverse risk.

We also hold capital for mortality catastrophe events within our internal model capital requirement.

Change

Increased risk

We have seen the effects of Covid-19 and protection measures on the markets in 2020.

Principal risks and uncertainties continued

A change in economic trends and consumer behaviours can affect performance

Volatility in the economy and investment markets, alongside low growth rates can affect consumers' appetite for our products and services.

Changing socio-economic trends (such as customers wanting to deal direct, mobile app transactions and data security) present opportunities and challenges to our business model.

Mitigation and management

We complete regular reviews so that we are developing strategies and operational capabilities to take account of current and future changes in markets and consumer behaviour.

We monitor our product range and market position regularly through analysis of policyholder experience and business volumes. This helps us to re-price products dynamically and develop new ones in response to changes in demand.

Changes that affect consumer behaviour are monitored through our emerging risk profile.

Change

Increased risk

Consumer behaviour has been materially affected by government measures in response to the pandemic as well as Covid-19's associated uncertainty.

Competitor risk

Competitive pressure exists within our industry. This could have an adverse impact on our success in our chosen markets. Achieving our strategy depends on our ability to sustain growth whilst managing economies of scale and continued strong financial discipline.

Mitigation and management

Royal London evolves its strategy in order to differentiate its products in our chosen markets. The Group continues to focus on delivering value-for-money for our customers. We continue to invest in our customer-facing infrastructure to deliver attractive propositions and service levels efficiently, and so are well placed to continue to offer value supported by our mutuality, customer centricity and service excellence.

We have a strategic programme focusing on costs, which is incorporated within the latest business plan.

Change

No change

Advisers' continued focus on price drives ongoing margin compression, increasing focus on costs in our markets to maintain profitability.

Changing political and regulatory environment

The ongoing uncertainty relating to the impact of the UK leaving the EU is the key factor reflected in the political and regulatory environment principal risks and uncertainties.

The arrangements following the UK's exit from the EU create uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation

With the financial services regulatory arrangements still to be agreed post Brexit, there is likely to be a marked rise in market uncertainty, resulting in adverse impacts on economic confidence, UK sterling, the UK's credit rating and inflation.

If equivalence is forthcoming, the degree of freedom that the UK will have to determine its own laws and regulations governing financial services is unclear. If equivalence is not forthcoming, the structural impact to the UK's insurance and asset management industries is presently unclear.

Mitigation and management

Brexit is not expected to have a materially detrimental impact on Royal London's strategy and business as most of our operations are based in the UK. Our Part VII transfer to our Irish subsidiary in February 2019 has protected and enhanced our existing market position in Ireland.

We mitigate our market risks through our normal market risk monitoring and capital management activity.

Given the Group's UK-focused business, we are less exposed than many of our peers to the risk of failing to access the European single market.

We will continue to maintain a watching brief on developments relating to the equivalence of EU and UK regulations, and will prepare appropriate responses in due course.

Change

No change

Whilst a trade deal has been secured, the arrangements in respect of the financial services are yet to be agreed and remain uncertain. Until the level of equivalence between the EU and UK regulatory regime for financial services is finalised, there remains uncertainty around how this may impact the Group's operations.

Changes in the legislative and regulatory landscape may alter the design and marketing of propositions

Unprecedented levels of change in legislation and regulatory activity could affect our ability to deliver changes. These developments could also affect our reputational, operational and financial position. The conduct and prudential environment continues to evolve and could affect how we develop and distribute new propositions, as well as how we administer and deal with contracts sold in the past.

It is possible that thematic industry-wide reviews from regulators may have a significant impact on the Group.

Mitigation and management

Meeting the expectations of customers and our regulators is at the forefront of everything we do. We engage actively and transparently with regulators on an ongoing basis.

We continue to monitor the impact of developments and, where necessary, enhance our processes to meet any new requirements.

Our conduct risk framework is in place, alongside an associated proposition process designed to achieve fair outcomes and experiences for our customers.

We continue to be represented on industry bodies including senior committees of the Association of British Insurers (ABI).

Change

No change

Increased risk from regulatory change targeted towards the life and pensions business may adversely affect the Group's strategic outlook.

The political environment may change the financial services industry The political environment may give rise to changes that alter the viability of our propositions in our chosen markets. Examples could include a broadening and/or tightening of the rules applied to workplace pensions and changes to tax-free allowances for pension contributions.	**Mitigation and management** As the political environment evolves, we continually evaluate how our markets are affected so we can develop propositions that continue to meet the needs of customers and distributors. We monitor developments and potential outcomes, including the further recommendations from the asset management market study and the pensions dashboard. We also undertake scenario testing of external factors that could detrimentally impact our business model. This includes the potential regulatory changes to pension transfers that have been considered as part of our business model analysis. In addition, we undertake a role in lobbying on political and legislative issues that we consider to be in the best interest of our customers.	**Change** No change Our position remains stable.

Maintaining our financial strength Our financial risks remain stable, sustained with regular mitigation and monitoring activities.

An increase in our funding commitments for defined benefit pension schemes may affect our financial position Our main risks in managing our defined benefit pension schemes relate to inflation, interest rates and longevity, and the funds' investment strategies. Any adverse movements in these factors could increase future funding costs and could negatively impact our financial position.	**Mitigation and management** These risks will continue to be monitored in the normal course of business. Our internal pensions team supports the Trustee boards to identify, assess and implement initiatives and opportunities to reduce volatility and risk. The Royal London Group Pension Scheme (RLGPS), the main Group defined benefit scheme, closed to future accrual from 31 March 2016, reducing the current funding commitment to that scheme.	**Change** Reduced risk The valuation of the RLGPS at 31 December 2019 concluded that no regular contributions are required. The Trustees also considered the impact of Covid-19 on the scheme and the Group and concluded that any impact was not material to this conclusion. Overall, the scheme is well funded.
We are exposed to the risk of failure or default of one or more of our counterparties As part of our business, we invest in debt securities and other assets in order to meet our obligations to policyholders. As a result, exposures can arise to issuers of debt and other financial instruments. Our day-to-day activities also mean we have exposures to banking, insurance and reinsurance counterparties.	**Mitigation and management** We seek to manage our exposures to any one counterparty or third party. We actively monitor and report against limits in respect of investments. We govern our contracts with third parties by strict service level agreements. We manage and discuss these at regular account management meetings. The Capital Management Committee reviews large exposures that approach or exceed risk appetite. The committee reviews the actions being taken to manage these exposures.	**Change** No change Our risk exposure remains stable as we continue to manage it through our frameworks.
If our assumptions are subsequently proven to be wrong, then adjustments may affect our financial position Our business involves the underwriting of risks where the ultimate liability is dependent on long-term trends in factors such as mortality, lapse rates, interest rates and counterparty defaults. We take a prudent approach when calculating capital requirements. However, extreme movements can take place. Such events could arise from, for example, medical science advances and movements in financial markets or in the broader economic environment and customer behaviours. Employment growth prospects have been negatively affected by Covid-19 and may lead to a long-term detriment to the workforce. It would be necessary to review assumptions if this did happen, potentially impacting our financial position.	**Mitigation and management** We use our experience to assess and set prices for known risks, and to ensure that reserves are appropriate. The calculation of reserves is underpinned by stress and scenario testing, which assesses the appropriateness of key assumptions to a combination of extreme events, including financial and economic conditions, investment performance and product-specific matters. Additionally, in the event that actual claims experience is less favourable than envisaged, our reinsurance arrangements will provide significant mitigation.	**Change** Increased risk Covid-19 could further affect the life and pensions sector, as the pandemic impacts the ability of customers to maintain premium payments and increasing unemployment leads to higher than expected exits from workplace pensions. We do not expect this to materially affect the Group's financial position.

Core processes and organisational delivery

We continue to maintain oversight and manage our change risk.

Organisational capabilities may be impaired by the high level of change across the Group

We have completed change programmes in line with the Group's growth to respond to regulatory change, and to improve our capabilities and the experience of our customers. There is a risk that the continued growth plans and operational changes, combined with the significant amount of external changes in markets, regulation and legislation, may result in future ineffective organisational delivery.

Covid-19 impacts also have the potential to affect our organisational change delivery. This includes our employees' health, safety and well-being being affected by the move to work from home.

These could lead to operational loss and/or reputational damage.

Mitigation and management
Our strategic and operational plans are reviewed by the Board regularly. These take account of our resources and the scale and diversity of change currently under way and planned.

Specific change programme monitoring and reporting takes place at project, programme, portfolio and strategic execution level. A dashboard of measures is used so that appropriate risk-based decisions are made and that resources are allocated in an efficient and sustainable manner. The portfolio is also constructed to take account of the anticipated level of resourcing available.

Our most significant strategic transformation and change programmes have quality assurance processes built into our internal management and governance. These are also subject to independent oversight by our Group Internal Audit and Group Risk and Compliance functions.

Additionally, the risk of financial reporting errors arising from change is mitigated by ongoing control activity and monitoring through the financial reporting and data control framework.

We also keep our operational resilience under regular review, with contingency plans in place around any potential operational impacts relating to Covid-19. We have also created and overseen a new change management process in response to Covid-19.

Change

No change

Our change programmes continue to have appropriate governance and oversight to monitor and manage the risk.

In March 2020, Royal London successfully moved 98% of its workforce to home working, with minimal effect to its operations.

Cyber security breaches

There is a risk that third parties and other unauthorised users may attempt to gain access to our systems for misuse of customer and company data, or to disrupt the business using malware and viruses. This could lead to corrupted or lost data, business interruption, compliance breaches, regulatory fines and reputational damage.

Mitigation and management
We continue to invest in our security systems, strengthening beyond our core controls and reducing vulnerabilities. Our security is proactive with advanced monitoring, prevention and testing.

Cyber security awareness is a key part of our training, with exercises and testing of security awareness. Where new threats are identified, awareness training and communications are immediately rolled out.

We carry out a number of stress test exercises and continue to review regularly and test cyber risk developments.

Change

Increased risk

We continue to focus on our cyber resilience, where additional risk exposures have been created by home working. These include heightened fraud risks (such as ransom attacks, hacking access and phishing emails).

Material outsourcers and supplier relationships

We continue to maintain our policy and framework for appropriate governance and oversight of our material outsourcer and supplier arrangements.

Outsourced services may not meet our service requirements

In line with large financial services organisations, we have a number of material relationships with outsourcers and service providers. Whilst these providers complete processing or specialist work, we remain fully responsible for the oversight, management and performance of the outsourced activity.

There is a risk that we would be unable to meet our customer obligations following the failure of, or a significant degradation in, service received from a material outsourcer or service provider. This may also be caused by contagion and/or increased scrutiny across the outsourcing sector.

These risks could result in major disruption to our operations.

Mitigation and management
We have a framework for the governance and oversight of material outsourcer and supplier arrangements. It includes the requirement for executive approval prior to commencing material outsourcer and supplier arrangements, together with policies and processes for the oversight and escalation of risks and issues to the attention of the appropriate risk committees.

The business manages outsourcer and supplier relationships closely. The governance arrangements for material outsourcers require that our customers do not face an increased level of risk due to an outsourced arrangement.

Change

No change

This risk remains stable as we continue to manage our outsourcers through our framework.

Legacy products We have made progress to reduce the risk on legacy products with dedicated legacy and remediation functions in place to ensure these continue to be managed and monitored for our long-standing customers.

Legacy remediation

Royal London has a large number of legacy products in which policyholders are still invested.

There is a risk of historic remediation required within these books, as there are a large number of legacy systems and propositions involved, and often manual and/or complex processes that can lead to the emergence of historic issues.

Mitigation and management
Our remediation function, ongoing proposition reviews and value for money dashboards have created controls to ensure that we are actively identifying any risks or issues around historic remediation required.

We have a simplification programme to reduce complexity around systems and processes and deliver better customer outcomes.

Change

No change

There continues to be significant focus placed on managing this risk within the business.

Climate change We are monitoring and managing the risk that climate change could pose to the Group and to our propositions.

Failing to respond to shifting sentiment towards climate change results in brand and market share being negatively impacted

Climate change risk has the potential to affect the Group across multiple risk categories and crystallise in many ways, given the complex nature of the risk and the different time horizons for impacts.

Although the physical risks of climate change are not currently seen as a principal risk for the Group, there is a range of financial risks associated with the transition to a low-carbon economy – for example, the impacts of climate risks on the prospects of current and future investment holdings.

There are potential impacts of the transition to a low-carbon economy, particularly on our brand and the viability of our propositions, including:

- the risk of reputational damage to the Group's brand if our response is seen as inadequate among our members, customers and the wider public;
- the risk that we lose market share across our markets if we fail either to develop new propositions or modify existing ones to reflect growing demand for products that are perceived to have a positive (or neutral) impact on combatting climate change;
- the risk that government or regulatory policy requirements on climate change directed at the markets we operate in impacts the viability of our propositions; and
- the risk that climate change (both physical and transitional) affects the macro-economic environment, and the viability of our propositions, particularly over the longer term.

Mitigation and management
Consideration of these risks and impacts has been brought into our risk management system, and the consideration of climate change is being incorporated into existing strategic risk monitoring activity.

We are rolling out climate change awareness training to key stakeholders, with each area of the Group being required to consider the action required to monitor and manage the strategic risk posed by climate change.

The Group now considers a broad range of environmental, social and governance factors in its selection and management of our investments.

We are expanding our qualitative and quantitative scenario analysis. This will consider the potential impact of climate change scenarios, and ensure this is appropriately reflected in the Group's risk management system.

We continue to engage with our regulators on the impact to the Group of near-term physical and transition risks associated with climate change.

We continue to consider the requirements of consultations associated with the risks of climate change and engage with industry bodies on the Group's response where appropriate.

Change

No change

We continue to embed climate awareness so that these risks and impacts are considered.

Longer-term viability statement

Assessment of needs

The context for assessment

Ever since we were founded almost 160 years ago, our business model has always focused on achieving long-term value for our members and customers. Royal London's business model and strategy are integral in assessing the Group's prospects. Our risk appetite framework is fundamental to our continued viability, which is subject to ongoing monitoring and development.

The Group's strategy has been refreshed in line with our Purpose, to respond to the changes being experienced by our members, customers and advisers in our markets and in the wider world. The Board continues to take a prudent approach to the development of this strategy, which focuses on being an insight-led, modern mutual whilst growing sustainably by deepening customer relationships. We are committed to remaining competitive and growing our market share, whilst meeting the expectations of regulators and other stakeholders.

Decisions relating to major new projects and investments – for example, developing Royal London's IT infrastructure – are made with reference to our risk appetite. The focus placed on developing our IT infrastructure presents opportunities to bring an enhanced digital experience to customers, whilst lowering our operating cost base and responding to regulatory changes.

The assessment process

The Group's prospects are assessed primarily through its strategic and business plan process, led by the Group Chief Executive, and involve all major functions and business units. The Board undertakes a robust review and challenge of the strategy and assumptions, in particular through the use of stress and scenario testing. The Board also receives regular updates from the relevant functions and committees. A number of test scenarios are updated annually, and the current ones are summarised, right. Following these scenarios, Royal London has sufficient excess assets to cover the Solvency II capital requirements, even under these stressed conditions.

The Board is closely monitoring short and medium-term Covid-19-related factors, including employee and supplier-related issues. The Board carefully considered the impact of Covid-19 on the business plan, as well as the management of issues resulting from the pandemic.

The impacts of Covid-19 are reflected in updates to the risks relating to economic uncertainty, validity of assumptions and organisational capabilities, along with the relevant mitigations.

The Board has considered the ability to write and sell new business, despite the global pandemic affecting the markets.

The directors have no reason to believe the Group will not be viable over a longer period, but they consider the three years up to December 2023 is the timespan for which they can form a reasonable expectation of the Group's longer-term viability.

Three years is considered an appropriate period because it allows the Board to assess likely outcomes with the current information we have, whilst minimising short-term uncertainty arising from changes in the economic, technological and regulatory environment. Three years is within the period covered by the Group's business plan, which includes in-depth analysis of the Group's risk profile, liquidity, and profit and capital projections.

Risk scenarios	
Base	UK and euro area economic growth restricted by Covid-19, with GDP forecast to regain pre-crisis levels no earlier than 2022. UK economic growth remains below its average, amid a transition to new trading arrangements with the EU US-China trade tensions and de-globalisation trends persist Overall, equity returns remain steady and yields rise slightly over the period
Adverse Covid-19 and Brexit	The impact of Covid-19 from potential re-infection is stronger, resulting in longer-lasting social distancing measures. Activity levels to regain pre-crisis levels slower and not expected before 2025/2026 Early implementation problems and adjustment to the new trading terms arising from the trade deal agreed between UK and EU exacerbate the slower recovery, with an adverse impact on UK GDP in 2021 because of increased transition costs. Additional fiscal and policy support is assumed to include the Bank of England cutting interest rates into (slightly) negative territory. Overall, equity returns are heavily negative and yields fall and stay low over the period
Adverse Brexit	UK and euro area economic growth restricted by Covid-19, as per base scenario. This continues with weak growth further out in the profile, albeit partly offset by more fiscal and monetary policy support than in the base case Euro area growth is also assumed weaker, but to a lesser degree. Additional fiscal and policy support is assumed to include the Bank of England cutting interest rates into negative territory. Sterling depreciation provides support for UK inflation. There is some deflationary offset from weaker demand. Overall, equity returns remain steady, but yields fall and stay low over the period

Assessment of viability

Although the business plan reflects the directors' best estimate of the future prospects of the business, the directors have also considered the potential impact of a number of scenarios over and above the business plan. These are 'severe but plausible' scenarios that the Group could experience. They encompass:

- a range of sensitivity analyses and stress tests over key economic, insurance and operational risks – for example, a 1 in 200 chance of adverse impact from financial markets, counterparty failure or a significant medical science advance; and
- stress-testing the business plan, as part of the Group's own ORSA process over a number of years, for adverse scenarios impacting profitability, liquidity and/or solvency including:
  - margin compression from competitors' activities;
  - ownership of advisers by competitors leads to 'lock out' from some of our markets;
  - adverse regulatory or legislation changes affecting the Group's products or distribution;
  - cyber-attack on the Group's systems and data;
  - technology – the impact of not responding to a rapidly changing technological world;
  - the potential impacts of a global pandemic;
  - the introduction of a pensions dashboard;
  - climate change on both market and insurance risks; and
  - a wide range of economic scenarios.

Each scenario is designed to be severe but plausible, and to take account of the availability and likely effectiveness of potential mitigating actions that management could carry out to avoid or reduce the impact. In considering the effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, are taken into account.

Reverse stress tests have also been conducted, which identify scenarios that may lead to the failure of the business model. The combinations of events required to cause failure of the model are so extremely severe and remote that they are not considered to affect the directors' expectations of the Group's longer-term viability.

Viability statement

Based on their robust assessment of the principal risks and uncertainties facing the Group, and the stress testing-based assessment of the Group's prospects described above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation, and meet its liabilities as they fall due, over the period to December 2023.

Going concern

The directors also considered it appropriate to prepare the financial statements on a going concern basis, as explained in the Corporate governance section and in note 1 (a) Basis of preparation on page 139.

Strategic report

The 2020 Strategic report, from pages 6 to 67, was approved by the Board of Directors on 4 March 2021.

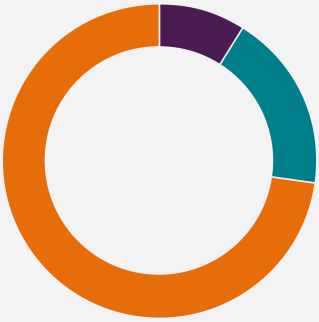
By order of the Board

Jeremy Small
Company Secretary
For and on behalf of Royal London Management Services Limited
4 March 2021

Corporate governance

A diverse and inclusive Board combined with strong governance

Board independence



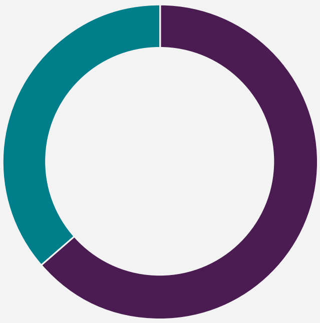
- Chairman 1
- Executive 2
- Non-executive 8

Board tenure*

- 0-3 years 7
- 5+ years 4

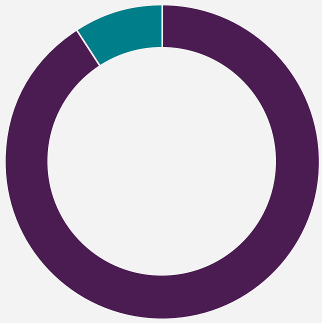
*as at March 2021

Board gender diversity



- Men 7
- Women 4

Board ethnic diversity



- Non BAME* 10
- BAME 1

*BAME – individuals of Black, East Asian, Latin American, Middle Eastern or South Asian ethno-cultural backgrounds

The Board has established a number of committees to which it delegates certain responsibilities

- **A** Audit Committee
- **D** Disclosure Committee
- **I** Investment Committee
- **NG** Nominations and Governance Committee
- **R** Remuneration Committee
- **RC** Risk and Capital Committee
- **WP** With-Profits Committee
- **IG** Independent Governance Committee

Chair of Committee

Read more about the work of Royal London Board Committees on pages 83 to 104

Board of directors

Chairman

Kevin Parry OBE

Chairman

NG D[1]

Appointed
19 March 2019

Skills and experience
Kevin Parry is a chartered accountant and has deep financial services experience as an executive and non-executive director encompassing life insurance, banking and asset management. He was formerly the Chief Financial Officer of Schroders plc, Chief Executive of Management Consulting Group plc and a Managing Partner at KPMG. He was formerly Chairman of Intermediate Capital Group plc, Senior Independent Director and Chairman of the Audit Committee at Standard Life Aberdeen plc and Non-Executive Director of Knight Frank. He was also Audit Committee Chairman at Schroders plc.

External appointments
Nationwide Building Society (Senior Independent Director and Audit Committee Chairman), Daily Mail and General Trust plc (Non-Executive Director and Audit and Risk Committee Chairman).

Executive directors

Barry O'Dwyer

Group Chief Executive

D[1]

Appointed
8 January 2020

Skills and experience
Barry O'Dwyer has extensive experience in financial services, having started his career at Standard Life, then a mutual insurance company, in 1988. He qualified as an actuary and held a number of senior management positions in both the UK and Ireland. He was Managing Director, Marketing of Standard Life when he left in 2007 to join HBOS. He moved to Prudential in 2009 and was Deputy Chief Executive of its UK and Europe business when he left in 2013 to return to Standard Life plc. In March 2017, he became Chief Executive Officer of its pensions and savings businesses and joined the board of Standard Life plc. Following the merger with Aberdeen Asset Management and the sale of Standard Life Assurance to Phoenix Group, he became head of Standard Life Aberdeen's UK business, embracing pensions and savings, platforms and asset management. He was also a Non-Executive Director of Phoenix Group, a role he stepped down from prior to joining Royal London. He plays a prominent role in the financial services industry.

External appointments
Director of the Association of British Insurers.

Daniel Cazeaux

Group Chief Financial Officer

D I WP

Appointed
22 September 2020

Skills and experience
Daniel Cazeaux is a chartered accountant and was previously a Partner at KPMG in the UK where he led global client teams delivering audit services to UK and global insurance companies, as well as advising on finance change programmes and transactions. In his time at KPMG he also performed executive secondment roles into finance functions of large UK insurers and has deep-rooted specialist and commercial expertise.

Non-executive directors

David Weymouth

Independent Non-Executive Director and Senior Independent Director

RC A NG

Appointed
1 July 2012

Skills and experience
David Weymouth's 27-year career at Barclays, including five years as a member of the Group Executive Committee, gave him wide experience and insight across operations, technology, transformational change and risk management in a global organisation. During seven years as a member of the Executive Committee at RSA Insurance, he extended his skills across another sector of financial services. He has, in addition, consulted to a number of blue chip and government organisations and served as a non-executive director on several boards, both in the UK and overseas.

External appointments
Chair of Mizuho International Holdings plc, Chair of One Savings Bank plc, Chair of OSB Group plc and Non-Executive Director of FIL Holdings (UK) Limited and FIL Investment Services (UK) Limited.

1 Although normally chaired by Barry O'Dwyer, depending on meeting content, the Disclosure Committee is also sometimes chaired by Kevin Parry.

Non-executive directors continued

Kal Atwal

Independent Non-Executive Director

NG RC

Appointed
17 January 2020

Skills and experience
Kal Atwal is an experienced strategy leader with international experience in start-up, scale-up, fintech and digital businesses. She began her career at EY on placement in Madrid, after which she held a number of operational and strategic roles with Southern Derbyshire Chamber and Northcliffe Media Ltd. She joined BGL Group when the company took over Bennetts, the motorcycle insurance business, where she held the position of Managing Director. She then became the founding Managing Director of comparethemarket.com, a division of BGL. Following her promotion to Group Director of BGL Ltd, she was responsible for brand-led businesses, group strategy and corporate communications.

External appointments
Non-Executive Director at Admiral Financial Services Limited, Whitbread plc and WH Smith plc. Board Adviser to SimplyCook Limited.

Sally Bridgeland

Independent Non-Executive Director

WP NG R

Appointed
14 January 2015

Skills and experience
Until recently, Sally Bridgeland was a trustee at the Nuclear Liabilities Fund and at both NEST Corporation and the Lloyds Bank pension schemes. She was Chief Executive Officer of the BP Pension Scheme from 2007 to 2014, after 20 years with Aon Hewitt working both as a pensions and investment consultant and in research and innovation. She is a Fellow of the Institute of Actuaries and the Board benefits from her extensive knowledge of asset liability modelling, along with investment strategy design and implementation.

External appointments
Chair of Impax Asset Management Group plc, Non-Executive Director of the Local Pensions Partnership (LPP) Limited, and Chair of its Financial Conduct Authority-regulated investment company and Non-Executive Director of the Pension Insurance Corporation plc.

Ian Dilks OBE

Independent Non-Executive Director

I A NG R

Appointed
14 November 2014

Skills and experience
Ian Dilks is a chartered accountant and spent his entire career at PricewaterhouseCoopers LLP (PwC), joining the firm (which was then Coopers & Lybrand) in 1974, and becoming a Partner in 1986. He rose to become a member of the Global Financial Services leadership team and global insurance leader. He has deep experience of the insurance sector, gained through providing audit, advisory and transaction support services to a wide range of major UK and international insurance groups. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network. He is also a former Expert Adviser to the House of Commons Treasury Committee.

Shirley Garrood

Independent Non-Executive Director

NG

Appointed
10 December 2020

Skills and experience
Shirley Garrood has extensive and relevant executive and non-executive financial services experience and is a qualified chartered accountant and corporate treasurer. Prior to joining Royal London, she was Senior Independent Director and chaired the Risk Committee at Hargreaves Lansdown plc. Her former roles include Chief Financial Officer of Henderson Group plc from 2009-2013 and then Senior Independent Director, Deputy Chair and Chair of the Audit Committee at esure Group plc until 2019. As well as working in financial roles, she was previously Chief Operating Officer at Henderson Group plc and at Morley Fund Management (part of Aviva). She also served as a governor of the Peabody Trust housing association.

External appointments
Non-Executive Director and Chair of the Audit and Risk Committee of the BBC Board. Independent Non-Executive on the Deloitte Audit Governance Board providing oversight of the external audit and assurance business only.

● Chair of Committee

Senior management

Tracey Graham

Independent Non-Executive Director

R I NG RC

Appointed
10 March 2013

Skills and experience
Tracey Graham is an experienced non-executive director serving on both Financial Services and Industrial Sector Boards. During her executive career, she was Chief Executive Officer of Talaris Limited, an international cash management business, from 2005 to 2010 where she led the management buyout of that business, backed by the Carlyle Group from De La Rue. Prior to this, Tracey was President of Sequoia Voting Systems based in California, USA, and held senior positions in banking and insurance with HSBC and AXA Insurance.

External appointments
Non-Executive Director of Link Scheme Ltd and Chair of the LINK Consumer Council, Senior Independent Director of Ibstock plc, Non-Executive Director of DiscoverIE plc, Member of the Court of Common Council, City of London Corporation and Governor of City of London Freemen's School.

Mark Rennison

Independent Non-Executive Director

A NG RC

Appointed
25 September 2020

Skills and experience
Mark Rennison was Chief Financial Officer at Nationwide Building Society from 2007 to 2019 and prior to that worked at PricewaterhouseCoopers LLP for more than 25 years, including 12 years as a Partner in its banking practice. He has significant experience of working both with and for large financial services organisations. He is a former member of the Prudential Regulation Authority (PRA) Practitioner Panel and a former Chair of the UK Finance Financial Risk and Policy Committee.

External appointments
Non-Executive Director at Homes England and TSB Bank plc.

Tim Tookey

Independent Non-Executive Director

A NG RC

Appointed
6 April 2020

Skills and experience
Tim Tookey is a chartered accountant with strong experience of major retail financial organisations and has significant board experience. He was Chief Financial Officer of Quilter plc (previously known as Old Mutual Wealth Management Limited). He is a former Chief Financial Officer at Friends Life Group Ltd, a position he held from 2012 until the sale of the business to Aviva in April 2015. Prior to joining Friends Life, he was Group Finance Director of Lloyds Banking Group between 2008 and 2012, having been appointed as Deputy Group Finance Director upon joining the bank in 2006. From 2002 to 2006, he was Finance Director of Prudential plc's UK business and from 1996 to 2002 he held the role of Group Finance Director at Heath Lambert Group.

External appointments
Non-Executive Director of Nationwide Building Society and Chair of its Board Risk Committee.

Jeremy Small

Company Secretary

Appointed
13 July 2020

Skills and experience
Jeremy Small is a Chartered Secretary with over 30 years' experience covering all aspects of company secretarial work. He joined Royal London after more than 20 years at AXA, with the earlier part of his career spent in listed companies including The BOC Group and Forte. He is a Fellow of the Chartered Governance Institute.

Group Executive Committee

The day-to-day running of the Group is delegated by the Board to the Group Chief Executive, who is supported by the Group Executive Committee (GEC) in the delivery of strategy and in managing the responsibilities delegated to him by the Board. The composition and roles of the GEC outlined below reflect the new 2021 Group operating structure, including the changes to the UK business area.

Andrew Carter

Chief Executive – Royal London Asset Management

Andrew Carter joined Royal London in 2001 and is Chief Executive – Royal London Asset Management and a member of the Board of Royal London Asset Management with overall responsibility for the development and delivery of the division's corporate strategy. Before joining Royal London, he was Head of UK Equities for Gartmore.

Daniel Cazeaux

Group Chief Financial Officer

Daniel Cazeaux's biography is on page 71.

Noel Freeley

Chief Executive – Ireland

Noel Freeley joined Royal London in 2013. In 2020, he was appointed Chief Executive – Ireland and a member of the Board of RLI DAC with responsibility for devising and executing the Group's strategy in the Irish business. Prior to joining Royal London, he headed up the pensions and protection business at Co-operative Insurance.

Jon Glen

Group Chief Operations Director

Jon Glen joined Royal London in 2005. He is Group Chief Operations Director, responsible for the development and effective delivery of the UK Customer Service functions, Procurement and Workplace capabilities. Prior to joining Royal London, he held senior roles within sales, telecommunications and outsourced servicing organisations. He has been a Trustee Director for Irish Pension schemes and is an Executive Director of several Group subsidiary companies.

Tracey Kneller

Group Chief People Officer

Tracey Kneller joined Royal London in May 2020 as the Group Chief People Officer. Prior to this, she was Chief People Officer at The Co-operative Bank where as a member of the Executive Committee she was part of the team that managed the separation from the Co-operative Group and a recapitalisation in 2017. She has considerable industry and technical expertise, gained from a variety of roles at Vodafone Group, First Choice Holidays and Sainsbury's.

Susie Logan

Group Chief Marketing Officer

Susie Logan joined Royal London in March 2020 and was appointed to the GEC as Group Chief Marketing Officer in January 2021, subject to regulatory approval. She was previously Brand and Marketing Director at Standard Life where she led a significant transformation of marketing capabilities. She brings a wealth of knowledge in marketing in the financial services sector where she has 20 years' experience, including positions held at Scottish Widows, Zurich Life and Bank of Ireland Mortgages.

James McCourt

Group Chief Risk Officer

James McCourt joined Royal London in 2012. Before his appointment as Group Chief Risk Officer in 2019, he held a number of key leadership roles within the Group, including Group Chief Conduct Officer, Chief Risk Officer (Royal London Asset Management) and Investment Office Director. Before joining the Group, he worked across a number of sectors, holding senior roles in private equity, banking and insurance firms.

Steve Murray

Group Chief Commercial Officer

Steve Murray joined Royal London in October 2019. Before his appointment as Group Chief Commercial Officer in January 2021, he was Group Corporate Development Director. He is responsible for developing the long-term strategy for the Group and leads on Group Corporate Development activity including M&A, Group Strategy and Operational Efficiency. He is also responsible for UK Distribution and UK Proposition. He has spent his career in the financial services industry, most recently as Deputy Head of Private Markets in Aberdeen Standard Investments.

Will Pritchett

Group Chief Information Officer

Will Pritchett joined Royal London in January 2020 as Group Chief Information Officer with responsibility for technology, change and digital. He has worked in financial services technology for over 20 years having joined from KPMG where he was Partner for Technology and strategic adviser and delivery lead to Royal London. Before that he was a Senior Executive at Accenture and Royal Sun Alliance and has worked globally transforming technology estates.

Fergus Speight

General Counsel

Fergus Speight joined Royal London in April 2011 as General Counsel and leads an award-winning team providing legal advice and guidance to the Board and the Group. His insurance experience began at Sun Alliance, becoming a senior underwriter before pursuing a career in law. He trained as a solicitor at Standard Life in Edinburgh, following which he held senior legal roles at General Accident (now Aviva), Nomura and Resolution Group (Phoenix).

Jerry Toher

Chief Customer Officer – Accumulation

Jerry Toher joined Royal London in 2011 and was appointed Chief Customer Officer – Accumulation in January 2021. Prior to that, he held the role of Chief Executive Officer, Consumer for eight years, launching the new D2C business in 2014. He has extensive marketing and leadership experience in retail financial services. His previous roles include Marketing Director of NatWest and RBS retail banking, Marketing Director and Managing Director at egg.com as well as other senior roles in RBS, Prudential and N&P Building Society.

Good corporate governance is the cornerstone of a modern and successful business and fosters a culture of integrity, leading to positive performance and a sustainable business

Dear member,

This year has been unique in many areas of our lives, with an unprecedented challenge for businesses like Royal London as a result of the generational and revolutionary impact of the Covid-19 pandemic.

I am pleased to report that Royal London's governance structures have responded well to help ensure our businesses maintained their purpose and direction, whilst adapting efficiently and flexibly to the new and necessary changes to the traditional office-based working environment.

With the core values of Royal London as set out on page 16 underpinning its work, the Board's oversight of the Group has remained effective and supportive throughout the year as the management team and our colleagues have responded with determination to ensure that, in our dealings with our members and customers, we remain mutually strong and resilient.

The Board continued throughout the year with its meetings and in April oversaw the invocation of incident management processes to address the impact of the Covid-19 pandemic that facilitated a rapid move of 98% of our colleagues to home-working during the first national lockdown. The Board continued to hold its meetings and engaged with stakeholders virtually, for the remainder of the year.

As a result, and despite distressed trading conditions, we have made significant advances in developing our strategic planning and establishing a market-leading position on environmental and social impact investment. We continued to progress our work in enhancing and future-proofing our systems to ensure we meet the needs of our members and customers with the highest standards of service. The Board was also delighted to bring the business of Police Mutual into Royal London and is honoured to welcome new customers from the police and armed forces across the United Kingdom.

Last year we built on a strong governance framework, firstly in moving to establish full compliance with the UK Corporate Governance Code (the Code) and, secondly, to enhance the Board's interaction with its key stakeholders. We have seen the benefit of that work in Royal London's response to the unique circumstances of 2020. In June, our AGM was held as a closed meeting, with the minimum number of employee members in attendance to ensure we fulfilled the legal requirements for a valid meeting. The Chairman and Group Chief Executive recorded video messages for our members that were hosted on our AGM website. We enhanced the Board's engagement with our colleagues with non-executive directors joining the Group Executive Committee's Q&A sessions and our newly instigated virtual Board Q&A sessions, led by me.

We continuously look for candidates with skills and experience to enhance the Board's diversity of thought and leadership. It is part of the Nominations and Governance Committee's role to regularly review the structure, size and composition of the Board, including plans for orderly succession to both the Board and senior management. In 2020 we were pleased to welcome four new independent non-executive directors who have brought significant complementary skills, diversity of opinion and experience. Following regulatory approval, the Group Chief Executive's appointment as a director was finalised and we have appointed the Group Chief Financial Officer. We also said farewell to Andrew Palmer, a long-standing independent non-executive director.

After almost 160 years, there is still plenty for us to do as the world around us is changing rapidly. As we move forwards into 2021, in unpredictable times, excellence in governance will support our continued success in the future and remains embedded at the forefront of the Board's work.

Kevin Parry

Kevin Parry OBE
Chairman

UK Corporate Governance Code

Board leadership and company Purpose (including stakeholder relations)	The Board is responsible for leading the business in the way which it believes is most likely to lead to long-term sustainable success. Read more on pages 6, 16 to 17, 66 to 67 and 75 to 82.
Division of responsibilities	We ensure we have the right combination of executive and non-executive directors and clear lines of delegation and accountability without any individual or group of individuals dominating the decision-making. Read more on pages 84, 89, 93, 96, 99 and 101.
Composition, succession and evaluation	The Nominations and Governance Committee ensures that Royal London has a balanced Board with the appropriate skills to govern the business, and an effective evaluation and succession plan. Read more on pages 79, 82, 89 and 90.
Audit, risk and internal control	The Audit Committee oversees financial reporting to allow members and other stakeholders to gain a clear picture of the Group and its outlook. The Risk and Capital Committee supports the Board in managing risk and capital, and complying with prudential and conduct regulations. Read more on pages 58 to 65 and 83 to 87.
Remuneration	The Remuneration Committee determines the remuneration policy, which aims to incentivise strong performance whilst avoiding excessive rewards. Read more on pages 102 to 120.

Statement of compliance with the Code
During the period under review, The Royal London Mutual Insurance Society Limited was compliant with the Code. The Code is available at frc.org.uk

Our approach to Provision 5: the Code suggests three methods for engagement with the workforce and allows companies to adopt alternative arrangements. Royal London opted for bespoke engagement mechanisms and considers these to be effective. All directors have taken responsibility for engagement with the workforce. This engagement is facilitated through a number of workforce forums that provide feedback and opinion that is then reported to the Board during the year, and also in Board members' direct participation in live exchange forums alongside the executive directors. Please refer to page 33 where you can read about our bespoke approach and how the workforce engagement influenced the Board's decisions.

Governance framework

Royal London has developed a governance framework that facilitates efficient, effective and transparent decision-making. We utilise a committee structure to ensure that appropriately skilled and diverse opinion is engaged in managing and overseeing our affairs.

The structure establishes checks and balances and is designed to preserve the Board's independent oversight of the executive management of the Group's affairs on behalf of the members and with consideration for all stakeholders.

The roles and responsibilities of the Chairman, the Group Chief Executive, the Senior Independent Director and the non-executive directors, as well as the terms of reference of the decision-making forums, are clearly defined and balanced. They are designed to be complementary but prevent individual exercise of unfettered decision-making powers.

The framework is reviewed regularly to ensure it remains up to date and fit for purpose. The key parts of the framework are set out on the facing page.

The role of the Board
The Board's role is to oversee and provide direction and guidance to the Group Chief Executive in managing the affairs of the Group to meet its Purpose, strategy and values.

The Board acts in accordance with the responsibilities defined for it within the Group's constitution, all relevant laws, regulations, and UK corporate governance and stewardship standards. The Royal London governance framework sets out the Board's responsibilities collectively, including those matters specifically reserved for decision by the Board and also its delegation of responsibilities to individual directors and committees.

During 2020, these included challenging, approving and overseeing:

- a refreshed Purpose, strategy and values aligned with the Royal London culture;
- a response by Royal London to the impact of the Covid-19 pandemic, enabling 98% of colleagues to move to remote working and to provide continuous support throughout lockdown and related restrictions to allow them to operate effectively and to maintain an uninterrupted service to customers;
- significant investment activity including Police Mutual joining Royal London to secure a safe future for its members from the police and military;
- the sale of the Group's wrap and wealth management platform business Ascentric to M&G as part of a comprehensive strategic review of the business led by the Group Chief Executive;
- the development of evolutionary technology systems to maintain the Group's record of delivering creative and market-leading products for our members and customers to help them protect today and invest in tomorrow;
- succession planning and appointments to the Board and its committees and increased non-executive oversight of the Group's Asset Management business; and
- the work of the Board Committees.

Board

The Board is responsible for promoting the long-term sustainable success of the Group in a manner that seeks to generate value for the Group whilst taking account of interests of its stakeholders, the impact it has on the environment and its contribution to wider society.

Chairman

The Chairman leads the Board to ensure it functions effectively, whilst encouraging open debate, constructive discussion and decision-making, and is the Board's principal spokesperson.

Group Chief Executive

The Board delegates to the Group Chief Executive the day-to-day management of the Group to meet its purpose and to implement the Group's strategy and objectives in line with the Board's culture, values and ethical and regulatory standards.

Non-executive directors (NEDs)

As well as contributing to strategic developments, NEDs fully participate in the Board's decision-making and provide advice, support and challenge to the Group Chief Executive and senior management as appropriate.

Senior Independent Director (SID)

The SID supports the Chairman in their role and in meeting their objectives, and is a sounding board for the Chairman. They also act as an intermediary for other directors.

Audit Committee

Oversees financial reporting, regulatory reporting, financial controls, internal and external audit, treasury, actuarial and tax policy.

Read the report on pages 83 to 87

Disclosure Committee

Supports the Board in the announcement and publication of sensitive information and financial information.

Investment Committee

Supports the Board in managing investments held as principal.

Read the report on pages 98 to 99

Nominations and Governance Committee

Considers and recommends the appointment of Board directors and senior executives, and ensures the Group is managed to high standards of corporate governance.

Read the report on pages 88 to 91

Remuneration Committee

Supports the Board in determining the Group's remuneration policy and the compensation of key officers.

Read the report on pages 102 to 104

Risk and Capital Committee

Supports the Board in managing risk and capital, and complying with prudential and conduct regulations.

Read the report on pages 92 to 94

With-Profits Committee

Supports the Board in considering the interests of all policyholders with an entitlement to share in profits and on the achievement of fair treatment of those policyholders.

Read the report on pages 95 to 97

Independent Governance Committee

The Committee meets the requirement of the Financial Conduct Authority to independently assess if the Group is providing ongoing value for money for relevant policyholders.

Read the report on pages 100 to 101

Group Executive Committee (GEC)

All members of the GEC directly report to the Group Chief Executive and individually and collectively assist him in managing the responsibilities delegated to him by the Board.

Areas of focus and significant matters considered by the Board

Finance and capital
- Received regular updates on the financial position of the Group
- Reviewed and approved the interim results and Annual Report and Accounts, including the financial statements and related documents
- Reviewed and approved the going concern statement
- Reviewed and approved the Business Plan (with further review in light of the Covid-19 pandemic implications) and the own risk and solvency assessment (ORSA)
- Received regular reports from the Chief Actuary on the capital position of the with-profits funds
- Reviewed and approved the Capital Management Plan and Framework and the Capital Risk Limits
- Reviewed and approved level of bonus each fund should declare and approved principles for future bonus distribution
- Reviewed and approved Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) correspondence/letters
- Reviewed and approved the Annual Solvency II reporting, including the Solvency and Financial Condition Report

Assurance
- Received regular updates on the key risks facing the business
- Received quarterly updates on conduct risk matters
- Undertook an annual review and approved changes to the Risk Appetite Framework
- Reviewed and approved the Group Recovery and Resolution Plans
- Reviewed the Whistleblowing Policy and agreed actions that were designed to raise the profile of the policy amongst employees

Members and customers
- Received regular updates on the management of the with-profits funds
- Received updates on the Royal London brand
- Approved ongoing investment in a major digital IT infrastructure project

Strategy
- Approved a refresh of the Group Purpose, strategy and values and its articulation as an insight-led, modern mutual growing sustainably by deepening customer relationships
- Approved the sale of the Group's wrap and wealth management platform business Ascentric to M&G plc as part of a comprehensive strategic review of the business led by the Group Chief Executive
- Approved an update of the Group's Investment Philosophy with a focus on maximising long-term returns in a responsible way and incorporating a distinctive mutually responsible element
- Held deep-dive reviews into various matters of strategic interest to Royal London, including opportunities for inorganic growth, the competitive landscape and digital strategy

Performance
- Received regular updates and detailed quarterly reports on the performance of the Group and individual business areas
- Received regular updates on the impact of the Covid-19 pandemic following Group recovery planning
- Received a regular report from the Group Chief Risk Officer on the key risks in the business and regulator relationships

Key projects
- Received regular updates and reviewed and approved funding requests for the Group's strategic projects
- Received regular updates on the progress of #thinkbeyond, a programme to improve our customer experience, driving digital transformation and developing new business capabilities
- Approved the Group's entry into the equity release market with an Introducer Model whereby we offer customers the opportunity to access impartial financial advice on later-life lending from our partner, Responsible Life

Governance
- The Chairman and Group Chief Executive recorded virtual AGM presentations following Covid-19 pandemic safety concerns
- Considered and recommended the re-election of directors at Royal London's AGM
- Approved new Terms of Reference for the Board and its committees
- Participated in the 2020 internal Board effectiveness review
- Approved an update to the Company's Investment Philosophy with a focus on maximising long-term returns in a responsible way and also incorporating a distinctive mutually responsible element
- Approved three engagement themes of governance, climate and inclusion to deliver our stewardship activities and align with our Purpose
- Received updates from Board Committees

People
- Approved the appointment of four non-executive directors, one as Chair of the Audit Committee, the appointment of the Group Chief Financial Officer, also as a Board director, and the appointment of two non-executive directors to the Board of RLAM
- Approved the appointment of additional members to Board Committees
- Received regular updates on the results of the annual Employee Engagement Survey and other employee engagement tools
- Approved the initiation of the Employee AGM with an inaugural meeting in 2021 following Covid-19 pandemic safety concerns

Board composition and succession

The table opposite shows the names of all directors serving during the year, including changes during the period.

Having been appointed since the 2020 AGM, Daniel Cazeaux, Mark Rennison and Shirley Garrood will stand for election at the 2021 AGM. All remaining directors as at the date of the 2020 AGM will retire and will stand for re-election at the 2021 AGM. David Weymouth confirmed that he will retire in June 2021.

Board succession planning and appointments are overseen by the Nominations and Governance Committee to achieve the right balance of skills, experience and diversity on the Board and across the senior management that will ensure the Group is able to meet its Purpose and deliver its strategy now and in the future.

Please refer to pages 88 to 91 for more detail on how the Nominations and Governance Committee oversees Board appointments, evaluation, time commitment and succession. In addition, the Chairman initiates regular reviews across the external non-executive director population from a wide range of backgrounds and work experience to identify potential successors as well as opportunities to add skills, experience and diversity to the Board.

The Chairman undertakes an annual evaluation with each director to affirm their skills and experience and to inform succession planning and ongoing development needs. Having reviewed their performances, the Board recommends that all directors are reappointed at the AGM.

Each of the non-executive directors is considered independent in accordance with the Code. The Chairman was considered independent on appointment and the Board still considers him to be so.

Further details of the directors' career background, skills, knowledge and experience can be found on pages 71 to 73.

Board meetings and meeting attendance

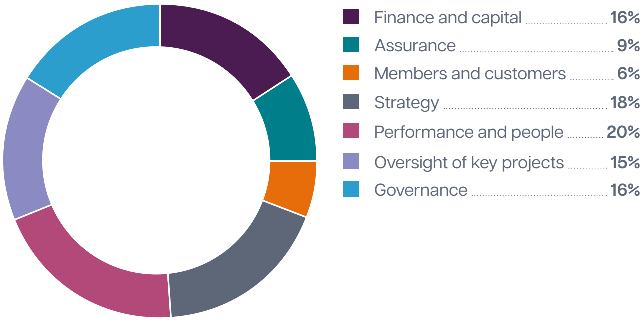
The Board met 10 times during the year. Additionally, several ad hoc meetings were held to deal with matters that arose between scheduled meetings. As well as addressing impacts of the Covid-19 pandemic, these typically related to projects. Directors are required to attend all meetings of the Board and the committees they serve on, and to devote enough time to the Group to perform their duties. The Board held its meetings virtually after the Covid-19 pandemic lockdown restrictions were introduced on 23 March. The table, right, shows the total number of scheduled meetings held for the Board, together with the number of meetings each director attended.

Director induction, learning and development

The Chairman, supported by the Company Secretary, is responsible for arranging a comprehensive preparation and induction programme for all new directors. The programme takes their background knowledge and experience into account. Where a director joins a committee, the programme includes an induction to that committee. The induction programme includes meetings with the Group Executive team and other key stakeholders to help understand Royal London's strategy, business operations, risk profile and governance structures as well as its culture and values.

The Board held a number of development sessions during the year, covering topics such as responsible investment and climate change, and workplace pension strategy.

Time allocated to matters considered by the Board



Board appointments and resignations

Name	Appointed	Resigned
Kal Atwal	17 January 2020	
Sally Bridgeland	14 January 2015	
Daniel Cazeaux	22 September 2020	
Ian Dilks OBE	14 November 2014	
Shirley Garrood	10 December 2020	
Tracey Graham	10 March 2013	
Barry O'Dwyer	8 January 2020	
Kevin Parry OBE	19 March 2019	
Mark Rennison	25 September 2020	
Andrew Palmer	1 April 2011	3 April 2020
Tim Tookey	6 April 2020	
David Weymouth	1 July 2012	

Board meeting attendance

Chairman	
Kevin Parry	10/10
Executive directors	
Barry O'Dwyer	10/10
Daniel Cazeaux	2/2
Non-executive directors	
Kal Atwal	9/9
Sally Bridgeland	9/10
Ian Dilks	10/10
Shirley Garrood	1/1
Tracey Graham	10/10
Mark Rennison	2/2
Tim Tookey	6/7
David Weymouth	9/10
Former members	
Andrew Palmer	3/3

Board stakeholder engagement – section 172 statement

Each of the directors is mindful of their duties under section 172 of the Companies Act 2006, to run Royal London for the benefit of its members, and in doing so, have regard to the long-term impact of any decisions on stakeholder relationships and the impact of its activities on wider society and the environment.

Our section 172 statement is on page 29. The Board recognises that the long-term success of our business is dependent on the way it interacts with a large number of stakeholders.

The table opposite shows how, during 2020, the Board has considered the matters set out in section 172 and engaged with its largest stakeholder groups.

Who are our key stakeholders?	Members and customers	Our colleagues
Why do they matter to us?	**Royal London is constituted by and for its members**	**Our colleagues have built Royal London and sustain its values**
How do we engage with them/ understand their views?	• Although a normal AGM was not possible in 2020 as the country responded to the Covid-19 pandemic, our members were invited to submit questions via email • The Group Insight team engaged with more than 400 members and customers during early stages of the initiative to refresh our Purpose	• The Group People function regularly updates the Board on outcomes from employee engagement tools. These include monthly surveys, Employee Representative Forums, Culture Pods and Glassdoor • In addition, regular Board and Executive Q&A sessions are held with our colleagues across the Group and non-executive directors hold 'Town Halls'
What do they tell us?	• Our members highlighted that environmental concerns have become one of their priorities • This stakeholder group preferred 'It's Everyone's Business' as the message over alternatives	• The ability to work flexibly, including increased home working adopted in response to the immediate impact of Covid-19, should be considered in the longer term. However, there should be a focus on supporting mental and physical well-being in the home-working environment • Employee surveys highlighted that, in general, employees feel positive about our culture • 1,500 colleagues shared thoughts and ideas that helped to transform our Purpose
How does that engagement support/help to shape the Board's decision?	• We asked all the asset managers Royal London works with to include financially material environmental, social and governance risks and opportunities when they make investment decisions • Our refreshed Purpose and strategy incorporated the message that was preferred by our members and customers	• Following the move to remote working for 98% of our colleagues during the first lockdown, the revised methods of working from home in response to Covid-19 would be retained in the longer term in a more flexible operating model, alongside tools and training for physical and mental well-being • A refreshed Purpose and strategy, and a restatement of the values that support the Royal London culture, were adopted
Read more	**Page 30**	**Pages 31 to 33**

Society and communities	Financial advisers
Royal London is committed to give back to society and make a positive contribution to communities	**Financial advisers provide expert guidance and advice to help customers ensure they make sound financial decisions**
• The Social Impact team undertakes a continuous engagement process to identify charities and wider societal stakeholders and shares relevant information with the Board	• The Adviser Research Panel has 200 members and provides regular feedback that helps to measure the impact of campaigns, new products or initiatives
• The Social Impact team engaged with our charity partnerships throughout the Covid-19 pandemic and adjusted our support to meet their changing needs	• Our financial advisers were involved in development and testing relevant systems for #thinkbeyond
• We made a total of £1.1m charitable contributions in the UK and Ireland, including £500,000 to the National Emergencies Trust • In line with our new strategic approach, we joined forces with Turn2us to prevent life-changing events from becoming a financial crisis	• Following feedback from financial advisers, the Adviser systems for #thinkbeyond were enhanced to meet customer needs and demands
Pages 33 to 36	**Page 37**

How we invest for the long term The Board undertakes a robust review and challenge of the strategy and assumptions, in particular through the use of stress and scenario testing. The Board also receives regular updates from relevant functions and committees. **Read more on pages 66 and 67**	• The Board approved the Business Plan to meet the refreshed Purpose, strategy and values. It carefully considered the impact of Covid-19 on the Business Plan, both in the short term as well as for the medium term in evolving its operating model. As part of our ORSA process, we have run a qualitative pandemic scenario to better understand the likely impacts on the wider business as well as capital • The Board approved an update to the Group's Investment Philosophy with a focus on maximising long-term returns in a responsible way, and also incorporating a distinctive mutually responsible element • The Board approved ongoing investment in a major digital IT infrastructure project to respond to the evolving needs of our members and customers, and with the participation and support of the financial advisers with whom we work • The Board constituted a Technology Advisory Group to support the executive that comprises independent experts and non-executive director representation to get a strategic external perspective on significant new developments in technology and innovation for the future
Regulation plays a critical role in society and regulatory compliance helps protect our business, colleagues, members and customers	• The Board recognises regulatory impact in its decision-making • Responding to regulatory bodies, including Prudential Regulation Authority; Financial Conduct Authority; Central Bank of Ireland; Government departments, including HMRC; industry participation; presentations to the Board; and responding to the Dear Board/Group CEO letters
Suppliers The relationship with our suppliers and the resilience of our supply chain is essential to drive better value for our business and ensure our people and systems can function effectively for our members and customers	• The Risk and Capital Committee of the Board has oversight and approval of outsourcing and supplier management and procurement policies and receives regular reporting on supplier relationships. Royal London is a signatory of the Prompt Payment Code which recognises a commitment to ensure prompt settlement of supplier invoices

Board Committees

The Board has established committees, as set out on page 70, with delegated authority to consider and make recommendations to the Board on important issues of policy and governance. This statement includes annual reports from the Chairs of the Audit Committee, the Investment Committee, the Nominations and Governance Committee, the Risk and Capital Committee, the With-Profits Committee and the Independent Governance Committee. The report on the responsibilities and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 102 to 104.

The Board has also established the following committees:

- The Disclosure Committee, which met seven times during the year to review announcements and the publication of sensitive information, financial information and regulatory information disclosed to the public. Membership includes the Chairman, Group Chief Executive, Group Chief Financial Officer and Group Chief Risk Officer.
- The Board Recovery Plan Committee, which will only meet if required to recover capital and liquidity stability in stressed scenarios for the protection of policyholders. Membership includes the Chairman, Group Chief Executive, Group Chief Financial Officer and the Chairs of the Audit Committee and Risk and Capital Committee. The Board Recovery Plan Committee did not meet during the year.

The Board receives a report from the Chair of each Committee on the key issues considered at their recent meetings, along with any recommendations on matters reserved for Board approval.

Each committee operates as part of the governance framework within its terms of reference, as approved by the Board on recommendation from the Nominations and Governance Committee, which are available at: royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/

Board and committee effectiveness

An evaluation of the Board and its committees, individual directors and the Chairman is carried out annually. An externally facilitated Board evaluation was carried out by Niall FitzGerald KBE DSA in 2019, so this year's effectiveness review was carried out internally.

Board and committee review cycle

Year 1 (Financial year-end 2019) **Externally facilitated review**

Year 2 (Financial year-end 2020) **Internal review**

Year 3 (Financial year-end 2021) **Internal review**

The external 2019 evaluation highlighted the following:

Recommendations	Progress made in 2020
Strategic direction review	The Board approved a refresh of the Royal London Purpose, strategy and values
Approach to ESG issues and focus on this area	A range of improvements including the creation of a voting policy and climate change stress and scenario testing which fed into the ORSA
Enhance Board succession planning	The Board has been strengthened and diversified in 2020, with the appointment of four non-executive directors in light of approaching retirement of a number of Board members. This ensures that new directors are suitably experienced and have time to benefit from the knowledge of retiring directors
Allow time for challenge, discussion, debate and decision	Significant improvements have been made to the forward agenda planning process to improve the efficiency, focus and quality of the Board's decision-making

The Board undertook an internal evaluation process in 2020. The evaluation concluded that the Board continued to develop, having made a quick, effective shift to remote working. Overall, the Board and its committees continue to operate effectively, with a high degree of accountability to members and a high standard of governance and compliance work. New directors brought critical skills and Board dynamics were good, despite the limits placed on face-to-face meetings due to the pandemic. The evaluation identified several recommendations to sustain and improve the effectiveness of the Board and its committees, including:

Recommendations	Actions
Understanding changes in customer behaviour	Providing the Board with greater insight into customer and wider market trends
Evolving the responsible investment philosophy	Additional Board and Committee briefings, supported by the Investment team
Maintaining visibility of the Board to colleagues	Continuation of virtual Q&A sessions, employee AGM and catch-up site visits once restrictions allow
Increasing knowledge of technology trends	Embedding the Technology Advisory Group, with more informal briefings from technology experts

In addition, the Board agreed high-level objectives for 2021, which include:

- developing a proactive M&A strategy;
- reviewing performance against that of listed competitors; and
- ongoing improvements to the quality of Board papers and the process around decision-making.

The Board remains committed to continually monitoring and improving its performance.

Report of the Audit Committee

“The Committee remained focused on its core responsibilities whilst being attuned to the heightened challenge in overseeing financial and regulatory reporting in the current environment.”

Tim Tookey
Chair of the Audit Committee

Dear member

As Chair of the Audit Committee (the Committee), I am pleased to present its report for the year ended 31 December 2020.

I succeeded Andrew Palmer as Chair of the Committee following Andrew’s retirement from the Board in April and thank him for his work and Chairmanship during the year. The Committee also welcomed Mark Rennison, who joined the Board on 25 September 2020 and brings more than 30 years’ financial services experience. He was formerly Chief Financial Officer and a member of the Board of Nationwide Building Society.

The Committee has a central role in maintaining and challenging the quality of the Group’s financial and regulatory reporting and overseeing financial controls. We also have oversight of the external and internal auditors, and monitor their objectivity and independence.

The Group adopted UK generally accepted accounting practice (GAAP) with effect from 1 January 2020. However, the transition date to UK GAAP was 1 January 2019 and the basis is explained in Note 1(a) Basis of preparation. The first external publication applying the standard was our interim results for the period ended 30 June 2020. The significant matters considered by the Committee are set out later in this report, together with the key activities during the year.

However, as referenced in the Chairman’s statement on pages 10 and 11, the Group has seen a significant impact in 2020 from the effects of the Covid-19 pandemic, which dramatically changed the working environment for our colleagues, the markets in which we operate and brought new challenges for all our stakeholders, not least our members and customers. The Committee remained focused on its core responsibilities whilst being attuned to the heightened challenge in overseeing financial and regulatory reporting in the current environment.

I am pleased to say that the Committee has been closely involved throughout the year in ensuring that the Group’s control environment has evolved and the assumptions it uses to report its financial performance and capital strength remained sound.

This has been my first year as Chair of the Committee and I would like to thank the members of the Committee and the executives supporting it for their diligence and hard work during a particularly challenging year.

Tim Tookey
Chair of the Audit Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Tim Tookey[1]	Chair	2020	6/6
Ian Dilks	Member	2014	8/8
Mark Rennison[2]	Member	2020	3/3
David Weymouth	Member	2012	8/8
Andrew Palmer[3]	Chair	2011	2/2

1 Tim Tookey was appointed on 6 April 2020.
2 Mark Rennison was appointed on 25 September 2020.
3 Andrew Palmer retired on 3 April 2020.

Purpose and role of the Audit Committee

The purpose and role of the Committee is to support the Board and the Group's subsidiaries in overseeing financial reporting, regulatory reporting, financial controls, internal and external audit, treasury operations, actuarial operations and tax policy.

The Committee's main responsibilities include:

- monitoring the content, integrity and quality of the Annual Report and Accounts and announcements relating to the financial performance of the Group;
- reviewing accounting matters requiring the exercise of judgement, including the valuation of actuarial liabilities for statutory and regulatory reporting;
- reviewing the valuation of assets and, in particular, areas of valuation uncertainty;
- monitoring and reviewing the effectiveness of the Group's internal controls over financial reporting;
- reviewing the effectiveness of Group Internal Audit (GIA) and its reports on an ongoing basis;
- overseeing the relationship with the external auditor, including assessing its independence and objectivity, monitoring and approving non-audit services in accordance with the Group's policy, agreeing the external audit fee and recommending the appointment of external auditors to the Board.

The Committee assists and reports to the Board on the above matters, identifying any issues that it considers require action or improvement, and makes recommendations to the Board for approval as required by its terms of reference.

The Chair of the Committee attends the AGM, where members are able to ask questions regarding all aspects of the Committee's role and its work.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available at: royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/

Committee membership

The Committee is comprised solely of independent non-executive directors. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Board is also satisfied that when considered as a whole, the Committee has competence relevant to the sector in which the Group operates. The qualifications and experience of each member of the Committee are included in their biographies on pages 71 to 73.

The Committee members have received training during the year, in line with that provided to the Board, as set out on page 79, in order to keep their skills current and relevant.

The Committee held eight scheduled meetings during 2020, including a joint meeting with the Risk and Capital Committee to review and approve the combined assurance plan of the Group Internal Audit and Risk and Compliance functions. The joint meeting ensured that the two committees continue to operate effectively together on areas of adjacent responsibility, and where either of the committees is required to collaborate on, or assume responsibility for, a review conducted by the other.

The Committee meetings were attended by the Chairman of the Board, Kevin Parry, the executive directors and appropriate members of senior management, including the Group Audit Director. The external auditors PricewaterhouseCoopers LLP (PwC) also attended Committee meetings.

The Committee meets privately and separately on a regular basis with PwC, the Group Audit Director and senior management. These meetings address the level of co-operation and adequacy of resources, and provide an opportunity for participants to raise any concerns directly with the Committee.

Areas of focus and significant matters considered by the Committee

The Committee has a number of standing agenda items it considers each year, which affect the Group's Annual Report and Accounts, interim and full year results, policies, financial risks, internal control matters, regulatory reporting and external audit. In addition, each year the Committee focuses on a number of operational matters. The following text highlights significant matters considered by the Committee, and the actions taken.

Covid–19 pandemic

- The Committee took a number of steps to support the Group's response to the Covid-19 pandemic, including reviewing changes to controls in response to the changed operating environment, reprioritisation of relevant audits and the addition of short, focused reviews following changes to the Group's operations. A review of mortality assumptions was also undertaken in light of the anticipated impact of Covid-19.

Review of the Group's Annual Report and Accounts and interim and full year results

- The Committee reviewed and challenged the Group's Annual Report and Accounts and 2019 Full Year Results Announcement. The Committee considered the presentation of the Annual Report and Accounts and, in particular, whether the Annual Report and Accounts as a whole were fair, balanced and understandable.
- The Committee also reviewed and challenged the Group's Interim Results Announcement covering the six months ended 30 June 2020.
- The Committee recommended to the Board for approval the 2020 interim and 2020 full year results.

Financial reporting

- The Committee reviewed the Group's UK GAAP accounting policies and confirmed they were appropriate to use in the financial statements. It considered the changes to policies resulting from the change in reporting basis from IFRS to UK GAAP.

- The Committee also reviewed and approved the changes to 2019 comparative information.

Alternative performance measures (APMs)

- The Committee continues to consider that certain non-GAAP measures, such as operating profit, aid an understanding of the Group's results.
- The operating profit metric has been redefined to reflect the discontinuation of European Embedded Value reporting and the change in statutory reporting basis to UK GAAP. The Committee considered the definition of the operating profit measure and confirmed it is a key performance indicator.

Going concern assumption and the longer-term viability statement (the Statement)

- The Committee reviewed and challenged the principles underpinning the Statement for 2020 and concluded that Royal London and its subsidiaries will be able to continue in operation and meet their liabilities as they become due.
- The Committee confirmed the appropriateness of a three-year assessment period for the longer-term viability statement.
- The Committee reviewed the Group's assessment of viability over a period greater than 12 months. In assessing viability, the Committee considered the Group's position presented in the budget and Business Plan recently approved by the Board. In light of the ongoing Covid-19 pandemic, the Group's Business Plan has been revised particularly in year one.
- Considering the increased risks from the Covid-19 pandemic, the Committee concluded that the Statement was appropriate.
- The Committee reviewed and challenged the principles underpinning the Statement for 2020 and concluded that Royal London and its subsidiaries will be able to continue in operation and meet their liabilities as they become due. The Committee considered information on the risks to the Group's liquidity and capital when making this assessment.

Key assumptions and judgements

- The Committee reviewed the key assumptions and judgements supporting the Group's UK GAAP results, including those made in valuing the Group's investments, the carrying value of intangible assets, acquisition accounting in relation to Police Mutual under UK GAAP, the appropriateness of accounting provisions and the valuation of the Group's defined benefit pension schemes valuations.
- **Valuation of investments** – the Committee received information on the carrying value of investments in the Group's balance sheet, including information on how those values were calculated for those investments which require more judgement. The Committee satisfied itself that overall investments were valued appropriately.
- **Intangible assets** – the Committee has considered the assessments made in relation to the carrying value of the more material intangible asset balances. The Committee received a detailed report from management outlining the valuation methodology, the basis for key assumptions and the key drivers of the cash flow forecasts. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2020.
- **Acquisition accounting in relation to Police Mutual** – the Committee reviewed the acquisition accounting and fair value accounting adjustments in relation to the acquisition of Police Mutual and concluded that it was appropriate. The Committee also considered the impact of the integration of Police Mutual on the internal control environment. The Committee received a report from the Financial Controls Oversight team on the integration status and effectiveness of key controls.
- **Provisions** – the Committee has considered management's assessment of the provisions required and was satisfied that the provisions were appropriate.
- **Pension scheme liability valuations** – the Committee reviewed the actuarial assumptions such as discount rate, inflation rate, expected return on scheme assets and mortality, which determine the pension cost and the valuation of the Group's defined benefit pension schemes valuations, and has concluded that they were appropriate.

Long-term business liability valuations – methodology and assumption recommendations

- The Committee considered the actuarial methods and assumptions for the year ended 31 December 2020 for UK GAAP and annual Solvency II reporting. The main assumption changes for 2020 were:
  - mortality and longevity, with particular consideration to the uncertainty of future experience in both the short term and longer term, as a result of Covid-19;
  - persistency, including consideration of the short-term impact of rising unemployment as a result of Covid-19;
  - per policy unit cost expenses; and
  - guaranteed annuity option (GAO) take-up assumptions.
- The Committee reviewed and challenged the Group's UK GAAP long-term business actuarial liability valuation as at 31 December 2020, and the Solvency II Internal Model Pillar 1 valuation as at 31 December 2020, including valuation of own funds, capital requirement and the amortisation of the Transitional Measure on Technical Provisions (TMTP) at year-end 2020.

Annual Solvency II regulatory reporting

- The Committee reviewed the Single Group Solvency and Financial Condition Report and the Regular Supervisory Report for the year ended 31 December 2019, and recommended them to the Board for approval.

Report of the Audit Committee continued

Internal control and external audit

- The Committee considered regular reports from PwC and the Financial Control Oversight Team on the effectiveness of the Group's control environment. The Committee also considered updates on how Financial Reporting Data and Controls Framework (FRDCF) was being embedded across the Group, including assessment of outstanding control deficiencies and progress of projects such as the rationalisation of key controls and spreadsheet usage.

- Additionally, the Committee reviewed reports from Group Internal Audit (GIA), presented by GIA on a quarterly basis. These include Internal Audit reports from the Capita Internal Audit function. The Committee approved the GIA annual plan and the GIA Charter, which sets out the purpose, activities, scope and responsibilities of GIA, and considered various issues raised by GIA relating to our information systems and cyber risk.

- Regular reports from PwC were reviewed by the Committee throughout 2020. These included monitoring audit firm independence and the level of non-audit fees, and reviewing the findings raised during audits and management's responses to those findings. The Committee also considered the annual assessment of timing of the external audit tender.

Other matters

- The Committee reviewed and approved updates to the Group Reporting and Disclosure Policy and Policy for the Independence of the External Auditor.

- The Committee reviewed reports on the impact of the Covid-19 pandemic on internal and financial reporting controls, accounting and long-term business assumptions.

- The Committee also considered frameworks for impairment reviews, hurdle rates, financial reporting and governance developments and the impact of the Financial Reporting Council's (FRC) operational separation of audit firms.

- The Committee reviewed and approved policies covering treasury and tax and it considered the controls and governance arrangements relating to the use of reinsurance across the Group.

External audit

One of the Committee's key responsibilities is oversight of the relationship with PwC. The Committee reviewed and approved PwC's terms of engagement for the statutory audit and the audit fee. The Senior Statutory Auditor is Tom Robb, who is completing his fourth audit as the lead audit partner.

External auditor independence and non-audit services

In order to safeguard the external auditor's independence and objectivity, the Group has in place a policy setting out the non-audit services that can be provided by the external auditor, which complies with the auditor independence requirements set out in the EU Audit Directive and the FRC's Revised Ethical Standard.

The policy regulates the appointment of former audit employees to all senior positions in the Group, and sets out the approach to be taken by the Group when selecting PwC to perform non-audit services. The policy specifies non-audit services provided by the external auditor that are permitted or prohibited and requires all non-audit services to be approved by the Committee following a detailed assessment of the nature of the service, availability of alternative suppliers and implications for auditor independence.

PwC has reviewed its own independence in line with these criteria and its own ethical guidance standards. Following the review, PwC has confirmed to the Committee that it is satisfied that it has acted in accordance with relevant regulatory and professional requirements, and that its objectivity is not impaired. Having considered compliance with our policy and the fees paid to PwC, the Committee is satisfied as to the continued independence and objectivity of PwC.

Audit and non-audit fees

In line with regulations, the Group is required to cap the level of non-audit fees paid to PwC at 70% of the average audit fees paid in the previous three consecutive financial years.

In 2020, the Group paid PwC £5.3m for audit, audit-related and other assurance services (2019: £4.8m), including £0.3m (2019: £0.3m) of Solvency II audit fees. In addition, PwC was paid £0.1m (2019: £0.5m) for other non-audit services, resulting in total fees to PwC of £5.4m (2019: £5.3m). The ratio of non-audit fees to audit and audit-related assurance fees is 17% for the Group and 18% for the Parent company. Further details are provided in note 8 of the financial statements. The Committee approved the appointment of PwC to perform these non-audit services in accordance with the Group's policy.

Effectiveness of PwC

To assess the effectiveness of PwC, the Committee conducts an annual review of PwC through completion of a questionnaire by senior management across the Group, members of the Group's finance community and members of the Committee. The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by GIA. The results of the questionnaire, the FRC's annual Quality inspection report and other FRC guidance were considered by the Committee. It was concluded that PwC continued to perform a high-quality and effective audit, and provided objective and independent challenge to management.

External audit tender

The Committee acknowledges the provisions contained in the UK Corporate Governance Code in respect of audit tendering, along with European and UK legislation on mandatory audit rotation and audit tendering. In conformance with these requirements and the transitional arrangements granted when the changes came into effect on 16 June 2014, Royal London will be required to tender the audit no later than 2023. Thereafter the audit will be put out to tender at least every 10 years.

The external audit was last put out to competitive tender in 2000, when the present auditor PwC was appointed. The external audit firm is required to rotate the audit partner responsible for the Group audit every five years, with this being the fourth year for the current incumbent.

The Committee considers the need to re-tender the external audit on an annual basis. Following a review in June 2019, it concluded there was nothing in the performance of the auditor that required such a tender and it was not necessary to tender the external audit contract for the 2020 year-end. In June 2020, the Committee approved the proposal to hold the audit tender process in 2023 with the change of auditor effective for the 2024 year-end. Subject to the continued effective performance of PwC, the Committee will review the position again in 2021.

Financial reporting

The Committee reviewed the content of the 2020 Annual Report and Accounts (Annual Report) and it reported to the Board that, taken as a whole, the Committee considers the Annual Report to be fair, balanced and understandable. The Committee further believes that the Annual Report provides the necessary information for members to assess Royal London's position, performance, business model and strategy.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2020 review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 75.

Looking forward

The Committee will continue to focus on its oversight of the financial reporting and internal controls of Royal London. The Committee will also continue to work with the Risk and Capital Committee to ensure that GIA and Risk and Compliance functions have appropriate and co-ordinated plans in place and will monitor their progress and implementation.

Although we are a mutual, we hold ourselves to high standards of corporate governance in the broadest sense and as a Committee we are following closely the various reviews that have happened and are in progress with respect to audit reform, and will respond to any regulation, guidance and recommendations following these reviews appropriately.

Report of the Nominations and Governance Committee

"With a strengthened Board and committees we are well positioned to draw on the skills and experience we need to ensure the continued success of Royal London as a modern mutual."

Kevin Parry OBE
Chair of the Nominations and Governance Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Kevin Parry	Chairman	2019	6/6
Kal Atwal[1]	Member	2020	6/6
Sally Bridgeland	Member	2015	6/6
Ian Dilks	Member	2014	6/6
Shirley Garrood[2]	Member	2020	–
Tracey Graham	Member	2013	6/6
Mark Rennison[3]	Member	2020	1/1
Tim Tookey[4]	Member	2020	4/4
David Weymouth	Member	2012	6/6
Andrew Palmer[5]	Member	2011	2/2

1 Kal Atwal was appointed on 17 January 2020.
2 Shirley Garrood was appointed on 10 December 2020.
3 Mark Rennison was appointed on 25 September 2020.
4 Tim Tookey was appointed on 6 April 2020.
5 Andrew Palmer retired on 3 April 2020.

Dear member

As Chairman of the Nominations and Governance Committee (the Committee), I am pleased to present its report for the year ended 31 December 2020.

The Committee's key role is to acquire the right balance of skills, experience, opinions and diversity of backgrounds so as to ensure that the Board and senior management make informed decisions in delivering against its strategy, now and in the future. In addition, following the 2019 review of the terms of reference of the Group's governance bodies, the importance of the Committee's role in maintaining high standards of corporate governance has been heightened due to the impact of the Covid-19 pandemic.

With succession planning at the forefront of the Committee's agenda, Board membership has increased to 11 currently, with new members bringing additional skills and diversity of thought. We welcomed an unprecedented four new independent non-executive directors – Kal Atwal, Shirley Garrood, Mark Rennison and Tim Tookey – and one executive director, Daniel Cazeaux (the Group Chief Financial Officer). David Weymouth, the longest-serving director, became Senior Independent Director in April upon the retirement of Andrew Palmer. In accordance with the UK Corporate Governance Code (the Code), which states that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors, our Board now comprises the Chairman, two executive directors and eight non-executive directors.

Following the appointment of the new independent non-executive directors, we are well-positioned to ensure effective succession on the retirement of those directors who will soon have served on the Board for the maximum tenure of nine years.

We also appointed a new company secretary, who plays an important role in advising the Chairman and the Board on matters of corporate governance.

I thank the members of the Committee for their hard work and diligence in the face of the challenges brought about by the Covid-19 pandemic. The Committee members have worked tirelessly, readily adopting a flexible approach and making effective use of virtual media in order to support our diligence and review processes for the appointment of directors and senior managers that traditionally have relied on face-to-face interactions.

The Royal London governance framework responded efficiently and effectively to the Covid-19 pandemic challenges and I am convinced that with a strengthened Board and committees we are well-positioned to draw on the skills and experience we need to ensure the continued success of Royal London as a modern mutual.

Kevin Parry OBE
Chair of the Nominations and Governance Committee

Purpose and role of the Nominations and Governance Committee

The Committee's principal function is to ensure the Board and senior executives are suitably qualified and experienced to deliver commercial success for members and other stakeholders in Royal London.

The Committee's main responsibilities include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, its committees and the Group Executive Committee;
- nominating for Board approval candidates to fill vacancies on the Board, committees and Group subsidiaries;
- undertaking succession planning for the Chairman of the Board, executive directors and non-executive directors;
- ensuring all directors commit sufficient time to the Group;
- assessing the independence of non-executive directors; and
- reviewing and approving the Group's corporate governance framework.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available at: royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/

Committee membership

The Committee is comprised solely of independent non-executive directors and it held six scheduled meetings during 2020.

Areas of focus and significant matters considered by the Committee

Following its review of the Board and Board Committees' terms of reference through 2019, the Committee recommended their adoption to the Board as well as an updated corporate governance framework and a refresh of the profile and responsibilities of key roles.

The Committee has also undertaken significant activity in the year to evolve the strength and diversity of its non-executive and executive capabilities as part of ongoing succession planning.

Board and committee appointments

- The success of the Group begins with a high-quality Board and senior management team. With the changes made during the year, the current composition of the Board and its committees remains appropriate.
- On recommendations of the Committee, the Board welcomed four independent non-executive directors. The Board is satisfied that each will make a significant contribution to its effectiveness. The biographies on pages 71 to 73 summarise the skills and experience of all directors and show the combination of experience and knowledge across the Board.
- Kal Atwal was appointed as a non-executive director in January and brings enormous experience in driving change across a wide range of financial services brands. She has a real understanding of how technology can help businesses emerge as leaders after disrupting their industries for the better.
- In last year's report I mentioned we had begun the search for an Audit Committee Chair and, after a thorough selection process led by Korn Ferry, which does not have any connection to the Group or any of the directors, Tim Tookey was appointed as a non-executive director and as Chair of the Audit Committee. He has over 30 years of experience in finance in the financial sector, including at banks, insurers and asset managers. He has a well-established non-executive director career.
- Mark Rennison joined Royal London in September as a non-executive director, following an extensive search undertaken by Korn Ferry. His appointment has added significant financial services knowledge to the Group, along with executive experience and understanding of mutuality. It is planned that, subject to regulatory approval, he will succeed David Weymouth as Chair of the Risk and Capital Committee later in 2021 when David reaches the end of his nine-year tenure.
- We identified a need for additional asset management experience and, in December 2020, Shirley Garrood, who also has financial services experience, was appointed as a non-executive director, following a search conducted by Korn Ferry. It is anticipated that she will also chair our asset management business later this year.
- The search for the Group Chief Financial Officer was undertaken by Heidrick and Struggles JCA Group, which does not have any connection to the Group or any of the directors, and was similar in approach to that used for the Group Chief Executive in 2019. A long list of diverse candidates was narrowed down to a shortlist of candidates, who were interviewed by the Group Chief Executive, with second interviews conducted by the Chairman and independent non-executive directors. Following careful consideration by the Committee, Daniel Cazeaux, a former KPMG partner, was proposed as Group Chief Financial Officer and, following regulatory approval, his appointment was approved by the Board on 25 June 2020.
- Emmy Labovitch was appointed as an independent member of the With-Profits Committee on 1 November 2020 following an open search on LinkedIn. The With-Profits Committee identified a need to plan for future succession as members approach the end of their tenure. Emmy Labovitch is an experienced non-executive director with experience in the financial, public and not for profit sectors. She brings strong pensions-related board and committee experience to the With-Profits Committee, along with investment expertise, particularly in terms of economic theory and its practical application.
- These appointments were undertaken in conjunction with the Committee's regular review and assessment of the Board's skills and tenure individually, and of its effectiveness collectively as several current Board members move towards the end of their tenure.
- The Chairman was independent on his appointment and the Committee considers each of the non-executive directors to be independent, in accordance with the criteria set out in the Code.

Report of the Nominations and Governance Committee continued

- The Board appointments process is designed to identify a diverse and strong list of potential external and, where appropriate, internal candidates that will complement the skills of the Board and bring a diversity of views to the boardroom. Once the need for a successor or new appointment is identified, an external facilitator, which does not have any connection to the Group or any of the directors, is normally appointed to conduct an extensive search and selection process. The interview processes involves meetings with the Chairman, the Senior Independent Director and, where appropriate, the Group Chief Executive and other senior executives.

Executive management changes

- Following the appointment in 2019 of Barry O'Dwyer, the Board is pleased that he is now ably supported by Daniel Cazeaux as Group Chief Financial Officer, who also joined the Board. Given the Group's strategic work and future planning to enhance the use of the latest innovation and technologies, William Pritchett was appointed in January as Group Chief Information Officer. Following regulatory approval in April, Noel Freeley was promoted to be Chief Executive of Royal London in Ireland to devise and execute the strategy of our Irish business. In May, Tracey Kneller joined the Group Chief People Officer and Susie Logan was appointed as Group Chief Marketing Officer on 1 January 2021, subject to regulatory approval. Two Chief Customer Officers were appointed: Jerry Toher was promoted to be Chief Customer Officer – Accumulation and Julie Scott will join Royal London in May 2021 as Chief Customer Officer – Decumulation (both appointments are subject to regulatory approval).

- It was decided to split the role of general counsel and company secretary and following an external search, undertaken by Ridgeway Partners, which does not have any connection to the Group or any of the directors, Jeremy Small was appointed as Group Company Secretary. He took up the role in July.

Group subsidiary board composition

- The Committee considered the appointment of two independent non-executive directors, Ann O'Brien and Christopher Morson, to the Board of Royal London Asset Management Limited. Their asset management and IT transformation skills will add another perspective to the Board's discussion as well as an independent oversight and challenge to the executive directors. The search was conducted by Nurole.

- In Ireland, in addition to Noel Freeley's appointment to the Board of Royal London Insurance DAC, we appointed Ruth Patterson as an independent director and the Audit Committee Chair. We were advised on her recruitment by 360 Search, wh does not have any connection to the Group or any of the directors. She brings extensive audit and audit committee experience to the Board of Royal London Insurance DAC.

Technology advisers

- The Board and the Group Executive Committee are dealing with the oversight of cyber, data management, technology and major projects as part of their responsibilities. However, the rapid change in technology can have disruptive effects on the Group. A Technology Advisory Group has been constituted to get an external perspective on significant new developments in technology and innovation, and the impact on the Group in the medium and long term. It is comprised of independent experts and non-executive director representation.

Succession planning

The Committee regularly reviews succession planning activities and, in particular, the Committee discussed the future leadership and talent needs of the Group. It has received regular updates during the year on executive succession, including deep dives into the talent and succession planning of individual businesses or functions within the Group. When considering succession, the Committee identifies both the talent available within the Group and the need for external recruitment.

The Committee believes that non-executive directors should generally stay in role no longer than nine years, in line with the Code.

Diversity and inclusion

The directors are committed to having a balanced Board which recognises fully the benefits of diversity.

Diversity and inclusion were crucial considerations in the appointment processes throughout the year. In the final selection decision, all Board appointments were made on merit and relevant experience, against the criteria identified by the Committee with regard to the benefits of diversity, including gender. We engage with external executive search firms that are signatories to the Executive Search Firms' Enhanced Voluntary Code of Conduct.

As at 4 March 2021, the Board comprises the Chairman, eight independent non-executive directors and two executive directors. The Board is made up of seven men (64%) and four women (36%) (as at 31 December 2019: men 67%, women 33%).

We are determined to increase the number of women working for the Group, particularly in senior executive positions and, as a signatory to the Women in Finance Charter, are continuing our efforts to meet our gender diversity targets over the next five years.

We are determined to reduce our gender pay gaps, which derive from women being under-represented in more senior positions. Our Gender Pay Gap report shows the gaps across our business, outlines why we have these gaps and sets out what we are doing to address them.

We are working to obtain reliable demographic data about our colleagues, including ethnicity. Our current estimates suggest that there may be a slight under-representation of people from ethnic minority backgrounds generally, which increases markedly at senior levels within Royal London. To address this, along with gender balance, we are planning to develop and implement a new Diversity and Inclusion strategy over the period from 2021 to 2024.

Royal London is fully committed to providing equality for all our employees, applicants for employment and customers. Our Equal Opportunities Policy ensures that we follow a set of principles in all recruitment and selection activity, including attraction, transfers, promotion and redundancy exercise, training and development activities, terms and conditions and benefits. Our aim is to provide customers with unique and innovative solutions, which we can accomplish when we maintain a diversity of views, experiences and opinions.

Inclusion is encouraged and supported through a series of networks as described on page 32 of this report. You can find more about our inclusion and diversity, including the Gender Pay Gap report, at: royallondon.com/careers/inclusion-and-diversity/

Time commitment

As a result of the Covid-19 and project oversight, the Board and its committees held additional meetings during the year, which created an extra pressure on the directors' time and commitments. However, the directors moved efficiently to continue with their meetings as planned, adapting quickly with virtual technologies, as evidenced by the meeting attendance and ongoing engagement. Accordingly, all directors demonstrated that the unprecedented circumstances did not negatively impact their time commitment to Royal London.

Board evaluation

The Code requires the Chairman to lead an annual Board review. Following the external review by Niall Fitzgerald KBE DSA in 2019, the Board undertook an internal review in 2020. This showed that the action plan adopted in response to the 2019 review had successfully addressed the key areas of focus: we improved governance of major projects by recruitment of senior IT professionals and by establishing milestone delivery disciplines and reducing the use of agile techniques that are better suited to small and medium sized projects; we reinforced our cyber skill sets by accelerating the implementation of specialist software and engaging a firm of consultants to assist us in implementing a phased, sophisticated programme of enhancements to our defences against criminal activities; the Board increased its contribution to the Group's strategy by means of a series of Board discussions; and we strengthened employee engagement by the use of rapid feedback surveys and virtual town hall meetings. As part of the 2020 strategic review, the prominence of customers' needs is being increased with two senior management appointments to newly created chief customer officer roles, embracing customers' needs before and after retirement.

Following consideration of the findings of the effectiveness review, the directors believe that the Board has increased its effectiveness and will in the year ahead concentrate on embedding recently appointed directors, the operation of revised terms of reference and reviewing our operational performance compared with that of competitors.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2020 review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 75.

Looking forward

Although we had a very busy year, there is no room for complacency and, in 2021 the Committee's work will build off the foundations that have been established. We will continue to ensure that the Group has a strong, diverse and challenging Board and senior management team that are able to deliver long-term sustainable success underpinned by an effective governance framework.

Gender split: Board

Men	64%
Women	36%

Gender split: Group Executive Committee

Men	85%
Women	15%

Gender split: GEC direct reports

Men	71%
Women	29%

Gender split: employees

Men	51%
Women	49%

Report of the Risk and Capital Committee

"We have continued our key role in ensuring that risks to the Group, as identified and understood, are effectively managed within risk appetite and reflected in the Internal Model."

David Weymouth
Chair of the Risk and Capital Committee

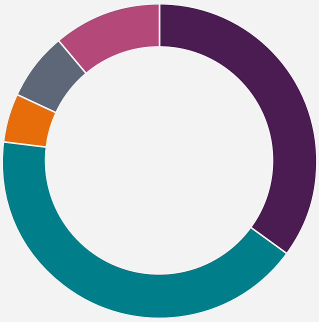
Committee membership

Member	Position	Year of appointment	Meeting attendance
David Weymouth	Chair	2012	8/8
Tracey Graham	Member	2017	8/8
Tim Tookey[1]	Member	2020	5/5
Kal Atwal[1]	Member	2020	5/5
Mark Rennison[2]	Member	2020	2/2
Andrew Palmer[3]	Member	2011	3/3

1 Tim Tookey and Kal Atwal joined the Committee on 28 April 2020.
2 Mark Rennison joined the Committee on 25 September 2020.
3 Andrew Palmer retired on 3 April 2020.

How the Committee spent its time in the year

The chart below provides an illustration of the approximate percentage of total time spent by the Committee during the period



Dear member

As Chair of the Risk and Capital Committee (the Committee), I am pleased to present its report for the year ended 31 December 2020.

During the year the Committee has focused on providing oversight and advice to the Board in relation to management of current and potential future risk exposures. We have continued our key role in ensuring that risks to the Group, as identified and understood, are effectively managed within risk appetite and reflected in the Internal Model.

The Committee has closely monitored developments arising from the Covid-19 pandemic, considering incident management and planning and areas of immediate and regulatory focus.

Part of the Committee's work this year was to review the ongoing effectiveness of the Group's Internal Model following its approval by the Prudential Regulation Authority (PRA) in September 2019. This included reviewing a major model change application to improve the modelling of credit counterparty risk which was submitted to the PRA in August 2020 and subsequently approved in December 2020.

The Committee approved the submission of the matching adjustment and associated internal model change pre-applications to the PRA, reviewed and approved the Own Risk and Solvency Assessment with respect to developments in 2020 and considered updates to the Risk Management Framework.

The transition from the London Inter-Bank Offered Rate (LIBOR) to Sterling Over Night Index Average (SONIA) has continued, with the Committee considering the overall approach, risks and costs of transitioning derivatives holdings.

Our Controllership Programme progressed during 2020, with improvements made in strengthening our controls, culture and education and in ensuring our policies reflect this initiative.

We reviewed the methods, assumptions and expert judgements and limitations applied in updating the 2020 year-end solvency capital requirements (SCR) calculation.

The Committee assessed the Group's preparations for Brexit to ensure we will remain able to provide our customers with high-quality service.

In a year of significant external challenge and stress, the Committee has overseen the resilience of the Group's capital and liquidity position and the identification and control of risk through effective management actions.

David Weymouth

David Weymouth
Chair of the Risk and Capital Committee

Purpose and role of the Risk and Capital Committee

The purpose and role of the Committee is to support the Board and the Group in managing risk and capital and complying with prudential and conduct regulations.

The Committee's main responsibilities include:

- advising the Board on the control, development, use and ongoing appropriateness of the Internal Model, and scrutinising and challenging the key underpinning expert judgements;
- overseeing the development, implementation and maintenance of the Group's overall risk management system, ensuring it is in line with emerging regulatory, corporate governance and best practice guidelines;
- reviewing the Group's capital management framework, and monitoring the availability and use of capital in the Group, ensuring that the Group's capital resources and liquidity profile are appropriate to its needs whilst meeting regulatory requirements;
- monitoring the Group's current and future risk exposures;
- considering and recommending to the Board for approval the Group's risk appetite, including any changes to the appetite for each material type of risk faced by the Group;
- overseeing and challenging the design and execution of stress and scenario tests and reverse stress tests, and ensuring the adequacy of the Recovery and Resolution Plans within the Group;
- overseeing any material breaches of risk limits, compliance and material incidents;
- reviewing and making recommendations to the Board on any proposed investments outside of approved asset classes for investment, delegated limits, policy or risk appetite;
- advising on executive management's assessment of risks associated with proposed material strategic changes, including acquisitions and disposals not in the ordinary course of business, major change programmes, significant changes to the Group's governance arrangements or legal structure and new or material changes to third-party and intra-group outsourcing arrangements;
- ensuring that arrangements for whistleblowing are in place and that whistleblowing channels are fit for purpose and working as intended;
- monitoring the quality of the Group's Risk and Compliance functions; and
- reviewing the own risk and solvency assessment (ORSA), with recommendations being provided to the Board for approval.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available at: royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/

Committee membership

The Committee comprises five independent non-executive directors.

The Committee held eight scheduled meetings during 2020. A joint meeting with the Audit Committee was also convened to review and approve the combined assurance plan of the Group Internal Audit and Risk and Compliance functions. A further joint meeting with the Remuneration Committee was convened to review the discretion applied to the incentive schemes within the Group, ensure incentive scheme performance awards and conditions were within risk appetite, and to review the appropriateness of the remuneration of controlled function holders.

The Committee held a number of ad hoc meetings in order to consider matters in line with particular business demands, including cyber security risk and control, and new business initiatives.

The Committee meetings were attended by the Group Chief Risk Officer, the Chairman Kevin Parry, the executive directors and, as appropriate, members of senior management.

Areas of focus and significant matters considered by the Committee

The Committee has a number of standing agenda items it considers each year, which are the Group Chief Risk Officer's and compliance reports, quarterly capital update and log of changes to the Internal Model.

In addition to the Committee's responsibility to support the Board and its subsidiaries in managing risk and capital and complying with prudential and conduct regulations, it spent a considerable proportion of its time on the Solvency II programme. This included reviewing and challenging the components of the Group's Internal Model, which was approved in September 2019. The Committee held additional meetings to scrutinise and challenge proposed changes to the Internal Model.

An area of key focus was the Covid-19 pandemic, with the Committee considering UK Government advice in relation to travel and working whilst focusing on the Group's ability to sustain high-quality service to customers and clients. The Committee further considered areas of immediate and regulatory focus at the outset of the Covid-19 pandemic, with an ongoing focus on the internal and external environment and emerging risks during the year. This included assessment and advice on the Group's principal, emerging and tail-event/'black swan' risks and how these should impact the execution of the Group's strategy, and ensuring that the Group has appropriate procedures in place to manage non-investment climate-related risks in the short, medium and long term.

Solvency II programme and Internal Model

- The Committee reviewed and recommended the Internal Model solvency capital requirements results for year ending 31 December 2019 to the Board.
- It also ensured that the Board had sufficient understanding of the major model change proposals.

Report of the Risk and Capital Committee continued

ORSA

- Prior to submission to the PRA, the Committee advised and made recommendations to the Board on the Group's 2019 ORSA in relation to the projected economic effect of the Labour Party manifesto and increased regulatory focus on the financial impact of climate change.

Risk reviews

- The Committee conducted deep dives into cyber security risk and control, and incident management and planning in response to the Covid-19 pandemic.

Capital management

- The Committee reviewed the Group's capital management plan, which set out actions to be progressed over the short, medium and longer term to improve and protect the Group's capital position.

Significant projects

- The Committee was responsible for risk oversight regarding several material transactions and projects undertaken by the Group in 2020.

- The Committee received regular updates on the progress of the Operational Risk Coverage Accelerator programme, a programme to design and embed a connected operational resilience operating model to link business services to technology and processes and controls.

Group policies and committee terms of reference

- The Committee reviewed and recommended a number of policies within the Group Policy Framework relating to material risks, defining parameters which management operates within, and showing how the business is managed and controlled.

- The Committee also proposed updates to its terms of reference. These were subsequently submitted to and approved by the Board.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2020 review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 75.

Looking forward

The Committee will continue to focus on its key role to oversee the Internal Model to ensure that its outputs are appropriately and optimally used to manage the risk and capital profile of the business for the benefit of our customers. The Committee will also provide oversight of new and ongoing significant projects.

It will also monitor the impact of Brexit in 2021, and continue to assess the ongoing Covid-19 pandemic, its effect on the economy and the risk and control environment within the Group.

Report of the With-Profits Committee

“The Committee has continued to focus on ensuring the fair treatment of policyholders with an entitlement to share in the profits of the Group.”

Sally Bridgeland
Chair of the With-Profits Committee

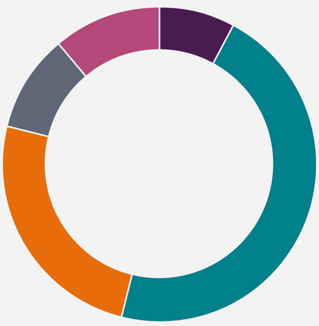
Committee membership

Member	Position	Year of appointment	Meeting attendance
Sally Bridgeland (Chair)	Non-executive	2017	6/6
Daniel Cazeaux	Executive	2020	3/3
Shaun Cooper[1]	Executive	2019	3/3
Jim Gallagher	Independent	2012	6/6
Bridget Rosewell[2]	Independent	2015	2/2
Carl Dowthwaite	Independent	2019	6/6
John Taylor[3]	Independent	2020	3/4
Emmy Labovitch[4]	Independent	2020	1/1

1 Shaun Cooper was replaced by Daniel Cazeaux as a member of the Committee on 25 June 2020.
2 Bridget Rosewell resigned on 31 March 2020.
3 John Taylor was appointed on 10 June 2020 and resigned on 8 December 2020 to take up a position with the PRA which precluded his continued membership of the Committee.
4 Emmy Labovitch was appointed on 1 November 2020.

How the Committee spent its time in the year

The chart below provides an illustration of the approximate percentage of total time spent by the Committee during the period



Dear member

As Chair of the With-Profits Committee (the Committee), I am pleased to present its report for the year ended 31 December 2020.

During what has been an unprecedented year due to the Covid-19 pandemic, the Committee has continued to focus on ensuring the fair treatment of policyholders with an entitlement to share in the profits of the Group, as well as advising the Board about matters impacting these with-profits policyholders.

As part of our responsibility to monitor the investments of with-profits funds, we receive and consider quarterly updates on investment performance. These updates helped us understand the impact of market volatility on with-profits funds during the year. We have also reviewed proposed amendments to strategic asset allocations for with-profits funds and received updates on Royal London’s approach to responsible investment.

In addition to our regular programme of work, the Committee has also reviewed and supported a number of projects:

- The Legacy Simplification Programme is aimed at improving service, flexibility and certainty of estate distribution for long-standing customers.
- Police Mutual joining Royal London on 1 October 2020, where the Committee provided thoughts in the early stages of the project and received regular updates throughout the year.
- Annuities being written by the Royal London Main Fund for certain guaranteed annuity option policies from February 2021. The Committee received regular updates on the progress of the project and reviewed the pricing basis to be used for writing these annuities.

The Committee has had a number of changes in membership this year, as shown in the opposite table. I would like to take this opportunity to welcome those who have joined the Committee and also to thank those who have left for their valuable contribution.

Sally Bridgeland
Chair of the With-Profits Committee

Report of the With-Profits Committee continued

Purpose and role of the With-Profits Committee

The Committee operates in accordance with the Financial Conduct Authority's Conduct of Business Sourcebook (COBS) section 20.5. The Committee's principal function is to support and advise the Board on managing with-profits funds, considering the interests and fair treatment of all policyholders with an entitlement to share in the profits of the Group (including ProfitShare).

The Committee's main responsibilities include:

- considering the interests of all Royal London policyholders who are entitled to a share in the profits of the Group and exercising independent judgement in advising the Board on how to allocate profits to them fairly;
- providing an opinion on any material discretionary actions with regard to with-profits funds having taken into account the opinion of the With-Profits Actuary;
- assessing compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);
- assessing investment performance reports and providing oversight to the way in which with-profits funds are invested and managed;
- commenting on all material communications and literature provided by Royal London to with-profits policyholders to ensure they are clear, fair and not misleading; and
- assessing whether the interests of with-profits policyholders, and the respective interests of different groups of with-profits policyholders, are fairly reflected in the management of the funds and PPFMs.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available at: royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/

Committee membership

In accordance with the requirements of COBS and our terms of reference, the Committee has a majority of independent members. As at 31 December 2020 the Committee comprised three independent members and two non-independent members. Other standing attendees at Committee meetings are the With-Profits Actuary and Chief Actuary.

The Committee held six scheduled meetings during 2020. It also held a training session in September on the main ongoing projects impacting with-profits funds; the project to simplify with-profits funds and the project to begin writing annuities in the Royal London Main Fund.

How the Committee spent its time in the year

Legacy Simplification Programme

- The Committee continued its focus on Royal London's Legacy Simplification Programme during the year. The programme aims to achieve improvements to service, flexibility and certainty of estate distribution for customers in Royal London's closed with-profits funds.
- At the beginning of the year we considered and supported the decision to pause Wave 1 of the project (which covered two of Royal London's closed with-profits funds) in light of the impact of the Covid-19 pandemic.
- We have continued to work with the project team based on the revised timetable, including Wave 2 (which covers a further two closed with-profits funds). Our focus has been on considering and advising the Royal London Board on the offer to be made to policyholders, the Court documentation and policyholder communications.

Annuities

- The Committee considered proposals for the Group to build capability to write annuities. The first stage of this project was writing annuities in the Royal London Main Fund for certain maturing Royal London (CIS) Guaranteed Annuity Option policies. The Committee has considered the proposed pricing approach between the Royal London (CIS) fund and the Royal London Main Fund, with the aim of ensuring fairness between different groups of with-profits policyholders.

Police Mutual

- Police Mutual joined Royal London on 1 October 2020. The Committee provided thoughts in the early stages of the project, particularly in relation to the structure of the transfer, governance and the requirement to treat customers fairly. Throughout 2020 we received regular updates and were pleased with the smooth completion of the transaction (particularly given the disruption during the year due to the Covid-19 pandemic).

Investment performance and investment strategy

- The Committee reviewed the investment performance and investment strategy (including the approach to responsible investment) for the various with-profits funds and remained supportive of the approach taken by Royal London Asset Management (RLAM).
- Continuing on from work undertaken in 2019, in 2020 the Committee completed the programme of reviewing strategic asset allocations for with-profits funds. This resulted in changes aimed at improving long-term customer outcomes and risk adjusted returns.

Bonus rates and surrender values

- The Committee considered and provided recommendation to the Board on the ProfitShare and bonus rates to be declared in respect of 2020, and awarded in 2021.

Policyholder communications, complaints and service

- The Committee considered reports on the quality of the service provided to with-profits policyholders, having regard to complaints and other measures. We particularly focused on the operational impact of Covid-19 pandemic as well as the support provided to vulnerable customers.

Capital management

- The Committee assessed the financial and capital management of the Group's with-profits funds.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2020 review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 75.

In addition, the Committee conducted a separate effectiveness review and reported findings to the Board in June 2020. Overall the feedback received was positive, with very few actions being identified to potentially improve the effectiveness of the Committee.

Looking forward

The Committee will continue to focus on its key role of ensuring the fair treatment of with-profits policyholders.

Report of the Investment Committee

"A considerable area of focus of the Committee in 2020 was the Covid-19 pandemic, monitoring the impact of the global investment market volatility and actions taken by the Group in response."

Ian Dilks OBE
Chair of the Investment Committee

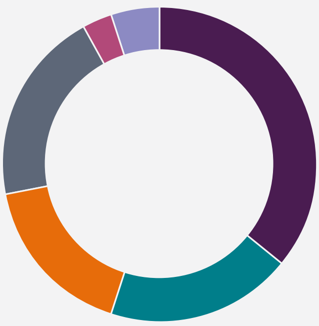
Committee membership

Member	Position	Year of appointment	Meeting attendance
Ian Dilks OBE	Chair	2014	8/8
Daniel Cazeaux[1]	Executive	2020	–
Tracey Graham[2]	Member	2020	8/8
Julius Pursaill	Independent	2014	8/8

1 Daniel Cazeaux was appointed on 24 September 2020.
2 Tracey Graham was appointed on 17 January 2020.

How the Committee spent its time in the year

The chart below provides an illustration of the approximate percentage of total time spent by the Committee during the period



- Philosophy, strategy and investment 36%
- Responsible investment and climate change 19%
- Committee oversight 17%
- Risk and governance matters 20%
- Other matters 3%
- General Committee matters 5%

Dear member

As Chair of the Investment Committee (the Committee), I am pleased to present its report for the year ended 31 December 2020.

Throughout the year the Committee has assisted the Board in determining investment philosophy and strategy, and overseeing our investment framework to ensure we invest in a way that meets our obligations and continues to deliver strong investment performance for our members and policyholders. The Committee oversees Royal London Asset Management (RLAM) in its role as the main asset manager for the Group, as well as third parties and external asset managers involved in delivering our investment strategy.

A considerable area of focus of the Committee in 2020 was the Covid-19 pandemic, monitoring the impact of the global investment market volatility and actions taken by the Group in response. Additionally, the Committee has closely assessed the volatility caused by other events, including the impact of Brexit and the presidential election in the United States.

The Committee acts for members by supporting the Board in ensuring that assets are invested in an appropriate way to meet the needs of its members and policyholders. The Committee achieves this by reviewing the investment strategies for existing and new funds, covering current and new asset classes, and reviewing the performance for all of the funds where the Group's customers invest. It also oversees delivery of the investment strategies, including the risk framework supporting our operations and decision-making.

The Committee monitors regulatory changes related to investment matters, and oversees delivery of programmes to respond to these.

The investment philosophy and strategy includes our approach for managing environmental, social and governance (ESG) matters, and the Committee has been overseeing the Group's responsible investment and climate change programme during 2020 as we increase capability in this area.

Ian Dilks OBE
Chair of the Investment Committee

Purpose and role of the Investment Committee

The Committee is responsible for assisting the Board in discharging its responsibilities regarding investment matters, including investment strategy, and in its oversight of the investment assets of Royal London and its policyholders, including investment performance.

The responsibilities of the Committee are set out in its terms of reference, which are reviewed annually. They are available at: royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/

Committee membership

The Committee comprises two independent non-executive directors, an independent member and the Group Chief Financial Officer.

The growing agenda of the Committee has required more time and meetings to be held in 2020. It held eight meetings during 2020 to consider and discuss new investment strategies and asset classes, proposed Strategic Asset Allocations for multi-asset funds, the responsible investment and climate change programme and to review performance and oversee the risk framework underpinning investment activity.

The Committee meetings were attended by Chairman of the Board Kevin Parry, the Group Chief Executive, the Group's Investment Office Director, Deputy Investment Office Director and Group Chief Risk Officer. Members of senior management also attended Committee meetings at the invitation of the Chair. In addition, the Committee draws on the input of its advisers, Mercer.

Areas of focus and significant matters considered by the Committee

The Committee has a number of standing agenda items it considers each year.

In addition to its responsibility to oversee the investment strategy and performance of the Group, the Committee spent a considerable proportion of its time monitoring the responsible investment and climate change programme, as well as ensuring that the Group was reacting in an appropriate and timely manner to the investment market volatility caused by the Covid-19 pandemic and other events. This included oversight of the impact of Covid-19 on property assets.

The Group's Investment Office, part of the Group Finance function, provides the Committee with significant support to help it discharge its responsibilities. The Investment Office makes recommendations regarding the investment risk framework, investment philosophy and strategy, oversees Strategic Asset Allocation reviews linked to agreed risk appetites and investment constraints, and monitors how agreed strategy has been implemented. It also reviews new fund launches and asset classes, and oversees the investment performance and operational effectiveness of asset managers. It produces quarterly reports and information for the Committee to enable it to fulfil its duties. In 2020, the Investment Office led additional activity to respond to volatile investment market conditions, including more frequent reporting to the Committee.

Investment strategy

- The Committee supported the Board in setting the investment strategy.

Investment philosophy and investment risk framework

- The Committee reviewed and amended the statement of investment philosophy, investment beliefs and the investment risk framework to aid management, the Committee and Board in investment decision-making.

Responsible investment and climate change

- The Committee monitored the Group's responsible investment and climate change programme, including the development of responsible investment engagement themes and topics, a new voting policy and changes to propositions.

Strategic Asset Allocation Framework

- The Committee supported completion of the implementation of the Strategic Asset Allocation Framework during 2020, and completed a number of associated reviews, including a review of regional equity allocations.

Asset management performance

- The Committee reviewed the performance of its asset managers and assessed their suitability to manage the Group's investment mandates, including analysis of quarterly market and economic data, review of investment performance across all funds and the examination of the asset managers' investment management agreements. The Committee took into account the work of the Investment Performance Committee, which undertakes regular reviews of the investment performance across the Group.

Committee terms of reference

- The Committee proposed updates to its terms of reference. These included changes to reflect the requirements of the updated Prudent Person Principle (Solvency II), which were subsequently approved by the Board.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2020 review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 75.

Looking forward

The Committee will continue to ensure that assets are invested in an appropriate way to meet the needs of our members and policyholders.

The Committee will maintain focus on the economic impact and investment market volatility caused by the global Covid-19 pandemic. It will also assess the economic repercussions of Brexit. Responsible investment and climate change remain a key priority as we continue to embed this throughout our investment activity.

Report of the Independent Governance Committee

“The majority of our members are independent and our principal purpose is to independently assess the value for money delivered to Royal London workplace pension and investment pathway customers.”

Peter Dorward
Chair of the Independent Governance Committee

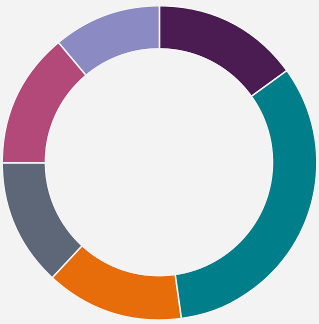
Committee membership

Member	Position	Year of appointment	Meeting attendance
Peter Dorward	Independent Chair	2015	6/6
Myles Edwards	Independent	2016	6/6
David Gulland	Independent	2015	6/6
Rosie Bichard[1]	Independent	2020	2/2
Paul Gallagher[2]	Company member	2018	4/4
Catherine Read	Company member	2019	6/6
Christelle Lim-Severe[3]	Company member	2020	1/1

1 Rosemary Bichard was appointed on 17 August 2020.
2 Paul Gallagher resigned on 30 September 2020.
3 Christelle Lim-Severe was appointed on 10 December 2020.

How the Committee spent its time in the year

The chart below provides an illustration of the approximate percentage of total time spent by the Committee during the period



- Oversight of contract charges 15%
- Value for money principles and assessment 33%
- Transaction costs and exit charges 14%
- Understanding customer requirements and proposition developments 13%
- Investment matters (including ESG and responsible investment) 14%
- Governance and other general matters 11%

Dear member

As Chair of the Independent Governance Committee (the Committee), I am pleased to provide this summary of our activities for the year ended 31 December 2020.

The Financial Conduct Authority (FCA) introduced two new policy statements at the beginning of April 2020 which extended the responsibilities and remit of the Committee. The FCA policy statement PS19/30 extended the Committee remit most notably to include environmental, social and governance (ESG) issues and investment pathway solutions for pensions drawdown. The FCA policy statement PS 20/2 extended the remit of the Committee to include responsibility for the publishing and disclosing of costs and charges to workplace pension scheme members.

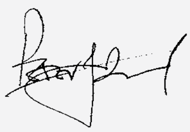
The Committee updated its terms of reference and business plans and began incorporating these additional responsibilities into its work during the year. In response to the expansion of our responsibilities, we recruited an additional independent member. Following an open and transparent recruitment process, we welcomed Rosie Bichard as an independent member on 17 August 2020. Rosie has particularly strong experience in ESG and responsible investment and has already begun to make a valuable contribution.

In response to FCA feedback, general observations in the FCA’s thematic review (TR20/1) and in line with the sentiments of the FCA expressed in its most recent consultation paper (CP20/9), the Committee worked with Royal London on a number of activities related to the Committee (including extending the breadth of reporting to the Committee to cover all variants of default investment arrangements) and reviewing charges for a number of cohorts of workplace pension customers.

I would like to take this opportunity to thank my fellow Committee members for their efforts and commitment in what has been a busy year.

For more detail on the work of the Committee and our assessment of the ongoing value for money delivered to relevant policyholders, I would encourage you to review our annual reports, available at: royallondon.com/about-us/corporate-information/corporate-governance/independent-governance-committee/

Our annual report covering 2020 will be published in the summer.



Peter Dorward
Chair of the Independent Governance Committee

Purpose and role of the Independent Governance Committee

The Committee operates in accordance with the requirements of the FCA's Conduct of Business Sourcebook (COBS) section 19.5. The Committee's principal function is to act in the interests of Royal London's workplace pension customers and pathway investors to provide independent oversight and assess the value for money delivered to them via their Royal London policies.

The Committee's main responsibilities include:

- assessing the ongoing value for money delivered to relevant policyholders. This assessment includes reviewing the appropriateness of investment strategies (including default investment strategies), core financial transactions, charges and policyholder communications;
- reviewing and reporting on the adequacy and quality of Royal London's policy in relation to ESG and stewardship;
- reporting and, where appropriate, escalating issues that the Committee identify and remain unresolved;
- preparing and publishing an annual report including our activities and our assessment of the value for money delivered to relevant policyholders (particularly against those items listed in the FCA COBS rules);
- raising any concerns with the Board prior to pathway investments being offered and reviewing pathway investments on an ongoing basis; and
- reviewing and reporting on the publication of administration charges and transaction costs.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available at: royallondon.com/about-us/corporate-information/corporate-governance/independent-governance-committee/

Committee membership

In accordance with the requirements of COBS and our terms of reference, the Committee has a majority of independent members, including an independent chair. The Committee comprises four independent members and two non-independent members.

The Committee held six scheduled meetings during 2020, including two workshops primarily focused on the expanded remit of the Committee. Due to the additional demands on the Committee in 2020 a number of additional ad hoc Committee and sub Group meetings were also held during the year.

Areas of focus and significant matters considered by the Committee

Investment pathways

- From February 2021, the FCA's investment pathways rules come into force. Under these new rules Royal London must offer any policyholders entering drawdown four options for how they might use their pension savings. The Committee has worked with Royal London on the design of these options, including reviewing the suitability of the proposed investment strategies and member communication.

ESG and responsible investment

- The Committee's responsibilities were extended on 6 April 2020 to formally include oversight for ESG and stewardship. We have received updates during the year as Royal London's activities and policies in these areas develop.
- The Committee reviewed Royal London Asset Management's Stewardship and Responsible Investment Report, published in May 2020. This supported their voluntary commitment as a signatory to the UK Stewardship Code.

Disclosure of costs and charges

- The FCA's policy statement PS20/02 extended the responsibilities of the Committee to cover oversight of the publication of administration charges and transaction costs. We have received updates throughout the year in anticipation of discharging our responsibilities for the first phase of this change; reporting the costs and charges in respect of default options by 31 July 2021.

Charges

- In response to FCA feedback, general observations in the FCA's thematic review (TR20/1) and in line with the sentiments of the FCA expressed in its most recent consultation paper (CP20/9), the Committee has worked with Royal London on certain changes to the governance of the Committee and to review the charges for a number of cohorts of workplace pension customers. This work is ongoing and the Committee continues to collaborate with Royal London and the FCA where appropriate.

Customer engagement

- The Committee received regular updates on research undertaken by Royal London and external sources (such as YouGov) to assess customer engagement and satisfaction.
- We also received updates on the steps being taken by Royal London to support vulnerable customers.

System and proposition developments

- The Committee considered initiatives undertaken by Royal London to develop improved systems to support and assist customers as well as proposition developments (including the implementation of the mobile app for pension policyholders).

Committee effectiveness

The Committee participated in an FCA review into the effectiveness of independent governance committees at the end of 2019. We are working to address this feedback received in 2020 and respond, where appropriate, to the wider observations made available by the FCA in their summary report TR20/1.

Looking ahead to 2021

In September the Committee responded to an FCA consultation paper (CP20/09) regarding proposals to further extend the remit and responsibilities of independent governance committees. The Committee looks forward to responding and adapting to these potential new responsibilities in 2021 as well as embedding the changes we have seen in 2020.

Directors' remuneration report

Annual statement from the Remuneration Committee Chair

Dear member,
On behalf of the Board, I am pleased to present the Directors' Remuneration Report (DRR) for 2020.

Reflections on 2020
Throughout 2020, I have been hugely impressed by the extraordinary commitment of all our colleagues at Royal London during what has been a most challenging year. The immediate response of the business to service our members whilst working from home was based on the guiding principles that colleague safety is paramount and that our workplaces are Covid-19 secure. It is a testament to all our colleagues that flexible ways of working became embedded so quickly.

Market volatility and economic uncertainty meant that the Group was unfortunately not immune to the financial impacts of the pandemic. However, in spite of this, the Group has shown great resilience and agility to maintain our normal high levels of customer service without disruption, which is a further testament of the immense effort from colleagues.

Consideration of Covid-19 impact on remuneration
The Committee reviewed remuneration regularly throughout the year to assess the potential impact of Covid-19. In April 2020, the Group CEO informed colleagues that the Board had carefully considered 2020 salary increases alongside the payment of the 2019 Short-term Incentive Plan (STIP) and the vesting of the 2017 Long-term Incentive Scheme (LTIS). The Board determined that these decisions were made prior to the Covid-19 impact on society and our economy, and having considered the impact on the Group's capital position, these payments were paid out in line with performance. However, it was communicated to colleagues that variable remuneration payments may be impacted for 2020. It is worth noting that the Committee determined that the 2020 salary increases for executive directors and Board directors would be subject to clawback during the year if required. In December, due to the resilient performance of the Group, it was determined that no clawback would be exercised.

The Committee considered whether it was appropriate to continue with STIP for 2020 and, in the interests of protecting the financial stability of the Group, introduced additional capital, profit and liquidity hurdles, which had to be passed before the STIP could be considered to pay out. As these hurdles were achieved, the Committee determined that the Group scorecard could be used to determine performance and guide award outcomes. I discuss the award outcomes for 2020 later on in this statement.

Directors' remuneration policy
I would like to thank members for voting at the 2020 AGM and for their positive response to our directors' remuneration policy (95.55% in favour). As highlighted in last year's DRR, our revised policy reflected the Group's response to the new provisions of the UK Corporate Governance (Code). The Committee believes that the current policy has operated well and therefore decided not to make any changes this year. In light of the Group's new strategy, the implementation of our new Target Operating Model and upcoming regulatory changes, we will be reviewing the Group's reward strategy during the course of 2021 with a view to potentially making changes to the policy (if necessary), which would be presented to the members at the 2022 AGM.

For an overview of our executive director remuneration arrangements and incentive outcomes for 2020, please refer to the at a glance section (set out on page 105), immediately following this statement.

Other areas of Committee focus during 2020
Whilst the consideration of the impact of Covid-19 on Royal London remuneration was undoubtedly a key area of focus for 2020, the Committee continued its focus on wider workforce remuneration to align with the Code, including the review and approval of changes to the Group's sales incentive plans to align with evolving market and regulatory practice. The Committee also reviewed workforce remuneration related policies during the year and considered the Group's gender pay gap disclosure and approach to addressing this gap, further detail of which is included later in this statement.

Board changes
Executive director
Daniel Cazeaux was appointed as Group Chief Financial Officer on 1 June 2020, receiving regulatory approval on 22 September 2020. His remuneration package was determined in line with our directors' remuneration policy. Full details of his recruitment arrangements can be found on page 89.

Remuneration Committee membership changes
Andrew Palmer stepped down from the Board as a non-executive director and member of the Remuneration Committee on 3 April 2020 at the end of his nine-year term as a director. I would like to take this opportunity to thank Andrew for his contribution to the Committee and wish him well for the future.

On 29 April 2020, Ian Dilks was appointed as a member of the Remuneration Committee. I would like to warmly welcome Ian to the Committee.

Performance and incentive outcomes in 2020
As discussed in detail on pages 10 and 11 in the Chairman's statement, it was a challenging year for the Group due to Covid-19 adversely impacting Royal London's financial results for 2020. The Group has reported a fall in operating profit before tax reflecting reduced new business and continued strategic digital investment. Net inflows during the year also suffered a decline compared to 2019 as growth in demand for sustainable funds were offset by outflows in the institutional market. However, despite market volatility and economic uncertainty our capital position remains robust.

Whilst the financial elements of the Group scorecard were impacted by Covid-19, the balanced approach of looking at all elements of performance demonstrates it was robust. Operational efficiency targets were met, customer satisfaction metrics remained strong and customer complaints remained low. During 2020, the risk and control infrastructure was further embedded and there were no significant conduct issues. Pleasingly, our colleague engagement scores remained high despite colleagues having to work remotely over a protracted period.

2020 STIP outcome
Performance resulted in a formulaic scorecard result of 84.5%. In determining the final outcome for 2020, the Committee considered a range of additional factors including the economic climate and the impact of Covid-19 as well as the Group's financial and investment performance and progress on key strategic projects and determined that the final STIP outcome would be limited to 75%. This resulted in an award under the 2020 STIP of 75% of salary (out of a possible maximum of 150%) for Barry O'Dwyer and 39% (out of 88%) for Daniel Cazeaux. The award and maximum opportunity for Daniel Cazeaux were pro-rated to reflect his date of joining Royal London.

2018 LTIS outcome
The LTIS outcome is determined based on the achievement of certain performance gateways, followed by the Committee's assessment of performance against the Group's scorecard that captures three-year financial and strategic performance. Given the financial consequences of the pandemic on business performance, although the 2018 LTIS met its capital gateway, it did not meet the minimum operating profit gateway underpinning the scheme and, therefore, did not vest. Neither of the current executive directors participated in this scheme.

Wider workforce remuneration
At Royal London we recognise that our people make a difference to our customers and members, so it is important to us that our colleagues feel valued and are treated fairly and equally. The Committee has consistently considered wider colleague pay as context for the decisions it makes. The Committee receives detailed information from management regarding the annual pay reviews for all colleague groups and also reviews the Group Chief Executive's recommendations for salary and STIP for his direct reports.

During 2020, the Committee carefully considered the impact of Covid-19 on wider workforce remuneration and decided to take a modest approach to salary increases. Whilst it was determined that there would be no increases in executive directors' salaries for 2021, the Committee agreed a modest salary budget for our junior colleagues and for exceptional targeted increases to address any specific pay issues. This ensures that we continue to protect our most junior colleagues (who are typically in customer-facing roles) and also meet our commitment as a Living Wage employer. Further detail on remuneration for 2021 is included later in this statement.

In addition, in light of our commitment to comply with the highest standard of corporate governance, we are now in our fourth year of reporting our gender pay gap figures and third year of disclosing our Group Chief Executive pay ratio. As part of the Committee's expanded remit on the wider workforce, it also reviewed the Group's workforce remuneration related policies in 2020 including overtime, out of hours, extra contribution awards and car allowance policies. The policies will again be reviewed as part of the Group's overall reward strategy review in 2021.

Well-being
To support our colleagues' well-being during the pandemic, we supported our people leaders with additional guidance on how best to manage teams remotely. Throughout the year, we provided practical and emotional advice on coping with the varied impacts of working at home, with focused learning campaigns on resilience. We have achieved above-benchmark results of 78% in our Employee Engagement Index for supporting a physically healthy lifestyle and 80% for mental well-being. The community of mental health first aiders at Royal London is well established, providing confidential listening, signposting support and championing good practice.

Gender pay gap reporting
In line with previous years, we have reported the gender pay gap reporting data for both Royal London Mutual Insurance Society Limited (RLMIS) and Royal London Asset Management (RLAM). Whilst RLAM colleagues are included within the RLMIS disclosure, we have also chosen to voluntarily publish their gender pay gap figures separately for 2020.

Due to corporate activity, Investment Funds Direct Limited (IFDL) has not been included in the Gender Pay Gap Report for 2020 as it was sold to M&G on 1 September 2020. Police Mutual (PMAS) became part of the Royal London Group on 1 October 2020 but will not be included in the latest Royal London report as PMAS has already published its Gender Pay Gap report for 2020.

In terms of the data, as in previous years we have continued to see incremental positive movement with the median pay gap falling by 3.6% to 24.2% across the Group. The key driver for the gaps is gender disparity in the number of women in leadership roles across the Group. Our actions to further improve the gap are directly linked to our Diversity and Inclusion strategy, which includes updated recruitment strategies to attract more female candidates, revising Recruitment Excellence training to target unconscious bias and encouraging diverse interview panels. We will also be conducting an Equal Pay Audit during 2021 as a matter of best practice.

Our latest gender pay gap data forms part of our enhanced Gender Pay Gap report, which can be found on our website.

Focus on diversity
Diversity and inclusion continues to be an area of great focus. Royal London strongly believes that differences equate to strengths and employing people from a range of backgrounds, genders, ages and sexual orientations provides a diverse range of skills and life experiences too. The Employers' Network for Equality and Inclusion (ENEI) has awarded us their gold standard, and we continue to focus on achieving best practice in equality and inclusion (see page 31 of this report for further detail).

During 2020 we further developed our focus on black, asian and minority ethnic (BAME) inclusion, and have a plan aimed at improving the attraction and appointment for BAME candidates. Additionally, we signed up to the Business in the Community's Race at Work Charter, the #100BlackInterns initiative and we became a Disability Confident Employer. Whilst we are pleased with the progress made during the year, our work on diversity and inclusion initiatives will continue to remain a key area of focus for 2021.

Looking forward to 2021
Remuneration decisions for 2021
In respect of remuneration for 2021, the key points are as follows:

- **Salaries** – The Committee agreed a 1% increase in salary budget for our junior colleagues and an additional 0.5% for exceptional targeted increases to address any specific pay issues. In accordance with our directors' remuneration policy, the Committee undertook an annual review of the executive directors' salaries and determined no increases for 2021. Fees for the Chairman and non-executive directors will also not be increased in 2021.

Annual statement from the Remuneration Committee Chair continued

- **2021 STIP** – As discussed above, for the 2020 STIP we established additional hurdle measures to the scorecard that must be passed before the STIP can be considered to payout. These have been retained for 2021. Awards will be subject to a range of performance measures aligned to our key strategic objectives, which includes a new ESG measure focusing on reducing the carbon intensity of our investments. Further details can be found on page 119.

- **2021 LTIS** – In line with the Board's commitment to wider important societal matters, this year we introduced components on sustainability and a new cyber security measure within the existing scorecard categories to better align with our strategy, regulatory and other stakeholder expectations. Further details can be found on page 120.

Upcoming regulatory change

The Committee has been keeping abreast of all known regulatory developments, particularly with the introduction of the new Investment Firms Prudential Regime (IFPR), which will impact certain investment firm entities within the Group from 2022 onwards. This will introduce a new set of remuneration requirements for key risk takers as well as broader remuneration policy and governance considerations. Royal London will begin work to prepare for the implementation of these new rules during the course of 2021.

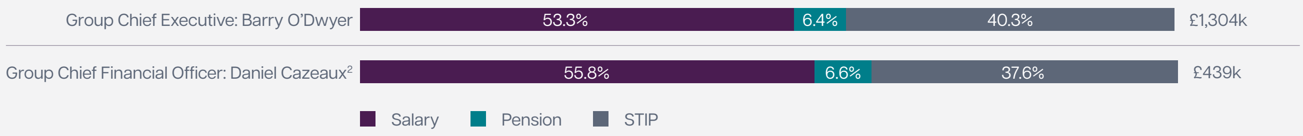
Overall, I am pleased to report that the directors' remuneration policy has operated well in what has been an exceptionally challenging year, carefully considering performance outcomes, balancing and considering all stakeholders interests. The Committee believes that the Group's current approach to reward is well placed to help guide us through the impacts of Covid-19 and beyond. Our strategic initiatives will support us to attract and retain the talent needed to deliver desired outcomes and continue the long-term success of the Group. As the pandemic may continue to present challenges to us, we will keep our approach to remuneration under consideration as part of our wider review of the Group's reward strategy during the course of 2021. Depending on the outcome of this review, we may make changes to the directors' remuneration policy, which would be presented to members at the 2022 AGM.

I hope you find this report to be clear in understanding our remuneration practices and that you will be supportive of our directors' remuneration report, which will be subject to an advisory vote at the 2021 AGM.

Tracey Graham
Chair of the Remuneration Committee
4 March 2021

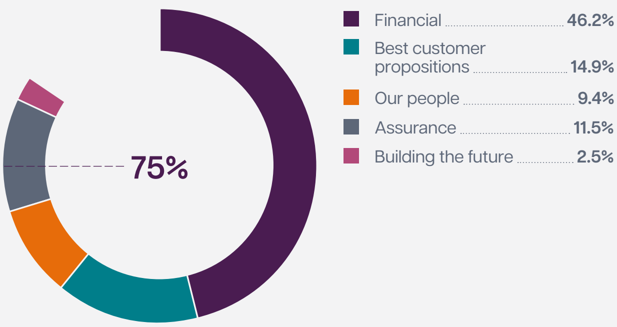
2020 remuneration at a glance

Total remuneration for current executive directors for 2020[1]



1 The current executive directors were not granted awards under the 2018 LTIS.
2 Daniel Cazeaux joined the Group on 1 June 2020 and was formally appointed as an executive director in September 2020. The remuneration in this table relates to the period from 1 June to 31 December 2020.

Incentive outcomes for 2020 STIP



Performance resulted in a formulaic scorecard result of 84.5%. The Committee considered a range of additional factors and exercised its discretion to determine that the final overall STIP outcome for 2020 would be limited to 75%.

Incentive outcomes for LTIS vesting in 2020

Given the financial consequences of the pandemic on business performance, the 2018 LTIS did not vest as the minimum operating profit gateway underpinning the scheme was not achieved.

Remuneration in the wider context

As a mutual, our members are at the heart of our remuneration philosophy. In light of our commitment to comply with the highest standards of corporate governance, we are now in our fourth year of reporting our gender pay figures and third year of disclosing our Group Chief Executive pay ratio; and since 2019 our pension rate for executive hires continues to be aligned with the wider workforce. Since the start of 2020, our deferred and long-term incentive awards have been invested into a fund that our members invest in; this provides greater alignment of the outcomes of remuneration with our members.

Remuneration package for executive directors – forward-looking policy

	Pay element	Approach	Key decisions for 2021	
			Group Chief Executive (Barry O'Dwyer)	Chief Financial Officer (Daniel Cazeaux)
Fixed pay	Base salary	Fixed pay levels set competitively with role-appropriate benefits arrangements	£700,000 – no change from 2020 (see further details on page 108)	£420,000 – no change from 2020 (see further details on page 113)
	Pension		12% – in line with wider workforce levels (further details on page 119)	12% – in line with wider workforce levels (further details on page 113)
	Benefits		Benefits package includes private medical insurance and health screening – further details on page 110	Benefits package includes private medical insurance and health screening – further details on page 110
Pay linked to performance	STIP	Incentive linked to short-term targets	Maximum opportunity: 150% of salary (40% deferred over three years) – further details on page 110	Maximum opportunity: 150% of salary (40% deferred over three years) – further details on page 113
	LTIS	Incentive linked to long-term priorities	Award granted: 150% of salary (additional two-year holding period) – further details on page 112	Award granted: 150% of salary (additional two-year holding period) – further details on page 113
	Minimum holding requirement	To align the interests of executives with those of members	200% of salary	200% of salary
	Post-cessation of employment holding requirement	To align the long-term interests of executives with those of the Group	200% of salary for two years post-cessation of employment	200% of salary for two years post-cessation of employment

Appropriateness of remuneration and link to strategy

Strategic rationale: the link between strategic priorities and 2021 incentive scheme measures

The performance measures that are used in the variable incentive schemes support the delivery of the strategy, and are critical in ensuring a transparent link between business performance and remuneration – as shown in the table below.

	Strategic shifts					
	Purpose driven	Customer focus	Broader solutions	Data led, digitally nimble	Mutually valued relationships	Sustainable financials
Measures used in incentive schemes:						
Financials	● ○				○	● ○
Investment performance		● ○	●		○	
Customer service	○	● ○	●	○	● ○	
Our people	● ○	●			●	
Quality of Proposition	○		○			○
Assurance	● ○	● ○				●
Building the future	● ○	● ○	●	● ○		● ○

● 2021 STIP measures ○ 2021 LTIS measures

How the Committee has addressed the following factors from the UK Corporate Governance Code

Royal London's core values drive our business strategy and underpin our approach to executive remuneration. Along with these values, the Committee has carefully considered the expectations of the UK Corporate Governance Code when reviewing our directors' remuneration policy and its implementation. Set out below are examples of how the Committee has addressed these factors.

Factor	How this has been addressed
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	The Committee is committed to being transparent with our approach to pay, as demonstrated by our comprehensive and transparent disclosures. We are not a listed company, but the Board considers carefully the market practices for listed companies when setting remuneration structures and levels. Our approach to considering the impact of Covid-19 on remuneration has been fully disclosed to ensure clarity for all stakeholders
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	The Committee continues to review the structure of the Group STIP and LTIS, and has now implemented new simplified rules which ensure there is sufficient flexibility to exercise discretion to override formulaic outcomes, as well as to recover and/or withhold sums or share awards in appropriate circumstances
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	The Committee ensures that there is a careful balance between providing competitive pay and motivational incentives to drive performance whilst also ensuring the appropriate management of risk. Risk-taking outside of the Group's risk appetite is not rewarded. The Committee has absolute discretion to amend incentive amounts prior to payment to ensure they are appropriate When assessing performance, the Committee will take into account not just the measures and targets in the balanced scorecard, but also wider views of Group performance, quality of earnings and the sustainability of performance before finalising awards As discussed above, the Committee also has discretion to adjust the STIP and LTIS outcomes to override formulaic outcomes if it considers these inconsistent with overall Group performance, taking into account any relevant factors The Committee has also taken the view that it would be more appropriate for deferred awards to be linked to a fund which our members are invested in, to increase the alignment between remuneration outcomes and our members. This applied to the 2020 deferred STIP awards and 2020 LTIS awards The STIP and LTIS both contain malus and clawback provisions and post-employment holding requirements have now been implemented
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy	We outline in our directors' remuneration policy details of maximum opportunities for our incentive plans alongside actual pay-outs for our STIP and LTIS. Actual incentive outcomes vary depending on the level of performance achieved against specific measures
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance	Our policy has been designed to have an appropriate balance between long- and short-term performance measures, linked to the Group's business goals and aligned with the Group's creation of long-term value for members. The Committee has discretion to make downward adjustments to STIP and LTIS award outcomes if it considers the outcomes are not a fair reflection of the overall business performance
Alignment to culture Incentive schemes should drive behaviours consistent with Group Purpose, values and strategy	As a mutual, Royal London aims to provide the best outcomes and experiences for our customers and members. The categories measured in the Group scorecards track our delivery of key experiences and outcomes during 2021, our progress with key investments to improve experiences and outcomes in the longer term, and our delivery of these activities within risk appetite. The inclusion of sustainability measures for the 2021 STIP and 2021 LTIS will help to drive behaviours that contribute to delivering long-term sustainable value for our stakeholders

Summary of directors' remuneration policy

The following table summarises our remuneration policy for executive directors, and how the policy will be implemented in 2021. The policy was approved by 95.55% of members at the AGM on 3 June 2020 and there is no change to the policy for 2021. Full details of the approved policy can be found within our 2019 DRR on the Group website at the following link: royallondon.com/siteassets/site-docs/about-us/annual-reports/royal-london-annual-report-2019.pdf

Element	Key features of the policy	Implementation for 2021
Base salary To support recruitment and retention of talented people	• Reviewed annually • No maximum salary or % salary increase, but typically in line with those for the Group's broader population	• Barry O'Dwyer (Group CEO): £700k • Daniel Cazeaux (Group CFO): £420k No increase to base salaries for 2021
Pension To support the recruitment and retention of our people	• Executive directors can receive a cash allowance in lieu of pension or they may elect to pay all or part of their allowance into their pension plan • The maximum cash allowance in lieu of pension is 12% of salary in line with the wider workforce default contribution rate	No change from 2020
Benefits To support the recruitment and retention of our people	• Includes life insurance, private medical insurance, medical screening • Executive directors may participate in the Group's flexible benefits scheme and may be eligible to receive relocation support based on the requirements of their role, as determined by the Group	No change from 2020
Short-Term Incentive Plan (STIP) To focus participants on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy	• Maximum opportunity is 150% of salary • Performance assessed using a scorecard of one-year financial and strategic measures, and individual performance ratings. • Payment of 40% of any amount earned is deferred for up to three years	No change from 2020 • The STIP opportunity will be 75% of base salary for target performance • See page 111 for details of performance measures and targets
Long-Term Incentive Scheme (LTIS) To align executives with the long-term interests of members and customers	• Maximum award granted is up to 150% of salary, which may be subject to a discretionary adjustment by the Committee of up to 125% or reduced to zero, based on a basket of performance measures, to create a maximum vesting award of 187.5% of salary • Performance assessed using a balanced scorecard of three-year performance measures, which may include strategic milestones and performance relative to peers	No change from 2020 • The LTIS opportunity will be 20% for threshold performance, 45% for target performance and 100% for maximum performance • See page 111 for details of performance measures and targets
Unit holding requirement To reinforce the principles underlying the Group's remuneration policy and align the interests of executives with those of members	Executive directors are required to retain some of their awards under the short-term and long-term incentive schemes, and build up a minimum holding. The holding requirement as a percentage of base salary is as follows: • Group Chief Executive Officer: 200% • Group Chief Financial Officer: 200%	No change from 2020
Post-cessation of employment holding requirement To reinforce the principles underlying the Group's remuneration policy and align the interests of executives with those of members	Executive directors are required to retain some of their short-term and long-term incentive awards (based on issuance value) for two years post-cessation of employment. The post-cessation of employment holding requirement as a percentage of base salary is as follows: • Group Chief Executive Officer: 200% • Group Chief Financial Officer: 200%	No change from 2020

2021 pay scenario charts

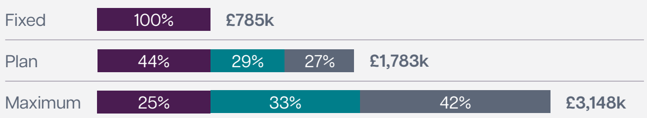
The charts below illustrate the potential pay opportunities available for the Group Chief Executive and Group Chief Financial Officer for 2021, based on different performance scenarios.

Actual variable pay outcomes can vary between 0% and 100% of maximum, depending on actual performance delivered.

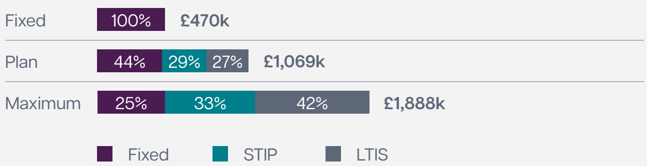
Scenario	Salary, pension and benefits	STIP outcome (% of maximum)	LTIS outcome (% of maximum)[1]
Fixed		–	–
On-plan performance (achieves targets)	Received in line with contractual entitlement	50	45
Maximum performance (significantly exceeds targets)		100	100

1 Excluding any discretionary adjustment.

Barry O'Dwyer



Daniel Cazeaux



2020 Annual report on remuneration

This section of the directors' remuneration report sets out details of remuneration paid to executive and non-executive directors during the financial year ended 31 December 2020 (FY2020).

Executive directors

Single figure for total remuneration (audited)

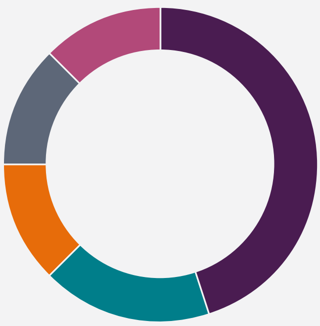
	Barry O'Dwyer		Daniel Cazeaux	
	2020	2019[1]	2020[2]	2019
Fixed pay (£000)				
Salary[3]	695	186	245	n/a
Benefits[4]	1	–	–	n/a
Pension supplement[5]	83	22	29	n/a
Total fixed pay	779	208	274	n/a
Performance pay (£000)				
STIP[6]	525	190	165	n/a
LTIS[7]	–	–	–	n/a
Total performance pay	525	190	165	n/a
Buy-out award[8]	–	1,363	–	n/a
Total (£000)	**1,304**	**1,761**	**439**	**n/a**
Total excluding buy-out award (£000)	**1,304**	**398**	**439**	**n/a**

1 Barry O'Dwyer joined the Group on 23 September 2019 and was formally appointed as an executive director in January 2020. The remuneration in this column relates to the period from 23 September to 31 December 2019.
2 Daniel Cazeaux joined the Group on 1 June 2020 and was formally appointed as an executive director in September 2020. The remuneration in this column relates to the period from 1 June to 31 December 2020, this includes the remuneration as an executive director of £140k for salary, £17k for pension supplement and £94k for STIP.
3 Salaries are shown gross of any salary sacrifice element.
4 Benefits, which include private medical insurance and health screening.
5 Pension supplements received as a cash supplement in lieu of pension.
6 STIP values are the value awarded for the performance year, including amounts due to be deferred, subject to continued service requirements and any other performance conditions.
7 LTIS values are the value of the 2018 LTIS vesting at the end of the performance period (31 December 2020). Neither Barry O'Dwyer nor Daniel Cazeaux were granted awards under the 2018 LTIS.
8 Buy-out award value reflects the value of the incentive arrangements forfeited by Barry O'Dwyer on leaving his former employer, which the Committee agreed to buy-out as part of his offer to join the Group. The award value disclosed in the table relates to the guaranteed element of his 2019 STIP award of £300,000 (which is subject to the STIP result) and also in respect of the value of replacement deferred STIP awards granted of £1m. This is comprised of £930,885, which is the value of the buy-out award plus £69,115 relating to compensation for loss of dividends.

2020 STIP outcome (audited)

The maximum STIP opportunity levels and resulting overall STIP outcomes for each executive director in respect of 2020 are shown in the table below. Performance resulted in a formulaic scorecard result of 84.5%. In determining the final outcome, the Committee considered a range of additional factors including the economic climate and the impact of Covid-19 as well as the Group's financial and investment performance and progress on key strategic projects and determined that the final overall STIP outcome for 2020 would be limited to 75%.

2020 STIP performance measures



- Financial 45%
- Best customer propositions 17.5%
- Our people 12.5%
- Assurance 12.5%
- Building the future 12.5%

2020 STIP executive director outcomes (audited)

	2020 Performance rating	Initial STIP recommendation (% of salary)	2020 Scorecard result	Outcome (% of salary)[1]
Barry O'Dwyer	Strong	100%	75%	75%
Daniel Cazeaux[2]	Good	52%	75%	39%

1 Based on 31 December 2020 salary.
2 Maximum award and outcome reflect pro-rated award based on the date Daniel Cazeaux joined Royal London.

The STIP scorecard for 2020 was set at the start of year and consisted of threshold, target and maximum targets for each measure, which was grouped into five categories. The categories for the 2020 STIP and resulting performance outcomes against each category are detailed below. In addition to the scorecard metrics, the capital, profit and liquidity hurdles introduced for the 2020 STIP were achieved.

Measures	Weighting	Threshold 0%	Target 100%	Maximum 200%	Contribution to scheme
Financials • Risk-adjusted profit metric (new business) • Existing business profit • Operational efficiency	**45%**				**46.2%**
Best customer propositions • Net promoter score • Customer complaints • Performance vs benchmark on with-profit funds • Performance vs benchmark on governed range • Net new external assets under administration	**17.5%**				**14.9%**
Our people • Assessment of People scorecard	**12.5%**				**9.4%**
Assurance • Risk and control infrastructure enhancements • Conduct risk • Financial risk management	**12.5%**				**11.5%**
Building the future • Legacy simplification • Strategic initiatives	**12.5%**				**2.5%**
Total	**100%**				**84.5%**
Final Overall Outcome					**75%**

2018 LTIS vesting in 2020 (audited)

The current executive directors were not granted awards under the 2018 LTIS. However, as disclosed in last year's DRR, the former executive directors (Phil Loney and Tim Harris) were eligible to receive pro-rated 2018 LTIS awards which would vest subject to business performance, in line with their Good Leaver status.

As explained in the annual statement from the Remuneration Committee Chair, given the impact of Covid-19 on the Group's business performance, although the 2018 LTIS met its capital gateway, it did not meet as the minimum operating profit hurdle underpinning the scheme and therefore did not vest. Neither of the current executive directors participated in this scheme.

In publishing the relative STIP and LTIS performance outcomes to thresholds, the Board aims to provide members with a clear understanding of performance outcomes rewarded under the plans, whilst protecting the commercial sensitivity of the underlying metrics.

Exercise of discretion by the Committee

The Committee evaluated the formulaic outcome of 84.5% for the 2020 STIP and used its discretion to determine the final overall STIP outcome for 2020 would be limited to 75%. The Committee considered a number of factors, including the economic climate and the impact of Covid-19, the Group's financial and investment performance and progress on key strategic projects.

Disclosure of financial targets for 2020 STIP award

For additional context, related to the incentive award paid in 2021 (2020 STIP), the table below discloses the threshold and maximum targets set for financial measures, alongside the actual financial performance achieved.

2020 STIP (paid in 2021)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Risk-adjusted profit metric (new business)	222.8	301.4	143.1
Existing business profit (including strategic development costs and other items)	(87.9)	(65.0)	(11.8)
Operational Efficiency	0.0	75.0	33.3

2020 Annual report on remuneration continued

Disclosure of financial targets for previous STIP and LTIS awards

For additional context, related to the incentive awards paid in 2020 (2019 STIP and 2017–2019 LTIS), the tables which follow disclose the threshold and maximum targets set for financial measures, alongside the actual financial performance achieved.

2019 STIP (paid in 2020)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Risk-adjusted profit metric	197.4	267.1	236.1
Existing business profit	38.0	51.4	97.4
2019 operational efficiency[1]	Behind plan	Ahead of plan with additional value	On plan

2017 LTIS (paid in 2020)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Group EEV profit from existing business	981	1,128	1,140
Group ProfitShare	363	417	432

1 In 2019, the strategic operational efficiency metric moved to a programme which included a number of quantitative measures and some specific areas around strategic themes.

All STIP and LTIS award outcomes are also reviewed by Group Risk and Compliance before they are finalised.

LTIS awards granted in 2020 (audited)

In 2020, the Committee granted an LTIS award of 125% of salary to the Group Chief Executive, Barry O'Dwyer, and 125% of salary to the Group Chief Financial Officer, Daniel Cazeaux (his award was pro-rated to reflect the time he joined the Group). The vesting of these awards will be dependent on the following performance measures and may be subject to a discretionary upwards adjustment by the Committee of 25% or reduced down to zero. Awards will be subject to an additional two-year holding period following the performance period and payable subject to satisfying the unit holding requirement.

2020 LTIS performance measures

Measures	Weighting	Sub-measures
Financials	10%	Risk-adjusted profit metric (new business)
	20%	Existing business profit
	10%	ProfitShare
Investment performance	20%	Three-year performance vs benchmark
Customer service	10%	Net Promoter Score
		Customer complaints per 1,000 policies (FCA reportable)
Quality of proposition	10%	Net new external assets under management (RLAM)
		Group market share taking into consideration the different business areas
Building the future	20%	Technology project
		Legacy simplification

	Scheme	Awards granted (% of salary)	Face value (£000)	Minimum value at vesting (£000)[1]	End of performance period	End of additional holding period
Barry O'Dwyer	2020 LTIS	125	850	–	31 December 2022	31 December 2024
Daniel Cazeaux[2]	2020 LTIS	73	306	–	31 December 2022	31 December 2024

1 Value of awards has been invested into the funds that our members invest in; this provides greater alignment of the outcomes of remuneration with our members.
2 The 2020 LTIS award for Daniel Cazeaux was pro-rated to reflect the date he joined the Group.

The Committee is committed to disclosing as much as is commercially possible on the financial measures and targets in the 2022 report when the 2020 award vests.

Outstanding awards under incentive schemes (audited)

The table below provides details of outstanding awards under incentive schemes, including deferred STIP and other deferred bonus awards. In order to show a complete picture of remuneration that has been awarded to date, it includes estimated figures in respect of plans which have not reached their third anniversary or date of exercise.

	Value of non-exercisable awards		Exercisable awards	Total awards
	Awards subject to time (£000)	Awards subject to time and performance (£000)		
Barry O'Dwyer	375	813	1,130	2,317
Daniel Cazeaux	66	142	–	208

Holdings by executive directors (audited)

The table below sets out the value of holdings by executive directors as at 31 December 2020 and their individual holding requirements. Furthermore, with effect from 1 January 2020 under our latest policy, Royal London also requires executive directors to hold at least 200% of salary (based on issuance value) for two years post-cessation of employment.

	Holding requirement (£000)	Value held at 31 December 2020 (£000)
Barry O'Dwyer	1,400	1,504
Daniel Cazeaux	840	66

Payments to past executive directors (audited)

There were no payments to past executive directors that vested in the year ending 31 December 2020.

Recruitment arrangements

As highlighted in our remuneration policy, the Remuneration Committee's approach to determining remuneration for new executive directors is to pay sufficiently to recruit the individual, giving careful consideration to internal and external market pay levels.

Where a newly recruited executive forfeits incentives from their previous employer, the Group may make compensatory awards, which are always performance-based, typically using one-off additional STIP and/or LTIS awards to offset any losses. Such awards will be made on no more than an equal fair value basis, taking into account performance, employment conditions and any other conditions attached to the award being forfeited.

Daniel Cazeaux (Group Chief Financial Officer)

Daniel Cazeaux's remuneration package consisted of base salary, benefits and incentive arrangements that are in line with our policy. The key elements of his remuneration package for 2020 are as follows:

- **Base salary:** £420,000 per annum.
- **Pension contributions:** 12% of salary, which is in line with the wider workforce levels.
- **2020 STIP:** He was allocated an on-target 2020 STIP opportunity of £183,750 (pro-rated to reflect the date he joined the Group and subject to the scorecard result). Following the scorecard outcome, this generated an overall STIP award payable of £165,000 – of which 40% is subject to a three-year deferral period, which will vest in equal tranches over three years subject to meeting the minimum holding requirement of 200% of salary.
- **2020 LTIS:** He was allocated a 2020 LTIS award of 125% of salary (pro-rated to reflect the date he joined the Group). Vesting of the award is dependent on achievement of performance targets. Award payments will be made after the second anniversary of vesting following the additional two-year holding period and subject to meeting the minimum holding requirement of 200% of salary.
- **Replacement awards:** No replacement awards were required.

Payments for loss of office (audited)

No payments or money or other assets were made for loss of office in the year ending 31 December 2020.

Group Chief Executive's single remuneration figure growth

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Group Chief Executive 'single figure' of total remuneration (£000)										
Barry O'Dwyer[1]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,761	1,304
Phil Loney	1,403	1,703	2,614	2,859	3,136	3,033	3,208	2,971	1,956	n/a
Mike Yardley	4,420	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
STIP paid against maximum opportunity (%)										
Barry O'Dwyer	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	50%
Phil Loney	93%	85%	93%	95%	100%	98%	82%	76%	68%	n/a
Mike Yardley	92%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTIS vesting against maximum opportunity (%)										
Barry O'Dwyer	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Phil Loney	n/a	n/a	71%	39%	37%	55%	88%	62%	74%	n/a
Mike Yardley	No maximum award limit. Value at vesting included in total single figure	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1 Barry O'Dwyer's 'single figure' of total remuneration for 2019 includes buy-out awards.

2020 Annual report on remuneration continued

Annual percentage change in remuneration for directors compared with other colleagues

The table below shows the year-on-year percentage change for salary, benefits and STIP for directors and all other colleagues (based on total full-time equivalent total remuneration for the relevant financial year) pursuant to UK reporting requirements. The percentage change in STIP varies depending on the year-on-year performance against the measures which drive the annual short-term incentive plan. For non-executive directors, the year-on-year percentage changes mainly reflect changes in Committee chair or memberships, mid-year appointments of non-executive directors and the introduction of an additional Committee membership fee following the review of fees during 2020. Further detail on the fee changes that occurred during the year is included on page 116.

% change for 2019 to 2020	Salary/Fee	Benefits	STIP
Executive Directors			
Barry O'Dwyer[1]	2.94%	2.18%	(5.06)%[2]
Daniel Cazeaux[3]	n/a	n/a	n/a
Non-Executive Directors[4]			
Kevin Parry, Chairman[5]	(20.9)%	n/a	n/a
Kal Atwal[6]	n/a	n/a	n/a
Sally Bridgeland	11.4%	n/a	n/a
Ian Dilks	23.4%	n/a	n/a
Shirley Garrood[7]	n/a	n/a	n/a
Tracey Graham	0.9%	n/a	n/a
Andrew Palmer[8]	(66.7)%	n/a	n/a
Mark Rennison[9]	n/a	n/a	n/a
Tim Tookey[10]	n/a	n/a	n/a
David Weymouth	32.7%	n/a	n/a
All other colleagues	4.70%	4.5%	(44.33)%

1 Barry O'Dwyer joined the Group on 23 September 2019. The percentage change in salary and benefits in the table above have been calculated on a full-time equivalent basis.
2 The figures used to determine the percentage change in STIP for Barry O'Dwyer include the guaranteed element of his 2019 STIP.
3 Daniel Cazeaux joined the Group in 2020. Therefore, there s no change between 2019 and 2020.
4 Non-executive directors receive an annual fixed fee and do not receive any company performance related payments.
5 Kevin Parry was awarded in 2019 an additional fee of £120,000 for fulfilling the role of Executive Chairman. He received no additional award in 2020.
6 Kal Atwal was appointed to the Board with effect from 17 January 2020. Therefore, there is no change between 2019 and 2020.
7 Shirley Garrood was appointed to the Board with effect from 10 December 2020. Therefore, there is no change between 2019 and 2020.
8 Andrew Palmer stepped down from the Board with effect from 3 April 2020.
9 Mark Rennison was appointed to the Board with effect from 25 September 2020. Therefore, there is no change between 2019 and 2020.
10 Tim Tookey was appointed to the Board with effect from 6 April 2020. Therefore, there is no change between 2019 and 2020.

Understanding performance ratings

For context, colleagues are provided with an overall performance rating, which consists of a 'what' and a 'how' rating. The what rating considers what colleagues deliver in respect of their objectives and ongoing accountabilities. The how rating considers how colleagues apply and live Royal London's values. The definitions for 'exceptional' and 'strong' performance ratings have been detailed below.

Strong rating

Individuals rated strong are considered to have contributed considerably above the benchmark for their role in the team, business area or the Group, with their behaviours bringing the Royal London values to life, and are seen as committed to putting them at the heart of how they do things.

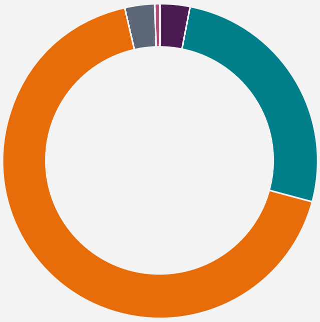
Exceptional rating

Individuals rated exceptional are considered to have consistently made a significant contribution to their team, business area or the Group, with business results reflecting this, and are seen as a role model in the way they live the Royal London values, with others following their lead.

2020 year-end performance rating distribution

	Headcount							
	Exceptional	Strong	Good	Some improvement required	Significant shortfall	Total	Too soon to rate	Not rated[1]
All grades	127	1,030	2,669	120	15	3,961	84	197

1 Includes colleagues on maternity leave or long-term sickness absence for a substantial part of the performance year.



Group Chief Executive Officer pay ratio

Companies are required to comply with the new pay ratio disclosure regulations for performance years starting on or after 1 January 2019. The table below details the current Group Chief Executive latest single total figure of remuneration to the median (i.e. 50th percentile), 25th percentile and 75th percentile full-time equivalent (FTE) annualised remuneration of the company's UK colleagues.

Representative colleagues were identified at each of the percentiles based on the full-time equivalent (FTE) total remuneration for UK colleagues as at 31 December 2020 (method A). The Committee has decided to move to method A methodology (as opposed to method B used last year) for the Group CEO pay ratio calculation as this is the more statistically robust method.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017	B	125:1	71:1	50:1
2018	B	113:1	70:1	42:1
2019 (including buy-outs)	B	142:1	82:1	53:1
2019 (excluding buy-outs)	B	90:1	52:1	34:1
2020	A	42:1	26:1	17:1

In 2020, the total remuneration (FTE) figures for the colleagues identified at 25th, 50th and 75th percentiles were £31,110, £51,033 and £77,373. The salary component for the representative colleagues identified at these percentiles were £27,767, £41,064 and £44,529 respectively. From 2019 to 2020 the ratio between the total remuneration of the Group Chief Executive and the total FTE remuneration of the employees at the median, upper and lower quartiles reduced. The ratio will vary depending on the performance against the measures which drive the annual short-term and long-term incentive plans. The Committee is satisfied that the median pay ratio for 2020 is consistent with the pay and progression policies for the Group colleagues as a whole.

The elements used in calculating the FTE remuneration consist of:

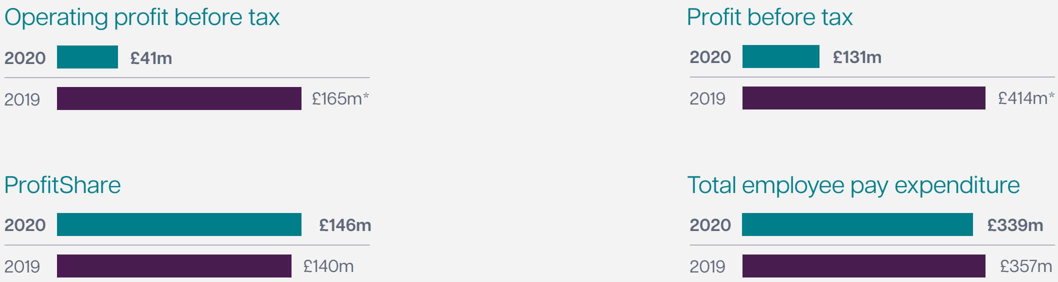
- **salaries:** gross of any salary sacrifice elements;
- **benefits:** includes life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car) and any transport and overnight expenses received to fund travel between home and additional work locations;
- **pension benefits:** includes any employer contributions and any cash supplements paid by the company in lieu of pension; and
- **bonus:** includes both the following aspects:
  - Short-term incentives include the full value awarded for the performance year, including amounts due to be deferred, subject to continued service requirements and any other performance conditions.
  - Long-term incentives include the value of the long-term incentives vesting at the end of the performance period (31 December 2020), including any amounts to be deferred.

2020 Annual report on remuneration continued

For 2020, as ratios could be unduly impacted by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the calculations exclude any colleagues not employed throughout the financial year. Data is based on full-time equivalent (FTE) pay for UK colleagues as at 31 December 2020. For each colleague, total remuneration is calculated in line with the single figure methodology (i.e. fixed pay accrued during the financial year and the value of performance-based incentive awards vesting in relation to the performance year). Leavers and joiners are excluded. Colleagues on maternity or other extended leave are included pro-rata for their FTE salary, benefits and short-term incentives. No other calculation adjustments or assumptions have been made.

Relative importance of spend on pay

The illustration below shows the relative importance of spend on employee pay expenditure compared to operating profit before tax, profit before tax and ProfitShare.



*In line with the change of statutory reporting basis from IFRS to UK GAAP with effect from 1 January 2020 (and replacement of the APM 'EEV operating profit before tax' with 'operating profit before tax'), the 2019 comparative figures have been restated.

ProfitShare is dependent on future economic conditions whereas our total employee pay expenditure is highly dependent on the current year's financial performance. Consequently, there is not a direct correlation between the ProfitShare change in value and the total employee pay expenditure change in value.

Non-executive directors

Single figure for total remuneration (audited)

	Annual fees (£000)		Committee chairmanship fee (£000)		Fees for additional responsibilities (£000)		Total (£000)	
	2020	2019	2020	2019	2020	2019	2020	2019
Kevin Parry, Chairman	340	310	–	–	–	120	340	430
Kal Atwal[1]	75	–	–	–	8	–	83	–
Sally Bridgeland	75	76	24	20	7	–	106	96
Ian Dilks	75	76	23	16	15	–	113	92
Shirley Garrood[2]	6	–	–	–	–	–	6	–
Tracey Graham	75	76	32	22	60	67	167	165
Andrew Palmer[3]	25	76	7	22	36	106	68	204
Mark Rennison[4]	25	–	–	–	7	–	32	–
Tim Tookey[5]	56	–	26	–	8	–	90	–
David Weymouth	75	76	32	22	22	–	129	98

1 Kal Atwal was appointed to the Board with effect from 17 January 2020.
2 Shirley Garrood was appointed to the Board with effect from 10 December 2020.
3 Andrew Palmer stepped down from the Board with effect from 3 April 2020.
4 Mark Rennison was appointed to the Board with effect from 25 September 2020.
5 Tim Tookey was appointed to the Board with effect from 6 April 2020.

The continued focus of regulation in the financial services industry has led to increased accountability for all Board Committees as part of their core role. Prior to 1 April 2020, the fees were as outlined in the 2019 remuneration report. Following the annual review of fees in 2020, the annual base fee was reduced to £75,000 and includes membership of the Nominations and Governance Committee. The additional fees payable for Chairmanship of the Remuneration, Risk and Capital, and Audit committees were increased to £35,000 and the With-Profits and Investment increased to £25,000. A £10,000 membership of committee additional fee was also introduced to recognise the incremental time required by committee participants. The annual fee payable to the Group Chairman increased to £350,000 and the additional fee for the Senior Independent Director role increased to £20,000.

The Senior Independent Director role was undertaken by Andrew Palmer until 3 April 2020. From 4 April 2020, David Weymouth performed the role of Senior Independent Director.

In line with ensuring the appropriate governance and Board oversight of subsidiary companies, Andrew Palmer received additional fees of £92,700 per annum as Chairman of RLAM Limited until he stepped down from the Board on 3 April 2020. The annual fee for the Chairman of RLAM Limited was reduced to £50,000 per annum as part of the annual review. Kevin Parry has fulfilled this role for the remainder of 2020 and received no additional fees for this additional responsibility. Tracey Graham received £66,950 per annum as Chairman of Investment Funds Direct Limited (IFDL) up to 31 August 2020 when IFDL was sold and no longer formed part of the Royal London Group. These fees reflect the additional accountability and time commitment for chairing these respective subsidiary Boards and were independently benchmarked.

Remuneration Committee meetings in 2020

The Remuneration Committee met 12 times in 2020. In addition, a Joint Board Risk and Remuneration Committee meeting was held in March 2020. The purpose of the joint meeting was to:

- review the Group remuneration policy;
- review the discretion applied to the incentive schemes within the Group;
- ensure incentive scheme performance awards and conditions are within risk appetite;
- review the appropriateness of the remuneration of controlled function holders; and
- discuss remuneration regulatory matters, including the identification of the Group's 'identified staff' and the application of the remuneration rules.

During 2020, the members of the Committee were as follows:

- Tracey Graham (Chair)
- Sally Bridgeland
- Andrew Palmer (stepped down from 3 April 2020)
- Ian Dilks (joined from 29 April 2020)

Date of Board appointment

	Date of Board appointment
Kevin Parry, Chairman	19 March 2019
Kal Atwal	17 January 2020
Sally Bridgeland	14 January 2015
Ian Dilks	14 November 2014
Shirley Garrood	10 December 2020
Tracey Graham	10 March 2013
Andrew Palmer[1]	1 April 2011
Mark Rennison	25 September 2020
Tim Tookey	6 April 2020
David Weymouth	1 July 2012

1 Andrew Palmer stepped down from the Board with effect from 3 April 2020.

Advisers to the Committee

Following a review of remuneration advisers in 2017, which consisted of a full competitive tender process, Deloitte LLP (Deloitte) was appointed by the Committee as independent adviser to the Committee with effect from 1 February 2018.

During the year, the Committee received advice on specific matters in relation to the remuneration packages for joiners and leavers during 2020, the impact of Covid-19 on Royal London remuneration and the new deferral vehicle approach for STIP and LTIS awards. The Committee is satisfied that the advice provided was objective and independent.

Deloitte's total fees (excluding VAT) for the provision of remuneration services to the Committee for the year ended 31 December 2020 were £126,950 (2019: £248,350).

2020 Annual report on remuneration continued

Activities of the Remuneration Committee during 2020

The table below sets out the principal activities of the Committee during 2020.

Area	Activity
Incentive scheme outcomes	The Committee reviewed STIP, LTIS and RLAM LTIP outcomes for 2019 in the context of overall Group performance and risk appetite
Joint risk and remuneration meeting	The Committee held a meeting with the Board Risk Committee to jointly consider any required risk adjustments to variable pay outcomes
Salary review	As part of the annual salary review, the Committee reflected on salary adjustments, taking into consideration the current market pay positioning, the performance of the executives and scope of their roles
Covid-19 impact	The Committee considered the impact of Covid-19 on Royal London remuneration in 2020
Recruitment and termination awards	The Committee reviewed and approved the remuneration packages for specific joiners and leavers during 2020
Executive directors' remuneration proposal	The Committee considered and agreed the remuneration of the Group's new Group Chief Financial Officer
Incentive scheme measures and targets	The Committee reviewed and agreed the measures and targets for the 2020 STIP, the 2020 LTIS and the 2020 RLAM LTIP
Incentive scheme for 2021	The Committee had initial discussions in respect of the STIP and LTIS schemes to be implemented in FY2021 and approved the 2021 sales incentive plans
Regulatory considerations	The Committee ensured the Group complies and is up to date with all prevailing regulations – including, for example, the completion of the Solvency II Remuneration Policy Statement
UK Corporate Governance Code	The Committee continued to review Royal London's response to the new requirements under the Code
Corporate citizenship	The Committee approved gender pay gap reporting for 2020
Review of workforce remuneration related policies	The Committee reviewed a number of workforce remuneration related policies e.g. overtime policy, out of hours policy, extra contribution awards policy and car policy
RLAM remuneration	The Committee continued its review of its approach to RLAM remuneration, and reviewed all RLAM STIP and LTIP schemes as part of an annual reward cycle and in the context of the FCA requirements
Reward strategy	The Committee continued to receive updates in respect of the review of the Group's Reward Strategy that will be taking place in 2021
Annual review of terms of reference	The key responsibilities of the Committee are set out in its terms of reference, which are reviewed annually and made available to members on the Group's website

Members' views on remuneration matters

At the AGM on 3 June 2020, members passed the annual advisory vote on the annual report on remuneration and directors' remuneration policy. The voting results were as follows.

Resolution	Votes for (and percentage of votes cast)	Votes against (and percentage of votes cast)	Shares on which votes were withheld
Annual report on remuneration	36,754 (97.44%)	965 (2.56%)	535
Directors' remuneration policy	35,862 (95.55%)	1,672 (4.45%)	722

Policy implementation for 2021

The following sections set out the proposed remuneration for executive and non-executive directors for 2021 in line with the policy, including details of salary increases and STIP and LTIS awards.

Executive directors' remuneration

Salaries

The salaries for the executive directors have been reviewed by the Committee with no increases for 2021 compared to 2020. The following table sets out the annual salaries payable to each executive director from 1 April 2021. As part of that process, the Committee considered independent benchmarking data, the performance of the individuals and the Group as a whole, as well as the pay review arrangements that apply to all colleagues of Royal London.

	2021 (£000)	2020 (£000)	% change
Barry O'Dwyer	700	700	0%
Daniel Cazeaux	420	420	0%

Pension and benefits

In line with policy. The maximum pension contribution is 12% of salary.

STIP opportunities and performance measures for 2021

2021 STIP opportunities

The table below details the maximum STIP opportunity for 2021 for Barry O'Dwyer and Daniel Cazeaux.

	Maximum (as % of salary)
Barry O'Dwyer	150%
Daniel Cazeaux	150%

Performance measure selection and approach to target setting: 2021 STIP

Performance will continue to be assessed against a balanced scorecard and will take into account the personal performance for the individual executive director.

For 2021 the measures and weightings are as follows:

Measures	Weighting
Financials • Includes measures around new business contribution, operating profit and management of costs	**45.0%**
Customer • Includes measures around customer value, customer brand and investment performance	**17.5%**
Our people • Assessment of achievement against People metrics	**12.5%**
Assurance • Assessment of Risk & Control Management	**10.0%**
Building the future • Includes measures around change delivery, digital reach and ESG	**15.0%**

Payment of 40% of any amount earned under the STIP is deferred for up to three years. Deferred STIP and LTIS awards are linked to a fund that our members are invested in, to further increase the alignment between remuneration outcomes and our members.

Policy implementation for 2021 continued

LTIS opportunities and performance measures for 2021

2021 LTIS opportunities

The following awards will be granted to executive directors.

	Face value (as % of salary)	% vesting for target performance	End of performance period
Barry O'Dwyer	150%	45	31 December 2023
Daniel Cazeaux	150%	45	31 December 2023

Performance measure selection and approach to target setting: 2021 LTIS

The performance measures and weightings for 2021 LTIS are anticipated to be as follows.

Measures	Weighting
Financials • Includes measures around operating profit and ProfitShare	**40%**
Investment performance • Includes measures on three-year performance vs benchmark	**20%**
Customer service • Includes measures around customer value and complaints	**10%**
Quality of proposition • Includes measures on Assets Under Management and Group market share	**15%**
Building the future • Assessment against strategic initiatives	**15%**

Actual targets set for each measure will be disclosed in the Directors’ remuneration report for 2023, unless the Committee considers them too commercially sensitive to disclose.

Non-executive directors

It is anticipated that fees will remain unchanged for non-executive directors until 2022. The annual base fee for non-executive directors is £75,000 and membership of additional committees is £10,000. Additional fees are payable for Committee chairmanship as follows:

- Risk and Capital Committee: £35,000
- Investment Committee: £25,000
- With-Profits Committee: £25,000
- Audit Committee: £35,000
- Remuneration Committee: £35,000
- Chair of RLAM: £50,000

The annual fee for the Group Chairman (who is not eligible for additional fees for Committee membership or Committee chairmanship) is £350,000 and the annual fee for being the Senior Independent Director is £20,000.

The Annual report on remuneration was approved by the Board and signed on its behalf.

Tracey Graham
Chair of the Remuneration Committee

Overview of directors' responsibilities for the year ended 31 December 2020

Directors' report and other disclosures

The directors of The Royal London Mutual Insurance Society Limited (the Company) present their report together with the audited consolidated financial statements for the year ended 31 December 2020. The Directors' report has been prepared in accordance with the requirements of the Companies Act 2006 (the Act) and should be read together with the Strategic report and the Corporate Governance statement, which are incorporated by reference into this report.

Principal activities
The Group comprises the Company and its subsidiaries. The Group is structured into a number of divisions as set out in the Strategic report. The principal activities of the Group are the provision of life and protection insurance policies, pensions and asset management. A list of the Group's subsidiaries is set out in note 15 to the financial statements.

Directors and their interests
The names of directors of the Company who served during the financial year ended 31 December 2020 and up to the date of signing the financial statements are set out on pages 71 to 73. The biographies of the current directors are set out on pages 71 to 73.

In accordance with the UK Corporate Governance Code (the Code), all our directors stand for election every year. Having been appointed since the 2020 Annual General Meeting (AGM), Daniel Cazeaux, Mark Rennison and Shirley Garrood will stand for election at the 2021 AGM. All remaining directors as at the date of the 2020 AGM will retire and will stand for re-election at the 2021 AGM. The details of the executive directors' service contracts are set out in the Directors' remuneration report on page 110.

None of the directors has, or had, an interest in the equity shares of any Group undertaking. No director has any material interest in any contract with the Company or a subsidiary undertaking which was significant in relation to the Company's business.

Directors' conflicts of interest
In accordance with the Articles of Association, the Board is authorised to approve conflicts or potential conflicts of directors' interests. The Board has reviewed the interests of the directors and their connected persons, and has authorised any interests that conflicted or potentially conflicted with the interests of the Group. On an ongoing basis, the Board periodically reviews conflict authorisations to determine whether the authorisation given should continue, be added to, or be revoked by the Board.

Directors' indemnities and insurance
The directors have the benefit of a continuing third-party indemnity provision provided by the Company (in accordance with company law and the Articles of Association). The Group also maintains directors' and officers' liability insurance on behalf of its directors and officers to provide cover should any legal action be brought against them.

Persons with significant control
The Company is a mutual and limited by guarantee. It has no shareholders and therefore no individual controls 25% or more.

Dividend
The Company is limited by guarantee without share capital and therefore no dividends are declared.

Stakeholder engagement
The directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Act and have acted in accordance with these responsibilities during the year. Royal London's largest stakeholder groups are our members and customers and the financial advisers that support them, our colleagues, our suppliers and the society and communities in which we work. However, we also engage with other stakeholders including our pensioners and deferred pensioners, regulators and the Government. The Board continues to focus on stakeholder engagement and pages 30 to 37 show details of how the directors have engaged with employees and other stakeholders and how they had regard to their interests in light of principal decisions taken by the Company during the year.

Sustainability
The Company's corporate, social and environmental activities are set out on pages 38 to 43. Also included on these pages are details of our greenhouse gas emissions in line with requirements of the streamlined energy and carbon reporting framework.

Corporate governance
Whilst the Company is not required by any statute or regulation to apply the Code, the Board holds Royal London to the highest standards of governance and has voluntarily determined to comply with the Code. The Company was compliant with the Code during 2020. More information on compliance is disclosed in the statement of corporate governance on page 75.

Annual General Meeting (AGM)
The AGM of the Company will be held at 11am on Wednesday 2 June 2021 at 55 Gracechurch Street, London EC3V 0RL. The notice convening the meeting, together with guidance on voting at the AGM, is sent to all members. You can find more information about the AGM and voting by visiting royallondon.com/about-us/members/agm

Financial instruments
The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments, and information on the risk exposures arising from those instruments, are set out in note 17 to the financial statements.

Political and charitable donations
No political donations were made in 2020 (2019: £Nil). Foundation grants and community donations totalled £1,107,328 (2019: £671,625).

Significant agreements
The Company has contractual and other arrangements with numerous third parties in support of its business activities. However, there are no arrangements in place that are deemed by the directors to be essential to Royal London's business.

Directors' report and other disclosures continued

Going concern

The Group's business activities, along with its financial position, capital structure, risk management approach and factors likely to affect its future performance, are described in the Strategic report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in business for at least 12 months from the date of approval of the financial statements and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements. The basis of preparation of the going concern is detailed in Note 1(a) on page 139.

Directors' report disclosures

Certain Directors' report disclosures have been made in the Strategic report so as to increase their prominence. These disclosures include those relating to greenhouse gas emissions, financial risks, employee involvement; the review of the Group's business during the year and any future developments.

Auditor

PricewaterhouseCoopers LLP (PwC) has indicated its willingness to continue in office. A resolution to reappoint PwC as the auditor of the Group will be proposed at the 2021 AGM.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and
- each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. The Group has changed its statutory reporting basis from International Financial Reporting Standards (IFRS) to UK generally accepted accounting practice (GAAP) with effect from 1 January 2020. Under company law the directors must not approve the Annual Report and Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss and cash flow of the Group for that period.

In preparing the Annual Report and Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK GAAP has been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- make a longer-term viability statement that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities to December 2023.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Act. They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate Governance statement that comply with that law and those regulations. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Responsibility statement of the directors in respect of the annual financial report

Having taken into account all matters considered by the Board and brought to its attention during the year, each of the directors whose names and functions are shown on pages 71 to 73 confirms that to the best of their knowledge:

- the Group financial statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position, cash flows and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Directors' report and Strategic report include a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position, performance, business model, prospects and strategy.

Responsibility statement

The responsibility statement was approved by the Board and signed on its behalf.

Directors' report

The Directors' report was approved by the Board and signed on its behalf.

Directors' remuneration report

The Directors' remuneration report was approved by the Board and signed on its behalf.

Strategic report

The Strategic report was approved by the Board and signed on its behalf.

Corporate Governance statement

The Corporate Governance statement was approved by the Board and signed on its behalf.

By order of the Board

Jeremy Small
Company Secretary
For and on behalf of Royal London Management Services Limited
4 March 2021

Financial statements

Independent auditors' report to the members of The Royal London Mutual Insurance Society Limited

Report on the audit of the financial statements

Opinion
In our opinion, The Royal London Mutual Insurance Society Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's and Company's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company balance sheets as at 31 December 2020; the Consolidated statement of comprehensive income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the Financial Reporting Council's (FRC) Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach
Overview
Audit scope
- Our audit scope has been determined to provide coverage of material financial statement line items. This allowed us to test 100% of the transfer to FFA and 99% of the total asset balance.
- In addition, we have performed audit procedures that have assessed the extent of the impact of Covid-19 and Brexit on the financial performance, financial position and ability of the Group to continue as a going concern.
- Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.

Key audit matters
- Valuation of non-participating value of in-force business persistency assumptions (Group and Company).
- Valuation of technical provisions – expense assumptions (Group and Company).
- Valuation of complex investments (Group and Company).
- Police Mutual Assurance Society Limited acquisition accounting (Group and Company).
- Impact of Covid-19 (Group and Company).
- Transition to UK GAAP (Group and Company).

Materiality
- Overall Group materiality: £90 million (2019: £90 million) based on 2.5% of Fund for Future Appropriations (FFA).
- Overall Company materiality: £85 million (2019: £85 million) based on 2.1% of Fund for Future Appropriations (FFA).
- Performance materiality: £67.5 million (Group) and £63.75 million (Company).

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and relevant tax laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate revenue and management bias in accounting estimates and judgemental areas of the financial statements, such as the valuation of technical provisions, the non-participating value of in-force business and financial investments classified as level 3 in the fair value hierarchy. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with the Board, management, internal audit, senior management involved in risk and compliance functions and the Group's and Company's legal function including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- evaluation and testing of management's internal controls designed to prevent and detect irregularities, in particular controls around disclosure of related parties and associated transactions, and risk-based monitoring of customer processes;
- reading key correspondence with the PRA and the FCA in relation to compliance with laws and regulations;
- attendance at all Audit Committees as well as reviewing other relevant committee meeting minutes, including those of the Board, Risk and Capital Committee, Investment Committee, Remuneration Committee and With-Profits Committee;
- reviewing data regarding policyholder complaints, the Group's and Company's register of litigation and claims, internal audit reports and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- procedures relating to the valuation of the technical provisions and non-participating value of in-force business described in the related key audit matters below;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which meet our risk criteria; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of material and immaterial financial statement line items, for instance, testing a sample of supplier payments made out of the Group.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Police Mutual Assurance Society Limited acquisition accounting, the transition to UK GAAP and the impact of Covid-19 are new key audit matters this year. Pension scheme liability valuation, which was a key audit matter last year, is no longer included because significance of the judgements on the liability valuation have reduced in 2020, including in relation to Guaranteed Minimum Pension equalisation and the change from RPI to CPIH in 2030 as the basis for inflation has reduced estimation uncertainty. We did not consider there to be significant estimation uncertainty based on our experience from the prior year testing and our procedures during the audit of the 2020 financial statements. Otherwise, the key audit matters below are consistent with last year.

Report on the audit of the financial statements continued

Key audit matter	How our audit addressed the key audit matter
Valuation of non-participating value of in-force business persistency assumptions (Group and Company) Refer to page 85 (Audit Committee Report) and note 28 to the financial statements regarding this area. A sensitivity analysis is included in note 36. The Group has material non-participating value of in-force business totalling £2,229m (2019: £2,089m). This is the value of the projected future profits from servicing policies. When valuing the future cash flows of the long-term business provision, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. Persistency rates determine this and thus are a key assumption when valuing the non-participating value of in-force business. The persistency assumptions of most significance are the paid-up rates (PUPs) for the Group Pensions business area. PUP assumptions are estimated using past experience (the experience investigations) and assumptions about future changes to policyholder behaviour. These changes are difficult to predict, and therefore expert judgement is applied when setting an appropriate basis. Management uses a Generalised Linear Model (GLM) to set persistency assumptions. A GLM is a sophisticated method of setting assumptions that allows for the interaction between a number of factors that influence policyholder behaviour. It therefore allows management to more accurately predict future paid-up rates. PUP rates can be impacted by a range of factors, including changes to regulation for products sold, such as the April 2015 pension freedoms and, more recently, mandatory increases in employee contributions in auto-enrolment pension schemes (staging) and the Covid-19 pandemic. Management has included allowances for Covid-19 at year-end 2020 to reflect an expected increase in PUP rates during 2021 as a result of the economic effects of the Covid-19 pandemic. This is a key audit matter for both the Group and Company.	We tested management's controls over: • the accuracy of the data used in the experience investigation to ensure it is consistent with the data used in previous valuations; • the calculation of historical persistency rates; • the process for inputting the policyholder data used in the GLM; • the process for the operation of the GLM and validation of outputs; • the outputs, including evidence of the investigation of unexpected results and challenge of the rationale for changing /not changing assumptions; • model approval, including review by the Group Actuarial Technical Review Committee of key changes; and • input of assumptions into the valuation models. We focused our testing on the key areas of judgement. We used our industry knowledge and actuarial experience to: • assess the appropriateness of the risk factors used in the GLM model, the goodness of fit of the model in explaining past persistency experience and the process to derive the assumptions; • examine past events in the data and whether these are representative of the likely future experience. In particular, management observed a material spike in PUPs around the 2019 staging date for auto-enrolment contribution increases. The effect of this spike was removed on the basis that no further auto-enrolment staging is expected and, therefore, the increase in PUPs over 2019 is not representative of a long-term future level; • challenge the appropriateness of amendments to the GLM, which involve changing the relationship between model factors to better fit the latest experience data. Management produced statistical analysis that supported this change; and • consider the impact of Covid-19 and the impact it may have on policyholder behaviour, the economic outlook for 2021, which is assumed will lead to an increase in PUP rates driven by higher unemployment. Finally, to check for contrary evidence, we used our in-house industry benchmarking data to compare the methodology used by management to derive the persistency assumptions with those adopted by other insurers. Based on the work performed and the evidence obtained, we concluded that the assumptions used were appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions – expense assumptions (Group and Company) Refer to page 85 (Audit Committee Report) and note 27 to the financial statements regarding this area. A sensitivity analysis is included in note 36. The Technical Provisions in the financial statements include a liability for the estimated future expenses that will be incurred to maintain the existing policies over their expected duration. This expense liability is included within the long-term business provision of £42,181m (2019: £40,016m). The expense assumptions are calculated using an activity-based costing (ABC) model. All costs are categorised as either one-off, acquisition or maintenance. Acquisition and maintenance costs are then allocated across the different products, with only the maintenance cost element then considered in the expense reserve calculation as these represent the costs expected to be incurred in fulfilling its existing long-term insurance contracts. The model creates a maintenance unit cost for each policy which, along with expense inflation assumptions, the number of policies and their expected duration, is used to calculate the liability for these expenses. The significant assumptions in this model relate to: • how costs are categorised between one-off, acquisition or maintenance costs – the categorisation can be judgemental, such as the removal of certain costs where they are considered to be one-off in nature and what methodology has been applied to split costs between the categories; and • the cost allocation between products – where the costs are not directly attributable to a single product, judgements are made in deciding an appropriate method to allocate out costs. Products have different expected durations and therefore this allocation of costs impacts the total expense liability. This is a key audit matter for both the Group and Company.	We obtained evidence over key inputs and assumptions as follows: • We tested the completeness of the expenses used in the calculation of the expense liabilities, through reconciling the total expenses recorded within the accounting records of the Group to the total expenses included in the ABC model. • We tested the total number of policies used in setting expense assumptions, which are required for calculating the unit cost for each policy, by corroborating these to data extracts from the policy systems. The data within the policy systems has also been tested. • For a sample, we reviewed project costs and assessed management's methodology and judgements that were applied over the inclusion or exclusion of these costs from the maintenance expenses. • We assessed the judgements made in the allocation of costs between acquisition and maintenance and the allocation of costs to different products. This was performed by agreeing a sample of costs to supporting evidence, and tracing the allocation of each cost within the sample through the model, to verify that the final allocation was appropriate. • We recalculated the per-policy expense across all policies and products. • We compared the resulting expense assumptions to the expenses incurred over the prior 12 months in order to satisfy ourselves that the assumptions were sufficient in aggregate based on this trend analysis. Based on the work performed and the evidence obtained, we concluded that the assumptions used were appropriate.

Report on the audit of the financial statements continued

Key audit matter	How our audit addressed the key audit matter
Valuation of complex investments (Group and Company) Refer to page 85 (Audit Committee Report) and note 18 to the financial statements regarding this area. A sensitivity analysis is included in note 36. The Group holds investments across a number of asset classes including property, private equity funds and hedge funds. The assets held at fair value that were categorised as level 3 totalled £9,089m (2019: £8,901m). These investments are complex and their value is based on limited or no observable market data. All investments including property, private equity funds, and other unquoted investments are overseen by the Valuation Oversight Committee. As such we have focused on these investments due to the significant judgement and estimation required in determining their fair value. They are also susceptible to macroeconomic factors and the turbulence of the current economic climate increases the estimation uncertainty in valuing these assets. Investment property is predominantly held directly and indirectly through real estate funds managed by the Group. The valuation of investment property is determined by third-party valuers engaged by the Group in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards. The valuers used have considerable experience of the types of properties held by the Group. The valuations take into account the property-specific information referred to above (including the current tenants, rental income, and the condition and location of the properties), as well as prevailing market yields and market transactions. The valuation of investments in private equity and hedge funds is determined by the underlying fund manager on a quarterly basis and assessed by management. At the year-end, management base their valuations on the most recent quarterly investor statements for the funds and update for cash flows since the last valuation up to the year-end. Since the outbreak of Covid-19, a greater understanding of its impact on complex investment valuations has been gained alongside a reduction in volatility in the relevant indices. The year-end valuations reflect the impact of Covid-19. This is a key audit matter for both the Group and Company.	**Direct and indirect investment property** We performed the following testing, which includes procedures performed by our PwC Real Estate Valuation experts, over investment property: • We obtained valuation reports from management's valuation experts as at 31 December 2020 and assessed their objectivity and competency. • We tested the inputs into the valuation, such as rental amount and term, for a sample of tenancy agreements. • We performed a review of the assumptions and methodology used by the property valuation experts to confirm that the valuation approach was in accordance with RICS standards. • We performed a property-by-property analysis comparing the investment yields and movement in capital value over 12 months to estimated ranges based on published market benchmarks. • We considered recent transactions (both acquisitions and disposals) to compare the purchase/sale price to the market value to assess the appropriateness of the valuation. • We discussed with management's experts to obtain explanations for any unexpected or unusual differences arising. • We considered the impact of Covid-19 and published benchmarks when forming our estimated ranges. This included consideration of the sector and location of the property. **Private equity** We performed detailed testing for private equity and hedge funds as follows: • We confirmed the latest available fund valuation to statements prepared by the underlying fund managers or administrators. • We tested transactions since the date of the latest available fund valuation where the valuation used by management was not coterminous with the balance sheet date. • We performed look-back procedures, which compare the unaudited net asset statements used in the prior year valuation with the respective year-end audited financial statements or valuation statements. • We considered the fund managers' bases of valuation for these funds and assessed the appropriateness of the valuation methods used. • We considered the impact of Covid-19 on the valuation of complex investments, considering whether any further adjustments to valuations were required based on the audit evidence obtained. Based on the work performed and the evidence obtained, we found that the valuations were reasonable.

Key audit matter	How our audit addressed the key audit matter
Police Mutual Assurance Society Limited acquisition accounting (Group and Company) Refer to page 153 note 13 Intangible assets and page 163 note 16 corporate transactions to the financial statements regarding this area. In the current year, the business of Police Mutual Assurance Society Limited (PMAS) and subsidiaries transferred into the Royal London Main Fund through a transfer under the Friendly Societies Act 1992. The goodwill arising from the transfer was £29m and the total assets acquired was £804m. This is a non-routine transaction with a material business being transferred into the Group. The complexities are in ensuring that the business combination is appropriately accounted for, including the judgements made on the determination of any goodwill arising on acquisition. When determining the goodwill, management has made assumptions regarding the value of PMAS's identifiable assets and liabilities, to ensure they are adjusted to a fair value basis. This is a key audit matter for the Group and Company.	We performed the following procedures over the acquisition of PMAS: • We tested acquisition-related costs included in the cost of the business combination and verified that these were directly attributable to the acquisition and had been recorded at the appropriate amount. • We tested the fair value adjustments made to the PMAS identifiable assets, liabilities and contingent liabilities as at the acquisition date. This involved assessing the methodology and assumptions applied by management in calculating the fair values. A key focus area was over the adjustments made due to the harmonisation of the actuarial bases. • We confirmed the appropriateness of the goodwill balance recognised, at both Group and Company. • We reviewed the acquisition accounting disclosures presented in the 2020 Annual Report and Accounts and ensured that the acquisition accounting and disclosure of the acquisition were in compliance with section 19 of FRS 102. Based on the work performed and the evidence obtained, we consider the acquisition accounting for the PMAS transaction to be in compliance with the applicable accounting framework.
Impact of Covid-19 (Group and Company) Refer to pages 58 to 67 in the Strategic report – Principal risks and uncertainties, Longer-term viability and Going concern and page 141 for Critical judgements and estimates. The spread of Covid-19 has continued since the first case was reported in the UK on 31 January 2020. This has caused significant disruption in the business environment and economy. Covid-19 has introduced uncertainty into the financial markets, affecting the pensions and insurance businesses and disrupting the Group's operations. The future impact is difficult to predict, especially with the emergence of new, more infectious mutations of the virus and significant uncertainty over the extent and impact of Government measures and the economic outlook. The Board has closely monitored Covid-19-related factors, including mortality and persistency trends, employee and supplier-related issues. For the Group and Company, the key areas of focus for Covid-19 include: • Impact on estimation uncertainty in the financial statements – In response to the increased level of estimation uncertainty in the financial statements, management has allowed for Covid-19 in key estimates including the technical provision and level 3 financial investments. • Qualitative Disclosures in the Annual Report – The directors have considered the qualitative disclosures included in the Annual Report in respect of Covid-19 and the impact that the pandemic has had, and continues to have, on the Group and Company. • Going concern – The directors have concluded that the Group and Company will continue for the foreseeable future to be a going concern. This is a key audit matter for the Group and Company.	We evaluated the Group's updated risk assessment and analysis and considered whether it addresses the relevant threats posed by Covid-19. We also evaluated management's assessment and corroborated evidence of the limited operational impacts, considering their consistency with other available information and our understanding of the business. Our conclusions relating to going concern and other information are set out in the Going concern and Reporting on other information sections of our report, respectively, below. Our procedures on the 'valuation of non-participating value of in-force business persistency assumptions' and 'valuation complex investments' are considered in the key audit matters above. In assessing management's consideration of the impact of Covid-19 on the financial statements, we have undertaken the following audit procedures: • We considered the impact of Covid-19 on the Group's internal control environment through inquiries and controls testing. • We considered information obtained during the audit and publicly available market information to identify any evidence that would contradict management's assessment of the impact of Covid-19. • In addition to the areas highlighted above on 'Valuation of non-participating value of in-force business' and 'Valuation of complex investments', we audited the impact of Covid-19 on assumptions and estimates including mortality and persistency. • We evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of Covid-19 and, where relevant, considered the material consistency of this other information to the audited financial statements and the information obtained in the audit. Based on the procedures performed and evidence obtained, we consider: • for the balances impacted by estimation uncertainty due to Covid-19 or otherwise, the values presented in the financial statements are reasonable; • the disclosures in the financial statements are appropriate.

Report on the audit of the financial statements continued

Key audit matter	How our audit addressed the key audit matter
Transition to UK GAAP (Group and Company) Refer to page 216 Note 39 for the financial statements regarding this area. On 1 January 2019, Royal London transitioned to UK GAAP reporting basis. The financial statements have been prepared in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and FRS 103, 'Insurance contracts'. Previously, the Group financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). Management exercised judgement in selecting accounting policies on key financial statement line items as described in note 39 and in assessing the impact of these new accounting policies on the Group and Company financial statements. The format of the financial statements has significantly changed with a large number of balances now presented differently to the prior year financial statements following the restatements and reclassifications required under UK GAAP. This is the first year-end that discloses the change in presentation and, therefore, it represents a significant area of audit focus to ensure the appropriate disclosures have been made. This is a key audit matter for both the Group and Company.	Our audit approach to the transition to UK GAAP was as follows: • We reviewed management's methodology papers and understood the changes proposed on transition to UK GAAP. • We reviewed the accounting policies adopted on transition for consistency with UK GAAP requirements and that any judgements made were appropriate. • We challenged management on the original treatment of goodwill on past acquisitions and agreed that their updated methodology to retrospectively apply Section 19 to historic transactions was appropriate. • We performed audit procedures to test the restatements and reclassifications on the Consolidated statement of comprehensive income, Group and Company balance sheets and the notes to the financial statements for the year ended 31 December 2019 under the new accounting policies. • We reviewed management's reconciliation of the Group and Company's Unallocated Divisible Surplus under IFRS to the Fund for Future Appropriations under UK GAAP. • We assessed the adequacy of the disclosures in the financial statements. Based on the work performed and the evidence obtained, we consider the accounting, presentation and disclosure on transition to UK GAAP to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

A component was deemed to be financially significant and in-scope if it contained more than 10% of the total Group technical provision liabilities. A component was also deemed to be financially significant and in-scope if it contained balances related to one of the areas of audit focus. For the one financially significant component identified, being the Company, a full scope audit was performed.

Additional balances from components were selected to ensure sufficient coverage across all material financial statement line items. For the balances identified from these components, specific procedures were performed. Our audit scope allowed us to test 100% of the transfer to Fund for Future Appropriations (FFA) and 99% of the total asset balance.

Overall, we concluded that this gave us the evidence we needed for our audit opinion on the financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£90 million (2019: £90 million).	£85 million (2019: £85 million).
How we determined it	2.5% of Fund for Future Appropriations (FFA)	2.1% of Fund for Future Appropriations (FFA)
Rationale for benchmark applied	The engagement team concluded that £90 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £90 million was determined by considering the various benchmarks available to us as auditors, our experience of auditing the Group and the influence of the Covid-19 pandemic during 2020. FFA is the most applicable measure because we regard FFA as the primary measure used by members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.	The engagement team concluded that £85 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £85 million was determined by considering the various benchmarks available to us as auditors, our experience of auditing the Company and the influence of the Covid-19 pandemic during 2020. FFA is the most applicable measure because we regard FFA as the primary measure used by members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.4m and £85m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £67.5 million for the Group financial statements and £63.75 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Group Audit Committee that we would report to them misstatements identified during our audit above £4.5 million (Group audit) (2019: £4.25 million) and £4.25 million (Company audit) (2019: £4.25 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the assessment of principal risks and uncertainty facing the Group and the scenarios included in the viability statement and compared it with our understanding of the risks and resources of the Group;
- assessing the results of the Group's stress and scenarios testing and their impact on the Group, including challenging the rationale for the downside scenarios adopted and material assumptions, making use of our knowledge of the business and considering the impact of Covid-19 on future-looking assumptions;
- reviewing the current and forecast Group solvency investor and regulatory ratios (including the impact of Covid-19) and the own risk and solvency assessment (ORSA), which include a number of severe but plausible scenarios;
- reviewing regulatory correspondence;
- consideration of the impact of Covid-19 on the directors' assessment to continue to adopt the going concern basis of accounting as set out in the key audit matters of this report;
- confirmation of the existence of cash and cash equivalents and other financial investments to assess the availability of liquid assets;
- assessment of the fair value of financial investments to determine the appropriateness of their valuation including consideration for the increased estimation uncertainty as a result of Covid-19; and
- independent challenge and assessment using our actuarial specialists over the methodology and assumptions used in the valuation of the technical provisions, including the potential impact of Covid-19 on these future looking assumptions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Report on the audit of the financial statements continued

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium-listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- the directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Annual Report and Accounts that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- the directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy.
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems.
- The section of the Annual Report describing the work of the Audit Committee.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 December 2000 to audit the financial statements for the year ended 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 31 December 2000 to 31 December 2020.

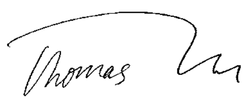
Other voluntary reporting

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the Company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

The Company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the Company were a quoted company. In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.



Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2021

Consolidated statement of comprehensive income

For the year ended 31 December 2020

Technical account – long-term business	Notes	Group 2020 £m	Group 2019 £m
Gross premiums written	3 (a)	1,018	1,009
Outwards reinsurance premiums		(541)	(333)
Earned premiums, net of reinsurance		477	676
Investment income	4	5,447	5,184
Unrealised gains on investments	4	–	6,012
Other income	5	548	505
Total income		6,472	12,377
Claims paid			
Gross claims paid	6	(2,657)	(2,984)
Reinsurers' share	6	505	524
Change in provision for claims			
Gross amount	6	77	(2)
Reinsurers' share	6	(6)	(13)
Claims incurred, net of reinsurance		(2,081)	(2,475)
Change in long-term business provision, net of reinsurance			
Gross amount	27 (a)	(1,522)	(2,291)
Reinsurers' share	27 (a)	243	(57)
		(1,279)	(2,348)
Change in technical provision for linked liabilities, net of reinsurance		(1,426)	(6,434)
Change in technical provisions, net of reinsurance	28	(2,705)	(8,782)
Change in non-participating value of in-force business		140	388
Net operating expenses	7	(619)	(756)
Investment expenses and charges	10	(222)	(179)
Unrealised losses on investments	4	(597)	–
Other charges	11	(257)	(159)
Total operating expenses		(1,695)	(1,094)
Profit before tax and before transfer to the fund for future appropriations		131	414
Tax attributable to long-term business	12	(51)	(171)
Transfer to the fund for future appropriations	26	80	243
Balance on technical account – long-term business		–	–
Other comprehensive income, net of tax:			
Remeasurement of defined benefit pension schemes	24 (b)	(71)	(36)
Foreign exchange rate movements on translation of group entities		(36)	(4)
Deduction from the fund for future appropriations	26	(107)	(40)
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		–	–

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the fund for future appropriations. Accordingly, the total comprehensive income for the year is always £nil after the transfer to or deduction from the fund for future appropriations.

Balance sheets

As at 31 December 2020

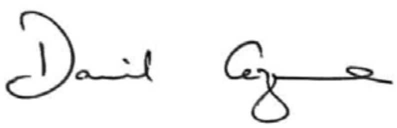
	Notes	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
ASSETS					
Intangible assets					
Goodwill	13	28	–	28	–
Negative goodwill	13	(52)	(64)	(9)	(14)
		(24)	(64)	19	(14)
Other intangible assets	13	70	70	69	69
		46	6	88	55
Non participating value of in-force business	28	2,229	2,089	2,229	2,089
Investments					
Land and buildings	14	168	169	168	169
Investments in group undertakings	15	–	–	16,322	13,201
Other financial investments	17 (a)	47,502	43,620	31,735	31,060
		47,670	43,789	48,225	44,430
Assets held to cover linked liabilities	17 (c)	60,229	55,605	60,229	55,605
Reinsurers' share of technical provisions					
Long-term business provision	27 (a)	5,181	4,925	5,138	4,889
Claims outstanding		93	99	87	95
Technical provisions for linked liabilities	27 (b)	(50)	(17)	(50)	(17)
		5,224	5,007	5,175	4,967
Debtors					
Debtors arising out of direct insurance operations	20	192	108	48	33
Debtors arising out of reinsurance operations	20	41	35	33	30
Other debtors	21	493	266	433	230
		726	409	514	293
Other assets					
Tangible assets	22	25	18	–	–
Cash at bank and in hand		851	706	633	337
		876	724	633	337
Prepayments and accrued income					
Deferred acquisition costs on investment contracts	23	163	194	163	194
Other prepayments and accrued income		35	36	–	–
		198	230	163	194
Pension scheme asset	24 (b)	128	169	128	169
Total assets		117,326	108,028	117,384	108,139

Balance sheets continued

	Notes	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
LIABILITIES					
Subordinated liabilities	25	1,332	1,331	1,332	1,331
Fund for future appropriations	26	3,673	3,700	3,993	4,005
Technical provisions					
Long-term business provision	27 (a)	42,181	40,016	42,245	40,077
Claims outstanding		259	326	234	307
		42,440	40,342	42,479	40,384
Technical provisions for linked liabilities	27 (b)	60,059	55,392	60,059	55,392
Provisions for other risks					
Deferred taxation	30	140	179	144	192
Other provisions	31	282	286	273	270
		422	465	417	462
Creditors					
Creditors arising out of direct insurance operations	32 (a)	237	228	216	217
Creditors arising out of reinsurance operations	32 (b)	2,871	2,729	2,869	2,731
Amounts owed to credit institutions	32 (c)	72	67	72	56
Other creditors including taxation and social security	32 (d)	6,055	3,617	5,828	3,470
		9,235	6,641	8,985	6,474
Pension scheme liability	24(b)	44	–	44	–
Accruals and deferred income	33	121	157	75	91
Total liabilities		117,326	108,028	117,384	108,139

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a Company statement of comprehensive income. The Company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or deduction from the fund for future appropriations.

The financial statements on pages 136 to 220 were approved by the Board of Directors and signed on its behalf on 4 March 2021



Daniel Cazeaux
Group Chief Financial Officer

Registered number: 99064 (England & Wales)
The Royal London Mutual Insurance Society Limited
55 Gracechurch Street, London, EC3V 0RL

For the year ended 31 December 2020

1. Accounting policies

This section describes the Group's significant accounting policies that relate to the financial statements and notes as a whole. If an accounting policy relates to a specific item, the applicable accounting policy is contained within the relevant note. These policies have been consistently applied to all years presented unless otherwise stated.

(a) Basis of preparation

The Royal London Mutual Insurance Society Limited (the 'Company' or 'RLMIS') is a private company limited by guarantee, incorporated and registered in England and Wales with its registered office being 55 Gracechurch Street, London, EC3V 0RL.

The financial statements of the Group and the Company ('the financial statements') have been prepared in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and FRS 103, 'Insurance contracts'. The financial statements are also prepared in compliance with the Companies Act 2006 and under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations') relating to insurance groups, except that a true and fair override has been applied to:

- measure subsidiaries at fair value through profit or loss ('FVTPL') when they are excluded from the consolidation because they are held as part of an investment portfolio – see note 1 (b); and
- measure investments in associates that are part of an investment portfolio at FVTPL in the consolidated financial statements instead of using equity accounting – see note 1 (b).

The Group and the Company financial statements have been prepared under FRS 102 and FRS 103 for the first time. The previous financial statements for the year ended 31 December 2019 were prepared under International Financial Reporting Standards (IFRS) and the date of transition to FRS 102 was therefore 1 January 2019. As a consequence of adopting FRS 102 and FRS 103, a number of accounting policies have changed to comply with those standards resulting in adjustments to balances on transition. Further information on these transition adjustments is detailed in note 39.

The Group and the Company are exempt from the requirements of Section 7 of FRS 102 to prepare a cash flow statement, as mutual life assurance companies are excluded from compliance with that section.

The financial statements have been prepared under the historical cost convention, as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by FRS 102.

The functional currency of the Group and the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group and the Company operates. Foreign operations are included in accordance with the policies set out in note 1 (d). Unless otherwise stated, all figures in the financial statements are presented rounded to the nearest million pounds.

The Group's business activities, financial position, capital structure, risk management approach and principal risks and uncertainties are described in the Strategic report.

The Group has considerable financial resources together with a diversified business model. The directors consider that the Group is well placed to manage its business risks successfully. The Board is closely monitoring short and medium-term Covid-19-related factors, including employee and supplier-related issues. The Board carefully considered the impact of Covid-19 on the Group's business plan, as well as the management of issues resulting from the pandemic. The impact of Covid-19 has been considered and taken into account across the financial statements. Those areas which have been impacted include the assumptions made in relation to the Non participating value of in-force business, insurance contracts and within the impairment assessment of other intangible assets.

The Group's response to the impacts from Covid-19 on operations, customers, colleagues and communities is detailed further on pages 14 and 15 in the Strategic Report.

The Group has an estimated Group Regulatory View solvency surplus of £2.3bn and capital cover ratio of 147% at 31 December 2020, which is after the regulatory requirement to restrict the closed fund surpluses of £2.5bn. The Group's business plan, which includes the expected impacts from Covid-19, forecasts that the Group Regulatory View solvency surplus and capital cover ratio will remain robust and within target range for at least the 12 months following approval of the financial statements.

The business plan is subject to stress and scenario testing. The most adverse scenario contains severe but plausible assumptions including adverse economic impacts including damage to the banking system and protracted slumps in consumer spending and business investment, high unemployment and taking until 2025/26 for UK GDP levels to return to pre-crisis levels. This severe but plausible scenario demonstrates that the capital position remains sufficient to cover capital requirements for at least the next 12 months and beyond.

Sufficient liquidity is available to settle liabilities as they fall due. Ongoing monitoring is in place over the liquidity coverage ratios and matching of asset and liability maturity profiles, and cash flow forecasts are also stressed under severe but plausible scenarios to ensure adequate levels of liquid assets are available to fund claims and other expenses.

Having considered these matters and after making appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue to operate as a going concern for a period of at least 12 months from date of approval of the financial statements. For this reason, they consider it appropriate to continue to adopt the going concern basis in preparing the financial statements. The directors have also concluded that there are no material uncertainties to the Group's ability to adopt the going concern basis of accounting.

1. Accounting policies (continued)

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Company and its subsidiaries, except for investment funds classified as subsidiaries which are held as part of an investment portfolio. As required by Section 9 of FRS 102, subsidiaries that are held as part of an investment portfolio are excluded from the consolidation and are included within the consolidated financial statements as investments within 'Other financial investments', measured at FVTPL. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 30 of Schedule 3 to the Regulations, which has been applied so that the financial statements give a true and fair view.

Investments in associates that are part of an investment portfolio are also included in the consolidated financial statements as investments within 'Other financial investments', measured at FVTPL in accordance with Section 14 of FRS 102. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 21 of Schedule 6 to the Regulations, which has been applied so that the financial statements give a true and fair view.

The Group applies the purchase method in accounting for business combinations. The cost of business combinations comprises the fair value of the consideration paid and of the liabilities incurred or assumed and any directly attributable expenses. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group. Intra-group transactions, balances and unrealised gains and losses on intra-group transactions are eliminated.

The accounting policies for goodwill are detailed in note 13 and for investments in Group undertakings including subsidiaries, associates and other significant investments, in note 15.

(c) Classification of contracts

The Group classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant proportion of the total contractual payments; and
- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
  - the performance of a specified pool of contracts, or a specified type of contract, or
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as 'with-profits' or as 'participating' contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with-profits (participating) investment mediums at the same time. Certain hybrid contracts that are classified as investment contracts are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue. Hybrid contracts that contain significant insurance risk are classified as insurance contracts.

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

(d) Foreign currency translation

Revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at the rates of exchange ruling at the time of the respective transactions. Assets and liabilities denominated in foreign currencies are expressed in sterling at the exchange rate ruling on the balance sheet date. Exchange differences from the settlement of transactions and from the translation of assets and liabilities at period-end exchange rates are dealt with in the statement of comprehensive income under the same heading as the underlying transactions are reported.

The results of foreign operations are translated at average rates of exchange for the year. The assets and liabilities of foreign operations are translated at the closing rate at the balance sheet date. All resulting exchange differences are recognised in other comprehensive income.

(e) Impairment of financial assets

Financial assets held at amortised cost are assessed for impairment using expected credit losses. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Group at the point of default.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses; referred to as stage 1). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses; referred to as stage 2). Financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The loss allowance for lease receivables and trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

1. Accounting policies (continued)

(f) Judgements and key sources of uncertainty

The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. In selecting accounting policies where FRS 102 and FRS 103 permit a choice of policy, the directors have applied judgement in determining the most appropriate policy as follows:

- the measurement basis for financial assets under IFRS 9 depends on an assessment of the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. Further detail is given in note 17. For financial liabilities, other than derivative liabilities, the measurement basis is amortised cost unless the liability is designated at FVTPL. Further detail is given in note 32;

- the Group has holdings in investment funds which are classified as subsidiaries, but which are not consolidated in the Group financial statements. Section 9 of FRS 102 requires that subsidiaries 'held with a view to subsequent resale' are not consolidated and are instead included as investments held at FVTPL. The definition of 'held with a view to subsequent resale' includes assets held as part of an investment portfolio. The funds are held within the unit-linked funds of the Group or are held to back non-linked liabilities and therefore are considered to form part of the Group's investment portfolio. As a result these funds are not consolidated and are held as investments at FVTPL in the Group's balance sheet;

- FRS 102 allows a choice between a cost or fair value measurement model for owner-occupied land and buildings, investment property rented to another Group entity and certain investments in Group entities. The Group and the Company have applied a fair value model to these assets. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;

- the financial liabilities for unit-linked non-participating investment contracts have been designated at FVTPL because the unit-linked liabilities are part of a group of financial assets and financial liabilities that are managed and whose performance is evaluated on a fair value basis;

- the Group categorises assets and liabilities measured at fair value using a three-level hierarchy. Assets and liabilities categorised as Level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of assets and liabilities categorised as Level 2 and, in particular, Level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the item and the availability of market observable information. Further details of the valuation techniques applied are described in note 18;

- the classification of contracts as insurance or investment on initial recognition, which requires an assessment of whether significant insurance risk has been transferred to the Group; and

- the determination of whether the Group has control over an entity, which requires the consideration of a number of factors, as set out in note 15.

The preparation of financial statements also requires the use of estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant to the following:

- the valuation of the Group's assets and liabilities held at FVTPL. The fair value measurement note (note 18) explains the assumptions used in the valuation, particularly in respect of level 3 assets and liabilities. The impact on the Group's result of changes in these assumptions to reasonably possible alternative assumptions is also illustrated;

- other intangible assets are recognised and tested for impairment using the present value of future cash flows expected to arise from the asset. Significant estimates include forecast cash flows and discount rates. Further information is provided in note 13;

- insurance and investment contracts. The key assumptions used in calculating the year-end insurance and investment contract liabilities are described in note 29 including the impact of Covid-19. This note also presents the effects of changes in these assumptions from the previous year;

- provisions, contingent liabilities and contingent assets – the Group evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimate of the expenditure required to settle the obligation. Further information is shown in notes 31 and 34. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits; and

- pension schemes – note 24 sets out the major assumptions used to calculate the pension scheme asset and the sensitivity of the schemes' liabilities to changes in key assumptions.

In addition to the above, the sensitivity of the Group and the Company's assets (including the non-participating value of in-force business) and insurance contract liabilities to insurance risk and market risk is analysed in note 36.

2. Segmental information

Accounting for segmental reporting
The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board of Directors.

The activities of each operating segment are described below.

Intermediary
Intermediary provides pensions and other retirement products to individuals and to employer pension schemes in the UK, and also protection products to individuals in the UK, distributed via independent financial advisers.

Consumer
Consumer sells direct to customers, selling insurance and protection products to consumers who cannot access, or do not want, financial advice.

Legacy
Royal London Legacy is closed to new business. They advocate for and add value to our existing customers as well as customers we acquire. The key purpose is to be there for long-standing customers throughout their time with us, protecting them and their families and helping to provide for their later life and retirement.

RLAM
RLAM provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities and charities, as well as individuals.

Other items
Other items include:

- The Group's Irish subsidiary, Royal London Insurance Designated Authority Company (RLI DAC), which provides intermediated protection products to individuals in the Republic of Ireland.
- Ascentric, the Group's financial wrap platform offering financial advisers a range of investments and tax wrappers and is comprised of Wrap IFA Services Limited. This business and its subsidiaries was sold on 1 September 2020 (see note 16) and is therefore included in the 2020 segmental analysis for the eight-month period to 1 September 2020 only, and a full year of trading activity in 2019.
- Centrally held items such as Group functions.

2. Segmental information (continued)

(a) Segmental profit

The profit measure used by the Company's Board of Directors to monitor performance is operating profit, which is classed as an Alternative Performance Measure. The Company's Board of Directors considers this measure provides a more meaningful indication of the underlying trading of the Group. The operating profit by operating segment is shown in the following table.

Operating profit before tax is the transfer to Fund for Future Appropriations before Other Comprehensive Income excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers & acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore, operating profit represents the result of the RL Main Fund (including transfers to the RL Main Fund from the closed funds).

Other than the revenue of the RLAM segment, revenues, assets and liabilities by segment are not given as this information is not provided to the Company's Board of Directors and consequently there is no reconciliation of reportable segments' revenues to the Group's revenue.

	Group – 2020					
	Intermediary £m	Consumer £m	Legacy £m	RLAM £m	Other £m	Total £m
Contribution from new business	142	(5)	–	–	12	149
Profits/(losses) from existing business	95	(11)	21	–	12	117
Operating profit from long-term businesses	237	(16)	21	–	24	266
Operating profit on AUM businesses	–	–	14	66	–	80
Operating profit/(loss) on other businesses	–	2	–	–	(8)	(6)
Strategic development costs and other items[1]						(224)
Financing costs						(75)
Group operating profit before tax						41
Economic movements						210
Amortisation of goodwill arising from mergers & acquisitions						12
Profit on sale of subsidiaries						14
ProfitShare						(146)
Profit before tax and transfer to the fund for future appropriations						131

2. Segmental information (continued)

(a) Segmental profit (continued)

	Group – 2019					
	Intermediary £m	Consumer £m	Legacy £m	RLAM £m	Other £m	Total £m
Contribution from new business	199	5	–	–	13	217
Profits from existing business	97	8	79	–	10	194
Operating profit from long-term businesses	**296**	**13**	**79**	**–**	**23**	**411**
Operating profit on AUM businesses	**–**	**–**	**20**	**46**	**–**	**66**
Operating loss on other businesses	–	–	–	–	(24)	(24)
Strategic development costs and other items[1]						(232)
Financing costs						(56)
Group operating profit before tax						**165**
Economic movements						378
Amortisation of goodwill arising from mergers & acquisitions						11
ProfitShare						(140)
Profit before tax and transfer to the fund for future appropriations						**414**

1 Strategic development costs represent investments that the Group considers are important for its future competitiveness and are expected to deliver good returns in the future. Other items represent a combination of:
- corporate costs and other development costs, which are typically investments made to improve future operating profit (for example, by reducing ongoing expense levels or increasing new business volumes);
- amortisation and impairment of other intangibles; and
- other non-recurring items. As an example, this would include the impact of any changes in the way the business is modelled and improvements to valuation techniques.

(b) Geographical analysis

The table below presents income split by the geographic region in which the underlying business was written.

	Group – 2020			Group – 2019		
	UK £m	Ireland and other £m	Total £m	UK £m	Ireland and other £m	Total £m
Revenues						
Earned premiums, net of reinsurance	440	37	477	619	57	676
Investment income	5,447	–	5,447	5,184	–	5,184
Unrealised gains on investments	–	–	–	6,012	–	6,012
Other income	544	4	548	501	4	505
Total income	6,431	41	6,472	12,316	61	12,377

The directors consider the Group and the Company's external customers to be the individual policyholders and investment clients. As such, the Group and the Company are not reliant on any individual customer.

3. Premiums

Accounting for premiums

Gross premiums written and outward reinsurance premiums relate to insurance and non-hybrid participating investment contracts. They are accounted for when due for payment except for recurring single premiums and premiums in respect of unit-linked business, which are accounted for when the related liabilities are established.

For non-participating (unit-linked) investment and certain hybrid participating investment contracts the amounts received as premiums are not included in the statement of comprehensive income but are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet.

(a) Gross premiums written

	Group	
	2020 £m	2019 £m
Direct insurance		
Individual premiums	1,006	994
Premiums under group contracts	12	15
	1,018	1,009
Direct Insurance		
Regular premiums	871	832
Single premiums	147	177
	1,018	1,009
Direct insurance		
Non-profit insurance contracts	724	606
Participating insurance contracts	167	280
Participating investment contracts	19	19
Unit-linked insurance contracts	108	104
	1,018	1,009

(b) Deposits received on investment contracts

The amounts received in relation to non-participating (unit-linked) and certain hybrid participating investment contracts by the Group during the year were £8,063m (2019: £9,725m) in respect of non-participating contracts and £7m (2019: £12m) in respect of hybrid participating contracts.

4. Investment return

Accounting for investment return

Investment return comprises all investment income, including property rental income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Investment income derived from assets held at FVTPL includes dividends and interest income. Dividends are recorded on the date on which the shares are declared ex-dividend. Dividends are recorded gross, with the related withholding tax included within the tax expense as foreign tax. Interest income is recognised on an accruals basis. Rental income from investment property, net of any lease incentives received or paid, is recognised on a straight-line basis over the term of the lease. Realised gains and losses on investments held at FVTPL are calculated as the difference between net sales proceeds and purchase price.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or for assets acquired during the period, their purchase price, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

	Group	
	2020 £m	2019 £m
Investment income		
Income from financial investments held at FVTPL	1,526	1,950
Income from investment property	210	210
Net realised gains on investment property	3	1
Net realised gains on other investments held at FVTPL	3,690	3,013
Interest income from cash at bank at amortised cost	1	6
Net foreign exchange gain	17	4
Total investment income	5,447	5,184
Net unrealised (losses) on investment property	(320)	(136)
Net unrealised (losses)/gains on financial investments at FVTPL	(277)	6,148
Net unrealised (losses)/gains on investments	(597)	6,012
Investment expenses and charges (note 10)	(222)	(179)
Total investment return	4,628	11,017

The net unrealised (losses)/gains on financial investments include a gain of £218m (2019: £21m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 32b).

5. Other income

Accounting for other income

Other income principally comprises fee income from managing investment funds and commission income where the Group acts as an introducer for certain third-party insurers.

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees relating to the provision of future services, are deferred and recognised in the statement of comprehensive income over the anticipated period in which the services will be provided. Such deferred fee income is shown as a liability in the balance sheet.

Commission income and profit commission received on the underwriting results of third-party insurers is recognised in the statement of comprehensive income as the related services are provided.

Amortisation of the negative goodwill is recognised in profit or loss as set out in note 13.

	Group	
	2020 £m	2019 £m
Fee income from investment contracts	279	247
Fund management fee income	187	166
Change in deferred fee income	16	18
Commission income	14	11
Amortisation of negative goodwill	12	11
Ascentric – platform asset administration income	23	34
Other	17	18
	548	505

Ascentric other income was generated through the administration of assets on its wrap platform. This business was sold on 1 September 2020, see note 16.

6. Claims

Accounting for claims

Gross claims paid and the reinsurers' share of claims paid, relate to insurance and non-hybrid participating investment contracts. For non-linked policies, maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the related contract liabilities. Death claims and all other non-linked claims are accounted for when accepted. For linked policies, claims are accounted for on cancellation of the associated units.

Claims payable include related claims handling costs. The reinsurers' share of claims paid is accounted for in the same period as the related claim.

Amounts repaid as claims on non-participating (unit-linked) investment and certain hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as deposits repaid and are deducted from investment contract liabilities.

(a) Claims incurred

	Group					
	2020			2019		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims paid						
Insurance contracts	2,451	(505)	1,946	2,737	(524)	2,213
Participating investment contracts	206	–	206	247	–	247
	2,657	(505)	2,152	2,984	(524)	2,460
Change in provisions for claims						
Insurance contracts	(77)	6	(71)	1	14	15
Participating investment contracts	–	–	–	1	(1)	–
	(77)	6	(71)	2	13	15
Claims incurred						
Insurance contracts	2,374	(499)	1,875	2,738	(510)	2,228
Participating investment contracts	206	–	206	248	(1)	247
	2,580	(499)	2,081	2,986	(511)	2,475

(b) Deposits repaid on investment contracts

The deposits repaid by the Group during the year totalled £4,625m (2019: £4,637m) in respect of non-participating investment contracts and £59m (2019: £46m) in respect of hybrid participating investment contracts.

7. Net operating expenses

Accounting for net operating expenses

Net operating expenses comprise costs relating to the operating activities of the Group. These costs are charged to the statement of comprehensive income as they are incurred.

	Group	
	2020 £m	2019 £m
Staff costs (note 9)	192	195
Movement in deferred acquisition costs on investment contracts	31	34
Acquisition commission	147	125
Renewal commission	30	31
Depreciation and impairment of tangible assets	6	8
Information systems, maintenance and rent	81	61
Property costs	16	15
Regulatory, professional and administration fees	82	98
Movement in provision for future commission	3	3
Amortisation and impairment of other intangibles	–	104
Other expenses	31	82
	619	756

8. Auditors' remuneration, net of VAT

	Group	
	2020 £000	2019 £000
Fees payable to PwC for the audit of the Company and consolidated financial statements	2,815	2,658
Fees payable to PwC for other services:		
Audit of the Company's subsidiaries	1,083	945
Audit related assurance services	1,051	1,089
Other assurance services	384	162
Other non-audit services	106	492
	5,439	5,346

The appointment of auditors to the Group's pension schemes and the fees paid in respect of those audits are agreed by the Trustee of the schemes who acts independently from the management of the Group.

	Group	
	2020 £000	2019 £000
Audit fees in respect of the Royal London Group Pension Scheme	72	52
Audit fees in respect of the Royal Liver Assurance Superannuation Fund	17	16
Audit fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI)	15	14
Audit fees in respect of Royal London Ireland Pension Plan	5	5
	109	87

Additional information on the non-audit services provided by the auditor to the Group is provided in the Corporate Governance report on page 86, including how objectivity and independence is safeguarded. In accordance with The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 the Company has not disclosed the fees payable to the Company's auditors for 'other services' as this information is included in the Group disclosure above.

9. Staff costs

(a) Analysis of staff costs

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Wages and salaries	275	304	259	283
Social security contributions	27	25	26	22
Other pension costs – defined contribution arrangements	24	21	24	21
Other pension costs – defined benefit schemes (note 24)	10	5	10	5
Termination benefits	3	2	3	2
	339	357	322	333

The Company pays its employees via a subsidiary company. Wages and salaries include contractor costs. The total staff costs of the Group of £339m (2019: £357m) are included within the consolidated statement of comprehensive income within the following lines:

	Group	
	2020 £m	2019 £m
Net operating expenses (note 7)	192	195
Investment expenses and charges (note 10)	57	60
Other project staff costs	90	102
	339	357

9. Staff costs (continued)

(a) Analysis of staff costs (continued)

	Group		Company	
	2020 Number	2019 Number	2020 Number	2019 Number
The average number of persons (including executive directors) employed by the Group during the year was:				
Sales and sales support	512	479	460	433
Administration	5,198	4,910	4,621	4,531
	5,710	5,389	5,081	4.964

(b) Directors' emoluments

	Group	
	2020 £m	2019 £m
Total emoluments	2	6
Long-term incentives vesting in the year	-	2

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 102 to 120. The information included therein, together with the table above, encompasses that required by the Companies Act 2006.

(c) Key management compensation payable

Compensation payable to key management, including executive directors, is shown in the table below.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Salaries, short-term incentive plans and other benefits	16	17	11	13
Change in amounts payable under long-term incentive plans	6	8	4	5
	22	25	15	18

The Group's policy for determining key management remuneration, including for executive directors, is for total remuneration to be at the median of the UK financial services market. Bonus plans are designed to encourage and reward increases in the value of the business for the benefit of members, while maintaining awards and conditions within risk appetite, through the use of short and long-term incentive schemes. The total amount receivable by key management, including executive directors, under long-term incentive plans was £6m as at 31 December 2020 (2019: £7m). The amount of long-term incentive plans exercised by key management during the year was £10m (2019: £8m).

10. Investment expenses and charges

Accounting for investment expenses and charges

Investment expenses and charges comprise costs relating to the investing activities of the Group. These costs are charged to the statement of comprehensive income as they are incurred.

	Group	
	2020 £m	2019 £m
Property expenses	34	22
Other transaction costs	14	9
Costs of in-house investment management operations – staff costs	57	60
Costs of in-house investment management operations – other	110	80
Other	7	8
	222	179

11. Other charges

Accounting for other charges

Interest payable on borrowings is calculated using the effective interest method and includes the amortisation of any discount and attributable transaction costs (see note 25).

Other project costs are charged to the statement of comprehensive income as they are incurred.

	Group	
	2020 £m	2019 £m
Interest payable on and amortisation of subordinated liabilities	77	56
Other project costs	180	103
	257	159

12. Tax charge

Accounting for tax

Tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax
Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax
Deferred tax is provided based on timing differences that arise from the inclusion of income and expenses in tax assessments in different periods from those in which they are recognised in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The following temporary differences are not provided for:

- the initial recognition of goodwill not deductible for tax purposes; and
- temporary differences arising on investments in subsidiaries where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(a) Tax attributable to long-term business in the statement of comprehensive income

	Group	
	2020 £m	2019 £m
Tax has been provided as follows:		
UK corporation tax charge		
Current year	68	108
Adjustments in respect of prior periods	(2)	(5)
ROI corporation tax charge for the current year		
Current year	6	8
Adjustments in respect of prior periods	(2)	(2)
	70	109
Foreign tax partially relieved against UK corporation tax	7	9
Deferred tax (note 30)	(26)	53
	51	171

(b) Reconciliation of the effective tax rate

Tax on the Group's result before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the Group as follows.

	Group	
	2020 £m	2019 £m
Profit before tax and before transfer to the fund for future appropriations	131	414
Tax calculated at the applicable tax rate[1]	26	83
Factors affecting tax charge:		
Accounting profit not subject to policyholder tax	(21)	(75)
Items taxed on a different basis for life assurance companies	40	153
Items disallowed in tax computation	(6)	(2)
Group consolidation adjustments	5	3
Foreign tax partially relieved against UK corporation tax	7	9
Tax charge for the year	51	171

1 Corporation tax in the consolidated statement of comprehensive income has been calculated at a rate of 20% (2019: 20%) on the taxable profits in respect of insurance business of the long-term fund, at 12.5% (2019: 12.5%) on the taxable profits of the Irish subsidiaries of the long-term fund, 12.5% (2019: 12.5%) on the taxable profits of the Irish Branch of the Group's UK management company and at 19% (2019: 19%) on the taxable profits of the UK subsidiaries of the long-term fund.

The total tax and transfer to the fund for future appropriations is wholly attributable to policyholders.

13. Intangible assets

Accounting for intangible assets

Goodwill
Goodwill is the excess of the fair value of the consideration for a business combination plus directly attributable costs, over the fair value of the identifiable net assets acquired. It is capitalised at cost and amortised through the statement of comprehensive income on a straight-line basis over its useful economic life (the period over which the benefits of the business combination are expected to be realised). The amortisation charge is recognised within 'Net operating expenses'.

Negative goodwill is the excess of the fair value of identifiable net assets acquired in a business combination over the fair value of the consideration and directly attributable costs. It is capitalised at cost and shown as a negative asset. Subsequently, the value of negative goodwill up to the fair value of non-monetary assets acquired is recognised in 'Other income' in the periods in which those non-monetary assets are realised. Non-monetary assets are those that are not realised as cash but by utilisation of the asset. Any remaining value of negative goodwill in excess of the value of non-monetary assets acquired is recognised in 'Other income' in the periods expected to benefit.

The gain or loss on subsequent disposal of a subsidiary will include any remaining balance of attributable positive or negative goodwill.

Other intangible assets
Other intangible assets include computer software. They are carried at cost less accumulated amortisation and impairment losses and are amortised on a straight-line basis over their useful lives, which range from three to ten years. The useful lives are determined by considering relevant factors such as the remaining term of agreements, the normal lives of related products and the competitive position. Amortisation begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be usable in the manner intended by management.

Impairment of intangible assets
The carrying amounts of intangible assets, including goodwill, are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable. These assets are tested for impairment whenever there is an indicator of impairment. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Impairment losses are recognised in the statement of comprehensive income. With the exception of goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that after the reversal, the asset's carrying amount is no greater than the amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is never reversed.

The following tables show the movements in the intangible assets of the Group and the Company.

	Group – 2020			
	Goodwill £m	Negative goodwill £m	Other intangible assets £m	Total £m
Cost				
At 1 January	–	(206)	492	286
Acquisitions combinations (note 16 (a))	29	–	–	29
Disposals	–	–	(105)	(105)
At 31 December	29	(206)	387	210
Accumulated amortisation, impairment losses				
At 1 January	–	142	(422)	(280)
Amortisation	(1)	12	1	12
Disposals	–	–	104	104
At 31 December	(1)	154	(317)	(164)
Net book value				
At 1 January	–	(64)	70	6
At 31 December	28	(52)	70	46

13. Intangible assets (continued)

	Company – 2020			
	Goodwill £m	Negative goodwill £m	Other intangible assets £m	Total £m
Cost				
At 1 January	–	(87)	307	220
Acquisitions combinations (note 16(a))	29	–	–	29
At 31 December	29	(87)	307	249
Accumulated amortisation, impairment losses				
At 1 January	–	73	(238)	(165)
Amortisation	(1)	5	–	4
Disposals	–	–	–	–
At 31 December	(1)	78	(238)	(161)
Net book value				
At 1 January	–	(14)	69	55
At 31 December	28	(9)	69	88

The balance of negative goodwill at the balance sheet date relates to the acquisitions of Royal Liver Assurance Limited (Royal Liver) in 2011 and Royal London (CIS) Limited (RL (CIS)) in 2013. For these acquisitions the value of negative goodwill is being amortised on a straight-line basis over 15 and 20 years respectively, which are the periods expected to benefit.

Other intangible assets include software assets of £70m (2019: £69m) for the Group and £69m (2019: £69m) for the Company. The software assets are not in use at the year-end date, hence no amortisation has been charged. An impairment review has been performed in the year, resulting in an impairment charge in the Group of £nil (2019: £100m).The impairment in 2019 arose where the carrying value of the intangible asset exceeds its recoverable amount. The impairment loss in 2019 was reported within the 'Net operating expenses' line of the Consolidated statement of comprehensive income. The software is in the process of being developed and the recoverable amount has been estimated using the following key assumptions for the value in use calculation:

- expected profits from future new business over the ten year useful life of the software licence are included. The cash flows are based on the business plan approved by the Board of Directors, which covers a five-year period, and cash flows beyond that period have been assumed to grow at a steady rate of 0.8% per annum The business plan reflects the latest level of new business levels over the plan period;
- project cash flows to bring the software asset into use, as well as system maintenance costs, taking into account expected cost savings;
- existing business cash flows are based on the run off profile of the value of in-force business (VIF); and
- discount rate – the cash flows have been discounted using a risk-adjusted discount rate of 12.3% (2019: 14.9%). This includes an allowance for uncertainty including the potential impact from Covid-19 in the long term.

14. Land and buildings

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Investment property	96	97	168	169
Owner occupied property	72	72	–	–
Total Land and buildings	168	169	168	169

All land and buildings are held on a freehold basis.

(a) Investment property

Accounting for investment property
Investment property is property held for rental, capital growth or both, excluding that occupied by the Group or the Company. All investment property is held on a freehold basis.

Investment property is initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. All investment property is subsequently measured at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

When the Group or the Company has given a lease incentive, the carrying value of the investment property is reduced by the value of the debtor arising from the lease incentive, which is shown separately within 'Other debtors'.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Investment property				
Fair value				
At 1 January	97	105	169	163
Additions	3	–	7	16
Disposals	–	(2)	–	(2)
Net loss from fair value adjustments	(4)	(6)	(8)	(8)
At 31 December	96	97	168	169

The cost of investment property above was £74m (2019: £71m) for the Group and £158m (2019: £151m) for the Company.

Investment property is revalued to fair value annually with an effective date of 31 December. The fair values are determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The principal valuers used were CBRE Limited, and Cushman & Wakefield. Fair value is determined using market and income approaches (note 18 (a)). There has been no change to the valuation technique during the year. The net loss from fair value adjustments shown above represents the net fair value loss on the revaluation of properties held at the balance sheet date and does not include gains or losses realised on properties disposed of during the year.

Investment properties are leased to third parties under operating leases. Under the terms of certain leases, the Group is required to repair and maintain the related properties. At the balance sheet date the future minimum lease payments receivable under non-cancellable leases are shown in the following table. For the purposes of this table, the minimum lease period has been taken as the period to the first possible date that the lease can be terminated by the lessee.

These total future minimum lease payments receivable can be analysed as follows.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Not later than one year	3	3	3	3
Later than one year and not later than five years	8	9	8	9
Later than five years	7	7	7	7
	18	19	18	19

14. Land and buildings (continued)

(b) Owner-occupied land and buildings

Accounting for owner-occupied land and buildings
Owner-occupied land and buildings are initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. Costs incurred after initial recognition are included in an asset's carrying value only to the extent that it is probable that there will be future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

All owner-occupied land and buildings are subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, based on market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in profit or loss, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income.

Owner-occupied land and buildings are not depreciated.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

	Group	
	2020 £m	2019 £m
Owner-occupied land and buildings		
Fair value		
At 1 January	72	58
Additions	4	16
Net loss from fair value adjustments	(4)	(2)
At 31 December	72	72

Owner-occupied land and buildings are held on a fair value basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows.

	Group	
	2020 £m	2019 £m
Cost	77	74
Accumulated depreciation and impairment losses	(15)	(15)
Net book value	62	59

15. Investment in Group undertakings

Accounting for investment in Group undertakings

Subsidiaries
The Company has elected to present investments in subsidiaries in the Company balance sheet measured at FVTPL, as permitted by FRS 102 Section 9.

Subsidiaries are those entities (including OEICs and other investment funds) over which the Group has control. The Group controls an entity when it has power to govern its financial and operating policies. The Group considers all relevant facts and circumstances when determining whether control exists and makes a re-assessment whenever those facts and circumstances change. Profits or losses of subsidiaries sold or acquired during the period are included in the consolidated results up to the date that control ceases or from the date of gaining control.

The Group invests in investment funds, which themselves invest mainly in equities, bonds, property and cash and cash equivalents. Some of these funds are managed by Group companies. For these funds, where the Group's holding is greater than 50% it is presumed that it has the power to govern the fund's financial and operating policies; in such cases the fund is classified as a subsidiary. Where the Group's holding of internal investment funds is less than 50% it is classified as an associate, unless the Group's interest is less than 20% in which case the Group is not considered to have significant influence over the fund and the fund is accounted for within 'Other financial investments' at fair value.

The Group also invests in certain private equity funds and property unit trusts, which are managed by external third-party administrators. The structure of each fund, the terms of the relevant agreements and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the unit trust/ fund should be classified as a subsidiary.

In accordance with Section 9 of FRS 102, subsidiaries that are held as part of an investment portfolio are excluded from the consolidation and are held on the Group balance sheet as 'Other financial investments' measured at FVTPL. The inclusion of these entities at FVTPL is a departure from the requirements of paragraph 30 to Schedule 3 of the Regulations as set out in note 1(b).

Special purpose entities (SPE)
An SPE is an entity established to achieve a specific, narrow objective. An SPE is consolidated into the Group financial statements when the Group is deemed to control the SPE. Circumstances that may indicate that the Group controls an SPE include:

- the activities of the SPE are being conducted on behalf of the Group according to its specific business needs;
- the Group has the ultimate decision-making powers over the SPE even if the day-to-day decisions have been delegated;
- the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; and
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets.

Associates
Associates are entities over which the Group has significant influence but not control or joint control, generally accompanying an ownership interest of between 20% and 50%. The Group's investments in associates are all investment funds held as part of an investment portfolio and are measured at FVTPL, in accordance with Section 14 of FRS 102. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 21 of Schedule 6 to the Regulations, as set out in note 1(b).

Joint ventures
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities. The Group's interests in joint ventures are all jointly controlled entities that are held as part of an investment portfolio, hence under FRS 102, Section 15, they are measured at FVTPL.

The fair value of investments in Group undertakings which are unit trusts, OEICs and other pooled funds is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined by the Company's Board of Directors using the same valuation techniques as are used for unquoted investments, as described in note 18.

15. Investment in Group undertakings (continued)

The Company's investment in Group undertakings comprises:

	Company	
	2020 £m	2019 £m
Shares in subsidiaries	751	758
Loans to subsidiaries	20	35
OEICs and other investment funds – subsidiaries	14,442	10,541
OEICs and other investment funds – associates	1,109	1,867
	16,322	13,201

The OEICs and other investment funds represent the Company's investment in funds which are managed by subsidiaries of the Group. The funds classified as subsidiaries are those over which the Group has control. The funds classified as associates are those over which the Group has significant influence, but not control.

The investments in Group undertakings includes £nil in respect of listed investments (2019: £nil).

(a) Subsidiaries

The Company has the following subsidiaries, including OEICs and other investment funds classified as subsidiaries and held within unit-linked funds. All subsidiaries have a registered office of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted by a letter which corresponds to the addresses listed in the table on page 161. All operational, nominee, trustee and non-trading subsidiary undertakings are consolidated in the Group financial statements and have a financial reporting date of 31 December.

Subsidiaries consolidated within the Group financial statements	% holding			Registered
Name	2020	2019	Nature of business	Office
Operational subsidiaries:				
Royal London Asset Management Limited	100.0	100.0	Investment management	–
Royal London Asset Management Bond Funds plc	99.0	99.0	Investment management	A
Royal London Insurance Designated Activity Company	100.0	100.0	Regulated insurance company	C
Royal London Unit Trust Managers Limited	100.0	100.0	Unit trust management	–
RL Marketing (CIS) Limited	100.0	100.0	ISA management	–
Royal London Savings Limited	100.0	100.0	ISA management	–
RL Finance Bonds No.2 plc	100.0	100.0	Finance company	–
RL Finance Bonds No.3 plc	100.0	100.0	Finance company	–
RL Finance Bonds No.4 plc	100.0	100.0	Finance company	–
RLUM Limited	100.0	100.0	Unit trust management	–
Royal London Asset Management Holdings Limited	100.0	N/A	Holding company	–
Royal London Management Services Limited	100.0	100.0	Service company	–
PM Central Services PLC[2]	100.0	N/A	Service company	–
PMGI Limited[2]	100.0	N/A	Intermediary	–
PMHC Limited[1]	100.0	N/A	Discretionary healthcare products	–
PM Advisory Limited[2]	100.0	N/A	Independent financial adviser	–
Mortgage Excellence PLC[2]	100.0	N/A	Mortgage intermediary	–
Abacus Limited[2]	100.0	N/A	Intermediary	–
Hornby Road Investments Limited[1]	100.0	100.0	Property company	–
Cambridge Research Park Limited[4]	–	100.0	Property company	G
Cambridge Research Park Management Company Limited	69.0	69.0	Property company	H
PM Holdings Limited[1]	100.0	N/A	Holding company	–
Police Housing Fund Limited[1,2]	100.0	N/A	Investment company	–
Wrap IFA Services Limited[3]	–	100.0	Holding company	–
Investment Funds Direct Group Limited[3]	–	100.0	Holding company	B
Investment Funds Direct Holdings Limited[3]	–	100.0	Holding company	B
Investment Funds Direct Limited[3]	–	100.0	Regulated Wrap platform management	B
RL Corporate Pension Services Limited	–	100.0	Pensions administration & consultancy services	–
Royal London Cambridge Limited[1]	100.0	100.0	Property company	–
Royal London Marketing Limited	100.0	100.0	Intermediary	–
Royal London (UK) Holdings Limited[1]	100.0	100.0	Holding company	–
RLPPF Abingdon Limited	100.0	100.0	Property company	E

15. Investment in Group undertakings (continued)

(a) Subsidiaries (continued)

Subsidiaries consolidated within the Group financial statements (continued)	% holding			Registered
Name	2020	2019	Nature of business	Office
Nominee Companies:				
Fundsdirect Isa Nominees Limited[3]	–	100.0	Nominee company	B
Fundsdirect Nominees Limited[3]	–	100.0	Nominee company	B
IFDL Personal Pensions Limited[3]	–	100.0	Nominee company	B
RL Marketing ISA Nominees Limited	100.0	100.0	Nominee company	–
RLAM (Nominees) Limited	100.0	100.0	Nominee company	–
RLS Nominees Limited	100.0	100.0	Nominee company	–
Trustee companies:				
R.L. Pensions Trustees Limited	100.0	100.0	Trustee company	–
RL Pension Trustees (ROI) Limited	100.0	100.0	Trustee company	C
RLGPS Trustee Limited	100.0	100.0	Trustee company	–
Royal Liver Pension Trustee Services Limited	100.0	100.0	Trustee company	–
Royal Liver Trustee Services Ireland Limited	100.0	100.0	Trustee company	C
Royal Liver Trustees Limited	100.0	100.0	Trustee company	–
Royal London Trustee Services Limited	100.0	100.0	Trustee company	–
Non-trading companies:				
Brightgrey Limited	100.0	100.0	Non-trading	–
Canterbury Life Assurance Company Limited	100.0	100.0	Non-trading	–
Capitol Way Commercial No 1 Limited	100.0	100.0	Non-trading	–
Capitol Way Commercial No 2 Limited	100.0	100.0	Non-trading	–
Capitol Way Estate Management Limited	100.0	100.0	Non-trading	–
Capitol Way Estate No 1 Limited	100.0	100.0	Non-trading	–
Capitol Way Estate No 2 Limited	100.0	100.0	Non-trading	–
Leyburn Developments Limited	100.0	100.0	Non-trading	–
RL Finance Bonds plc	100.0	100.0	Non-trading	–
RL Finance Bonds No.5 plc[2]	100.0	N/A	Non-trading	–
RL Schedule 2C Holdings Limited	100.0	100.0	Non-trading	–
R.A.Securities Limited	100.0	100.0	Non-trading	–
Refuge Assurance Limited	100.0	100.0	Non-trading	–
Refuge Investments Limited	100.0	100.0	Non-trading	–
Refuge Life Assurance Consultants Limited	100.0	100.0	Non-trading	–
Refuge Portfolio Managers Limited	100.0	100.0	Non-trading	–
RL LA Limited	100.0	100.0	Non-trading	D
RL NPB Services Limited	100.0	100.0	Non-trading	–
RLM Finance Plc[1]	100.0	100.0	Non-trading	–
Royal Liver (IFA Holdings) Plc	100.0	100.0	Non-trading	–
Royal Liver Asset Managers Limited[5]	100.0	100.0	Non-trading	–
Royal London (CIS) Limited	100.0	100.0	Non-trading	–
Royal London Homebuy Limited	100.0	100.0	Non-trading	–
Royal London Pooled Pensions Company Limited	100.0	100.0	Non-trading	D
S.L. (Davenport Green) Limited[1]	100.0	100.0	Non-trading	D
Scottish Life (Coventry) Property Limited	100.0	100.0	Non-trading	D
The Scottish Life Assurance Company	100.0	100.0	Non-trading	D
United Assurance Group Limited	100.0	100.0	Non-trading	–
United Friendly Group Limited	100.0	100.0	Non-trading	–
United Friendly Insurance Limited	100.0	100.0	Non-trading	–
United Friendly Life Assurance Limited	100.0	100.0	Non-trading	–
United Friendly Staff Pension Fund Limited	100.0	100.0	Non-trading	–

1 The following UK subsidiaries will take advantage of the audit exemption by virtue of section 479A of the Companies Act 2006 for the year ended 31 December 2020: Hornby Road Investments Limited, Royal London UK Holdings Limited, RLM Finance Plc and Royal London Cambridge Limited.
2 Abacus Limited, Mortgage Excellence Plc, PM Advisory Limited, PM Central Services Plc, PM Holdings Limited, PMGI Limited, PMHC Limited and Police Housing Fund Limited have been acquired following the PMAS transfer on 1 October 2020. RL Finance Bonds No.5 PLC and Royal London Asset Management Holdings Limited have been incorporated in 2020. They were not included as subsidiaries in 2019.
3 Wrap IFA Services Limited, Investment Funds Direct Group, Investment Funds Direct Holdings Limited, Investment Funds Direct Limited Funds Direct ISA Nominees Limited, Funds Direct Nominees Limited and IFDL Personal Pensions Limited were sold on 1 September 2020.
4 The following company was dissolved during the year: Cambridge Research Park Limited.
5 The following company is currently in liquidation: Royal Liver Asset Managers Limited.

15. Investment in Group undertakings (continued)

(a) Subsidiaries (continued)

Unit trusts, OEICs and other investment funds reported as subsidiaries under FRS 102 but not consolidated within the Group financial statements

	% holding[5]				Aggregate of capital and reserves	Profit for the period	
	2020	2019	Nature of business	Latest financial reporting date	£m	£m	Registered Office
The Royal London UK Mid Cap Growth Fund	91.9	90.0	OEIC	31-Aug-20	393	22	–
The Royal London UK Opportunities Fund	99.8	98.9	OEIC	31-Aug-20	700	76	–
The Royal London Japan Tracker Fund	98.2	94.1	OEIC	31-Aug-20	1,097	25	–
The Royal London FTSE 350 Tracker Fund	98.5	97.3	OEIC	31-Aug-20	5,738	1,047	–
The Royal London US Tracker Fund	98.4	98.2	OEIC	31-Aug-20	6,683	635	–
The Royal London All Share Tracker Fund	54.3	54.7	OEIC	31-Aug-20	506	77	–
The Royal London Index Linked Fund	60.8	65.4	OEIC	31-Oct-20	524	31	–
The Royal London European Growth Fund	99.6	99.4	OEIC	31-Aug-20	814	-64	–
The Royal London Growth Fund	63.9	59.6	OEIC	31-Dec-20	215	12	–
The Royal London UK Equity Fund	96.4	96.3	OEIC	31-Aug-20	611	-110	–
The Royal London Asia Pacific ex Japan Tracker Fund	97.7	97.1	OEIC	31-Aug-20	985	-16	–
The Royal London UK Smaller Companies Fund	99.0	98.9	OEIC	31-Aug-20	295	18	–
The Royal London Cash Plus Fund	68.7	54.5	OEIC	31-Oct-20	5,777	12	–
The Royal London European Corporate Bond Fund	93.3	98.7	OEIC	31-Oct-20	97	4	–
The Royal London Europe ex UK Tracker Fund	95.3	95.4	OEIC	31-Aug-20	694	-20	–
The Royal London European Opportunities Fund	–	99.9	OEIC	–	–	–	–
The Royal London International Government Bonds Fund	73.4	96.8	OEIC	31-Oct-20	476	16	–
The Royal London Global High Yield Bond Fund	95.8	96.3	OEIC	30-Jun-20	2,226	-23	A
The Royal London Short-term Money Market Fund	57.1	66.6	OEIC	31-Oct-20	3,644	-1	–
The Royal London Absolute Return Government Bond Fund	81.0	75.6	OEIC	30-Jun-20	1373	14	A
The Royal London Conservative Fund	98.4	98.8	OEIC	31-Dec-20	240	10	–
The Royal London Adventurous Fund	79.4	64.8	OEIC	31-Dec-20	202	5	–
The Royal London Dynamic Fund	93.9	96.3	OEIC	31-Dec-20	56	-1	–
The Royal London Defensive Fund	59.2	61.3	OEIC	31-Dec-20	83	-1	–
The Royal London Emerging Markets Equity Tracker Fund	97.4	96.5	OEIC	31-Aug-20	1,372	88	–
The Royal London Global Equity Diversified Fund	100.0	100.0	OEIC	31-Aug-20	2,639	86	–
The Royal London Global Equity Select Fund	99.2	99.2	OEIC	31-Aug-20	235	17	–
The Royal London UK Real Estate Fund	100.0	100.0	ACS[5]	31-Dec-20	2,878	90	–
The Royal London Multi Asset Credit Fund	65.1	71.3	OEIC	30-Jun-20	1,023	-7	–
The Royal London Sterling Liquidity Fund	100.0	99.9	OEIC	30-Jun-20	2,758	-	–
The Royal London Monthly Income Bond Fund	86.7	90.0	OEIC	31-Dec-20	44	-1	–
The Royal London Multi Asset Strategies Fund	52.4	53.3	OEIC	31-Dec-20	191	-13	–
The Royal London Short Duration Plus Fund	100.0	99.7	OEIC	30-Jun-20	281	-34	–
The Royal London Global Equity Income Fund	100.0	–	OEIC	31-Aug-20	20	-	–
The Royal London Global Sustainable Equity Fund	81.4	–	OEIC	31-Aug-20	67	9	–
The Royal London UK Dividend Growth Fund	98.4	94.8	OEIC	31-Aug-20	814	-64	–
The Royal London Balanced Fund	71.3	47.6	OEIC	31-Dec-20	77	-4	–
The Royal London Global Bond Opportunities Fund	57.0	48.3	OEIC	30-Jun-20	222	-9	–
The Royal London Enhanced Cash Plus Fund	53.6	39.4	OEIC	31-Oct-20	2,338	-1	–
The Royal London US Growth Trust	58.9	58.3	Unit trust	31-Dec-20	237	31	–
The Royal London Property Trust	100.0	100.0	Property trust	31-Dec-20	141	10	–
Vision Park Management Limited	86.0	86.0	Property trust	31-Dec-20	-	-	F

4 The percentage holdings shown include the holding of the Group's unit linked funds which are included within assets held to cover linked liabilities.
5 The Royal London UK Real Estate Fund is an Authorised Contractual Scheme (ACS).

15. Investment in Group undertakings (continued)

(a) Subsidiaries (continued)

The addresses of the registered address of those Company subsidiaries and associates which have a registered office other than 55 Gracechurch Street, London EC3V 0RL, United Kingdom, are noted below by letter.

Reference	Registered address
A	70 Sir John Rogerson's Quay, Dublin 2, Ireland
B	Trimbridge House, Trim House, Trim Street, Bath, BA1 1HB, United Kingdom
C	47-49 St Stephen's Green, Dublin 2, Ireland
D	St Andrew House, 1 Thistle Street, Edinburgh, EH2 1DG, United Kingdom
E	27 Esplanade, St Helier, JE1 1SG, Jersey
F	Bidwell House, Trumpington Road, Cambridge, CB2 9LD, United Kingdom
G	First Names House, Victoria Road, Douglas, Isle of Man, IM2 4DF
H	27-28 Clement's Lane, London, England, EC4N 7AE, United Kingdom
I	PO Box 650, 1st Floor Royal Chambers, St Julian's Avenue, St Peters Port, Guernsey, GY1 3JX
J	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
K	9 West 57th Street, Suite 4200, New York, 10019, United States
L	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom
M	8-9 Well Court, London, EC4M 9DN, United Kingdom
N	PO Box 282, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3RH

(b) Interest in a special purpose entity

As part of the acquisition of Police Mutual Assurance Society Limited (see note 16), the Group acquired 100% of the preference shares in Pinkerton segregated account (within Artex SAC Limited), which is incorporated in Bermuda. Its principal activity is reinsurance of general insurance policies that are arranged by another Group company. In accordance with FRS 102, section 9 Pinkerton meets the definition of a 'special purpose entity' and in accordance with the requirements of that section, Pinkerton is consolidated within the Group financial statements.

(c) Interests in associates

All of the Group's associates are investment funds accounted for as financial assets held at FVTPL and are all incorporated in England with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom. At 31 December 2020, the following funds have been recognised as associates.

	Group's % holding	
	2020	2019
The Royal London UK Growth Trust	25.2	24.6
The Royal London Corporate Bond Monthly Fund	25.1	23.0
The Royal London Investment Grade Short Duration Credit Fund	41.3	35.2
The Royal London Sustainable Managed Income Trust	49.1	25.7
The Royal London Property Fund	36.5	26.5
The Royal London Global Index Linked Fund	23.9	30.4
The Royal London Enhanced Cash Plus Fund	–	39.4
The Royal London Global Bond Opportunities Fund	–	48.3
The Royal London Short Duration Gilt Fund	41.6	40.1
The Royal London Short Duration Global High Yield Fund	49.2	37.5
The Royal London Balanced Fund	–	47.6
The Royal London European Growth Trust	31.7	35.2
The Royal London Sterling Credit Fund	–	21.3
The Royal London UK Government Bond Fund	48.8	52.8
The Royal London Sterling Extra Yield Bond Fund	25.1	17.9

During the year the Company received dividends from investments in associates amounting to £78m (2019: £72m).

15. Investment in Group undertakings (continued)

(d) Interests in other significant holdings

The Group also invests in the following private equity funds, which represent an ownership interest of greater than 20%. These are all managed by external administrators and the Group has no involvement in the management, operation or decision-making of the funds. As such, the presumption that significant influence exists is overcome and these investments have not been recognised as associates, but have been treated as investment funds within 'other financial investments'. The registered addresses of the private equity funds are included in the table on page 161.

	% holding					
	2020	2019	Latest financial reporting date	Aggregate of capital and reserves £m	Profit/(loss) for the period £m	Registered Office[1]
SPL ARL Private Finance	99.4	99.4	31 Mar 2020	£816,000	£(509,000)	I
WP Global Mezzanine Private Equity	100.0	100.0	31 Dec 2019	$28,010,460	$ (1,333,094)	J
Core Alpha Private Equity Partners	29.9	29.9	31 Dec 2019	$41,758,601	$ (1,555,218)	J
KKR CIS Global Investor L.P.	100.0	100.0	31 Dec 2019	$150,429,470	$72,878,860	K
Enterprise Ventures Growth Ltd	45.2	45.2	31 Mar 2020	£7,391,927	£(384,693)	L
RJD Private Equity Fund III 'A' L.P.	31.9	31.9	31 Dec 2019	£15,903,769	£176,026	M
Rising Star Growth Fund II	21.8	21.8	31 Mar 2020	£1,389,995	£(2,966,862)	L
Cubera RL Nordic PE LP	100.0	100.0	31 Dec 2019	€4,308,703	€ (420,061)	N

1 The table of registered offices is on page 161.

(e) Interests in joint ventures

The Group has an interest in a jointly controlled entity giving rise to a 7.5% (2019: 7.5%) beneficial interest in a property, the Bluewater Shopping Centre, Kent. The arrangement entitles the Group to 7.5% (2019: 7.5%) of the net rental income of the property.

The Group has also entered into joint ventures with RLW Estates Limited (50% holding) and additionally Waterbeach Development Company LLP (41.5% holding) via its wholly owned subsidiary, RL Cambridge Limited.

16. Corporate transactions

Acquisition of Police Mutual Assurance Society Limited

On 1 October 2020, the Group acquired the entire long-term business and all the assets and liabilities of Police Mutual Assurance Society Limited (PMAS) by way of a transfer into the Royal London Main fund, undertaken in accordance with Section 86 of the Friendly Societies Act 1992. There was no consideration payable in respect of this transfer.

The results of the acquired PMAS business have been incorporated into the results of the Group from the date of acquisition, contributing £26m to Group total income and £27m to the Group profit before tax. Income for this purpose comprises earned premiums, net of reinsurance and other income only.

The transaction has given rise to goodwill of £29m as shown in the table below. The goodwill is being amortised over its useful life of 10 years.

	£m
Cost of the business combination:	
Transaction costs	3
Total cost of the business combination	**3**
Less: fair value of net liabilities acquired	26
Goodwill	**29**
Fair value of assets acquired and liabilities assumed:	
Assets	
Investments	533
Assets held to cover linked liabilities	116
Reinsurers' share of technical provisions	11
Debtors	44
Cash at bank and in hand	76
Other assets	24
Total assets	**804**
Liabilities	
Long-term business provision	661
Claims outstanding	8
Technical provisions for linked liabilities	115
Provisions for other risks	5
Other liabilities	41
Total liabilities	**830**
Fair value of net liabilities acquired	**(26)**

Disposal of Wrap IFA Services Limited

The Group's wholly owned subsidiary Wrap IFA Services Limited (and its subsidiaries) was sold on 1 September 2020 to M&G plc. The total consideration was £86m. A gain on disposal was generated of £14m, included in 'investment income' within the consolidated statement of comprehensive income.

Trading performance for the eight months to 31 August 2020 relating to Wrap IFA Services Limited has been included in the consolidated statement of comprehensive income, with the 2020 Group transfer to the fund for future appropriations including a loss of £5m (2019: £26m), comprised of £23m of other income (2019: £35m), £30m of total operating expenses (2019: £67m), and £2m of tax credit (2019: £6m).

17. Financial investments

Accounting for financial investments

All investment transactions are recognised at trade date i.e. the date the Group commits to purchase the asset from, or deliver the asset to, the counterparty.

Financial investments are classified on the basis of an assessment of the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. Financial assets are classified at FVTPL where they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or they do not meet the criteria to be measured at amortised cost.

All of the financial assets of the Group's non-linked funds, included on the balance sheet within 'Other financial investments', are part of a group of financial assets that are managed on a fair value basis and are classified upon initial recognition as held at FVTPL. All of the financial assets within the Group's unit-linked funds, included on the balance sheet within 'Assets held to cover linked liabilities', are also a group of financial assets that are managed on a fair value basis and are classified upon initial recognition as held at FVTPL.

Financial assets classified as FVTPL are initially recognised at the fair value of the consideration paid. They are subsequently measured at fair value with any resultant gain or loss recognised in the statement of comprehensive income.

Fair value for quoted investments in an active market is the bid price, which management believe is representative of fair value. For investments in unit trusts, OEICs and other pooled funds (including those classified as investments in Group undertakings) it is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. If the market for a quoted financial investment is not active or the investment is unquoted, the fair value is determined by using valuation techniques. For these investments, the fair value is established by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques include the use of recent arm's length transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs from independent sources and relying as little as possible on entity specific inputs.

Derecognition and offset of financial assets and financial liabilities

A financial asset is de-recognised when the contractual rights to receive the cash flows from the asset have expired or where they have been transferred and the Group has also transferred substantially all of the risks and rewards of ownership.

A financial liability is de-recognised when the obligation specified in the contract is discharged or cancelled or expires.

All derivatives are accounted for on a contract-by-contract basis and are not offset in the balance sheet.

Collateral received and pledged

For non-cash collateral received and pledged the risks and rewards of ownership are not transferred by the transaction (unless there is a default by the counterparty). Therefore, non-cash collateral received by the Group or the Company is not recognised as an asset on the balance sheet and non-cash collateral pledged by the Group or the Company remains on the balance sheet and is not derecognised. For cash collateral received and pledged the risks and rewards of ownership are transferred. Therefore, cash collateral received is recognised as an asset with a corresponding liability to repay the collateral. For cash collateral pledged the cash asset is derecognised and an equivalent debtor for the repayment of the collateral is recognised.

17. Financial investments (continued)

(a) Other financial investments

The carrying values of the Group and the Company's other financial investments are summarised by category below:

	Group			
	Fair value		Cost	
	2020 £m	2019 £m	2020 £m	2019 £m
Derivative assets (see note 19)	5,759	4,173	4,473	908
Equity securities				
Quoted	6,522	7,063	4,873	4,941
Unquoted	284	275	284	223
	6,806	7,338	5,157	5,164
Debt and fixed income securities				
Government bonds	6,100	8,421	5,795	8,014
Other quoted	5,215	5,520	4,795	4,892
Loans secured by policies	4	3	4	3
Deposits with credit institutions	3,364	1,805	3,334	1,795
Other unquoted	2,890	2,758	2,904	2,929
	17,573	18,507	16,832	17,633
Unit trusts and other pooled investments	17,364	13,602	16,513	12,930
Total other financial investments	47,502	43,620	42,975	36,635

Included in the figure for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £60m (2019: £98m). The figure for unquoted debt securities above includes £2,820m (2019: £2,689m) for a loan note held in respect of a reinsurance rearrangement (see note 32). The figure for deposits with credit institutions above includes £2,192m (2019: £1,150m) of reverse repurchase deposits. Included in the figure for unit trusts and other pooled investments above is £15,762m (2019: £12,555m) of OEICs and other investment funds and investments in joint ventures that are not consolidated within the Group financial statements and are shown in the Group balance sheet as other financial investments (see note 15).

	Company			
	Fair value		Cost	
	2020 £m	2019 £m	2020 £m	2019 £m
Derivative assets (see note 19)	5,759	4,173	4,473	908
Equity securities				
Quoted	6,522	7,063	4,873	4,941
Unquoted	284	275	284	223
	6,806	7,338	5,157	5,164
Debt and fixed income securities				
Government bonds	6,100	8,416	5,795	8,009
Other quoted	5,215	5,520	4,795	4,892
Loans secured by policies	4	3	–	3
Deposits with credit institutions	3,364	1,805	3,334	1,796
Other unquoted	2,889	2,758	2,904	2,929
	17,572	18,502	16,828	17,629
Unit trusts and other pooled investments	1,598	1,047	1,530	968
Total other financial investments	31,735	31,060	27,988	24,669

Included in the figure for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £60m (2019: £98m). The figure for unquoted debt securities above includes £2,820m (2019: £2,689m) for a loan note held in respect of a reinsurance rearrangement (see note 32). The figure for deposits with credit institutions above includes £2,192m (2019: £1,150m) of reverse repurchase deposits.

17. Financial investments (continued)

(b) Other financial investments – listed investments

Included in the carrying value of other financial investments are amounts in respect of listed investments as follows:

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Equity securities	6,520	7,060	6,520	7,060
Debt and fixed income securities	10,969	13,154	10,969	13,150
Unit trusts and other pooled investments	108	73	108	73
	17,597	20,287	17,597	20,283

(c) Assets held to cover linked liabilities

The carrying values of the Group and the Company's assets held to cover linked liabilities are summarised by category below:

	Group and Company			
	Fair value		Cost	
	2020 £m	2019 £m	2020 £m	2019 £m
Investment property	4,295	4,343	4,377	4,153
Derivative assets (see note 19)	130	53	–	–
Derivative liabilities (see note 19)	(51)	(72)	–	–
Equity securities	766	638	641	507
Debt and fixed income securities	14,119	12,032	13,575	11,656
Unit trusts and other pooled investments	6,811	7,179	5,993	6,383
OEICs and other investment funds – subsidiaries	31,155	29,279	25,446	23,928
OEICs and other investment funds – associates	2,036	1,644	1,792	1,455
Cash at bank	369	296	369	296
Net current assets	599	213	599	213
	60,229	55,605	52,792	48,591

The OEICs and other investment funds represent the Company's investment in funds which are managed by subsidiaries of the Group. The funds classified as subsidiaries are those over which the Group has control. The funds classified as associates are those over which the Group has a significant influence but not control.

The total assets held to cover linked liabilities of £60,229m (2019: £55,605m) are greater than the technical provisions for linked liabilities of £60,059m (2019: £55,392m). This difference comprises £145m relating to the value of future profits included within the technical provisions for linked liabilities (2019: £165m) and the inclusion within the assets held to cover linked liabilities of £25m of surplus units held for box management purposes (2019: £48m).

17. Financial investments (continued)

(d) Collateral and other arrangements

(i) Stock loan agreements

The Group and the Company have entered into a number of stock lending transactions that transfer legal title to third parties, but not the exposure to the income and market value movements arising from those assets. As a result, the Group and the Company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and the Company balance sheets. There are no restrictions arising from the transfers.

The assets transferred under these agreements are secured by the receipt of collateral. The level of collateral held is monitored regularly and adjusted as necessary to manage exposure to credit risk.

The collateral received was in the form of UK, US, Japanese and European Government bonds and quoted equities. There were no borrower defaults in the year (2019: none).

The following table shows the assets within the Group and the Company balance sheets that have been transferred under stock loan agreements and the related collateral received.

	Group and Company	
	2020 £m	2019 £m
Stock loan agreements		
Listed equities	650	738
Corporate bonds	181	202
Government bonds	1,427	989
	2,258	1,929
Collateral received	2,367	2,048

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £24m for both the Group and the Company (2019: £853m). The collateral received was in the form of UK Gilts. It may be sold or re-pledged in the absence of default. No collateral was sold or repledged in the year (2019: £nil) and there were no defaults in the year (2019: none).

Cash margin received was £3,710m (2019: £1,825m) for both the Group and the Company. Cash margin received is included within 'other financial investments', with an offsetting liability included within 'other creditors, including tax and social security'.

The market value of derivatives in respect of which collateral and cash margin were received was £3,846m for both the Group and the Company (2019: £2,698m).

Collateral of £2,817m was received for both the Group and the Company (2019: £2,811m) in respect of an unlisted debt security. The collateral received was in the form of UK Government bonds, other fixed income debt securities, floating rate notes and cash.

The market value of the debt security in respect of which the collateral was received was £2,820m (2019: £2,689m).

The Group and the Company have entered into reverse repurchase transactions with a cash value of £1,092m (2019: £nil). The value of the UK gilts associated with these deposits at 31 December 2020 was £1,099m (2019: £nil). Collateral in the form of UK gilts of £3m (2019: £nil) was received in respect of those transactions

(iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £55m for both the Group and the Company (2019: £26m). The collateral pledged was in the form of UK Gilts. It may be sold or repledged in the absence of default.

Cash margin pledged in respect of derivatives was £nil (2019: £22m) for both the Group and the Company. A corresponding asset is included within 'Other debtors'.

The market value of derivatives in respect of which collateral and cash margin were pledged was £43m for both the Group and the Company (2019: £45m). In addition, the Group and the Company pledged £1,251m of initial margin (2019: £836m) in respect of derivatives. This was pledged in the form of UK gilts.

The Group and the Company have entered into reverse repurchase transactions with a cash value of £1,100m (2019: £1,151m). The value of the UK gilts associated with these deposits at 31 December 2020 was £1,127m (2019: £1,142m). Collateral in the form of UK gilts of £16m (2019: £14m) was pledged in respect of those transactions. The Company has also pledged government and corporate bonds of £1,011m (2019: £1,133m) to its wholly owned subsidiary, RLI DAC, in respect of the internal reinsurance arrangement between the Company and RLI DAC.

18. Fair value measurement

(a) Fair value measurement techniques and inputs

The following table gives information about the valuation techniques and inputs used to develop the Group and the Company's fair value measurements.

Asset/liability	Valuation techniques and key inputs
Derivative assets and liabilities	Mark to model technique using market inputs. Market inputs vary by derivative type and include: market swap rates (interest rate swaps, total return swaps and inflation swaps); forward swap rates and interest rate volatility (interest rate swaptions); and foreign exchange rates (currency forwards).
Equity securities – quoted	Quoted prices in active market Quoted prices (insufficient activity to confirm active market) Quoted prices, shares delisted or pending corporate actions
Equity securities – unquoted	Fair value is derived using observable market prices Unquoted Private equity and Property funds are valued at NAV
Debt and fixed income securities – UK Government bonds	FTSE Russell Trade Web
Debt and fixed income securities – other Government bonds	Third-party quoted prices
Debt and fixed income securities – other quoted	Third-party quoted prices Quoted prices in an active market Mark to model – credit spreads
Debt and fixed income securities – loans secured by policy	Carrying value
Debt and fixed income securities – other unquoted	Third party prices Mark to model – credit spreads
Unit trusts and other pooled investments – quoted	Quoted prices in active market Quoted prices (insufficient activity to confirm active market)
Unit trusts and other pooled investments – unquoted	NAV
Owner-occupied land and buildings (Group only)	Income capitalisation & market comparison
Investment property	Income capitalisation & market comparison
Investment in Group undertakings – shares	Net present value of future projected cash flows, PE multiple and NAV/Carrying value
Investment in Group undertakings – investment funds and joint ventures	Quoted prices in an active market Quoted prices (insufficient activity to confirm active market) NAV provided by external fund manager
Assets held to cover linked liabilities	Individual assets within this category are valued using the applicable technique and key inputs for the asset type as shown above Net current assets are held at their carrying value
Non-participating investment contract liability	Determined by the fair value of the net assets of the underlying unitised investment fund
Reinsurance liability	Discounted future cash flows
Provision for future commission	Present value of projected future cash flows

18. Fair value measurement (continued)

(b) Fair value hierarchy

Assets and liabilities held at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The position assigned to the asset or liability in the fair value hierarchy has to be determined by the lowest level of any input to its valuation that is considered to be significant to the valuation of the asset or liability in its entirety. The hierarchy only reflects the methodology used to derive the asset's or liability's fair value. The three levels of the hierarchy are as follows:

Level 1 – Quoted prices in active markets
Inputs to level 1 fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and at sufficient volumes to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices included within level 1 that are observable
Inputs to level 2 fair values are those other than quoted prices included within level 1, which are observable for the asset or liability, either directly as prices or indirectly, i.e. derived from prices. Level 2 inputs include:

- quoted prices for identical assets in markets that are not active;
- quoted prices for similar assets in active markets; and
- inputs to valuation models that are observable for the asset. For example, interest rates and yield curves observable at commonly quoted intervals, volatilities and swap rates.

Level 3 – Inputs not based on observable data
Inputs to level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs are typically used where observable inputs are not available.

The Group and the Company's assets and liabilities classified into the three levels of the fair value hierarchy are shown in the following tables. The majority of the Group and the Company's assets and liabilities measured at fair value are based on quoted prices in active markets or observable market data. Of the total Group assets and liabilities measured at fair value, 8.1% (2019: 9.0%) of assets and 0.2% (2019: 0.3%) of liabilities are recorded as Level 3. At the Company level, 9.7% (2019: 9.7%) of assets and 0.2% (2019: 0.3%) of liabilities are recorded as Level 3.

18. Fair value measurement (continued)

(b) Fair value hierarchy (continued)

	Group – 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets held at fair value				
Derivative assets	–	5,759	–	5,759
Equity securities				
Quoted	6,521	–	–	6,521
Unquoted	–	–	286	286
Debt and fixed income securities				
Government bonds	5,372	728	–	6,100
Other quoted	-	5,215	–	5,215
Loans secured by policies	–	–	4	4
Deposits with credit institutions	–	–	–	3,364
Other unquoted	–	2,841	48	2,889
Unit trusts and other pooled investments	12,673	1,698	2,993	17,364
Total other financial investments held at fair value	24,566	16,241	3,331	47,502
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	–	–	72	72
Investment property (note 14)	–	–	96	96
Assets held to cover linked liabilities (note 17 (c))	45,723	8,916	5,590	60,229
Total assets at fair value	70,289	25,157	9,089	107,899
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 27 (b))	–	(58,787)	–	(58,787)
Reinsurance liability (note 32)	–	(2,820)	–	(2,820)
Derivative liabilities (note 32)	–	(1,986)	–	(1,986)
Provision for future commission (note 31)	–	–	(155)	(155)
Total liabilities at fair value	–	(63,593)	(155)	(63,748)

Deposits with credit institutions are not held at fair value but are included in the table in order that the overall asset position agrees to Financial Investments in the balance sheet.

18. Fair value measurement (continued)
(b) Fair value hierarchy (continued)

	Group – 2019			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets held at fair value				
Derivative assets	–	4,173	–	4,173
Equity securities				
Quoted	7,063	–	–	7,063
Unquoted	–	–	275	275
Debt and fixed income securities				
Government bonds	7,543	878	–	8,421
Other quoted	–	5,518	2	5,520
Loans secured by policies	–	–	3	3
Deposits with credit institutions	–	–	–	1,805
Other unquoted	–	2,710	48	2,758
Unit trusts and other pooled investments	9,529	994	3,079	13,602
Total other financial investments held at fair value	**24,135**	**14,273**	**3,407**	**43,620**
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	–	–	72	72
Investment property (note 14)	–	–	97	97
Assets held to cover linked liabilities (note 17 (c))	43,285	6,995	5,325	55,605
Total assets at fair value	**67,420**	**21,268**	**8,901**	**99,394**
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 27 (b))	–	(54,027)	–	(54,027)
Reinsurance liability (note 32 (b))	–	(2,689)	–	(2,689)
Derivative liabilities (note 32 (d))	–	(1,519)	–	(1,519)
Provision for future commission (note 31)	–	–	(152)	(152)
Total liabilities at fair value	**–**	**(58,235)**	**(152)**	**(58,387)**

Deposits with credit institutions are not held at fair value but are included in the table in order that the overall asset position agrees to Financial Investments in the balance sheet.

18. Fair value measurement (continued)

(b) Fair value hierarchy (continued)

	Company – 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets held at fair value				
Derivative assets	–	5,759	–	5,759
Equity securities				
Quoted	6,521	-	–	6,521
Unquoted	–	–	285	285
Debt and fixed income securities				
Government bonds	5,372	728	–	6,100
Other quoted	–	5,215	–	5,215
Loans secured by policies	–	–	4	4
Deposits with credit institutions	–	–	–	3,364
Other unquoted	–	2,841	48	2,889
Unit trusts and other pooled investments	1,429	8	161	1,598
Total other financial investments held at fair value	13,322	14,551	498	31,735
Other assets held at fair value				
Investment property (note 14)	–	–	168	168
Investments in Group undertakings (note 15)	11,048	1,680	3,594	16,322
Assets held to cover linked liabilities (note 17 c))	45,723	8,916	5,590	60,229
Total assets at fair value	70,093	25,147	9,850	108,454
Liabilities held at fair value				
Unit linked investment contract liabilities (note 27 (b))	–	(58,787)	–	(58,787)
Reinsurance liability (note 32)	–	(2,820)	–	(2,820)
Derivative liabilities (note 32)	–	(1,986)	–	(1,986)
Provision for future commission (note 31)	–	–	(155)	(155)
Total liabilities at fair value	–	(63,593)	(155)	(63,748)

Deposits with credit institutions are not held at fair value but are included in the table in order that the overall asset position agrees to Financial Investments in the balance sheet.

18. Fair value measurement (continued)

(b) Fair value hierarchy (continued)

	Company – 2019			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets held at fair value				
Derivative assets	–	4,173	–	4,173
Equity securities				
Quoted	7,063	–	–	7,063
Unquoted	–	–	275	275
Debt and fixed income securities				
Government bonds	7,542	874	–	8,416
Other quoted	–	5,518	2	5,520
Loans secured by policies	–	–	3	3
Deposits with credit institutions	–	–	–	1,805
Other unquoted	–	2,710	48	2,758
Unit trusts and other pooled investments	882	–	165	1,047
Total other financial investments held at fair value	15,487	13,275	493	31,060
Other assets held at fair value				
Investment property (note 14)	–	–	169	169
Investments in Group undertakings (note 15)	8,504	994	3,703	13,201
Assets held to cover linked liabilities (note 17 (c))	43,285	6,995	5,325	55,605
Total assets at fair value	67,276	21,264	9,690	100,035
Liabilities held at fair value				
Unit linked investment contract liabilities (note 27 (b))	–	(54,027)	–	(54,027)
Reinsurance liability (note 32 (b))	–	(2,689)	–	(2,689)
Derivative liabilities (note 32 (d))	–	(1,519)	–	(1,519)
Provision for future commission (note 31)	–	–	(152)	(152)
Total liabilities at fair value	–	(58,235)	(152)	(58,387)

Deposits with credit institutions are not held at fair value but are included in the table in order that the overall asset position agrees to Financial Investments in the balance sheet.

18. Fair value measurement (continued)

(c) Level 3 assets and liabilities

For the majority of level 3 investments, the Group and the Company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and the Company review the appropriateness of these valuations on the following basis:

- for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market; and
- corporate bonds are predominantly valued using single broker indicative quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements.

Changes in the assumptions used to calculate the level 3 valuations to reasonably possible alternative assumptions would have the following impact on the Royal London Group profit before tax for the year. Only changes in assets held by the Royal London Open Fund would impact the Group's result for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below:

- for level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2020 would result in a £30.4m increase or decrease in profit before tax or total assets or liabilities; and
- for level 3 corporate bonds, increasing assumed yields at 31 December 2020 by 100bps would result in a decrease in profit before tax and the fair value of the corporate bonds of £4.6m. Decreasing assumed yields at 31 December 2020 by 100bps would result in an increase in result after tax and the fair value of the corporate bonds of £4.6m.

The following table shows information about fair value measurements for level 3 assets and liabilities using significant unobservable inputs.

Asset/liability	Valuation technique	Unobservable input	Range (weighted average)
Owner-occupied property and investment property	Income capitalisation	Equivalent yield	5.0%-11.38% (8.9%)
		Estimated rental value per square foot	£8.50-£22.00 (£15)
	Market comparison	Price per acre	£1.85m-£2.05m
Equity securities – unquoted	Adjusted net asset value	Adjustment to net asset value	n/a
Debt and fixed income securities	Single broker quotes	Unadjusted single broker quotes	n/a
Loans secured by policies	Carrying value	Adjustment to carrying value	n/a
Unit trusts and other pooled Investments – unquoted	Adjusted net asset value	Adjustment to net asset value	n/a
Investments in Group entities – shares	RLUM- net present value of future projected cash flows	RLUM	
		Per policy annual expenses:	
		Premium paying	£62.67
		Non-premium paying	£56.64
		Expense inflation	RPI +0.5%
		Rate card expenses:	
		Premium paying	£24.99
		Non-premium paying	£22.56
		Rate card expense inflation	RPI +0.9%
		Rate card fund expenses (%) pa	0.238%
		Tax	At enacted rates of corporation tax
	RLAM – transaction price for the sale of RLAM and Royal London Unit Trust Managers to Royal London Asset Management Holdings Ltd, based on PE multiple	RLAM	
		PE multiple	15
Provision for future commission	Present value of future projected cash flows	Future based renewal commission rated (%) p.a.	0.10%-1.00% (0.52 %)
		Investment return (%) p.a.	(0.72)%
		Surrender rate (%) p.a.	0.0%-54.00% (2.3%)
		Value of underlying funds at end 2020 (£m)	£3,367

19. Derivative financial instruments

Accounting for derivative instruments

The classification and measurement of derivatives is set out in note 18.

Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host contract and they meet the definition of a derivative.

The Group and the Company utilise derivative instruments to hedge market risk (see note 36 (b)), for efficient portfolio management and for the matching of liabilities to policyholders. Derivatives are either 'exchange-traded' (regulated by an exchange), which have a quoted market price, or 'over-the-counter' (individually negotiated between the parties to the contract), which are unquoted.

The Group is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other financial investments. To mitigate this risk, a portion of the fair value of the derivatives held by the Group at any point in time is matched by collateral and cash margin received from the counterparty to the transaction. Cash margin is collateral in the form of cash. Initial cash margin is exchanged at the outset of the contract. Variation margin is exchanged during the life of the contract in response to changes in the value of the derivative. The remaining credit risk is managed within the Group's risk management framework, which is discussed further in note 36.

The Group and the Company utilise the following derivatives:

Options and warrants

Options are contracts under which the seller grants the buyer the right, but not the obligation, to buy or to sell a specific amount of a financial instrument at a pre-determined price, at or by a set date, or during a set period. The Group uses equity options to manage its exposure to fluctuations in equity markets and to back certain products which include a guaranteed investment return based on equity values. Warrants give the holder the right to purchase a particular equity at a specified price.

Futures

A futures contract is an agreement to buy or sell a given quantity of a financial instrument, at a specified future date at a pre-determined price. The Group uses futures to manage its exposure to fluctuations in equity markets.

Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

Swaptions

Swaptions are options to enter into an interest rate swap at a future date, and are used to limit exposure to fluctuations in interest rates over the long term.

Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are principally used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

Currency forwards

A currency forward is a contract to exchange an agreed amount of currency at a specified exchange rate and on a specified date. The Group uses currency forwards to reduce exposure to movements in exchange rates.

Inflation swaps

An inflation swap is a contract under which there is an exchange of cash flows in order to transfer inflation risk. One party pays a fixed rate while the other party pays a floating rate that is linked to an inflation index.

19. Derivative financial instruments (continued)

Fair value of derivative instruments held

	Group and Company					
	2020			2019		
	Contract/ notional amount	Fair values Assets	Fair values Liabilities	Contract/ notional amount	Fair values Assets	Fair values Liabilities
	£m	£m	£m	£m	£m	£m
Interest rate swaps	18,089	5,615	(1,897)	32,272	4,026	(1,488)
Interest rate swaptions	5,963	81	-	6,329	122	–
Total return swaps	4,396	75	(78)	3,152	10	(26)
Inflation swaps	745	12	(11)	664	11	(4)
Currency forwards	8,165	106	–	5,184	57	(73)
Total derivative assets/(liabilities)		5,889	(1,986)		4,226	(1,591)
Included in the balance sheet within:						
Other financial investments/ Other creditors		5,759	(1,935)		4,173	(1,519)
Assets held to cover linked liabilities		130	(51)		53	(72)
		5,889	(1,986)		4,226	(1,591)

In addition to the above, the Group and the Company make use of futures contracts. At 31 December 2020, the Group and the Company had entered into equity futures trades giving exposure to equities with a notional value of £7,348m (2019: £5,346m). The equity futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

The Group and the Company paid initial cash margin of £618m (2019: £230m) in respect of these trades, £137m is of which is included within 'Other debtors' (2019: £21m) and £481m in 'Assets held to cover linked liabilities' (2019: £209m).

The net variation margin receivable by the Group and the Company was £43m at 31 December 2020 (2019: receivable £27m), being the amount due for the movement on the last business day of 2020, which was settled on the first business day in 2021. £nil of this variation margin payable is included within 'Other creditors including taxation and social security' (2019: £1m) and £43m within 'Assets held to cover linked liabilities' (2019: £26m).

20. Debtors arising out of direct insurance operations and reinsurance operations

Accounting for debtors arising out of direct insurance operations and reinsurance operations
Debtors arising out of direct insurance operations and debtors arising out of reinsurance operations are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Debtors arising from direct insurance operations at amortised cost				
Amounts due from policyholders	188	104	44	29
Amounts due from intermediaries	4	4	4	4
	192	108	48	33
Debtors arising from reinsurance operations at amortised cost				
Reinsurance receivable from external insurers	41	35	33	30
	41	35	33	30

None of the above debtors arising out of direct insurance operations or debtors arising out of reinsurance operations are expected to be recovered more than one year after the balance sheet date (2019: £nil).

21. Other debtors

Accounting for other debtors
Investment income receivable, amounts due from other Group entities and other receivables are measured at amortised cost as they are financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Accounting for current tax assets
Current tax assets are measured at the amount of tax expected to be recovered using tax rates substantively enacted at the balance sheet date.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Investment income receivable	47	49	46	49
Amounts due from brokers	220	53	220	53
Amounts due from other Group entities	–	–	9	9
Management fees receivable	51	48	45	42
Other receivables	99	79	42	39
Current tax asset	76	37	71	38
	493	266	433	230

22. Tangible fixed assets

Accounting for tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure directly attributable to the acquisition of the asset.

Depreciation on tangible fixed assets is charged to the statement of comprehensive income and is calculated so as to reduce the value of the assets to their estimated residual values on a straight-line basis over the estimated useful lives of the assets concerned, which range from three to eight years.

The carrying amounts of tangible fixed assets are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are recognised in the statement of comprehensive income.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

	Group 2020	2019
	Computers, office equipment and vehicles £m	Computers, office equipment and vehicles £m
Cost		
At 1 January	54	45
Additions	13	9
At 31 December	67	54
Accumulated depreciation		
At 1 January	(36)	(28)
Depreciation charge	(6)	(8)
At 31 December	(42)	(36)
Net book value		
At 1 January	18	17
At 31 December	25	18

The Company did not hold any tangible fixed assets at the balance sheet date or at the previous balance sheet date.

23. Deferred Acquisition Costs on investment contracts

Accounting for deferred acquisition costs (DAC)

Incremental costs that are directly attributable to the acquisition of new non-participating investment and hybrid participating investment contracts are recognised as a DAC asset, provided those costs are considered to be recoverable. Incremental costs comprise both initial commission and an amount representing the present value of future commission payable to third parties. All other acquisition costs are expensed as incurred. The asset is amortised over the period in which we expect to receive the related investment management services fees.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

	Group and Company	
	2020 £m	2019 £m
Carrying amount at 1 January	194	228
Amortisation	(31)	(34)
Carrying amount at 31 December	163	194

24. Pension scheme asset

Accounting for pensions

The Group operates three defined benefit schemes and a number of defined contribution arrangements.

(i) Defined benefit schemes

The defined benefit schemes provide benefits based on pensionable pay. The assets of the schemes are held in separate Trustee administered funds. The position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The pension scheme asset recognised in the balance sheet is the excess that is recoverable of the fair value of the plan assets in a scheme over the present value of that scheme's liabilities. Deficits in the value of a scheme's assets over its scheme liabilities are recognised in the balance sheet as a pension scheme liability. The 'Administration costs' and 'Net interest (income)/cost' are included within 'Net operating expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Net operating expenses'. Remeasurements are recognised in other comprehensive income in the period in which they arise.

(ii) Defined contribution arrangements

The Group operates a number of defined contribution arrangements for employees. The Group pays contractual contributions in respect of these arrangements, which are recognised as an expense when they are due.

Defined contribution arrangements

The Group provides pension benefits for its employees in order to support recruitment, retention and motivation of talented people.

All employees are eligible to join either the Royal London Group Personal Pension (RLGPP) or the Royal London Ireland Pension Plan (RLIPP) according to their employment. The RLGPP and the RLIPP are both defined contribution arrangements. Prior to its disposal, employees engaged in the business of Wrap IFA Services Limited and its subsidiaries were eligible to join the Ascentric Group Personal Pension Plan (AGPPP), a defined contribution arrangement.

These defined contribution arrangements are benchmarked to ensure that the reward package overall is competitive. Where possible under local regulation, employees are auto-enrolled and the Group sees a correspondingly high take-up across employees. The Group pays contributions in respect of these arrangements and these contributions are recognised as an expense as the related employee services are provided. The expense recognised in 2020 is £24m (2019: £21m) and is reported within staff costs (note 9).

Defined benefit schemes

In addition to the above arrangements, the Group operates three legacy funded defined benefit schemes, which are established under separate trusts. The assets of the schemes are held in separate Trustee-administered funds and the funding position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The ability of the defined benefit pension schemes to meet the projected pension payments is maintained through investments and, where applicable, contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions.

24. Pension scheme asset (continued)

Defined benefit schemes (continued)

The largest defined benefit scheme is the Royal London Group Pension Scheme ('RLGPS'). RLGPS was closed to new entrants on 1 September 2005 and to future accrual of benefits on 31 March 2016.

As a result of the Royal Liver acquisition on 1 July 2011, the Group took responsibility for two further defined benefit pension schemes: the Royal Liver Assurance Limited Superannuation Fund ('Royal Liver UK') and the Royal Liver Assurance Limited (ROI) Superannuation Fund ('Royal Liver ROI'). Royal Liver employees in these schemes stopped earning additional defined benefit pensions on 30 June 2011.

In addition, the Group also operates a small, legacy unfunded unapproved arrangement for certain executives who joined before 1 September 2005, which provides mirroring of the RLGPS accrual benefits, provided by RLGPS above. This has £15.7m (2019: £14.4m) of liabilities, for which a provision is held in the Group's balance sheet.

The Group has agreed a funding framework with the RLGPS Trustee, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent completed triennial valuation dated 31 December 2016, RLGPS had a funding level of 98%. In line with the provisions of the funding framework, the Company and the Trustee agreed that expected investment returns in excess of the prudent assumptions made would be sufficient to eliminate this shortfall. The triennial valuation dated 31 December 2019 has been agreed between the Company and the Trustee but formal paperwork has not yet been completed. This valuation shows a funding level of 100%. The Trustee also considered the impact of the Covid-19 pandemic and concluded that the impact on the scheme and the ability of the Group to support the scheme was not material enough to require any action.

Consequently, as the scheme is closed to future accrual, the only contributions payable are, if RLGPS has insufficient surplus, in respect of costs of any augmentations including the award of discretionary pension increases.

The Royal Liver schemes are supported in the first instance by the Royal Liver Assurance fund. Only in the event of that fund having insufficient assets to meet the needs of the Royal Liver schemes would the Royal London Open Fund be required to provide support. This structure is supported via guarantees from the Company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2018. As these schemes are closed to future accrual, no contributions are currently payable.

The obligation figures below include an allowance for the impact of allowing for Guaranteed Minimum Pension (GMP) equalisation, following the Lloyd's Banking Group High Court ruling in October 2018. The allowance reflects the costs to cover higher future payments for affected members plus interest and arrears. Following the further judgement on 20 November 2020, an additional allowance has been included for the estimated cost of equalising GMPs for pension scheme members who have previously transferred out.

In conjunction with the acquisition of the Police Mutual Assurance Society, all assets and liabilities of the Police Mutual Assurance Society Staff Pension Fund ('PMAS SPF') were transferred to RLGPS on 1 October 2020. This is shown under "acquisitions" in section (c) below. RLMIS became the Principal Employer of the PMAS SPF on the same date. The wind up of the PMAS SPF was completed on 24 February 2021.

(a) Key assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme assets for both the Group and the Company are shown below.

	2020		2019	
	UK %	ROI %	UK %	ROI %
Discount rate	1.3	0.7	2.0	1.0
Price inflation (RPI)	2.9	N/A	3.0	N/A
Price inflation (CPI)	2.5	1.7	2.3	1.8[1]

[1] Figures shown are Irish CPI used for increasing deferred pensions between leaving and retirement. Pension increases for ROI pensions in payment are based on UK CPI.

The most significant non-financial assumption is the assumed rate of mortality. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a scheme member aged 60 (non-pensioner is assumed to be 45 now).

24. Pension scheme asset (continued)

(a) Key assumptions and sensitivity analysis (continued)

	Group and Company					
	2020			2019		
	RLGPS	RL UK	RL ROI	RLGPS	RL UK	RL ROI
Pensioner						
Male	26	27	27	26	26	26
Female	28	28	29	29	28	29
Non-pensioner						
Male	27	27	28	27	27	28
Female	30	30	31	30	29	30

The sensitivity of the defined benefit obligations to changes in the principal assumptions is shown in the table below.

	Increase in defined benefit obligation	
	2020 £m	2019 £m
100 basis point decrease in discount rates	735	635
5% proportionate decrease in mortality	58	44
100 basis point increase in price inflation (RPI & CPI)	441	359

This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognised within the balance sheet.

The information provided above shows the sensitivity of the schemes' liabilities to changes in the key assumptions. Due to the asset-liability matching strategies, the impact of changes in discount rates and inflation will also impact the schemes' asset values, thereby mitigating the effect of such changes on the Group.

(b) Amounts recognised in the financial statements

The amounts recognised in profit and loss and other comprehensive income in respect of these defined benefit schemes are as follows:

	2020 £m	2019 £m
Costs recognised in profit and loss:		
Administration costs	(5)	(4)
Net interest income	3	6
Past service cost	(8)	(7)
Total costs recognised in profit and loss	(10)	(5)
Remeasurements recognised in other comprehensive income:		
Return on plan assets excluding amounts included in interest income	285	306
Actuarial gains and (losses):		
Changes in demographic assumptions	16	35
Changes in financial assumptions	(444)	(390)
Experience gains	63	13
Total remeasurement (loss) recognised in other comprehensive income	(80)	(36)
Deferred tax on remeasurements of defined benefit pension schemes (note 30a)	4	–
Remeasurement of PMAS Staff Pension Fund on acquisition	5	–
Total remeasurement (loss) recognised in other comprehensive income	(71)	(36)

24. Pension scheme asset (continued)

(c) Reconciliation of pension scheme asset

The amounts recognised in the balance sheet for the Group and the Company are shown below:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of plan assets	3,632	3,367	2,950	2,743	416	386	266	238
Pension scheme obligation	(3,548)	(3,198)	(2,994)	(2,705)	(343)	(299)	(211)	(194)
Net Pension scheme asset	84	169	(44)	38	73	87	55	44
Reported as:								
Net Pension scheme asset	128	169	–	38	73	87	55	44
Net Pension scheme liability	(44)	–	(44)	–	–	–	–	–

A contribution of £4m was made to RLGPS in the year to 31 December 2020 to fund discretionary pension increases (2019: none).In accordance with paragraph 22 of FRS 102 Section 28, ‘Employee Benefits’, the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. The Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes, where applicable.

Movements in the present value of defined benefit obligations were as follows:

	2020 £m	2019 £m
At 1 January	(3,198)	(2,912)
Interest cost	(61)	(78)
Past service cost	(8)	(7)
Net actuarial losses	(365)	(342)
Benefits paid	137	131
Acquisitions	(42)	–
Exchange differences	(11)	10
31 December	(3,548)	(3,198)

Movements in the fair value of scheme assets were as follows:

	2020 £m	2019 £m
At 1 January	3,367	3,125
Interest income	64	84
Return on plan assets (excluding amounts included in interest income)	285	306
Employer contribution	4	–
Administration costs	(5)	(4)
Benefits paid	(137)	(131)
Acquisitions	42	–
Exchange differences	12	(13)
31 December	3,632	3,367

24. Pension scheme asset (continued)

(d) Analysis of plan assets

	Total					
	2020			2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Bonds	3,031	11	3,042	2,646	12	2,658
Equities	352	–	352	458	–	458
Pooled Investment Vehicles	206	303	509	296	323	619
Derivatives	2	(5)	(3)	3	(20)	(17)
REPOs/Reverse REPOs	–	(384)	(384)	–	(421)	(421)
Insurance Policies	–	2	2	–	–	–
Cash	–	80	80	–	63	63
Current assets	–	1	1	–	2	2
Other investments receivables	–	46	46	–	11	11
Other investment liabilities	–	(10)	(10)	–	(3)	(3)
Current liabilities	–	(3)	(3)	–	(3)	(3)
Fair value of plan assets	3,591	41	3,632	3,403	(36)	3,367

The RLGPS FRS 102 Section 28 plan assets include a total of £462m (2019 £560m) investment in Group managed funds.(e) Risks

All three schemes are exposed to differing levels of interest rate, inflation, credit and market risk. The Group has agreed with the Trustee Boards of each pension scheme that, where appropriate, each scheme's risks will be managed in line with the Group's risk appetite. In particular, the schemes' investment strategies are designed to minimise interest rate, inflation and market risk exposure where this is cost and capital effective.

The schemes have active liability-driven investment strategies using a combination of corporate and sovereign debt and derivative instruments such as interest rate and inflation swaps. Approximately 60% of RLGPS assets and 90% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk. During the year the Trustees of the RLGPS maintained the hedge ratio at around 95% of interest rate and inflation exposure on the technical provisions through the use of various derivative instruments.

The schemes' exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. within RLGPS by allocations to property and to high-yield debt). Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection.

The schemes, and therefore the Group, are also exposed to longevity risk.

Further information on the schemes' risk management strategies can be found in the schemes' annual reports and accounts which are available on the Group's website.

(f) Maturity profile

The weighted average duration of the defined benefit obligation is 18 years (2019: 18 years).

25. Subordinated liabilities

Accounting for subordinated liabilities

Subordinated liabilities are recognised initially at the fair value of the proceeds received, net of any discount and less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost. The transaction costs and discount are amortised over the period to the earliest possible redemption date on an effective interest rate basis.

The amortisation charge is included in the statement of comprehensive income within 'Other charges'. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value. Interest costs are expensed as they are incurred.

	Group and Company			
			Effective interest rate	
	2020 £m	2019 £m	2020 %	2019 %
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	398	396	6.20	6.20
Guaranteed Subordinated Notes due 2028	349	351	6.20	6.20
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049	585	584	5.04	5.04
	1,332	1,331		

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043

On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all of the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023, the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

Guaranteed Subordinated Notes due 2028

On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly owned subsidiary of the Company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049

On 7 October 2019, RL Finance Bonds No. 4 plc, a wholly owned subsidiary of the Company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 (the 2049 Notes). The issue price of the 2049 Notes was 97.976% of the principal amount of £600m. The discount of £12m and the directly related costs incurred to issue the 2049 Notes of £4m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2049 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment and subordination terms as those applicable to the 2049 Notes.

The 2049 Notes mature on 7 October 2049. The issuer has the option to redeem all of the 2049 Notes at their principal amount on 7 April 2039 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 4.875% per annum for the period to 7 April 2039, payable annually in arrears on 7 October each year. If the 2049 Notes are not redeemed on 7 April 2039, the interest rate will be reset on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 5.10%.

26. Fund for future appropriations

Accounting for the fund for future appropriations

The nature of benefits for participating contracts is such that the allocation of surpluses between participating policyholders is uncertain. The amount not allocated at the balance sheet date is classified within liabilities as the fund for future appropriations (FFA).

The movement in the FFA during the year is shown in the table below.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	3,700	3,497	4,005	3,805
Transfer from the consolidated statement of comprehensive income	80	243	59	235
Transfer to other comprehensive income	(107)	(40)	(71)	(35)
At 31 December	3,673	3,700	3,993	4,005

The closing balance of FFA for both the Group and the Company includes amounts attributable to the Royal London fund only. The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) With-Profits funds.

27. Technical provisions

Accounting for technical provisions

Insurance and participating investment contracts are valued under FRS 103 using accounting policies consistent with those adopted prior to the application of FRS 103. A change to those accounting policies is permitted if it makes the financial statements more relevant and no less reliable, or more reliable and no less relevant. Non-participating investment contracts are financial liabilities, measured in accordance with IFRS 9 at amortised cost (non-linked business) or at FVTPL (unit-linked business).

The estimation techniques and assumptions used are periodically reviewed, with any changes in estimates reflected in the consolidated statement of comprehensive income as they occur.

Long-term business provision – insurance and participating investment contracts
Participating insurance, non-participating insurance (referred to as 'non-profit') and participating investment contracts are measured using the requirements of the current Solvency II (SII) regulatory regime, with the following adjustments:

- Remove the volatility adjustment (VA) from the discount rate so that a SII risk-free rate is used.
- Exclude the SII risk margin and instead include margins of prudence within demographic assumptions in a consistent way to the approach applied before the adoption of SII.
- Remove the SII transitional measure on technical provisions (TMTP).
- Include all excluded future premium payments restricted within the SII balance sheet.
- Closed fund surpluses. For the closed funds, any excess of the UK GAAP value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes.

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Company's Principles and Practices of Financial Management.

Present value of future profits on non-participating investment contracts and with-profits fund transfers
The present value of future profits on non-participating investment contracts and the value of future transfers from the Group's 90:10 with-profits funds are accounted for as part of the calculation of the participating contract liabilities. However these values cannot be allocated to particular participating liabilities and so, in accordance with FRS 103, they are shown as a separate asset on the face of the balance sheet, the 'Non-participating value of in-force business'.

Non-profit insurance contracts
For non-linked, non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate.

Long-term business provision – non-participating investment contracts
The financial liabilities for non-linked, non-participating investment contracts are measured at amortised cost. The liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate.

Technical provisions for linked liabilities
The technical provisions for linked liabilities include liabilities for unit-linked insurance contracts and unit-linked investment contracts.

Unit-linked insurance and investment contracts
Unit-linked insurance contracts are measured using the requirements of the SII regulatory regime, adjusted for the items shown above for participating contracts, where applicable. The liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate. The cash flows are determined on a best estimate basis plus an allowance for risk, which is made by including margins within the assumptions used, determined on a basis consistent with that applied prior to the adoption of SII.

The financial liabilities for unit-linked investment contracts are designated at inception as at FVTPL. This classification has been used because the unit-linked liabilities are part of a group of financial assets and financial liabilities that are managed and whose performance is evaluated on a fair value basis. The fair value is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date.If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

Liability adequacy test
A liability adequacy test is performed on insurance and participating investment liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

Claims outstanding
The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date.

Reinsurers' share of technical provisions
The reinsurers' share of technical provisions is dependent on the expected claims and benefits arising under the related reinsured insurance contracts. It is measured on a consistent basis to the underlying insurance contracts.

27. Technical provisions (continued)

(a) Long-term business provision

(i) Summary

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Gross				
Participating insurance contract liabilities	34,277	32,613	34,276	32,612
Participating investment contract liabilities	2,248	2,248	2,247	2,247
Non-profit insurance contract liabilities	5,648	5,155	5,714	5,218
Non-profit investment contract liabilities	8	–	8	–
Total long-term business provision	42,181	40,016	42,245	40,077
Reinsurers' share				
Participating insurance contract liabilities	(1,307)	(1,271)	(1,307)	(1,271)
Non-profit insurance contract liabilities	(3,874)	(3,654)	(3,831)	(3,618)
Total reinsurers' share of long-term business provision	(5,181)	(4,925)	(5,138)	(4,889)
Net of reinsurance				
Participating insurance contract liabilities	32,970	31,342	32,969	31,341
Participating investment contract liabilities	2,248	2,248	2,247	2,247
Non-profit insurance contract liabilities	1,774	1,501	1,883	1,600
Non-profit investment contract liabilities	8	–	8	–
Total long-term business provision, net of reinsurance	37,000	35,091	37,107	35,188

27. Technical provisions (continued)

(a) Long-term business provision (continued)

(ii) Movement analysis

The movement in the long-term business provision in the year is shown in the following tables.

	Group – 2020									
	Long-term business provision, gross of reinsurance				Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	32,613	2,248	5,155	–	(1,271)	(3,654)	31,342	2,248	1,501	–
Expected changes during the year	(1,834)	(119)	(85)	(8)	133	191	(1,701)	(119)	106	(8)
Expected closing position	30,779	2,129	5,070	(8)	(1,138)	(3,463)	29,641	2,129	1,607	(8)
New business	34	6	(110)	–	–	(83)	34	6	(193)	–
Experience variations	1,442	76	51	–	(51)	(14)	1,391	76	37	–
Changes in assumptions	1,433	9	627	–	(118)	(322)	1,315	9	305	–
Acquisitions	599	28	11	16	–	(10)	599	28	1	16
Other	(10)	-	(1)	–	–	18	(10)	–	17	–
At 31 December	34,277	2,248	5,648	8	(1,307)	(3,874)	32,970	2,248	1,774	8

	Group – 2019							
	Long-term business provision, gross of reinsurance			Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance		
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m
At 1 January	30,588	2,061	5,125	(1,277)	(3,707)	29,311	2,061	1,418
Expected changes during the year	(1,637)	(72)	(111)	129	181	(1,508)	(72)	70
Expected closing position	28,951	1,989	5,014	(1,148)	(3,526)	27,803	1,989	1,488
New business	45	10	(108)	–	(63)	45	10	(171)
Experience variations	2,633	175	49	(29)	(7)	2,604	175	42
Changes in assumptions	998	41	218	(86)	(48)	912	41	170
Other	(14)	33	(18)	(8)	(10)	(22)	33	(28)
At 31 December	32,613	2,248	5,155	(1,271)	(3,654)	31,342	2,248	1,501

27. Technical provisions (continued)

(a) Long-term business provision (continued)

(ii) Movement analysis (continued)

	Company – 2020									
	Long-term business provision, gross of reinsurance				Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	32,612	2,247	5,218	–	(1,271)	(3,618)	31,341	2,247	1,600	–
Expected changes during the year	(1,833)	(119)	(99)	(8)	133	189	(1,700)	(119)	90	(8)
Expected closing position	30,779	2,128	5,119	(8)	(1,138)	(3,429)	29,641	2,128	1,690	(8)
New business	34	6	(78)	–	–	(80)	34	6	(158)	–
Experience variations	1,439	76	51	–	(51)	(14)	1,388	76	37	–
Changes in assumptions	1,434	9	612	–	(118)	(316)	1,316	9	296	–
Acquisitions	599	28	11	16	–	(10)	599	28	1	16
Other	(9)	–	(1)	–	–	18	(9)	–	17	–
At 31 December	34,276	2,247	5,714	8	(1,307)	(3,831)	32,969	2,247	1,883	8

	Company – 2019							
	Long-term business provision, gross of reinsurance			Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance		
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m
At 1 January	30,588	2,061	5,125	(1,277)	(3,707)	29,311	2,061	1,418
Expected changes during the year	(1,636)	(72)	(131)	129	182	(1,507)	(72)	51
Expected closing position	28,952	1,989	4,994	(1,148)	(3,525)	27,804	1,989	1,469
New business	45	10	(72)	–	(64)	45	10	(136)
Experience variations	2,636	175	44	(29)	(3)	2,607	175	41
Changes in assumptions	1,005	41	182	(86)	(21)	919	41	161
Other	(26)	32	70	(8)	(5)	(34)	32	65
At 31 December	32,612	2,247	5,218	(1,271)	(3,618)	31,341	2,247	1,600

(b) Technical provisions for linked liabilities

(i) Summary

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Gross				
Unit linked insurance contract liabilities	1,272	1,365	1,272	1,365
Unit linked investment contract liabilities	58,787	54,027	58,787	54,027
Total technical provisions for linked liabilities	60,059	55,392	60,059	55,392
Reinsurers' share				
Unit linked insurance contract liabilities	50	17	50	17
Total reinsurers' share of technical provisions for linked liabilities	50	17	50	17
Net of reinsurance				
Unit linked insurance contract liabilities	1,322	1,382	1,322	1,382
Unit linked investment contract liabilities	58,787	54,027	58,787	54,027
Total technical provisions for linked liabilities, net of reinsurance	60,109	55,409	60,109	55,409

27. Technical provisions (continued)

(b) Technical provisions for linked liabilities (continued)

(i) Summary (continued)

The movement in the technical provisions for linked liabilities in the year is shown in the following tables.

	Group – 2020					
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities		Technical provisions for linked liabilities, net of reinsurance	
	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m
At 1 January	1,365	54,027	17	–	1,382	54,027
Expected changes during the year	(169)	(2,268)	(3)	–	(172)	(2,268)
Expected closing position	1,196	51,759	14	–	1,210	51,759
New business	(9)	5,706	–	–	(9)	5,706
Experience variations	66	1,176	10	–	76	1,176
Changes in assumptions	23	2	29	–	52	2
Acquisitions	–	115	–	–	–	115
Other movements	(4)	29	(3)	–	(7)	29
At 31 December	1,272	58,787	50	–	1,322	58,787

	Group – 2019					
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities		Technical provisions for linked liabilities, net of reinsurance	
	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m
At 1 January	1,449	42,652	23	–	1,472	42,652
Expected changes during the year	(176)	(1,679)	(4)	–	(180)	(1,679)
Expected closing position	1,273	40,973	19	–	1,292	40,973
New business	(4)	7,396	–	–	(4)	7,396
Experience variations	123	5,589	4	–	127	5,589
Changes in assumptions	(23)	53	(4)	–	(27)	53
Other movements	(4)	16	(2)	–	(6)	16
At 31 December	1,365	54,027	17	–	1,382	54,027

27. Technical provisions (continued)

(b) Technical provisions for linked liabilities (continued)

(ii) Movement analysis

	Company – 2020					
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities		Technical provisions for linked liabilities, net of reinsurance	
	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m
At 1 January	1,365	54,027	17	–	1,382	54,027
Expected changes during the year	(169)	(2,268)	(3)	–	(172)	(2,268)
Expected closing position	1,196	51,759	14	–	1,210	51,759
New business	(9)	5,706	-	–	(9)	5,706
Experience variations	66	1,176	10	–	76	1,176
Changes in assumptions	23	2	29	–	52	2
Acquisitions	–	115	–	–	–	115
Other movements	(4)	29	(3)	–	(7)	29
At 31 December	1,272	58,787	50	–	1,322	58,787

	Company – 2019					
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities		Technical provisions for linked liabilities, net of reinsurance	
	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m	Unit-linked insurance £m	Unit-linked investment £m
At 1 January	1,449	42,652	23	–	1,472	42,652
Expected changes during the year	(176)	(1,679)	(4)	–	(180)	(1,679)
Expected closing position	1,273	40,973	19	–	1,292	40,973
New business	(4)	7,396	–	–	(4)	7,396
Experience variations	123	5,589	4	–	127	5,589
Changes in assumptions	(23)	53	(4)	–	(27)	53
Other movements	(4)	16	(2)	–	(6)	16
At 31 December	1,365	54,027	17	–	1,382	54,027

28. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January				
Non-participating value of in-force business	2,089	1,701	2,089	1,701
Deferred acquisition costs arising on investment contracts (note 23)	194	228	194	228
Renewal commission liability (note 31)	(152)	(149)	(152)	(149)
Deferred fee income on investment contracts (note 33)	(91)	(109)	(91)	(109)
Total value of in-force business at 1 January	2,040	1,671	2,040	1,671
Expected changes during the year	(54)	(2)	(54)	(2)
Expected closing position	1,986	1,669	1,986	1,669
New business	203	258	203	258
Experience variations	44	226	44	226
Changes in assumptions	(58)	(99)	(58)	(99)
Acquisitions	(1)	–	(1)	–
Other movements	(12)	(14)	(12)	(14)
	2,162	2,040	2,162	2,040
At 31 December				
Non-participating value of in-force business	2,229	2,089	2,229	2,089
Deferred acquisition costs arising on investment contracts (note 23)	163	194	163	194
Renewal commission liability (note 31)	(155)	(152)	(155)	(152)
Deferred fee income on investment contracts (note 33)	(75)	(91)	(75)	(91)
Total value of in-force business at 31 December	2,162	2,040	2,162	2,040

29. Technical provisions and reinsurance assets – valuation assumptions

(a) Assumptions

The assumptions used to determine insurance and investment contract liabilities are set by the Board of Directors based on advice given by the Group Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used can be summarised as follows.

(i) Demographic

Mortality and morbidity

Mortality and morbidity risks are inherent in most lines of business. For protection business an increase in mortality and morbidity rates leads to increased claim levels and hence an increase in liabilities. For annuity business the risk is that policyholders live longer than expected. Reinsurance arrangements have been put in place to mitigate mortality and morbidity risks.

The rates of mortality and morbidity are set in line with recent Company experience, where it is available in sufficient volume to provide reliable results. Where Company experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured. In addition, the company has allowed for the expected impact of Covid-19 pandemic on short-term mortality and morbidity experience.

A margin is included to provide for potential adverse variations in experience. The margins are typically 2% for mortality risks, 4.8% for morbidity risks with reviewable premiums and 8.9% for morbidity business with guaranteed premiums.

29. Technical provisions and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Mortality and morbidity (continued)

The principal mortality assumptions are shown in the following table.

Class of business	2020 mortality	2019 mortality
Ordinary long-term assurances		
RL Legacy (Royal London Mutual (RLM) and Ex-United Assurance Group (UAG)) non-linked	85.68% AMC00 and 97.92% AFC00	85.68% AMC00 and 111.18% AFC00
RL Intermediary Pensions	56.10% AMC00 and 52.02% AFC00	56.10% AMC00 and 91.80% AFC00
RL Legacy (Ex-Royal Liver UK) and RLI DAC	106.08% AMC00 and 111.18% AFC00	106.08% AMC00 and 111.18% AFC00
RL Legacy (Ex-RL (CIS))		
traditional with-profits, whole life	66.30% AMC00	66.30% AMC00
traditional with-profits, endowment	63.24% AMC00	63.24% AMC00
accumulating with-profits bond	96.90% AMC00	96.90% AMC00
RL Legacy non-linked term assurances (level benefits)[1]		
male non-smokers	83.64% TMN00 sel	83.64% TMN00 sel
male smokers	83.64% TMS00 sel	83.64% TMS00 sel
female non-smokers	83.64% TFN00 sel	83.64% TFN00 sel
female smokers	83.64% TFS00 sel	83.64% TFS00 sel
RL Intermediary UK Protection term assurances (level benefits)[1]		
male non-smokers	76.50% TMNL08 sel	77.52% TMNL08 sel
male smokers	78.54% TMSL08 sel	79.56% TMSL08 sel
female non-smokers	94.86% TFNL08 sel	95.88% TFNL08 sel
female smokers	74.46% TFSL08 sel	76.50% TFSL08 sel
RL Intermediary UK Protection accelerated critical illness (guaranteed premiums)[1]		
male non-smokers	96.95% ACMNL08 sel	96.95% ACMNL08 sel
male smokers	92.60% ACMSL08 sel	92.60% ACMSL08 sel
female non-smokers	102.40% ACFNL08 sel	107.85% ACFNL08 sel
female smokers	93.69% ACFSL08 sel	93.69% ACFSL08 sel
RL Intermediary UK Protection stand-alone critical illness (guaranteed premiums)[1]		
male non-smokers	80.61% ACMNL08 sel	95.87% ACMNL08 sel
male smokers	78.44% ACMSL08 sel	78.44% ACMSL08 sel
female non-smokers	106.76% ACFNL08 sel	106.76% ACFNL08 sel
female smokers	52.29% ACFSL08 sel	52.29% ACFSL08 sel
RL Intermediary UK Protection unit linked term assurances		
male non-smokers	97.92% TMNL08 sel	98.94% TMNL08 sel
male smokers	129.54% TMSL08 sel	130.56% TMSL08 sel
female non-smokers	106.08% TFNL08 sel	108.12% TFNL08 sel
female smokers	97.92% TFSL08 sel	98.94% TFSL08 sel
RLI DAC term assurances (level benefits)[1]		
male non-smokers	85.68% TMNL08 sel	90.78% TMNL08 sel
male smokers	84.66% TMSL08 sel	83.64% TMSL08 sel
female non-smokers	83.64% TFNL08 sel	95.88% TFNL08 sel
female smokers	82.62% TFSL08 sel	87.72% TFSL08 sel
RLI DAC accelerated critical illness (guaranteed premiums)[1]		
male non-smokers	111.12% ACMNL08 sel	104.58% ACMNL08 sel
male smokers	106.76% ACMSL08 sel	99.13% ACMSL08 sel
female non-smokers	117.65% ACFNL08 sel	115.47% ACFNL08 sel
female smokers	107.85% ACFSL08 sel	101.31% ACFSL08 sel
Pensions – deferred annuities in deferment		
RL Legacy (Ex-Refuge Assurance OB) non-linked	71.54% PPMD00 and 80.36%PPFD00	78.40% PPMD00 and 80.36%PPFD00
RL Pensions – individual	62.72% AMC00 and 64.68% AFC00	68.60% AMC00 and 71.54% AFC00
RL Pensions – group	59.78% AMC00 and 50.96% AFC00	59.78% AMC00 and 50.96% AFC00
RL Legacy (Ex-RL (CIS)) Personal Pensions	73.50% AMC00	73.50% AMC00
RL Legacy (Ex-RL (CIS)) Section 226 Retirement annuity	44.10% AMC00	44.10% AMC00

29. Technical provisions and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Mortality and morbidity (continued)

Class of business	2020 mortality	2019 mortality
Pensions – immediate annuities and deferred annuities in payment		
RL Legacy (Royal London Mutual and Ex-UAG) non-linked	97.02% PML08 CMI (2019) S_k=7.5[2], A= 0% 1.5% pa[3]	97.02% PML08 CMI (2018) S_k=7.5[2] 1.5% pa[4]
	93.10% PFL08 CMI (2019) S_k =7.5[2], A=0%1.5% pa[3]	93.10% PFL08 CMI (2018) S_k =7.5[2] 1.5% pa[4]
RL Intermediary Pensions (excluding opt-outs from compromise scheme)	97.02% PML08 CMI (2019) S_k =7.5[2], A=0.35%1.5% pa[3]	97.02% PML08 CMI (2018) S_k =8[2] 1.5% pa[4]
	90.16% PFL08 CMI (2019) S_k =7.5[2] A=0.35%1.5% pa[3]	90.16% PFL08 CMI (2018) S_k =8[2] 1.5% pa[4]
RL Intermediary Pensions (opt-outs from compromise scheme)	88.20% PML08 CMI (2019) S_k =7.5[2] A=0.35% 1.5% pa[3]	88.20% PML08 CMI (2018) S_k =8[2] 1.5% pa[4]
	84.28% PFL08 CMI (2019) S_k =7.5[2] A=0.35% 1.5% pa[3]	84.28% PFL08 CMI (2018) S_k =8[2] 1.5% pa[4]
RL Legacy (Ex-RL (CIS)) immediate annuities in payment		
Personal pensions	109.76% PML08 CMI (2019) S_k =7.5[2] A= 0% 1.5% pa[3]	109.76% PML08 CMI (2018) S_k =7.5[2] 1.5% pa[4]
	98.98% PFL08 CMI (2019) S_k =7.5[2] A=0% 1.5% pa[3]	98.98% PFL08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
Section 226 retirement annuity	104.86% PML08 CMI (2019) S_k =7.5[2] A=0% 1.5% pa[3]	104.86% PML08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
	94.08% PFL08 CMI (2019) S_k =7.5[2] A=0% 1.5% pa[3]	94.08% PFL08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
RL Legacy (Ex-RL (CIS)) deferred annuities in payment		
Personal pensions	102.90% PML08 CMI (2019) S_k =7.5[2] A=0% 1.5% pa[3]	102.90% PML08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
	97.02% PFL08 CMI (2019) S_k =7.5[2] A=0% 1.5% pa[3]	97.02% PFL08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
Section 226 retirement annuity	100.94% PML08 CMI (2019) S_k =7.5[2] A=0% 1.5% pa[3]	100.94% PML08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
	94.08% PFL08 CMI (2019) S_k=7.5[2] A=0%1.5% pa[3]	94.08% PFL08 CMI (2018) S^k =7.5[2] 1.5% pa[4]
Industrial assurance		
RL Legacy (RLM)	71.4% ELT17 (males)	60.18% ELT16 (males)
RL Legacy (Ex-UAG)	94.86% ELT17 (males)	74.46% ELT16 (males)
RL Legacy (Ex-Royal Liver UK)	72.42% ELT17 (males)	57.12% ELT16 (males)
RLI DAC	80.58% ELT17 (males)	64.26% ELT16 (males)
RL Legacy (Ex-RL (CIS))		
Endowment	92.82% ELT17 (males)	76.50% ELT16 (males)
Whole life	64.26% ELT17 (males)	52.02% ELT16 (males)

1 The assumption is shown as a percentage of a base table in 2000 or 2008 projected in line with mortality improvement or morbidity deterioration factors as appropriate.
2 The smoothing parameter (S_k) was introduced in CMI (2016) with a core value of 7.5 for CMI (2016) and CMI (2017). The Core CMI Model is parameterised to reflect best estimate mortality improvements for the general UK population (based on England & Wales data) which is not expected to be suitable for users interested in populations other than the general England and Wales population. Following consultation with the industry, the smoothing parameter reduced to a core value of 7 for CMI (2018) to reflect the slowing in mortality improvements. In addition, a new parameter (A) was introduced, the "initial addition to mortality improvements", to allow users to adjust initial mortality improvements more easily to reflect their views on appropriate mortality improvements for their business. Therefore the appropriateness of core parameterisations for Royal London's business has been reviewed and the parameters adjusted to reflect the socio-economic mix of policyholders of each type of business.
3 The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2019 CMI model mortality improvements and a percentage per annum long-term improvement rate.
4 The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2018 CMI model mortality improvements and a percentage per annum long-term improvement rate.

Persistency

Persistency is the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry.

The rates of persistency are set in line with recent Company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience, including the expected short term impact of the Covid-19 pandemic. The rates vary by product line, sales channel, duration in force, for some products, by fund size.

A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

29. Technical provisions and reinsurance assets - valuation assumptions (continued)

(a) Assumptions (continued)

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and, for business transferred to the Company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A margin is included to provide for potential adverse variations in experience. The margin is typically 2%. For RL (CIS) and Royal Liver business covered by rate cards, margins of 0.7% and 0% are applied during the guaranteed period of the respective rate card.

Expense inflation assumptions are generally set relative to the domestic measure of inflation for the country in which the business is derived unless the business is subject to a rate card agreement that specifies the inflation assumption to apply. UK inflation is based on the UK Retail Price Index (UK RPI) and Republic of Ireland (RoI) inflation is based on the RoI Consumer Price Index (RoI CPI).

These inflation assumptions, which vary by duration, are set by fitting a curve to market implied inflation based on sterling-denominated inflation linked swaps for UK RPI and Euro-denominated inflation linked swaps for RoI CPI.

Expenses for open books of business are assumed to inflate in line with the change in UK RPI plus 0.5% (2019: UK RPI +0.5%) for UK business and RoI CPI plus 1.24% (2019: RoI CPI +1.2%) for Irish business.

Higher rates of expense inflation are assumed for closed books of business:

- For RL (CIS) business, the costs arising under the rate card are assumed to increase in line with the change in the UK RPI +0.9% (2019: UK RPI +0.5%), while the actual expenses incurred from servicing this business are assumed to increase in line with the change in the UK RPI +0.5% (2019: UK RPI +0.5%) for post vesting GAO business and UK RPI +2.5% (2019: UK RPI +2.5%) for other business.

- For Liver fund business, the costs arising under the rate card to December 2021 are assumed to increase in line with the change in RoI CPI +1% (2019: ROI CPI +1%) for ex-Caledonian (part of RLI DAC) business and UK RPI +0.5% (2019: UK RPI +0.5%) for other business. The actual expenses incurred from servicing Liver fund business are assumed to increase at UK RPI +4% (2019: UK RPI +4%) for UK business and RoI CPI +6.63% (2019: ROI CPI +6.2%) for Irish business.

- For other closed books, the assumptions are UK RPI +2% for PLAL business (2019: UK RPI +2%) and UK RPI +4% for legacy business within the Royal London Long-Term Fund (2019: UK RPI +4%).

29. Technical provisions and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(ii) Expenses (continued)

The principal expense assumptions are shown in the following table.

	2020		2019	
Class of business	Per policy £	Reserve %	Per policy £	Reserve %
Ordinary long-term				
RL Legacy (RLM) WP life	19.58	0.091	17.83	0.088
RL Legacy (RLM) AWP pensions	18.76	0.091	16.30	0.088
RL Legacy (Ex-RA) WP pre 1998	20.47	0.085	17.43	0.080
RL Legacy (Ex-RA) WP pre 1998 pensions	16.74	0.085	15.12	0.080
RL Legacy (Ex-United Friendly (UF)) WP DWP pensions	17.06	0.085	14.81	0.080
RL Intermediary UK Protection (closed book)	31.11	0.066	28.04	0.061
RL Intermediary UK Protection (open book)	19.74	0.066	16.25	0.061
RL Legacy protection business	12.84	0.066	12.00	0.061
RLI DAC Protection[1]	38.33	0.061	36.62[1]	0.061
RL Legacy (Ex-RL (CIS)) Investments				
premium paying	25.52	0.190	23.46	0.190
single premium/paid up	21.81	0.190	19.89	0.190
RL Legacy (Ex-RL (CIS)) Protection				
premium paying	23.31	0.190	21.33	0.190
single premium/paid up	20.65	0.190	18.71	0.190
OB annuities in payment	21.18	0.190	19.27	0.190
RL Intermediary Pensions – Individual RP	36.68	0.064[2]	33.31	0.059[2]
RL Intermediary Pensions – Group RP	22.92	0.064[2]	22.09	0.059[2]
RL Legacy (Ex-RL (CIS)) Pensions				
premium paying	23.28	0.190	20.77	0.190
paid up	20.42	0.190	17.96	0.190
Industrial assurance				
RL Legacy (RLM)	17.55	0.091	13.44	0.088
RL Legacy (Ex-RA)	18.34	0.066	13.13	0.061
RL Legacy (Ex-Royal Liver UK)	12.12	0.260	11.92	0.260
RL Legacy (Ex-UF)	18.34	0.085	13.13	0.080
RLI DAC[1]	13.54	0.260	14.07	0.260
RL Legacy (Ex-RL (CIS))				
premium paying	16.53	0.190	14.69	0.190
paid up	14.36	0.190	12.55	0.190

1 RLI DAC expenses are quoted in Euros.
2 Rate shown applies to non-linked funds. For unit funds, the assumption is 0.067% (2019: 0.064%).

29. Technical provisions and reinsurance assets – valuation assumptions (continued)

(b) Economic

- **Non-participating liabilities:** The non-participating liabilities have been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to a risk-free rate from the forward swap curve adjusted for risk of default. A reduction in interest rates will increase the liabilities.

- **Participating liabilities:** The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) 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 swap curve adjusted for risk of default; and
  - 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.

- **Non-participating value of in-force business:** The non-participating value of in-force business has been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to risk-free yields.

30. Deferred tax

(a) Net deferred tax balance

The tables below show the movement in the net deferred tax balance in the year. The deferred tax assets and liabilities are considered to be non-current.

	Group – 2020					Group 2019			
	1 Jan £m	Acquisitions/ Disposals	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	31 Dec £m	1 Jan £m	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(12)	(2)	4	–	(10)	(19)	7	–	(12)
Excess management expenses carried forward	–	(2)	2	–	–	–	–	–	–
Revaluation of investments	200	(15)	(27)	–	158	156	44	–	200
Defined benefit pension schemes	9	–	–	(4)	5	8	–	1	9
Other short-term timing differences	(18)	10	(5)	–	(13)	(20)	2	–	(18)
Net deferred tax liability	179	(9)	(26)	(4)	140	125	53	1	179

	Company – 2020					Company 2019			
	1 Jan £m	Acquisitions/ Disposals	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	31 Dec £m	1 Jan £m	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	31 Dec £m
Deferred acquisition expenses	(12)	(2)	4	–	(10)	(19)	7	–	(12)
Excess management expenses carried forward	–	(2)	2	–	–				
Revaluation of investments	196	(15)	(28)	–	153	156	40	–	196
Defined benefit pension schemes	9	–	–	(4)	5	8	–	1	9
Other short-term timing differences	(1)	(1)	(2)	–	(4)	–	(1)	–	(1)
Net deferred tax liability	192	(20)	(24)	(4)	144	145	46	1	192

During the year, the 2020 deferred tax balance sheet includes £9m for the Group that relates to the net of £20m relating to the transfer in of Police Mutual within the Company and £(11)m relating to the transfer out of Ascentric which are subsidiaries in the group not within the Company. These are shown in the acquisitions/disposals columns of the tables above.

30. Deferred tax (continued)

(a) Net deferred tax balance (continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset as they all meet the criteria above.

In the next 12 months we expect the net reversal of deferred tax assets and deferred tax liabilities to be £11m (2019: £9m) for the Group of which £10m (2019: £11m) relates to the Company. The £10m (2019: £11m) for the Company is due to the spreading over seven years of specific gains and deferred expenses. The corresponding £1m (2019: £(2)m) within the Group position is due to a further £1m (2019: £2m) of gains spread over 7 years within the group's subsidiaries less accelerated capital allowances available for deduction in 12 months of £nil (2019: £(4)m).

(b) Unrecognised deferred tax balances

(i) Unrecognised deferred tax assets

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £15m (2019: £4m), of which £nil (2019: £nil) related to the Company. These unused losses and allowances can be carried forward and utilised.

(ii) Unrecognised deferred tax liabilities

Deferred tax liabilities arising from gains on subsidiary holdings have not been recognised by the Company as it controls the timing of any sale of a subsidiary and the repatriation of any dividend. It is the Group's intention that these investments will be held to provide long-term returns and any recognition of deferred tax will be accounted for accordingly. The potential tax liability arising is less than £1m (2019: less than £1m).

There are no other unrecognised deferred tax assets or liabilities within the Group.

31. Other provisions

Accounting for provisions

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future losses. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Provision for future commission	155	152	155	152
Other provisions	127	134	118	118
	282	286	273	270

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force. Other provisions include:

- Property remediation costs of £36m (2019: £38m) which relate to remediation required to an investment property development in London. The work is expected to be completed by the end of 2021;
- Rectifications of £48m (2019: £50m) are the expected cost of addressing past sales practices and other servicing issues. The provision is expected to be utilised over the period from 2021 to 2024;
- Long-term incentive schemes of £11m (2019: £14m). The Group provides certain executives with cash-settled long-term incentive schemes. Amounts payable are dependent on a basket of individual performance measures, with performance assessed using a balanced scorecard of three-year performance measures. The amount provided is expected to be paid between 2021 and 2024;
- A provision of £16m (2019: £13m) relating to the unfunded unapproved retirement benefits schemes for certain executives who joined before 1 September 2005. Further information is disclosed in note 24; and

31. Other provisions (continued)

- Other provisions of £16m (2019: £19m) all individually less than £10m.

The movement in provisions during the year is shown in the following table.

	Group		Company	
	Provision for future commission £m	Other provisions £m	Provision for future commission £m	Other provisions £m
At 1 January 2020	152	134	152	118
Additions in the year	–	57	–	61
Releases in the year	–	(14)	–	(34)
Experience variations	22	–	22	–
Utilised during the year	(20)	(50)	(20)	(27)
Unwind of the discount rate	1	–	1	–
At 31 December 2020	155	127	155	118

32. Creditors

Accounting for creditors

Creditors are measured at amortised cost with the exception of derivative liabilities and a reinsurance liability designated at FVTPL.

The creditors measured at amortised cost are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Derivative liabilities are classified at FVTPL as required by IFRS 9. Movements in the fair value of the liabilities are recognised within unrealised gains/losses on investments.

The Group has a financial liability in respect of a reinsurance arrangement and holds an unquoted debt security which has cash flows exactly matching those of the reinsurance liability. Consequently, the reinsurance liability is designated at FVTPL in order to avoid a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'). Movements in the fair value of the liability are recognised in the statement of comprehensive income within outwards reinsurance premiums. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within unrealised gains/losses on investments.

(a) Creditors arising out of direct insurance operations at amortised cost

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Amounts due to customers	237	228	216	217

(b) Creditors arising out of reinsurance operations

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Creditors arising out of reinsurance operations with external insurers at FVTPL	2,820	2,689	2,820	2,689
Creditors arising out of reinsurance operations with external insurers at amortised cost	51	40	42	32
Creditors arising out of reinsurance operations with other Group entities at amortised cost	–	–	7	10
	2,871	2,729	2,869	2,731

32. Creditors (continued)

(b) Creditors arising out of reinsurance operations (continued)

The creditors arising out of reinsurance operations which are valued at FVTPL relates to a liability that is owed to a major reinsurer under a reinsurance agreement to reinsure a proportion of the Group's obligations in respect of deferred annuities and annuities in payment of the RL (CIS) with-profits fund. Under the reinsurance agreement, the RL (CIS) with-profits fund is contracted to pay premiums in accordance with a schedule of payments covering a period up to 2066. At inception of the contract, which was before RL (CIS) was acquired by the Group, it recognised its premium obligation in full within the statement of comprehensive income by a charge representing the net present value of the contracted payments. The Group and the Company continue to recognise a financial liability to the extent that the premium has yet to fall due for payment. At inception of the contract, RL (CIS) also purchased a debt security, cash flows from which will fund the discharge of the financial liability as amounts fall due for payment. The movement in the fair value of the liability in the year was a gain of £218m (2019: gain of £21m) which is included in outwards reinsurance premiums.

(c) Amounts owed to credit institutions at amortised cost

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Bank overdrafts	72	67	72	56

The bank overdrafts are repayable within one year or on demand.

(d) Other creditors, including taxation and social security

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash collateral	3,710	1,825	3,710	1,825
Derivative liabilities	1,986	1,519	1,986	1,519
Amounts due to brokers	81	42	39	6
Amounts due to other Group entities	–	–	28	52
Current tax liability	1	2	–	–
Other	277	229	65	68
	6,055	3,617	5,828	3,470

Analysis of cash collateral

	Group and Company	
	2020 £m	2019 £m
Cash collateral – contractual maturity analysis:		
Not later than one year	5	3
Later than one year and not later than five years	33	42
Later than five years	3,672	1,780
	3,710	1,825

33. Accruals and deferred income

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Accrued expenses	46	66	–	–
Deferred fee income	75	91	75	91
	121	157	75	91

Deferred fee income is front-end fees received from investment contract holders as a prepayment for investment management and related services. These amounts are non-refundable and are released to income as the services are rendered.

34. Contingent liabilities

Accounting for contingent liabilities
Contingent liabilities are disclosed if:

- there is a possible obligation as a result of a past event; or
- there is a present obligation as a result of a past event, but a liability is not recognised either because a payment is not probable or the amount cannot be reliably estimated.

Contingent assets are disclosed when an inflow of economic benefit is considered probable.

During the year, the Group and the Company continued to address issues from past selling practices, taxation and other regulatory matters. Potential liabilities are influenced by a number of factors including the actions and requirements of the external bodies including regulators and tax authorities as well as ombudsman rulings, industry compensation schemes and court judgments. The directors consider that they have made provision for known liabilities arising across the Group and, as and when the circumstances calling for such provision arise, that the Group and the Company have adequate reserves to meet all reasonably foreseeable eventualities.

In the course of conducting business, the Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with the disposal of entities previously owned by the Group. In the opinion of the directors, no material unprovisioned loss will arise in respect of these guarantees, indemnities and warranties.

35. Commitments

(a) Capital expenditure

The Group and the Company have the following commitments to make capital purchases as at the balance sheet date.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Investment property	165	91	165	91

(b) Investments in private equity funds

The Group and the Company have a portfolio of investments in private equity funds. The structure of these funds is such that the commitment is drawn down during the life of the fund to make investments and to pay approved costs of the fund. The total amount committed but undrawn at the balance sheet date for the Group and the Company is £370m (2019: £350m).

(c) Operating lease commitments

Accounting for operating lease payments
Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments under operating leases, net of lease incentives received, are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Operating lease payments represent rentals payable by the Group for land and buildings. The total lease payments recognised as an expense in the year were £4m (2019: £6m). The total future minimum lease payments due under these arrangements, net of any related sub-lease receipts, are shown in the following table.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Total future minimum lease payments under non-cancellable leases:				
Not later than one year	4	6	4	4
Later than one year and not later than five years	8	12	8	12
Later than five years	–	1	–	1
	12	19	12	17

36. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences which define the types of risk the Group views as being seek, manage, minimise or avoid and which form a core part of the Group's risk management system and control techniques. The Group seeks to manage its exposures to risk through its risk management system ensuring that the residual risk exposures are within acceptable tolerances agreed by the Board. The risk management system established within the Group is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Group is well capitalised. The strategic report section of this Annual Report and Accounts includes a summary of the Group's risk management and internal controls approach, seen on page 59. The key control techniques for the major categories of risk exposure are summarised in the following sections.

(a) Insurance risk

Insurance risk arises within the Group from the inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities. The Group has a preference for several insurance risks in order to deliver value for our customers: mortality risk, morbidity risk, persistency risk (as a part of writing new business) and expense risk. The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future experience, in particular mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks that the Group is exposed to can be summarised as follows:

- mortality – the risk that policyholders die sooner than expected. Mortality risk only applies to liabilities which increase under these circumstances;
- morbidity – the risk that policyholders make morbidity related claims more frequently or for a longer period of time than expected;
- persistency – the risk that the rate of policy lapses, terminations, renewals, partial withdrawals and surrenders, or the number of policies converting to paid-up status, is different from that expected, resulting in an increase in liabilities;
- longevity – the risk that policyholders live longer than expected resulting in higher payments under annuity or similar obligations and so an increase in liabilities;
- expense – the risk that the expense associated with investing in assets, or of administering pensions, insurance or reinsurance contracts held within the Group is higher than expected; and
- option take-up – the risk that the take-up rate of options, in particular guaranteed annuity options, provided to policyholders is different from expected, resulting in an increase in benefit payments and therefore liabilities.

In addition, it is necessary for the Group to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include the allocation of investments between asset classes, the setting of with-profits policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms.

Insurance risk is largely mitigated, monitored and managed by the various business units/divisions within the Group. Risk relating to the Group's final salary pension schemes is managed separately by a specialist area in the Group, supported by external advisers.

Insurance risks are managed through the following mechanisms:

- the use of the Group insurance risk policy to provide Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks;
- regular monitoring of actual exposures compared to agreed limits to ensure that the insurance risk accepted remains within risk appetite;
- members of the Group's Technical Review Committee are responsible for reviewing and approving all key demographic and expense assumption changes;
- the use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Group's exposure to large single claims and catastrophes and to alleviate the impact of new business strain;
- the diversification of business over several classes of insurance and over large numbers of individual risks to reduce variability in loss experience; and
- control over product development and pricing: members of the Product Pricing Approval Committee are responsible for assessing the pricing of new products and the repricing of existing products manufactured by the Group.

36. Risk management (continued)

(a) Insurance risk (continued)

These techniques are supported by the use of actuarial models to calculate premiums, monitor claims patterns and calculate liabilities. The derivation of the assumptions uses industry-standard actuarial and statistical methods based on up-to-date and credible information. The impact of Covid-19 has been considered when updating these assumptions for YE20 reporting. A separate principal risk and uncertainty has been created to cover the wider-ranging potential impacts associated with Covid-19, seen on page 62.

The primary responsibility for ongoing oversight and effectiveness of the management of insurance risk falls to the Insurance Risk Committee. The Committee also considers the Group's reinsurance coverage.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Group's Insurance Risk Policy for an annual review of the policy by the policy content owner. The policy provides Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks. The policy content owner makes sure that the policy is implemented appropriately within the Group. The Insurance Risk Committee is responsible for reviewing the policy on an annual basis.

Concentration risk

The Group and the Company write a diverse mix of business across a diverse customer base. The most material concentration of insurance risk relates to persistency risk in respect of unit-linked pension business. As the Group has written substantially all of its business in the UK, results are also sensitive to demographic and economic changes arising in the UK. The Group seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits (including limits on individual lives).

The Group's diverse portfolio of business helps mitigate concentration risk across sectors (pensions, protection, intermediated, direct), but there is some concentration risk within sectors. In particular, there is a risk associated with legislative changes affecting pension business, which could result in a marked worsening in persistency, however, although the Group's portfolio of employer-sponsored pension schemes includes some large schemes there are no schemes that represent an excessive percentage of the relevant portfolio. Due to the nature of the UK market, another potential area of concentration is the reliance of the Group on new business from key Independent Financial Adviser (IFA) networks but exposure to any single IFA is not considered to be material.

Sensitivity analysis

The following tables present the sensitivity of insurance and investment contract liabilities to the insurance risks set out above. Sensitivities are only shown in one direction as an equal and opposite movement in the variable for the majority of business would have an equal and opposite impact on the value of insurance and investment contract liabilities.

- Mortality and morbidity

  5% proportionate decrease in base mortality and morbidity rates. This sensitivity demonstrates the effect of a decrease in the rate of deaths and serious illness.

  The impact of such a change on the contract liabilities varies depending on the type of business written. For life assurance business a decrease in mortality rates will typically decrease the liabilities as there will be fewer payouts for early death. However, for those policies which contain a guaranteed annuity option the policy liability may increase as its value depends in part on the length of time over which the guaranteed rate will be paid. Likewise, for annuity business a decrease in mortality rates will increase the liability as the average period over which annuity payments have to be made will be extended.

- Persistency

  10% proportionate decrease in rates of lapse conversion to paid-up and, for pensions business, retirement, partial withdrawal and income drawdown.. This sensitivity reflects a single, downward movement in these lapse rates. This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in force.

- Expenses

  10% decrease in maintenance expenses – the ongoing cost of administering contracts. This sensitivity is applied to the projected level of expenses. There is no change to the assumed rate of future expense inflation. A reduction in expenses will reduce the value of the liabilities for most classes of business. For some unit-linked contracts where future charges cover expenses, however, the liability may be unaffected.

The tables demonstrate the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, the assumptions may be interdependent. It should also be noted that the impact on the liabilities from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

36. Risk management (continued)
(a) Insurance risk (continued)

	Group							
	2020				2019			
		Impact of change in variable				Impact of change in variable		
	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m	Liability as reported £m	Mortality and morbidity £m	Lapses £m	Expenses £m
Long-term business provision, gross of reinsurance								
Participating insurance contracts	34,277	14	6	(15)	32,613	13	3	(12)
Participating investment contracts	2,248	(12)	(2)	8	2,248	(10)	(1)	6
Non-profit insurance contracts								
Non-profit, other than annuities	919	(216)	55	(69)	615	(186)	26	(56)
Non-profit annuities	4,729	107	–	(9)	4,540	98	–	(7)
	5,648	(109)	55	(78)	5,155	(88)	26	(63)
Non-profit investment contracts	8	–	–	–	–	–	–	–
Total Long-term business provision, gross of insurance	**42,181**	**(107)**	**59**	**(85)**	**40,016**	**(85)**	**28**	**(69)**
Long-term business provision, net of reinsurance								
Participating insurance contracts	32,970	(14)	6	(15)	31,342	(12)	3	(12)
Participating investment contracts	2,248	(12)	(2)	8	2,248	(10)	(1)	6
Non-profit insurance contracts								
Non-profit, other than annuities	530	(2)	33	(66)	369	(6)	14	(55)
Non-profit annuities	1,244	24	–	(9)	1,132	22	–	(7)
	1,774	22	33	(75)	1,501	16	14	(62)
Non-profit investment contracts	8	–	–	–	–	–	–	–
Total Long-term business provision,, net of reinsurance	**37,000**	**(4)**	**37**	**(82)**	**35,091**	**(6)**	**16**	**(68)**
Non-participating value of in-force business[1]	**(2,229)**	**(3)**	**(222)**	**(109)**	**(2,089)**	**(3)**	**(213)**	**(103)**
Technical provisions for linked liabilities, gross of reinsurance								
Unit-linked insurance contracts	1,272	(24)	(7)	(2)	1,365	(25)	(6)	(3)
Unit-linked investment contracts	58,787	–	–	–	54,027	–	–	–
	60,059	**(24)**	**(7)**	**(2)**	**55,392**	**(25)**	**(6)**	**(3)**
Technical provisions for linked liabilities, net of reinsurance								
Unit-linked insurance contracts	1,322	(14)	(6)	(2)	1,382	(16)	(6)	(2)
Unit-linked investment contracts	58,787	–	–	–	54,027	–	–	–
	60,109	**(14)**	**(6)**	**(2)**	**55,409**	**(16)**	**(6)**	**(2)**

The Company has a similar insurance risk profile to that shown for the Group above, and therefore it has not been analysed separately.

[1]The impact of the 2019 lapse sensitivity on the non-participating value of in-force business has been updated to reflect the introduction of the sensitivity on partial withdrawal and income drawdown assumptions at 31 December 2020 and to correct the impact of the sensitivity on paid up assumptions.

36. Risk management (continued)

(b) Market risk

Market risk arises from the possibility that the fair value or cash flows of the Group's assets and liabilities change as a result of movements in interest rates, foreign currency exchange rates and other market prices. Market risk arises for the Group in particular where the impact of a market change impacts differently on the value of assets from the effect on liabilities.

The Group manages market risk within the risk management system outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Investment Strategy Committee and Capital Management Committee provide regular monitoring of these processes.

The Group is not materially exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements constrain the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk and currency risk.

(i) Equity risk and property risk

Equity risk and property risk are the risks that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices of equities or investment properties, other than those arising from interest rate or currency risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is principally given to the Group's asset management subsidiary RLAM, as the main asset manager for the Group, as well as third parties and external asset managers involved in delivering the investment strategy. Monitoring procedures in place.

The investment management agreement in place between the Company and its asset management company specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular asset category or specific investment. The Investment Strategy Committee and Capital Management Committee along with the Group's Investment Committee monitor the actual asset allocation and performance against benchmark. The Group hedges some of its equity risk arising from investment guarantees and unit-linked charges using equity derivatives.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi). Note 17 provides analysis of assets by class.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Company uses interest rate swaps to provide interest rate sensitivity matching.

A sensitivity analysis to interest rate risk is included in section (vi).

36. Risk management (continued)

(b) Market risk (continued)

(iii) Inflation risk

Inflation risk is the risk that inflation results in the value of the Group's liabilities increasing by more than the value of its assets. It arises principally in the Group's defined benefit pension scheme, where higher inflation would result in higher increases in deferred pensions and would be expected to be associated with higher increases in pensions in payment.

The Group mitigates some inflation risk by the use of inflation swap derivatives.

(iv) Credit spread risk

Credit spread risk is the risk that the difference between the yields on non-sovereign investment bonds and the yields on interest rate swaps increase from current levels, causing the value of the Group's holdings of non-sovereign bonds to reduce by more than the value of the associated liabilities.

The Group manages its exposures to spread risks through its hedging strategy and regular review of its hedging arrangements.

(v) Currency risk

Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change as a result of a change in foreign exchange rates. As the Group operates principally in the UK its assets and liabilities are mainly denominated in sterling. For investment assets, the Group's investment management policies and procedures allow for a small exposure to overseas markets, via both equities and fixed interest securities. The resulting currency risk is managed by the use of exposure limits and authorisation controls operated within the Group's risk management system.

The following tables demonstrate the extent to which the assets and liabilities of the Group and the Company are exposed to currency risk. Linked assets are not subject to currency risk as this risk is borne by the customers concerned. A sensitivity analysis of the Group and the Company's exposure to currency risk is included in section (vi).

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Non-linked assets denominated in GBP	53,316	48,854	53,460	49,121
Non-linked assets denominated in non-GBP	3,781	3,569	3,695	3,413
	57,097	52,423	57,155	52,534
Assets held to cover linked liabilities, not subject to currency risk	60,229	55,605	60,229	55,605
	117,326	108,028	117,384	108,139
Non-linked liabilities denominated in GBP	56,532	51,934	56,526	51,984
Non-linked liabilities denominated in non-GBP	735	702	799	763
	57,267	52,636	57,325	52,747
Technical provisions for linked liabilities, not subject to currency risk	60,059	55,392	60,059	55,392
	117,326	108,028	117,384	108,139

At 31 December 2020, the Group and the Company held currency forwards with a sterling notional value of £187m (2019: Group and the Company £202m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

36. Risk management (continued)

(b) Market risk (continued)

(vi) Market risk sensitivity analysis

The following table shows the impact on the fund for future appropriations (before tax) from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

Interest'rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities increases when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

Currency'rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and liabilities denominated in that currency. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the fund for future appropriations.

Equity#property'capital'values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. Consequently, the fund for future appropriations will be reduced by a fall in asset values.

	Group		Company	
Impact on FFA before tax impact	2020 £m	2019 £m	2020 £m	2019 £m
Interest rates +100bp	58	8	49	2
Interest rates -100bp	(127)	(56)	(107)	(45)
10% increase in non-GBP exchange rate	(233)	(219)	(231)	(219)
10% decrease in non-GBP exchange rate	227	219	226	219
Equity/property prices +10%	305	252	320	266
Equity/property prices -10%	(325)	(258)	(340)	(272)

Limitations'of'sensitivity'analysis

The table above demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks.

The Group's assets and liabilities are actively managed. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment market conditions change, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to with-profits policyholders and taking other protective action.

It should also be noted that the impact on the fund for future appropriations from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

36. Risk management (continued)

(c) Credit risk

Credit risk is defined as the risk of loss if a counterparty fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Group's exposure to credit risk arises principally from its investment portfolio, from its holdings in bonds, derivatives and cash in particular and from reinsurance arrangements. The credit risk policy sets out various high level requirements relating to the identification, measurement, modelling, management, monitoring, reporting and documentation of credit risk. The policy is supported by a guidance document that indicates 'what good looks like' and provides examples of evidence that can support compliance with the policy requirements. A separate derivatives risk management policy sets out other specific requirements relating to legal, collateral, and valuation arrangements. Where possible, significant counterparty exposures, particularly in respect of stock lending and derivatives, are mitigated by the use of collateral.

A comprehensive system of limits is in place in order to control exposure to credit risk. While ratings provided by external agencies such as Standard & Poor's and Moody's and expert investment advice are taken into account when setting limits to individual counterparties, there are separate limits for exposures in respect of cash and deposits and for corporate bond and sovereign debt exposures, expressed as percentages of the fund's total assets. The one exception is exposure to the UK government – investment in government debt is a key part of the Group's investment and asset liability management strategies and it has been decided that no limit should be set. If the UK's credit standing were to deteriorate significantly, however, this decision would need to be reviewed.

Exposures to individual counterparties are monitored against the agreed limits by the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Investment Strategy Committee. For bond holdings, exposures are also monitored by industry sector and by credit rating.

The Group is also exposed to credit risk in respect of its reinsurance arrangements. The credit exposures for reinsurance contracts are monitored by the Group's Capital Management and Insurance Risk Committees as part of the overall credit risk policy.

The following tables show an analysis of the credit quality of those assets of the Group that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. The credit risk in respect of linked assets is borne by the holders of the contracts concerned, except where investment is made in the funds of other life companies via reinsurance contracts and the linked assets are therefore excluded from the table. The Company has a similar credit risk profile to that shown for the Group and therefore it has not been analysed separately.

AAA is the highest rating possible for assets exposed to credit risk. The credit ratings in respect of derivative financial investments are those of the counterparties to the derivative contracts. The debt and fixed income securities which have not been rated by an external agency are subject to internal analysis to provide an internal rating, which as at 31 December 2020 was predominantly either AA or A (2019: either AA or A).

The internal rating process used by the Group is to assess credit risk within the context of the bond issuer's financial position, the bond's covenants and structure and the likely recovery should default occur. Three major sectors that are significant issuers of sterling denominated unrated bonds, namely social housing, investment trusts and property, are each asset rich. For these sectors, documented specific credit analysis is undertaken, which assesses the individual risks of bonds in the sector and relates the risk of loss to that implied by the rating bands of the rating agencies. The internal ratings produced are compared for consistency with formally rated, broadly equivalent stocks in the same sector and for consistency with the market pricing of the underlying bond. For stocks in other sectors, the background of the issuer and the bond characteristics are assessed within a framework similar, where possible, to credit rating agency methodology.

In order to minimise its exposure to credit risk, the Group and the Company invest primarily in higher graded assets, rated BBB or above. The Group and the Company also make use of collateral arrangements in respect of their derivative exposures and stock lending activity, wherever possible. Further details of the collateral held are shown in note 17.

36. Risk management (continued)

(c) Credit risk (continued)

	Group – 2020						
	AAA £m	AA £m	A £m	BBB £m	BB or lower £m	Not rated £m	Total £m
Stage 1 assets at amortised cost							
Cash at bank	–	647	205	–	–	–	852
Loss allowance	–	–	–	–	–	–	–
Exposure to credit risk	–	647	205	–	–	–	852
Simplified approach assets held at amortised cost					–	–	
Debtors arising out of direct insurance operations	–	–	–	–	–	197	197
Debtors arising out of reinsurance operations	–	–	–	–	–	41	41
Other debtors	–	–	–	–	–	493	493
Loss allowance	–	–	–	–	–	(6)	(6)
Exposure to credit risk	–	–	–	–	–	725	725
Assets at FVTPL							
Other financial investments:							
Derivative assets	–	635	5,124	–	–	–	5,759
Debt and fixed income securities	2,171	7,709	6,071	1,154	56	413	17,574
Other							
Reinsurers' share of insurance liabilities	–	5,151	30	–	–	–	5,181
	2,171	14,142	11,430	1,154	56	1,138	30,091

	Group – 2019						
	AAA £m	AA £m	A £m	BBB £m	BB or lower £m	Not rated £m	Total £m
Stage 1 assets at amortised cost							
Cash at bank	–	431	275	–	–	–	706
Loss allowance	–	–	–	–	–	–	–
Exposure to credit risk	–	431	275	–	–	–	706
Simplified approach assets held at amortised cost							
Debtors arising out of direct insurance operations	–	–	–	–	–	113	113
Debtors arising out of reinsurance operations	–	–	–	–	–	35	35
Other debtors	–	–	–	–	–	267	267
Loss allowance	–	–	–	–	–	(6)	(6)
Exposure to credit risk	–	–	–	–	–	409	409
Assets at FVTPL							
Other financial investments:							
Derivative assets	–	1,683	2,446	44	–	–	4,173
Debt and fixed income securities	694	11,743	2,848	2,351	202	669	18,507
Other							
Reinsurers' share of insurance liabilities	–	4,462	545	–	–	–	5,007
	694	18,319	6,114	2,395	202	1,078	28,802

36. Risk management (continued)

(c) Credit risk (continued)

Cash at bank, included within Stage 1 assets, is considered to have low credit risk. Allowance is made for expected credit losses for Stage 1 assets based on default events that are possible within the next 12 months. Expected credit losses are calculated using three key input parameters: the probability of default, the expected loss given default and the exposure at default. The probability of default is estimated using quoted credit default swap spreads and the loss given default is taken to be to be 100%.

Debtor balances are assessed using the simplified method, which means that the assets default to Stage 2 and a lifetime expected credit loss is calculated. Expected credit losses are measured for these assets based on the ageing of the balances and historical payment experience or by the use of discounted cash flow techniques.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

(d) Liquidity risk

The Group defines liquidity risk as the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group has limited exposure to liquidity risk due primarily to its financial strength and availability of liquid assets. However, the Group recognises that extreme liquidity issues could have a serious impact on the Group. The Group believes that its liquidity risk is managed effectively and that the Group has good capabilities in this area within its Group functions and its investment management subsidiary.

The Group's liquidity management process includes:

- maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term;
- holding sufficient assets in investments that are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- setting minimum amounts of cash balances in each of its long-term funds. These are set by reference to recent and expected cash outflows and include a margin above reasonably expected amounts in order to reduce risk;
- maintaining a contingency funding plan that covers the framework to enable ongoing monitoring of the Group's capacity to meet its short and medium-term liabilities. It also includes a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios;
- appropriate matching of the maturities of assets and liabilities. The Group's market risk policy covers asset liability management to ensure the duration of liabilities is matched by assets;
- a liquidity risk limit framework; and
- reporting of liquidity exposures to the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Investment Strategy Committee.

These processes are regularly reviewed and updated to ensure their continued effectiveness.

The Group's exposure to liquidity risk arises from insurance and investment contracts and the use of derivatives. The following tables show a maturity analysis for the Group's insurance and investment contract liabilities. As permitted by FRS 103, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the unit-linked investment contracts has been shown on the same basis for consistency. Had the analysis for these liabilities been presented on the basis of the earliest contractual maturity date (as required by FRS 102 Section 34) then the whole balance would have been included in the '0–5 years' column, as customers can exercise surrender options at their discretion. In such a scenario the liability may be reduced by the application of surrender penalties (if applicable). The tables also show a maturity analysis for the Group's derivative liabilities and the reinsurance liability held at fair value through profit or loss (FVTPL) presented on a contractual cash flow basis.

The longer-term matching of assets and liabilities is covered within market risk, note 36 (b). As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Group considers the residual liquidity risk arising from its activities to be immaterial. Therefore, an analysis of the Group's asset cash flows by contractual maturity is not considered necessary to evaluate the nature and extent of the Group's liquidity risk. The Company has a similar liquidity risk profile to that of the Group and therefore it has not been analysed separately.

36. Risk management (continued)

(d) Liquidity risk (continued)

	Group 2020						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(34,277)	(12,303)	(10,892)	(7,320)	(3,046)	(1,615)	(35,176)
Participating investment contract liabilities	(2,248)	(711)	(571)	(492)	(280)	(295)	(2,349)
Non-profit insurance contract liabilities	(5,648)	(946)	(1,216)	(1,164)	(966)	(1,629)	(5,921)
Non-profit investment contract liabilities	(8)	(8)	–	–	–	–	(8)
Unit linked insurance contract liabilities	(1,272)	(627)	(382)	(160)	(70)	(58)	(1,297)
Unit linked investment contract liabilities	(58,787)	(16,874)	(15,408)	(10,865)	(7,340)	(10,537)	(61,024)
Derivative liabilities	(1,986)	(598)	(493)	(452)	(361)	(269)	(2,173)
Reinsurance liability	(2,820)	(524)	(584)	(551)	(465)	(919)	(3,043)

	Group 2019						
		Cash flows (undiscounted)					
	Balance sheet carrying value £m	0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	Total £m
Participating insurance contract liabilities	(32,613)	(11,502)	(10,364)	(7,844)	(3,739)	(1,853)	(35,302)
Participating investment contract liabilities	(2,248)	(683)	(618)	(496)	(279)	(448)	(2,524)
Non-profit insurance contract liabilities	(5,155)	(833)	(1,220)	(1,197)	(990)	(1,549)	(5,789)
Unit linked insurance contract liabilities	(1,365)	(664)	(441)	(229)	(107)	(90)	(1,531)
Unit linked investment contract liabilities	(54,027)	(15,393)	(15,259)	(10,673)	(7,497)	(11,113)	(59,935)
Derivative liabilities	(1,591)	(431)	(400)	(370)	(316)	(296)	(1,813)
Reinsurance liability	(2,689)	(509)	(586)	(570)	(491)	(1,018)	(3,174)

(e) Pension schemes

The Group maintains three defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and regular contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions. Management of the assets of the pension schemes is the responsibility of each scheme's Trustees, who also appoint the Scheme Actuaries to perform triennial valuations to assess the level of funding required to meet the scheme's liabilities. The schemes' main exposures are to equity, interest rate, inflation and longevity risk. For further information on pension scheme assets and liabilities, see note 24. The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and are used in discussions with the Trustees, through whom any risk management activity must be conducted.

36. Risk management (continued)

(f) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, people, change management, legal and regulatory, financial crime and processing. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes and systems under their control.

Details of risks on inherent (before controls) and residual (after controls) bases are maintained on risk registers, with each part of the business being responsible for identifying, assessing, managing and reporting on its operational risks and for implementing and maintaining controls in accordance with the Group's operational risk methodology. In performing these assessments, account is taken of the Group's risk appetite with greater significance being placed on those risks that fall outside these parameters. This is used as a basis for review and challenge by senior management, Risk Committees and the Board of Directors. Management attention is focused upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weakness is identified. In addition, the Group conducts a series of operational risk scenarios. These scenarios allow the Group to consider how effective controls would be should an extreme event occur and to make improvements where necessary. The scenarios also provide data that is used to calculate the capital held by the Group for operational risk. Within the Group's management of operational risks significant consideration is given to conduct risk and the risk of unfair outcomes to our customers and members.

(g) Emerging risk

All insurers may be impacted by risks that are potentially significant but are currently only just beginning to emerge. The Group has defined emerging risks as being newly developing or changing risks which are difficult to quantify or may be uncertain and which could have a major impact on an organisation. Typically the drivers for these risks are technological, economic, environmental or geo-political. The Group's Emerging Risk Forum comprises members from across the Group who identify and assess emerging risks and possible mitigating actions. Information about emerging risks is provided to senior management and the Board, and is used to inform decision making.

(h) Risk governance

An independent Risk and Compliance function provides challenge to the business on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place and any actions being progressed. In many parts of the Group, governance and risk teams are embedded within business units supporting the process. The independent function provides advice and guidance on the impact of regulatory change and undertakes risk-based compliance monitoring reviews to assess the quality of business processes and controls, reporting the results of its findings to management and to the Board monthly.

(i) Stress and scenario testing

The Group conducts a range of sensitivity analysis and stress and scenario testing activity in order to help it understand its risk profile and assess and manage its risks. This is a key element of the Group's risk management system, as well as being a regulatory requirement.

Stress and scenario testing in various forms is carried out on a regular basis as part of business as usual and in response to specific regulatory initiatives and can involve either:

- straightforward stress tests/sensitivity analysis: analyses of the sensitivity of financial and operational metrics and the risk profile to discrete changes in market values or demographic experience; or
- scenarios that involve a combination of changes in economic parameters or that concentrate on specific operational, non-market and/or market risks.

36. Risk management (continued)

(i) Stress and scenario testing (continued)

The following outputs are produced as part of business as usual and include results from one or both of the tests described above:

- Group Performance Reviews, produced monthly;
- Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- Capital Management Plan, produced bi-annually;
- Reports on the capital requirements of the Company, produced annually;
- Internal Capital Adequacy Assessment Process (ICAAP) results for regulated non-insurance firms (where applicable), produced annually; and
- Business Plans, produced annually.

The stress testing performed includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

Operational risk stresses and scenarios are completed to calculate the capital required for this risk. The stresses allow an assessment of the extreme impacts arising from a given risk by way of assessment of the frequency of occurrence and the distribution of the value of impacts. A top-down approach is used for determining the Company's capital requirements which involves the analysis of single, but potentially catastrophic, events/risks which cover all risks used for modelling the capital requirement.

Various broad-based scenarios and reverse stress tests have been considered in the Group over the year, as well as business model analysis activity. These scenarios provide a top-down analysis of events that would affect the Group in a significant way. These events could be in relation to issues such as the markets in which the Group operates, financial strength, long-term strategy and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

37. Related party transactions

The Company is the ultimate parent undertaking of the Group. The Group and the Company have taken advantage of the exemption in FRS 102 Section 33 not to disclose related party transactions between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member. The Group and the Company have carried out the following transactions with related parties not covered by this exemption.

(a) Related party transactions of the Group

Transactions between Group entities are eliminated on consolidation. The following are those transactions carried out by Group entities with those related parties that are outside the Group.

Subsidiaries' transactions with OEICs and other investment funds

The Group markets a portfolio of OEICs and other investment funds. A number of these funds are classified as subsidiaries for the purposes of financial reporting. However, as set out in note 15 the funds that are subsidiaries are not consolidated in the Group financial statements as the funds are held as part of an investment portfolio. In addition there are funds managed by the Group that are not classified as subsidiaries and are also therefore not included within the Group. For those funds not consolidated within the Group the transactions during the year were as follows.

	2020 £m	2019 £m
Management fees earned during the year	106	67

There were no amounts outstanding between the Group and the funds at the year-end (2019: £nil). The total value of units held by the Company at 31 December 2020 in the funds that are subsidiaries of the Company was £5,120m (2019: £2,578m). The acquisition and sale of units in the funds during the year were as follows.

	2020 £m	2019 £m
Acquisition of funds	8,420	6,711
Proceeds from sale of funds	4,305	5,519

(b) Related party transactions of the Company

The subsidiaries of the Company are shown in note 15. As set out above, the Company has taken advantage of the exemption in FRS 102 Section 33 not to disclose transactions with its wholly owned subsidiaries. Transactions between the Company and its other subsidiaries and the other related party transactions of the Company are shown below.

(i) Other income received from subsidiaries that are not wholly owned and associates

	Company	
	2020 £m	2019 £m
OEIC distributions	752	769

OEIC distributions are those received from OEICs that are classified as subsidiaries (excluding wholly-owned subsidiaries) or associates for financial reporting purposes.

(ii) Outstanding balances with Group entities at the year end

At the year-end, the following balances were outstanding with Group entities (excluding wholly-owned subsidiaries) in relation to the transactions above.

	Company	
	2020 £m	2019 £m
Loans to Group entities	2	2

The amounts due to and from Group entities are due on demand and are not secured.

37. Related party transactions (continued)

(b) Related party transactions of the Company (continued)

(iii) Other transactions of the Company with related parties

As part of its portfolio of investment assets, the Company has holdings in OEICs and other funds, managed by subsidiaries.

The Company's acquisitions and sales of these funds during the year are shown below.

	Company	
	2020 £m	2019 £m
Acquisition of funds	8,420	6,657
Proceeds from sale of funds	4,305	5,516

(iv) Transactions with key management personnel

No director had transactions or arrangements with the Group that require disclosure, other than those given in the Directors' remuneration report. Key management remuneration is disclosed in note 9(c).

38. Capital management

(a) Capital management policies and objectives

The Group's capital management objectives are:

- to protect the Group's financial strength, providing security to policyholders;
- to ensure that the Group's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board; and
- to comply with SII's capital requirements.

The Group's capital position is monitored on a regular basis and reviewed formally by the Board. The Group's capital requirements are forecast on a regular basis and those forecasts are compared against the available capital.

(b) Regulatory Capital

(i) Regulatory capital framework

Royal London is an insurance Group under the SII rules and consequently regulatory capital is reported at a Group and Company level to the PRA, and for RLI DAC to the CBI.

Under SII, the Group and the Company are required to hold sufficient capital to withstand adverse outcomes from their key risks, e.g. that equity markets fall. This 'Solvency Capital Requirement' (SCR) is calibrated so that it is broadly equal to the adverse experience likely to occur once in every 200 years.

In September 2019, the PRA approved the use of a Partial Internal Model (hereafter referred to as Internal Model) to calculate the capital requirements of the Group and the Company with effect from 1 October 2019. The capital assessment of RLI DAC remains on a Standard Formula basis.

38. Capital management (continued)

(b) Regulatory Capital (continued)

(ii) Regulatory capital position

The table below sets out the estimated Group and the Company's available own funds, solvency capital requirement, solvency surplus and capital cover ratio on a Regulatory and Investor View basis[1].

	Group		Company	
Investor View (£m)	**31 December 2020[1]**	**31 December 2019**	**31 December 2020[1]**	**31 December 2019**
All 2020 figures are estimated				
Available own funds (A)	4,766	4,845	4,773	4,906
Solvency capital requirement (SCR) (B) - unaudited	2,508	2,213	2,360	2,045
Solvency surplus	2,258	2,632	2,413	2,861
Capital cover ratio (A/B)[2]	190%	219%	202%	240%
Regulatory View (£m)				
Available own funds (A)	7,084	7,070	7,081	7,123
Solvency capital requirement (SCR) (B) - unaudited	4,826	4,438	4,668	4,262
Solvency surplus	2,258	2,632	2,413	2,861
Capital cover ratio (A/B)[2]	147%	159%	152%	167%

1 In common with the rest of the Industry, we present two views of our capital position: an 'Investor View' (which is equal to the Royal London Main Fund capital position excluding ring-fences fund), and a 'Regulatory View' where the closed funds' surplus in excess of the SCR is excluded from total available own funds and treated as a liability, which is known as the ring-fenced fund restriction
2 31 December 2020 figures are estimated. The final figures will be presented in the 2020 Single Group SFCR, which will be published on the Group's website in April 2021. This SFCR meets the SII disclosure requirements of the Group and the Company and mitigates the requirement to produce a separate SFCR for the Company.
3 Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.

The reduction in the Regulatory View solvency surplus and capital cover ratio reflects the continued strategic investment in our pension business, and investing in a matching adjustment portfolio ahead of the launch of our annuity proposition, which has led to a short-term increase in capital requirements pending regulator approval.

(iii) Reconciliation of Group fund for future appropriations to regulatory capital available own funds

The SII available own funds are determined by aggregating the assets and liabilities of the Group recognised and measured on a SII basis. A reconciliation of the Group's FFA attributable to members on a UK GAAP basis to estimated SII available own funds is set out in the table below.

	Group		Company	
	31 December 2020 £m	**31 December 2019 £m**	**31 December 2020 £m**	**31 December 2019 £m**
UK GAAP Fund for future appropriations	3,673	3,700	3,993	4,005
Adjustments to a SII basis:				
Adjustment to the value of technical provisions and reinsurance assets[1]	184	762	195	764
Goodwill, other intangible assets and deferred acquisition costs[2]	(209)	(201)	(251)	(249)
Other valuation differences[3]	(15)	(17)	(304)	(218)
Inclusion of closed funds surplus classified as a UK GAAP liability[4]	4,367	4,502	4,354	4,489
Excess of assets over liabilities in SII balance sheet	8,000	8,746	7,987	8,791
Subordinated liabilities[5]	1,604	1,508	1,604	1,508
Deferred tax adjustment[6]	(8)	(6)	–	–
Ring-fenced fund adjustment[7]	(2,512)	(3,178)	(2,510)	(3,176)
SII available own funds (Regulatory View) - estimate	7,084	7,070	7,081	7,123
Remove closed fund restricted own funds	(2,318)	(2,225)	(2,308)	(2,217)
SII available own funds (Investor View) – estimate	4,766	4,845	4,773	4,906

1 The adjustment to the value of technical provisions and reinsurance assets results from the recalculation of these balances using SII requirements. This includes the removal of the margins of prudence included in the UK GAAP values (so that assumptions are all best estimate), the inclusion of the SII risk margin, the use of the SII yield curve including the volatility adjustment for appropriate lines of business, the adoption of SII contract boundary definitions (mainly affecting unit-linked business) and also any benefit from the SII transitional provisions.
2 Goodwill, other intangible assets and deferred acquisition costs are recognised in the UK GAAP balance sheet. Under the SII valuation rules, these assets are valued at nil.
3 Other valuation differences relate principally to the value of participations, renewal commission and subordinated liabilities. In the UK GAAP balance sheet participations are valued at fair value, and for SII the valuation equates to the value of net assets on a SII basis. Renewal commission is recognised in the UK GAAP balance sheet but not on a SII basis. Subordinated liabilities are held at amortised cost for UK GAAP and at fair value for SII.
4 For UK GAAP any excess of assets over liabilities within the closed funds is included within liabilities, so the FFA includes amounts relating to the Royal London Open Fund only. For SII, the excess within the closed funds is included within total available own funds, but only up to the value of the solvency capital requirement (SCR) of the closed funds.
5 Subordinated liabilities in the form of the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043, the Guaranteed Subordinated Notes due 2028 and the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 are included within available own funds on a SII basis, whereas UK GAAP treats subordinated debt as a liability.
6 The Group has deferred tax assets which are restricted under the SII rules and therefore do not form part of our SII available own funds.
7 The ring-fenced fund adjustment is where the closed funds' surplus in excess of the SCR is excluded from total available own funds and treated as a liability.

39. Transition to UK GAAP

These financial statements are the Group and the Company's first produced using FRS 102 and FRS 103 (UK GAAP), which was adopted effective 1 January 2020. The Group and the Company previously produced their financial statements using International Financial Reporting Standards (IFRS). The last financial statements prepared in accordance with IFRS were for the year ended 31 December 2019.

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

As a consequence of adopting FRS 102 and FRS 103, a number of different accounting policies have been applied resulting from the differences between IFRS and UK GAAP and the material changes are set out below.

(i) Changes in accounting policy that have a net impact on the balance sheet or statement of comprehensive income on transition

- **Goodwill:** The excess of the fair value of the consideration for an acquisition over the fair value of the net assets acquired is recognised as a goodwill asset. Under IFRS goodwill is assumed to have an indefinite useful life and is not amortised but is subject to an annual impairment test. Under UK GAAP a goodwill asset is amortised over its estimated useful life. An impairment test is performed only if there is an indication of impairment.

Negative goodwill: Under IFRS a 'bargain purchase' gain is recognised immediately in profit or loss for any excess of the fair value of the net assets acquired in an acquisition over the fair value of the consideration paid. Under UK GAAP, this value is capitalised as a negative asset (negative goodwill). Subsequently the value of negative goodwill up to the fair value of non-monetary assets acquired in the business combination is amortised in the periods in which those non-monetary assets are realised. Non-monetary assets are those that are not realised as cash but by utilisation of the asset. The value of negative goodwill in excess of the value of non-monetary assets acquired is amortised over its estimated useful life.

- **Financial assets and liabilities:** FRS 102 provides entities with an accounting policy choice in respect of the recognition and measurement of financial assets and liabilities between applying:

  (i) the provisions of both Section 11 and Section 12 of FRS 102 in full (a simplified version of the requirements in IAS 39 'Financial Instruments: Recognition and Measurement');

  (ii) the recognition and measurement provisions of IAS 39, (prior to its amendment on the publication of IFRS 9 'Financial Instruments'); or

  (iii) the recognition and measurement provisions of IFRS 9, and IAS 39 (as amended following the publication of IFRS 9).

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

- **Leases – accounting by lessees:** IFRS 16 requires lessees to recognise all leases on the balance sheet (other than certain low value or short-term leases) by the recognition of a right-of-use asset and a related lease liability. Under UK GAAP, leases are classified as either operating or finance leases depending on whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Leases classified as operating leases are not included on the balance sheet but the lease rentals are recognised as an expense as incurred. This change mainly impacts operational properties leased by the Group as set out in section (b) below.

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

- **Insurance and participating investment contracts:** As permitted by IFRS 4 the Group and the Company adopted an IFRS measurement basis for insurance and participating investment contracts that was a continuation of the policies applied prior to adopting IFRS. This was the PRA's former realistic balance sheet (RBS) but with a partial harmonisation with Solvency II (SII), introduced as an improvement in 2016. FRS 103 similarly allows a continuation of previous practice and so the Group and the Company are continuing to apply the same measurement basis. However, following the introduction of the SII regime the former RBS basis was produced by adjusting from the SII technical provisions. Hence, in practice the IFRS measurement basis was derived by adjusting from the SII technical provisions. The transition to UK GAAP has been used as an opportunity to update the description of the accounting policy for insurance and participating investment contracts to remove references to the former RBS basis and to replace them with references to SII. This is a change in description only; the value of the liabilities recognised under UK GAAP is the same as previously recognised under IFRS.

- **Consolidation of investment funds:** Under IFRS all entities that are classified as subsidiaries are consolidated in the group financial statements, including OEICs and other investment funds. FRS 102 Section 9 excludes interests held as part of an investment portfolio from consolidation, requiring them to be held in the group financial statements as an investment at FVTPL. All of the Group's interests in OEICs and other investment funds are within investment portfolios and consequently the Group no longer consolidates those interests even when they are classified as subsidiaries. There is no net impact on the Group balance sheet or statement of comprehensive income from this change, however Group total assets and total liabilities as at 31 December 2019 were both lower than

39. Transition to UK GAAP (continued)

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

under IFRS by £10,296m (1 January 2019: £7,598m) and Group total income and total expenses were both lower than under IFRS by £335m in the year ended 31 December 2019. There is no impact on the Company balance sheet.

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

- **Presentation of unit-linked assets:** Within the Group and the Company IFRS balance sheets the assets and liabilities of the Group and the Company's unit-linked funds were included on a line-by-line basis. The UK GAAP balance sheets are produced using the requirements of Schedule 3 to the Regulations which require the unit-linked assets and liabilities to be shown as a single line item, 'Assets held to cover linked liabilities'. A net amount of £55,590m has been reclassified and included in 'Assets held to cover linked liabilities' for the Group and the Company at 31 December 2019 (1 January 2019: £44,363m). There is no net impact on the balance sheets.

- **Deferred acquisition costs (DAC) and Non-participating value of in-force business (NP VIF):** The calculation of the future commission element of the DAC differs between IFRS and UK GAAP resulting in a reduction in the DAC of £89m for the Group and the Company at 31 December 2019 (1 January 2019: £76m). There is an equal but opposite increase in the value of the NP VIF, with no net overall impact. There is also a change in the presentation of the NP VIF. It was shown in the IFRS balance sheet as a deduction from a sub-total of the participating contract liabilities and the Unallocated Divisible Surplus (UDS). In the UK GAAP balance sheet the NP VIF is disclosed as an asset. This is a presentational change only, with no net impact.

- **Acquired value of in-force business (Acquired VIF):** A presentational change has been made to the acquired VIF on insurance contracts, reducing to £nil the balance of £44m in the Group and the Company IFRS balance sheets at 31 December 2019 (1 January 2019: £54m) with an offsetting reduction in the long-term business provision in respect of the related non-profit insurance contracts.

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

FRS 102 Section 35.13 (b) requires a reconciliation of the Group and the Company's equity under their previous financial reporting framework to their equity under UK GAAP. As the Group and the Company are mutual entities they do not have equity. The closest approximation to equity is the surplus within the Royal London fund, which is disclosed as the UDS for IFRS and as the FFA for UK GAAP. The table below shows a reconciliation of the UDS under IFRS to the FFA under UK GAAP at 31 December 2019 and at 1 January 2019.

	Group		Company	
	At 31 December 2019	At 1 January 2019	At 31 December 2019	At 1 January 2019
	£m	£m	£m	£m
UDS reported under IFRS	3,998	3,813	4,244	4,075
Goodwill (note 1)	(229)	(229)	(229)	(229)
Negative goodwill (note 2)	(64)	(75)	(14)	(19)
Expected credit losses on financial assets at amortised cost (note 3)	(1)	(1)	9	(12)
Other items (note 4)	(4)	(11)	(5)	(10)
FFA reported under UK GAAP	3,700	3,497	4,005	3,805

Notes to the reconciliation of the FFA

1 The transitional provisions in FRS 102, Section 35 allow a choice between retrospectively applying the requirements of FRS 102 to historic acquisitions from the date of the original acquisition and amortising goodwill from that date; or to bring forward the balance of goodwill previously recognised under IFRS and amortise it prospectively from the date of transition. At the date of transition the Group and the Company had recognised £229m of goodwill under IFRS, relating to the acquisition of the former Resolution businesses and assets in 2008 (£119m) and the acquisition of Scottish Life in 2001 (£110m). The Group and the Company have chosen to retrospectively restate these acquisitions. The useful economic life of the goodwill from both acquisitions was determined to be 10 years from the original acquisition dates. Consequently the balance of goodwill was fully amortised on a UK GAAP basis at the date of transition resulting in a reduction in FFA of £229m at 31 December 2019 and at 1 January 2019.

2 When the retrospective approach to historic acquisitions is adopted it has to be applied to all acquisitions from the earliest one that is restated. All acquisitions from 2001 onwards have been restated, resulting in the recognition of negative goodwill for the Group from

39. Transition to UK GAAP (continued)

(a) Reconciliation of the Fund for Future Appropriations (FFA) (continued)

the acquisitions of Royal Liver (2011) and RL (CIS) (formerly Co-operative Insurance Society Limited (CIS) at acquisition in 2013) which were previously recognised as 'bargain purchase' gains under IFRS. The negative goodwill recognised was £64m at 31 December 2019 and £75m at 1 January 2019. The Company also recognised negative goodwill relating to the acquisition of Royal Liver of £14m at 31 December 2019 and £19m at 1 January 2019.

3 The Group has recognised an expected credit loss provision of £1m at 31 December 2019 and at 1 January 2019. The Company has recognised an expected credit loss provision of £18m at 31 December 2019 and £12m at 1 January 2019. At 31 December 2019, the Company had previously recognised a fair value loss of £27m on intercompany loans which has been reversed, resulting in a net overall increase in FFA of £9m.

4 Other items comprise the impact of removing the right of use assets and lease liabilities recognised in accordance with IFRS 16 for leases treated as operating leases under FRS 102 and an adjustment to the value of outstanding claims. FRS 102 Section 35.13 (c) requires a reconciliation of the profit or loss determined under the Group's previous financial reporting framework in its most recent financial statements to the equivalent profit or loss using UK GAAP. As the Group is a mutual entity its profit or loss, after the transfer to the UDS (under IFRS) or transfer to the FFA (under UK GAAP), is always £nil. To provide more meaningful information the table below shows a reconciliation of the total transfer to UDS (including other comprehensive income) from the 31 December 2019 IFRS financial statements to the equivalent total transfer to FFA (including other comprehensive income) under UK GAAP.

(c) Reconciliation of the Technical Account for 2019

	Group £m
Transfer to the UDS for the financial year under IFRS	185
Amortisation of negative goodwill	11
Other items (note 1)	7
Transfer to the FFA for the year under UK GAAP	**203**

Note to the reconciliation of the Technical Account for 2019

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

(d) Adoption of IFRS 9

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

(i) Financial assets

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

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

39. Transition to UK GAAP (continued)
(d) Adoption of IFRS 9 (continued)
(i) Financial assets (continued)

	Company			
	IAS 39 – 31 December 2018		IFRS 9 – 1 January 2019	
	Classification	Carrying value £m	Classification	Carrying value £m
Financial assets				
Derivative assets	FVTPL (mandatory)	3,168	FVTPL (mandatory)	3,168
Other financial investments	FVTPL (designated)	25,239	FVTPL (mandatory)	25,239
Investments in group undertakings (excluding loans)	FVTPL (designated)	11,991	FVTPL (mandatory)	11,991
Investments in group undertakings (loans)	FVTPL (designated)	29	Amortised cost	21
Assets held to cover linked liabilities (derivative assets)	FVTPL (mandatory)	2	FVTPL (mandatory)	2
Assets held to cover linked liabilities (other financial investments)	FVTPL (designated)	40,115	FVTPL (mandatory)	40,115
Assets held to cover linked liabilities (cash and debtors)	Amortised cost	492	FVTPL (mandatory)	492
Debtors	Amortised cost	362	Amortised cost	358
Cash at bank and in hand	Amortised cost	525	Amortised cost	525
		81,923		81,911

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

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

Within the Company balance sheet, the loans to subsidiaries which were previously designated at FVTPL are now held at amortised cost as their cash flows represent solely payments of principal and interest and they are part of a business model that is held to collect contractual cash flows. The effective interest rate of the loans on 1 January 2019 was 6.6%. The fair value of the loans on 31 December 2020 was £20m and a fair value gain of £8m would have been recognised on these loans in the year to 31 December 2020 had they been valued at FVTPL.

There are no differences between the IAS 39 carrying amounts for financial assets at 31 December 2018 and the IFRS 9 carrying amounts at 1 January 2019, with the exception of other debtors for which the change in carrying amount is the result of the recognition of the impairment loss allowance, as set out below. In addition for the Company, for loans to subsidiaries the previous fair value adjustments have been replaced by an impairment loss allowance.

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

At 31 December 2018, the IAS 39 allowance for impairment losses for other debtors was £1m for the Group and the Company. At 1 January 2019, the IFRS 9 loss allowance was £2m for Group and £5m for the Company. The movements are due to a transitional adjustment in loss allowance. In addition the Company recognised an additional £8m loss allowance on loans to subsidiaries, over and above any previously recognised fair value adjustments under IAS 39.

(ii) Financial liabilities

Under IFRS 9 financial liabilities are held at amortised cost, except for liabilities which are designated at FVTPL and for derivative liabilities which are required to be held at FVTPL. A financial liability can be designated at FVTPL if that eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Alternatively a FVTPL designation can be used if the liability is part of a group of financial liabilities or a group of financial assets and financial liabilities that is managed and whose performance is evaluated on a fair value basis. On transition to IFRS 9, creditors of £141m included within 'Assets held to cover linked liabilities', were reclassified from amortised cost to FVTPL. This is the result of identifying these liabilities as being part of a group of financial assets and financial liabilities that is managed and whose performance is evaluated on a fair value basis. At 1 January 2019, the amortised cost of these liabilities was equal to their fair value, resulting in no impact on the FFA on transition. There were no other changes in classification or carrying value of financial liabilities on transition to IFRS 9.

Alternative performance measures

The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with relevant financial reporting frameworks such as UK GAAP or Solvency II. These measures are known as alternative performance measures (APMs).

APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

Operating profit before tax

Operating profit excludes short-term investment return variances and economic assumption changes, amortisation and impairment of goodwill and intangibles arising from mergers and acquisitions, ProfitShare, tax, and one-off items that are not related to the underlying trading of the Group. A reconciliation to the UK GAAP profit before tax is included on page 54.

Assets under management

The total of assets actively managed or administered by, or on behalf of, the Group, including funds managed on behalf of third parties. This includes assets where the beneficial ownership interest resides with third parties (and which are therefore not recognised in the UK GAAP balance sheet) but on which the Group earns fee revenue.

Group Solvency II capital cover ratio (Investor View)

The capital cover ratio is a good indicator of our ability to withstand tough economic conditions, with higher numbers indicating more capital over and above our requirements. Further details of the capital position and its calculation are included in the Financial Review on pages 56.

New business

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as a total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year. The discounted value of regular premiums is calculated using the same methodology as on a Solvency II basis.


THE NAME OF THE ROSE Umberto Eco
TIMOTHY MO An Insular Possession
STONER
The New Industrial State
The World According to Clarkson
ITALY
ITALIE
Paul Theroux
Dark Star Safari
The English
THE LOTUS QUEST

Other information

Glossary

A

Association of British Insurers (ABI)
The ABI represents the collective interests of the UK's insurance industry.

Acquired PVIF
The present value of acquired in-force business arising on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary.

Acquisition costs
The costs of acquiring and processing new business, including a share of overheads.

Adviser
Someone authorised by the FCA, who is qualified by experience and examination to provide financial advice. See also independent financial adviser in glossary.

Alternative performance measures (APM)
A financial measure of performance not defined or specified by accounting standards.

Annual General Meeting (AGM)
The AGM provides an important opportunity to give members a brief overview of Royal London's financial and business performance, and includes the reappointment of auditors and re-election of directors.

Annuity
An insurance policy that provides a regular income in exchange for a lump-sum payment.

Ascentric
The trading name of Investment Funds Direct Limited (IFDL), an independent wrap platform providing investment administration and consolidation services to long-term investors and financial advisers through its online wrap service. The business was sold to M&G plc on 1 September 2020.

Asset Management division
Our business division (Royal London Asset Management or RLAM), which manages investments of with-profits and unit-linked funds, and life and pension policies for Royal London's customers. RLAM also looks after investments from clients recommended by independent financial advisers and wealth managers, as well as pension funds, local authorities and charities.

Asset share
A policy's asset share is calculated by accumulating the premiums paid, deducting all applicable expenses and tax, and adding its share of the investment returns achieved by the with-profits fund over the policy's lifetime.

Assets under management (AUM)
The total assets managed and administered on behalf of individual customers and institutional clients through our wrap platform business. It includes those assets for which the Group provides investment management services, as well as those that the Group administers where the customer has selected an external third-party investment manager.

B

BAME
Black, Asian and minority ethnic.

Board
The Royal London Mutual Insurance Society Board.

Brexit
The withdrawal of the United Kingdom from the European Union at 11 pm GMT on 31 January 2020, followed by an 11-month transition period with the UK and EU negotiating their future relationship, concluding on 31 December 2020.

C

Capital Cover Ratio
Own Funds divided by Solvency Capital Requirement.

Capital markets
Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

CIS
The Co-operative Insurance Society Limited purchased by the Group on 31 July 2013. On 1 August 2013 it was renamed Royal London (CIS) Limited.

Climate Change Framework
Royal London's climate change commitments published in October 2019.

Closed funds
Our funds that are now closed to new business.

Company
The Royal London Mutual Insurance Society Limited.

Consumer division
Our business division that sells life and pensions business directly to customers.

Consumer Price Index (CPI)
A measure of changes in the price level of a basket of consumer goods and services purchased by households.

Covid-19
Covid-19 is an infectious disease caused by a strain of coronavirus. 'Co' stands for corona, 'vi' for virus and 'd' for disease. Formerly, this disease was referred to as '2019 novel coronavirus' or '2019-nCoV'.

Critical illness cover
Cover that pays a lump sum if the insured person is diagnosed with a serious illness that meets the cover's definition.

D

Deferred acquisition costs (DAC)
The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

Deferred fee income
The method of accounting whereby up-front policy charges are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

Defined benefit scheme
A type of occupational pension scheme, where the benefits are based on the employee's salary and service.

Discounting
The process of expressing a future cash transaction in terms of its present value using a discount rate that reflects the time value of money.

Division
A sub-division of the Group that focuses on a specific product offering, market or function. A business unit may be a statutory entity or part of one or more separate statutory entities.

Drawdown
Drawdown is a flexible way of using your savings. With a defined contribution scheme, once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

E

Economic assumptions
Assumptions of future interest rates, investment returns, inflation and tax rates. The impact of variances in these assumptions is treated as non-operating profit or loss under UK GAAP.

Employee Engagement Index
A widely used measure of employee satisfaction.

Employers Network for Equality & Inclusion (ENEI)
The ENEI is the UK's leading employer network covering all aspects of equality and inclusion in the workplace. Royal London is part of the ENEI Executive Steering Committee.

Environmental, social and governance (ESG)
Financially material environmental, social and governance risks and opportunities being embedded into RLAM investment decisions.

European Union (EU) Audit Legislation
Directive 2014/56/EU and the Regulation (EU) No 537/2014.

F

Fair value
The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction.

Final salary
A defined benefit scheme that provides a pension based on salary at retirement.

Financial Conduct Authority (FCA)
An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

Financial options and guarantees
For Royal London business, 'financial options' refers principally to guaranteed annuity options. 'Guarantees' refers to with-profits business where there are guarantees that parts of the benefits will not reduce in value, or are subject to a minimum value.

Financial Reporting Council (FRC)
The FRC is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

Funds for Future Appropriation (FFA)
The amount of surplus that has not been allocated to policyholders at the balance sheet date.

G

Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

I

Independent financial adviser (IFA)
Someone authorised by the FCA, qualified by experience and examination to provide financial advice, who is not working for any single product provider company.

Individual Savings Account (ISA)
An ISA is a tax-efficient way to invest money into cash, stocks and shares up to a yearly allowance.

Intermediary division
Our business division that sells life, pensions and protection business through intermediaries – primarily independent financial advisers.

International Financial Reporting Standards (IFRS)
Accounting standards issued by the International Accounting Standards Board (IASB) applied to these financial statements.

Investor View
In common with the rest of the industry, we present two views of our capital position: an Investor View for analysts and investors in our subordinated debt (which equals the RL Main Fund and excludes the capital position of the ring-fenced closed funds), and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

J

Just Transition
A movement which recognises that the transition to a low-energy economy has implications for the livelihoods of people and communities.

K

Key performance indicator (KPI)
An indicator used by a business to measure its development, performance or position.

L

Legacy division
Our business division that serves long-standing customers, many of whom do not have access to financial advice.

LGBT+
Lesbian, gay, bisexual, trans and plus, which represents other sexual and gender identities.

M

Maintenance expenses
Expenses related to the servicing of the in-force book of business, including investment and termination expenses and a share of overheads.

Market-consistent basis
A basis of valuation in which 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. An insurance contract combining savings and protection elements designed to repay the principal of a loan or mortgage.

Mutual
A company owned by its members that is not listed on the stock market. A member of a mutual company can vote at its Annual General Meeting.

N

Net Promoter Score
An index used to measure the willingness of customers to recommend a company's products or services to others.

New business contribution
The expected present value on the UK GAAP basis of reporting all cash flows arising from new business.

New business margin
The new business contribution as a percentage of the present value of new business premiums.

O

Open-ended investment company (OEIC)
Investment funds that pool together investors' money and invest this in a broad range of shares and other assets. They are similar to unit trusts.

Operating assumptions
Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. The impact of variances in these assumptions is included within operating profits under UK GAAP.

Operating experience variances
The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

Operating profit (UK GAAP basis)
The profit on a UK GAAP basis resulting from our primary business operations, defined as the transfer to Fund for Future Appropriations before Other Comprehensive Income, excluding the following: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers and acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group.

Own Funds
Regulatory capital under Solvency II. Broadly it is the excess of assets over liabilities (plus subordinated debt and less the ring-fenced fund restriction), as measured by the PRA's regulatory reporting requirements under Solvency II.

Own Risk and Solvency Assessment (ORSA)
The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period, and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

P

Parent company
The Royal London Mutual Insurance Society Limited.

Part VII transfers
Transfer of insurance business from one insurer to another insurer in accordance with Part VII of the Financial Services and Markets Act 2000.

Partial Internal Model
The processes, systems and calculations that together allow the Group to control the risks that it faces and quantify the capital needed to support those risks under the Solvency II regime. It includes a calculation engine to quantify capital requirements, the Group's risk management framework and its system of governance. Our Partial Internal Model, approved by the PRA with effect from 1 October 2019, for reporting purposes, is also used for internal capital management purposes.

Participating
Contracts that are with-profits in type.

Pension
A means of providing income in retirement for an individual and possibly their dependants. Our pension products include Personal and Group Pensions, stakeholder pensions and income drawdown.

Personal pension
A pension plan for an individual policyholder.

Police Mutual
The Police Mutual Assurance Society Limited (PMAS) and its subsidiaries, which includes Police Mutual and Forces Mutual. The business was transferred into Royal London on 1 October 2020.

Present value of in-force business (PVIF)
The present value of the projected future profits after tax arising from the business in-force at the valuation date.

Present value of new business premiums (PVNBP)
The 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 we expect to receive over the term of the new contracts sold in the year.

Principles and Practices of Financial Management (PPFM)
A document detailing how we manage our with-profits funds. We have a separate PPFM for each with-profits fund.

ProfitShare
ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

Protection
A policy providing a cash sum or income on the death or critical illness of the life assured.

Prudential Regulation Authority (PRA)
Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

R

Rating agencies
A rating agency (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and indicate the likelihood of default.

Regular premium
A series of payments for an insurance contract, typically monthly or annually.

Regular Supervisory Report (RSR)
A report required under the Solvency II directive. This is a private report to the PRA and is not disclosed publicly. Life insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

Regulatory View
In common with the rest of the industry, we present two views of our capital position: an Investor View for analysts and investors in our subordinated debt (which equals the RL Main Fund and excludes the capital position of the ring-fenced closed funds), and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

Responsible investment
To continuously embed advanced environmental, social and governance capabilities into our investment activities and support RLAM to influence positive corporate changes.

Retail Price Index (RPI)
A measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

Risk-free rate
The theoretical rate of return of an investment with no risk of financial loss.

Royal London
The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Asset Management (RLAM)
Royal London business unit responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds, local authorities, universities, charities and individuals.

Royal London Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Insurance Designated Activity Company (RLI DAC)
Royal London's regulated Irish insurance subsidiary. The company was incorporated on 11 July 2018 with regulatory permissions effective from 1 January 2019. It is 100% owned by RLMIS.

Royal London Ireland
Rebranded from Caledonian Life in 2014, the Royal London business unit providing protection products in the Republic of Ireland through intermediaries.

Royal London Long-Term Fund
The long-term business fund of Royal London, comprising the Royal London Main Fund and a number of closed sub-funds from businesses acquired in the past.

Royal London Main Fund
The part of the Royal London Fund into which all of the Group's new pensions and insurance business is written.

S

S172
Section 172 of the Companies Act 2006. This sets out the matters that a director of a company must consider when fulfilling their duty to promote the success of the company for the benefit of its members.

Sales
Sales represent PVNBP for life and pensions business.

Single premium
A single payment for an insurance contract.

Solvency II
A European Union directive that became fully applicable to European insurers and reinsurers on 1 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

Solvency and Financial Condition Report (SFCR)
A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Solvency Capital Requirement (SCR)
The amount of capital that the PRA requires a UK Life insurer to hold, which is calculated using the European Union Solvency requirements, also known as Solvency II. The SCR is calculated using our Partial Internal Model.

Standard Formula
A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard Formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

Subordinated debt
In the event of bankruptcy, dissolution or winding-up, the payments arising from this debt rank after the claims of other creditors.

Surplus
The excess of Own Funds over the Solvency Capital Requirement.

T

The Royal London Mutual Insurance Society Limited (RLMIS)
The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 117672. Registered in England and Wales number 99064.

Three lines of defence model
The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision-making, risk and control to achieve effective governance, risk management and assurance.

U

UK Corporate Governance Code (the Code)
This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

UK Generally accepted accounting practice (UK GAAP)
This replaced IFRS and EEV reporting for the Royal London Group with effect from 1 January 2020.

UK Stewardship Code (Code)
Financial Reporting Council's draft UK Stewardship Code. The Stewardship Code focuses on sustainable and responsible investment and stewardship, and sets standards for asset owners and asset managers.

Unit-linked policy
A policy for which the premiums buy units in a chosen investment fund.

Unit trust
A collective investment which invests in a range of assets such as equities, fixed interest investments and cash. A unit trust might be a general fund or specialise in a particular type of asset, for example property, or in a particular geographical area, for example South East Asia.

United Nations Principles for Responsible Investment
A set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance (ESG) factors.

United Nations Sustainable Development Goals (SDGs)
A set of 17 Sustainable Development Goals, otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Unitised with-profits policy
A policy for which the premiums buy units in a with-profits fund.

V

Value of in-force business (VIF)
See definition of 'Present value of in-force business (PVIF)'.

W

With-profits policyholder
A policy that participates in the profits of a with-profits fund. This participation may be in the form of one or more of a cash bonus, an annual bonus or a bonus paid on the exit of the policy.

Women in Finance Charter
This is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this Charter are pledging to be the best businesses in the sector. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms.

Wrap platform
A trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account, rather than as separate holdings.

2021 financial calendar

Date	Event
5 March 2021	Financial Results for 2020 and conference call
2 June 2021	Annual General Meeting
5 August 2021	Interim Financial Results for 2021 and conference call
7 October 2021	Royal London Finance Bonds No 4 plc subordinated debt interest payment date
13 November 2021	Royal London Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2021	Royal London Finance Bonds No 2 plc subordinated debt interest payment date

Registered office

The Royal London Mutual Insurance Society Limited
55 Gracechurch Street
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Registered in England and Wales

Private company limited by guarantee

Registered Number: 99064

royallondon.com

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Dublin, Ireland
47-49 St Stephen's Green
Dublin 2
Ireland

Police Mutual, Lichfield
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