ROYAL LONDON

Securing your financial freedom

Annual Report and Accounts for the year ended 31 December 2019

DETERMINATION
IT CAN GET YOU ANYWHERE

The Royal London Mutual Insurance Society Limited Registered Number 99064

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ROYAL LONDON
DETERMINATION SINCE 1861

Royal London is the UK's largest mutual life insurance, pensions and investment company. **We are committed to meeting the needs of all our customers. We work with determination to help them secure their future** and shield them financially against life's biggest blows. We also aim to be a force for social good – through responsible investing, adhering to the highest standard of corporate governance, and supporting our people and communities.

DETERMINATION
IT CAN GET YOU ANYWHERE

STRATEGIC REPORT

Business performance, engaging with stakeholders, investing responsibly, tackling social issues and climate change, and managing risk

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

A FORCE FOR SOCIAL GOOD

We focus on three areas of social impact where we can make a real difference. Look out for the following icons in this Report to discover more.

Building financial resilience

Making sure people are financially protected against life's biggest blows, so they can manage better even in the most difficult times.

Taking on the long-term savings challenge

Supporting people to secure their long-term financial future, and raising awareness on key financial issues that affect consumers.

Strengthening responsible business

Being a force for good – through responsible investing and promoting sound corporate governance, and by supporting our people and communities – to create a brighter future for all.

Read more about our social impact themes on page 20, our climate change commitments on page 42 and our responsible investing on page 38

OUR VISION

We aim to be the most trusted and recommended provider in our chosen markets.

OUR PURPOSE

We exist to improve the lives of our customers and wider society.

OUR VALUES

Our values inspire us to give customers a higher quality of service.

We are empowered

Our people are given the authority to make decisions so everyone has a voice to improve how things are done.

We are trustworthy

We are transparent in how we interact and build relationships on trust, delivering mutual benefit.

We collaborate

We share our knowledge to develop our expertise, and encourage each other to give our best.

We achieve

We go the extra mile to deliver the best result and are always looking to improve our performance.

OUR STRUCTURE AND PRODUCTS

We provide pensions, protection and wealth management products and services in the UK, and intermediated protection in Ireland. We work with advisers and their clients and directly with customers to deliver long-term growth and income.

Intermediary

Total policies: 2,525,098 (2018: 2,305,000)

Our Intermediary division distributes long-term savings and protection products to customers through independent financial advisers. Pension services include individual pensions, workplace pensions and, at retirement, our income drawdown and income release products. Protection products include life cover, critical illness and income protection plans.

Read more on page 47

Asset Management

Assets under management: £139bn (2018: £114bn)

Royal London Asset Management (RLAM) manages investments of with-profits and unit-linked funds, and life and pension policies for Royal London's customers. We also look after investments from clients recommended by independent financial advisers (IFAs) and wealth managers, as well as pension funds, local authorities and charities.

Our award-winning range of investment options includes sustainable funds, fixed income credit, global equity funds and Global Multi-Asset Portfolios.

Read more on page 50

Consumer

Total policies: 486,216 (2018: 383,427)

Our Consumer division 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.

Read more on page 52

Legacy

Total policies: 5,621,868 (2018: 6,046,216)

Our Legacy division serves long-standing customers, many of whom do not have access to financial advice. We generate value by improving our communication with these customers, using the feedback to improve how we help them manage their money. Legacy has 4m protection and life policies, 1.2m pension policies and 0.4m other policies, such as annuities and tax-efficient savings plans including ISAs.

Read more on page 53

2019 highlights

Royal London has continued to make strong progress – with increased profits, continued product innovation and community support

THE NUMBERS

£416m

EEV operating profit before tax – a 5% increase (2018: £396m)

£139bn

A record year for assets under management, up 22% (2018: £114bn), including record net external inflows of £6.7bn (2018: £4.1bn)

£185m

IFRS post tax transfer to eligible policyholders – up £180m (2018: £5m)

159%

Group Solvency II capital cover ratio (1 January 2019: 154%)*

£600m

Successful subordinated debt issuance

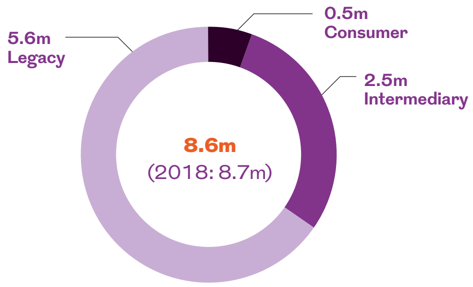
Read more about our financial results on page 54

* Regulatory View, which excludes the surplus in our closed funds. The ratio represents the capital we have as a percentage of the amount required by regulation on a Partial Internal Model basis. The prior year comparative has been restated on a Partial Internal Model basis to allow better comparison

OUR CUSTOMERS AND MEMBERS

Total number of members

Total number of policies held



80%

of customers using our new mobile pension app log on more than once a month. Read more about our mobile pension app on page 49

Under-served customer groups

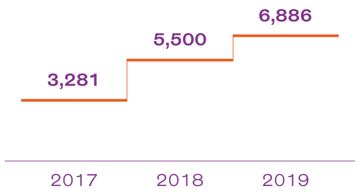
We have been working on ground-breaking products that meet the needs the finance industry does not often address, including mental health cover, diabetes life policies and plans for the over-50s on modest incomes

Read about how we help customers and members on page 29

COMMUNITY

Community volunteer work by our people continues to rise

Total volunteering hours by Royal London colleagues:



86%

of colleagues say Royal London is genuinely committed to having a strong social impact (Source: 2019 Your Views employee survey)

£671,625

Foundation grants and community donations totalled £671,625 in 2019, compared to £455,000 in 2018 and £299,000 in 2017

Read more about how we support local communities on page 34

RESPONSIBLE INVESTING

50%

increase in size of Responsible Investment team

80%

growth in the value of assets in our sustainable funds

55%

We had 260 engagements with 175 companies – a 55% increase in engagements on 2018

15,665

Total shareholder votes (90% for, 10% either against, abstain or take no action)

Read more about our responsible investment activities on page 38

ENVIRONMENT AND SUSTAINABILITY

100%

We secured 100% renewable energy for the electricity contracts within our control

430,000

single-use plastic cups have been eliminated from our offices

100+

We have now reached more than 100 Environmental Champions across the Group after launching in September 2019

Limiting our business travel

We have invested in technology solutions to reduce the need for travel, to limit our carbon footprint

Read about our environment and sustainability programmes on page 42

AWARDS

Company of the year 2019

Financial Adviser Service Awards for the second year running

RLAM – 5* rating for fourth year running

Financial Adviser Service Awards

Best pension provider 2019

Money Marketing

Best online service 2019

COVER Customer Care Awards

5* Fairer Finance rating for over-50s life product

(the only provider to have consistently maintained this rating since inception)

Chairman's statement

We have generated profit, growth and excellent investment results, with record assets under management. We continue to work hard for our customers and wider society

Throughout 2019, we continued to develop products and services to benefit our customers. We are a mutual insurance company, which means that all our members are customers and all our profit is either shared with eligible customers via our ProfitShare scheme, or reinvested in the business to support future growth and service enhancement.

Trading outcomes

Our EEV profit before tax for the year ended 31 December 2019 increased by £20m to £416m. As at 31 December we managed a record £139bn (2018: £114bn) of assets on behalf of our customers, delivering exceptionally strong investment performance. 98% of our actively managed funds outperformed their benchmark over the standard measurement period of three years. This is not, however, just a medium-term statistic; we have a similarly high performance of 99%, outperforming over the latest calendar year.

Stakeholders

Whilst we remain determined to continue to deliver outstanding outcomes for our customers, financial performance is not the be-all and end-all of success. Business has wider responsibilities to society, including responsibilities to those who are not direct stakeholders in a company. We are committed to dealing fairly and responsibly with our customers, our suppliers and our colleagues. We want to contribute locally and nationally to the United Kingdom and Ireland, where we primarily operate, and also to the world in which we invest assets on behalf of customers. Considerably more information about what we do for stakeholders is set out on pages 28 to 37. We have identified three social impact themes where we can make a positive difference to society, and more on these themes can be found on page 20.

Environment

There is compelling scientific evidence that there is an increasingly urgent need for nations, businesses and individuals to work to decrease their adverse impact on our delicate ecosystem. Royal London's greatest contribution is working with companies in which we invest to reduce the consumption of natural resources – from water to carbon-based fuels. We want to do this in a responsible and planned way that recognises that the welfare of people requires a transitional period for environmental evolution. To that end, we have taken our environmental, social and governance responsibilities seriously for many years, by investing in our stewardship teams and developing sustainable funds. We currently have more than £3.6bn in funds that invest in companies with sustainable business models. More investment has commenced to widen and deepen these resources and product offerings.

Brexit

Brexit was never far from our thoughts last year. As a UK and Ireland focused business, the major impact for Royal London was the need to convert our Irish business into a new Ireland-domiciled subsidiary located in Dublin. We completed the transfer of Irish and German policyholders into the new subsidiary in February 2019. The services offered to our customers in Ireland continue to be focused on life assurance and critical illness cover. Our market share increased from 19% at Q4 2018 to 22% at Q3 2019.

We welcome the certainty that comes with Brexit having been enacted, and look forward to the Government facilitating the advancement of the economically important insurance and asset management industries in the United Kingdom in a well-regulated environment. Within the United Kingdom, we service more than 8.6m policies. We employ over 4,100 people in our main places of business: Wilmslow, Edinburgh, London, Bath, Dublin and Glasgow (given here in order of number of people employed).

Pensions

There has been an important change in the provision of pensions over recent years with the introduction of workplace pensions; these will, over time, ensure every person employed in the private sector has a meaningful, defined contribution pension in addition to the basic state pension. We currently service 1.3m workplace pension policies. We are firmly established as one of the leading providers of workplace pensions for medium and smaller sized businesses.

"We will refresh the Group strategy and take advantage of our strong capital base to invest in our business"

We appreciate the trust placed in our workplace, group and individual offerings by employers, intermediaries and individuals. For our part, we are investing heavily in the development of added services and improved communications for our customers.

Brand

In 2019, we continued to invest in our brand: what it stands for and its market positioning. Our newly created TV advertisements have been well received, emphasising our determination to provide high-quality products and services to all our customers. In a year when England won the International Cricket Council (ICC) Men's Cricket World Cup, we are delighted to have renewed our partnership with the England and Wales Cricket Board as headline sponsor of one-day cricket. The sponsorship embraces men's and women's cricket. The values of the sport, welcoming participation by people from all social and ethnic backgrounds, are consistent with our values. In 2020, we look forward to four Royal London Series, with England's men

playing Australia and Ireland and England's women playing India and South Africa.

Capital

A strong brand is important, but even more so is a strong capital base to ensure we protect our customers in a diverse range of circumstances. During the year we transitioned to a new approach (Partial Internal Model) for calculating our regulatory capital requirement, which is a sophisticated way of modelling the risks that the Group faces and determining the appropriate capital base. Our finance, actuarial and risk functions developed complex mathematical models and invested considerable time to gain the Prudential Regulation Authority's approval. In September, we took the opportunity of record low interest rates to raise £600m of subordinated debt to increase our capital resources and to support investment in our businesses.

Board

2019 was a year of significant change in the composition of your Board. Jon Macdonald, our Chief Risk Officer (CRO); Tim Harris, our Deputy Group Chief Executive and Group Finance Director (GFD); our Group Chief Executive Phil Loney; and Chairman Rupert Pennant-Rea all departed. Each of them contributed enormously to the success of Royal London over recent years. During his seven years as Group Chief Executive, Phil brought Royal London together under one brand, focused the divisions on building growth, and was an excellent communicator with our people and customers. I wish all our departing directors well in their next endeavours.

Following my appointment early in 2019, my priority was to recruit a Group Chief Executive to guide our business through its next stage of development. I am delighted that we secured Barry O'Dwyer as Group Chief Executive. Barry brings extensive experience of our industry gained at leading competitors. We also transitioned to a new CRO, James McCourt, and are currently in the process of selecting a GFD. We have recently appointed Kal Atwal as a non-executive director to the Board. Kal will bring a diverse skill set, including consumer and digital perspectives. 37.5% of Board members are women, and we have one director from a non-white ethnic minority.

During the year, I have seen the work of all our divisions. I have met a wide representation of our people, who demonstrate a commitment to serving all of our customers – whether they are in their twenties or nineties, whether they are working, unemployed or retired, wherever they live in the United Kingdom and Ireland, whatever their ethnic background and whatever their economic circumstances. Our people work relentlessly to benefit our customers and, when we make mistakes or our service is not of the standard we aspire to, we seek to deal with issues arising fairly and quickly. On behalf of the Board, it gives me great pleasure to thank both our customers and colleagues for their commitment to Royal London.

ProfitShare

To our customers, one of the most tangible benefits of mutuality is ProfitShare, a unique benefit that comes from our being a mutual insurance company. Its effect is to enhance the return on eligible life and pension policies. This year's total ProfitShare allocation to eligible customers is 7% lower at £140m (2018: £150m) to reflect the economic outlook indicating that the record low interest rate environment will continue for some time yet. Our strong financial performance has helped to limit the economic impact on this year's award, allowing us to add £140m to eligible customers' savings.

Outlook

As we enter a new decade, we recognise that growth is highly dependent on employment in the private sector and on public health. We will build on our recent market success, but as auto-enrolment matures, growth is likely to be slower than in recent years. We will therefore refresh the Group strategy and, taking advantage of our strong capital base, invest in our business. The effects of coronavirus and our technology investments may weigh somewhat on our profitability in the short term, but I believe that setting us up for robust improvements in service, product offerings and capacity will help us expand further in the medium term.

Kevin Parry OBE
Chairman
16 March 2020

Group Chief Executive's statement

Royal London continues to trade well despite market volatility, with strategies in place to deliver for customers

My first 100 days

I joined Royal London in September 2019, 100 days before the year end. I spent that initial period listening carefully to colleagues in all of our business units and across all of our sites. Royal London is an organisation that I have long admired, and I wanted to understand in greater detail the ways in which we deliver for our members and customers, and our plans to improve our service further.

Mutuality

Colleagues are justifiably proud of our mutual status and the difference this makes for our members and customers. We can take a long-term view when making decisions, free from the inherent conflict of interest that is always present at a shareholder-owned company. Mutuality has helped our company to build an unrivalled reputation among financial advisers for offering great-value products, and I am delighted that in 2019 Royal London won Company of the Year at the Financial Adviser Service Awards.

ProfitShare

At Royal London, we share our profits with our customers and, since the introduction of ProfitShare in 2007, we have added over £1bn to the value of eligible customers' savings. Although this is only part of the benefit customers get from our mutuality, it is a real tangible difference between us and our competitors.

Our purpose

Our company was founded to help families give their loved ones the funerals they deserved. Our founding purpose remains relevant today and we continue to offer a range of products that help towards the cost of a funeral. In the UK, the average cost of a funeral is £3,785 and funeral poverty remains a real issue. As we have grown over the years, our purpose has evolved. I believe that companies that are clear on their purpose perform better, and I have initiated a discussion with colleagues about how we can articulate our modern purpose in a way that makes most sense to members, customers, colleagues and society at large.

We undoubtedly have a role to play in helping to solve some of the biggest challenges facing the UK population at the moment, including how to fund healthcare, social care and retirement in an ageing population.

Environmental concerns have become a much higher priority for society, and we can help customers to invest their savings in a way that reflects their concerns. Our new Climate Framework underlines our commitment to tackling climate change through reducing our carbon footprint and considering the climate impact when making investment decisions. Being crystal clear on our purpose will help determine the strategic choices we face in deciding how best to deploy our capital and expertise to generate the most value for our customers in the long term.

Our people

As we continue to grow our business, it has been important for us to focus on our culture. The success of our business is largely due to our people, so we want to ensure that the environment we work in is diverse and inclusive, and a place where people can have rewarding careers. Our employee engagement scores in 2019 of 83% (2018: 81%) reflect the care we take in listening to our people. We place real value on their feedback on how we run the business.

I am also proud of Royal London's commitment to diversity and inclusion. Following the launch of our Women's Network in 2018, two more networks – PRIDE for LGBT+ (lesbian, gay, bisexual and transgender+) and BAME (Black, Asian and minority ethnic) – were launched in 2019. We will continue our efforts to develop an inclusive place to work, with further plans to launch a Disability Network in 2020. By fostering an environment where everyone can be themselves at work, we will benefit through bringing together different ideas, experiences and perspectives.

Our continuing financial strength

Royal London has experienced considerable success in recent times and, when I arrived, the business was well on the way to delivering a robust operational performance for 2019.

A number of important milestones were achieved in 2019, including gaining approval

Growth in our markets is likely to return to long-term trend levels. We were right to capitalise on the opportunities presented over the last few years

from the Prudential Regulation Authority of our Partial Internal Model (hereafter referred to as Internal Model) for measuring our capital resources and the successful issuance of £600m of subordinated debt. Our capital position remains strong with a Solvency II Group Regulatory View capital cover ratio of 159% (1 January 2019: 154%). For further detail on the ratio, see page 58.

RLAM, which manages the funds for our customers, has had an outstanding year, delivering a strong investment performance across all asset classes. Its investment performance was recognised by a record number of external awards. As a result, assets under management (AUM) rose to £139bn (2018: £114bn) with record net inflows of £9.9bn (2018: £7.7bn). For further information on AUM see page 50, with flows on page 56.

The Intermediary business continued to perform well in a challenging environment, with sales on a PVNBP[1] basis of £10.3bn (2018: £10.9bn) including Ireland. We launched a mobile app (royallondon.com/existing-customers/online-service/download-our-mobile-app) that makes it easy for customers to view their pension savings whenever they like, with over 80% of around 30,000 customers with the app logging in at least once per month.

We continued to grow in Ireland in 2019. Our subsidiary, RLI DAC, was authorised by the Central Bank of Ireland (CBI) to write new life business in Ireland and we are now one of the top three largest players in our chosen markets with a market share of 22% at Q3 2019 (Q4 2018: 19%), with our PVNBP increasing by 22% to £137m (2018: £112m). 2019 also saw the launch of an innovative critical illness product, which proposes a radical new approach that links benefits to the severity of impact caused by an illness or condition. The response from customers and brokers alike has been very positive.

Our Consumer division has made an impression on the market with the launch of our direct funeral plan in 2019, which was awarded a four-star rating from the Fairer Finance consumer group. Sales in our Consumer division increased by 1% to £422m (2018: £419m). Our continued investment has led to the creation of a profitable business, achieving a margin of 1.4% (2018: (0.8)%).

Our business partnerships continued to deliver growth over 2019. The Post Office partnership was particularly successful, with sales up by 14%. We look forward to the division growing as we work with new and existing partners.

Our Legacy division continues to look after the interests of our customers, with 5.6m long-standing policies. We regularly review our products to ensure that we are providing good outcomes. In 2019 we further enhanced the communications we give to our customers to support them to make informed decisions. Over 86% of the population who receive annual statements now get significantly improved statements, in a much more user-friendly layout. The statements also clearly set out key information on policy performance and any additional benefits in the policy to help customers understand their options better.

We have also proudly launched the first phase of a new digital portal in 2019, which will enable some of our customers to view their annual statements online. Profits from our Legacy division contributed in excess of £80m to the Group.

Investment Funds Direct Ltd (IFDL), our wrap platform, supports about 1,500 financial advisers in managing around 90,000 customers' pensions and savings in tax-efficient wrappers. 2019 was a very challenging market but the business continued to grow Assets Under Administration to £16.2bn (2018: £14.5bn). 2019 also saw IFDL complete its full core technology re-platforming, and all customers have been migrated onto a more robust and scalable technology solution.

Looking ahead

We will continue to build on our strengths and evolve our business to grow sustainably, responding to market developments and our customers' needs. The last five years have been characterised by unprecedented growth in our markets, helped by legislative and regulatory change. We are now at a more mature stage, post the introduction of auto-enrolment and pension freedoms. Consequently, growth in our markets is likely to return to long-term trend levels. We were right to capitalise on the opportunities presented over the last few years, and I am working with your Board to ensure we have the right strategies in place to deliver for customers in the lower-growth environment we are facing.

Coronavirus represents a new risk for the world economy and therefore for our business. Our current priority is the health and wellbeing of our colleagues so that we can continue to deliver for customers and clients. Our robust capital position means we do not expect the virus to have any material long-term impact on our business.

Royal London has changed and evolved before to reflect changes in society and has thrived each time. I am confident that we will succeed again. I look forward to the 2020s being a memorable and successful decade for our company.

Barry O'Dwyer

Barry O'Dwyer
Group Chief Executive

1. Present Value of New Business Premiums (PVNBP) is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the year. The rate used to discount the cash flows in the reported results has been derived from the 31 December 2019 swap curve, calculated in accordance with specification provided by the European Insurance and Occupational Pensions Authority (EIOPA).

Our business model

By taking a different approach that reflects our values and mutual status, we deliver better financial outcomes for our customers whilst considering the impact on wider society and the environment

DRIVEN BY

Our vision

We aim to be the most trusted and recommended provider in our chosen markets.

Our purpose

We exist to improve the lives of our customers and wider society.

IMPACTED BY

The world we live in

The world is changing rapidly but we are well placed to respond to the challenges from global trends.

Read more about the big issues impacting business on page 18

Building on our strengths

PEOPLE We ensure our people have the expertise and enthusiasm to deliver the best outcomes for our customers.

SERVICE We constantly raise our award-winning service levels.

INVESTMENT We continue to invest strategically across the Group to further improve our processes and boost our efficiency.

INNOVATION We build new and better products and services to improve customers' lives.

Read more in our business review on page 46

The views of our stakeholders

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

Read about stakeholder engagement on page 28

OUR WAY OF CREATING VALUE

Our customers are at the heart of everything we do

Everyone wants a stable financial future and to protect themselves against life's big blows, but achieving those goals is a challenge. We therefore work with IFAs and their clients, and with our customers, to deliver quality products and services at a fair price.

Read more about what we do on page 37

We deliver these through our four divisions:

INTERMEDIARY provides long-term savings and protection products via IFAs to their clients.

ASSET MANAGEMENT manages assets for Royal London customers, and for external customers including pension funds, local authorities, IFAs and wealth managers.

CONSUMER sells insurance and protection products directly to consumers who cannot access or do not want financial advice.

LEGACY manages protection, life, pension and other policies for our long-standing customers.

Read more about our divisions on page 46

Our commitment to the environment

We have implemented a range of strategies to help tackle climate change. These climate change commitments include promoting the transition to a low-carbon economy and reducing our carbon footprint. For more on our environmental policy, see page 42.

We create value through focusing on the following four areas:

1 **FINANCIAL STABILITY AND SUPPORT**
Building financial capability and confidence so people can access the right products and support.

2 **PROPOSITIONS AND INVESTMENTS**
Providing purposeful and accessible propositions and investment solutions for customers, advisers and our people.

3 **PARTNERSHIPS**
Collaborating internally and externally with partners to increase the impact we make on society.

4 **CAMPAIGNING AND LOBBYING**
Promoting good governance, identifying inequality and lobbying for change where we have most impact.

Read more about our focus areas on page 20

Underpinned by our values

- We are empowered
- We are trustworthy
- We collaborate
- We achieve

Read more about our values on page 7

DELIVERING POSITIVE IMPACT

Building financial resilience

Making sure people are financially protected against life's biggest blows, so they can manage better even in the most difficult times.

Taking on the long-term savings challenge

Supporting people to secure their long-term financial future, and raising awareness on key financial issues that affect consumers.

Strengthening responsible business

Being a force for good – through responsible investing and promoting sound corporate governance, and by supporting our people and communities – to create a brighter future for all.

Read more about our positive impact on page 20

FOR OUR STAKEHOLDERS

Customers and members

Contributing to the long-term financial health of our customers is our consistent aim. To do that, we are committed to putting our customers at the heart of what we do. We continue to make good progress in building trust with them and achieving this goal.

Our people

Our employee engagement scores reflect the care we take to listen to our people and reflect their concerns and enthusiasm in how we run the business. Our future success continues to rely on our people.

Society

Giving back to society means making a difference to our local communities and having an influence on a wider stage in areas such as governance and climate change.

Advisers

Our strong commitment to the benefit of financial advice continues, and we seek practical ways to build bonds with independent financial advisers.

Read more about how we support stakeholders on page 28

Measuring our performance

Our key performance indicators (KPIs) show how we are delivering – from profitability and continued growth to customer advocacy and colleague 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), which are non-GAAP (generally accepted accounting principles) measures that are not bound by the requirements of International Financial Reporting Standards (IFRS). The measures are reviewed annually and updated to ensure they remain an effective measure of delivery against our objectives.

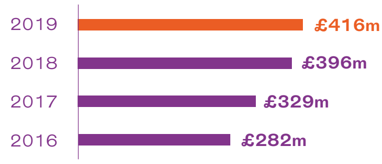
Royal London reports externally on the basis of European Embedded Value, or EEV, a basis of accounting developed for insurance companies. We use our Solvency II internal capital model for measuring capital adequacy. A reconciliation between our EEV profit and IFRS transfer to unallocated divisible surplus is provided on page 233.

FINANCIAL KPIs

PROFITABILITY – EEV operating profit before tax[1]

Why it's important The EEV basis of reporting attempts to recognise the true economic value generated over the reporting period. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of the profit recognition is different.

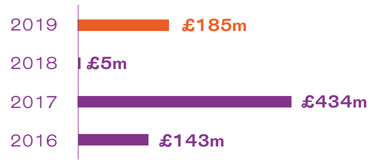
Our performance Our EEV operating profit increased to £416m in 2019 (2018: £396m). This increase was a result of a higher new business contribution of £319m (2018: £301m) – driven by record external net inflows of £6,696m (2018: £4,100m) into RLAM and continued strong life and pension new business sales. The Group also benefited from changes to future expense assumptions.



PROFITABILITY – IFRS post tax transfer to eligible policyholders[2]

Why it's important As a mutual, the transfer to eligible policyholders is a key measure of accumulation of funds available for us to share, at our discretion, with policyholders.

Our performance The IFRS post tax transfer to eligible policyholders for the year ended 31 December 2019 increased to £185m (2018: £5m). This rise was a result of unrealised gains on our investments due to favourable market conditions in 2019, compared to unrealised losses experienced in 2018.



PROFITABILITY – ProfitShare

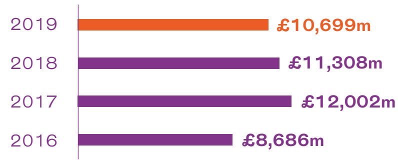
Why it's important Our mutual status means that when Royal London does well, so do our customers.

Our performance ProfitShare reduced to £140m (£147m gross of tax), bringing the total ProfitShare distribution to over £1bn since 2007 (previously known as mutual dividend).

NEW BUSINESS – Present value of new life and pension business premiums (PVNBP)

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

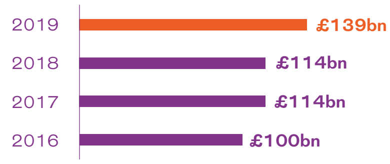
Our performance New life and pension business sales on a PVNBP basis decreased 5% in 2019 to £10,699m (2018: £11,308m), driven primarily by lower defined benefit pension transfers.



FUNDS – Assets under management (AUM)[3]

Why it's important A higher level of AUM leads to economies of scale, meaning Royal London can continue to offer competitive management fees to our customers.

Our performance The Group's AUM increased to £139bn. The increase reflected buoyant investment markets, and comprised net internal inflows of £3.2bn from The Royal London Mutual Insurance Society Limited (RLMIS) and net external inflows of £6.7bn arising through institutional and wholesale markets. The record level of external gross and net inflows is due to Royal London's success in winning a number of large new mandates during the year, with a strong performance in both institutional and wholesale markets.



CAPITAL – Solvency II capital cover ratio[4]

Why it's important A strong capital base is an essential requirement for our business, to ensure we have the capital to fund further growth and to give peace of mind to our customers.

Our performance The Group became an internal model firm during 2019 following regulatory approval. As a result, we have presented a restated comparative amount. At 31 December 2019 our Group Regulatory View capital cover ratio was 159% (1 January 2019: 154%). This was driven by a subordinated debt issuance of £600m and positive economic assumption changes, offset by the capital used to write new business in the year, as well as the allocation of ProfitShare and our continued strategic investment in the Group. This is discussed further in the capital section on page 58.

NON-FINANCIAL KPIs

PEOPLE – Employee engagement

Why it's 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 career potential is important to our business and the right thing to do.

Our performance Royal London's Annual Employee Engagement survey enables colleagues to give feedback on a variety of issues. The results are reviewed by management and the Board. 87% of colleagues participated in the 2019 survey, with the employee engagement score of 83% reflecting a year of successes, hard work and change.

CUSTOMERS – Net Promoter Score (NPS)

Why it's 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'; these consistently high advocacy scores are therefore a positive indicator of our performance against a backdrop of an expanding customer base and significant changes in the pensions market.

1. 2016 EEV operating profit is before the change in basis for Solvency II of £182m, which arose through further alignment between our regulatory and statutory basis.
2. 2016 IFRS result is before the impact of the change in basis for Solvency II of £165m. IFRS post tax transfer to eligible policyholders is a 'Transfer to the UDS' in the Statement of comprehensive income, and represents the IFRS result after tax for the period after taking into account other comprehensive income (OCI).
3. 2017 AUM includes amounts held in RLAM C.I. Limited, which was sold in 2018 with AUM of £2.0bn.
4. The Solvency II capital cover ratio is the total Own Funds of the Royal London Open Fund and Royal London Closed Funds (after the closed funds restriction) divided by the Solvency Capital Requirement. We call this the Regulatory View.
5. Comparative figures for 2018 are not available for the Group capital position as Royal London only became an insurance Group for SII purposes with effect from 1 January 2019. The 1 January 2019 figures have been restated to reflect the move to an Internal Model for calculating capital requirements.

Key: social impact themes Building financial resilience | Taking on the long-term savings challenge | Strengthening responsible business

The world we live in

The world is changing rapidly and the financial services sector is moving even faster, but **Royal London is well placed to tackle the big issues facing society today.** We are making important changes to ensure we can meet the needs of our stakeholders.

38%

Only 38% of young people in the UK trust business, according to the 2018 Edelman Trust Barometer survey.

1 in 7

Britons will be over 75 years old in 2040, says a 2016 Government Office for Science report, *Future of an Ageing Population*.

76%

consider companies' ethical drivers more important to trust than competence, says the 2020 Edelman Trust Barometer survey of UK, US and German respondents.

30.4m

More than 30 million Britons do not know if they're saving enough for a decent retirement, reveals a 2018 report by the Pensions and Lifetime Savings Association.

TREND/ISSUE	THE CHALLENGE	OUR RESPONSE
Uncertain economic environment	Although stock markets were generally buoyant, fears of a drawn-out US-China trade war and Brexit-related concerns increased during 2019.	Royal London Asset Management has an experienced investment team with a track record of successful investment over multiple economic cycles. In a year of uncertainty we attracted significant net inflows in 2019, and 99% of our active funds outperformed their benchmarks (see page 10).
	In 2020 the spread of coronavirus has potential to disrupt global trade and slow global growth rates.	We expect the outlook to remain highly uncertain for the next few months, and we will continue to monitor the situation closely and adapt our portfolios accordingly.
Climate change	The world has woken up to the pace at which climate change is affecting our planet. Business has a huge role to play in reducing emissions and other pollution.	As the custodian of billions of pounds of customers' funds, we have an opportunity to not just critically assess our own organisational impact on the environment, but also positively influence the companies in which we invest. We have developed a climate change action plan, which has five key commitments (read more about this on page 42).
Increased consumer focus on social impact	Consumers expect all businesses to do more than make money. When Royal London was created over 150 years ago, our objective was to bring about positive social impact by helping people avoid a pauper's grave.	Bringing that objective forward to this century, our 'social impact agenda' enables us to direct our energy into three identified key areas where we can make the biggest difference. We still have policies in place that support under-served markets, but we also look to drive up standards in our markets, and we use our voice to make a difference on a range of topics, including funeral poverty.
Technological change	The financial services industry is rapidly expanding the use of technology to revolutionise operations – but it is vital that customers are not left behind by innovation.	At Royal London we believe in using technology for the benefit of customers and our people, while taking great care to ensure we safeguard people's information and funds. Not every change is futuristic: just by simplifying and keeping up to date with technology, we deliver significant benefits to our customers.
Demand for innovative products	In today's fast-moving world, customers need new products – or improvements on current ones – to deal with the difficulties that life can throw at them.	We aim to create products that either meet customer needs the industry does not yet address, or that offer better quality and value than the market currently provides. For example, we are working towards adding mental health coverage to critical illness policies, while in Ireland our new critical illness product proposes a radical new approach that gives customers improved cover at lower prices by linking benefits to the severity of impact caused by an illness or condition (see page 22 for more on this).
Continually evolving regulation	Maintaining close relationships with regulators and keeping ahead of constantly evolving regulations is an essential requirement for our industry.	We are proud of our track record in helping to combat poor practice in our industry by working with regulators to tackle issues as soon as they arise. No firm is perfect, but we embrace a collaborative approach with regulators to address historical and future issues affecting our industry.
Trust	In an uncertain world, people have become much more cautious about who they trust. Particularly among younger people, trust in big business is low. In the long-term savings business, accusations of pensions mis-selling and the liquidity issues in certain funds have contributed to concerns about trust and reliability.	Royal London's aim is to be the most trusted and recommended provider in our chosen markets. RLAM's reputation was an important factor in attracting new funds in 2019, as investors sought out firms that they could trust during volatile and unpredictable market conditions.
An ageing and healthier population	Like most of Europe, the UK's population is getting older and many people are struggling to save enough to ensure their financial security in later life.	Taking on the long-term savings challenge is one of our primary social impact goals. This is primarily about offering people good-value products and encouraging them to think about their financial future and priorities.

Key: social impact themes Building financial resilience · Taking on the long-term savings challenge · Strengthening responsible business

Our social impact themes

In 1861 Joseph Degge and Henry Ridge founded Royal London, **determined to help fellow citizens avoid the indignity of a pauper's grave.** That commitment to improving people's lives to the benefit of society is as relevant today as it was then.

Throughout our history we have always focused on social issues. Our ambitions evolve over time and we have identified three key themes where our specialist expertise enables us to make a real difference today: building financial resilience, taking on the long-term savings challenge, and strengthening responsible business. These three themes – set out on the page opposite – have become the core of our social impact agenda.

During 2019 we built on that initial plan. We developed 10 commitments, each linked to one of the social impact themes and relevant to specific aspects of our business. They ensure our strategy is influenced by our social impact aims – from helping low-income families to be more financially resilient to investing responsibly.

OUR 10 COMMITMENTS

Our social impact themes, and the 10 commitments, help us make a difference. We have started a mapping exercise against the United Nations Sustainable Development Goals (SDGs) to identify where we will have the most material impact. Here we highlight the SDGs where we believe we can have a positive effect, but will continue to review these across our business.

SOCIAL IMPACT | COMMITMENTS | RELEVANT SDG

Building financial resilience

Making sure people are financially protected against life's biggest blows, so they can manage better even in the most difficult times

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

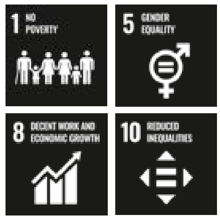
Taking on the long-term savings challenge

Supporting people to secure their long-term financial future and raising awareness on key financial issues that affect consumers

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



Strengthening responsible business

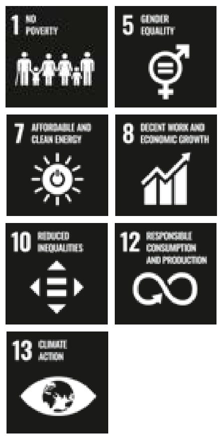
Being a force for good – through responsible investing, promoting sound corporate governance and by supporting our people and communities – to create a brighter future for all

7 **RESPONSIBLE INVESTMENT:** Continuously embed advanced environmental, social and governance (ESG) capabilities into our investment activities and support RLAM to influence positive corporate changes

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 **PEOPLE:** Develop a meaningful, inclusive and engaging workplace for our people and their wellbeing »



BUILDING FINANCIAL RESILIENCE

Making sure people are financially protected against life's biggest blows, so they can manage better even in the most difficult times

1

PROTECTION

Remove barriers preventing people from getting the protection they need through innovation and driving up standards

We have introduced innovative mental health and critical illness cover to give customers the protection they need. With our new life protection offering for people with serious mental health conditions, including psychosis and schizophrenia, we gave cover to 75% of applicants who would normally be uninsurable. Royal London Ireland launched Multi-Claim Protection Cover, which takes a radical approach to critical illness insurance. The plan pays out on health conditions and treatments, linked to their severity. This is an advance from typical critical illness policies, which can be complex and expensive, relying on specific medical diagnoses.

Discover how Royal London's life protection performed on page 48

"We have introduced innovative mental health and critical illness cover to give customers the protection they need"

CLARA makes life claims quicker and clearer

It is difficult enough when a loved one dies, but banks and insurers can make a tough time even worse with insensitive bureaucracy. So in 2019 we launched CLARA, a claims and case management system that aims to speed up payments to bereaved families. Customers now have a dedicated person at Royal London to help them with the claim from beginning to end. We created a bereavement guide that explains to customers how the process of managing someone's death works and what they need to do. Thanks to CLARA, we can ease the burden on grieving families with no need for families to produce a paper death certificate. In many cases we have removed forms from the death claim process and can collect relevant details over the phone. We are also using electronic signatures more often, so we can pay claims as swiftly as possible.

2

FUNERAL POVERTY

Lead, support and influence the Government and industry to ensure affordable, dignified funerals

Royal London was founded to help people deal with the costs of a funeral. More than 150 years later, funeral costs remain a cause of people falling into debt – an issue that we continue to campaign on. State support for those facing funeral poverty is inadequate because it does not cover the full cost of even a basic funeral. We have highlighted the problem to ministers and officials, and this year facilitated a cross-party funeral poverty working group to explore potential solutions.

Our campaigning pays off

In September our sixth annual Funeral Cost Index report revealed individual funeral debt had risen by 12% over the previous year, with people facing a shortfall of almost £2,000. Nevertheless, there are signs that our campaigning has had an effect. In November, the Department for Work and Pensions announced a 43% rise – to £1,000 – for the Funeral Expenses Payment, which has been frozen for 16 years. In addition, the Competition and Markets Authority launched an investigation into the cost of funeral and crematorium services and used our data to illustrate the problem.

See how Royal London campaigned on a range of financial issues on page 36

3

FINANCIAL CAPABILITY

Drive up knowledge and skills for people to prepare better for life's challenges

The value of financial advice is one of Royal London's enduring beliefs, but we are also well aware that for many it is unaffordable. So we began asking ourselves if we could do more to help these people, in addition to the articles and guides we already provide on our website: royallondon.com/articles-guides

Support for managing money

We want to help people be good with their money, so we worked with the former CEO of The Pensions Advisory Service, Michelle Cracknell, to look at new ways to achieve this. We began trials to help people who do not have a financial adviser to manage money better and to feel more in control of their finances. In one trial, we trained some of our customer service consultants to offer financial guidance to people approaching retirement. A second pilot is for Over-50s customers on modest incomes. We offer information on budgeting, cutting bills, state benefits and dealing with debt. »

TAKING ON THE LONG-TERM SAVINGS CHALLENGE

Supporting people to secure their long-term financial future, and raising awareness on key financial issues that affect consumers

4

POSITIVE FINANCIAL FUTURE

Create solutions, products and services to enable a positive financial future

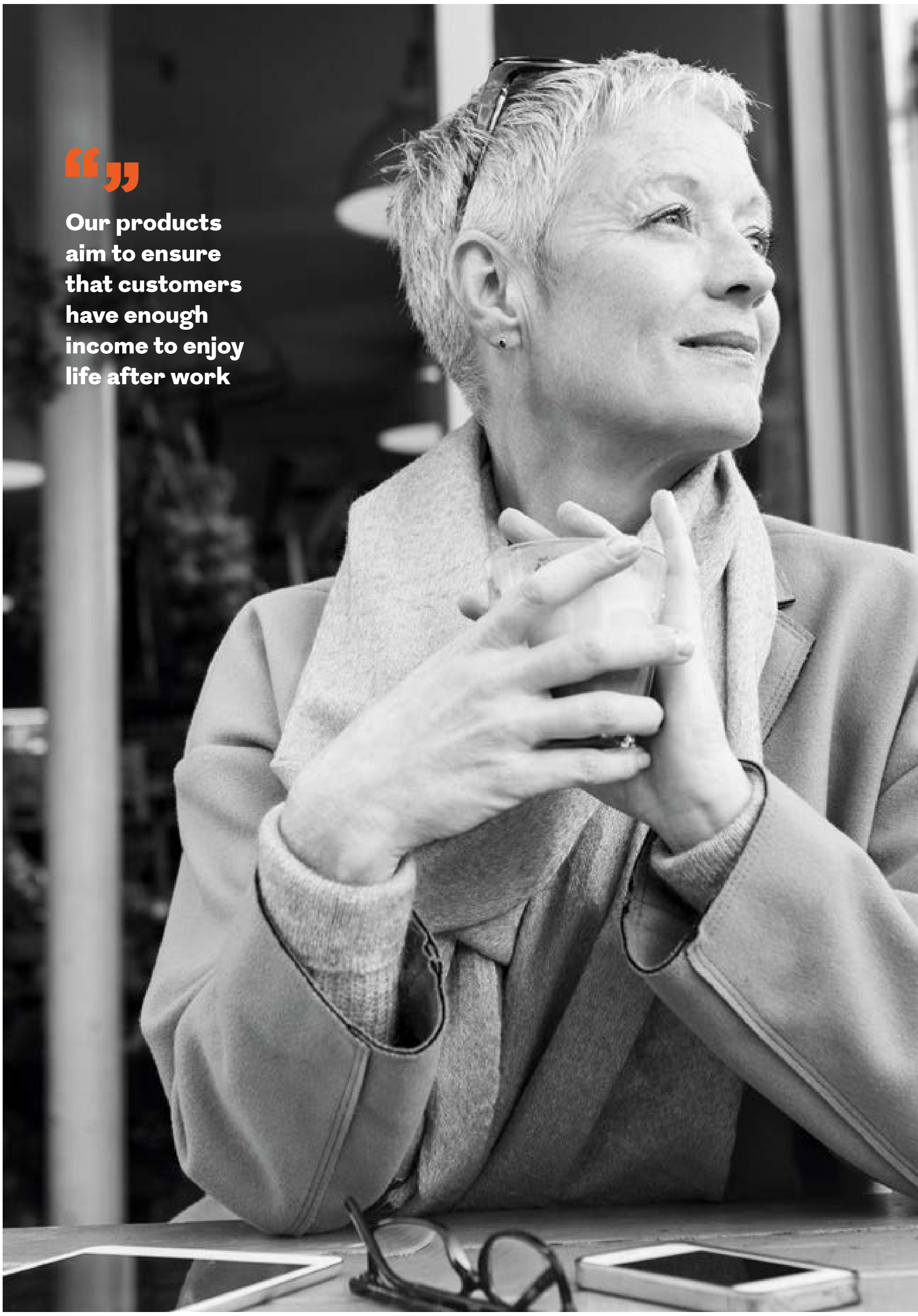
Royal London offers a comprehensive range of pension plans to help secure customers a comfortable retirement. Our products and services aim to ensure customers can make informed choices about their financial future, have enough income to enjoy life after work, and receive value for money.

Keeping customers on track

For example, our Governed Retirement Income Portfolio pensions have ongoing governance – so our investment experts check them regularly to confirm they're achieving their investment objectives. Customers can choose a plan from five portfolios that best reflects their attitude to risk.

Our Drawdown Governance Service helps financial advisers to monitor the health of clients' income from Royal London drawdown pensions, to make sure they're on track with their retirement investments.

For more information on our governed pension range, visit royallondon.com and search 'governed portfolios'



5

CHAMPIONING

Advocate better retirement outcomes through championing access to advice and guidance and lobbying the Government for change

We have worked hard in many areas of the pensions sector so that people achieve fairer financial outcomes and more stable futures. For example, in 2019 we lobbied on the issue of grandparents who assist with childcare not getting national insurance credits.

Highlighting the major issues

Royal London also raised awareness of the challenges involved in pension transfers with the regulators and company pension schemes. In addition, we highlighted the issue of 500,000 working people over the state pension age potentially paying too much tax. We also investigated doctors' pensions (see our case study below).

Our campaign for doctors' pensions

We lobby on issues that are important to wider society and could benefit from our expertise – we do things that benefit our customers even when not linked to our products and services. The state of the National Health Service (NHS), for example, is of great interest to our customers. We therefore investigated complex tax laws that discourage some doctors from taking on more work in the NHS, because doing extra shifts or covering for an absent colleague could unfavourably affect their levels of pension tax relief. This was making the shortage of doctors even more acute. We published a report on the issue, which pressed for a simpler and fairer taxation system that does not penalise doctors financially for doing extra work. The Government has now committed to address the problem, and has already consulted on the issue.

6

ENGAGEMENT

Increase engagement in planning for later life through improved customer communications and support

For customers without a financial adviser, receiving comprehensive communications about savings or an insurance policy is vital to making good financial decisions for the future. We therefore sent more than a million of our long-standing customers an improved annual statement in 2019. We also trialled a digital portal that could replace postal statements. It would enable us to give more information to customers about the financial decisions they need to make.

Sharing expert insight

As part of our engagement programme, we send a quarterly email to more than 500,000 members, giving company updates, sharing insight on financial issues, and alerting them to full articles and guides on our website. We also launched a monthly podcast series, 'The penny drops'. Each episode features a different topic, with experts providing answers on a range of financial questions. »

Turn to page 30 for a special focus on Royal London's 'The penny drops'

1m+

More than one million of Royal London's long-standing customers received a new and improved annual statement in 2019

STRENGTHENING RESPONSIBLE BUSINESS

Being a force for good – through responsible investing and promoting sound corporate governance, and by supporting our people and communities – to create a brighter future for all

7

RESPONSIBLE INVESTMENT

Continuously embed advanced ESG capabilities into our investment activities and support RLAM to influence positive corporate changes

Royal London has an influence over the thousands of businesses in which it invests. We therefore encourage those companies to make better decisions and we are now taking our responsible investment capability to a more advanced level. We became signatories of the United Nations Principles for Responsible Investment in January 2020, and plan to sign up to the Financial Reporting Council's UK Stewardship Code by the end of 2020.

Focus on the big challenges

Those who manage funds on our behalf – the RLAM team and external firms – work with companies they invest in to improve the way they are run. We are committed to being a responsible investor on behalf of our customers to help manage risk and integrate material ESG factors into investment decisions. RLAM's focus is on climate risk; social and financial inclusion; circular economy; innovation, technology and society; corporate governance; and diversity. As global investors, we have a substantial stake in the UK energy utility sector and are therefore engaging with many gas and electricity companies to evaluate how they are transitioning to the low-carbon economy.

See page 38 for details of Royal London's activities as a responsible investor

8

ENVIRONMENT AND SUSTAINABILITY

Build sustainability into the Royal London Operational Estate and Supply Chain

We will shortly be publishing our environmental policy, which sets out our commitments on energy and greenhouse gas emissions, water use and waste. In October, we published our Climate Framework, which outlines, for example, our commitment to the low-carbon economy and reducing our own carbon footprint. We are creating an Environmental Improvement Plan that will support us in setting targets for which we will be publicly accountable.

In 2019 we secured 100% renewable energy for the electricity contracts within our control. We increased awareness of environmental initiatives across the Group, launching our first Environmental Champions network. We also eliminated single-use plastic cups in our offices and changed to a more environmentally friendly office paper.

See page 42 for a detailed overview of our environmental commitments

100%

During 2019 Royal London secured 100% renewable energy for the electricity contracts under its control

Giving families a head start at home

Helping parents with young children through tough times, Home-Start in Newark, Nottinghamshire is one of many organisations supported by a Royal London Foundation grant. Every year, the Foundation awards grants of £5,000 to community groups nominated by Royal London members. Home-Start sends volunteers into homes to assist families dealing with physical ill-health, post-natal depression, bereavement, isolation and many other medical, emotional and social issues. The Newark team used their grant for training new volunteers to continue the valuable work in vulnerable households. See page 29 for further information about the activities of the Royal London Foundation.

9

COMMUNITY

Strengthen our local communities and help build people back up after life's shocks through volunteering, partnerships and financial support

We helped local communities with grants from the Royal London Foundation. Not-for-profit causes are nominated by our members. This year we allowed slightly larger organisations – those with income of up to £1m a year rather than £500,000 – to qualify for grants for the first time.

For further details about the Royal London Foundation, go to page 29

10

PEOPLE

Develop a meaningful, inclusive and engaging workplace for our people and their wellbeing

We have invested in awareness training on mental health conditions for our People Managers as part of our commitment to reduce the stigma attached to mental health issues in the workplace. Our Mental Health First Aiders have been a valuable first port of call for Royal London people. ■

Find out how we help our people stay healthy and happy on page 31

Engaging with our stakeholders

We are determined to build long-term and sustainable value for all our stakeholders. We take positive actions – from working with local communities to lobbying government bodies.

We recognise that different stakeholders have varying needs. So we always consider very carefully how we can tailor our engagement with them to ensure they get the support that suits them best. This section includes detail on our interactions with our largest stakeholder groups. More detail on our other important stakeholder groups is included in the Corporate Governance statement on page 84.

Page	Stakeholder group	How we engage and interact
29	**Customers**	• Improved customer statements • Financial capability guides • Via our website: royallondon.com
29	**Members**	• Members area of our website with exclusive access to benefits and podcasts • AGM communication • Royal London Foundation • Work experience programme
31	**Our people and networks**	• Feedback gathered through Employee Engagement Survey • Introduced a new Leading the Future Programme
34	**Society**	• Royal London Community programme entered its third year • Royal London colleagues each have two days to spend volunteering • We campaigned on pensions and funeral poverty
37	**Independent financial advisers**	• We use our voice to lobby in support of a successful, strong and independent intermediary channel • Our Business Development team updates advisers on regulatory changes so they can give customers better guidance • We continually offer new ways for advisers to tap into our extensive technical and regulatory knowledge

CUSTOMERS AND MEMBERS

Our customers and members are vital for our success – and by supporting policyholders we can also make a powerful, positive difference in wider society

WHY CUSTOMERS AND MEMBERS MATTER

Quite simply our customers and members are why we exist. We work for them.

WHAT MATTERS TO CUSTOMERS AND MEMBERS

- Securing and planning for their financial future
- Learning how to look after their money
- Member benefits

HOW WE HELPED

- Improved customer statements
- Launched personal finance podcast and pension guides
- Continued member benefits, such as nominating organisations for grants through the Royal London Foundation and work experience programme

SOCIAL IMPACT THEMES

"Improving the ability of people to manage their money and make informed financial decisions is a huge challenge"

CUSTOMERS

Our customers are critical to our success as an organisation, and we are determined to deliver for them. By supporting our customers we can make a significant impact on society as a whole.

Improved customer statements

We worked with pension savers to design our new yearly retirement savings update, which was released to more than one million customers in 2019. The statement is packed with clear and colourful visuals, highlighting the key information that customers tell us is important to them.

As well as being easier for customers to read and understand, the statement allows advisers to have better conversations and provide more useful advice. They complement our existing tools available to advisers, such as the Adviser Review Service and Drawdown Governance Service.

Financial capability

Improving the ability of people to manage their money and make informed financial decisions is a huge challenge in today's society. We want to do what we can to make sure we help our customers handle their finances. This year we launched a pilot to deliver guidance for pensions customers.

We also published a range of easy-to-understand money guides on a number of topics, including debt, making a will and budgeting (visit royallondon.com/moneyguides).

We used social media to raise awareness of a benefit called Attendance Allowance, which is aimed at those over state pension age who are disabled or ill. A key focus is how we can best support customers who cannot access advice.

MEMBERS

As at 31 December 2019 1.6 million of our customers were also members of Royal London (31 December 2018: 1.4 million). Being members allows them to have a say in how the company is run, and to have access to member benefits.

Annual General Meeting (AGM)

Our 2019 AGM attracted questions about Royal London's approach to responsible investing and the environment, and this Report in part reflects our determination to take on that feedback. In the meeting, we gave members a brief overview of our financial and business performance, and our speakers focused on our social impact strategy. Member feedback was positive.

Royal London Foundation

The Royal London Foundation had another successful year with 66 grants to not-for-profit organisations nominated by members. We widened our net to allow slightly larger bodies – those with income of up to £1m a year rather than £500,000 – to qualify for grants. Our rigorous due diligence process meant there were slightly fewer individual total grants in 2019, but total spending increased by 49% to £523,000 (2018: £350,000). We encourage our members to nominate a local good cause for Foundation funding when the nominations window opens again in April 2020.

Work experience programme

Our Insight into Work programme is unusual in that it invites members to nominate themselves or family members to gain work experience at Royal London. Work experience is often limited to those with the right connections, and we wanted to spread this opportunity as widely as possible: applicants can be any age from 14 upwards and at any point in their career. In 2019, 20 people found placements in departments including IT, Risk & Compliance, Asset Management and Customer Services. The most popular placement was in Asset Management, which provided work experience for seven people. »

Our podcast gives top money tips

In November we launched 'The penny drops', our new monthly podcast series that helps members understand their money and make better informed financial decisions. In each episode, presenter Andrea Fox grills experts to get the best financial tips on topics such as savings, pensions, family finance, budgeting, debt, marriage and retirement. Andrea also talks to individuals who have shown determination in overcoming life's challenges: she's pictured here with guest Mikael Lawal, a successful boxer who was once homeless as a boy. Every month, members can access a new episode from a range of podcast apps, or via the member section of our website.

DEVELOPING OUR PEOPLE

Building careers, championing inclusivity, promoting health and happiness – how we look after those who help us to deliver

WHY OUR PEOPLE MATTER

Our people have built Royal London and made it the prosperous company that it is today. Our future success continues to rely on our people.

WHAT MATTERS TO OUR PEOPLE

- Being happy and healthy at work
- A company that celebrates both inclusivity and diversity
- Career progress

HOW WE HELPED

- Developed mental health programmes
- More women moving into leadership roles, supported through the Women's Network
- Launched BAME and LGBT+ networks
- Laid the foundations for a Disability Network
- Internal apprenticeships increased skill sets
- Recruitment process made more inclusive

SOCIAL IMPACT THEMES

Being a mutual means we can create a strong, beneficial connection not only with our customers but with our colleagues, too. Royal London now employs more than 4,100 people (on permanent and fixed-term contracts). Empowering and supporting them is one of the most obvious ways we can have a positive social impact. In 2019 we made a series of commitments to our people based around four themes, and we made good progress on those during the year.

Improving leadership skills

The People Leadership Programme, introduced in 2018, enables both existing and new leaders within Royal London to gain leadership accreditation. The aim is to improve leadership skills and create a more consistent and engaging environment for all our people. There are two tiers to the programme: tier one gives accreditation and requires completion of five leadership sessions, while tier two offers a further range of in-depth sessions. At the end of 2019 82% of Royal London's leaders had been accredited (31 December 2018: 71%).

This year we introduced a new Leading the Future Programme for emerging senior leaders. The 12-month programme builds and develops internal senior leadership capability and increases the readiness of our senior leader successor pipeline. During the year, 40 people attended the programme, which included a series of workshops, elective sessions supporting our social impact agenda and a final project.

From our Annual Employee Engagement Survey we rated highly against the assertion that "Our leaders motivate and inspire", with 74% positive responses – up 15% from 2018. And on "senior leader visibility", 81% of colleagues were positive (2018: 76%).

Encouraging inclusion

We were awarded the Silver Standard by the Employers Network for Equality & Inclusion (ENEI). This was the third year of being benchmarked by ENEI, and our move from Bronze to Silver recognised our progress in achieving an inclusive and diverse workplace where people have a sense of belonging. Royal London is also part of the ENEI Executive Steering Committee.

Good progress was made towards our Women in Finance Charter targets and we »

OUR INVESTMENT EXPERT ON TOP OF THE WORLD

Paola Binns, who manages corporate bond portfolios, was named as one of the three top female investment managers in the World by Citywire in 2019. The awards recognise elite female fund managers for their consistent outperformance over the past five years. Paola attributed her success in part to the experience and stability of her team, combined with a willingness to think independently of the crowd. "Indices and benchmarks do not afford much protection when markets fall," she says.

Like Paola, RLAM believes the stability and longevity of its fund management team is a big factor in its success. High turnover is a major problem for many asset managers – but in 2019 RLAM was in the top 100 firms globally for longevity of service for rated fund managers, according to Citywire.

“”

We support personal growth and development, and for those who want to progress we help them explore different career choices

4,000+

We employ more than 4,000 people. Empowering and supporting them is one of the most effective ways we can have a positive social impact

implemented local plans to attract, develop and retain female talent. We met our target to have 37.5% of our leadership roles held by women by the end of 2019, and are on track to hit 40% by the end of 2020. Our Women's Network is now well established, with regular information updates and events.

Aligned to our ongoing commitment to create a more inclusive workplace for employees with children, we are developing parent-friendly policies for our people, and we are participating in the transparency in parental pay and leave initiative led by the Association of British Insurers.

Royal London's Inclusion & Diversity Council has launched the additional employee networks PRIDE for LGBT+ (lesbian, gay, bisexual, trans and plus, which represents other sexual and gender identities) and BAME (Black, Asian and minority ethnic) colleagues. We have plans to launch a Disability Network in 2020.

We are progressing towards achieving Disability Confident accreditation at Level II (Disability Confident Employer). This demonstrates our commitment to think differently about disability and take action to improve how we recruit, retain and develop disabled people.

Supporting wellbeing

One of our commitments has been to help remove the stigma surrounding mental health. During the year we held regular awareness training for people managers, and have established Mental Health First Aiders.

We achieved best-in-class results of 82% in our Employee Engagement Index on support for health issues (31 December 2018: 78%), which was benchmarked against other financial companies.

We also made progress on striking the right balance between home and work life, with 79% of our people seeing this positively (31 December 2018: 76%); 82% of our people also feel valued at work (31 December 2018: 81%).

More than 1,300 of our people took part in the Global Challenge, a holistic wellbeing programme to build sustainable healthy habits for the body and mind; 75% of participants said they had improved their understanding of what it takes to lead a healthy lifestyle, and 70% reported a reduction in stress levels following their activities in the 100-day Challenge.

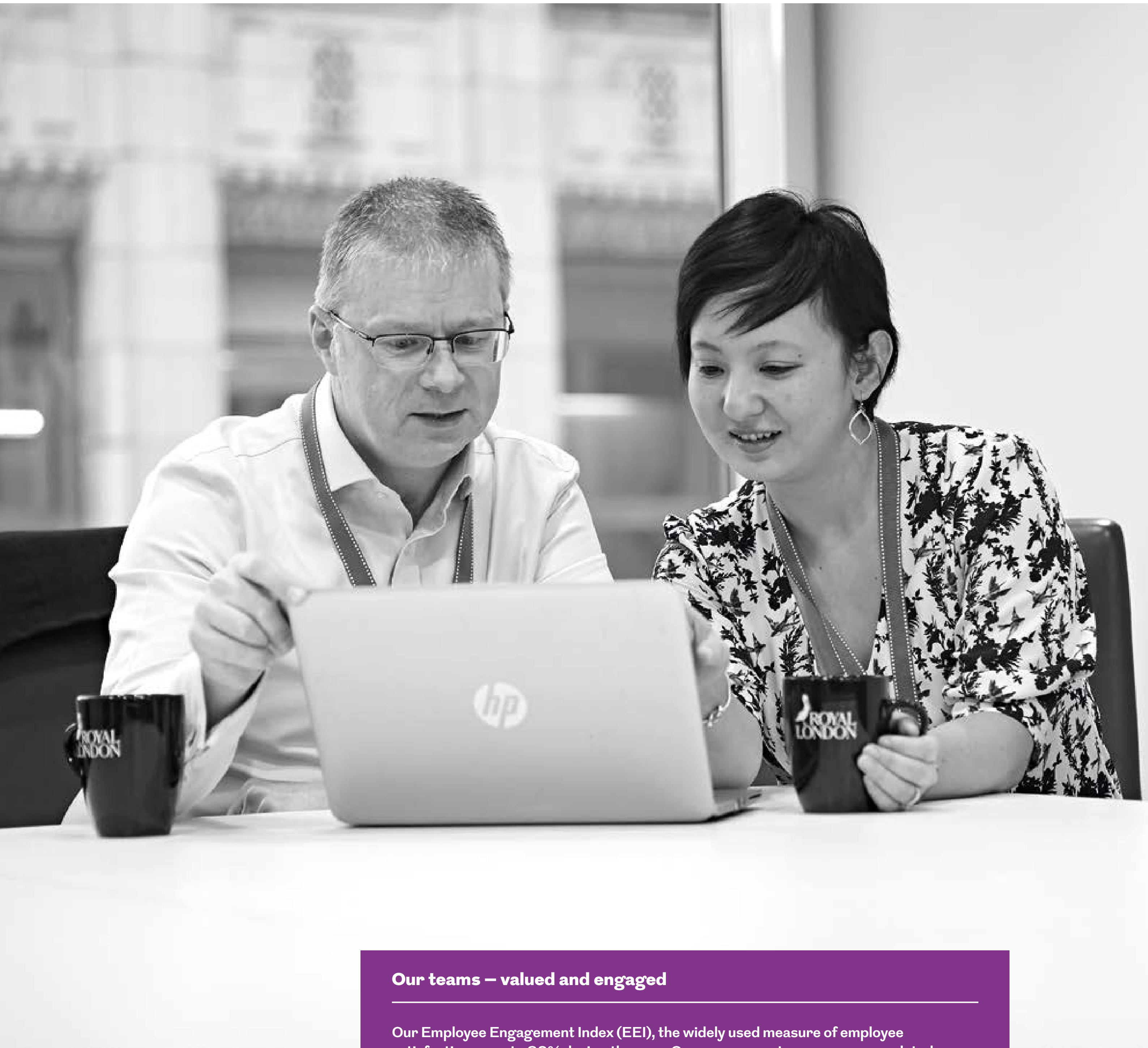
Developing careers

We support personal growth and development, and for those who want to progress we help them explore different career choices. We provide workshops and taster sessions and encourage internal moves. We also ask all of our people to complete a Personal Development Plan to support career progression and identify how Royal London can help. All people managers at Royal London are asked to discuss these with their individual team members in their regular meetings to help provide appropriate support.

Apprenticeships are helping us build internal capability and recruit future talent, with 28 people currently undertaking qualifications that include Leadership Level 3 and 5, Project Management and IT Infrastructure.

In their intern programme, our RLAM team attracted a diverse range of candidates and ensured that applicants were considered on an equal basis. Minimum requirements for GCSE and A-level grades were standardised and the pre-interview part of the hiring process was made blind to background, school and university.

RLAM focused its intern promotion on universities, with a higher female intake to support its aim of helping to bring more women into the investment management industry. The intern programme had a successful year, with interns encouraged to keep in touch with us and post their experiences at Royal London on social media. »



Our teams – valued and engaged

Our Employee Engagement Index (EEI), the widely used measure of employee satisfaction, rose to 83% during the year. Our engagement survey was completed by 87% of colleagues, giving us confidence that it reflects the views of our people.

In many instances our scores lead the financial services sector, while in other cases we are rated best-in-class across all sectors. We are pleased to be rated so highly for how we support colleagues' wellbeing and how valued our people feel. Royal London works hard to foster an inclusive culture where people feel they can speak out, and our EEI scores in this particular area were among the highest.

We once again gained a strong following on Glassdoor, the website where employees anonymously rate and review employers. While our rating dropped slightly from our 2018 ranking, this has been the most competitive year yet, with small margins between each winner. We are proud to be listed in the top 50 companies.

SUPPORTING SOCIETY AND COMMUNITIES

We proudly work with communities at a local level – helping charities, volunteering in schools and protecting human rights

WHY SOCIETY AND COMMUNITIES MATTER

As a mutual, Royal London is determined to give back to society and make a positive contribution to communities in need.

WHAT MATTERS TO SOCIETY AND COMMUNITIES

- Practical and financial support

HOW WE HELPED

- Our volunteers looked after people suffering long-term illness, used their professional skills to help local charities, and took part in community programmes
- We donated to charities
- We campaigned on pensions and funeral poverty among other issues

SOCIAL IMPACT THEMES

Giving back to society is a crucial part of being a mutual. Much of what we do is at grassroots level and has a visible impact on our local communities. Looking after the environment has become a much greater priority for society as a whole. Royal London significantly increased its focus on climate change.

Tackling climate change

We recognise our role as a responsible company to consider the implications of climate change for our business, our customers and society as a whole. Our Interim Group Finance Director has taken an active role in the oversight of climate change risk. We have created specialist roles and recruited expertise to support our climate change activity. We are also reducing the carbon footprint of our own operations. We can help in the way we invest on behalf of our customers, and we now offer customers a range of sustainable funds. Our new Climate Framework underlines our commitment to the environment. For more on our work in this area, see page 42.

Community engagement

The Royal London Community programme entered its third year, with the theme chosen by staff of 'supporting people with a chronic or long-term condition'. Our people have chosen six charity partners, and they focus on supporting local organisations. Our 73 'Champions' work closely with our official partners to involve staff in a wide range of activities.

As usual, our people were enthusiastic in supporting charities of their choice and our matching scheme means their fundraising gets an extra boost. Together, we and our people donated £148,625 to charity, up from £105,000 in 2018.

Volunteering help

Every year Royal London colleagues each have two days to spend volunteering. They can opt to volunteer at a charity or a school of their choice, or they can join a group activity arranged through our partnership with Business in the Community.

Business in the Community

We work with Business in the Community nationally to engage our people in team challenges, including outdoor group activities such as a beach clear-up and helping to care for parks and community centres.

Our skills-focused volunteering supports elements of the school curriculum where pupils need real-world experience. Working with Business in the Community, we have developed a classroom-based volunteering scheme that directly tackles financial capabilities, a key skills gap in education: our financial capability module is a workshop run by volunteer teams for older primary school pupils. Using games, it is designed to raise awareness of risk, debt and the importance of long-term savings.

This year, 61 volunteers ran classroom workshops in enterprise and employability skills. Our business and the expertise of our people were brought to life for pupils so they could see a connection between the skills they learn now and their future working lives. The schools we work with view this regular support as a crucial part of the pupils' learning, creating a memorable and positive experience that teachers refer to throughout the year.

Sharing our skills with charities

We encourage our people to use their skills with charities. Their professional knowledge and experience have provided support that local charities might find hard to afford,

947
of our people have volunteered 6,886 hours

363
We worked with 363 children through school workshops

10,188
We supported 10,188 people in local communities

32
We volunteered in 32 schools and community centres near our offices

Growing The Joshua Tree charity

Our Wilmslow office colleagues helped children's cancer charity The Joshua Tree by fundraising and volunteering. They held bake sales, raffles, sporting challenges and dress-down days to raise money for The Joshua Tree, their charity partner, which offers emotional support, counselling and nutritional advice to youngsters with cancer and their families. The money has helped fund the construction of a Joshua Tree support centre, due for completion in 2020. The centre in Sandiway, Cheshire, will feature counselling suites, an activity room, soft play, games room, outdoor play area and garden. Colleagues developed the charity's website, improving the donation function to attract funds for the centre. Royal London volunteers have also assisted at Christmas shopping events in support of The Joshua Tree.

such as marketing or web design. Working alongside our partner, the East London Business Alliance, volunteers now sit on the boards of a range of local charities.

The Silver Line

Our volunteering partnership with The Silver Line continued and 16 of our people have joined the befriending service. This involves volunteers having a phone call with a vulnerable person once a week to provide companionship and support.

Respect for human rights

We take firm action to ensure that modern slavery and human trafficking does not take place in our business or supply chain.

In our contracts we require suppliers to comply with the Modern Slavery Act 2015; 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 2019.

We have also committed to run a new training course for key individuals within Royal London. Training sessions help to raise our people's awareness of the Modern Slavery Act, explain how to spot signs of slavery and explore global issues relating to the problem. Visit royallondon.com for further information about our policy on the issue of modern slavery. »

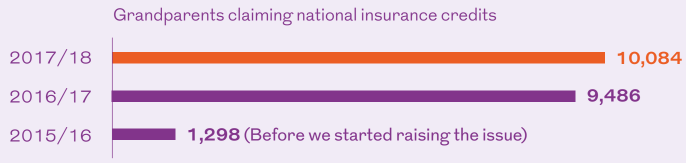
"Our volunteering in the classroom supports elements of the school curriculum where pupils need real-world experience of financial issues"

CAMPAIGNING FOR CHANGE TO MAKE A DIFFERENCE

Royal London has a track record of campaigning to raise awareness of important financial issues and pushing for change. A decade ago our customers were mostly elderly and the issues we tackled reflected that fact. Today we have hundreds of thousands of younger customers, many of whom are members of workplace pension schemes. In 2019 we broadened our vision to support their interests.

Families

Many grandparents miss out on national insurance credits because they are looking after grandchildren by providing childcare, rather than working elsewhere. Our campaign to stop them missing out made good progress, and attracted widespread media coverage.



In our policy paper, Parent Rent Trap, we investigated the financial implications for the structural social change in the UK of families spending a lifetime in private rented accommodation; more than half of all babies are now being born into rented accommodation in the UK. The growing unaffordability of rents compared to mortgages, impacts of rental costs on the ability of renters to build long-term savings, and reduced tenant security are exposing families to financial shocks. Through the policy paper we engaged the industry, media and policymakers in the search for solutions that will boost the financial resilience and long-term savings prospects of this growing demographic group.

We looked into the Government's replacement of childcare vouchers with Tax-Free Childcare and found that, for many people, the new system does not work as well as the old, as it is admin-heavy and time-consuming. We recommended that parents using the vouchers should continue to do so for as long as possible because once they switched to the new system, they would not be able to change back. People who became parents after October 2018 cannot join the old voucher scheme. However, we recommended that parents eligible to use either system should carefully weigh up which one suited them better.

We produced one of our Good With Your Money guides – called Family Financial Planning – on the money challenges that come with starting a family.

Funeral poverty

In November 2019, after years of campaigning by Royal London and others, the Government announced that the funeral grant paid to low-income families – frozen at £700 for 16 years – would now be increased by 43% to £1,000 in 2020. See page 23 for more about our campaigning on funeral poverty.

Pension transfers

We encouraged regulators, advisers and company pension schemes to be more aware of the issues around pension transfers. We produced a research report in partnership with actuarial consultants Lane Clark & Peacock that explored the idea of partial pension transfers. The report makes the case for enabling people to get the best of both worlds, by leaving part of their pension in a company scheme and releasing the remainder for more flexible investment.

We also continued giving training and advice to financial advisers on the complex area of transfers from defined benefit pension schemes.

State pension

We published research to raise awareness about the half a million workers over the state pension age who may be paying too much tax. Our report, which aimed to educate older workers, emphasised the advantages of delaying taking a state pension for those who are still in paid employment.

Experts in the media

Royal London experts from across the Group – including Louise Eaton-Terry, Ashley Hamilton-Claxton and Helen Morrissey – regularly appear in a wide range of consumer and trade print and broadcast media, discussing a variety of topics such as corporate governance, women's pensions and funeral costs.

WORKING WITH FINANCIAL ADVISERS

Financial advice delivered by professionals helps customers make the right decisions – that's why we support advisers in the important work that they do

WHY FINANCIAL ADVISERS MATTER

Financial advisers provide expert guidance and advice to help customers make sound financial decisions.

WHAT MATTERS TO FINANCIAL ADVISERS

- Support from Royal London so they can provide the best advice to their customers

HOW WE HELPED

- We have continued to offer advisers excellent propositions, great service and high-quality business and technical support

SOCIAL IMPACT THEMES

We believe that quality advice helps customers to achieve the best possible outcomes

We access many of our customers through advisers who recommend our services.

We are proud to champion the value of financial advice, as we believe that quality advice helps customers to achieve the best possible outcomes.

In today's world of auto-enrolment and pension freedom, millions of customers are faced with complexity and an abundance of choice. In this market, our role is to build products that represent value for money and deliver these to customers with ongoing services and support they can truly count on. Our services complement those of financial advisers.

We are committed not only to developing solutions that help advisers deliver the vital services customers need, but also to finding new methods that are more effective and efficient for advisers' businesses.

We give advisers the freedom to tailor solutions to suit their clients' needs and the flexibility to adapt as those needs evolve.

We use our voice to lobby in support of a successful, strong and independent adviser channel. We actively promote the value of advisers' expertise and help them to navigate through legislative and regulatory change.

It is our ambition that more people in society have access to the financial advice they need at an affordable price. This is an opportunity for advisers facilitated by digital solutions. We will continue to partner with advisers to help them deliver excellent service and outcomes for customers. ■

Responsible investment and stewardship

We take responsible investing very seriously and are increasing our efforts to embed environmental, social and governance issues in our investment decisions

As the UK's largest mutual life insurance, pensions and investment provider, we are committed to being a responsible investor. In 2019, on behalf of our customers and members, we sharpened our focus in this area, and agreed a Group-wide programme to advance our capability and increase our engagement with companies.

This means we aim to make a positive contribution to our society and environment, whilst achieving strong returns. Good governance has always been important to us, but going forward Royal London will be more proactive in asking all asset managers we work with, notably RLAM, to include financially material environmental, social and governance (ESG) risks and opportunities when they make investment decisions. Our commitment to responsible investment is reflected in our signing up to the UN Principles of Responsible Investment in January 2020 as an asset owner. Our asset management company, RLAM, has been a signatory since 2008.

We also ask our asset managers to help us fulfil our stewardship responsibilities by working with the companies they invest in on our behalf to review and, if necessary, improve the way they are run – for example, we expect them to vote at shareholder meetings, to meet with company management, and to push for higher industry standards. We are committed to putting the three key Responsible Investment pillars into practice:

- ESG Integration
- Governance and Voting
- Engagement and Advocacy

The majority of our customers' assets are invested with RLAM, where these pillars are already embedded in our Investment approach (set out in the chart below). Our immediate focus is to move fully from a Traditional model to a Responsible one, but we also have a well-established and successful Sustainable range of funds.

ESG Integration in RLAM

Being a responsible investor and seeking to integrate material ESG information into decision-making is in the best long-term interests of all our customers. We aim to improve standards, manage risks and enhance returns.

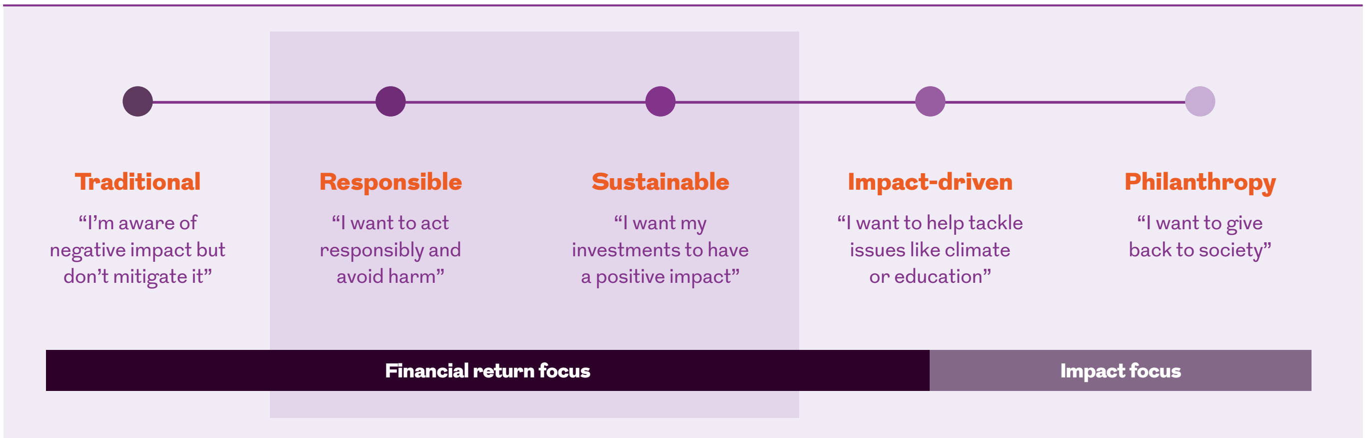
In 2019, RLAM extended the breadth and depth of ESG integration, and this is now embedded across investment strategies, Cash, Sterling Credit, Global Credit and Global Equities funds, as well as our Sustainable range. We continue to increase our coverage; for example, we have hired expertise into our Property team to embed ESG considerations when buying and developing properties around the UK. In addition to using external information sources, we are developing proprietary ESG data, systems and tools. We hold regular reviews with each of our investment teams within RLAM, to assess the ESG risks within the funds or portfolios they are responsible for, and identify any areas requiring further analysis or action to improve the ESG profile.

Governance and Voting

We bring pressure to bear on companies through an active approach to corporate governance, which includes company engagement and voting. We often provide industry leadership on important governance issues and speak publicly where necessary.

We disclose our voting record and write to companies to explain our voting rationale. »

Investment approaches



Helping to reduce carbon emissions

We helped co-file a resolution at Anglo American to disclose a review of its trade associations' alignment with the Paris Agreement to reduce global carbon emissions to keep global temperature rise to 'well below two degrees'. Working with other investors, we reached an agreement with the company to align its lobbying activity with the Paris Agreement. The company will publish its industry association review ahead of its AGM in May 2020. As a result of this, we agreed with other investors to withdraw the resolution.

Engagement themes

Climate risk (E)
Companies need to prepare for the transition to a low-carbon economy and the physical impacts of climate change.

For example: the Climate Action 100+ investor initiative, impact of fire, flood and extreme weather on buildings, supply chain and infrastructure.

Innovation, technology and society (S)
Companies need to be cyber-resilient, tech-savvy, and responsible users of data.

For example: cyber security, artificial intelligence, censorship, personal data, automation and innovation.

Social and financial inclusion (S)
Companies can succeed when everyone has an opportunity to participate and be a productive member of society.

For example: the living wage, modern slavery, the 'just transition' to secure workers' rights and livelihoods, economic inequality and vulnerable people.

Corporate governance (G)
Successful companies need strong boards, appropriate pay and to be accountable to their stakeholders.

For example: board independence, succession planning, executive pay and fair pensions, and strong audit and accounting capabilities.

Circular economy (E)
Reduce, reuse, recycle. Companies need to be designing products that do not hurt our planet.

For example: tackling single-use packaging, plastic pollution and protecting forests, biodiversity and water.

Diversity (S and G)
Avoid group-think. Diverse companies are more innovative and create better outcomes for customers.

For example: gender and ethnic diversity on boards and the gender pay gap.

Key: **E** Environmental **S** Social **G** Governance

> **Our five sustainable funds have an explicit mandate to invest only in companies that provide a positive net benefit to society**

In 2019, we increased the size of the Responsible Investment team in RLAM, bringing in additional expertise particularly in climate change. We were able to increase our voting activity, using our influence to shape decisions at the companies we invest in. Here's our record:

- 15,665 total shareholder votes (90% for, 10% either against, abstain or take no action)
- 141 letters sent to companies to explain our voting rationale
- 260 engagements with 175 companies (55% increase from 2018)

More detail can be found in RLAM's Stewardship Report at.rlam.co.uk/Documents-RLAM/Stewardship/Stewardship-Activity-Report-2019.pdf

Engagement and Advocacy

Engagement and advocacy refers to our dialogue with companies, regulators, non-governmental organisations (NGOs) and other agents in the investment chain. As a responsible investor, we carry out engagement work in order to support better standards of behaviour, risk management, good governance and sustainable economic growth.

RLAM has established six key themes (in the chart above) that it engages on, which drive our activity.

Sustainable fund range

Sustainable investing is an investment strategy that seeks to invest in companies that meet sustainability criteria or deliver sustainable outcomes through the products and services they provide and/or their business conduct. It is about doing good, rather than avoiding bad. It goes beyond responsible investing but may result in higher or lower financial returns.

Our five sustainable funds have an explicit mandate to invest only in companies that provide a positive net benefit to society or are ESG leaders relative to their peers. We believe that integrating these factors actually helps rather than hinders long-term investment returns.

Although interest in the Sustainable range has grown in recent years, the RLAM funds are well established, with two of them reaching their 10-year anniversaries in 2019 and our Sustainable Leaders fund dating back nearly 30 years.

At Royal London we will continue to enhance our sustainable propositions and make them available to more of our customers. Most of our sustainable funds have achieved top quartile performance over one, three and five years. Strong inflows and performance led to growth in the range to £3.6bn (80% growth since end of 2018).

Communicating with our customers

We published our first Group-wide Responsible Investment Policy and Climate Change Framework on our website this year (search 'responsible investment' and 'climate change' on royallondon.com), to be transparent with our customers and advisers about what we do and clear on what they can expect from us. This complements and supports RLAM's existing strong commitments in this area.

We also shared a wide range of educational material across multiple channels, including co-authoring a policy paper with law firm Herbert Smith. This is an educational piece for trustees and advisers. You can read the report at adviser.royallondon.com: search 'pensions and esg'.

The policy paper:

- explains what ESG factors are;
- outlines what the new regulations mean; and
- explains what trustees, pension providers and asset managers need to do to meet the new regulations.

We will continue to progress our Responsible Investment commitment in 2020, and promote best practice in this area. ■

Identifying risks in the mining sector

Tailings dams are used by mining companies to store waste materials generated during extraction processes. One such dam, owned by Brazilian mining company Vale, collapsed earlier in the year at Brumadinho. In response, RLAM joined a collaborative investor group which pushed for the wider mining industry to publish a list of its tailings assets and the relevant safety attributes on a standard basis. This was data that had never previously been available to investors.

Following the publication of this data, for mining companies where RLAM held material stakes, we analysed the findings and used this analysis as a basis to individually engage with each of these companies. Our discussions focused both on concerns raised at specific tailings assets where stability risks were identified, and the broader approach of each company towards the management of these sites. We also tackled the need for effective external oversight of dam management practices, the need for board-level accountability and the array of different standards to which dams were being certified.

Given this mix of standards, towards the end of 2019 we then fed into the consultation process being run by the International Council on Mining and Metals, which is in the process of designing a new tailings standard. Our research and engagement identified clear leaders and laggards in the sector, and has helped to inform RLAM's fund managers of some of the hidden risks that might exist within these mining companies. It was also a factor in making portfolio changes within the Royal London UK Growth Trust.

Climate change

Amid growing concerns over the effects of global climate change, Royal London is developing robust environmental strategies – from responsible investing and reducing its carbon footprint to promoting the transition to a low-carbon economy

Climate change will have wide-ranging effects on the insurance industry. However, as we are in the life insurance sector with no exposure to general insurance or catastrophe risk, we have assessed our downside risks from climate change to be more limited than a composite or general insurer.

But we do recognise our role as a responsible business to consider the implications of climate change on our activities, beneficiaries and society as a whole. Our impact on climate change depends on how we manage the carbon footprint in our own operations, but more importantly on how we invest into economies around the world on behalf of our customers.

We invest – predominantly through RLAM – £139bn on behalf of our customers. We recognise that as a significant investor we have a fiduciary duty to act in the best long-term interests of our customers, and that climate change has the potential to have an impact on the valuation and outlook for these assets.

This is our first climate disclosure, and provides an overview of our environmental commitments set out below. However, we recognise that we are at the start of our journey, and we will continue to focus on incorporating climate considerations into all of our operations.

Governance

The Royal London Board has ultimate responsibility over the way we manage our response to climate change. To demonstrate our commitment to take effective action, our Interim Group Finance Director has taken on responsibility for oversight of climate change risk. To support him, we created new roles in our Insurance and Asset Management business in 2019. The Board Risk Committee helps ensure that the Board has adequate supervision and understanding of the implications of climate change for the Group's strategy and risk management framework.

As part of its environmental governance responsibilities, the Board reviewed and approved climate-related issues across our key risk categories in 2019, as well as our Climate Framework (see royallondon.com/about-us/climate-change-commitments), outlining our commitments to address climate change risks, which appear below.

We also delivered climate risk awareness training for key stakeholders responsible for the management of each major risk category we have identified. During 2020, we will continue to raise awareness internally, and focus on further educating our people on this issue by means of training and workshops.

CLIMATE CHANGE COMMITMENTS

Climate risk policy
We require our asset managers to develop and implement a climate risk policy, which we review against our Climate Framework.

Low-carbon economy
We will advocate and promote the transition to a low-carbon economy with industry, policymakers and other influential stakeholders.

Managing risk
We will ensure climate change risk is embedded within our risk management framework and business planning.

Reducing our carbon footprint
We will consider climate change risks in our own operations.

Keeping you up to date
We will report on our progress against this strategy in our Annual Report and Accounts and on our website at least annually, in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

Strategy

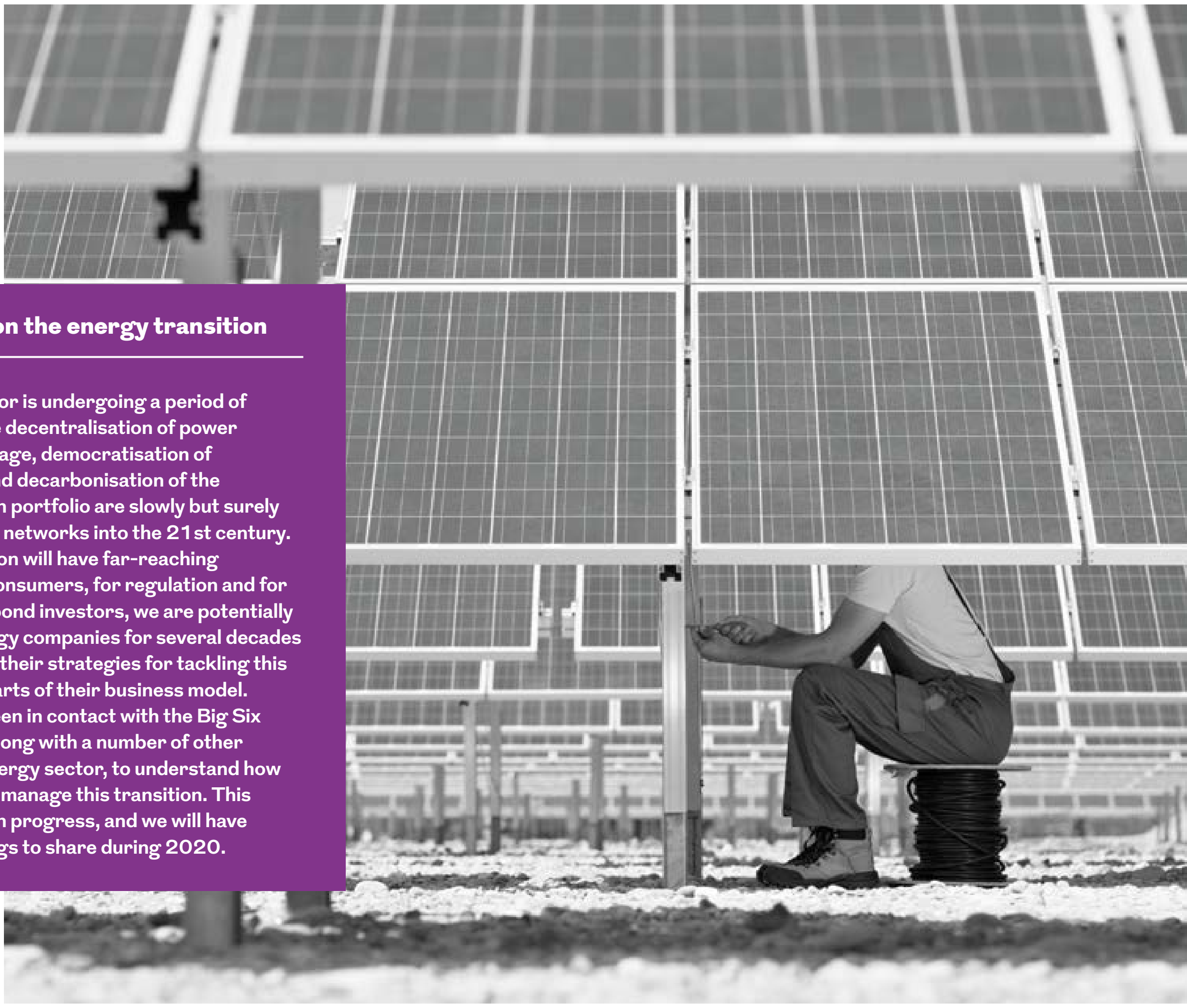
We believe that climate change can impact all areas of our business, so we have adopted a strategic approach to address the issue. In 2019, we worked with internal stakeholders and external advisers to improve our understanding of climate risks for Royal London and our customers in the short, medium and long term. This has included extensive engagement with senior stakeholders, with our asset managers and indeed across Royal London. In response to these climate-related challenges, in October 2019 we published our Climate Framework, which makes the climate change commitments outlined in the table on the left, with further detail on the commitments below.

Climate risk policy

During 2019 we engaged with all of our asset managers and set out our expectations of them with regard to climate change. These expectations are contained in our Climate Framework. In 2020 we will review their responses and assess these against the Framework.

Low-carbon economy

Through RLAM, we are involved in numerous industry initiatives and investor groups. Here we engage with companies and regulators to promote targeted regulatory action, in order to address climate change risks and promote transition to sustainable energy. Our activities have included:



Shedding light on the energy transition

The UK energy sector is undergoing a period of transformation. The decentralisation of power production and storage, democratisation of power ownership and decarbonisation of the country's generation portfolio are slowly but surely bringing our energy networks into the 21st century. This energy transition will have far-reaching consequences for consumers, for regulation and for us as investors. As bond investors, we are potentially exposed to the energy companies for several decades more and so, for us, their strategies for tackling this transition are key parts of their business model. We have recently been in contact with the Big Six energy providers, along with a number of other players in the UK energy sector, to understand how they are planning to manage this transition. This engagement is still in progress, and we will have more detailed findings to share during 2020.

- **Climate summit statement:** In advance of the UN Climate Action Summit in September 2019, we signed the Global Investor Statement to Governments on Climate Change, calling on governments around the world to take decisive action to curb climate change.
- **Climate Action 100+:** We are an active member of Climate Action 100+, a global investor initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. In 2019 we supported a resolution calling on BP to provide more transparency in how it is addressing this environmental challenge.
- **UK Minimum Energy Efficiency Standard (MEES):** As part of our review of the implications of the MEES regulations on bonds secured by commercial property, we talked to issuers to raise awareness of these rules and to promote compliance.
- **Just Transition:** We became a supporter of the Just Transition movement. The movement recognises that the transition to the low-carbon economy has implications for the livelihoods of people and communities. We believe that in shifting towards cleaner energy sources, we should be inclusive of all communities, including those whose incomes traditionally rely on carbon-intensive industries.
- **Methane emissions:** We believe methane regulation is key to the energy transition. Following the proposed rollback of standards by the US Environmental Protection Agency, we joined the Interfaith Center on Corporate Responsibility (ICCR) – an investor association that mobilised a global coalition of investors representing $5.51tn of assets under management – in signing a statement on the need for continued regulation of methane in the oil and gas industry.
- **Sustainable offerings:** For customers wanting to invest in funds with best-in-class ESG criteria, we offer a range of five sustainable funds. The value of assets in the range has increased by more than 80% from £2.0bn to £3.6bn as at 31 December 2019.

Managing risk

We are working to incorporate climate change into our existing risk identification, monitoring and management activity. To understand how climate issues could impact on the Group, we have mapped »

£3.6bn

The total value of assets in our range of five sustainable funds – up 80% from the previous year

them to four key risk categories in the Group's risk universe. These categories are:

- **Strategic:** Damage to our brand and the viability of our propositions by failing to react to shifting sentiment among customers and the wider public, or to government and regulatory policy action.
- **Investment (liquidity, credit, market):** An increase in financial risks in our investment portfolios as a result of physical climate risks and disruption caused by significant climate-related events, or the transition to a low-carbon economy.
- **Insurance (mortality, morbidity, longevity):** An increase in insurance risks as a result of the physical impacts, including a rise in extreme weather events, and lifestyle impacts of a transition to a low-carbon economy.
- **Operational:** An increase in operational risks as a result of not being equipped to deal with operational impacts, including consideration of the climate resilience of our sites, an increase in regulatory expectations, and failure to adapt working patterns and meet the changing expectations of our people.

We recognise that climate risk should be managed as part of the Group's overarching risk framework. These risks were therefore added to the Group risk register in 2019. From 2020 onwards, we will consider the macro-economic impact of climate change when developing stressed risk scenarios, and will work towards a better way to monitor and manage the impact of climate change on our risk framework.

Climate risk also manifests itself through our investment processes. RLAM already has a dedicated Responsible Investment team that provides ESG advice and support across our portfolio. We have increased capability in that team during 2019 – in particular, recruiting individuals with expertise in climate change. We have also increased our headcount in Property with a dedicated person on responsible property investing. The team is currently integrating the consideration of climate

change into the investment process. Further detail is provided on page 40.

In 2019, we undertook a variety of activities to understand current exposure to climate change risks:

- We carried out an analysis to evaluate our exposure to sectors that have a high potential to be affected by climate change (see table, top of page). In 2020 we will undertake further analysis to reduce our risk.
- In April 2019, the PRA asked a number of our peers to conduct a climate stress-testing exercise based on three potential climate risk scenarios. Although we were not involved in that exercise, we carried out testing internally during the second half of 2019. We will use the test to inform our thinking and set a direction of travel for the development of a monitoring framework in 2020.
- We are also working to measure the carbon footprint of selected investment portfolios, to assess our potential exposure to climate change risks and review performance on a regular basis. In 2019 this was piloted for some of our equity funds and we will share the results of this exercise in 2020. We intend to continue to refine and expand our approach, and investigate ways to address data quality and availability issues.
- To manage physical risk from exposure to real estate and asset-backed securities, RLAM receives details on flooding likelihood and environmental risks for all new purchased properties, and reviews flood vulnerability for individual assets within funds every three years. This enables RLAM to understand the flood risk of a property and how the likelihood changes over time. It gives us the opportunity to mitigate risk and potential flooding-related insurance claims, and ultimately make better investment decisions. Historically, results on properties have not varied significantly. In more recent years, however, there has been an increase in properties moving from low-risk to high-risk status.

Reducing our carbon footprint

We take our own environmental responsibilities seriously. We recognise that we are at the start of our journey and in 2019 we fully measured our impact on the environment, and our contribution to greenhouse gas and other harmful emissions (see 'Carbon footprint of our own operations' table above), with the aim of significantly reducing these emissions moving forward.

Our 2019 carbon footprint of our investments and operations is set out below. This is our first disclosure so no comparatives are available, but in future reports we will show more detail on our targets (against the government's net zero target by 2050) and progression against them.

Our investment holdings in high-carbon sectors

Sector	Exposure %
Fuel extraction	2.6
Power generation	1.3
Transport	2.4

Sectors defined in accordance with the European classification system NACE.

Carbon footprint of our own operations[1]

Total energy use (GWh)	15.2
Scope 1 CO_2e emissions (tonnes)	1,727
Scope 2 Market-based CO_2e emissions (tonnes)	2,096
Scope 2 Location-based CO_2e emissions (tonnes)	1,815
Location-based CO_2e emissions per FTE (Scope 1, 2) (tonnes)	0.7
Scope 3 CO_2e emissions (tonnes) (rail and air travel)	1,276

1. **Reported Scope 1 emissions:** covers emissions generated from the gas and oil used in buildings from which the Group operates, 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 to service the Group's operational estate portfolio.
Reported Scope 2 emissions: covers emissions generated from the use of electricity in buildings from which the Group operates.
Reported Scope 3 emissions: covers emissions generated from Group rail and air business travel.

We will shortly publish our environmental policy, which explains our commitments on energy and greenhouse gas emissions, water use and waste. We will be using 2019 as our baseline year to set multi-year targets in each of these areas and plan to disclose these in our Annual Report and Accounts next year. We are planning to use a science-based methodology to set carbon emissions targets.

This year we are proud to have secured 100% renewable energy for electricity contracts within our control. We have also increased awareness of environmental initiatives across the Company – these include launching our first Environmental Champions Network, eliminating single-use plastic cups from across the Group and changing to a more environmentally friendly office paper.

We have invested in technology solutions to reduce the need for our employees to travel, and in 2019 have used different initiatives to encourage our people to travel less and use these alternatives. This will be a continuing theme, as we seek to minimise the adverse impact travel has on the environment. ■

"We have eliminated single-use plastic cups from across the Group and have changed to a more environmentally friendly office paper"

Business review

The determination and commitment of our people **delivered a robust financial performance** in the face of market unpredictability – with profit growth, record levels of assets under management, and thousands of new customers

Our four divisions performed well in 2019:

Intermediary (including Ireland) performed well in challenging markets in 2019

page 47

Royal London Asset Management enjoyed outstanding sales, with extremely strong three-year performance figures

page 50

Consumer welcomed thousands of new customers and boosted its brand profile

page 52

Legacy improved customer communications and continued its excellent work on capital efficiency

page 53

INTERMEDIARY (including Ireland)

Through our proposition quality and constant focus on adviser and customer experience, we have continued to perform well

2019 HIGHLIGHTS

- **New business sales (including Ireland) of £10,277m**
- **Workplace pension sales remained strong**
- **Achieved over 40% market share for new intermediary workplace pension schemes**
- **Improved income protection cover including enhancements for NHS staff**

BUILDING ON OUR STRENGTHS

Investing in efficiency

We have sharpened up our protection cover claims process by allocating dedicated advisers to customers to look after their claims from start to finish.

AWARDS

- **Five-star awards for service six years in a row for protection and 11 years in a row for pensions**
- **Best Pension Provider 2019 by *Money Marketing***
- **Best Online Service Team at COVER Customer Care Awards 2019**

Our passion and focus is to work with advisers to create value for our customers, their clients. At a time of disruption and change, it is great to see the organic strength of impartial advisers and support the crucial role they play, creating competition and good outcomes for customers

ISOBEL LANGTON,
CEO INTERMEDIARY

Our Intermediary business performed well in more challenging markets in 2019. Total new business sales for Pensions and UK Protection were £10,140m (2018: £10,777m). Ireland Protection sales were £137m in 2019 (2018: £112m). The pensions marketplace has now moved from the heightened activity generated by the introduction of workplace pensions and pension freedoms to more sustainable levels.

The protection marketplace remains challenging, characterised by modest business growth and some market failures for customers, mostly caused by a lack of product innovation. We believe this will present us with opportunities in the future as the UK public remains seriously under-insured. We are inspired to break down barriers that are stopping some customers from accessing protection products.

We have made new commitments on responsible investing and tackling climate change during the year (see page 42). Our customers expect us to consider the environment and wider society in everything we do. Our unswerving focus on helping customers to achieve their long-term financial goals, as well as our mutual status and mindset, distinguishes us from our competitors and we are determined to be leaders in the markets in which we choose to participate. Royal London's mutuality continues to define our organisation and the role we want to play in serving our customers.

We remain committed to delivering excellent value for money by focusing on creating the best customer outcomes and best customer experiences at very competitive prices. This philosophy is rooted in our status as a mutual. By offering the best possible products and service we are able to combine commercial success with helping people achieve their long-term savings and protection goals. We are the only company to have won five-star awards for service six years in a row for protection and 11 years in a row for pensions.

Pensions opportunities ahead

We have seen a general settling down of markets following the end of automatic-enrolment and phasing being embedded. Pension freedoms are now the norm and defined benefits transfers have fallen back following the tightening of rules to help safeguard customers. We continue to evolve our individual pensions proposition as customers reach retirement and seek greater flexibility in the provision of pension benefits. Millions more people in the UK now have a long-term savings mechanism, thanks to the foundations laid by the introduction of new workplace pension schemes. That marketplace is continuing to evolve and we continue to play a leading role in its development. In the last year we have welcomed 1,073 new schemes to Royal London and we have achieved over 40% market share for new intermediary workplace pension schemes. The quality of service we demonstrated through auto-enrolment has underpinned our ability to win new workplace pension schemes.

The reputation of our Pensions business was recognised by the receipt of an award for Best Pension Provider 2019 by *Money Marketing*. We have continued to invest in our Pension business; for example, we launched our mobile app for pension customers (see page 49) and we continue to enhance our Client Review Service by giving advisers the option to create more personalised reports. Since the service launched in July 2017, the number of registered users has grown to nearly 8,000 and over 200,000 client reviews have been carried out.

Following the introduction of auto-enrolment and pension freedoms the market is at a more mature stage. However, workplace pension sales remained robust (down 1% to £3,096m in 2019) through our ability to win new scheme tenders. Individual pension new business sales decreased by 7% to £6,334m, primarily due to reduced defined benefit transfer activity across the market. We increased our intermediated workplace pensions market share to 14% (2018: 12%) and individual pension market share to 21% (2018: 18%). »

As employment is less secure today – with zero-hours contracts becoming more common – we have taken a very active stance in the marketplace and championed the need for income protection

Although the pensions market has entered a less frenetic phase than we have seen over the past four years, it is still growing and many exciting opportunities lie ahead. Our customer engagement strategy is critical in helping customers to achieve their long-term savings goals. People approaching retirement now face many important financial choices in a market that is far more complex than in the past. We see significant opportunity in helping people tackle those choices now and in the future. For a generation of young Britons saving into a workplace pension for the first time, we see the opportunity to encourage them to value their savings plan and we support them in making good decisions in saving for the future.

The future has more regulatory change, bringing risks and opportunities for us. We believe the market we are active in will continue to thrive and our propositional deliveries will allow us to maintain our current momentum.

22%

The market share achieved by Royal London Ireland in the nine months to Q3 2019 – up from 19% at Q4 2018

Protection – an improved service

In a period of difficult market trading conditions our UK Protection new business sales fell by 8%. In 2019 we focused on improving the profitability of new business through distribution quality management, which resulted in the decision to stop trading with some intermediaries where business quality was poor (for example, where high early lapse rates were experienced). Our distribution footprint remains strong and we remain on most protection distributor panels.

We also continued to improve the quality of service to advisers and customers. Enhancements to our online service have allowed advisers to check the status of applications and access their decision documents, giving more transparency during the application process. We launched a new claims system in June, which has significantly improved the customer experience and reduced the time taken to pay claims. This has enabled us to remove claim forms from the death claims process and implement a verbal instruction of payment. We also introduced a case management approach to claims so each claimant now gets a dedicated point of contact who will deal with their claim from beginning to end (see page 22). As a reflection of the quality of our operations, our UK Protection division was voted Best Online Service Team at the COVER Customer Care Awards 2019.

Income protection continues to be an area of strength for us and one where we see scope for significant future growth. Only 9% of people who would benefit from income protection currently have cover. Meanwhile, employment is less secure than in the past with zero-hour contracts and self-employment both becoming more common. We have taken a very active stance in the marketplace, championing the need for income protection. In April, we added flexibility to our Income Protection proposition with a new five-year payment period; we also made improvements to our income protection cover for NHS workers.

Exciting growth in Ireland

Royal London Ireland achieved continued success during 2019, with business performance hitting new highs. When Royal London first acquired Caledonian Life, as it was then called, in 2011, it was at a low ebb with sales declining. From a position towards the bottom of the market, the operation has grown to become, as Royal London Ireland, the second largest player in the Irish intermediated protection market.

In 2019, growth accelerated: applications for new policies increased by 22% on the previous year and revenues rose by 27%. Our market share continued to rise in 2019 to 22% at Q3 2019 (Q4 2018: 19%), and we received numerous awards for the quality of our products and for service excellence.

In January 2019 the business ceased to be a branch of Royal London and became an incorporated company in Ireland, with an independent Board and a direct relationship with the Central Bank of Ireland, our Irish regulator. The change enables us to serve our customers better and ensures our business will continue uninterrupted, following Brexit. Royal London Ireland now also looks after Royal London's European long-standing customers with around 480,000 policies, with a value of €896m as at 31 December 2019.

We continue to innovate in the area of managed conditions. Our recent focus has been on launching a mental health product that aims to offer cover to people with serious mental health conditions. This is part of our plan to be able to offer cover to more people and ensure their financial resilience. We have had great adviser and customer feedback on the cover. Royal London continues to assist customers with diabetes, and we have seen a steady increase in adviser interest in our Diabetes Life Cover plan. In addition, we have made improvements to the online application experience.

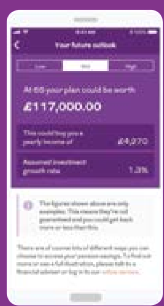
Valuing intermediaries and independent financial advice

To build trust and loyalty among customers, Royal London needs to make sure it can consistently deliver outstanding experiences and outcomes. We believe that working closely with financial advisers is the best way to help us achieve that.

We are therefore proud to be the best recommendation of an adviser at the end of a robust and impartial advice process. If customers are to enjoy the best possible outcomes, we believe our market needs a strong and healthy independent advice sector. We do everything we can to help advisers grow their business and deliver a great service to their customers, helping them achieve their long-term financial goals. We continually offer new ways for advisers to tap into our extensive technical and regulatory knowledge. By understanding, interpreting and communicating regulatory and legislative changes, our Business Development team helps advisers to recognise and act on the opportunities arising from the external developments affecting their market place.

Our Annual Allowance and Life Time Allowance tax charge adviser policy paper, 'Why paying a tax charge isn't always a bad thing', was received enthusiastically by advisers and supported them in their conversations with their clients. Similarly, a webinar on the state pension system had a huge take-up from intermediaries. »

App links people to their pension plan



Our mobile app – launched in 2019 – is designed to help pension customers build up regular engagement with their plan.

We believe regular engagement is essential in helping customers to achieve better outcomes in retirement. Our mobile app makes it easier for customers to be more involved with their pension savings more often, and value the benefits of saving.

Customers increasingly expect information to be available in their channel of choice, at their fingertips. Advisers and employers are looking for providers to be digital first. Our app responds to this demand in the market.

We are developing the app's functions all the time, and although it is not yet available to all pensions customers, early results are promising. Since its launch the app has been accessed over half a million times, and 80% of customers who use the app are logging into it more than once a month. The page they spend most time on is Future Outlook, which tells them how much they might get on retirement.

So, what's next for the app? Well, it's a key part of our engagement strategy. We will continue to increase downloads and we are encouraging employers to promote it to their employees. Using push notifications, we will shortly be able to target customers with relevant messages that encourage them to value their pension savings.

ASSET MANAGEMENT

We continue to perform exceptionally well and we are preparing for more growth

2019 HIGHLIGHTS

- **Total assets under management up 22% to £139bn**
- **£398m global equities win**
- **Net inflows of £9.9bn**
- **Top five net sales to wholesale market in 2019**
- **Strong investment performance in core strategies**

BUILDING ON OUR STRENGTHS

Empowering people

RLAM's Paola Binns was voted one of the world's top three female asset managers in 2019.

AWARDS

- **5-star Financial Adviser Service Awards rating four years in a row**

2019 was an exceptional year for RLAM, with strong investment performance across all asset classes and record sales in all distribution channels. We continue to broaden our investment offering and invest in the infrastructure necessary for continuing growth

ANDREW CARTER, CEO OF RLAM

Royal London Asset Management (RLAM) enjoyed very impressive sales in 2019. Total assets under management increased by 22% to £139bn (2018: £114bn). Rising investment markets, and our success in navigating them, account for part of the increase, but we also attracted net inflows of £6.7bn from external clients (2018: £4.1bn) and net inflows of £3.2bn (2018: £3.6bn) from RLMIS.

RLAM began life as the dedicated investment arm of the insurance company. Over time, our expertise in delivering consistent, long-term performance has helped us attract clients outside Royal London. These external assets have grown dramatically over the past decade, and now account for around half of RLAM's revenues. In 2019, we saw our strongest ever year of sales to external clients, while still seeing strong flows from internal clients, such as Royal London customers, in our Governed range.

Institutions such as pension schemes, local authorities and other insurance companies remained strong supporters of RLAM. In 2019, we saw the increased breadth of our investment offering help us win new business. For example, we have managed fixed interest and credit funds for local authorities for years, but in 2019 we won a £398m global equities mandate. In recent years we have focused on diversifying our business, adding distribution capability in the 'wholesale' market – made up of platforms, IFAs and wealth managers. This strategy is paying dividends. Flows from wholesale clients have increased materially in recent years, and are now broadly in line with the more established institutional side of our business. This growth was remarkable – in fact, flows from wholesale clients were enough to put RLAM in the top five net new business winners in the industry over 2019 as a whole, beating a number of much larger competitors.

Providing good returns for our clients – both Royal London customers and external clients – is incredibly important. It helps them meet their investment goals and also provides a solid base for RLAM to continue to support the overall Group. Investment performance is at the core of this success. Our three-year figures – an important industry benchmark – are now strong across most of our core strategies, helped by further good performance in 2019, when 98% of our actively managed funds outperformed their three-year benchmarks.

Increasing interest in responsible investment was a clear trend of 2019. We worked closely with Royal London's Investment Office on its new responsible investment strategy (see page 38). Responsible investment considerations now form an important part in almost every new mandate we receive, and clients'

SUSTAINABLE SUCCESS

Royal London was the market leader in sales of sustainable funds in 2019, with £1.4bn in new business. This is a specific set of funds for investors, separate from our overall responsible investing initiatives.

Two of our sustainable funds celebrated 10-year anniversaries and one fund will hit 30 next year. These long track records show that ethical and environmental investment can deliver returns as good as or better than the rest of the market. Sustainable funds invest in companies demonstrating a net benefit to society, through their products and services or through ESG leadership.

Rather than ruling out entire sectors from investment, sustainable investing is based on 'ruling in' companies that actively do good for society and the environment. We believe that firms scoring highly on ESG metrics are also likely to perform better financially.

See page 42 for Royal London's work on sustainability and climate change

Winning the university challenge

Our cash funds grew to over £13bn, attracting flows from a wide range of clients. One notable area of success was our partnership with a number of universities. Here we were entrusted with funds raised for various ongoing infrastructure projects. We took on the twin targets of managing these monies securely while still generating a return, but then also making funds available to pay project costs as they arise.

understanding of the issues is becoming more sophisticated. We have more than doubled the size of our Responsible Investment team and expect further growth in this area.

Although financial markets generally performed well, turmoil from potential US-China trade wars and political upheaval in the UK made investors cautious. Controversy within our own industry, such as the failure of the Neil Woodford funds, reinforced that caution. As a large and stable company with a range of highly liquid products, we were an attractive option for investors. In 2019, our values of trust and transparency resonated strongly. UK equity income, one of our core investment areas, showed a return of 23.7% (2018: (9.7)%). Credit and global equities also performed well. Asset allocation, the critical judgement for where funds are invested, added value for our customers.

Award-winning people and funds

We won an array of awards, underlining our investment success. Most notably, our Sterling Credit and Sustainable investment teams were widely recognised, earning a number of awards. We were delighted to win a 5-star Financial Adviser Service Award rating for a fourth consecutive year. At an individual level, Senior Credit Fund Manager Paola Binns was named as one of the three top female investment managers in the world by *Citywire* in 2019 (see page 31).

£2bn+

Our Global Equity and Multi-asset Credit (MAC) strategies have proved to be strong performers, both attracting more than £2bn of assets in total from launch three years ago. In a market where many funds struggle to win external business before they have established a three-year track record, this growth in assets is testament to how we work with clients to build strategies that help them meet their goals.

In 2019 we celebrated the third anniversary of our Global Multi-Asset Portfolios (GMAPs), which invest across a broad range of asset classes and have a successful track record on which to build. Consistently high performance enabled our UK Equity Income fund to attract new investment at a time when most funds in this sector are seeing outflows. New funds launched this year included a new Multi-Asset Strategies Fund, designed to capture market upside while limiting downside risk.

Giving customers value

Offering excellent value for money to all our clients is one of our key objectives, and we undertook a benchmarking project in 2019 to gauge our market position. We aim to provide excellent investment performance while charging fair fees. According to research by financial website *Boring Money*, we rated among the top five providers for value in 2019. New Financial Conduct Authority (FCA) rules in 2019 required all asset managers to look more closely at value for money, specifically with the Authority's Assessment of Value regulation. Funds must now be measured against eight principles. In 2020 we will produce the first annual report to show customers what value they are getting, and how improvements will be made if needed.

Economic uncertainty

The changed market conditions emanating from the steps being taken to counter coronavirus are likely to have an adverse effect on business profitability in 2020. Our fees are largely dependent on the value of the securities managed, which are likely to be lower on average in 2020 than in 2019. There is also some uncertainty surrounding the outcome of post-Brexit negotiations between the UK and the EU. However, as our sales are mainly UK-based, we do not expect to be significantly affected by these.

Brexit planning continued during the year, and Brexit uncertainty affected some clients' ability to make swift decisions. However, as our sales are primarily UK-focused, we do not expect to be significantly affected by the UK's departure from the EU. »

CONSUMER

2019 brought new customers and was our first year of profitability – due to our improved brand profile, strong partnerships and innovative products

2019 HIGHLIGHTS

- Over 70,000 more customers
- Sales up by 1%
- Positive new business sales margin of 1.4%
- Over-50s Life Cover driving sales
- Business partnerships boost sales

AWARDS

- Over-50s Life Cover: the only over-50s life product to maintain a five-star Fairer Finance rating since launch

Our Consumer division brought more than 70,000 direct customers to the Group in 2019. New business sales rose by 1% to £423m (2018: £419m), achieving a sales margin of 1.4% (2018: (0.8)%). After moving into operating profit for the first time in 2018, this year we grew and broadened our business further, continuing to contribute to Group profitability.

Our Over-50s Life Cover continued to drive sales and is now the second largest player in its market. It is also the only over-50s life product to have consistently maintained a five-star Fairer Finance rating since its inception, offering the best value for money and quality of product in the sector.

In 2019, we looked again at our external branding and at how customers see Royal London. The research shows that our prompted brand awareness has improved towards the level of our peers (61% compared to a competitor average of 67%) – a considerable achievement given that five years ago our brand awareness was very low. We have launched a new phase of branding to add depth and meaning to consumers' understanding of Royal London. The new advertising campaign was launched in October, based on the theme of our determination to help people achieve their financial aims, whatever life might throw at them. Renewed sponsorship of English cricket for another six years will also boost our brand awareness.

The first television advertising for our direct funeral plans was broadcast over the summer and we began to make an impression on the market. We have been vocal about the poor quality of some funeral plan products. In contrast, our own product has a four-star Defaqto rating.

Our business partnerships delivered sales growth over 2019. The Post Office partnership was particularly successful, with sales up by 14% and a strengthened relationship developing. Our partnership with CYBG, owner of Clydesdale and Yorkshire Banks, ended during the year when it merged with Virgin Money.

By broadening our range of high-quality products and continuing to drive awareness of the Royal London brand as a financial provider to be trusted, the Consumer division can continue to grow both its sales and its profit contribution to the Group.

> **In 2019 we were pleased to make a profit contribution to the Group, our first ever over a full year. We are now set for a period of momentum that will see Consumer grow and broaden, so we can have a positive material impact on the lives of many more UK customers**
>
> **JERRY TOHER, CEO CONSUMER**

OUR UPWARDLY MOBILE SALES

More than 40% of our direct sales in 2019 were digital, a large proportion of which were made by customers using a mobile phone or a tablet. Our products were designed from launch to be mobile-first, even though only 5% of sales originally came via mobile channels. 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 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 an unusually high level of customer understanding of the product they have bought. In an industry where mis-selling has been an issue, it is good to know customers understand what they have bought and why.

LEGACY

Our long-standing policyholders are incredibly important to us, so we are investing to improve our communication, service and efficiency

2019 HIGHLIGHTS

- **Improved annual statements for 1.3 million policyholders**
- **New digital portal lets customers see statements online**
- **Combined assets of over £35bn**
- **Plans in place to simplify systems for helping customers**

BUILDING ON OUR STRENGTHS

Investing for efficiency

We are introducing new technology to replace outmoded customer service systems and improve how we help long-standing policyholders.

I am proud to be part of a truly customer-focused business where we give the same high level of care and attention to our long-standing customers as we do to our new customers

NOEL FREELEY, LEGACY DIVISION DIRECTOR

The Legacy division spent 2019 making improvements that will deliver real benefits to our customers over the next three years.

We look after approximately 5.6m policies within the division, created in 2018 to ensure long-standing customers receive the same care and attention as our new customers. These customers came to us in a variety of ways, and some decades ago. Many bought policies from Royal London tied agents, others from companies that were bought by Royal London. Many are now facing important financial decisions about their future without the benefit of independent financial advice.

The old system of tied agents who came to people's homes is no longer economic, but for many families its disappearance means the loss of a trusted voice that encouraged long-term savings. Our aim is to offset that loss by different means. Royal London has recognised an opportunity to improve outcomes for them, while also making good financial returns for our customers.

During the year, we have delivered much more efficient customer communications by improving the annual statements of 1.3 million policyholders, which have been received very positively. We will roll out more new statements in 2020, and will improve other correspondence to make key communications clearer. We have also built a new digital portal, so policyholders can see their annual statements online. We expect to roll out further enhancements so customers can get help and support through our digital channel.

We are replacing many of our older technology systems to enhance the quality and timeliness of service we give to our customers and members. This will also reduce operational risk and improve our ability to get servicing requirements right first time. We are also simplifying the way we hold capital, with plans to merge separate policyholder funds and deliver real benefits to policyholders through cost efficiencies and diversification of risks.

The fund mergers will aim to bring these funds into the main Royal London fund. Ahead of any proposed merger, we will clearly explain the proposed developments to policyholders and ask them to vote on the proposed changes. There are a number of possible benefits to policyholders, which vary depending on their individual position. Some could see financial gains as a result of additional amounts being added to their plan, as we aim to become more capital-efficient over the next three years. Royal London fund members will also benefit from all customers being stronger by coming together.

The mergers are subject to independent expert, regulator and court approval. The first will go to the courts for approval in 2020, with subsequent approvals following over the next three years.

As disclosed in the Nominations and Governance Committee report on page 93, Noel Freeley was appointed as the new CEO of RLI DAC on 26 February 2020, subject to CBI approval. We are pleased to announce that leadership of the Legacy division has moved to Steve Murray. ■

Financial review

Royal London achieved another successful year, with operating profit growth despite continued market, economic and political uncertainty

The Group delivered another strong financial performance in 2019 as well as achieving a number of important milestones. These included PRA approval of our Partial Internal Model and the successful issuance of £600m of subordinated debt. We are also well prepared for the future after the Board approved the decision to move to UK GAAP. This will replace IFRS and EEV financial reporting for the Group with effect from 1 January 2020.

We consider UK GAAP to be a more suitable financial reporting basis for a UK mutual than IFRS, allowing transparency of our financial performance and being widely recognised and understood by readers of accounts. Accordingly our key performance indicator, EEV operating profit, will be replaced by UK GAAP operating profit, and our 2020 interim results announcement will provide further information about the transitional changes.

Our financial performance was led by continued strong new business sales in our Intermediary division as well as further growth in our asset management business. The positive new business, along with favourable economic conditions, resulted in assets under management of £139bn (2018: £114bn). This represented a record high for the Group.

Our mutual status means that when Royal London does well, so do our customers. ProfitShare is a discretionary allocation of part of the Group's profits, made on an annual basis to eligible with-profits and unit-linked pension policies. ProfitShare for 2019 was £140m (2018: £150m); the reduction reflects the impact on our business of the economic outlook, which indicates a continuation of low interest rates. The enhancements to qualifying policies from ProfitShare were 1.2% for with-profits policies and 0.15% for unit-linked policies (2018: 1.4% and 0.18% respectively).

Throughout this review we will explain the main factors that drove our financial performance during 2019. Given the complex nature of accounting and regulation in our industry, it is not always easy to make these explanations simple but our aim is always to be as clear as possible. A glossary for financial jargon on page 239 will help to explain some of the terminology.

1: Financial summary

	Measure	2019	2018	Change
EEV	EEV operating profit before tax	**£416m**	£396m	£20m
	Life and Pension sales (PVNBP basis)	**£10,699m**	£11,308m	£(609)m
Flows	Gross inflows	**£25,131m**	£21,196m	£3,935m
	Net inflows	**£9,892m**	£7,652m	£2,240m
Funds	Assets under management	**£139bn**	£114bn	£25bn
IFRS	IFRS profit/(loss) before tax	**£436m**	£(111)m	£547m
	IFRS post-tax transfer to eligible policyholders	**£185m**	£5m	£180m
Capital	Group solvency surplus (Regulatory View)[1]	**£2,632m**	£2,094m	£538m
	Group capital cover ratio (Regulatory View)[1]	**159%**	154%	5% points

1. 2019 capital figures are estimated and unaudited. The final amounts will be disclosed in the 2019 Single Group Solvency and Financial Condition Report in May 2020. The 2018 comparative has been restated on a partial internal model basis to allow better comparison.

Financial summary

The financial metrics used to measure our performance, including key performance indicators and alternative performance metrics, are outlined in the table below (1). In 2019, Royal London delivered sustained growth while continuing to invest in the long-term future of the Group. Our EEV operating profit before tax increased to a record £416m during 2019 (2018: £396m). This rise in EEV operating profit was driven by a higher new business contribution of £319m (2018: £301m), through record external net inflows of £6,696m (2018: £4,100m) in RLAM and positive assumption changes of £72m (2018: £90m).

IFRS profit before tax increased to £436m (2018: loss of £111m) due to positive investment returns of £11.6bn (2018: £(2.7)bn), following strong performance in global and UK equity markets, offset by an increase in the value of policyholder benefits and claims of £10.9bn (2018: £(2.1)bn) driven by a fall in yields used to discount liabilities. The IFRS profit before tax includes an impairment charge of £100m against the intangible asset held in relation to the ongoing development of our pensions technology.

Assets under management reached the highest level ever – £139bn (31 December 2018: £114bn) – as a result of continued strong new business sales, the performance of the RLAM investment team and positive market returns.

Our capital position remained strong and reflects our move to report as a Solvency II (SII) Group from 1 January 2019 and our Partial Internal Model being approved by the PRA with effect from 1 October 2019. On a Regulatory View basis, we have a Group capital solvency surplus of £2,632m at 31 December 2019 (1 January 2019: £2,094m) and a capital cover ratio of 159% (1 January 2019: 154%). The movement in the capital position reflects the subordinated debt issuance of £600m and economic assumption changes, offset by the capital used to write new business, ProfitShare allocation and continued strategic investment in the Group.

Royal London enters the next decade under a new Group Chief Executive with an established and growing market position, a strong capital position and continued focus on generating great value for our customers.

New business sales

Life and Pension new business sales

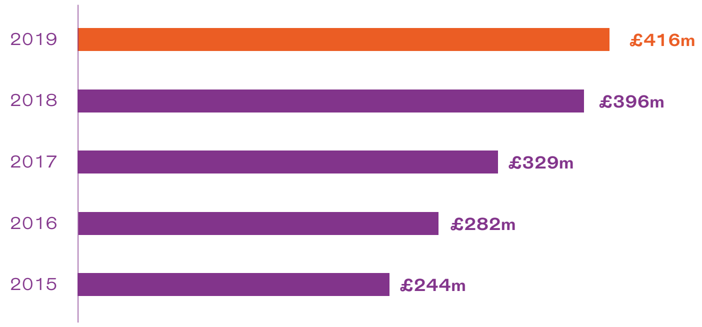
Sales of new Life and Pension business on a PVNBP basis decreased to £10,699m (2018: £11,308m) – see chart, right (3). The expected decrease resulted from a 5% fall in pension new business sales, driven in turn by a 7% reduction in individual pension sales from £6,818m to £6,334m. This was predominantly due to a decrease in defined benefit transfer activity across the market, with defined benefit transfer volumes reducing, in part as a result of the rising cost to advisers of obtaining professional indemnity cover.

Despite the decline in new business volumes, our market share of the individual pensions market increased over 2019 from 18% in 2018 to 21%. This increase was driven by the consistent outperformance by the Governed Portfolio, which is now one of the largest multi-asset propositions in the market, and continues to provide great value for money. Workplace pension new business sales remained broadly consistent with 2018, reducing by 1% from £3,131m to £3,096m. The change from 2018 arises from new entrants into existing schemes and new scheme wins. The workplace pension market remains competitive, with our quality of service being a key factor in our ability to win new scheme tenders.

UK Protection new business sales decreased by 8%, from £735m to £678m. Our focus in 2019 was the improvement in the profitability of new business sales. We have already seen the benefit of this focus, with the UK Protection new business margin increasing from 4.4% to 5.9% at the end of 2019. We continue to invest in our Protection proposition, and our ambition is to further grow our market share from the existing strong base of supporting advisers delivering high-quality business.

New business sales in Ireland continued to grow, rising by 22% to £137m (2018: £112m). The increase has been driven by strong trading performance across all products, especially in our Mortgage Protection and Term Assurance offerings. The continued strong new business performance has resulted in an increase in our market share for protection, which expanded to 22% at Q3 2019 (Q4 2018: 19%).

2: EEV operating profit growth



3: Life and Pension new business sales

	New business contribution[1]		PVNBP		New business margin	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 %	2018 %
Intermediary:						
Pension	**206**	239	**9,461**	10,042	**2.2**	2.4
UK Protection	**40**	32	**678**	735	**5.9**	4.4
Ireland Protection	**17**	13	**137**	112	**12.4**	11.6
Consumer	**6**	(3)	**423**	419	**1.4**	(0.8)
Total Life and Pension new business	**269**	281	**10,699**	11,308	**2.5**	2.5

1. The new business contribution in this table has been grossed up for tax at 19% (2018: 19%). We have done this in order to help compare our results with the results of shareholder-owned life insurance companies, which typically pay tax at 19% (2018: 19%). The EEV Consolidated Income Statement has been grossed up at the applicable tax rates.

Consumer new business sales increased by 1% in 2019 to £423m (2018: £419m), due to the successful embedding of our unit-linked funeral plan product launched in 2018 and an increase in the volume of Over-50s Life Cover sales. In the over-50s life insurance market in the UK, the division achieved a market share of 24% at Q3 2019 (Q4 2018: 23%), driven through digital and telephony channels. Our network of partnerships also continued to generate sales, with partnership sales contributing £304m (2018: £316m). In 2019 we launched our life insurance partnership with Co-op Insurance Services and our Over-50s Life Cover partnership with Cover Direct. Both of these further enable the Consumer division to reach a wide range of customers.

Despite the reduction in PVNBP, the margins on our Life and Pension business »

“In a competitive workplace pension market our quality of service is a key factor in our ability to win new scheme tenders”

remained consistent at 2.5% (2018: 2.5%). The Pension margin reduced to 2.2% (2018: 2.4%) due to a change in business mix between individual and workplace pensions. New business margins for UK Protection increased to 5.9% (2018: 4.4%) due to our focus on improving the profitability of new business through distribution quality management. Ireland protection margin also increased to 12.4% (2018: 11.6%). The Consumer margin increased to 1.4% (2018: (0.8)%), following the successful launch of our unit-linked funeral plan product.

Flows

Gross flows reached a record for the Group at £25,131m (2018: £21,196m), driven by the continued growth in external flows – see table below (4). RLAM delivered another year of strong performance, with record external gross flows of £15,760m (2018: £12,317m). This in turn resulted in record net inflows of £9,892m (2018: £7,652m). RLAM's success is built on providing flexible and tailored investment solutions, as evidenced with the Royal London Governed range.

The continued growth in net inflows over the years has been driven by sterling corporate bonds, where RLAM has a unique and long-standing strategy. In recent years that success has broadened, and includes the Sustainable fund range. This is a modern and inclusive method of investing only in companies that provide a positive net benefit to society or are ESG leaders relative to their peers. These funds have produced strong returns as well – helping attract new investors and growing the range by over 50% to more than £3bn during the year. The cash fund range is also much in demand, growing from around £9bn at the end of 2018 to over £11bn during 2019. In addition to these long-established strategies, RLAM has selectively added to existing capabilities – most notably in areas such as high-yield bonds, multi-asset credit and global equities.

We have only added to strategies where we feel we can offer something different from the rest of the market, usually working with clients to help design something that will help meet their objectives. Our Global Equities and Multi-asset Credit strategies have attracted over £2bn of assets since launch three years ago.

EEV

EEV operating profit

EEV operating profit before tax rose to £416m (2018: £396m), mainly driven by continued strong new business contribution, positive assumption changes and experience variances, partially offset by investment in the business.

Profit contribution from new business was £319m, an increase of 6% on the previous year (2018: £301m). This was due to the record level of external net inflows into Asset Management, offset by the expected reduction in Individual pensions new business sales as outlined in the New business sales section.

Profit from managing existing business increased by £59m to £287m (2018: £228m), driven by positive persistency experience variances and assumption changes in Asset Management, positive mortality and morbidity assumption changes within UK Protection, and positive persistency experience variances on Pension business.

The loss of £25m on uncovered business mainly comprises the trading result of IFDL, our platform business. The 2018 result included an impairment charge of £20m.

Strategic development costs and other items increased to £173m (2018: £111m), reflecting our continued strategic investment in the Group. In 2019 we reached a number of milestones in our transformation programme; these included the approval of the Group's Partial Internal Model application, the continued acceleration of the reporting deadlines under the SII regime and commencing a significant long-term project relating to transforming our legacy funds and administration systems. Completion of milestones in 2019 places Royal London in a strong position to compete and provide customers with the best value-for-money propositions in the future. The increase in the strategic development costs and other items is driven primarily by one-off benefits in 2018 of £60m relating to the final implementation of our actuarial system transformation, and a change to annual

4: Internal and external flows

	Gross flows		Net inflows	
	2019 £m	2018 £m	2019 £m	2018 £m
Internal	9,371	8,879	3,196	3,552
External	15,760	12,317	6,696	4,100
Total	**25,131**	21,196	**9,892**	7,652

5: IFRS reconciliation of operating profit to UDS transfer

	2019 £m	2018 £m
Operating profit (on an IFRS basis)	**195**	318
Adjusting for the following items:		
Investment return variances and economic assumption changes	**473**	(204)
Pension scheme costs recognised in profit	**(36)**	(27)
Finance costs	**(56)**	(48)
ProfitShare[1]	**(140)**	(150)
IFRS result before tax and before transfer to unallocated divisible surplus	**436**	**(111)**
Tax (charge)/credit	**(211)**	63
Other comprehensive income	**(40)**	53
Total transfer to unallocated divisible surplus	**185**	5

1. ProfitShare is not reported on the face of the IFRS Income Statement; instead it forms part of the movement in insurance contract liabilities and movement in non-participating value of in-force business.

management charges on the unit-linked funeral plan product.

EEV profit before tax and ProfitShare

EEV profit before tax and ProfitShare increased to £457m (2018: £351m). Our strong operating performance outlined above was complemented by higher returns on investments. Despite the strong positive returns generated in 2019, the continuing low interest rate environment remains a source of pressure on our longer-term business.

IFRS

Alongside our EEV supplementary reporting, Royal London reports its results under International Financial Reporting Standards (IFRS). While the two methods broadly follow each other, there are key differences outlined in notes (i) and (j) in EEV supplementary information on page 233, which contribute to the differences in results.

IFRS operating profit before tax

Our IFRS operating profit before tax was £195m (2018: £318m). The table opposite (5) reconciles IFRS operating profit to the IFRS total transfer to unallocated divisible surplus (UDS). Notable items are:

- Investment return variances and assumption changes of £473m (2018: £204m) representing the impact of the movement in the market value of assets; offset by the movement in economic experience and assumptions used in calculating actuarial liabilities; and
- ProfitShare of £140m (2018: £150m), reflecting the total amount allocated to eligible customers in 2019, consistent with the treatment under EEV.

IFRS transfer to eligible policyholders

Our total transfer to UDS was £185m (2018: £5m), an increase of £180m. The large increase from 2018 was a result of positive investment returns of £11,561m, against a loss of £2,679m in 2018, with the gain in 2019 primarily due to strong performance in global and UK bond and equity markets. This is offset by an increase in the value of policyholder benefits and claims of £10,873m (2018: £(2,142)m), driven by a fall in yields used to discount liabilities.

IFRS balance sheet

Investment portfolio

Our balance sheet remains robust and well diversified. Our total investment portfolio, including investment property, increased to £106,567m (2018: £89,401m), which has been driven through positive market returns over the year and continued high levels of new business. Our financial investment portfolio remains well diversified across a number of financial instruments, with the majority invested in equity securities and fixed income assets – see chart above (6).

Pension schemes

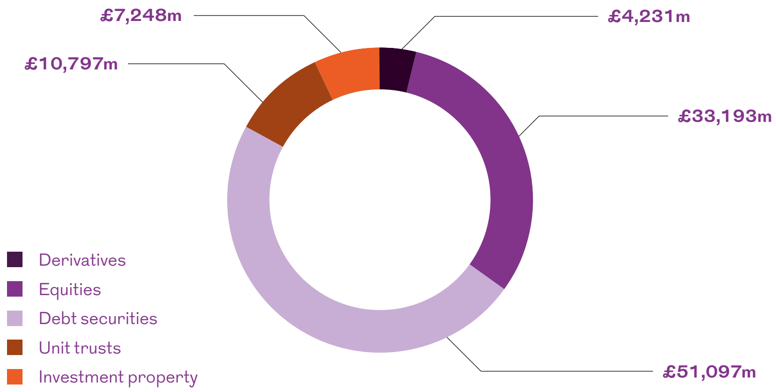
The Group operates three defined benefit pension schemes. The combined surplus on the three schemes decreased by £44m to £169m at 31 December 2019 (31 December 2018: surplus of £213m). The largest scheme is the Royal London Group Pension Scheme (RLGPS) which closed to new entrants on 1 September 2005 and to future accrual of benefits on 31 March 2016.

The surplus on the RLGPS decreased from £74m as at 31 December 2018 to £38m as at 31 December 2019. This was due to a reduction in the discount rate reflecting lower yields, partially offset by positive investment returns. The two remaining schemes operate for former Royal Liver employees. The combined Royal Liver schemes' surplus as at 31 December 2019 was £131m (31 December 2018: £139m).

Investment returns

High levels of uncertainty continued to drive volatility in investment returns throughout 2019. Outside the UK, rate cuts by the Federal Reserve and the announcement of a new stimulus package by the European Central Bank demonstrate a continued deterioration in economic data. This was against the backdrop of increased tariff levels imposed as a result of the ongoing trade war between the US and China, and the US and the EU. »

6: Investment portfolio



£416m

EEV operating profit before tax for 2019 was £416m – up 5% from 2018 (£396m)

Despite this level of volatility, our funds have performed well throughout 2019, with 98%* of active funds outperforming benchmark (2018: 54%). Across all funds, including the Royal London Open Fund with-profits performance (see chart 7), returns on key asset classes such as equities and bonds were positive following negative returns in 2018.

Capital strength

A strong capital base is essential for 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 our financial commitments to them.

Maintaining this strong capital position and managing it effectively is a key priority for us. From 1 January 2016, the Parent company has been required to maintain and report its capital position under SII. Royal London Insurance Designated Activity Company (RLI DAC) was authorised to write new life insurance business in the Republic of Ireland by the Central Bank of Ireland (CBI) with effect from 1 January 2019. This resulted in Royal London becoming a Group under the SII rules. As a result, regulatory capital is reported for 2019 at a Group and Parent company level.

Estimated Solvency II capital position on an Internal Model basis for the Group

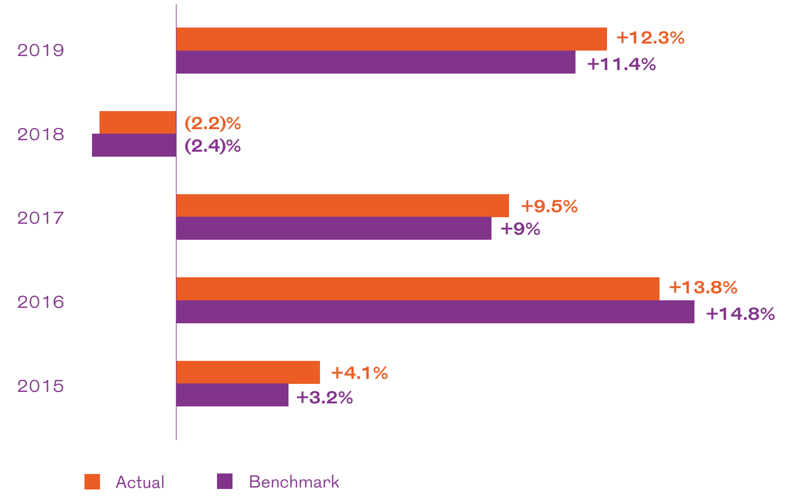
There are two key bases for measuring and reporting solvency that can be used under the SII regime: the Standard Formula and the Internal Model. The Internal Model takes into account individual firm-specific factors but requires approval by the regulator before being used to report under SII.

In September 2019, the PRA approved the use of our Partial Internal Model to calculate the capital requirements of the Group and Parent company with effect from 1 October 2019. The capital assessment of RLI DAC remains on a Standard Formula basis.

The Group capital position at 1 January 2019, and Parent company capital position at 31 December 2018, have been restated to reflect the move to an Internal Model for calculating capital requirements, and to provide a more meaningful comparison of movements in our solvency position between 2018 and 2019.

The previously reported capital positions for the Group and Parent company were based on the Standard Formula approach.

7: Royal London Open Fund with-profits performance



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 does not restrict the surplus in the closed funds), and a Regulatory View where the closed funds' surplus is treated as a liability. The table opposite (8) sets out the capital position and key SII metrics for the Group at 31 December 2019. The chart opposite (9) illustrates an analysis of the movement of the Regulatory View solvency surplus between 1 January and 31 December 2019.

The Group solvency surplus (Regulatory View) at 1 January 2019 has been restated from £1,761m (disclosed in the 2018 Solvency and Financial Condition Report) to £2,094m to reflect:

- a revised capital add-on that would have been recalculated on the Standard Formula capital position; and
- the move to preparing our capital requirements on an Internal Model basis, from the previous Standard Formula basis.

The Group solvency surplus (Regulatory View) has increased from £2,094m at 1 January 2019 (restated) to £2,632m at 31 December 2019, primarily from the following sources:

- Positive economic experience due to strong performance in global and UK equity and bond markets, partially offset by a reduction in the risk free rate
- A capital benefit from the run-off of existing business

Our remaining capital position is strong. As a result, while still meeting target solvency levels, we have been able to use available capital to:

- write new business during 2019;
- progress with one-off projects and strategic investment in the business including:
  - Legacy Simplification – to improve service, flexibility and distributions to our customers in the closed with-profit funds; and
  - UK GAAP – to replace our IFRS and EEV financial reporting in 2020; and
- deliver £140m of ProfitShare to eligible customers.

The Group has also successfully raised £600m of subordinated debt, reducing to £585m (taking into account the discount and costs incurred on the issue), further increasing solvency surplus in 2019.

Further details of the Regulatory View and capital position at 31 December 2019 are included in note 42 of the IFRS financial statements. »

* Calculated as the three-year performance against benchmark, using a weighted average of our active assets under management

8: Solvency II capital position

All 2019 figures are estimated[1]	Open fund (£m)	Closed funds (£m)	Total Group (Investor View) (£m)	Restrictions (£m)	Total Group (Regulatory View) (£m)
Own funds					
Tier 1	3,337	5,403	8,740	-	8,740
Tier 2	1,508	-	1,508	-	1,508
Tier 3	6	-	6	-	6
Total own funds	**4,851**	**5,403**	**10,254**	**-**	**10,254**
Closed funds restriction	-	-	-	(3,178)	(3,178)
Deferred tax asset restriction	(6)	-	(6)	-	(6)
Adjusted own funds (A)	**4,845**	**5,403**	**10,248**	**(3,178)**	**7,070**
SCR (B)	**2,213**	**2,225**	**4,438**	**-**	**4,438**
Solvency surplus (A-B) – 31 December 2019	**2,632**	**3,178**	**5,810**	**(3,178)**	**2,632**
Solvency surplus – 1 January 2019[2]	2,094	2,832	4,926	(2,832)	2,094
Capital cover ratio (A/B) – 31 December 2019[3]	**219%**	**243%**	**231%**	**n/a**	**159%**
Capital cover ratio – 1 January 2019[2,3]	201%	259%	228%	n/a	154%

1. The 31 December 2019 figures are estimated and unaudited. The final figures will be presented in the 2019 Single Group Solvency and Financial Condition Report, which will be published on our website in May 2020.
2. The 1 January 2019 figures have been restated to reflect the move to an Internal Model for calculating capital requirements. These figures are unaudited. Final solvency surplus and capital cover ratios for the Group were presented in the 2018 RLMIS SFCR on a Standard Formula basis in April 2019, being an Investor View solvency surplus and capital cover ratio of £4,411m and 197% respectively, and a Regulatory View solvency surplus and capital cover ratio of £1,761m and 139% respectively.
3. Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.

9: Movement in Regulatory View solvency surplus (£m)

£2,632m

The estimated Group solvency surplus (Regulatory View) rose from £2,094m at 1 January 2019

Sensitivity analysis of Group Solvency II capital position

Our capital position is sensitive to changes in economic and non-economic assumptions. The table (10) below sets out various sensitivities of the solvency surplus and capital cover ratio based on possible different scenarios.

The results of the sensitivities show that the Group capital position remains strong.

The 2019 Single Group Solvency and Financial Condition Report (SFCR) will be published on our website in May 2020 (royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/) and will meet disclosure requirements for both the Group and Parent company.

Tax

We are a major taxpayer and recognise that taxation is an essential way business 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

10: Sensitivity analysis of Group Solvency II capital position

Scenario	Solvency surplus (Regulatory View) £m	Capital cover ratio (Regulatory View) %
31 December 2019 (estimated)	**2,632**	**159%**
Economic:		
25% decrease in all equity investments[1]	(259)	(3)
15% decrease in property prices	(77)	(2)
100bps rise in interest rate[1,2]	12	14
100bps fall in interest rate[1,2]	(47)	(15)
25bps increase in government bond yields[3]	(62)	(2)
200bps widening in credit spreads[4]	(117)	1
15% fall in GBP exchange rates[5]	209	2
Demographic:		
20% increase in Guaranteed Annuity Option (GAO) take-up rate[6]	(84)	(5)
Two-year increase in future life expectancy[7]	(275)	(14)
35% increase in future persistency rates[8]	(34)	2
12.5% one-off increase in surrender/transfer rates[9]	(242)	(4)
15% increase in maintenance expenses	(220)	(5)

1. Sensitivity 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. The remaining economic sensitivities presented have been updated to be the equivalent to a 1-in-20-year event.
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.
4. The widening in credit spreads stress assumes a widening in all ratings and an associated increase in the IAS19 discount rate for the RLGPS/Liver GPS Schemes at 25% of the asset spread stress.
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.
6. The calibration of the 20% increase in GAO take-up rates is based on the RL Main Fund. For other funds, a proportionate stress will be applied to reflect the 1-in-20-year risk specific to that fund.
7. The two-year increase in future life expectancy stress assumes males aged 65 live for another two years and proportionate changes apply to other ages.
8. The persistency stress assumes adverse movement in future lapse rates and Paid Up Policy (PUP) rates.
9. This stress assumes additional lapses/PUPs in the first year after the valuation date, but only where it is advantageous for the policyholder to surrender/transfer.

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 2019, the total tax contribution of the Group was £690m (2018: £546m) – see chart below (11).

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 on behalf of the Government and collected from others for onward payment to HMRC and other tax authorities. In 2019, taxes of £256m (2018: £225m) were borne by the Group and the Group collected £434m (2018: £321m) of taxes on behalf of the tax authorities.

Ratings agencies

Assessing the financial strength and stability of financial services companies is a complex undertaking, and ratings 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 July 2019, Standard & Poor's affirmed Royal London's counterparty credit rating of A, with a stable outlook. Moody's rates Royal London A2 for insurance financial strength with a stable outlook.

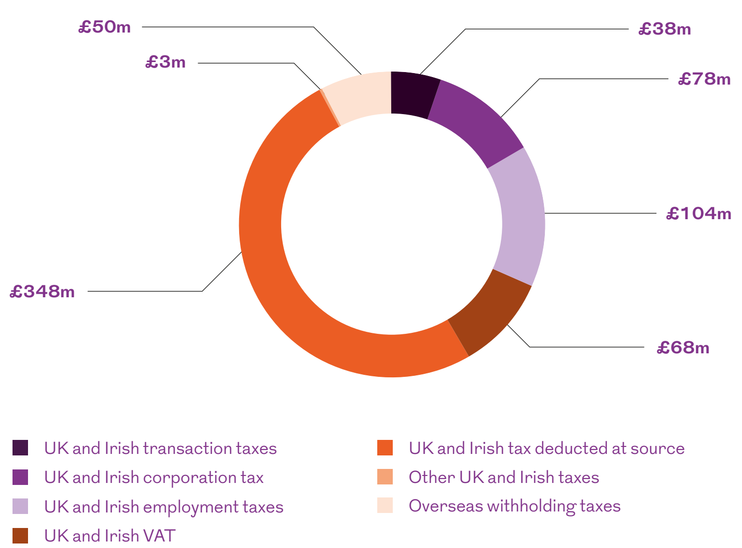
The £600m subordinated notes issued by RL Finance Bonds No.4 plc on 7 October 2019 were rated BBB+ by Standard & Poor's and Baa1(hyb) by Moody's.

Events after the balance sheet date

2020 has begun with the spread of a new strain of coronavirus, with confirmed cases in more than 50 countries. The virus has caused disruption to businesses and economic activity, which has precipitated substantial daily fluctuations in interest rates and global stock markets. This has reduced the Group Regulatory View capital cover ratio from 159% to an estimated 150% as at 13 March 2020, and the Group Investor View capital cover ratio from 231% to an estimated 223%. The Group Regulatory View solvency surplus has reduced from £2.6bn to an estimated £2.4bn as at 13 March 2020, and the Group Investor View solvency surplus has increased from £5.8bn to an estimated £5.9bn. Our capital management approach ensures that our solvency surplus remains stable in times of markets falling. Whilst the decreases in cover ratios are significant, the relatively small reduction of £0.2bn in the Group Regulatory View solvency surplus and £0.1bn increase in Group Investor View solvency surplus illustrates the effectiveness of our equity and interest rate hedging strategies. The Group remains very well capitalised and we will continue to take action to protect our capital position as appropriate. ■

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

11: Tax paid by Royal London



Risk management and internal control

Royal London has a system in place for evaluating and mitigating risk

The Board is responsible for the Group's system of risk management and internal control, as well as for reviewing its effectiveness. The system is designed to manage and mitigate the risks of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The system has been in place throughout the period under review and accords with the UK Corporate Governance Code. The Board is very conscious of the importance of the Group's internal controls and attaches high priority to developing them in line with good practice. The Board is aware that from time to time, due to the size and scale of the Group, issues could arise that impact the reputation of the Group and its operations. In the event of such risks materialising, the Board ensures that necessary actions are taken to address them.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The management of each business unit and support function is responsible for identifying, evaluating, rating (in terms of probability of occurrence and likely impact),

The Group's risk governance structure

RISK RESPONSIBILITIES OF THE BOARD

Board
The Board approves and has oversight of the plans and structures in place to ensure Royal London achieves its strategic objectives within the risk appetite framework.

Board Risk Committee
The role of the Committee is to ensure that the interests of customers of Royal London are properly protected through the application of effective risk and capital management systems. This includes overseeing conduct for fairer customer outcomes.

Audit Committee
The Committee assists the Board by monitoring the performance and objectivity of external and internal auditors and reviewing the effectiveness and integrity of Royal London's financial controls and reporting.

Executive Risk Committee
The role of the Committee is to support the Group Chief Executive by giving consideration to and developing proposals and recommendations in respect of areas within the risk management system.

Capital Management Committee
The role of the Committee is to support the Group Finance Director by giving consideration to and developing proposals and recommendations in respect of economic and regulatory requirements; investment strategies and decisions; balance sheet risk; derivatives; and risk appetite related to market, credit and liquidity risks, policies and reporting.

Customer Standards Committee
The Committee supports the Group Chief Executive in overseeing customer outcomes in relation to our customer strategy. It provides challenge over business practices relevant to our strategic customer objectives and conduct regulatory requirements.

Internal Model Governance Committee
The role of the Committee is to support the Group Chief Risk Officer by giving consideration to and developing proposals and recommendations that ensure the Internal Model accurately reflects the structure and risk profile of the business.

RISK RESPONSIBILITIES OF MANAGEMENT

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. Our system of governance comprises risk management, risk appetite, risk policies, internal control and monitoring activities, and the internal environment including the Group's philosophy, culture and behaviours. Taken together these elements are designed to:

- facilitate the effective and efficient operation of the Group by enabling us to respond appropriately to significant strategic, business, operational, financial, regulatory and other risks that could impact upon the delivery of our objectives;
- promote a clear understanding of the risks faced to allow the Group to balance risk, capital and return effectively, enhancing our decision-making capacity;
- promote the preparation of reliable published financial statements and selected financial data; and
- facilitate compliance with applicable laws, regulations and internal policies.

We have a formal governance structure of committees to manage risk, reporting to the Board, and accountability has been further strengthened through embedding of the Senior Managers & Certification Regime (SMCR) in 2018 and 2019. Risk management is an integral part of our corporate agenda and employees at all levels have risk management responsibilities.

Our primary objective in undertaking risk management is to ensure that the achievement of the Group's performance and objectives is not undermined by unexpected events and that sufficient capital is maintained. During 2019 and on an ongoing basis, the risk management system, in conjunction with the Solvency Capital Requirement (SCR), the Internal Model, our risk register and the Own Risk and Solvency Assessment (ORSA), was and continues to be used to help identify, mitigate, monitor and quantify significant risks to which we are exposed.

This approach enables the early identification of risks and, through an assessment of likelihood and impact, we seek to understand fully the dimensions of the exposures the Group faces. In response to unacceptable exposures, targeted action plans are put in place. Regular reporting on risks and mitigating actions is undertaken by individual business units through the Executive Risk Committee to the Board Risk Committee.

We have a strong risk management culture in all important decision-making processes and our risk management system is well embedded across all business areas. During 2019 we have enhanced our internal control system, standards and processes, including the development of an education programme that will build on business capabilities as part of a sustainable model.

The Board conducted a review of the effectiveness of the Group's risk management system and internal control system during the year ended 31 December 2019. This took into account matters arising up to the date of approval of this Annual Report and Accounts.

The review covers all material controls across business, financial, compliance and risk management processes. It is conducted through reports submitted to the Board, the Board Risk Committee and the Audit Committee and also by reports prepared as part of the year-end process. In the event of any significant weaknesses being identified, the Board ensures that necessary actions are taken to address them.

Providing assurance

Royal London operates a 'three lines of defence' model that clearly defines the ownership of and responsibilities for risks (see right).

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 64 for more details).

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. The Board ensures that policies are regularly reviewed to 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 »

Three lines of defence

Our governance structure for risk management is based on the 'three lines of defence' model.

1 **Customer and internal facing areas**
Primary responsibility for risk management lies with leaders of these teams.

2 **Risk & Compliance**
A second line of defence is provided by the Group's independent Risk & Compliance function, which undertakes monitoring, challenge and policy setting.

3 **Group Internal Audit**
The third line of defence, Group Internal Audit, provides independent assurance.

Executive management establishes and implements systems and controls and manages the risks impacting their areas of responsibility. Customer and internal facing managers identify and assess material risks, their likelihood and severity and the mitigating controls or actions.

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 executive management and the Board Risk Committee.

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

Group 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, and 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.

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 with good quality assets. Maintaining a robust capital position, even in extreme but foreseeable circumstances, is a key target for our sustainability.

Liquidity
We will be sufficiently liquid to retain customer and member confidence, even in challenging circumstances. Again, maintaining enough liquid assets is a key target for the Group's sustainability.

Performance
We will deliver quality earnings and growth with well-managed volatility. We have principles relating to long-term returns to customers and policyholders – shorter-term volatility and volatility around expected longer-term value and returns.

Insurance risk
We will apply strong insurance risk management for new and existing business, such as only taking on risks where we feel we have sufficient expertise to manage them.

Operational
We will operate strong controls over our business; we will not expose the Group or customers to inappropriate operational risks or risk-taking.

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, as well as fraud, money laundering and market abuse. A separate Financial Crime unit operates within our Compliance team to monitor adherence to this policy.

Solvency II

In September 2019, our Internal Model application was approved by the PRA. The use of our Internal Model enables us to make more effective decisions by fully integrating risk and capital management, building on our existing strong capital modelling and control capabilities.

Principal risks and uncertainties

Managing risk is crucial for achieving returns for our customers. Our processes identify and manage risks, which include assessing scenarios and reverse stress tests. The Board believes the principal risks and uncertainties facing the Group are as set out on pages 65 to 68 accompanied by the actions taken to manage and mitigate them. ■

> **We are committed to the highest standards of governance, personal and corporate ethics, compliance with all laws and regulations, and integrity and honesty in dealings with employees and customers**

Principal risks and uncertainties

Managing risk is fundamental to the Group's activities in order to generate returns for policyholders. We have a system in place to identify, manage, monitor and report risks, supported by risk tools and processes such as contingency planning, escalation of events, assessing scenarios and reverse stress tests.

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 Board monitors principal risks and uncertainties on a quarterly basis and undertakes a full review annually. Our approach to risk management, including the process of assessing and reviewing these risks, is set out below and on the following three pages.

Our risk profile is stable and generally changes only gradually from year to year. Although most of the principal risks and uncertainties set out last year are still relevant, we recognise that these will evolve due to the ongoing events and developments into 2020. As part of this, we are also reviewing climate change impacts within our risk profile. We have continued to progress with a number of activities to manage and reduce certain risks.

RISK	DESCRIPTION	MITIGATION AND MANAGEMENT
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 prospects for low growth, market volatility and changing socio-economic trends.		
Uncertainty in the economic environment caused by health or other issues	Like other insurance groups, our business is subject to inherent risks arising from general and sector-specific economic conditions in the markets in which we operate, particularly in the UK where our earnings are predominantly generated. Low or negative interest rates continue to have a significant impact on the insurance sector. Also, fluctuations in the value of both assets and liabilities can arise from volatility in the global capital markets, the economy of the UK, the stability of European markets such as the future of European bonds and the global economy generally. This may have a materially adverse effect on the Group where such a market change impacts differently on the value of assets and liabilities. The emergence of coronavirus and the steps being taken to mitigate its impact on health will slow manufacturing, disrupt supply chains, impact the travel and tourism industry and slow global growth rates, impacting markets and investment values. Coronavirus has also led to the decline and volatility in financial markets, with the potential to have a significant impact on the insurance sector.	Using our forward-looking risk profile, with regular monitoring of exposures by risk class, including consideration of possible risk concentrations, measured with reference to counter-party exposure limits, we can evaluate scenarios where we may be exposed to asset and liability values moving differently. This allows us to have a good understanding of the impact this may have on our risk profile. Through regular monitoring and discussion at executive and Board level, decisions are made to mitigate risks where these do not align to our business strategy and/or risk preferences. Mitigation is also undertaken by hedging to offset adverse risk. During periods of market volatility the Group increases the frequency of monitoring its capital and liquidity positions. The Group also carries out stress and scenario testing, and as part of our ORSA process we have run a qualitative pandemic scenario to better understand the impacts on the wider business as well as capital. We also hold capital for mortality catastrophe events within our Internal Model capital requirement.
A change in economic trends and consumer behaviours can affect performance	Volatility in the economy and investment markets, and the continuing prospects for low growth rates in the UK, can affect consumers' disposable incomes and appetite for our products and services. Changing socio-economic trends (customers wanting to deal direct, transactions through mobile applications and data security, for example) present opportunities and challenges to our business model.	We undertake regular reviews to ensure we are developing strategies and operational capabilities to take account of current and future changes in markets and consumer behaviours. We monitor our product range and market position regularly through analysis of policyholder experience and business volumes. This helps us to reprice products dynamically and develop new ones in response to changes in demand.
Competitor risk	Competitive pressure exists within our industry. We recognise that this is a risk that could have an adverse impact on our ability to compete successfully in our chosen markets. Our continued success depends on our ability to sustain growth while managing economies of scale and continued strong financial discipline.	We have a high-level competitive strategy in place and are determined that an evolution of the existing strategy to differentiate via value for money in our chosen markets remains most appropriate. We continue to invest in our customer-facing infrastructure to ensure we can efficiently deliver attractive propositions and service levels, and so are well placed to continue to offer value supported by our mutuality, customer centricity and service excellence. As a mutual with strong existing customer propositions, we believe we have a unique ability to deliver a value for money strategy.

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RISK	DESCRIPTION	MITIGATION AND MANAGEMENT
Changing political and regulatory environment The ongoing uncertainties 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 for the UK's exit from the EU create some uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation	The impact on financial markets is likely to be a marked rise in uncertainty, resulting in a further impact on economic confidence, sterling, the UK credit rating and increased inflation. Uncertainty over the outcome of negotiations with the EU and the transition leads to a lack of clarity over future regulation and legislation for the insurance and investment markets. The possibility of a settlement that leaves the UK as a 'rule taker' could have far-reaching implications for the UK life and pensions sector.	The UK's exit from the EU is not expected to have a materially detrimental impact on Royal London's strategy and business due to our focus on the UK. However, we recognise the potential impact on our business in Ireland and any potential implications with regard to Scotland's possible independence. We completed the Part VII transfers to our Irish subsidiary in February 2019 to protect and enhance our existing market position in Ireland. Risks related to financial markets will be mitigated 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 single European market. We will continue to maintain a watching brief on developments relating to the UK's exit as they occur, particularly in relation to regulation and legislation, and will prepare appropriate responses.
Changes in the legislative and regulatory landscape may alter the design and marketing of propositions	Unprecedented levels of change in legislation and heightened regulatory activity could adversely impact our ability to implement and deliver changes, as well as our reputational, operational and financial position. The conduct and prudential environment is still developing and this could impact 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.	Meeting the expectations of customers and our regulators is at the forefront of everything we do. To that end, we engage actively 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, together with an associated proposition development and review process designed to achieve fair outcomes and experiences for our customers. We continue to be represented on industry bodies including Association of British Insurers (ABI) senior committees.
Changes to financial services markets may arise from the political environment	The political environment may give rise to changes that alter the viability of our propositions in the markets in which we operate. This could include a broadening and/or tightening of the application of the rules on workplace pensions, and a focus on the value for money.	As the political environment changes, we continually evaluate how our markets are evolving and look to develop propositions to meet the needs of customers and distributors. We monitor developments and potential outcomes that may follow, such as 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, such as the potential changes to the regulations in relation 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 in the best interest of our customers.
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 impact our financial position	Our main risks in managing our defined benefit pension schemes arise from their exposure to inflation, interest rates and longevity, and from risks associated with the funds' investment strategies. Any adverse movements in these factors could increase future funding costs and could impact our financial position.	Overall, the schemes are well funded. This has remained stable and will continue to be monitored in the normal course of business. Our internal Finance 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.

RISK	DESCRIPTION	MITIGATION AND MANAGEMENT
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 of this activity, 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 as well as third-party providers of IT and administration services.	We seek to manage exposure to any one counterparty or third party. We actively monitor and report against limits in respect of investments. Contracts with third parties and suppliers are governed by strict service level agreements, which are monitored and discussed at regular account management meetings. The Capital Management Committee reviews large exposures that approach or exceed risk appetite and review the actions being taken to manage the exposures.
If our assumptions are subsequently proven to be wrong, then adjustments may impact on 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. It would be necessary to review assumptions if this did happen, potentially impacting our financial position.	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.
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	The Group has grown in recent years and we have completed change programmes in line with this growth in order to continually improve our capabilities and the experience of our customers. Two of our largest programmes will significantly enhance the IT infrastructure supporting the current and future propositions in our chosen markets. There is a risk that the continued growth plans and changes to our operational systems and processes, combined with the significant amount of external change in markets, regulation and legislation, may result in possible future inefficient or ineffective organisational delivery, with consequential operational loss and/or reputational damage. The emergence of coronavirus also has the potential to impact on our organisational change delivery, increasing the risk of operational loss and/or reputational damage.	Our strategic and operational plans are regularly reviewed by the Board. These take account of our resources and the scale and diversity of change currently under way and planned for the future. Specific change programme monitoring and reporting takes place at project, programme, portfolio and strategic execution level, utilising a dashboard of measures to ensure 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 (GIA) and Group Risk & Compliance (GR&C) 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 coronavirus.
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.	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 social engineering exercises and other testing of security awareness. Where new threats are identified, awareness training and communications are immediately sourced. We carry out a number of stress test exercises and continue to review regularly and test cyber risk developments.

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RISK	DESCRIPTION	MITIGATION AND MANAGEMENT
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 service requirements	In line with other large financial services organisations, we have a number of material relationships with outsourcers and service providers. While processing or specialist work is undertaken by these organisations, 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, which could result in major disruption to our operations.	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 closely manages outsourcer and supplier relationships. The governance arrangements for material outsourcers require that our customers do not face an increased level of risk due to an outsourced arrangement.
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	Our Legacy division 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.	There continues to be significant focus placed on managing this risk within the business. 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. Our Legacy division is now leading on a simplification programme whereby complexity around systems and processes will be reduced and deliver better customer outcomes.
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 adversely impact the Group across multiple risk categories, and could crystallise in a number of different 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 are 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. From a strategic perspective, the Group needs to be aware of the potential impacts of the transition to a low-carbon economy, particularly on our brand and the viability of our propositions. In particular: **Group brand:** Risk of reputational damage to our brand if our response is seen to be inadequate among our members, customers and the wider public. This risk is amplified for the Group, given our positioning as a mutual with a strong focus on social impact. **Propositions:** 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 combating climate change. Risk that government or regulatory policy requirements on climate change directed at the markets we operate in impacts the viability of our propositions. Risk that climate change impacts (both physical and transitional) affect the macro-economic environment and the viability of our propositions, particularly over the longer term.	**Risk identification:** Consideration of these potential risks and their impacts has been brought into our Risk Management System, and the consideration of climate change is also being incorporated into existing strategic risk monitoring activity. The Group is 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. **Risk monitoring and management:** 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 to take account of the potential impact of climate change scenarios, and to 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.

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 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 the ongoing monitoring and development described below.

The Group's strategy has been in place for several years and remains at the centre of everything we do. The Royal London Board continues to take a prudent approach to the development of this strategy, which focuses on delivering good value for money to our customers, remaining competitive and growing our market share, while meeting the expectations of regulators and other stakeholders.

Decisions relating to major new projects and investments – developing Royal London's IT infrastructure, for example – are made within our risk appetite and are subject to escalating approval levels. The focus placed on developing our IT infrastructure presents opportunities to bring an enhanced digital experience to customers and to lower our operating cost base, while at the same time responding to regulatory changes.

The assessment process

The Group's prospects are assessed primarily through its strategic and medium-term planning processes, which are 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 scenarios tested are updated annually, and the current ones are summarised in the table below.

As part of the prudent management of the long-term business of the Group, management carries out and assesses various »

> **The Group's strategy focuses on delivering good value for money to our customers, remaining competitive and growing our market share**

RISK SCENARIOS

Base scenario	UK economic growth weakens due to Brexit, while global growth remains below its pre-crisis average. Inflationary pressures are well managed.
	An EU free trade agreement is signed, which includes the gradual introduction of a new immigration system for EU migrants after the implementation period.
Adverse scenario	Global economy worse than base scenario, with the US in recession and weakened UK economic growth.
	EU negotiations break down, including UK passporting rights ceasing, tariffs payable on imports and exports, unemployment rising and weak sterling.
	Interest rates in advanced economies approach zero, are zero, or move into negative territory as deflation risk rises. UK quantitative easing resumes and UK interest rates are cut to zero.
Favourable scenario	Brexit impact is limited, with a UK-EU trade deal agreed quickly.
	Sterling strengthens, which eases inflation and real wage pressure.
	Stronger global economy, leading to more rapid recovery than base scenario. The cost of debt begins to rise, putting pressure on highly leveraged households, which is offset by employment growth and improved real incomes.

"The directors have tested the potential impact of severe but plausible risk scenarios and the effectiveness of mitigating actions that management could carry out"

long-term financial projections. However, there is inherent uncertainty involved in these projections, which increases as the term of the projections increases.

The directors have no reason to believe the Group will not be viable over a longer period, but they consider the five years up to December 2024 is the timespan for which they can form a reasonable expectation of the Group's longer-term viability.

This period has been selected because the Group's medium-term plan sets out its strategy and assumptions on a five-year time horizon. The latest business plans include in-depth analysis of the Group's risk profile, liquidity, and profit and capital projections.

Assessment of viability

Although the medium-term plan reflects the directors' best estimate of the future prospects of the business, they have also tested the potential impact of a number of scenarios over and above those included in it. 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 ORSA process over a number of years, for adverse scenarios impacting profitability, liquidity and/or solvency including:
  - margin compression from competitors;
  - 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 impact of climate change; and
  - the impact of political uncertainty.

Each scenario is designed to be severe but plausible, and 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, discussed on pages 62 and 68, 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.

Going concern

The directors also considered it appropriate to prepare the financial statements on a going concern basis, as explained on page 126 in the Corporate Governance section.

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 2024. ■

Forward-looking statements

This strategic report contains forward-looking statements with respect to certain Royal London plans, our goals and expectations relating to our future financial position. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond our control. Such future events and consequences include:

- UK economic and business conditions;
- market-related risks, such as fluctuations in interest rates;
- the policies and actions of governmental and regulatory authorities;
- the impact of competition; and
- the timing, impact and other uncertainties of future mergers or combinations within relevant industries.

As a result, Royal London's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in our forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements contained in this document or any other forward-looking statement it may make.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The directors take their duties very seriously, and the Board is committed to engaging with key stakeholders when making decisions and formulating strategy. As a mutual, the consideration of the long-term impact of decisions made on our customers and other stakeholders is embedded in the Group's operating model, people and processes.

The table below sets out where further information can be found and examples of how the Board has acted to promote the success of Royal London for the benefit of its members, while having regard to:

The likely consequences of any decision in the long term	• Engaging with our stakeholders – pages 28 to 37 • Corporate Governance statement – pages 84 and 85 **Example:** A long-term decision taken was the ProfitShare allocations described further on page 54, which are set based on the long-term economic outlook.
The interests of Royal London's employees	• Developing our people – pages 31 and 32 • Corporate Governance statement – pages 84 and 85 **Example:** Feedback from employees via the half-yearly pulse surveys was used to shape the 2019 People Commitments.
The need to foster the company's business relationships with suppliers, customers and others	• Engaging with our stakeholders – pages 28 to 37 • Corporate Governance statement – pages 84 and 85 **Example:** The AGM provides an important opportunity to speak directly with our members – the 2019 AGM attracted questions about our approach to responsible investment and the environment, so we have included more detail in this Annual Report on pages 38 to 45.
The impact of the company's operations on the community and the environment	• Our social impact themes – pages 20 to 27 • Supporting society and communities – pages 34 to 36 **Example:** The new Climate Framework published in October 2019, illustrates our commitment to the low-carbon economy and reducing our carbon footprint.
The desirability of the company maintaining a reputation for high standards of business conduct	• Responsible investment and stewardship – pages 38 to 41 • Corporate Governance statement – page 78 **Example:** The Board voluntarily decided to comply, to the extent relevant to mutual companies, with the principles and provisions of the UK Corporate Governance Code.
The need to act fairly as between members of the company	• Our business model – pages 14 and 15 • Engaging with our stakeholders – pages 28 to 37 **Example:** The views of representative groups of customers were taken into consideration by the Board in relation to the Legacy Simplification Programme, which aims to improve service, flexibility and estate distribution for customers.

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.

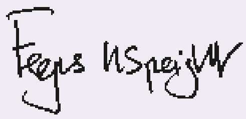
Reporting requirement	Relevant policies and disclosures on website[1]	Annual Report and Accounts page reference
Environmental matters	Our climate change commitments	• Chairman's statement – pages 10 to 11 • Climate change – pages 42 to 45 • Strengthening responsible business – pages 38 to 41
Employees	Inclusion and diversity – Royal London	• Chairman's statement – pages 10 to 11 • Strengthening responsible business – pages 38 to 41 • Engaging with, and delivering value for, our stakeholders – pages 31 to 33 • Corporate governance – pages 83 to 85
Social matters	Our social impact commitments	• Group overview – page 6 • Chairman's statement – pages 10 to 11 • Our business model – pages14 to 15 • Our social impact themes – pages 20 to 27 • Engaging with, and delivering value for, our stakeholders – pages 34 to 35
Human rights	Modern Slavery Act – Royal London	• Engaging with, and delivering value for, our stakeholders – pages 35
Anti-bribery and corruption		• Risk management and internal control – pages 63 to 64
Business model		• Business model – pages 14 to 15
Non-financial KPIs		• KPIs – pages 16 to 17
Principal risks		• Principal risks and uncertainties – pages 65 to 68 • Viability statement – pages 69 to 70 • Report of the Audit Committee – pages 86 to 89

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

Strategic report

The 2019 Strategic report, from pages 5 to 71, was approved by the Board of Directors on 16 March 2020.

By order of the Board



Fergus Speight
Company Secretary
For and on behalf of Royal London Management Services Limited
16 March 2020


DETERMINATION
IT CAN GET YOU ANYWHERE

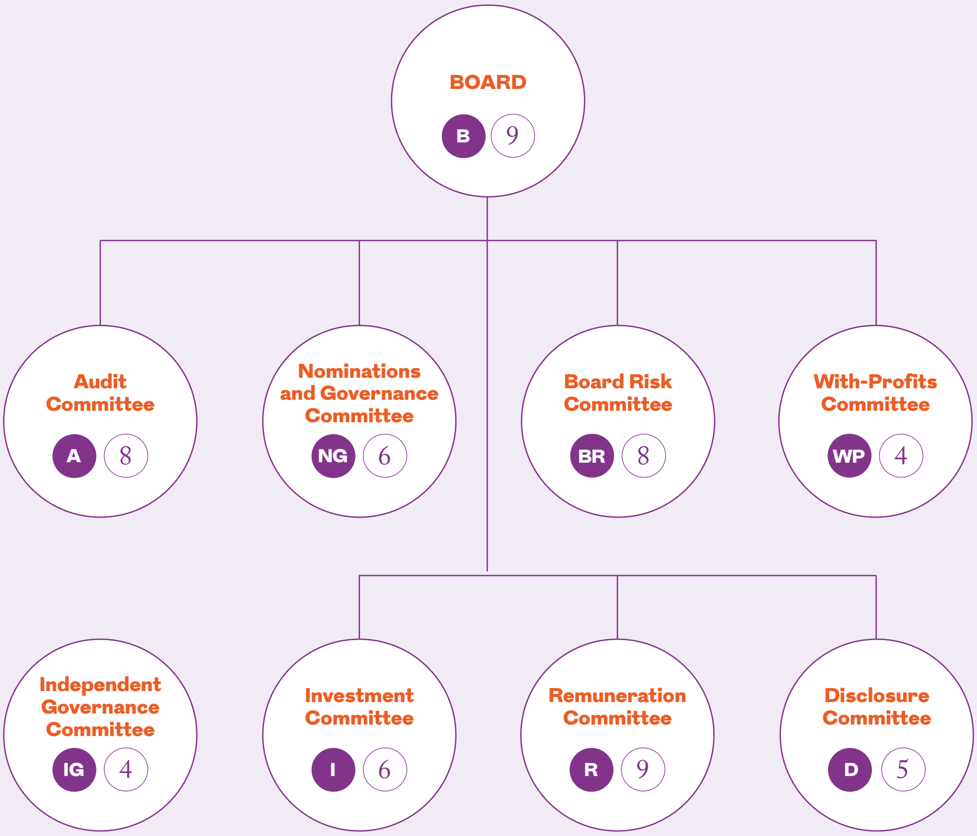
CORPORATE GOVERNANCE

How the business is run, the focus of our Board and Committees, and how we pay our directors

Governance overview

Board and Committee structure and work

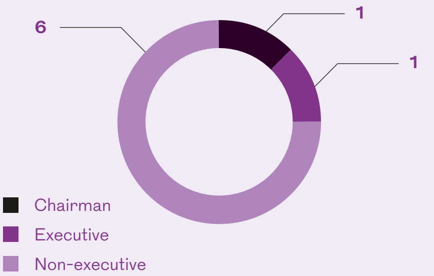
The Board has established a number of committees as set out in the organisational chart below. In addition there is the Board Recovery Plan Committee, which only meets if required to recover capital and liquidity stability in stressed scenarios, in order to protect policyholders.



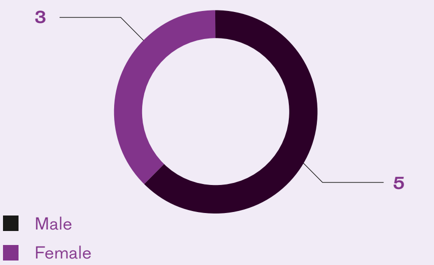
Key: A Committee type — 1 Number of meetings scheduled in 2019

Read more about the work of Royal London Board Committees on pages 86 to 106

Board composition



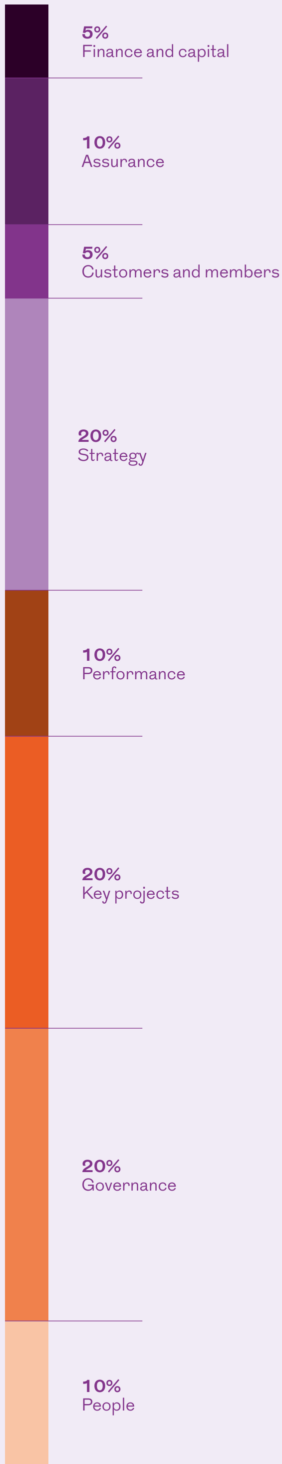
Board gender split



For further details about the Board's role see page 80

Board areas of focus

The chart below illustrates the time allocated to various matters considered by the Board during the year.



Board of directors

CHAIRMAN

Kevin Parry OBE

CHAIRMAN

NG B

Appointed: 19 March 2019

Skills and experience: Kevin has deep financial services experience as an executive and non-executive director, encompassing life insurance, banking and asset management. He is the Senior Independent Director and Audit Committee Chairman of Nationwide Building Society, and Audit and Risk Committee Chairman of Daily Mail & General Trust plc. Former appointments include Chairman of Intermediate Capital Group plc, Chief Financial Officer of Schroders plc and a Managing Partner at KPMG.

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

EXECUTIVE DIRECTOR

Barry O'Dwyer

GROUP CHIEF EXECUTIVE

D B

Appointed: 8 January 2020

Skills and experience: Barry has extensive experience in financial services, having started his career at 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 an executive director of Standard Life plc and Chief Executive Officer of their pensions and savings businesses. 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 advice, 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 also plays a prominent role in the industry, sitting on the board of the Association of British Insurers.

External appointments: Director of the Association of British Insurers.

NON-EXECUTIVE DIRECTORS

Kal Atwal

INDEPENDENT NON-EXECUTIVE DIRECTOR

B NG

Appointed: 17 January 2020

Skills and experience: Kal 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. She then held operational and strategic roles with Southern Derbyshire Chamber and Northcliffe Media Ltd, a regional news and media business. She joined BGL Group when the company took over Bennetts, the motorcycle insurance business, where she achieved the position of managing director. She then became the founding managing director of comparethemarket.com, a division of BGL Group, transforming the business from a loss-making start-up to a highly profitable business, including launching the Meerkat campaign and Toy Rewards. Following her promotion to Group Director of BGL Ltd, Kal was responsible for brand-led businesses, group strategy and corporate communication.

External appointments: Chair of SimplyCook Limited, Board Member and Strategic Advisor of Bob's Business, Non-Executive Director, Admiral Financial Services Limited.

Sally Bridgeland

INDEPENDENT NON-EXECUTIVE DIRECTOR

WP B NG R

Appointed: 14 January 2015

Skills and experience: Sally spent 20 years at Aon Hewitt, followed by seven years as Chief Executive Officer of the BP Pension Fund. She is a Fellow of the Institute of Actuaries, and the Board benefits from her extensive knowledge of asset liability modelling, with investment strategy design and implementation.

External appointments: Independent trustee for Lloyds Banking Group Pensions Trustees Limited, Nuclear Liabilities Fund Limited and The Royal Air Force Central Fund. Sally is a member of the Trust Investment Committee at innovation charity Nesta, and a non-executive director of Impax Asset Management Group plc and Local Pensions Partnership Limited. She is also a member of the Royal Society's Advisory Committee on Mathematics Education and Honorary Group Captain with 601 (County of London) Squadron RAuxAF. »

Key Chair of committee

NON-EXECUTIVE DIRECTORS

Ian Dilks

INDEPENDENT NON-EXECUTIVE DIRECTOR

I B A NG

Appointed: 14 November 2014

Skills and experience: Ian spent his 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. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network. Ian is also a former Expert Adviser to the House of Commons Treasury Committee.

External appointments: Chair of NHS Resolution (formerly NHS Litigation Authority).

Tracey Graham

INDEPENDENT NON-EXECUTIVE DIRECTOR

R B NG BR I

Appointed: 10 March 2013

Skills and experience: Tracey was Chief Executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that, she was President of Sequoia Voting Systems and Customer Services Director at AXA. She also held a number of senior positions at HSBC.

Subsidiary appointment: Investment Funds Direct Limited (Chair).

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 and Member of the Court of Common Council City of London Corporation.

Andrew Palmer

INDEPENDENT NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

A B NG BR R

Appointed: 1 April 2011

Skills and experience: Andrew was Group Finance Director of Legal & General Group plc, where he also held a number of financial and operational roles in the asset management, insurance and international businesses.

Subsidiary appointments: Royal London Asset Management Limited (Chair).

External appointments: Trustee and Honorary Treasurer, Cancer Research UK. Chairman of The Royal School of Needlework.

David Weymouth

INDEPENDENT NON-EXECUTIVE DIRECTOR

BR B NG A

Appointed: 1 July 2012

Skills and experience: David'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 consulted to a number of blue chip and government organisations, and served as a non-executive director on several boards in the UK and overseas.

External appointments: Chairman of Mizuho International Holdings plc, Deputy Chairman of OneSavings Bank plc and non-executive director of FIL Holdings (UK) Limited and FIL Investment Services (UK) Limited.

Key Chair of committee

SENIOR MANAGEMENT

Fergus Speight

GENERAL COUNSEL AND COMPANY SECRETARY

Appointed: 13 April 2011

Skills and experience: A qualified solicitor, Fergus joined the Group in 2011 from Resolution, having previously held senior positions in legal and company secretarial at Nomura and Aviva. Before becoming a solicitor, he was an insurance underwriter with Sun Alliance. His legal career began in 1994 at Standard Life, which was then a mutual. Fergus is a member of the Law Society of Scotland.

David Rush

INTERIM GROUP FINANCE DIRECTOR

Appointed: 30 December 2019

David attends but is not a member of the Board

Skills and experience: David is the Insurance leader at Deloitte's Europe, Middle East and Africa region. He is a senior partner who joined Deloitte in London from the Sydney office in 1990. He has been lead audit partner for many of Deloitte's larger and listed client relationships and has considerable experience in assisting clients on accounting, internal controls, and mergers and acquisitions.

Executive management of the Group is led by Group Chief Executive Barry O'Dwyer, who is supported by the Group Executive Committee (GEC)

GEC member	Role and responsibilities
Andrew Carter **Chief Executive Officer – Asset Management** **Isobel Langton** **Chief Executive Officer – Intermediary** **Jerry Toher** **Chief Executive Officer – Consumer** **Rob Regan** **Chief Executive Officer – IFDL**	• Leads the development of the division's strategy for agreement by the Board and directs the businesses in delivery of the strategy and business plan • Embeds a risk-conscious Group culture within the divisions, which recognises policyholder obligations in terms of service and security • Manages the division's key external stakeholders • Sets standards and policies for customer management and interaction • Provides customer oversight, complaint handling and remediation activity
Nicky Riding **Group People Director**	• Leads the implementation of the Group's employee strategy in order to recruit, retain, motivate and develop high-quality employees • Provides guidance and support on all HR matters to the Group Chief Executive, the Group Board and Remuneration Committee • Delivers HR services to the Group
James McCourt **Chief Risk Officer**	• Leads the Group's risk management function, embracing changes in best practice and regulation, including Solvency II • Oversees and manages the Group's relationship with the FCA and the PRA • Supports the Group Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite
Jon Glen **Group Operations Director**	• Leads development and delivery of the Group's operating platforms in line with regulatory requirements, the risk universe and strategy • Leads the management of the Group's long-term outsourcing arrangements • Ensures that the Group's procurement activities and shared services are efficient and effective
Will Pritchett **Joined 1 January 2020** **Group Chief Information Officer**	• Ensures the delivery of the Group's information technology strategy • Responsible for the set-up and governance of Group-wide change • Responsible for the operational resilience of the Group
David Rush **Interim Group Finance Director**	• Develops and delivers the Group's financial business plan in line with strategy • Develops and delivers the Group's debt capital strategy and other treasury matters • Ensures the Group has effective processes in place to enable all reporting obligations to be met • Ensures the Group's finances and capital are managed and controlled • Supports each of the above Chief Executive Officers in managing the Group's key external stakeholders • Enhances value through clear and rigorous assessment of business opportunities
Fergus Speight **General Counsel and Company Secretary**	• Advises the Board, the Group Chief Executive and the Company on legal matters, including directors' duties and responsibilities. • Provides guidance and support on corporate governance. • Leads the Legal and Company Secretariat functions.
Steve Murray **Corporate Development Director**	• Supports the Group Chief Executive in the formulation of the strategy for the Group • Leads implementation of the Group's strategy regarding any potential opportunities for acquisitions, disposals and organic growth • Identifies and delivers opportunities to enhance value across the Group ■

Corporate Governance statement

The Royal London Board leads the Group by setting high standards of corporate governance to ensure business integrity and performance

Dear member

Our determination to harness our ingenuity and agility to further the Group's interests is built on the core values of Royal London, as set out on page 7. Good governance provides oversight of decision-making and ensures that power is not unduly concentrated in an individual or a small group of people. No one person possesses all the best ideas; collective oversight through effective governance enhances decision-making. The Board and I remain committed to effective governance, sound risk management and a robust control environment, attributes that are the cornerstones of business integrity, performance and member confidence.

I joined Royal London on 1 January 2019 and inherited a strong framework of governance. I judged that major changes to that framework were unnecessary, but rather there was room for evolution to avoid duplication of oversight by the Board and its Committees. During the course of the year, we have streamlined Board and Committee agendas to bring greater strategic and commercial focus to our meetings. We have also worked on the quality of our papers so that they draw out the matters that warrant Board and Committee attention and enhance decision-making. Two major pieces of work were undertaken to assist in the improvements: a full review of terms of reference of all the governance committees and the Board itself – this work was led by the Company Secretary; and secondly, an external evaluation of Board effectiveness led by Niall FitzGerald KBE DSA, the former chairman of Unilever.

This report sets out more detail on the governance of the Group and the scope of the Board's work in 2019. The Board Committee reports that follow set out the work of each committee.

I anticipate building on the strong foundations of governance in the light of future developments in 2020 and beyond.

Kevin Parry

Kevin Parry OBE,
Chairman

Standards

The UK Corporate Governance Code (the Code) was updated in 2018 and applies to accounting periods beginning on or after 1 January 2019. Whilst Royal London 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, to the extent that it is relevant to mutual companies, with the principles and provisions of the Code. We report on our compliance throughout this Annual Report, as cross-referenced in the table on the opposite page.

The Code has put relationships between companies, members and the wider stakeholder community at the heart of business, and the pursuit of excellent interactions with our stakeholders is never far from the Board's thinking. The Customers and Members sections of the Strategic report on page 29 provides further information and details of how we pursue our values and maintain our focus on customers and members. The Annual General Meeting (AGM) remains an important opportunity to engage with members, and details of the 2020 AGM can be found on page 126.

We continue to aim for full compliance with the Code. That compliance, combined with our strategic objectives, equips us well to deliver high-quality products, service and returns for our customers and members.

Leadership

The Board

Stewardship and good governance of the Group continues to be a high priority for the Board. The Board has been given all necessary powers to manage the Group's business by Royal London's members. The Chairman, with the assistance of the Company Secretary, ensures that the Board programme focuses on key matters that are of strategic, operational and regulatory importance. There is a continual focus on assessing and managing risks to ensure the long-term sustainable success of Royal London and to generate value for members whilst contributing to wider society.

The Board's role

The role of the Board is multi-faceted. Its most important duties, which are fulfilled either directly or after taking advice from its Committees and/or executive management, include:

- determining the Group's values, standards and ethics;
- setting and leading the Group's culture;
- setting long-term strategic direction and objectives;
- reviewing the operating and financial performance;
- determining the Group's risk appetite;
- ensuring effectiveness of risk controls;
- ensuring that workforce policies and practices are consistent with the Group's values;
- approving the organisational structure; and
- quantifying the remuneration of employees consistent with the member-approved policy.

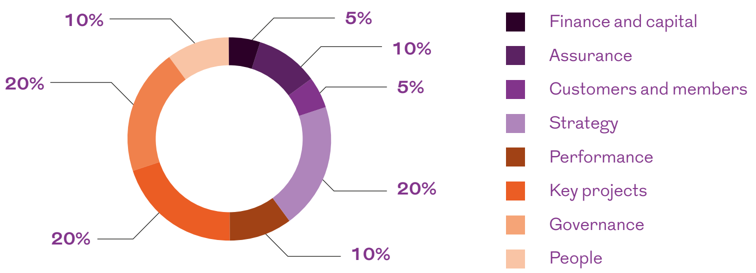
Board activity and areas of focus

The chart on the right provides an illustration of the time allocated to matters considered by the Board during the year.

The Board and its Committees have certain matters reserved for their consideration and delegate other matters to the Group Chief Executive. There is a clear allocation of responsibilities among executive directors and senior managers so that the business of the Group can be effectively managed and reported. We provide a summary of those responsibilities on our website: visit royallondon.com and search 'terms of reference'.

The Board regularly holds 'deep dive' reviews to examine specific business areas and to consider matters of strategic importance.

Time allocated to matters considered by the Board



Compliance with the Code

Code principles	Page number
Leadership	Pages 7, 14 to 15, 69 to 71, 78 to 85
Division of responsibilities	Pages 79, 81 and 83
Composition, succession and evaluation	Pages 81, 90 to 94
Audit, risk and internal control	Pages 62 to 70, 86 to 89
Remuneration	Pages 104 to 125

Statement of compliance with the Code
The Board confirms that Royal London was compliant with the Code throughout the financial year under review, with the exception of Provision 9.

Provision 9: The role of Chair and Group Chief Executive. The Chairman performed the role of the Group Chief Executive on an interim basis from 19 June 2019, following the departure of Phil Loney. Barry O'Dwyer, the incoming Group Chief Executive, joined Royal London in September 2019 and received regulatory approval on 8 January 2020. Further information can be found on page 91 under 'Board appointments: executive directors'.

Our approach to Provision 5: Engagement with the Workforce is developing and will continue to do so through 2020. An alternative method for employee engagement was adopted from 1 January 2019 until January 2020. The Board received regular results of employee pulse surveys and updates on people matters during 2019, and the Board has resolved to adopt a different method for employee engagement from January 2020. Further details can be found under 'Developing our people' on page 31, where details of the alternative arrangements and their effectiveness are given.

Separation of responsibilities

Good governance requires the separation of responsibilities between the Chairman, the Chief Executive, the Senior Independent Director and the non-executive directors. This ensures that governance is diversified between individuals. See table on page 81.

No one individual has unfettered powers of decision-making. All directors have access to the advice and services of the Company Secretary, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the Company Secretary is a matter for the whole Board. »

Main activities of the Board during 2019

Area of responsibility	Activities
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 Medium-Term Plan and Own Risk and Solvency Assessment • Reviewed and approved submission of the Internal Model application to the PRA • 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 the PRA Capital Add-on to the Standard Formula Capital and the assessment of the appropriateness of the Standard Formula • Reviewed and approved the level of bonus each fund should declare • Reviewed and approved PRA correspondence/letters • Reviewed and approved the Annual Solvency II reporting, including the Solvency and Financial Condition Report, Regular Supervisory Report and some of the Quantitative Reporting Templates • Reviewed and approved the change from calculating capital on a Standard Formula basis to an internal model basis • Reviewed and approved the issue of subordinated guaranteed loan notes of £600 million, enhancing the Group's capital position and to realise potential growth opportunities
Assurance	• Received regular updates on the key risks facing the business • Reviewed and approved reports, policies and validations on Solvency II and the Internal Model Application • Received quarterly updates on Conduct Risk matters • Considered reports on cyber crime and IT security, including the results of a cyber attack exercise • Undertook an annual review and approved changes to the Risk Appetite Framework • Reviewed and approved the Group Recovery and Resolution Plans • Reviewed the Whistleblowing Report
Customers and members	• Received regular updates on the management of the with-profits funds • Received updates on the Royal London brand • Received updates on Customer Value Statements
Strategy	• Held a dedicated strategy meeting in October to consider the overall objectives of the Group • 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 individual business areas • Received a report from the Chief Risk Officer at each meeting on the key risks in the business • Set the annual Scorecard and Strategic Scorecard • Received updates on and approved changes to Scorecard and Strategic Scorecard
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 reinvent our customer experience, driving digital transformation and developing new business capabilities
Governance	• Considered the re-election of directors at Royal London's AGM • The non-conflicted directors on the Board reviewed the non-executive directors' fees • Participated in the 2019 external Board effectiveness review • Reviewed and assessed the impact of the Code on Royal London • Considered the impact of the draft revised Stewardship Code • Received updates from its Committees
People	• Received regular updates on the results of the Employee Engagement Survey and monitored the implementation of actions to address areas identified for improvement • Approved the appointment of the Group Chief Executive

Composition, balance and length of tenure

The Board comprises the Chairman, six independent non-executive directors and one executive director as set out in the table, below right. Membership of the Board's Committees is set out in the Board Committee reports on pages 86 to 106. We are currently searching for a new Group Finance Director and it is anticipated that the successful candidate will be appointed to the Board in 2020.

The names, biographies and appointment dates of the current directors are on pages 75 to 76, together with summaries of their experience and a note of their other significant commitments. All directors who intend to serve in the year ahead will stand for annual re-election at the AGM.

The Chairman counsels each director bi-annually, addressing their performance, their time commitment, observations on the Board and its Committees and any development needs. He and the Board are satisfied that directors are performing to the required standard and devote sufficient time to their individual roles in order to discharge their duties effectively.

Succession and diversity

The Board's policy is to appoint and retain non-executive directors, who can apply their broad knowledge and experience to benefit the Group while providing independent oversight and constructive challenge to the executive directors. The Nominations and Governance Committee is responsible for succession planning of directors and other senior executives to ensure an appropriate balance of skills and experience is maintained, and that there is periodic refreshing of membership of the Board. As part of the process for the appointment of new directors, the Nominations and Governance Committee considers the diversity of the Board. We aim for the Board to have an appropriate mix of skills, experience, independence and knowledge to fulfil our duties and responsibilities effectively. The table overleaf shows the names of all directors during the year, including changes during the period as well as subsequent to the year-end.

The Board remains focused on enabling an inclusive and diverse culture in the boardroom. It is committed to ensuring a diverse pool of candidates is considered for any vacancies that arise, and that they are filled by the most qualified candidates based on merit. Diversity embraces experience, gender, sexual »

Separation of responsibilities

Position	Responsibilities
The Chairman	• Leads the Board and ensures that its principles and processes are maintained • Promotes high standards of corporate governance • Sets agendas with the directors and the Company Secretary • Ensures the directors receive accurate, timely and clear information • Encourages open debate and constructive discussion and decision-making • Participates in Board Committee meetings
The Group Chief Executive	• Leads the executive team in the day-to-day running of Royal London • Develops appropriate frameworks to support the Group's objectives • Makes operational decisions • Oversees internal and external communication
Non-executive directors	• Constructively challenge and contribute to strategy development • Contribute to the determination of risk appetite and identification of risks • Scrutinise and challenge management performance • Provide a broader perspective to key business matters • Review, prior to publication, the Annual Report and Accounts, results announcements and member communications
The Senior Independent Director	• Acts as sounding board for the Chairman • Acts as a bridge for communications between directors and the Chairman • Leads Chairman evaluation exercise • Is an alternative point of contact for members • Leads the Chairman's succession process

Board composition*

	Total	Male	Female	BAME
Chairman	1	1	-	-
Executive	1	1	-	-
Non-executive	6	3	3	1
%	100%	62.5%	37.5%	12.5%

*As at date of this report.

Length of tenure in years

	0-3	3-5	>5
Chairman	1	-	-
Executive	1	-	-
Non-executive	1	-	5

Board composition 1 January 2019 – 16 March 2020

	Appointed	Resigned
Kevin Parry	19 March 2019	
Barry O'Dwyer	8 January 2020	
Kal Atwal	17 January 2020	
Sally Bridgeland	14 January 2015	
Ian Dilks	14 November 2014	
Tracey Graham	10 March 2013	
Andrew Palmer	01 April 2011	
David Weymouth	01 July 2012	
Tim Harris		25 June 2019
Phil Loney		19 June 2019
Jon Macdonald		24 April 2019

orientation, nationality, ethnic origin, disability and cognitive attributes. We currently meet the Parker Review target for ethnic diversity and the Hampton-Alexander Review target for gender diversity on FTSE 100 boards. You can read more on how we strive to enable an inclusive and diverse culture in our Board Diversity Policy on Royal London's website: royallondon.com/careers/inclusion-and-diversity

Board and Committee evaluation

The Board conducts an annual evaluation of its effectiveness. It commissions an external evaluation every three years in accordance with the requirement under the Code, and in 2019, this was conducted by Niall FitzGerald KBE DSA. This provides an independent assessment of Board effectiveness and governance, including the effectiveness of its Audit, Board Risk, Remuneration, Investment, With-Profits, and Nominations and Governance Committees. The review involved interviews with all Board members and senior managers, and observations made at Board and each of its Committee meetings, including the assessment of associated materials.

The Board has embraced the major recommendations as well as a number of more detailed and longer-term recommendations; a full action plan was adopted at the January 2020 Board meeting. The key focus areas were to improve the governance of major projects, to continue to develop its oversight of cyber risks, to contribute more fully to the strategy, the needs of customers to be more prominent in Board discussions, and to strengthen employee voice in the boardroom.

The Committees' terms of reference are currently being reviewed to enhance clarity of delegated responsibilities and to avoid duplication between Committees. Where appropriate, Committee membership has been enhanced with the increased participation of non-executive directors. An assessment of the outcomes of the changes will take place at the outset of 2021.

The independent review concluded that the Board was effective and is equal in quality to a FTSE 100 board. The Board is committed to continually monitoring and improving its performance, and will report on this area again in next year's report.

Induction and development

The Chairman, assisted by the Company Secretary, is responsible for ensuring that a full and tailored induction is provided to all new directors, specific to their needs. The inductions are designed to enhance directors' knowledge and understanding of the Group's businesses, operations and regulatory environment. The core topics covered by the induction programme for a non-executive director include:

- an introduction to the Group, its business areas and functions;
- market information and details of the Group's products;
- business strategy and model, how Royal London operates with independent financial advisers and customers;
- risk management and internal controls, and financial management and reporting;
- governance oversight and controls;
- remuneration policy;
- regulatory framework and requirements; and
- mutuality (including ProfitShare).

The Chairman has the responsibility to review and agree with directors their training and development needs, and the Company Secretary has primary responsibility for co-ordinating the ongoing training and development of all directors in order to refresh their skills and knowledge. The continuing development of directors entails regular updates on the Group's businesses and industry-related matters, as well as any changes in the regulatory environment. During the year, the directors received regular briefings to develop their knowledge and understanding of key business issues. The main topics were:

- Solvency II Internal Model;
- culture;
- customer voice;
- digital;
- distribution dynamics of the UK protection and long-term savings market;
- mutuality; and
- leadership capability and talent strategy.

Attendance of Board and Board Committee meetings

The table opposite shows the total number of scheduled meetings held for the Board and its Committees, and the number of meetings each director attended.

A number of ad hoc meetings were held to deal with matters arising between scheduled meetings, typically relating to projects, Solvency II or other regulatory matters.

Conflicts of interest

All directors declare any conflicts of interest prior to their appointment to allow the

Board to determine if those conflicts might be detrimental to their contribution to Royal London. At Board and Committee meetings, directors are asked to declare any changed circumstances for a similar assessment. If there are minor or remote conflicts of interest, the Chair of the relevant meeting will either decide that relevant directors may participate in the affected discussion or ask the relevant directors to recuse themselves from the discussion.

Board Committees

The Board has established a number of committees as set out in the organisational chart on page 74. Committee reports describing their responsibilities and work during the year follow this report. The responsibility of those committees for which we have not included full reports are, in the case of the Disclosure Committee, to review the integrity of the Group's quarterly Solvency II regulatory reporting. Its membership is comprised of the Group Chief Executive, Group Finance Director and Chief Risk Officer. The Chairman is a member of this Committee when it is considering financial reporting. The Committee meets as needed, and during 2019 it met five times. There is also a Board Recovery Plan Committee, which will only meet if required to recover capital and liquidity stability in stressed scenarios in order to protect policyholders. Membership includes the Chairman, Group Chief Executive, Group Finance Director and the Chairs of the Audit and Risk Committees. The Committee did not meet during the year.

The terms of reference of the Board and its key Committees are available at: royallondon.com/about-us/corporate-information/corporate-governance

Anti-bribery and corruption

Royal London is committed to ensuring it acts responsibly and ethically, both when pursuing business opportunities and when awarding business. A framework is in place to embed appropriate policies, mandatory procedures and controls to ensure our employees, and any other party we do business with, understand these obligations and abide by them. The requirements of our policy apply to all employees and non-employees, in every part of the business. All staff complete anti-bribery and corruption training annually.

Whistleblowing

The Chair of the Board Risk Committee acts as our Whistleblowing Champion. He is responsible for ensuring and overseeing the integrity, independence and effectiveness of the firm's whistleblowing arrangements. Our whistleblowing policy promotes a culture where individuals feel comfortable raising concerns and challenging poor practice and behaviour. We regularly review the adequacy and effectiveness of our whistleblowing processes and controls, and all staff complete whistleblowing training annually.

Human rights

At Royal London, we are committed to ensuring our business is conducted ethically, and we have zero tolerance of slavery and human trafficking. We abide by our modern slavery act statement (see our Modern Slavery Statement on our website) and have robust controls and processes to protect those who are vulnerable to exploitation. We also assess the processes our suppliers »

Attendance

	Meetings scheduled	Kevin Parry[5]	Sally Bridgeland	Ian Dilks	Tracey Graham	Andrew Palmer	David Weymouth	Barry O'Dwyer[1,5]	Tim Harris[2]	Jon Macdonald[3]	Phil Loney[4]
Board	**9**	9/9	9/9	9/9	9/9	9/9	9/9	3/3*	4/4	2/2	4/4
Audit Committee	**8**	-	-	8/8	-	8/8	8/8	-	-	-	-
Investment Committee	**6**	-	-	6/6	-	-	-	-	3/3	1/1	-
Remuneration Committee	**9**	-	9/9	-	9/9	9/9	-	-	-	-	-
Board Risk Committee	**8**	-	-	-	8/8	8/8	8/8	-	-	-	-
Nominations and Governance Committee	**6**	6/6	6/6	6/6	6/6	6/6	5/6	-	-	-	-
With-Profits Committee	**4**	-	4/4	-	-	-	-	-	2/2	-	-
Independent Governance Committee	**4**	-	-	-	-	-	-	-	-	1/1	-
Disclosure Committee	**5**	2/2	-	-	-	-	-	-	3/3	2/2	3/3

1. Barry O'Dwyer was appointed 8 January 2020
2. Tim Harris left on 25 June 2019
3. Jon Macdonald left on 24 April 2019
4. Phil Loney left on 19 June 2019
5. Kevin Parry and Barry O'Dwyer attended meetings prior to their formal appointments.

* In the capacity of an attendee

have in place, and have completed training and awareness sessions across the Group.

Responsible investment

Royal London is committed to responsible investment and supporting better understanding and management of climate change risks. In 2019 the Board approved proposals to develop enhanced capabilities in both responsible investment and climate change risk management across Royal London. This was reflected in the publication of our Responsible Investment Policy and our Climate Change Framework.

As an asset owner, the Investment Office under the oversight of the Investment Committee is developing a comprehensive framework for Responsible Investment. The Interim Group Finance Director has responsibility for our response to climate change risk. We are working towards fully embedding climate change risk within our Group-wide risk framework, and we report against this through the Board Risk Committee. We have committed to increasing the breadth of external reporting related to both Responsible Investment and Climate Change. This will be reviewed by the Disclosure Committee.

As an asset manager, RLAM has a well-resourced Responsible Investment team that engages with companies in respect of environmental, social and governance matters. The team reports to the Chief Investment Officer, with direction and oversight provided by the RLAM Board.

During the year, we commented on the 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. We were one of only a very small number of life and pensions companies to contribute to the consultation, notwithstanding its importance to our industry. We are currently working through the requirements of the finalised Stewardship Code and anticipate adopting its principles in 2020. More information is provided in our responsible investment work on page 38 to 41.

Engagement with stakeholders

We define stakeholders as people or organisations that have an interest or concern in Royal London. It is impractical to report on all our interactions with every type of stakeholder, but this section sets out a summary of our interaction with the main groups of stakeholders. Further detail on our interactions with key stakeholder groups is set out on page 28 to 37.

Customers and members

We want our customers and members to view us as a company they can really trust and would be happy to recommend. To achieve this we have developed a set of Customer Value Statements that represent the outcomes we believe matter most to our customers and members. Aiming to meet their expectations in each of these areas helps us to deliver an excellent customer experience.

Our 'Communicate' value is about clear and transparent written and digital material that makes us easy to deal with. This is backed up by UK and Ireland-based service centres where we operate to a 'Be Personal' value and have friendly and knowledgeable staff ready to provide support. Their focus is on 'Resolution', which means getting it right first time and being there for customers and members at the times they really need us. During 2019 we have strengthened the level of support we are able to provide to customers with potential vulnerabilities, and this will continue to be a focus for us going forward.

Whilst we try to deliver a consistently high level of service, we also make it straightforward for customers to tell us if they are at all dissatisfied or wish to complain about any part of their experience with us. We have a dedicated Customer Relations team, which will thoroughly investigate and aim to resolve their issues as quickly as possible. If they are still unsatisfied, our customers have the option to refer the matter to the Financial Ombudsman Service (FOS), although we find that this is rarely required (less than 2% of complaints were referred to FOS in 2019).

Our people

The Board values opportunities to engage directly with employees to understand their views, and is always considering how it can better engage with employees.

The primary responsibility for engagement with our colleagues rests with our Group Executive Committee (GEC), enabled and supported by those who work in our People Function. The responsibility for day-to-day engagement sits with our People Leaders, who meet all colleagues regularly, typically every six weeks, to have an ongoing discussion about their performance and personal growth. These discussions are formalised through mid-year and end-of-year Performance Review meetings.

Royal London uses half-yearly pulse surveys to gain insight into how our employees are feeling and to measure their engagement. These results are presented to the Board for consideration. Following each survey, any actions arising are agreed with local leaders. Our Group Chief Executive and Group People Director also provide regular updates to the Board on people matters.

We listened to our employees' feedback, which was used in shaping the 2019 People Commitments. We believe that by delivering these People Commitments, Royal London will become an even greater place to work. The People Commitments are supported with the launch of our employee engagement networks, the Women's Network, the BAME (Black, Asian and Minority Ethnic) Network and most recently PRIDE, our LGBT+ network. We also plan to launch a Disability Network in 2020. Our networks have proved to be beneficial in providing input, support and guidance to enhance our diverse and inclusive culture, and in creating opportunities for our people to be more positively and beneficially involved with the Group.

Our annual Roadshows took place in the first quarter of 2019 in all of our locations. Roadshows provide a great opportunity for all of our people to hear about our strategy. Colleagues are also kept up to date through regular team meetings, and senior management hold quarterly business updates in each office, to share developments on our strategy, business performance and people commitments. We use our intranet to share news of business updates and successes and organisational changes, and to promote employee benefits. Our Group Chief Executive writes a weekly blog, which is emailed to all our people and provides his viewpoint on both business matters and his personal interests. A new Group communications strategy for 2020 will help us continue to create an engaging and supportive environment in line with our People Promise.

In addition to our regular employee opinion surveys and pulse checks, our people are encouraged to share their views on Royal London's social impact strategy, helping to shape our proposals. We use our intranet to share news of business updates and successes, organisational changes and to promote employee benefits.

In January 2020 the Board agreed to introduce quarterly engagement sessions, led by the Group Chief Executive, which would also be attended by two non-executive members of the Board. They will be structured to encourage two-way communication so the Board gains further insight into the views of employees and what is important to them. This will enable the Board to consider views from the workforce in its discussion and decision-making.

Additionally, an inaugural Employee Annual General Meeting is scheduled for 3 June 2020. The full Board will attend and engage with employees to hear and address their views and questions. Although the Board did not adopt one of the engagement methods suggested by the UK Corporate Governance Code, we believe that this direct engagement is the right approach for Royal London and provides further opportunities for strengthening employee voice.

Independent financial advisers

A high proportion of new business is intermediated through financial adviser firms, entirely independent of Royal London. Good customer outcomes are a function of the combined quality of advice from the adviser and performance of the Royal London product. It is paramount that Royal London works closely with advisers to ensure our products are designed with sufficient flexibility to meet the differing needs and preferences of customers, but without unnecessary complexity or cost. A key element of this dynamic is the range of tools and support services we provide to advisers and their clients. We have a continuous improvement mindset, actively encouraging adviser feedback at all stages of our product development and review process.

We continue to believe that impartial advice is an essential ingredient of a vibrant and competitive market for the benefit of customers. We actively engage the FCA on this issue – for example, raising our concerns about the availability and cost of professional indemnity insurance and the importance of industry developments such as Pensions Dashboard. Similarly, we seek to support a stronger role for industry professional bodies and associated standards, such as the Pensions Advice Gold Standard.

Pensioners and deferred pensioners

The success of Royal London is through its current and former employees. Throughout their careers, Royal London and its employees contribute to pension schemes. The current Group comprises many predecessor entities and so different staff have policies within different Group schemes. The current arrangements are summarised in the Remuneration Committee report on page 110. The Board is committed to managing all its pension schemes to the highest standards. Trustee boards oversee those arrangements.

All of the defined benefit (final salary) schemes are well-funded, as shown in note 19 to the financial statements. The current defined contribution schemes are judged to be adequate to provide a good pension in retirement for the service provided to Royal London. We currently provide pensions to approximately 10,900 pensioners who are former employees and currently anticipate, in the future, providing pensions to approximately 9,800 people who have spent part of their working lives at Royal London (they are known as deferred pensioners).

Suppliers and outsourcers

The Group has approximately 1,100 supplier and outsourcing relationships, which are categorised according to the type, criticality and importance of the service or product they provide. There are a number of key controls designed to ensure that an appropriate level of oversight and governance is in place. These controls have been designed to satisfy both FCA and Solvency II requirements.

There are four tiers, of which Tier 1 is the level with the closest supervision. All products and services categorised as Tier 1 or Tier 2 are subject to enhanced levels of approval, governance and controls. Our procurement and supplier management team work hard to ensure that our third-party partners comply with their contractual responsibilities and live up to our ethical standards. We have prompt payment accreditation.

Rating agencies and bondholders

Our capital is provided by retained profit not distributed to customers and bondholders. Our current credit rating is A (Standard & Poor's) and A2 (Moody's) with a Stable outlook. We manage our affairs to maintain our investment grade status and to be able to service our contractual commitments to bondholders.

Regulators

We view our regulators as key stakeholders. Our business has three primary regulators: the Prudential Regulation Authority, the Financial Conduct Authority and the Central Bank of Ireland. We are committed to complying with their prudential and customer conduct rules and have a well-resourced compliance function to oversee and challenge our progress.

The Board supports an open and transparent relationship with all its regulators. The Chairman, Committee Chairs and senior executives attend meetings with the regulators as well as briefing sessions arranged directly and through industry bodies, including responding to policy consultations.

Tax authorities

We take our responsibilities as a tax payer seriously and manage our tax affairs in accordance with our tax strategy. We strive to pay the right amount of tax, in the right place, at the right time – and a fair amount of tax, striking a balance between all our stakeholders and ensuring that our customers are being treated fairly. We are open and transparent in our approach to taxation and behave responsibly and proactively in our dealings with relevant tax authorities. Our tax strategy is set out on our website: visit royallondon.com and search 'tax strategy'.

In 2019 the total tax contribution of the Group was £690m (2018: £546m). This is covered in more detail on page 61 in our Financial Review.

Public interest bodies

Our products and services impact the lives of some nine million people in the UK and Ireland. Our business provides security for our customers in respect of their pensions, savings, life and critical illness insurance, and funeral arrangements. All these areas of our business are subject to potential public policy interventions, and so we maintain close links with the Government, politicians and civil servants in order to lobby effectively for improvements or new initiatives that would benefit the public.

We also maintain good relationships with journalists who communicate and comment on our industry generally and Royal London specifically. Our experts are regularly quoted in mainstream print and digital media and appear on TV and radio broadcasts. ■

Board Committee reports

REPORT OF THE AUDIT COMMITTEE

Dear member

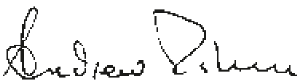
As Chair of the Audit Committee (the Committee), I am pleased to present its report for the year ended 31 December 2019.

The Committee oversees and challenges the integrity of the Group's financial reports and the robustness of our financial internal controls. We also have oversight of the external and internal auditors, and monitor their objectivity and operation.

The significant issues considered by the Committee in relation to the 2019 Annual Report and Accounts are set out later in this report, together with the key activities during the year. This includes more details of our planned transition to reporting under UK GAAP in 2020.

We continue to monitor the ongoing review of the audit industry by the Competition and Markets Authority (CMA), which is considering the merits of separating external audit and non-audit services, mandatory joint audits and methods of holding audit committees to account. We are also aware of the most recent Department for Business, Energy & Industrial Strategy report into the future of audit. This report complements reviews by Sir John Kingman and Sir Donald Brydon on the quality and effectiveness of audit. We will continue to stay close to these developments going forward.

This has been my final year as Chair of your Audit Committee, as I will be stepping down and retiring as a director of Royal London on 3 April 2020. It has been an honour to serve as Audit Committee Chair and director of such a dynamic, innovative and exciting company and I wish the Group and its members all the very best in the years ahead. At the date of this report I am informed that the search for my successor is progressing well.



Andrew Palmer,
Chair of the Audit Committee

Committee membership

The membership of the Committee, as set out in the table opposite, is comprised solely of independent non-executive directors. The Chairman, Kevin Parry, attends meetings of the Committee, but is not a member of the Committee. The qualifications and experience of each member of the Committee are included in their biographies on pages 75 and 76.

The Board was satisfied that the Committee possesses relevant insurance industry and asset management capabilities and expertise, and it was further satisfied that Andrew Palmer and Ian Dilks possess relevant financial experience and the requisite competence in accounting. The Committee members have received training during the year, in line with that provided to the Board, as set out on pages 82 and 83, in order to keep their skills current and relevant.

The Committee held eight scheduled meetings during 2019, and additionally held a joint meeting with the Board Risk Committee to review and approve the 2020 combined assurance plan of the Group Internal Audit and Group 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.

Attendance at the meetings of the Committee during 2019 is outlined in the Corporate Governance statement on page 83.

The directors and some members of senior management, including the Group Audit Director, and the external auditors PricewaterhouseCoopers LLP (PwC), are invited to attend meetings of the Committee, although only members of the Committee have the right to attend.

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.

Purpose, role and key responsibilities

The purpose and role of the Committee is to assist the Board to discharge its duties in relation to financial reporting, internal controls and risk management and internal and external audits. 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 and its reports on an ongoing basis;
- overseeing the relationship with PwC, including assessing its independence and effectiveness, monitoring and approving non-audit services in accordance with the Group's policy, agreeing the external audit fee, conducting any external audit tenders and recommending the appointment of external auditors to the Board; and
- appointment and removal of the Group Audit Director.

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

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.

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.

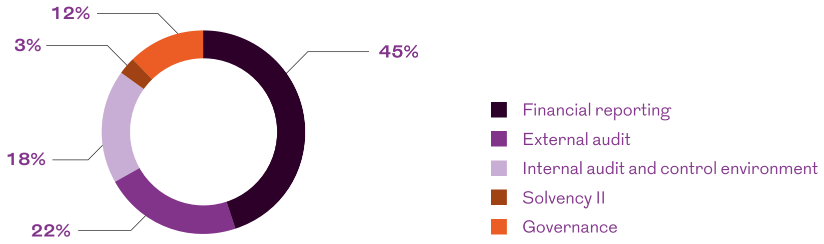
Committee membership

Member	Position	Year of appointment	Meetings attended/ meetings scheduled
Andrew Palmer[1]	Chair	2011	8/8
David Weymouth	Member	2012	8/8
Ian Dilks	Member	2014	8/8

1. Andrew Palmer will retire on 3 April 2020.

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2019.



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, 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 table overleaf highlights significant matters considered by the Committee during 2019 and the actions taken.

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. In addition, the Committee approved fees for non-audit services in accordance with the Group's policy.

Auditor independence and non-audit services policy

The Group has a policy that aims to safeguard and support the independence and objectivity of the external auditors. The policy takes into account the auditor independence requirements set out in the EU Audit Directive and the Financial Reporting Council's (FRC) 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 using the non-audit services of PwC. The policy distinguishes between: (i) those services where it is considered appropriate to use PwC (such as statutory and non-statutory audit and assurance work); and (ii) prohibited services where the independence of PwC could be threatened, and PwC must not be used. In any event, PwC is not engaged to carry out any non-audit work in respect of which it might, in the future, be required to express an audit opinion.

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. »

Significant matters considered by the Committee during 2019

Significant matter	How the matter was addressed by the Committee
Financial reporting	The Committee considered the options proposed by management to replace European Embedded Value (EEV) reporting and recommended to the Board the adoption of UK GAAP. EEV is no longer a commonly used financial performance metric in the life insurance market. The Board has decided to move to UK GAAP and considers this to be a more suitable financial reporting basis for a UK mutual than IFRS. It will increase the level of transparency of financial performance, it is widely recognised and understood by readers of accounts, and it improves the efficiency of the Group through a reduction in the number of reporting bases. As set out on page 54, the Group plans to change to UK GAAP with effect from the financial year commencing 1 January 2020.
Review of the Group's Annual Report and Accounts and interim and full year results announcements	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, the use of alternative performance measures. It assessed whether the Annual Report and Accounts as a whole was fair, balanced and understandable. The Committee also reviewed and challenged the Group's Interim Results Announcement covering the six months ended 30 June 2019. The Committee recommended to the Board for approval the 2019 interim and full year results.
Going concern assumption and the longer-term viability statement	The Committee reviewed and challenged management's assessment of going concern and longer-term viability statement. It assessed the Group's medium-term plan, including the use of stress and scenario testing and the potential impacts of the specific risks arising from political volatility. The Committee also considered the Group's wider risk profile, liquidity, and profit and capital projections. Based on its review, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the longer-term viability statement. For further information see pages 69 and 70.
Accounting and actuarial judgements	The Committee considered and challenged significant accounting and actuarial judgements and estimates that the Committee members believe could be material to the Group's financial statements and Annual Solvency II reporting. Judgements considered relating to 2019 reporting included: • reserving for insurance contracts; • pension scheme liability valuations in accordance with IAS 19; • impairment of goodwill and intangible assets; • accounting provisions; • valuation of complex investments; and • capitalisation of intangible assets relating to IT programmes. Solvency II judgements focused on the valuation of own funds, Transitional Measure on Technical Provisions and the requirement for Group reporting methodology.
Long-term business liability valuations – methodology and assumption recommendations	The Committee considered the actuarial assumptions for the year ended 31 December 2019 for Annual Solvency II reporting, including mortality, persistency and expense assumptions. The Committee also reviewed and challenged the Group's long-term business liability valuations as at 31 December 2019 and accepted the Valuation Report of the Actuarial Function Holder, for the year ended 31 December 2019, including the impact of changes to reserving assumptions and methodology. The main assumption changes for 2019 were longevity, persistency assumptions on pension business, take-up rates on guaranteed annuity options (GAO) and unit cost assumptions. The Committee noted the increase in granularity of the analysis supporting persistency and GAO take-up assumptions, and the improved longevity experience in 2019. The proposed assumption changes were challenged and debated by the Committee, which concluded that, based on the evidence provided, it was appropriate to use the assumptions in the 2019 long-term business liability valuations.
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 2018, and recommended them to the Board for approval.

Significant matter	How the matter was addressed by the Committee
Internal control and external audit	The Committee considered regular reports from PwC and the Financial Reporting Data and Controls Framework (FRDCF) Team on the effectiveness of the Group's control environment. The Committee also considered updates on how 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 included the report of the outsourced service provider Capita. 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 2019. 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	During 2019, the Committee reviewed and approved updates to the Group Investment Asset and Liability Policy and the Group Reporting and Disclosure Policy, and updated its terms of reference, which were subsequently submitted to and approved by the Board. The Committee also reviewed reports on accounting and regulatory developments, corporate governance updates focused on financial reporting and the impact of the revised UK Corporate Governance Code (Code).

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 and services

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. The 70% cap will first apply to the Group for the year ending 31 December 2020.

In 2019, the Group paid PwC £4.8m for audit, audit-related and other assurance services (2018: £5m), including £0.3m (2018: £0.5m) of Solvency II audit fees. In addition, PwC was paid £0.5m (2018: £0.7m) for other non-audit services, resulting in total fees to PwC of £5.3m (2018: £5.7m). The ratio of non-audit fees to audit and audit-related assurance fees is 15.9% (2018: 16%). Further details are provided in note 8 of the financial statements.

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 and members of the Group's finance community. The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by Group Internal Audit. The results of the questionnaire were considered by the Committee, which concluded that PwC continued to perform a high-quality audit, and provided an effective and independent challenge to management.

External audit tender

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 third 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. Subject to the continued effective performance of PwC, the Committee will review the position again in 2020.

The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European and UK legislation on mandatory audit rotation and audit tendering. In conformance with these requirements, Royal London will be required to change audit firm no later than the 2023 financial year end, and plan to run a competitive audit tender and appoint a new audit firm in advance of this requirement. Thereafter the external audit contract will be put out to tender at least every 10 years.

Financial reporting

The Committee reviewed the content of the 2019 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. In 2019, the Board commissioned an external evaluation to review its effectiveness. The conclusion of the 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 78.

Looking ahead to 2020

The Committee will continue to meet regularly to oversee and, as appropriate, challenge the integrity of the Group's financial reports, including the transition from IFRS to UK GAAP. »

REPORT OF THE NOMINATIONS AND GOVERNANCE COMMITTEE

Dear member

I am pleased to report on the work of the Nominations and Governance Committee (the Committee). I joined Royal London on 1 January 2019, and following regulatory approval was formally appointed as your Chairman on 19 March 2019. The process for my appointment was outlined in last year's Annual Report and Accounts by the Senior Independent Director, Andrew Palmer.

The Committee has had a busy year – and 2020 is looking to be just as busy. As a nominations and governance committee, we lead the Board appointment process and nominate potential candidates for appointment to the Board. We also oversee any recruitment process and succession planning for senior executive roles. One of the most important appointments for any company is the Group Chief Executive. Following a thorough selection process, Barry O'Dwyer was identified as the most suitable candidate to take on that position.

We are currently in the course of increasing the number of non-executive directors. The Board appointed Kal Atwal, a well-known digital and brand expert, as a non-executive director in January 2020. Additionally, we are currently recruiting the Group Finance Director and are at an advanced stage of appointing an Audit Committee Chair.

The Board ensures that Royal London applies the best corporate governance standards and practices and as a major asset owner and manager, we expect companies in which we invest to adopt the same high standards. The Corporate Governance statement of this Annual Report and Accounts commencing on page 78 outlines how we apply standards of good practice as set out by the UK Corporate Governance Code (Code).

During the year, the Committee reviewed the terms of reference of the Board, its Committees and the duties delegated to directors. I also initiated an external Board review to bring objectivity to the review process. The review was conducted by Niall FitzGerald KBE DSA, the former chairman of Unilever, and the terms of reference include recommendations that arose from his review.

The determination to deliver commercial success through an effective, transparent and supportive system of management goes to the heart of our mutual status. I hope your confidence in our Board and Executive is strengthened by the work of the Nominations and Governance Committee, as reported here.

Kevin Parry OBE,
Chairman of Nominations and Governance Committee

Committee membership

Membership of the Committee is comprised solely of independent non-executive directors – see the table opposite.

Purpose, role and key responsibilities

The purpose and role of the Committee 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, consistent with our values and responsibilities.

Specific responsibilities of the Committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and its Committees and making recommendations for changes;
- nominating for Board approval candidates to fill vacancies on the Board, Committees and Group subsidiaries;
- succession planning, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future;
- keeping under review the leadership needs of the organisation, both executive and non-executive, so as to ensure the continued ability of the organisation to compete effectively in the marketplace;
- ensuring all directors commit sufficient time to the Group; and
- maintaining terms of reference for the Board and its committees.

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/

Areas of focus and significant matters considered by the Committee

Structure of the Board

The Committee has considered the size of the Board and determined that we would best be served with two executive directors – the Group Chief Executive

Committee membership

Member	Position	Year of appointment	Meetings attended/ meetings scheduled
Kevin Parry	Chairman	2019	6/6
Sally Bridgeland	Member	2015	6/6
Ian Dilks	Member	2014	6/6
Tracey Graham	Member	2012	6/6
Andrew Palmer[1]	Member	2011	6/6
David Weymouth	Member	2012	5/6

1. Andrew Palmer will retire on 3 April 2020, having completed nine years of service.

"The role of the Committee is to ensure the Board and senior executives are suitably qualified and experienced to deliver commercial success"

and Group Finance Director – and up to eight non-executive directors in addition to the Chairman. The complexity of an insurance company and our business, within the regulatory framework that we operate, requires extensive governance and careful management of conflicts of interest. To spread the workload of directors, to ensure diversity of thought, experience, gender and ethnicity and managed succession of Committee chairs, the number of non-executive directors needs to increase from the current complement of six (and from five throughout 2019).

The Board is well resourced with insurance expertise but has less managerial experience of asset management. We are therefore recruiting an additional non-executive director with deep asset management experience.

Board appointments: executive directors

Group Chief Executive The Chairman was appointed in the knowledge that the incumbent Group Chief Executive intended to step down mid-year. The Committee's top priority in 2019 was therefore the recruitment of a Group Chief Executive who would continue the success of Royal London.

The succession planning process identified an internal candidate who had been prepared for the role through a comprehensive development programme over a two-year period. Nevertheless, the Committee recognised that best practice, particularly for such an important position, is to carry out a full search of the available talent. Korn Ferry was appointed as an external search consultant; and, in considering the appointment, the Committee weighed up continuity of management, recruitment costs, exit costs and skill sets. Given the diversity of our members, customers and communities in which we serve, it was important to us to consider candidates from diverse backgrounds, including ethnicity, age, disability and gender. The internal candidate for the position was Tim Harris, the Deputy Chief Executive and Group Finance Director. The diversity of candidates is set out in the table on page 92.

The Committee agreed that Barry O'Dwyer, an Irishman, was the preferred candidate and made a recommendation to the Board for his appointment. His background is set out on page 75. His recruitment buy-out costs and remuneration package were negotiated by the Remuneration Committee Chair and approved by that committee, as set out on page 118. He joined the Company on 23 September 2019, receiving regulatory approval on 8 January 2020 and being formally appointed as a director of Royal London and as the Group Chief Executive on the same day. In the period between Phil Loney retiring and Barry O'Dwyer being appointed, the PRA and the FCA authorised Kevin Parry to fulfil the duties of the Group Chief Executive.

The Committee was aware that the previous Chairman had agreed that if the internal candidate, Tim Harris, were to be unsuccessful, he could leave the Company without working his notice period. Tim Harris took up that option and his exit costs were negotiated by the Chair of the Remuneration Committee and subsequently approved by that committee. The exit costs are set out on page 119.

Deputy Group Chief Executive and Group Finance Director The Committee determined that following the departure of Tim Harris, the Deputy Group Chief Executive role would not be filled as there was no current need for it.

The Committee did not want to start the search for the Group Finance Director until such time as the Group Chief Executive had considered skills, experience, technical knowledge and leadership characteristics required for the position. In the absence of a Group Finance Director, David Rush joined Royal London as the Interim Group Finance Director. He is the Europe, Middle East and Africa Insurance Sector Leader at Deloitte LLP. David joined us on 2 September 2019, and was authorised by the PRA and FCA on 30 December 2019.

The Chairman and the Group Chief Executive formulated a detailed role description and person specification based on their experience since joining Royal London and following careful consideration, this was approved by the Committee. After a competitive tender, Heidrick and Struggles JCA Group, an external search firm, was appointed to commence the Group »

Recruitment of the new Group Chief Executive

Date	Recruitment process stage
December 2018	Phil Loney announced his decision to step down from financial services to concentrate on his long-standing charitable interests.
January to March	Kevin Parry visited all divisions of Royal London and assessed the operational skill sets in the business and future requirements. He discussed the existing Group strategy extensively with the non-executive directors, Group Chief Executive, Deputy Group Chief Executive and Group Finance Director, so as to gain a good understanding of the likely future strategic direction of the Group. A job description and profile was prepared for the Group Chief Executive.
28 January 2019	Korn Ferry, an external search firm, was appointed to identify the best candidates in the market. A long list of 13 diverse candidates (including women, non-British citizens and BAME candidates) was presented. Following further review of the strengths, experience and availability of candidates, and interviews by Korn Ferry, the Committee narrowed down the candidates to a shortlist of four.
April – May 2019	The Chairman, supported by General Counsel and Company Secretary, Fergus Speight, interviewed the four shortlisted candidates. Among other considerations, they looked at their experience, knowledge of Royal London's business, cultural fit, likely strategic priorities and management capabilities. Three candidates went through to the next stage.
April – May 2019	Interviews were held with the independent non-executive directors, leading to a final stage of two candidates.
3 June 2019	The final two candidates were invited to present to the Committee on their vision and strategy for Royal London, followed by discussions on various topics and further questioning. In deliberating on the preferred candidates, the Committee looked at the selection criteria according to the requirements set out in the Group Chief Executive role profile, a set of leadership attributes and the vision for Royal London candidates communicated during the selection process. The Committee also considered each candidate's references and independent analysis of their strengths, conducted by YSC Consulting. Following due and careful consideration by the Committee, Barry O'Dwyer emerged as the preferred candidate for the role, and the Committee proposed his appointment as Group Chief Executive. Subject to regulatory approval, Barry O'Dwyer's appointment was approved by the Board on 26 June 2019.

Finance Director search. That search is at an advanced stage and broadly follows the process for the Group Chief Executive recruitment, but with second interviews being conducted by the Group Chief Executive. We shall report fully on the selection process in next year's Annual Report and Accounts. We anticipate that the Board will approve an appointment in the first half of 2020.

Chief Risk Officer James McCourt was appointed as the Group Chief Risk Officer (CRO) in 2019 in succession to Jon Macdonald, who retired from his executive position and the Board on 24 April 2019. The terms of Jon's departure are set out in the Remuneration Committee report on page 119. In line with normal financial services practice, the appointment is not a board position.

Board appointments: non-executive directors
In reviewing the composition of the Board and its skills, knowledge and experience, the Committee identified the need for three new non-executive directors (NEDs). Firstly, it was decided that a non-executive director with technology acumen would broaden the skill set of the Board. The NED would be well positioned to deepen the Board's understanding of the ever-changing and increasingly critical technological developments that underpin the strategic aspirations of the Group.

Secondly, we needed a successor to Andrew Palmer whose term of office will expire on 3 April 2020, when he will have served nine distinguished years on the Board. Since Andrew was a Chair of the Audit Committee, the Committee decided to look for an experienced chief financial officer or audit committee chair with a background in a major financial institution, because there is not an existing Board member able to take on the duties without major disruption to other Committees.

Thirdly, deeper asset management experience, particularly in the management of the business of asset managers, is required. This is an incremental position to recognise the growth and importance of RLAM to the Group and the anticipated further growth and commensurate investment that is planned.

The first recruitment was finalised in December 2019 and Kal Atwal, whose profile is set out on page 75, was recruited. Korn Ferry, which was set the task of finding the skill sets outlined above in a person who were tasked to deliver a diverse and high-quality candidate list that featured an equal gender split and an array of nationalities and ethnicities. The long list comprised 10 men and 10 women; all of whom were BAME with four being non-British. The shortlist comprised three men and three women. Kal is a British Indian.

The recruitment for an Audit Committee Chair is also being led by Korn Ferry, to avoid confusion in the marketplace, and is at final documentation stage. The long list comprised of 31 diverse candidates (including women, non-British citizens and BAME candidates). The shortlist comprised six candidates. We were satisfied that the selection had been objective, particularly due to the need for the Chair to be familiar with: financial services prudential regulation; a change in the basis of financial reporting; running a process for the selection of new auditors; the oversight of internal audit; and working with a newly appointed Group Finance Director. All the candidates had FTSE 100 or equivalent executive and/or non-executive experience.

The third non-executive director search commenced in February 2020 and is also being conducted by Korn Ferry (also to avoid confusion in the marketplace, with more than one recruitment process underway). It too is being undertaken with a concerted focus to ensure that every qualified candidate will receive due consideration regardless of their national, ethnic, gender or other diverse characteristics.

Executive management

Steve Murray joined the Group in October 2019 as Group Corporate Development Director, a role that was created to support the development and delivery of the Royal London Group Strategy. Steve was interviewed by our previous Deputy Group Chief Executive, Group Finance Director, Group People Director and by the Chairman. Given the strength of Steve's experience in forming and leading strategy functions and the execution of major strategic projects including separation, acquisition and major internal transformation programmes during his time at Standard Life, the appointment was made without the need for a formal search.

Will Pritchett, formerly a KPMG partner, has been appointed Group Chief Information Officer and a member of the Group Executive Committee. Will was known to Royal London as a consultant adviser. He was interviewed by Kevin Parry when he was acting as Group Chief Executive and then by David Weymouth and Tracey Graham, non-executive directors with greatest technology experience. Furthermore, following his appointment as Group Chief Executive, Barry O'Dwyer also held an interview with the candidate. One other candidate was considered but he was not immediately available. The appointment was made without a formal search based on Will's extensive knowledge of Royal London, short notice period and the need to quickly fill the position at a time of major technology change.

The Chief Executive Officer (CEO) of Royal London Insurance Designated Authority (DAC) has resigned and the Nominations and Governance Committee recommended Noel Freeley as the new CEO to the Board of RLI DAC. The RLI DAC Board approved his appointment on 26 February 2020, subject to regulatory approval from the Central Bank of Ireland (CBI).

Our Group People Director, Nicky Riding, has informed us that she plans to retire with effect from the autumn of 2020. The Group People Director currently holds a number of roles: as a member of the Group Executive Committee; as an adviser to the Remuneration Committee; and as an adviser to the Chairman and Nominations and Governance Committee on executive director changes and remuneration, in particular. It was decided that it would be appropriate to conduct a full market search, considering internal and external talent pools. Egon Zehnder was selected as the external search agents. The selection process resulted in a purposefully diverse long list of candidates. The first-round interviews were conducted by Egon Zehnder, which produced a short list of six women, of whom four were external and two were internal candidates. The second-round interviews were conducted by the Group Chief Executive, which narrowed the list to two. The third-round interviews were conducted by the Chair of the Remuneration Committee, who put forward one candidate to the Chairman, who concurred with the recommendation. We are pleased to announce that Tracey Kneller is joining Royal London as our new Group People Director, subject to regulatory approval.

The Company Secretary plays an important role in advising the Chairman and the Board »

"Our succession planning is focused both on growing the talent pool within our businesses and attracting individuals showing great promise"

on matters of corporate governance, and to allow unencumbered focus on the role, the Committee decided to recruit a dedicated resource. An external search was undertaken, and Ridgeway Partners were appointed as recruitment advisers. The selection process resulted in a diverse long list. The first-round interviews were conducted by Ridgeway, which produced a gender-balanced short list.

The second-round interviews were conducted by Fergus Speight, General Counsel and incumbent Company Secretary, who selected a gender-balanced pool of candidates. The third- and fourth-round interviews were conducted by the Group Chief Executive and Chairman . We are currently in the late stages of finalising the appointment.

In addition to the executive appointments noted above, the Committee considered the appointments for Royal London Insurance Designated Authority Company (RLI DAC), Irish subsidiary, and provided recommendations for approval to the Board of RLI DAC. These were: Walter Beatty as Chairman of RLI DAC, and Carrie Johnson as a director, a member of the Audit Committee and member of the Risk Committee within RLI DAC. It also recommends a number of appointments to Boards of subsidiaries to the Board for approval.

Succession planning

Through our people strategy, succession planning is focused both on growing the talent pool within our businesses and attracting individuals showing great promise from across the finance industry. Our aim is to ensure we have a strong source of appropriately qualified and skilled staff available to deliver sustainable results for our members.

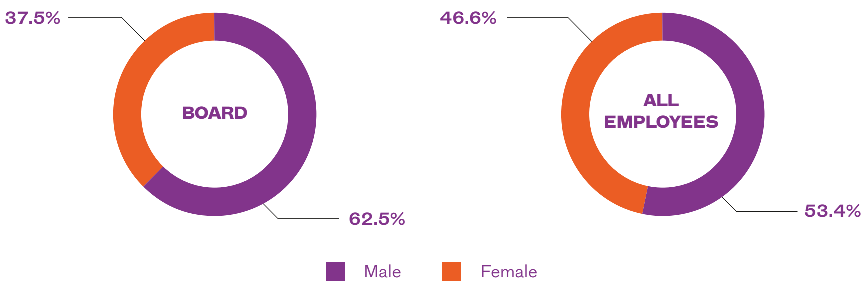
The Committee held sessions with Royal London's People Team to review and scrutinise succession plans for divisions and central functions, and was able to conclude that Royal London has a strong bench of talent ready to step up at short notice and in the longer term as part of planned succession.

The Committee supported initiatives in Royal London to develop a strong and consistent leadership, whilst recognising that external recruitment will be appropriate for certain roles.

Diversity and Board diversity policy

The Committee is committed to ensuring there is the necessary balance of skills,

Gender split: Board and employees



experience and knowledge when undertaking its regular reviews of the structure and composition of the Board, taking into consideration diversity of gender, sexual orientation, age, disability, geographic provenance, education and professional experience, social and ethical backgrounds, and cognitive and personal strength. In addition, Royal London is a signatory to HM Treasury's Women in Finance Charter and has set itself a target to increase its most senior grade to be 40% female by the end of 2020 from 33% in 2016.

Examples of the initiatives to promote and support diversity and inclusion throughout the Group are set out on page 32.

Diversity and inclusion were crucial parts of the appointment processes throughout the year. All appointments are made on merit; proactive steps are taken in the recruitment process to ensure that there is diversity of candidates. The Committee will encourage identification of diverse candidates to improve effectiveness, encourage constructive debate, deliver outstanding performance and enhance the success of Royal London. We engage with executive search firms that are signatories to the Executive Search Firms' Enhanced Voluntary Code of Conduct.

In respect of gender and ethnicity, the Board currently comprises: five (62.5%) men and three (37.5%) women (31 December 2018: seven (77.8%) men and two (22.2%) women). It has one overseas national and one BAME (31 December 2018: no overseas national and no BAME). Five Board Committee Chairs are men and two are women (31 December 2018: four men and two women). Reflecting on the recommendations made by the Parker Review Steering Committee, we are pleased that our Board is ahead of many FTSE 100 Boards by having at least one non-white director, well ahead of the set 2021 deadline. We will continue to improve our ethnic diversity across Royal London, not just the Board.

We are currently enhancing our systems and processes to gain greater insight into the diversity of our employees.

Gender pay gap reporting is addressed in the Remuneration Committee report on page 105.

Board evaluation

The UK Corporate Governance Code requires the Chairman to lead an annual Board review.

This year the Chairman was keen to get an early independent view of the Board's effectiveness, particularly in light of the greater emphasis on strategy and operational reviews that he introduced into Board meetings during the year.

Niall FitzGerald KBE DSA, a former Chairman and Chief Executive Officer of Unilever, was engaged to review the work of the Board. Niall is an experienced reviewer of boards.

The work involved close observation of Board and Committee activities and engagement sessions with the Directors and the Board collectively. His incisive feedback built on changes instigated by the Chairman. The outcomes of the review are summarised on page 82.

The Chairman has met individually with each director and is satisfied that they are each contributing to a high standard and give sufficient time to Royal London to fulfil their duties. Accordingly, the Board recommends the reappointment of each director (other than Andrew Palmer who is stepping down after nine years' service) at the AGM.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. In 2019, the Board commissioned an external evaluation to review its effectiveness. The conclusion of the 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 78.

Board and Committee terms of reference

During the year, the Company Secretary led a fundamental review of the terms of reference of the Board, its Committees and individual directors' duties. The majority of the changes provide improved clarity of duties and delegated authorities and the avoidance of duplication of work. The revised terms of reference will be approved in April 2020 and can be found at: royallondon.com/about-us/corporate-information/corporate-governance

Looking ahead to 2020

The Committee will continue to progress with the recruitment as outlined earlier, and will focus on ensuring that the skills, experience and knowledge of individuals reflect the changing demands of the business.

"We are currently enhancing our systems and processes to gain greater insight into the diversity of our employees"

REPORT OF THE BOARD RISK COMMITTEE

Dear member

I am pleased to present the report of the Board Risk Committee (the Committee) for the year ended 31 December 2019.

During the year the Committee has continued to focus on providing oversight and advice to the Board in relation to 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.

Part of the Committee's work this year was to scrutinise and oversee the successful application for the Group's Internal Model, which was approved by the Prudential Regulation Authority (PRA) in September.

We reviewed the Group's proposals regarding the transition from the London Inter-Bank Offered Rate (LIBOR) to Sterling Over Night Index Average (SONIA), along with the mitigation measures implemented to limit the risks associated with this new regulatory requirement.

Our Controllership Programme has made good progress during 2019, with improvements made in strengthening our controls, culture and education and in ensuring our policies robustly reflect this initiative.

We reviewed the methods, assumptions and expert judgements and limitations applied in updating the 2019 year end solvency capital requirements (SCR) calculation, and these were challenged as appropriate.

Brexit was never far away from our deliberations and we continued to closely monitor events and potential business impact, particularly following the change in government approach post July 2019. »

David Weymouth,
Chair of the Board Risk Committee

Committee membership

The membership of the Committee, as set out in the table on the right, is comprised solely of independent non-executive directors.

The Group's Chief Risk Officer attends all meetings and the remaining non-executive and executive Board directors are standing invitees. The Chairman attends all major meetings. In addition, the Committee draws on the input of certain members of senior management, such as the Group Head of Regulatory Risk and Compliance and the Group Audit Director, who attend meetings regularly by invitation.

Purpose, role and key responsibilities

The purpose and role of the Committee is to ensure that the interests of the members and customers are properly protected through the application of effective risk and capital management frameworks for the Group. It monitors and reviews the effectiveness of Royal London's controls, with the exception of financial controls, which are the responsibility of the Audit Committee.

Responsibilities of the Committee are set out in its terms of reference, which are reviewed annually. They are available in full on the Group's website, and include:

- overseeing and challenging the control, development, use and ongoing appropriateness of the Internal Model, and scrutinising and challenging the key underpinning expert judgements;
- advising the Board on the Group's overall risk management system, including the oversight of current risk exposures of the Group, by reviewing and recommending to the Board actions on significant risk issues, trends, practices, litigation and loss events that have implications for the Group;
- reviewing and making recommendations to the Board on the Group's capital management framework, and monitoring the availability and use of capital in the Group, so as to ensure it is optimally structured to meet ratings and regulatory and risk benchmarks through ongoing review and independent assurance;
- 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 both the management of conduct risk to ensure the Group's customers receive the best experience and outcomes, and any material breaches of risk limits, compliance and material incidents, including the implementation of remedial actions where these have Group-wide implications;
- reviewing the procedures for handling allegations from whistleblowers and the arrangements for employees to raise concerns about financial improprieties, as set out in the Group's whistleblowing policy; and
- making recommendations to the Board on the appointment and removal of the Chief Risk Officer, including reviewing the adequacy and quality of the risk and compliance function, and on the Group's overall risk strategy, risk appetite and risk preferences, the Group's Internal Model and Own Risk and Solvency Assessment (ORSA).

The Committee reports to the Board on all of the matters detailed above, identifying any issues where it considers that action or improvement is needed, and makes appropriate recommendations to the Board.

The Committee held eight scheduled meetings during 2019, as well as a joint meeting with the Audit Committee to review and approve the 2019 combined assurance plan of the Group Internal Audit and Risk and Compliance functions. It also held a joint meeting with the Remuneration Committee 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 further ad hoc meetings in order to consider matters in line with particular business demands.

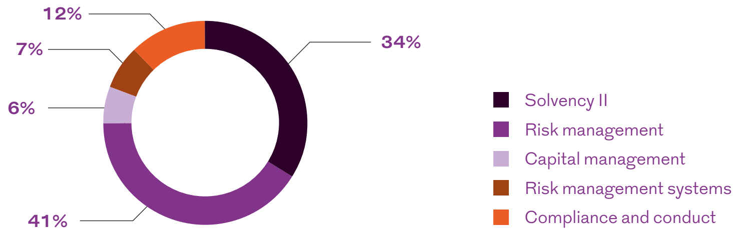
Committee membership

Member	Position	Year of appointment	Meetings attended/ meetings scheduled
David Weymouth	Chair	2012	8/8
Tracey Graham	Member	2012	8/8
Andrew Palmer[1]	Member	2011	8/8

1. Andrew Palmer will retire on 3 April 2020.

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during 2019.



The Committee spent a considerable proportion of its time on the Solvency II programme, in particular reviewing and challenging the components of the Group's proposed Internal Model. The Committee held special meetings to review, scrutinise and challenge the Internal Model application to the PRA, with approval received from the regulating body in September 2019.

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

Areas of focus and significant matters considered by the Committee

The table on the right highlights significant matters considered by the Committee during the period and the actions taken.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. In 2019, the Board commissioned an external evaluation to review its effectiveness. The conclusion of the 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 78. 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.

Looking ahead to 2020

In 2020 the Committee will oversee full embedding of the new 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. One good example of this is in the design and implementation of the Legacy Simplification programme. Here we will additionally scrutinise cost and delivery to ensure that the programme remains inside risk appetite and delivers the envisaged more efficient capital and cost base, with accelerated distribution of closed fund estates to customers. The Committee will also review the ongoing delivery of measures to further bolster the Company's resilience to cyber security threats while continuing to enhance the maturity of risk controls through a Group-wide programme of education, standards setting and key control reviews. »

Significant matters considered by the Committee during 2019

Significant matter	How the matter was addressed by the Committee
Solvency II programme and Internal Model	The Committee reviewed the Solvency II PRA Commitment Panel feedback letter and response and recommended to the Board the approval of the Internal Model application package and its submission to the PRA in March 2019. In addition, it reviewed and approved the Internal Model SCR results for year ending 31 December 2019. It also ensured that the Board had sufficient understanding of the Internal Model. Throughout 2019, all Board members received training sessions and knowledge materials on model changes, validation tools, the Internal Model and data quality standards. Board members who were not Committee members were also invited to attend all Committee meetings during 2019, to oversee the governance of the Internal Model pre-application.
ORSA	Prior to submission to the PRA, the Committee advised and made recommendations to the Board on the Group's ORSA, including the content of the quarterly ORSA update, the reported risk ratings and the Group's cyber risk exposure.
Risk reviews	The Committee conducted several deep dive reviews into the risk management of the Group Technology and Change function, as well as the wrap platform business, IFDL.
Capital management	It 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. This included further enhancements to equity and interest rate hedging arrangements, as well as a refreshed approach to setting individual risk limits.
Significant projects	The Committee was responsible for risk oversight in respect of a number of material transactions and projects undertaken by the Group in 2019. This included a technology transformation within the wrap platform business, IFDL, and the effective development of our Controllership Programme to further strengthen the risk culture across the Group. The Committee received regular updates on the progress of #thinkbeyond, a programme to reinvent our customer experience, driving digital transformation and developing new business capabilities.
Group policies and committee terms of reference	It reviewed and approved updates to a number of policies within the Group Policy Framework, including the Internal Model Change Policy, Conflicts of Interest Policy, the Risk and Business Control Policies and Risk Appetite Framework. A number of Group policies were recommended for approval to the Board, and to the joint Audit Committee and Board Risk Committee meeting. The Committee also proposed updates to its terms of reference. These were subsequently submitted to and approved by the Board.

REPORT OF THE WITH-PROFITS COMMITTEE

Dear member

As Chair of the With-Profits Committee (the Committee), I am pleased to present its report for year ended 31 December 2019.

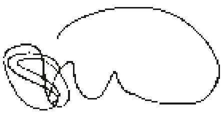
During the year the Committee has focused on its key role of ensuring the fair treatment of policyholders with an entitlement to share in the profits of the Group, and advising the Board in relation to matters impacting with-profits policyholders.

In addition to our regular programme of work (see 'Purpose, role and key responsibilities' section to the right for further details), the Committee has reviewed a number of projects during the year.

The Committee has considered and approved proposed updates to the Strategic Asset Allocation (SAA) of a number of closed with-profits funds, as part of the ongoing programme to review the SAAs of all Royal London's multi-asset funds.

The Committee's views and support have also been sought in connection with Royal London's activities to simplify with-profits funds. This programme of work is aimed at improving service, flexibility and estate distribution for long-standing customers.

The Committee continued to support Royal London in its ongoing programme of continuous improvement, much of which was aligned with the findings of the FCA's thematic review into the fair treatment of with-profits customers.



Sally Bridgeland,
Chair of the With-Profits Committee

Committee membership

Member	Position	Year of appointment	Meetings attended/ meetings scheduled
Sally Bridgeland (Chair)	Non-executive	2017	4/4
Shaun Cooper	Executive	2019	1/1
Jim Gallagher	Independent	2012	4/4
Tim Harris[1]	Executive	2014	2/2
Bridget Rosewell	Independent	2015	4/4
Carl Dowthwaite	Independent	2019	4/4

1. Tim Harris resigned on 25 June 2019.

Committee membership

The membership of the Committee is set out in the table below. There have been two changes to the membership of the Committee during the year:

- As confirmed in my previous report, Carl Dowthwaite was appointed as an independent member of the Committee from 1 January 2019. Carl is a Fellow of the Institute and Faculty of Actuaries, with strong with-profits experience gained in both non-executive and senior executive roles. He has quickly become a strong and valued member of the Committee.

- Shaun Cooper was appointed as a non-independent member of the Committee with effect from 9 October 2019. As Royal London's Chief Actuary, Shaun was already a standing attendee at Committee meetings, and has therefore brought valuable continuity to the Committee and practical insight into the business.

The Committee also continues to be well served by Brian Murray in the With-Profits Actuary role.

Purpose, role and key responsibilities

The Committee's main responsibilities include:

- considering the interests of all policyholders in the Royal London Group who are entitled to share in the profits of the Group (including ProfitShare) and exercising independent judgement in advising the Board on how to allocate profits to them fairly;

- assessing compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);

- assessing investment performance reports and providing oversight over the way in which with-profits funds are invested and managed; 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.

Significant matters considered by the Committee during 2019

Significant matter	How the matter was addressed by the Committee
Royal London's Legacy Simplification Programme	The Committee reviewed Royal London's Legacy Simplification Programme in detail during the year. The programme aims to achieve improvements to service, flexibility and estate distribution for customers in Royal London's closed with-profits funds. The Committee advised management on a number of features, including the proposed customer communications and the financial aspects of the offers being considered. The Committee met with the Independent Expert and heard reports from the project team and Royal London's With-Profits Actuary. The Committee provided a recommendation to the Board in December to proceed to the next stage of the project, starting to engage with the policyholders in two of Royal London's closed with-profits funds.
Investment performance and investment strategy	The Committee reviewed the investment performance and investment strategy of the various with-profits funds. The Committee was supportive of the approach taken by RLAM and the performance achieved on behalf of the with-profits policyholders. The Committee considered and approved updates to the Strategic Asset Allocation Framework, which is a consistent and robust approach to reviewing the long-term asset mix of investment funds. The Committee has also provided input and challenge on a number of SAA reviews of Royal London's with-profits funds during the year. This resulted in changes for a number of funds aimed at improving long-term customer outcomes.
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 2019, and awarded in 2020.
Policyholder communications, complaints and service	The Committee considered the reporting on the quality of the service provided to with-profits policyholders, having regard to complaints and other measures.
Capital management	The Committee considered opportunities to simplify and improve the management of existing business, and assessed reporting on the financial and capital management of the with-profits funds.

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

Areas of focus and significant matters considered by the Committee

The table above highlights significant matters considered by the Committee during the period, and the actions taken.

Committee effectiveness

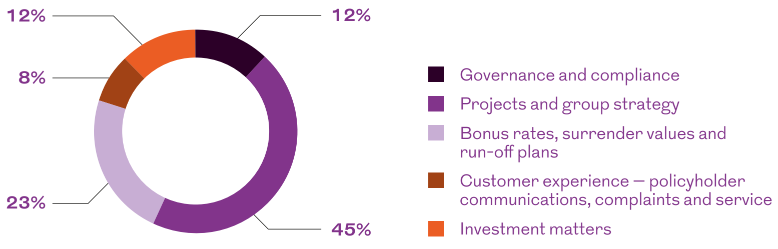
An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. In 2019, the Board commissioned an external evaluation to review its effectiveness. The conclusion of the review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 78.

Looking ahead to 2020

The Committee will continue to focus on its key role of ensuring the fair treatment of policyholders and reviewing investment performance. »

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee during the period.



REPORT OF THE INDEPENDENT GOVERNANCE COMMITTEE

Dear member

I am pleased to report on the work of the Independent Governance Committee (the Committee) for the year ended 31 December 2019. 2019 has been my first full year as Chair of the Committee, having previously been an independent member since 2015.

The Committee has focused on a broad range of activities during the year, with the aim of ensuring customers receive value for money from their workplace pension arrangements with Royal London. Areas of focus have included changes made by Royal London in how it communicates with workplace pension customers, improvements in customer service and case management and the efficiency of investment management and operations. We have also reviewed Royal London's approach to environmental, social and governance (ESG) issues in investment management, governance and stewardship processes.

For more detail of the work of the Committee during 2019 I would encourage you to review our annual report, available online: visit royallondon.com and search 'independent governance committee'.

Peter Dorward,
Chair of the Independent Governance Committee

Committee membership

Member	Position	Year of appointment	Meetings attended/ meetings scheduled
Peter Dorward (Chair)	Independent	2015	4/4
Myles Edwards	Independent	2016	4/4
David Gulland	Independent	2015	4/4
Paul Gallagher	Company member	2018	4/4
Jon Macdonald[1]	Company member	2015	1/1
Catherine Read	Company member	2019	1/1

1. Jon Macdonald resigned on 24 April 2019.

Committee membership

The membership of the Committee, as set out in the table below, comprises three independent members and two company members. We welcomed Catherine Read to the Committee as a non-independent member on 10 December 2019. Catherine is Chief Operating Officer for Royal London Asset Management and I have no doubt the Committee will benefit from her knowledge and insight.

Purpose, role and key responsibilities

The responsibilities of the Committee, as set out in its terms of reference, are reviewed annually and made available on the Group's website.

The Committee was established in April 2015 in response to the FCA's directive regarding independent governance for workplace pensions. The Committee assesses the ongoing value for money of relevant workplace pension schemes offered by Royal London; reports and escalates issues that are identified and remain unresolved; and prepares an annual report on its activities, and the value for money offered by the relevant pension schemes.

The Committee is required to perform its duties in accordance with FCA rules relating to independent governance committees. In particular, it must act solely in the interests of relevant workplace pension policyholders.

The FCA guidance for independent governance committees forms the basis of the Committee's activities. Broadly the Committee reviews and, where necessary, reports on the following:

- the Committee's opinion on the value for money delivered by relevant schemes, particularly against those items listed in the FCA Rules;
- how the Committee has considered relevant policyholders' interests;
- any concerns raised by the Committee with the Board and the response received to those concerns;
- whether the membership of the Committee has sufficient expertise,

Significant matters considered by the Committee during 2019

Significant matter	How the matter was addressed by the Committee
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.
Workplace pensions	It also considered specific initiatives undertaken by Royal London to develop improved systems to support and assist customers. The Committee was particularly pleased with the steps being taken to support vulnerable customers.
Transaction costs	During the period the Committee considered reporting on the quality of the service provided to workplace pension customers, having regard to complaints and other measures.
Proposition developments	The Committee continued to review the transaction costs applied to workplace pension customers within Royal London. These are published in the Committee's annual report.

experience and independence to act in relevant policyholders' interests;

- the name of each independent member of the Committee and confirmation that the Committee considers these members to be independent; and
- the arrangements put in place by the Group to ensure that the views of relevant policyholders are directly represented to the Committee.

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

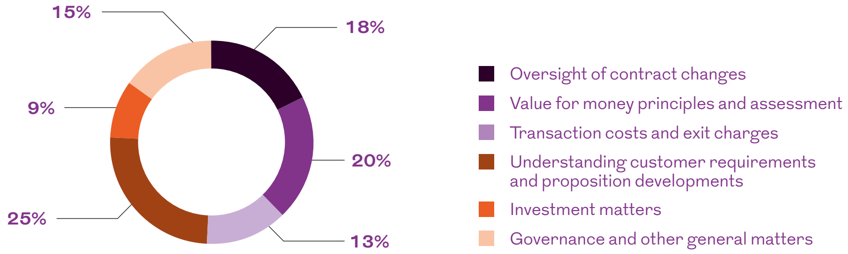
Areas of focus and significant matters considered by the Committee

The Committee has focused its activities on the following:

- Reviewing and understanding customer requirements, researching aspects of customer engagement including complaints and service
- Reviewing the principles with which to assess the value for money delivered by all of Royal London's relevant workplace pension contracts to ensure they remain appropriate
- Reviewing and monitoring transaction costs
- Ongoing assessment of Royal London's relevant workplace pension contracts (including legacy contracts) against those principles

Allocation of agenda time

The Committee met nine times during 2019. The chart below provides an illustration of the approximate percentage of time spent by the Committee on various matters during the year.



- Monitoring proposition developments, including the introduction of the mobile app

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 outcome of the 2019 effectiveness review confirmed that the Board is satisfied with the performance of the Committee. Further details of the review are outlined in the Corporate Governance statement on page 78.

Looking ahead to 2020

At the end of 2019 the FCA published its Policy Statement, setting out the extended remit that will apply to all independent governance committees from April 2020. The Committee is currently working to review its composition, terms of reference and business plans to ensure we are able to evolve to meet these new challenges. You can expect to see the outcome of this in our report next year. »

"The Committee's activities have included reviewing customer engagement, monitoring transaction costs, and assessing workplace pension contracts"

REPORT OF THE INVESTMENT COMMITTEE

Dear member

As Chair of the Investment Committee (the Committee), I am pleased to present its report for the year ended 31 December 2019.

The role of the Committee is to support the Board of RLMIS in determining investment philosophy and strategy, and overseeing our investment framework to ensure we invest in a way that meets our obligations and delivers strong investment performance for our customers. The Committee oversees RLAM in its role as the main asset manager for RLMIS, as well as other third parties and external asset managers involved in delivering our investment strategy.

The Committee acts for members by assisting 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 across all of the funds where RLMIS customers invest. It also oversees delivery of the 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 (including climate change), social and governance matters, such as adherence to the principles of the Stewardship Code and the UK Corporate Governance Code issued by the Financial Reporting Council.

Ian Dilks,
Chair of the Investment Committee

Committee membership

Member	Position	Year of appointment	Meetings attended/ meetings scheduled
Ian Dilks	Chair	2014	6/6
Tracey Graham[1]	Member	2020	n/a
Tim Harris[2]	Executive	2014	3/3
Jon Macdonald[3]	Executive	2013	1/1
Julius Pursaill	Independent	2014	6/6

1. Tracey Graham was appointed in January 2020.
2. Tim Harris resigned on 25 June 2019.
3. Jon Macdonald resigned in April 2019 .

Committee membership

The membership of the Committee is set out in the table below, comprising of independent non-executive directors. The Group's Investment Office Director, Group Chief Risk Officer, Interim Group Finance Director, RLAM's Chief Executive Officer and RLAM's Chief Investment Officer attend relevant sections of meetings of the Committee, but are not members of the Committee. The Chairman, Kevin Parry, and Group Chief Executive, Barry O'Dwyer, also attend meetings, but are not members of the Committee.

Purpose, role and key responsibilities

The Committee is responsible for assisting the Board in the discharging of its responsibilities in respect of investment matters, including investment strategy, and in its oversight of the investment assets of Royal London, including investment performance.

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

Areas of focus and significant matters considered by the Committee

The Committee has a number of standing agenda items it considers each year, to ensure our Investment Philosophy and strategy is regularly reviewed, and we respond to market and regulatory changes in an appropriate and timely way. The table opposite highlights some significant matters considered by the Committee during the period, as set out in its terms of reference, and the actions taken.

The Group's Investment Office, which is part of the Group's 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

Significant matters considered by the Committee during 2019

Significant matter	How the matter was addressed by the Committee
Investment strategy	The Committee supported the Board in setting the investment strategy.
Investment Philosophy and investment risk framework	The Committee reviewed the statement of Investment Philosophy, investment beliefs and the investment risk framework to aid management, the Committee and Board in their investment decision-making process.
Responsible Investment and climate change	The Committee reviewed the Group's current approach to responsible investment and supported the development of a responsible investment and climate change programme for Royal London Group.
Strategic Asset Allocation Framework	The Committee also reviewed and approved the Strategic Asset Allocation Framework. The Committee approved a project plan to implement the Framework in full by the end of 2020.
The UK's exit from the European Union	In 2019 the Committee considered and approved the Group's and Asset Management's approach to strategic investment decisions and planning in respect of the UK's exit from the European Union.
Asset Management performance	The Committee reviewed its asset managers' performance and 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 has regard to the work of the Investment Performance Committee, which undertakes regular reviews of the investment performance across the Group.
Suitability of RLAM as main asset manager	The Committee completed a triennial review to assess the suitability of RLAM as the main asset manager. It concluded that RLAM was appropriate to manage the majority of assets, with strong capabilities delivering consistently good performance. The review also acknowledged the symbiotic relationship that RLAM and RLMIS have, and the value this brings to the Group.
Other matters	The Committee reviewed its meetings throughout 2019 against its terms of reference and confirmed the Committee's responsibilities were fulfilled.

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.

Committee effectiveness

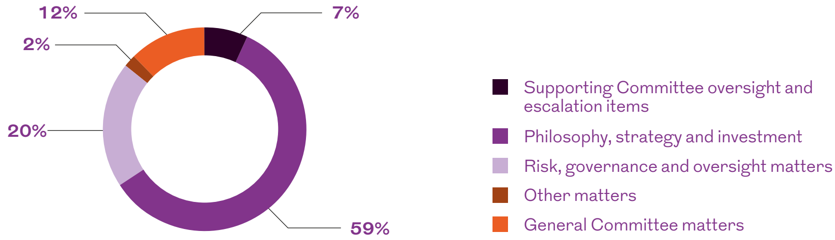
An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. In 2019, the Board commissioned an external evaluation to review its effectiveness. The conclusion of the review was positive and the Board is satisfied that the Committee remains effective. Further details of the review are outlined in the Corporate Governance statement on page 78.

Looking ahead to 2020

The Committee will continue to ensure that assets are invested in an appropriate way to meet the needs of our members and policyholders. ■

Allocation of agenda time

The chart below provides an illustration of the approximate percentage of total time spent by the Committee on various matters during the period:



Annual statement from the Remuneration Committee Chair

Dear member

On behalf of the Board I am pleased to present the Remuneration Committee report for 2019.

I would firstly like to thank members for voting at the 2019 AGM and for their overwhelmingly positive response to the advisory vote on our remuneration report (97.8% in favour).

This year has been a significant year for Royal London, with a number of Board changes and the continuation of our work in relation to the Talent and Reward strategy. Following the appointment of Barry O'Dwyer, our new Group Chief Executive, it has been determined that the Group will present a revised version of its current remuneration policy for 2020, subject to only minor modifications to reflect the Group's response to the new UK Corporate Governance Code provisions and enhance clarity, to be voted on at the 2020 AGM. I discuss the modifications to the 2020 Policy in further detail later on in this statement.

In the interests of continuing to improve the way we present our disclosures we have introduced an 'at a glance' section (set out on page 107), which immediately follows this statement. It includes:

- highlights of the Group's business performance;
- a summary of executive directors' remuneration for 2019;
- incentive outcomes for the 2019 Short-Term Incentive Plan (STIP) and Long-Term Incentive Scheme (LTIS) awards;
- our approach to remuneration for the wider workforce; and
- a summary of the implementation of our remuneration policy for 2020.

We have also updated our approach to calculating the single figure for total remuneration for executive directors to align with the market standard calculation and the legislative requirements for listed companies. Further detail is provided on page 114.

Remuneration arrangements for Board changes

Leavers

As highlighted in last year's report, Phil Loney stepped down as Group Chief Executive during the year and was granted Good Leaver status. As was also highlighted in the report, Jon Macdonald left his role as Chief Risk Officer and retired from the Group in 2019; he was granted Good Leaver status too. Further details of the approach to Phil Loney's and Jon Macdonald's remuneration are set out on page 119.

It was announced in August that Tim Harris would step down from his role as Deputy Chief Executive & Group Finance Director. He continued to receive his base salary and contractual benefits until his final date of employment. Tim Harris and the Board mutually agreed that he would forgo nine months of his contractual right to notice. This meant that he was not eligible to receive salary, pension, car or travel allowance, or other employment costs incurred during this period. He received a prorated 2019 STIP award for nine months. Like Phil Loney and Jon Macdonald he was granted Good Leaver status. Further details of the approach to Tim Harris's remuneration is set out on pages 119 and 120.

Tim Harris was compensated by his new employer for certain Royal London awards forfeited on leaving the Group. The Royal London Remuneration Committee was satisfied that Tim Harris would not receive duplicative payments from his new employer.

Joiners

Barry O'Dwyer was appointed as Group Chief Executive on 23 September 2019, receiving regulatory approval on 8 January 2020, and was formally appointed as the Group Chief Executive on the same day. In the period between Phil Loney retiring and Barry O'Dwyer being appointed, the PRA and the FCA authorised the Chairman, Kevin Parry, to fulfil the duties of the Group Chief Executive as Executive Chairman.

Barry O'Dwyer's remuneration package was determined in line with our remuneration policy. Full details of his recruitment arrangements can be found on pages 118 and 119.

In succession to Jon Macdonald, James McCourt was appointed as Group Chief Risk Officer in 2019. In line with normal financial services practice, the Group Chief Risk Officer role is no longer a Board-level position.

Performance and incentive outcomes in 2019

The Remuneration Committee assesses Group performance based on the scorecards that capture one-year and three-year financial and strategic performance, which are discussed in further detail later in this report. I am pleased to report that the Group has delivered robust financial results for 2019 notwithstanding more challenging market conditions than in 2018.

The Chairman's report on pages 10 and 11 details the Group's performance in 2019.

The Committee has sought input and sign-off from the Audit Committee regarding the quality of earnings, and assurance from the Board Risk Committee that the Group's performance has been achieved within its stated risk appetite.

2019 STIP outcomes

As a result, the Committee agreed a final scorecard result of 121% out of 200%, which reflects the robust financial performance and progress made against key measures. This ensures we deliver against our ambition to build the best customer experience and outcomes for our customers, as well as taking into account personal performance.

The Committee exercised its discretion when determining the 2019 STIP outcome and made a modest downward discretionary adjustment. This resulted in an award under the 2019 STIP of 68% of salary (out of a possible maximum of 150%) for Phil Loney, and 82% (out of 150%) for Tim Harris. Jon Macdonald was not eligible to receive a 2019 STIP award based on his agreed exit terms detailed on page 119.

2017 LTIS outcomes

The estimated three-year LTIS result for awards granted in 2017 is 92% (out of a possible 125%), reflecting strong financial performance over the last three years, strengthening our market share and progress on strategic projects. This results in awards of 138% of salary for Phil Loney (out of 187.5%), 138% of salary for Tim Harris (out of 187.5%) and 92% of salary for Jon Macdonald (out of 125%).

Wider workforce remuneration

We value the contribution of every employee at Royal London and we recognise that our people make a difference to our customers and members – so it is important that we treat them fairly and ensure they feel valued.

In 2019, we enhanced our benefit offering for the wider workforce to help our people look after their wellbeing. Eligibility for the Healthcare scheme, which includes private medical insurance, was improved to allow our more junior grades to join sooner, and a new Financial Wellness partner was introduced to provide education and support.

Gender pay gap reporting and diversity

Under the gender pay gap reporting regulations we are required to report data for each employing entity with over 250 employees. Within the Group, we have two employing entities – Royal London Mutual Insurance Society Limited (RLMIS) and Investment Funds Direct Limited (IFDL). Royal London Asset Management (RLAM) employees are included within the RLMIS disclosure but we chose to voluntarily publish their gender pay gap figures separately in previous years, and have done so again for 2019. We reported our latest gender pay gap as part of an enhanced gender pay gap report, which can be found on our website.

We are now in our third year of reporting since the regulations were introduced and at a Group level we can see positive movement, especially in the median pay gap, demonstrating continued gradual progress towards narrowing the gaps. For RLMIS, the median pay gap is down from 28.4% in 2017 to 25.1% in 2019, and for IFDL, down from 7.8% to 6.4% for the same period.

The key driver for the gaps is the imbalance of gender in our senior roles. Progress has been made in line with our Women in Finance Charter (WiFC) commitments, with 38.1% of our senior graded roles being filled by women at the end of 2019, compared with just 33.9% at the end of 2017; further progress on our journey to have equitable representation at the most senior levels will continue in the future, with a target of 40% for the end of 2020. RLMIS figures are also impacted by the inclusion of RLAM, where market pay rates tend to be higher and the candidate pool in the industry tends to be largely made up of men.

Our plan to further address the gender gaps is tied to the wider Diversity & Inclusion strategy. For example, the enhancements we have made to our family-friendly policies have been well received. We also continue to work to broaden our focus beyond gender as outlined on page 32 of the Strategic report. Our progress on inclusion has been recognised externally by the Employers Network for Equality and Inclusion (see page 31 for further details).

Looking forward to 2020

Remuneration policy

As I highlighted at the beginning of this statement, the Committee agreed that the Group will present to its members its remuneration policy for 2020, subject to minor modification to reflect the Group's response to the new »

“We value the contribution of every employee and we recognise that they make a difference to our customers – so it is important we treat them fairly and ensure they feel valued”

UK Corporate Governance Code provisions. Key changes include:

- the alignment of executive pensions for all new hires with wider staff pension contribution levels, starting with the appointment of the new Group Chief Executive; and
- the introduction of an additional two-year holding period following the three-year performance year for LTIS awards to executive directors. In addition to the current minimum holding guideline that applies in role, we have introduced a holding requirement for all executive directors of up to 200% of salary for two years post-cessation of employment.

Our revised remuneration policy is set out on page 110.

Taking into account the significant level of senior change that took place in 2019, the intention is that during the course of 2020 the Committee will continue to look at the Group's approach to executive remuneration as part of the Talent and Reward review. Depending on the outcome of that review, it may be that further amendments are proposed to our Directors' remuneration policy. In which case, if necessary, the Group may determine that a revised policy should be taken to members for another vote next year at the 2021 AGM.

UK Corporate Governance Code and executive pay reforms

Although, as a mutual, we are not required to comply with the new UK Corporate Governance Code, the Group is committed to being transparent with its members. Furthermore, the remuneration disclosures, where appropriate, continue to be prepared with reference to the listed company reporting requirements.

During the course of 2019, in addition to the remuneration policy changes set out above, the Committee addressed the following areas:

- **workforce remuneration:** We have provided further disclosure in this year's Directors' remuneration report around how overall performance ratings are determined.
- **discretion and recovery:** The Committee reviewed the rules of the Group's STIP and LTIS awards; we have refreshed these to make them simpler and to 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. The Committee exercised its discretion when determining the 2019 STIP outcome, making a modest downward discretionary adjustment to the formulaic outcome.
- **Group Chief Executive pay ratio:** Following the Group's first year of disclosure in the 2018 Directors' remuneration report, the Group Chief Executive pay ratio has again been disclosed in this year's report (further details are provided on page 121).

The Committee will continue to consider the application of the new UK Corporate Governance Code changes and broader executive pay reforms in conjunction with our work around our Talent and Reward review, and report back in the 2020 report.

Remuneration for 2020

The Committee believes that the Group's current approach to reward and its strategic initiatives will continue to attract and retain the talent needed to deliver desired outcomes. It also believes this approach will continue the Group's long-term success and its position as a responsible employer with a clear social purpose, making mutuality meaningful for our people, members and customers.

The Committee believes that the updated remuneration policy addresses the key changes from the UK Corporate Governance Code, will continue to support our strategy and will further align with the interests of our members. Our remuneration policy, our Directors' remuneration report and the updated plan rules will be subject to a member vote at the AGM. The Committee appreciated the strong endorsement of last year's Directors' remuneration report and we hope to receive your support again for all resolutions.

Tracey Graham
Chair of the Remuneration Committee
16 March 2020

2019 remuneration at a glance

Performance highlights

Detailed below are some of the key performance highlights of 2019:

- **EEV profit before tax and ProfitShare – £457m (30% increase from 2018, £351m)**
- **Present Value of New Life and Pensions Business Sales – £10,699m (5% decrease from 2018, £11,308m)**
- **RLAM External net inflows – £6,696m (63% increase from 2018, £4,100m)**
- **ProfitShare – £140m (7% decrease from 2018, £150m)**

Remuneration in the wider context

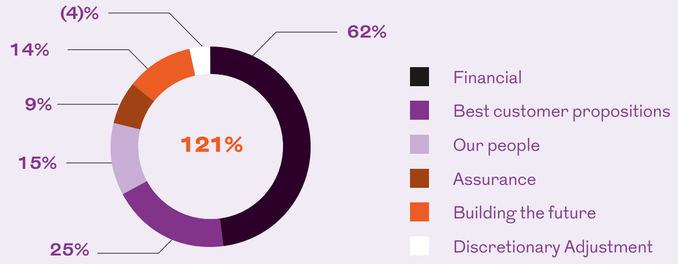
As a mutual, our members are at the heart of our remuneration philosophy. In light of our commitment to comply with the highest standard of corporate governance, we are now in our third year of reporting our gender pay figures and second year of disclosing our Group Chief Executive pay ratio; and we have aligned our pension rate for new executive hires with the wider workforce. We have also decided that it would be more appropriate for deferred awards to be linked to the funds that our members are invested in, to increase the alignment between remuneration outcomes and our members. This will first take effect from the 2020 deferred STIP awards and 2020 LTIS awards.

Read more about how we are developing our people on page 31

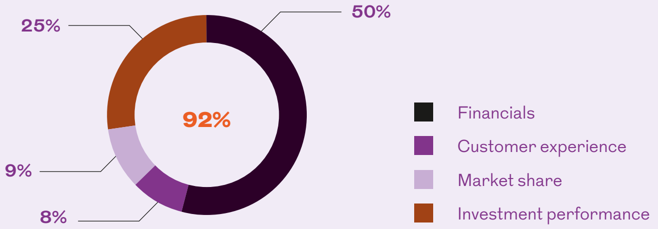
Summary of total executive director remuneration

*Figure includes buy-out award for Barry O'Dwyer as outlined in the single figure table of remuneration (detailed on page 114).

Incentive outcomes for 2019 STIP



Estimated outcomes for LTIS vesting in 2019



Remuneration package for executive directors – forward-looking policy

	Pay element	Approach	Key decisions for 2020 – Group Chief Executive (Barry O'Dwyer)
Fixed pay	**Base salary**	Fixed pay levels set at competitive levels with role-appropriate benefits arrangements	£680,000 (see further details on page 118)
	Pension		12% – in line with wider workforce levels (further details on page 119)
	Benefits		Benefits package includes private medical insurance, health screening, car allowance and any travel allowance awarded – further details on page 114
Pay linked to performance	**STIP**	Incentive linked to short-term targets	Maximum award payable: 150% of salary (40% deferred over three years) – further details on page 119
	LTIS	Incentive linked to long-term priorities	Maximum award payable: 156.3% of salary (additional two-year holding period) – further details on page 119
	Minimum holding guidance	To align the interests of executives with those of members	200% of salary (further details on page 119)
	Post-cessation holding requirement	To align the long-term interests of executives with those of the Company	200% of salary for two years post-cessation of employment (further details on page 119)

Appropriateness of remuneration and link to strategy

Royal London's core values drive our business strategy and underpin our approach to executive remuneration. These values take into account the expectations of the UK Corporate Governance Code, which the Committee carefully considered when designing and implementing our Directors' remuneration policy. The Committee considers that the policy supports our strategy and promotes the long-term success of the Group. The table below summarises how the Committee addressed the factors set out in the Code when determining the remuneration policy.

How the Committee has addressed the following factors from the UK Corporate Governance Code

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.
Simplicity **Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.**	The Committee reviewed the rules of the Group's STIP and LTIS awards, and we have refreshed these to make them simpler and to 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 while also ensuring the appropriate management of risk. Risk-taking outside of the Group's risk appetite is not rewarded and the Committee will have 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 Company 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 the funds which our members are invested in, to increase the alignment between remuneration outcomes and our members. This will first impact 2020 deferred STIP awards and 2020 LTIS awards. Malus and clawback provisions apply for both the STIP and LTIS, whilst post-employment holding guidelines 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 Director's remuneration policy details of maximum opportunities for our incentive plans alongside actual payouts 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 company 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 company 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 2020, our progress with key investments to improve experiences and outcomes in the longer term, and our delivery of these activities within risk appetite.

Strategic rationale: the link between strategic priorities and 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 chart below.

Our core strategic priorities

Measures used in incentive schemes	Economic value	Social value	Investment	Service	Innovation	People
Financial	STIP, LTIS		STIP, LTIS			
Investment performance	LTIS		LTIS			
Customer service/best customer propositions	STIP, LTIS	STIP, LTIS		STIP, LTIS		
Quality of proposition	LTIS				STIP, LTIS	STIP, LTIS
Our people	STIP	STIP, LTIS	STIP			STIP
Assurance			STIP			
Building the future			STIP		STIP	

● STIP measures • ● LTIS measures

Directors' remuneration policy

This section presents our updated remuneration policy. The policy is subject to a members' vote at the 2020 AGM and relates to remuneration arrangements from 1 January 2020. As set out in the opening letter from our Remuneration Committee Chair at the start of the remuneration report, minor changes to our policy have been made to reflect our response to evolutions in best practice and, in particular, the new Corporate Governance Code.

In reviewing the remuneration policy, the Committee followed a detailed decision-making process that included discussions on the proposals at a number of Remuneration Committee meetings. The Committee considered multiple approaches and their possible impact, and sought input from management as well as advice from its independent advisers on market practice and stakeholder expectations to inform the discussions. To avoid any conflicts of interest, no directors were involved in conversations relating to their own pay.

Where there have been key changes from the last policy, these are set out in the Remuneration Committee Chair's letter along with the associated rationale behind these changes.

Key principles of remuneration policy

The remuneration policy has four key principles:

Align executives' interests with those of our members and customers.	Performance-related incentive arrangements will be designed to align the interests of executives with those of members and customers.
Support delivery of the Group's strategy whilst ensuring adherence to the Group's risk appetite.	Performance-related incentive arrangements will be designed to reinforce the achievement of the Group's strategy. The remuneration policy will have regard to the remuneration codes of all relevant regulators, including the PRA and FCA, as well as institutional investor guidance on remuneration governance best practice. The Committee will ensure 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, and the Committee will have 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.
Ensure remuneration is competitive for our markets to help the Group attract and retain talent.	Total remuneration will be appropriately competitive to support the recruitment, retention and motivation of talented people, and to help the Group compete effectively with other leading UK life insurers and financial services companies.
To ensure fair outcomes for our people, members and policyholders.	Remuneration policy is consistent across Royal London, although remuneration levels differ and not all employees are eligible to defer a proportion of awards under the STIP and participate in the LTIS.

Remuneration policy – executive directors

Base salary

The aim of base salary is to support recruitment and retention of talented people required to deliver the Group's strategy.

Salaries are reviewed annually, in the context of each executive director's skills and experience, role and responsibilities, individual performance, business performance and the external market data. Whilst there is no maximum salary or percentage salary increase, the Remuneration Committee will typically take into account the approach for the Group's wider workforce, except where there is a change in role or responsibility.

Newly appointed executive directors may have their salaries set below the previous/other incumbent levels whilst they become established in role.

Benefits

The aim of providing competitive benefits is to support the recruitment and retention of talented people required to deliver the Group's strategy.

Benefits may vary by individual, location and level. They are reviewed regularly to ensure they remain competitive and may vary from time to time. 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. Benefits typically include life insurance, private medical insurance, medical screening, a discretionary living-away-from-home allowance and either a company car or a cash allowance in lieu of a car.

Pension

The aim of a market-competitive pension contribution is to support the recruitment and retention of talented people required to deliver the Group's strategy, as well as to provide appropriate contribution rates in line with the wider workforce to support saving for retirement.

Since 1 April 2016, all pension benefits for existing and new directors are defined contribution. 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. Salary is the only element of remuneration that is pensionable and the maximum pension contribution is in line with the wider workforce default contribution rate, which is currently 12% of salary.

Short-Term Incentive Plan (STIP)

The aim of the STIP is to focus participants on the in-year results that need to be achieved to meet the Group's annual objectives in the context of the agreed strategy. The maximum STIP payable is up to 150% of salary dependent on role. Half of the award is payable for on-target performance, or up to 75% of base salary.

Performance is assessed using a scorecard of financial and strategic measures, which are reviewed each year, and individual performance ratings (determined by the Committee for the Group Chief Executive and for the other executive directors after receiving input from the Group Chief Executive).

There is no payment for threshold performance. Sub-measures/tasks within each category are assessed broadly to provide greater flexibility to reward critical measures that reflect business priorities each year. The weighting on financial measures will be no less than 30% and the Committee reserves the right to apply a discretionary override to ensure that awards fairly reflect underlying performance.

To avoid any conflict that could impact upon the independence of control functions, the STIP for any executives in control functions is determined by reference to the performance of the individual control function, and the financial element of STIP focuses on cost management and operational efficiency rather than profit.

Payment of 40% of any amount earned under the STIP is typically deferred, subject to continued employment. The value of the deferred award is tied to an indicator of Group performance, such as fund performance, supporting alignment of executive director interests with the long-term interests of our members. For 2020, the deferred award is paid out on the first, second and third anniversaries of the grant of the award. At this point the award may be released or become an individual investment subject to retention requirements (see section on minimum holding guideline).

Malus and clawback may be applied to the STIP at the discretion of the Committee for reasons such as, but not limited to, material misstatement, material failure of risk management, material financial loss, material injury, corporate failure, gross misconduct or behaviour that could lead to significant reputational damage.

Long-Term Incentive Scheme (LTIS)
The aim of the LTIS is to align executives with the long-term interests of members and customers and incentivise the delivery of the Group's long-term strategy.

Vesting of awards is based on performance over a performance period, which is at least three years, against the Group's key long-term performance measures. Awards may then be deferred for a further period, with a link to fund performance, and will usually be released no earlier than five years from the date of grant. The value of the award will be adjusted to reflect the change in value of members' invested funds during the period.

LTIS awards of up to 150% of salary are assessed using a balanced scorecard of key performance measures. There is no payment for threshold performance. This may be subject to discretionary adjustment of up to +25% or down to zero by the Committee, based on a basket of performance measures that include, but are not limited to, strategic milestones and performance relative to peers. The maximum potential award opportunity is therefore 187.5% of salary.

The Committee may make adjustments to the targets and/or measures in particular circumstances that mean the existing targets and/or measures are no longer appropriate. The vesting calculation is reviewed by Internal Audit.

The awards are subject to malus and clawback for reasons such as, but not limited to, material misstatement, material failure of risk management, material financial loss, material injury, corporate failure, gross misconduct or behaviour that could lead to significant reputational damage.

Minimum holding guideline
The Group Chief Executive and other 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 over a period of three to five years. Deferred STIP and LTIS awards are linked to the funds in which our members are invested. This means that the value of a participant's holding aligns with the value of members' invested funds[1]. The minimum holding guideline for executive directors is 200% of salary.

The Committee believes that holding guidelines reinforce the principles underlying the Group's remuneration policy and further aligns the interests of executives with those of members. Furthermore, executive directors are required to hold up to 200% of salary for two years post-cessation of employment.

Executive directors typically satisfy their holding requirement over three to five years, with up to 50% of vested LTIS and deferred STIP retained until the holding requirement is satisfied. The Committee will review these guidelines periodically to ensure they remain appropriate for the Group, taking into account market practice and the Board's assessment of what is appropriate.

Approach to the recruitment of executive directors
The Nomination Committee of the Board appoints executive directors, who it considers to be the most appropriate for each position. The Committee's approach to determining remuneration for new executive directors is to pay a sufficient level to attract the individual, giving careful consideration to each executive director's skills and experience, role and responsibilities, the external market pay data, as well as taking into account their existing remuneration. This is in line with our wider policy.

The following limits are placed on incentives awarded to executive directors, in line with the policy:

- The maximum STIP award will not exceed the policy maximum
- The maximum LTIS opportunity on recruitment will not exceed the policy maximum

Where a newly recruited executive forfeits incentives from their previous employer, Royal London may make compensatory awards, which are normally performance-based and subject to satisfactory regulatory conduct, typically using one-off additional STIP 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, time horizons, employment conditions and any other conditions attached to the award being forfeited. Depending on the value of the award forfeited, the normal maximum plan limits may need to be exceeded on a one-off basis.

In the event of an internal promotion to the Board, any prior contractual obligations and incentive awards to the new executive director may be honoured.

Exit payment policy
Any payments in the event of termination of an executive director will take account of the individual circumstances, including the reason for termination, any contractual obligations and the rules »

1. Previously deferred awards were linked to the value of a unit (an 'EEV unit'), which linked participants holding to changes in the value of the Group; this methodology is no longer supported by our accounting approach.

Summary of treatment of awards on termination

	Good Leavers (eg ill health, injury, disability or any other reason the Committee may determine)	Bad Leavers (eg voluntary resignation, dismissed for cause)	Change of control
STIP	If a participant ceases to hold office or employment as a Good Leaver during the bonus year, the Board will determine whether any bonus is payable. To the extent that any bonus is payable, it will be payable on a pro rata basis. If a participant ceases office or employment as a Good Leaver before the normal vesting date in respect of an award, the award will usually continue, unless the Board exercises its discretion to accelerate vesting (or cessation is as a result of the Participant's death). The award will be prorated for time. Good Leavers will normally include individuals who cease to hold office or employment as a result of injury, disability, ill health, retirement and redundancy.	If a participant ceases to hold office or employment other than as a Good Leaver during the bonus year, no bonus will normally be payable. If a Participant ceases office or employment other than as a Good Leaver before the normal vesting date in respect of an award, the award will usually lapse.	If there is a change of control during the bonus year, the Board will determine whether any bonus will be payable. To the extent that any bonus is payable, the Board will also determine whether, and to what extent, any proportion of the bonus will be deferred. If there is a change of control prior to the normal vesting date, awards will normally continue, unless the Board exercises its discretion to exchange awards or accelerate vesting.
LTIS – before the normal vesting date	If a participant ceases office or employment as a Good Leaver before the normal vesting date in respect of an award, the award will usually continue, unless the Board exercises its discretion to accelerate vesting (or cessation is as a result of the Participant's death). The award will be subject to performance conditions and prorated for time.	If a participant ceases office or employment as a Bad Leaver before the normal vesting date in respect of an award, the unvested award will lapse.	If there is a change of control prior to the normal vesting date, outstanding awards will normally vest at the time of such event, subject to the satisfaction of performance conditions and prorated for time. Alternatively, the Board may exercise its discretion to exchange awards.
LTIS – during the additional holding period	If a Participant ceases office or employment for any reason other than gross misconduct during the holding period, the award will usually continue, unless the Board exercises its discretion to accelerate release (or cessation is as a result of the Participant's death).		If there is a change of control prior during the holding period, outstanding awards will be released at the time of such event.

of the applicable incentive plan, and pension scheme rules. Executive directors' contracts do not include any specific compensation for severance as a result of a change of control. Benefits may also be provided in connection with termination of employment and may include, but are not limited to, outplacement and legal fees and payments in respect of accrued holiday.

The Committee retains discretion to alter the provisions contained in the relevant plan rules on a case-by-case basis, following a review of circumstances in order to ensure fairness for members and employees. Under certain circumstances, it may be in members' interests for the Group to enter into a legally binding agreement with an executive director when their employment is terminated.

External appointments

Subject to the approval of the Board, executive directors may accept external non-executive director (NED) appointments at other organisations. None of the executive directors who served during the year held a paid external appointment. Details of any external directorships will be disclosed in the annual report on remuneration for the relevant year.

Service contracts

The service contract of any new executive director will require 12 months' notice to the Group, and will also require that the director mitigates any pay in lieu of notice. The main terms of executive directors' service contracts are provided in the table below.

	Group Chief Executive terms	Other executive director terms
Duration	Continuous term to retirement.	Continuous term to retirement.
Notice period	12 months by the Group. 12 months by the Group Chief Executive.	12 months by the Group. Up to 12 months by the executive director.
Pay in lieu of notice	Pay in lieu of notice (salary) if employment is terminated by the Group for reasons other than misconduct.	Pay in lieu of notice (salary) if employment is terminated by the Group for reasons other than misconduct.
Other allowances	Group reimburses expenses in connection with work-related travel.	Group reimburses expenses in connection with work-related travel.

The Chairman and non-executive directors have letters of appointment with Royal London. Letters of appointment do not contain provisions for loss of office payments, or any additional remuneration other than the fees set out in this policy. All NEDs have a notice period of three months and the dates of their Board appointment are provided in the table on the opposite page.

	Date of Board appointment
Kal Atwal	17 January 2020
Sally Bridgeland	14 January 2015
Ian Dilks	14 November 2014
Tracey Graham	10 March 2013
Andrew Palmer	1 April 2011
Kevin Parry	19 March 2019
David Weymouth	1 July 2012

Remuneration policy for non-executive directors

Board fee

The fees for NEDs are set to be sufficient to attract and retain directors of the highest calibre, reflecting the responsibilities and time commitment required. These fees are typically reviewed annually against fee levels at financial services companies of a similar size, with particular reference to the external talent market.

NED/Chairmanship fees

The remuneration of the Group Chairman is determined by the Committee, whilst the remuneration of other NEDs is determined by the Chairman and executive directors. All directors abstain on determination of their own remuneration.

Additional fees may be paid to NEDs for chairing committees and subsidiary boards to reflect the additional time commitment that is required.

Remuneration for newly appointed NEDs will be aligned with the approach taken for the existing NEDs.

The NEDs are not eligible to participate in incentive schemes and their service is not pensionable.

NEDs are reimbursed for expenses incurred in the performance of their duties.

Remuneration under previous policies

Any awards made prior to the approval of the remuneration policy detailed in this report will be honoured. These include the Group deferred STIP, LTIS and RLAM LTIP awards from prior years.

Alignment with remuneration policy for the wider workforce

The remuneration policy for the Group applies to employees and executive directors, although the levels of remuneration differ. Executives directors, senior managers and other employees who have significant influence over business results participate in the Executive Reward Programme (ERP). They may also be eligible to participate in the LTIS, and any other long-term incentive arrangement, and may be required to defer some of their awards earned under the STIP and LTIS.

The Committee receives detailed information from management regarding the annual pay reviews for all employee groups and also reviews the Group Chief Executive's recommendations for salary and STIP for his direct reports. It also reviews all awards made under the LTIS and other long-term incentive plans.

For all employees, remuneration is set with reference to the specific requirements of the individual role and pay levels in the relevant talent markets.

The Committee does not consult directly with employees specifically on remuneration policy for directors, but is mindful of pay and employment conditions elsewhere in the Group when doing so, and when considering potential payments under the policy.

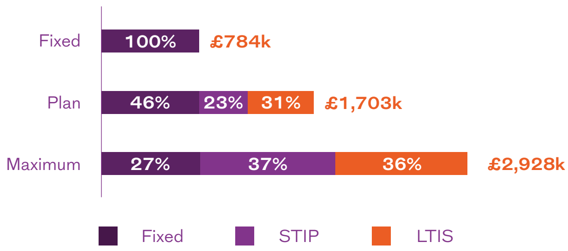
2020 pay scenario charts

The charts below illustrate the potential pay opportunities available for the Group Chief Executive (who is currently the only executive director) for 2020, based on different performance scenarios.

Scenario	Salary, pension and benefits	STIP outcome (% of maximum)	LTIS outcome (% of maximum)
Fixed	Received in line with contractual entitlement	-	-
On-plan performance (achieves targets)		50	36
Maximum performance (significantly exceeds targets)		100	100

Actual variable pay outcomes can vary between 0% and 100% of maximum, depending on actual performance delivered.

Barry O'Dwyer



2019 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 2019 ("FY2019").

Executive directors

Single figure for total remuneration (audited)

	Phil Loney[1]		Tim Harris[2]		Jon Macdonald[3]		Barry O'Dwyer[4]	
	2019	2018[5]	2019	2018	2019	2018	2019	2018
Fixed pay (£000)								
Salary[6]	**396**	775	**236**	440	**109**	324	**186**	n/a
Benefits[7]	**25**	63	**11**	25	**5**	15	**-**	n/a
Pension supplement[8]	**99**	194	**47**	92	**16**	49	**22**	n/a
Pension benefits[9]	**-**	-	**-**	-	**-**	-	**-**	n/a
Total fixed pay	**520**	1,032	**294**	557	**130**	388	**208**	n/a
Performance pay (£000)								
STIP[10]	**273**	893	**262**	523	**-**	223	**190**	n/a
LTIS[11]	**1,163**	1,046 (restated)	**681**	668 (restated)	**290**	319 (restated)	**-**	n/a
Total performance pay	**1,436**	1,939 (restated)	**943**	1,191 (restated)	**290**	542 (restated)	**190**	n/a
Buy-out award[12]	**-**	-	**-**	-	**-**	-	**1,363**	n/a
Total (£000)	**1,956**	**2,971 (restated)**	**1,237**	**1,748 (restated)**	**420**	**930 (restated)**	**1,761**	**n/a**
Total excluding buy-out award (£000)	**1,956**	**2,971 (restated)**	**1,237**	**1,748 (restated)**	**420**	**930 (restated)**	**398**	**n/a**

1. Phil Loney commenced garden leave on 1 July 2019 and left the Group on 31 December 2019. His remuneration in the single figure table of remuneration is in respect of services provided as an executive director. Further details can be found on page 119.
2. Tim Harris stepped down from his role as Deputy Group Chief Executive & Group Finance Director on 1 July 2019 and left the Group on 30 September 2019. His remuneration in the single figure table of remuneration is in respect of services provided as an executive director. Further details can be found on pages 119 and 120.
3. Jon Macdonald stepped down from his role as Group Chief Risk Officer on 2 April 2019 and retired from the Group on 26 April 2019. His remuneration in the single figure table of remuneration is in respect of services provided as an executive director. Further details can be found on page 119.
4. 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 table relates to the period from 23 September to 31 December 2019.
5. Following our change in approach to calculating the single figure for total remuneration for executive directors to align with the market standard calculation and the legislative requirements for listed companies, we have restated the 2018 figures for Phil Loney, Tim Harris and Jon Macdonald.
6. Salaries are shown gross of any salary sacrifice element.
7. Benefits, which include private medical insurance, health screening, car allowance and any travel allowance awarded.
8. Pension supplements received as a cash supplement in lieu of pension.
9. Pension benefits do not include employee contributions made by salary sacrifice.
10. 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. For Phil Loney the value is in respect of services provided as an executive director.
11. LTIS values are the value of the 2017 LTIS vesting at the end of the performance period (31 December 2019) in respect of services provided as an executive director, including any amounts to be deferred.
12. 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. Further details can be found on page 119.

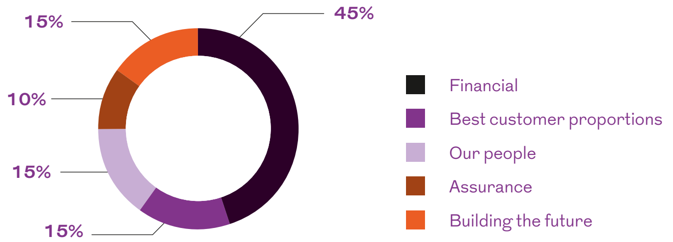
2019 STIP outcome (audited)

The maximum STIP opportunity levels and resulting overall STIP outcomes for each executive director in respect of 2019 are shown in the table below. The overall STIP outcome for 2019 was determined by assessing the Group's performance over the year against a scorecard of financial and non-financial measures and the personal performance rating of the individual for that year.

	Maximum award (% of salary)	Outcome (% of salary)[1]
Barry O'Dwyer	134	81%
Phil Loney	150	68%
Tim Harris	150	82%

1. Based on 31 December 2019 salary.

2019 STIP performance measures



The scorecard for 2019 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 2019 STIP and resulting performance outcomes against each category are detailed below.

Measure and weighting	Threshold 0%	Target 100%	Maximum 200%	Contribution to scheme
Financials – 45% • Risk-adjusted profit metric (new business) • Existing business profit • Strategic operational efficiency				62%
Best customer propositions – 15% • Process-based net promoter score • Customer complaints • Performance vs benchmark on With-profit funds • Performance vs benchmark on Governed range • Total PVNBP • Net new external assets under administration				25%
Our people – 15% • Group Chief Executive assessment				15%
Assurance – 10% • Risk and control infrastructure enhancements • Conduct risk • Financial risk management				9%
Building the future – 15% • Technology project • Regulatory project				14%
Discretionary Adjustment				(4)% **121%**

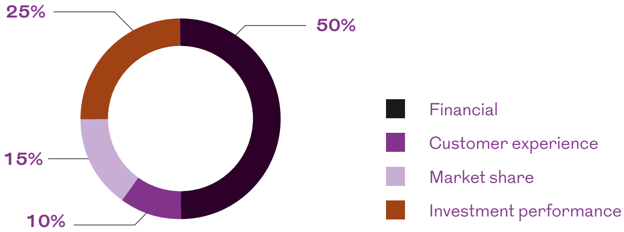
Overall, the 2019 scorecard result was 121% out of a maximum of 200%. This result, combined with personal performance ratings of 'Good' and 'Strong' respectively, meant that STIP awards of 68% and 82% of salary were paid out to the former Group Chief Executive, and former Deputy Group Chief Executive & Group Finance Director (on a prorated basis). The new Group Chief Executive, Barry O'Dwyer, was eligible to receive a guaranteed STIP award (further details can be found on page 119). »

LTIS vesting in 2019 (audited)

The following table details the estimated percentage of long-term incentive awards granted in 2017, which vested at 31 December 2019.

	Initial award (% of salary)	Vesting (% of salary)
Phil Loney	150	138
Tim Harris	150	138
Jon Macdonald	100	92

The performance measures and estimated outcomes for the 2017 LTIS are as shown below.



Measure and weighting	Threshold 0%	Maximum 100%	Contribution to scheme
Financials – 50% • Group ProfitShare • Group EEV operating profit			50%
Customer experience – 10% • Assessed judgement, including net promoter score and external service awards			8%
Market share – 15% • Group market share taking into consideration the different business areas			9%
Investment performance – 25% • Three-year performance vs benchmark			25%
			92%

The Committee has discretion to adjust the LTIS result (up to +25% or down to zero). Awards are also subject to a minimum EEV operating profit gateway, which, if not met, would mean awards do not vest.

The table below shows the proportion of the 2017 LTIS award that is estimated to vest as a result of Royal London's performance against the measures (which is subject to further unit price changes during continued holding).

	Actual vesting (% of salary)	Maximum vesting (% of salary)
Phil Loney	138	187.5
Tim Harris	138	187.5
Jon Macdonald	92	125.0

In line with our policy, 50% of the award will vest immediately, with 25% vesting after one year and the remaining 25% after two years. Phil Loney's, Tim Harris's and Jon Macdonald's vesting LTIS awards will be prorated with reference to time served.

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 the 2019 STIP, and used its discretion to amend the award with a modest downward discretionary adjustment of 4%. The Committee considered a number of factors, including the Group's financial and investment performance, progress on key strategic projects and prior year comparative performance.

Disclosure of financial targets for previous STIP and LTIS awards

For additional context, for the incentive awards paid in 2019 (2018 STIP and 2016–2018 LTIS), the tables which follow disclose the threshold and maximum targets set for financial measures, alongside the actual financial performance achieved.

2018 STIP (paid in 2019)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Risk adjusted profit metric	105	142	156.2
Existing business profit	84.3	114.1	104.8
2018 operational efficiency	48	63	58.9

2016 LTIS (paid in 2019)	Threshold target (£m)	Maximum target (£m)	Actual result (£m)
Group EEV profit from existing business	390.9	449.6	499.1
Group new business profit	386.2	444.1	815.6

All STIP and LTIS award outcomes are also reviewed by Group Risk and Compliance before they are finalised.

LTIS awards granted in 2019 (audited)

In 2019, the Committee granted an initial LTIS award of 125% of salary to the Group Chief Executive, Barry O'Dwyer. The vesting of this award will be dependent on the following performance measures and may be subject to a discretionary adjustment by the Committee of up to 125% or down to zero. Awards will be subject to an additional two-year holding period following the performance period. Phil Loney, Jon Macdonald and Tim Harris were not awarded an LTIS in 2019 following their resignation from the Group.

2019 LTIS performance measures		
Measures	**Weighting**	**Sub-measures**
Financials	20%	Risk adjusted profit metric (new business)
	20%	Existing business profit
	10%	ProfitShare
Investment performance	25%	Performance vs benchmark on With-profits
		Performance vs benchmark on Governed portfolio
Customer service	10%	Net promoter score
		Customer complaints per 1,000 policies (FCA reportable)
		IFA star awards for service – Pensions
		IFA star awards for service – Protection
		IFA star awards for service – RLPS
Quality of proposition	15%	Net new external assets under management (RLAM)
		Market Share Intermediary – Pensions – Individual
		Market Share Intermediary – Pensions – Group
		Market Share Intermediary – UK Protection
		Market Share Intermediary – Ireland Protection
		Market Share – Over 50s
		Market Share Wealth – RLPS

»

	Scheme	Awards granted (% of salary)	Face value (£000)	Minimum value at vesting (£)[1]	End of performance period	End of additional holding period
Barry O'Dwyer	2019 LTIS	125	850	-	31 December 2021	31 December 2023

1. Value will be linked to the value of members' investment in RLAM from 2020.

The Committee is committed to disclosing as much as is commercially possible on the financial measures and targets in the 2021 report when the 2019 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	1,269	477	83	1,829
Phil Loney	1,623	628	2,197	4,448
Tim Harris	939	323	1,194	2,456
Jon Macdonald	331	-	544	875

Holdings by executive directors (audited)

The table below sets out the value of holdings by executive directors as at 31 December 2019 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 2019 (£000)[1]
Barry O'Dwyer[2]	1,360	1,131
Phil Loney	-	3,602
Tim Harris	-	1,976
Jon Macdonald	-	875

1. Phil Loney, Tim Harris and Jon Macdonald stepped down from their executive director roles in 2019. The value of holding has been included for transparency.
2. Barry O'Dwyer joined the Group on 23 September 2019 and was formally appointed as an executive director in January 2020.

Payments to past executive directors (audited)

There were no payments to past executive directors in the year ending 31 December 2019.

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.

Barry O'Dwyer (Group Chief Executive)

Barry O'Dwyer'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 2019 are as follows:

- **Base salary:** £680,000 per annum (2018 Group Chief Executive salary: £775,000)

- **Pension contributions:** 12% of salary, which is in line with the wider workforce levels
- **2019 STIP:** He was allocated a 2019 STIP award of £457,000 (subject to the scorecard result). This included £300,000 to compensate for having to forfeit his 2019 bonus opportunity at his previous employer. Following the scorecard outcome, this generated an overall STIP award payable of £552,970. Awards are subject to satisfactory regulatory conduct – 40% is subject to a three-year deferral period, which will vest in equal tranches over three years. His STIP opportunity will be reviewed by the Committee for next year's award
- **2019 LTIS:** Participation in the 2019 LTIS to align with the rest of the management team. Award of 125% of salary with vesting of awards is dependent on achievement of performance targets. Award payments will be made 50% immediately following vesting, 25% after the first anniversary of vesting and 25% after the second anniversary. This award was lower (as a percentage of salary) than the last award granted to the previous Group Chief Executive. As a consequence of Barry O' Dwyer resigning from his previous employer, he was not eligible to receive an award for 2019 so the 2019 LTIS award replaces this award
- **Replacement awards:** In order to facilitate his appointment, Royal London agreed to compensate forfeited awards, including his deferred awards in notional investment funds and corresponding dividends on his resignation from his previous employer in the form of 2017 and 2018 deferred STIP awards. The total grant value of these awards is £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. All replacement awards granted reflect the performance conditions, vesting and retention periods attached to the awards that were forfeited. However, his 2017 and 2018 LTIP awards from his previous employer were not compensated for. Barry O'Dwyer's replacement awards are subject to retention requirements to maintain a minimum ongoing holding level of 200% of basic salary, in addition to a post-cessation holding requirement of 200% of basic salary in the 24 months post-cessation of employment

Payments for loss of office (audited)

Further detail is provided below on all three executive directors' departures from the Group during 2019.

Phil Loney (Group Chief Executive)

Phil Loney continued to receive his base salary and contractual benefits up until his final date of employment and during his garden leave. He therefore received a total salary of £769,500 for 2019.

He also received the 2019 STIP for the full year in line with his previous opportunity size, with payment-based performance. His STIP award for 2019 was £545,521, which was 68% of salary. All payments were subject to the standard deferral and made in line with the normal vesting schedule.

The Committee's decision to award the full year 2019 STIP reflected his availability to work during his garden leave and carry out an appropriate handover process to ensure a smooth transition between him and his successor.

As highlighted in last year's report, Phil Loney was granted Good Leaver status subject to ongoing performance until his departure, and in accordance with the plan rules, he kept his outstanding awards and vested deferrals. He is eligible to receive the outstanding 2016, 2017, 2018 and 2019 deferred STIP awards, with payments to be made in full on the Group's normal payment dates. He will receive the outstanding 2015 and 2016 LTIS awards that have already vested. His 2017 and 2018 LTIS awards have vested/will vest respectively on a prorated basis subject to business performance and he will be receiving these in line with the Group's normal payment dates. All awards remain subject to the Group's plan rules, including both malus and clawback provisions.

The Committee determined that he was not eligible to receive the 2019 LTIS award due to him leaving during the performance period.

Jon Macdonald (Chief Risk Officer)

Jon Macdonald continued to receive his base salary and contractual benefits up until his final date of employment. He therefore received a base salary of £108,667 in 2019.

As highlighted in last year's report, Jon Macdonald was granted Good Leaver status subject to conditions that were fully met, and was allowed to retain his outstanding awards and vested deferrals. He is eligible to receive the outstanding 2016, 2017 and 2018 deferred STIP awards, with payments to be made in full on the Group's normal payment dates. He will receive the outstanding 2015 and 2016 LTIS awards that have already vested. His 2017 LTIS award vested on a prorated basis based on time served, and he will be receiving these in line with the Group's normal payment dates. All awards remain subject to the Group's plan rules, including both malus and clawback provisions.

The Committee determined that he was not eligible to receive the 2019 STIP or 2019 LTIS awards as he left towards the beginning of the performance period.

Tim Harris (Deputy Group Chief Executive & Group Finance Director)

Tim Harris continued to receive his base salary and contractual benefits up until his final date of employment and during his garden leave. He therefore received a base salary of £354,788 in 2019. »

He received a prorated 2019 STIP award for nine months (1 January to 30 September). His STIP award for 2019 was £393,250, which was 82% of his full-time equivalent salary. All payments were subject to the standard deferral and made in line with the normal vesting schedule.

Tim Harris was granted Good Leaver status and was allowed to retain his current outstanding awards and vested deferrals. He is eligible to receive the outstanding 2016, 2017, 2018 and 2019 deferred STIP awards, with payments to be made in full on the Group's normal payment dates. He will receive the outstanding 2015 and 2016 LTIS awards, which have already vested. His 2017 and 2018 LTIS awards vested/will vest on a prorated basis subject to business performance, and he will be receiving these in line with the Group's normal payment dates. All awards remain subject to the Group's plan rules, including both malus and clawback provisions. The Committee determined that he was not eligible to receive the 2019 LTIS award due to him leaving during the performance period.

Tim Harris was compensated by his new employer for certain Royal London awards forfeited on leaving the Group. The Royal London Remuneration Committee is satisfied that Tim Harris will not receive duplicative payments from his new employer.

Tim Harris and the Board mutually agreed that he would forgo nine months of his contractual right to notice. This meant that he was not eligible to receive salary, pension, car or travel allowance, or other employment costs incurred during that period.

Group Chief Executive's single remuneration figure growth

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Group Chief Executive 'single figure' of total remuneration (£000)										
Mike Yardley	2,343	4,420	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Phil Loney	n/a	1,403	1,703	2,614	2,859	3,136	3,033	3,208	2,971 (Re-stated)	**1,956**
Barry O'Dwyer[1,2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**1,761**
STIP paid against maximum opportunity (%)										
Mike Yardley	94%	92%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
Phil Loney	n/a	93%	85%	93%	95%	100%	98%	82%	76%	**68%**
Barry O'Dwyer	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
LTIS vesting against maximum opportunity (%)										
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**
Phil Loney	n/a	n/a	n/a	71%	39%	37%	55%	88%	62%	**74%**
Barry O'Dwyer	n/a	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 (£000) includes buy-out awards.
2. Kevin Parry, the Chairman, fulfilled Group Chief Executive duties as Executive Chairman in the period between Phil Loney retiring and Barry O'Dwyer being appointed as Group Chief Executive.

Group Chief Executive remuneration compared with other employees

	% change in base salary (2019 vs 2018)	Change in STIP as % of salary	% change in total remuneration 2019 vs 2018[1]
Group Chief Executive[2]	(24.9)	(34)	25.1
All employees	5.4	(4.1)	4.3
All employees rated strong or exceptional	6.1	6.7	6.0

1. For Group Chief Executive, the figure includes salary, benefits, pensions and incentives, including buy-out awards for both Phil Loney and Barry O'Dwyer (see single figure table). The buy-out award for Barry O'Dwyer relates to prior years' service at his former employer and not service in respect of 2019. Excluding that amount the total year on year change is -20.8%.
2. The amounts shown for the Group Chief Executive reflect the service of Phil Loney and Barry O'Dwyer as Group Chief Executive during the financial year. Phil Loney stepped down as Group Chief Executive on 1 July 2019. Barry O' Dwyer was appointed as Group Chief Executive on 23 September 2019.

The table at the bottom of the opposite page shows how the percentage change in the Group Chief Executive's salary, STIP and total remuneration between 2018 and 2019 compared with the percentage change in the average of each of those components for all Royal London employees and those employees rated 'strong' or 'exceptional'

The actual salary increase received by Phil Loney in 1 April 2019 was 2.6% compared to a 2018 increase of 3.5%, although the overall percentage reduction in the salary for the Group Chief Executive for 2019 compared to 2018 in the table reflects the combined service of both Phil Loney and Barry O'Dwyer as Group Chief Executive during the financial year. This also explains the overall percentage reduction in the STIP and the increase in total remuneration for the Group Chief Executive in 2019 compared with 2018 as the total remuneration figures includes buy-out awards (as quantified in footnote 1 to table opposite: 'Group Chief Executive remuneration compared with other employees').

In comparison to the Group Chief Executive, average salary increases for other Royal London employees and those rated 'Strong' or 'Exceptional' were 5.4% and 6.1% respectively, which included promotional increases. All salary increases are determined using the same broad criteria, which link the percentage increase to individual performance rating and position within the market range.

Understanding performance ratings

For context, employees are provided with an overall performance rating, which consists of a 'What' and a 'How' rating. The What rating considers what employees deliver in respect of their objectives and ongoing accountabilities. The How rating considers how employees 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.

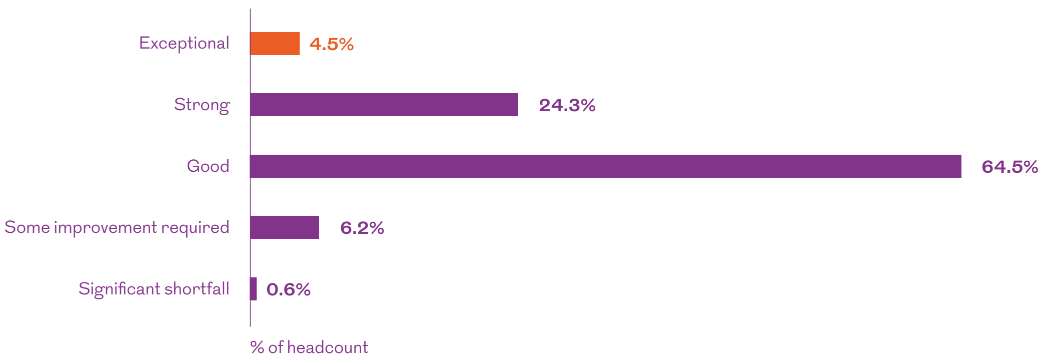
'Exceptional' rating

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.

2019 year end performance rating distribution

	Headcount							
	Exceptional	Strong	Good	Some improvement required	Significant shortfall	Total	Too soon to rate	Not rated*
All grades	170	919	2,437	234	21	**3,781**	99	53

*Includes employees on maternity leave or long-term sickness absence for a substantial part of the performance year.



Group Chief Executive pay ratio

Companies are required to comply with the new pay ratio 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 (ie 50th percentile), 25th percentile and 75th percentile full-time equivalent (FTE) annualised remuneration of the company's UK employees. Representative employees were identified at each of the percentiles using the latest gender pay gap information (method B), which is produced in April each year. This approach has been used as it creates greater alignment between the Group Chief Executive pay ratio and gender pay gap reporting disclosures. »

Following the implementation of our new HR system, we will consider transitioning our methodology from option B to option A (which compares the Group Chief Executive latest single total figure of remuneration to the median (ie 50th percentile), 25th percentile and 75th percentile FTE annualised remuneration of all the company's UK employees for our 2020 disclosure. In determining the methodology for 2019, the Committee sought the views of the RLAM Responsible Investment team.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017	B	125:1	71:1	50:1
2018[1]	B	113:1 (Restated)	70:1 (Restated)	42:1 (Restated)
2019 (including buy-outs)	B	142:1	82:1	53:1
2019 (excluding buy-outs)	B	90:1	52:1	34:1

1. Following our change in approach to calculating the single figure for total remuneration for executive directors to align with the market standard calculation and the legislative requirements for listed firms, we have restated the 2018 figures.

In 2019, the total remuneration (FTE) figures for the representative employees identified at 25th, 50th and 75th percentiles were £26,196, £45,495 and £69,815. The salary component for the representative employees identified at these percentiles were £22,333, £36,225 and £54,748 respectively. The elements used in calculating the FTE remuneration consists 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 Incentive Plan (STIP) values 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 Incentive Scheme (LTIS) values are based on the full value of the 2017 LTIS vesting at the end of the performance period (31 December 2019), including any amounts to be deferred.

For 2019, the table above illustrates two alternative calculations of the Group Chief Executive's single total figure of remuneration compared to the remuneration of the company's UK employees identified at the 25th, 50th and 75th percentile. The Group Chief Executive's single total figure of remuneration used for the purposes of the pay ratio reflects the sum of the total remuneration for the former Group Chief Executive (Phil Loney) and the new Group Chief Executive (Barry O'Dwyer) as detailed on page 114. It has been calculated using both the total including Barry O'Dwyer's buy-out award (which he was awarded on joining Royal London) and the total excluding the buy-out award. As shown, the pay ratio gap at the 25th, 50th and 75th percentile is significantly greater when the buy-out award is included in the calculation.

Distribution statement

The illustration below shows the increase in EEV profit before tax and ProfitShare; EEV operating profit; ProfitShare; and total employee pay expenditure in 2019.

EEV profit before tax and ProfitShare

EEV operating profit

ProfitShare (net of tax)

Total employee pay expenditure

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)	
	2019	2018	2019	2018	2019	2018	2019	2018
Kevin Parry, Chairman	310	-	-	-	120	-	430	-
Sally Bridgeland	76	73	20	20	-	-	96	93
Ian Dilks	76	73	16	16	-	-	92	89
Tracey Graham	76	73	22	20	67	67	165	160
Andrew Palmer	76	73	22	22	106	106	204	202
David Weymouth	76	73	22	22	-	-	98	95

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. Following the annual benchmarking activity, the annual base fees were increased from £73,335 to £75,500 from 1 January 2019. In 2019, Andrew Palmer was paid additional fees of £13,500 for performing the role of Senior Independent Director.

In line with ensuring the appropriate governance and Board oversight of subsidiary companies, Andrew Palmer was appointed Chairman of RLAM Limited on 8 October 2016 and Tracey Graham was appointed Chairman of Investment Funds Direct Limited (IFDL) on 2 September 2016. Andrew Palmer received additional fees of £92,700 per annum and Tracey Graham received £66,950 per annum to reflect the additional accountability and time commitment for chairing these respective subsidiary Boards. The annual fees for these two roles were independently benchmarked. In addition Kevin Parry was awarded an additional fee of £120,000 for fulfilling the role of Executive Chairman. The amounts received in 2019 have been included as additional fees in the table above. It is anticipated that the fees for the Chairman and non-executive directors will be reviewed in April 2020 and will be disclosed in the 2020 Annual Report.

Remuneration Committee meetings in 2019

The Remuneration Committee met eight times in 2019. In addition, a Joint Board Risk and Remuneration Committee meeting was held in March 2019. 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 2019, the members of the Committee were as follows:

- Tracey Graham (Chair)
- Sally Bridgeland
- Andrew Palmer

Advisers to the Committee

During the year the Committee received support from external advisers on specific matters. This included support in relation to the remuneration packages for executive director joiners and leavers during 2019, changes to the Directors' remuneration policy to align with the new UK Corporate Governance Code provisions and the new deferral vehicle approach for STIP and LTIS awards.

Deloitte LLP (Deloitte) provided services to the Company, and the Committee is satisfied that the provision of these services did not impair Deloitte's ability to advise the Committee independently. The Committee is satisfied that Deloitte remains independent of the Company and that the advice provided is impartial and objective.

Deloitte's total fees for the provision of remuneration services to the Committee for the year ended 31 December 2019 were £248,350. »

Activities of the Remuneration Committee during 2019

The table below sets out the principal activities of the Committee during 2019.

Area	Activity
Directors' remuneration policy	The Committee reviewed the Directors' remuneration policy and agreed the approach for the 2020 remuneration policy.
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.
Recruitment and termination awards	The Committee reviewed and approved the remuneration packages for joiners and leavers during 2019. This included the outgoing and the new Group Chief Executive, the Chief Risk Officer, and the Deputy Group Chief Executive & Group Finance Director.
Incentive scheme measures and targets	The Committee reviewed and agreed the measures and targets for the 2019 STIP, the 2019 LTIS and the 2019 RLAM LTIP.
Incentive scheme outcomes	The Committee reviewed STIP, LTIS and RLAM LTIP outcomes for 2019 in the context of overall Group performance and risk appetite. The sales incentive plan outcome was also reviewed in 2019.
Incentive scheme for 2020	The Committee had initial discussions in respect of the schemes to be implemented in FY2020.
Joint risk and remuneration meeting	The Committee held a joint meeting with the Board Risk Committee to jointly consider any required risk adjustments to variable pay outcomes.
Regulatory considerations	The Committee ensured the Group complies and is up to date with all prevailing regulations – including, for example, the Solvency II Remuneration Policy Statement submission.
UK Corporate Governance Code	The Committee continued to review Royal London's response to the new requirements under the new Code.
Corporate citizenship	The Committee approved gender pay gap reporting for 2019 and reviewed targets for the Women in Finance initiative.
Executive directors' remuneration proposal	The Committee considered and agreed the remuneration of the Group's new Group Chief Executive.
RLAM remuneration policy	The Committee continued its review of its approach to RLAM remuneration policy, and reviewed all RLAM STIP and LTIP schemes as part of an annual reward cycle and in the context of the FCA requirements.
Talent and Reward Strategy	The Committee continued to receive updates on the review of the Group's approach to the Talent and Reward Strategy.
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. An effectiveness review was also undertaken by the Group during Q4 2019 and found that the Committee had fulfilled its duties under its terms of reference during the year.
Governance	The Committee reviewed and agreed the creation of the new People Compensation and Regulatory Committee to ensure better alignment between Reward, Risk, Compliance, Legal and – where appropriate – Internal Audit.
Other allowances	The Committee reviewed the allowances in place for executive directors and agreed the creation of a new Travel and Accommodation Policy.

Members' views on remuneration matters

At the AGM on 5 June 2019, members passed the annual advisory vote on the annual report on remuneration. 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	38,478 (97.8%)	869 (2.2.%)	447

Policy implementation for 2020

The following sections set out the proposed remuneration for executive and non-executive directors for 2020 in line with the policy, including details of salary increases and short- and long-term incentive awards.

Executive directors' remuneration

Salaries

The salaries for the executive directors have been reviewed by the Committee. The following table sets out the annual salaries payable to each executive director from 1 April 2020. As part of that process, it reviewed independent benchmarking data and the performance of both the individuals and the Group as a whole, as well as the pay review arrangements that apply to all employees of Royal London.

	2020 (£000)	2019 (£000)	% difference
Barry O'Dwyer	700	680	2.9

Pension and benefits

In line with policy. The maximum pension contribution is 12% of salary.

STIP opportunities and performance measures for 2020

2020 STIP opportunities

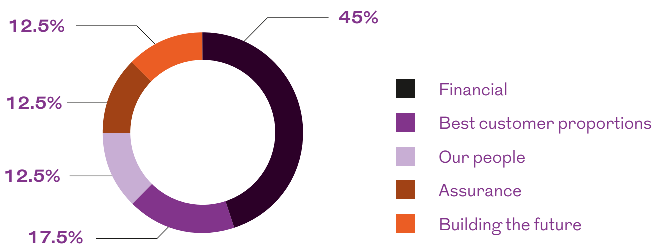
The table below details the maximum STIP opportunity for 2020 for Barry O'Dwyer.

	Maximum (as % of salary)
Barry O'Dwyer	150

Performance measure selection and approach to target setting: 2020 STIP

Performance will continue to be assessed against a scorecard covering five areas of performance, and will also take into account the personal performance rating for the individual executive director.

For 2020 the measures and weights are as follows:



Payment of 40% of any amount earned under the STIP is deferred for up to three years. Previously deferred awards were linked to the value of a unit (an 'EEV unit'), which linked participants holding to changes in the value of the Group; this methodology is no longer supported by our accounting approach so we will no longer be awarding units linked to EEV. Instead, the Committee has taken the view that it would be more appropriate for deferred STIP and LTIS awards to be linked to the funds that our members are invested in, to further increase the alignment between remuneration outcomes and our members.

The Committee is committed to disclosing as much information as is commercially possible. Actual targets set for each measure will be disclosed in the directors' remuneration report for 2021, unless the Committee considers them too commercially sensitive to disclose at that time.

LTIS opportunities and performance measures for 2020

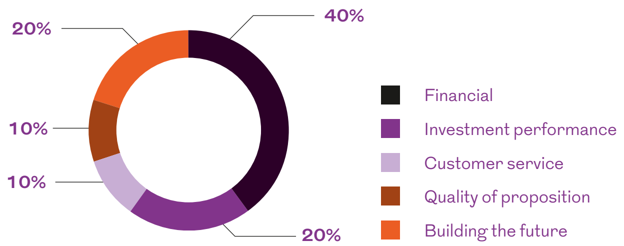
2020 LTIS opportunities

The following awards will be granted to executive directors.

	Face value (as % of salary)	% vesting for plan performance	End of performance period
Barry O'Dwyer	125	45	31 December 2022

Performance measure selection and approach to target setting: 2020 LTIS

The performance measures for 2020 LTIS are anticipated to be as follows.



The 2020 LTIS award may also be subject to discretionary adjustment by the Committee, based on a basket of measures that include, but are not limited to, strategic milestones and performance relative to peers.

Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2022, unless the Committee considers them too commercially sensitive to disclose.

Non-executive directors

Fees remain unchanged to 31 March 2020. A non-executive director fee review will be taking place during 2020.

The annual base fee for non-executive directors up until 31 March 2020 is £75,500. Additional fees are payable for Committee chairmanship as follows:

- Board Risk Committee: £22,000
- Investment Committee: £16,000
- With-Profits Committee: £20,000
- Audit Committee: £22,000
- Remuneration Committee: £22,000
- Chair of RLAM: £92,700
- Chair of IFDL: £66,950

The annual fee for the Group Chairman is £310,000 and the annual fee for the Senior Independent Director is £13,500.

The Annual report on remuneration was approved by the Board and signed on its behalf.

Tracey Graham
Chair of the Remuneration Committee

Directors' report and other disclosures

Overview of directors' responsibilities for the year ended 31 December 2019

The directors present their report for the year ended 31 December 2019 for The Royal London Mutual Insurance Society Limited (Registered Number 99064) (the Company). The Directors' report, prepared in accordance with the requirements of the Companies Act 2006, should be read together with the Strategic report and the Corporate Governance statement, which are incorporated by reference into this Directors' report.

Corporate Governance
The Corporate Governance statement setting out how the Company complies with the UK Corporate Governance Code (Code), including information about the principal risks and uncertainties associated with the business, is on pages 65 to 68. 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 to the extent that it is relevant to mutual companies.

Section 172 statement
We work for our members, taking account of our responsibilities to other Royal London stakeholders, in accordance with the directors' statutory duties under Section 172 of the Companies Act 2006. Pages 84 and 85 provide more detail on our engagement with our key stakeholders, including employees.

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 23 to the financial statements.

Going concern accounting basis
After making enquiries, the directors are satisfied that the Group has adequate resources to continue to operate as a going concern for the foreseeable future, and have prepared the financial statements on that basis. There are no material uncertainties to our ability to adopt the going concern basis of accounting.

Dividend
The Company is limited by guarantee without share capital and therefore no dividends are declared.

Annual General Meeting (AGM)
The AGM of the Company will be held at 1pm on Wednesday 3 June 2020, at One Whitehall Place, Westminster, London SW1A 2HE. 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 the following link: royallondon.com/about-us/members/agm

Directors
The names of the directors who were in office at the date of signing the Annual Report and Accounts, along with their biographies, are set out on pages 75 to 76. The names of all directors during the year, including changes during the period as well as subsequent to the year-end are set out on page 83.

Other than Andrew Palmer (who will retire from the Board on 3 April 2020), and in accordance with the Code, our directors are subject to annual re-election. The details of the executive directors' service contracts are set out in the Directors' remuneration report on pages 104 to 125. None of the directors has, or had, an interest in the equity shares of any Group undertaking.

Directors' indemnities
The directors have the benefit of a qualifying third-party indemnity provision (as defined in Section 234 of the Companies Act 2006). The Group also maintains directors' and officers' liability insurance in respect of itself and its directors.

Directors and their interests
In accordance with the articles of association (available on the Group's website), 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.

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.

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 22 to the financial statements.

Political and charitable donations
No political donations were made in 2019 (2018: £Nil).Foundation grants and community donations totalled £671,625 (2018: £455,000).

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 our business.

Auditors
A resolution for the reappointment of PricewaterhouseCoopers LLP (PwC) as auditors of the Group will be proposed at the AGM in June 2020. 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 auditors are unaware; and

- each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

During 2016, the European Union (EU) Audit Legislation came into effect, and as a result the Group must rotate auditors by no later than 2023 (effective for the year ending 31 December 2024). Further details on this year's review can be found in the report of the Audit Committee on pages 86 to 89.

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. Under that law, the directors have elected to prepare the Company and Group financial statements in accordance with IFRS, as adopted by the EU. Under company law the directors must not approve the Annual Report and Accounts unless they are satisfied that it provides a fair, balanced and understandable view of the state of affairs of the Company and the Group, and of the profit or loss and cashflow 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 IFRS, as adopted by the EU, have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on a going concern basis unless it is inappropriate to do so; 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 as they fall due over a defined period.

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 and the Directors' remuneration report comply with the Companies Act 2006.

It should be noted that legislation in the UK governing the preparation and dissemination of Annual Report and Accounts may differ from legislation in other jurisdictions.

The directors are responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for the maintenance and integrity of the Group's website.

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 page 75 and 76, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, cashflows and profit of the Group;

- the Strategic report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces (details of the Group's risk governance structure, are provided on pages 62 to 68); and

- 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.

The responsibilities statement was approved by the Board and signed on its behalf.

Directors' report

The Directors' report, prepared in accordance with the requirements of the Companies Act 2006, 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.

By order of the Board of The Royal London Mutual Insurance Society Limited (Registered Number 99064).

Fergus Speight
General Counsel and Company Secretary
For and on behalf of Royal London Management Services Limited
16 March 2020

DETERMINATION
IT CAN GET YOU ANYWHERE

FINANCIAL STATEMENTS

Our independent auditors' report, audited financial statements and related notes

Report on the audit of the financial statements

Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's Group financial statements and Parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2019 and of the Group's result and the Group's and the Parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; 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 Parent company balance sheets as at 31 December 2019; the Group consolidated statement of comprehensive income and the Group and Parent company statements of cash flows 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

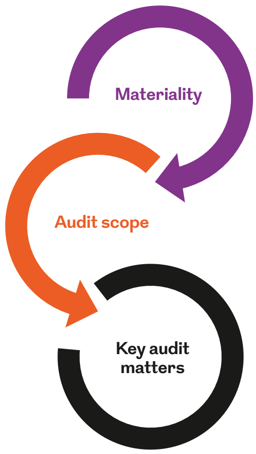
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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 or the Parent company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Group or the Parent company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Materiality:

- Overall Group materiality: £90m (2018: £90m), based on 2.3% of unallocated divisible surplus (UDS).
- Overall Parent company materiality: £85m (2018: £85m), based on 2.0% UDS.

Audit scope:

- A component was deemed to be individually financially significant and in-scope if it contained more than 10% of the total Group insurance or investment contract liabilities. A component was also deemed to be financially significant and in-scope if it contained significant balances relating to one of the areas of audit focus. For the one financially significant component identified, which was the Parent company, a full scope audit was performed.
- Additional balances from other components were selected to ensure sufficient coverage across all material financial statement line items. For the balances identified from these components, specified procedures were performed.
- Our audit scope allowed us to test 100% of the transfer to UDS and 99% of the total asset balance.
- 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 insurance contract liabilities and non-participating value of in-force business persistency assumptions (Group and Parent).
- Valuation of insurance contract liabilities – expense assumptions (Group and Parent).
- Pension scheme liability valuation (Group and Parent).
- Valuation of complex investments (Group and Parent).

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
Based on our understanding of the Group and Parent and its 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 we considered the extent to which non-compliance might have a material effect on the financial statements of the Group and Parent.

We also considered those laws and regulations that have a direct impact on the preparation of the financial statements of the Group and Parent such as the Companies Act 2006, the PRA's regulations, the UK tax legislation and equivalent local laws and regulations applicable to significant component teams. 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 life insurance contract liabilities, non-participating value of in-force business and acquired present value of in-force business.

The Group engagement team shared this risk assessment with the component auditors, referred to in the scoping section of our report below, 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 component auditors included:

- discussions with the Board, management, internal audit, senior management involved in risk and compliance functions and the Group's and Parent'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;

- reviewing relevant meeting minutes, including those of the Group Board, Board Risk Committee, the Investment Committee and the With-Profits Committee;

- reviewing data regarding policyholder complaints, the Group's and Parent's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;

- procedures relating to the valuation of life insurance contract liabilities, non-participating value of in-force business and acquired present 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; and

- designing audit procedures to incorporate unpredictability, including around the nature, timing or extent of our testing of suspense accounts.

There are inherent limitations in the audit procedures described above, and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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 that 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. »

Key audit matter	Analysis	How our audit addressed the key audit matter
Valuation of insurance contract liabilities and non-participating value of in-force business persistency assumptions	Persistency impacts the value of the Group insurance contract liabilities, non-participating value of in-force business and intangible assets. Insurance contract liabilities total £39.5bn (2018: £37.5bn) and non-participating value of in-force business totals £2.0bn (2018: £1.6bn) across the Group as at 31 December 2019. See notes 26 and 27 to the financial statements for more information. The Group financial statements include intangible assets relating to management's estimate of the acquired Present Value of In-Force business (PVIF), which total £44m (2018: £54m) across the Group as at 31 December 2019. See note 17 to the financial statements for more information. When valuing the future cash flows of insurance and investment contracts, 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 insurance contract liabilities and non-participating value of in-force business. The Group has material non-participating value of in-force business, being the value of the projected future profits arising from the income from servicing policies. The Group also has intangible assets, in particular the acquired PVIF, being the value of insurance contracts at the date of acquisition of those contracts. We focused on persistency because this is a significant assumption for these calculations. Persistency assumptions are driven by past experience (the experience investigations) and assumptions about future changes to policyholder behaviour. These changes are difficult to predict, and therefore there is judgement applied when setting an appropriate basis. Persistency 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. We focused on whether management had made appropriate assumptions against this background. Management changed its approach to setting persistency assumptions for pensions business for the year ending 31 December 2019, and a generalised linear model (GLM) is now used. This is a more sophisticated method of setting assumptions, reflecting a wider set of risk factors when setting assumptions for each product. However, it has increased the complexity of the assumption setting process. This is a key audit matter for both the Group and Parent company.	We tested management's controls over: • the accuracy of the data used in the experience investigations to ensure it is consistent with the data used in previous valuations; • the calculation of historical persistency (the experience investigations); • the implementation of the GLM for year-end 2019, including testing management's controls over the development of the model, the input of data into the model and the output of assumptions from the model; • the evidence of management review, in particular over the new GLM, ensuring adequate sign-off and reasons for changing assumptions; and • input of assumptions into the valuation models. With respect to the experience investigations, our testing included the following procedures: • We understood the governance process and methodology of the experience analysis process, in particular the implementation of the GLM. This included understanding the GLM process, assessing the appropriateness of the risk factors used in the model, the risk factors rejected, the goodness of fit of the model in explaining past persistency experience, the process, and challenging judgements made both in the modelling process and in the persistency assumptions chosen • We reviewed the assumption and experience analysis reports produced by management • We assessed any judgements applied, including prudent margins, understanding the impact and rationale for the application, comparing with our expectations • We examined past events in the data when considering the past experience observed, and whether these are representative of the likely future experience • We assessed the impact of the additional experience data obtained following pensions freedoms regulatory changes, and in particular the impact the regulatory changes have had in relation to retirement rates and conversion to different types of policy, such as drawdown, and the impact of these choices on persistency rates • We used our understanding of the expected impact of regulatory changes to test Management's assumptions by analysing the experience for lines of business that may be affected by changing policyholder behaviours as a result of these regulatory changes, in particular due to the increase in auto-enrolment statutory contribution rates in 2018 and 2019. We considered the impact that auto-enrolment on Group pensions business has on the rate of paid-up policies and the resulting judgements applied to set appropriate long-term assumptions • 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 This is an inherently subjective area. Based on the results of our testing, we concluded that the assumptions used were appropriately supported based on the evidence obtained.

Key audit matter	Analysis	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – expense assumptions	The Group financial statements include liabilities for the estimated future expenses that would be incurred in continuing to maintain the existing policies over their duration. These expense liabilities are included within the insurance contract liabilities of £39.5bn (2018: £37.5bn). See note 26 to the financial statements for more information. The expense assumptions are calculated using an activity based costing (ABC) model. The significant assumptions and judgements in this model are the overall recurring costs, together with the cost allocations between products. Products have different expected durations and therefore the allocation of costs impacts the total insurance liability. 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 estimate the future expenses that will be incurred and to calculate an appropriate liability for these expenses. The most significant area of risk with expense assumptions lies in the methodology used to categorise expenses between one-off, acquisition and maintenance, of which only the latter is used in the expense calculation. Any change in methodology applied could have a significant impact on the quantum of the expense liabilities. This is a key audit matter for both the Group and Parent 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 input into 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 • We assessed significant judgements made in setting the assumptions such as the split between acquisition and maintenance costs, the one-off project costs, 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 a sample of policies and products • We reviewed the Cost Allocations Group Committee (CAGC) and the Technical Review Committee (TRC) minutes. The CAGC reviews the ABC model output (unit cost/expense allocation) to identify and challenge any new/amended significant cost allocations and significant change in cost base. The CAGC approves the output prior to submission for ultimate approval to TRC • We compared the resulting expense assumptions to the expenses incurred over the prior 12 months, along with any known expected increases/decreases, in order to satisfy ourselves that the assumptions were sufficient in aggregate based on this trend analysis We found no material issues as a result of the testing performed.
Pension scheme liability valuation	The Royal London Group Pension Scheme has a surplus of £38m (2018: net surplus £74m), comprising assets of £2,743m (2018: £2,531m) and liabilities of £2,705m (2018: £2,457m). The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in assumptions about inflation, discount rates and mortality can have a material impact on the calculation of the liability and can be affected by a range of factors. We have focused on whether management has applied the appropriate assumptions given the current economic environment. This is a key audit matter for both the Group and Parent company.	We tested the reliability of the pension scheme input data used to determine the pension scheme valuation by: • testing the completeness and accuracy of the scheme data used by the actuary to calculate the pension liability by agreeing a sample of member records back to source documentation. We evaluated management's assumptions in relation to the valuation of the liabilities in the pension plan as follows: • We assessed, using PwC valuation experts, the appropriateness of the discount rate, Retail Price Index/Consumer Price Index (inflation) spread and life expectancy of both pensioners and non-pensioners to identify whether they were consistent with prior years and within a tolerable range. The tolerable range was estimated using an internally developed range of acceptable assumptions for valuing pension liabilities based on our view of various economic indicators We found no material issues as a result of this testing performed.

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Key audit matter	Analysis	How our audit addressed the key audit matter
Valuation of complex investments	The Group holds investments in property, private equity funds and hedge funds with a total value of £7,610m (2018: £4,699m). We focused on this area because the valuations of these investments are material, complex and include estimates and significant judgement due to limited or no observable market prices. The valuation of investment property is determined by management's valuation experts and assessed by management. The valuation of investments in private equity and hedge funds is determined by the underlying fund manager on a periodic basis, and assessed by management. This is a key audit matter for both the Group and Parent company.	We performed testing for directly held property as follows: • We obtained valuation reports from management's valuation experts and assessed their independence and competency • We assessed the assumptions and methodology used by management's valuation experts by using internal PwC valuation experts to check these were appropriate. We found the assumptions were supported by the audit evidence obtained • We agreed a sample of inputs used by management's valuation experts to source documentation • We found that the inputs and assumptions used to value the investment property were supported by audit evidence obtained and in line with industry practice. We performed detailed testing for private equity and hedge funds as follows: • 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 confirmed the latest available fund valuation to statements provided by underlying fund managers or administrators • 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 found that, based on the testing performed, the valuations were supported by the evidence obtained.

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 Parent 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 insurance or investment contract 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 component identified, being the Parent 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 UDS 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:

	Group financial statements	Parent company financial statements
Overall materiality	£90m (2018: £90m).	£85m (2018: £85m).
How we determined it	2.3% of UDS.	2.0% of UDS.
Rationale for benchmark applied	We believe that UDS is the most applicable measure to use. This is because we regard UDS 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.	We believe that UDS is the most applicable measure to use. This is because we regard UDS 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 £3.2m and £85m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to it misstatements identified during our audit above £4.25m (Group audit –2018: £4.25m) and £4.25m (Parent company audit – 2018: £4.25m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements, and the directors' identification of any material uncertainties to the Group's and the Parent company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's business, clients, suppliers and the wider economy.

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 the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated). »

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent 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. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
As a result of the directors' reporting on how they have applied the UK Corporate Governance Code (the 'Code'), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on pages 69 and 70 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 69 and 70 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions
As a result of the directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on pages 126 and 127, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 86 to 89 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities set out on page 127, 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 Parent 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 Parent 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.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 Parent 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 received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent 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 Parent 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 20 years, covering the years ended 31 December 2000 to 31 December 2019.

Other voluntary reporting
Going concern
The directors have requested that we review the statement on page 70 in relation to going concern as if the Parent company were a premium listed company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
The directors have requested that we perform a review of the directors' statements on pages 126 and 127 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Parent company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions
The directors have prepared a corporate governance statement and requested that we review it as though the Parent 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 Parent 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 Parent 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 Parent company were a quoted company.

In our opinion, the part of the 2019 Annual report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Thomas Ro

Thomas Robb
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 March 2020

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Notes	Group 2019 £m	Group 2018 £m
Revenue			
Gross earned premiums	3 (a)	**1,009**	1,171
Premiums ceded to reinsurers		**(333)**	(180)
Net earned premiums		**676**	991
Fee income from investment and fund management contracts	4	**402**	327
Investment return	5	**11,561**	(2,679)
Other operating income	6	**58**	58
Total revenues		**12,697**	(1,303)
Policyholder benefits and claims			
Claims paid, before reinsurance	7 (a)	**(2,984)**	(2,721)
Reinsurance recoveries	7 (a)	**524**	506
Claims paid, after reinsurance		**(2,460)**	(2,215)
(Increase)/decrease in insurance contract liabilities, before reinsurance		**(1,967)**	2,918
Reinsurance ceded		**(66)**	(256)
(Increase)/decrease in insurance contract liabilities, after reinsurance		**(2,033)**	2,662
Increase in non-participating value of in-force business		**375**	137
(Increase)/decrease in investment contract liabilities		**(6,754)**	1,558
Total policyholder benefits and claims		**(10,872)**	2,142
Operating expenses			
Administrative expenses	8	**(635)**	(588)
Investment management expenses	10	**(392)**	(361)
Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets	17	**(114)**	(62)
Investment return attributable to external unit holders	35	**(82)**	285
Other operating expenses	11	**(110)**	(176)
Total operating expenses		**(1,333)**	(902)
Finance costs	12	**(56)**	(48)
Result before tax and before transfer to/(deduction from) the unallocated divisible surplus		**436**	(111)
Tax (charge)/credit	13 (a)	**(211)**	63
Transfer to /(deduction from) the unallocated divisible surplus	30	**225**	(48)
Result for the year		**-**	-
Other comprehensive income:			
Items that will not be reclassified to profit or loss, net of tax			
Remeasurements of defined benefit pension schemes	19 (b)	**(36)**	53
Items that may be reclassified to profit or loss, net of tax			
Foreign exchange rate movements on translation of group entities		**(4)**	-
(Deduction from)/transfer to the unallocated divisible surplus	30	**(40)**	53
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**-**	-

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

Balance sheets

as at 31 December 2019

		Group		Parent company	
		2019	2018	**2019**	2018
	Notes	**£m**	£m	**£m**	£m
ASSETS					
Property, plant and equipment	14	**105**	75	**13**	-
Investment property	16	**7,248**	6,834	**4,512**	4,073
Intangible assets					
Goodwill	17	**229**	229	**229**	229
Acquired PVIF on insurance contracts	17	**44**	54	**44**	54
Other intangible assets	17	**70**	101	**69**	99
Total intangible assets		**343**	384	**342**	382
Deferred acquisition costs on investment contracts	18	**283**	304	**283**	304
Reinsurers' share of insurance contract liabilities	26	**5,007**	5,070	**4,966**	5,070
Pension scheme asset	19	**169**	213	**169**	213
Current tax asset		**12**	37	**12**	45
Financial investments	22	**99,319**	82,567	**51,598**	44,555
Investments in Group entities	23	**-**	-	**42,774**	35,474
Trade and other receivables	24	**969**	895	**588**	587
Cash and cash equivalents	25	**3,324**	2,881	**1,332**	1,205
Total assets		**116,779**	99,260	**106,589**	91,908
LIABILITIES					
Participating insurance contract liabilities	26	**32,646**	30,628	**32,645**	30,628
Participating investment contract liabilities	28	**2,248**	2,061	**2,247**	2,061
Unallocated divisible surplus	30	**3,998**	3,813	**4,244**	4,075
Non-participating value of in-force business	27	**(2,001)**	(1,625)	**(2,001)**	(1,625)
		36,891	34,877	**37,135**	35,139
Non-participating insurance contract liabilities	26	**6,858**	6,909	**6,902**	6,909
Non-participating investment contract liabilities	28	**54,027**	42,652	**54,027**	42,652
		60,885	49,561	**60,929**	49,561
Subordinated liabilities	31	**1,331**	745	**1,331**	745
Payables and other financial liabilities	32	**6,907**	5,968	**6,594**	5,898
Provisions	33	**286**	294	**270**	266
Other liabilities	34	**230**	261	**136**	152
Liability to external unit holders	35	**10,068**	7,428	**-**	-
Deferred tax liability	36	**179**	125	**192**	145
Current tax liability		**2**	1	**2**	2
Total liabilities		**116,779**	99,260	**106,589**	91,908

The Parent company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a parent company statement of comprehensive income. The Parent company is a mutual company and consequently the result for the year is reported as £nil after a transfer to or deduction from the unallocated divisible surplus.

The financial statements on pages 138 to 220 were approved by the Board of Directors and signed on its behalf on 16 March 2020.

Barry O'Dwyer

Barry O'Dwyer
Group Chief Executive

Registered number: 99064 (England & Wales)
The Royal London Mutual Insurance Society Limited
55 Gracechurch Street, London, EC3V 0RL

Statements of cash flows

for the year ended 31 December 2019

	Notes	Group 2019 £m	Group 2018 £m	Parent company 2019 £m	Parent company 2018 £m
Cash flows from operating activities					
Transfer to the unallocated divisible surplus		**185**	5	**171**	140
Adjustments for non-cash items	40 (a)	**4,930**	6,434	**4,383**	5,336
Adjustments for non-operating items	40 (b)	**54**	49	**36**	(3)
Acquisition of investment property		**(659)**	(723)	**(552)**	(523)
Net acquisition of financial investments		**(7,915)**	(4,983)	**(5,004)**	(3,535)
Proceeds from disposal of investment property		**66**	186	**37**	137
Changes in operating receivables		**(74)**	(244)	**(7)**	(148)
Changes in operating payables		**888**	(1,248)	**668**	(1,033)
Change in liability to external unit holders		**2,640**	643	**-**	-
Net cash flows from operating activities before tax		**115**	119	**(268)**	371
Tax paid		**(129)**	(103)	**(90)**	(67)
Net cash flows from operating activities		**(14)**	16	**(358)**	304
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(25)**	(39)	**-**	-
Acquisition of intangibles		**(70)**	(105)	**(69)**	(78)
Acquisition of Group entities	40 (d)	**-**	-	**(118)**	(295)
Proceeds from disposal of Group entities	40 (d)	**4**	4	**-**	4
Dividends received from Group entities		**-**	-	**131**	56
Net cash flows from investing activities		**(91)**	(140)	**(56)**	(313)
Cash flows from financing activities					
Proceeds on issue of debt		**586**	-	**586**	-
Interest paid		**(56)**	(48)	**(56)**	(48)
Net cash flows from financing activities		**530**	(48)	**530**	(48)
Net increase/(decrease) in cash and cash equivalents		**425**	(172)	**116**	(57)
Cash and cash equivalents at 1 January		**2,833**	3,005	**1,160**	1,217
Cash and cash equivalents at 31 December	25	**3,258**	2,833	**1,276**	1,160

An integral part of the operations of the Group is the management of a portfolio of investment assets. Cash flows relating to the purchase and sale of these assets have been treated as operating cash flows for the purposes of the statements of cash flows. In the Parent company, Open Ended Investment Companies (OEICs) and other investment funds that are classified for financial reporting purposes as subsidiaries are also part of this operating portfolio of investment assets and hence cash flows in relation to these assets are also classified as operating cash flows for the Parent company statement of cash flows.

Notes to the financial statements

for the year ended 31 December 2019

1. Accounting policies

(a) Basis of preparation

The financial statements of the Group and the Parent company ('the financial statements') have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union. The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by IFRS. The accounting policies set out below are reviewed for appropriateness each year. These policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

New and amended standards adopted by the Group

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

- IFRS 16, 'Leases', issued in January 2016, replaced IAS 17 with effect from 1 January 2019. The Group has adopted IFRS 16 retrospectively, but as permitted under the transition provisions of the standard, comparatives for the year ended 31 December 2018 have not been restated. The adjustments arising from the new leasing rules have therefore been recognised in the opening balances as at 1 January 2019 with the cumulative impact recognised in the unallocated divisible surplus at that date. The majority of those leases previously recognised as operating leases are now reported on the balance sheet as right of use assets within 'Property, Plant and Equipment' and the corresponding liabilities to pay future rentals are recognised within 'Payables and other financial liabilities'. On transition, the Group has elected to apply the standard only to those contracts that were previously assessed as leases under IAS 17 and IFRIC 4. Additionally, the Group has elected to use the exemptions available in the standard not to recognise short-term (less than 12 months) leases or leases of low value.

  The implementation of IFRS 16 has not had a material impact on the Group's financial statements.

- IFRIC 23, 'Uncertainty over Income tax treatment', which was issued in June 2017 and effective from 1 January 2019. This interpretation provides guidance on the measurement and recognition requirements of IAS 12 when there is some uncertainty over the tax treatment. The application of IFRIC 23 has not had a material impact on the Group.

- Amendments to IAS 19, 'Employee Benefits' on plan amendment, curtailment or settlement, issued in February 2018. These amendments require entities to use updated assumptions to determine current service cost and net interest in a period following a plan amendment, curtailment or settlement. The amendments have not had a material impact on the Group's financial statements.

- Annual Improvements to IFRS 2015-17 Cycle, issued in December 2017, consist of minor amendments to IFRS 3 'Business Combinations', IFRS 11, 'Joint Arrangements', IAS 12, 'Income taxes' and IAS 23, 'Borrowing Costs', none of which have had a material impact on the Group.

- Amendments to IAS 28, 'Investments in Associates' on long-term interests in associates and joint ventures have not had a material impact on the Group.

New and amended standards not yet effective

The following new and amended standards, which have been issued but are not yet effective, have not been applied in these financial statements. The Group's assessment of the impact of these new standards is set out below.

- IFRS 9, 'Financial Instruments', final version issued in July 2014. This standard covers the classification and measurement of financial instruments, impairment and hedge accounting.

  - The number of classifications for financial assets is reduced to three: amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification of the Group's financial assets and liabilities is not expected to change as a result of implementing IFRS 9.

  - The IFRS 9 impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under IAS 39. It applies to financial assets held at amortised cost and will therefore only apply to the Group's trade and lease receivables and to intercompany balances between the Parent company and its subsidiaries. It is not expected to have a material impact on the Group. All other financial assets will continue to be held at FVTPL.

  - The Group does not hedge account so this section of IFRS 9 is not relevant.

  Although effective from 2018, the Group has deferred implementation of IFRS 9 in accordance with the amendment to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. Using the December 2015 balance sheets, as required, it has been determined that both the Group and the Parent company meet the criteria for applying the temporary exemption:

  - neither has previously adopted any version of IFRS 9;

  - both the Group and Parent company's activities are predominately connected with insurance, as evidenced by the fact that the carrying amount of liabilities within the scope of IFRS 4 is significant when compared to the carrying amount of total liabilities; and

  - the percentage of the Group and Parent company's liabilities connected with insurance exceeds 90% of total liabilities. Included within those liabilities 'connected with insurance', as permitted by the Standard were: £24,982m of non-participating investment contract liabilities, £745m of subordinated debt and £2,804m of payables arising under reinsurance contracts.

The Group has included the additional disclosure requirements in relation to IFRS 9 required by the amendment to IFRS 4 in notes 20 and 41(c).

- IFRS 17, 'Insurance contracts', issued in May 2017 and effective from 1 January 2021. After careful consideration, the Group has decided that UK GAAP is a more suitable basis for a UK mutual than IFRS and intends to transition to UK GAAP with effect from 1 January 2020. The necessary restatements and reconciliations from IFRS to UK GAAP will be included in the Group's 2020 Interim Results Announcement.

There are no other standards or interpretations that have been issued but are not yet effective that would be expected to have a material impact on the Group.

1. Accounting policies (continued)

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Parent company and its subsidiaries.

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 over it, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 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. For acquisitions completed prior to 2010, the cost of business combinations also included any directly related expenses. For subsequent acquisitions, all acquisition costs are expensed as incurred. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

The excess of the cost of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of the business combination is less than the fair value of identifiable net assets acquired, the difference is recognised immediately in the statement of comprehensive income.

The Group has chosen to apply predecessor accounting to transactions whereby the trade and assets of a Group entity or the entity itself are transferred to another entity within the Group, known as common control business combinations. The effect of predecessor accounting is that the assets and liabilities recognised by the acquiring entity in such a transaction are those used previously in the Group consolidated accounts.

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 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 and therefore in addition to investment income from its holding in the funds, the Group also receives management fees from external unit holders. Where the Group's holding is greater than 50% it is presumed that it is exposed to variable returns from the fund and can use its power to influence those returns; in such cases the fund is consolidated. Conversely, where the Group's holding is less than 20% it is not considered to have significant influence over the fund and the fund is accounted for within financial investments at fair value. Holdings between 20% and 50% are assessed to determine whether the Group is deemed to have control; judgement is made around the concept of power and the factors taken into account include:

- the Group's level of combined interest in the fund (from investment income and management fees); and
- any rights held by other parties and the nature of those rights.

Where the funds are consolidated, the interests of the other parties are included within liabilities and are presented as 'Liability to external unit holders'. Holdings of internal investment funds of between 20% and 50%, which are not consolidated, because the Group is not deemed to be in control, are treated as 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 and have been accounted for as financial assets held at fair value through profit or loss as permitted by IAS 28, 'Investments in Associates and Joint Ventures'.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. A joint arrangement is accounted for as a joint operation when the Group, along with the other parties that have joint control, has rights to the assets and obligations for the liabilities relating to the arrangement. The Group's share of jointly controlled assets, related liabilities, income and expenses are reported with the equivalent items in the financial statements on a line-by-line basis.

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 partnership agreement and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the fund/unit trust should be consolidated.

(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.

1. Accounting policies (continued)

(d) Revenue

(i) Premiums
Premiums received and reinsurance premiums paid 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 created.

(ii) Fee income from investment and fund management contracts
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.

(iii) Investment return
Investment return comprises the investment income and fair value gains and losses derived from assets held at fair value through profit or loss, rental income and fair value gains and losses derived from investment property and interest income derived from cash and cash equivalents.

Investment income derived from assets held at fair value through profit or loss 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.

(iv) Commission income
The Group acts as an introducer for certain third-party insurers. Commission income and profit commission received on the underwriting results of those insurers is recognised in the statement of comprehensive income as the related services are provided.

(e) Claims
Claims paid and reinsurance recoveries 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. Reinsurance recoveries are accounted for in the same period as the related claim.

(f) Tax expense
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. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

(i) 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.

(ii) Deferred tax
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

(g) Property, plant and equipment
Owner-occupied land and buildings are 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, and is 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.

Other plant and equipment consisting of computer equipment, office equipment and vehicles are stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure directly attributable to the acquisition of the asset.

Subsequent costs 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.

Owner-occupied land and buildings are not depreciated. Depreciation on other items of property, plant and equipment 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 residual values and estimated useful lives are reviewed annually. Where an asset's carrying amount exceeds its recoverable amount the carrying amount is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

Right-of-use assets comprise those assets previously accounted for as operating leases under IAS 17. They are measured at cost, being the initial lease liability, and are depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

(h) Goodwill
Goodwill arising on the acquisition of subsidiaries is stated at cost less accumulated impairment costs. Goodwill is not amortised, but is tested for impairment annually or more frequently if circumstances indicate that it might be impaired. Any gain or loss on subsequent disposal of a subsidiary will include any attributable goodwill remaining.

1. Accounting policies (continued)

(i) Acquired PVIF
The present value of acquired in-force business (PVIF) arises on the acquisition of portfolios of investment and insurance contracts, either directly or through the acquisition of a subsidiary. It represents the net present value of the expected pre-tax cash flows of the contracts which existed at the date of acquisition and is amortised over the remaining lifetime of those contracts. The amortisation is recognised in the statement of comprehensive income and is calculated on a systematic basis to reflect the pattern of emergence of profits from the acquired contracts. Amortisation is stated net of any unwind of the discount rate.

(j) 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 software assets under development and not amortised at year end are reviewed for impairment annually.

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.

(k) Deferred acquisition costs
Deferrable acquisition costs for non-participating and hybrid participating investment contracts are recognised as an asset on the balance sheet, provided those costs are considered to be recoverable. Deferrable costs are restricted to the incremental costs incurred on the acquisition of new contracts. This includes 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.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

(l) Reinsurance
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.

Reinsurance assets represent short-term payments due from reinsurers and longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the underlying insurance contracts. Reinsurance liabilities represent premiums payable for reinsurance.

(m) Investments
(i) Investment property
Investment property includes land and buildings owned by the Group and those leased by the Group, as lessee, which are held as right-of-use assets.

Owned investment property is initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. Investment property held by the Group as lessee as a right-of-use asset is initially measured at cost in accordance with IFRS 16.

All investment property and right-of-use assets are subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

The carrying value of investment property differs from market value as it takes into account debtors arising from lease incentives which are shown separately within 'Trade and other receivables'.

(ii) Financial investments
All investment transactions are recognised at trade date.

All financial investments are classified upon initial recognition as held at fair value through profit or loss (FVTPL). The Group does not classify any financial investments as 'available for sale' or as 'held to maturity'. The FVTPL category has two sub-categories: financial assets held for trading and those designated as FVTPL. All derivative instruments are classified as held for trading as required by IAS 39, 'Financial Instruments: Recognition and Measurement'. All other financial investments are classified as designated as FVTPL. Financial assets that are designated as FVTPL are:

- financial assets held in the internal linked funds of the Group backing unit-linked insurance and investment contract liabilities. The designation of these assets at FVTPL 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; or
- financial assets managed and whose performance is evaluated on a fair value basis.

Financial assets classified as FVTPL, including derivatives classified as held for trading, 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 entities) 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.

(iii) Investments in Group entities
Investments in Group entities within the Parent company financial statements are designated as FVTPL. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined using the same valuation techniques as are used for unquoted investments, as described above.

1. Accounting policies (continued)

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest method.

(o) Leases

(i) Group acting as lessee

As explained in note 1(a) above, the Group has changed its accounting policy for leases where the Group is the lessee as a result of adopting IFRS 16, which replaced IAS 17 from 1 January 2019.

Until 31 December 2018, leases under which substantially all the risks and rewards of ownership were assumed by the lessee were classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership was retained by the lessor were classified as operating leases. Payments under operating leases, net of lease incentives received, were recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

From 1 January 2019, the majority of leases are recognised on the balance sheet either as right-of-use assets within 'Property, Plant and Equipment' or within 'Investment Property' with corresponding liabilities in 'Payables and other financial liabilities'. Recognition is at the date at which the leased asset is available for use by the Group.

Right-of-use assets held by the Group for rental income and capital appreciation are recognised as investment property. Until 31 December 2018, leasehold investment property was accounted for as if it were leased under a finance lease.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease, where this can be readily determined; otherwise the Group's incremental borrowing rate is used.

(ii) Group acting as lessor

The adoption of IFRS 16 has not changed the Group's accounting for assets held as lessor.

Leases under which substantially all the risks and rewards of ownership are transferred by the lessor are classified as finance leases. The Group leases certain freehold buildings to third parties by way of finance lease. No amount is recognised within investment property for these. Instead an asset is recognised within 'Trade and other receivables' at an amount, which represents the Group's net receivable from finance leases and is initially equal to the net present value of the minimum lease rentals receivable at the inception of the lease.

As lease rentals are received, these are split between an interest element, calculated on an effective interest basis, which is credited to the statement of comprehensive income and a capital element, which reduces the finance lease receivable.

(p) Impairment

Goodwill is tested for impairment annually. The carrying amounts of other intangible assets, deferred acquisition costs, property, plant and equipment and financial assets (other than those at FVTPL) 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.

The value of acquired PVIF is assessed annually for impairment and any impairment is recognised in full in the statement of comprehensive income in the year it is identified.

For other non-financial assets, 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. These assets are tested for impairment whenever there is an indicator of impairment.

For financial assets (other than those at FVTPL) an impairment loss is recognised if the present value of the estimated future cash flows arising from the asset is lower than the asset's carrying value. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised in the statement of comprehensive income.

An impairment loss in respect of goodwill is never reversed. In respect of other non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. For financial assets (other than those at FVTPL) an impairment loss is reversed if there is a decrease in the impairment that can be related objectively to an event occurring after the impairment was recognised. 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.

(q) De-recognition 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.

(r) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents in the statement of cash flows are stated net of bank overdrafts.

(s) Insurance contracts and participating investment contracts

Under IFRS 4, 'Insurance Contracts', insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS. 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.

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.

1. Accounting policies (continued)

(s) Insurance contracts and participating investment contracts (continued)

Participating insurance and participating investment contracts
For participating insurance and participating investment contracts, the liabilities are determined in accordance with the measurement requirements of the former UK GAAP standard FRS 27, 'Life Assurance', which was adopted on transition to IFRS. Under FRS 27, the participating liabilities are measured using the PRA's realistic balance sheet regime. That regime was replaced by Solvency II with effect from 1 January 2016. However the Group is continuing to apply the realistic basis, including any waivers or guidance from the PRA that were in force on transition to Solvency II, because it is the measurement basis established on transition to IFRS. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic basis.

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 Parent company's Principles and Practices of Financial Management.

For the closed funds, any excess of the IFRS 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 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) Fund.

The present value of future profits on non-participating investment contracts, the value of future transfers from the Group's 90:10 with-profits funds and the value of administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds are accounted for as part of the calculation of the realistic value of participating contract liabilities. The value of administration and asset management arrangements can be allocated to participating policies and so the participating liabilities are shown net of this item. The future profits on non-participating investment contracts and the value of future transfers cannot be allocated to particular participating liabilities and so are shown as a separate negative liability on the face of the balance sheet, the 'non-participating value of in-force business'.

Non-participating insurance contracts
For non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts. 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.

Liability adequacy test
A liability adequacy test is performed on insurance 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.

(t) 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.

(u) Unallocated divisible surplus

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 unallocated divisible surplus.

(v) Non-participating investment contracts

All the non-participating investment contracts issued by the Group are unit-linked. The financial liabilities for these contracts are designated at inception as at FVTPL. This classification has been used because it 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.

The fair value of a unit-linked financial liability 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.

(w) Premiums received and claims paid on investment contracts

For non-participating 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.

Amounts repaid as claims on non-participating investment and certain hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as a deduction from investment contract liabilities.

(x) Subordinated debt

Liabilities for subordinated debt 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 finance costs. 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.

1. Accounting policies (continued)

(y) Payables and other financial liabilities

(i) Reinsurance arrangement
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 an accounting mismatch.

Movements in the fair value of the liability are recognised in the statement of comprehensive income within premiums ceded to reinsurers. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within investment return.

(ii) Other financial liabilities
All other payables and financial liabilities are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently measurement is at amortised cost using the effective interest method.

(z) Provisions, contingent liabilities and contingent assets

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.

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.

(aa) Pension costs

The Group operates three defined benefit pension schemes and a number of defined contribution arrangements.

(i) Defined benefit pension schemes
The defined benefit pension 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. 'Current service cost' and the 'Net interest on the net defined benefit asset' are included within 'Administrative expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Administrative expenses'. Remeasurements are charged or credited to the unallocated divisible surplus 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.

(bb) Foreign currency translation

The primary economic environment in which the Group and the Parent company operate is the United Kingdom. Hence the functional currency of the Group and the Parent company is pounds sterling. 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.

(cc) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Board of Directors.

(dd) Use of judgements, estimates and assumptions

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 IFRS permits a choice of policy, the directors have applied judgement in determining the most appropriate policy as follows:

- measurement model for certain assets. IFRS allows a choice of measurement model for financial assets, investment property, property, plant and equipment and, in the Parent company balance sheet, investments in Group entities. This is typically a choice between a cost and a fair value model. The Group and Parent company have applied a fair value model to all these assets, with the exception of trade and other receivables and computers, office equipment and vehicles. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;
- measurement model for non-participating investment contracts. As set out in note 1 (v) these liabilities have been valued at fair value in order to match their valuation to the related assets;

1. Accounting policies (continued)

(dd) Use of judgements, estimates and assumptions (continued)

- valuation of financial assets in illiquid markets. The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique as described in note 1(m);
- 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. This decision requires the consideration of a number of factors. As set out in note 1(b) these include the Group's ownership interest, any other rights it has over the entity and the rights of third parties.

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 financial assets and liabilities - the fair value measurement note (note 21) 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;
- acquired VIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Goodwill and 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 17;
- insurance and investment contracts – the key assumptions used in calculating the year end insurance and investment contract liabilities are described in note 29. 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 33 and 37. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits; and
- pension schemes – note 19 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 Parent company's assets and insurance contract liabilities to insurance risk and market risk is analysed in note 41.

2. Segmental information

The segmental disclosures required under IFRS are based on operating segments that 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.

The segments have been restructured in 2019 with the removal of RLI DAC from Intermediary and now included in Other items.

Intermediary
Intermediary division distributes products via financial advisers to clients.

- Pensions: provides pensions and other retirement products to individuals and to employer pension schemes in the UK.
- UK Protection: provides protection products to individuals in the UK.

Consumer
Consumer sells direct to customers, selling insurance and protection products to consumers who can't access or don't want financial advice.

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.

Legacy
The Legacy segment comprises the operations of the Group which are closed to new business.

Other items

- RLI DAC provides protection products to individuals in the Republic of Ireland.
- IFDL is the wrap platform offering financial advisers a range of investments and tax wrappers.
- Centrally held items such as Group functions.

(a) Segmental EEV operating profit

The profit measure used by the Group Board of Directors to monitor performance is European Embedded Value (EEV) operating profit before tax. Further detail on the EEV results is given within the EEV section on pages 221 to 233. The EEV operating profit by operating segment is shown in the following table, together with a reconciliation of the total EEV operating profit before tax to the IFRS result before tax. Revenues by segment are not given as this information is not provided to the Group Board of Directors and consequently there is no reconciliation of reportable segments' revenues to the Group's revenue.

	Group	
	2019 £m	2018 Restated[1] £m
Intermediary		
• Pensions	245	388
• UK Protection	76	(16)
Consumer	16	25
RLAM	157	105
Legacy	89	80
Other items	(167)	(186)
EEV operating profit before tax	416	396
Amortisation of intangibles	-	(7)
Valuation differences between EEV and IFRS	(221)	(71)
Economic assumption changes and investment return variances	473	(204)
Pension schemes' costs recognised in result for the year	(36)	(27)
Financing costs	(56)	(48)
ProfitShare	(140)	(150)
IFRS result before tax and before transfer to/(deduction from) the unallocated divisible surplus	436	(111)

1 2018 figures have been reclassified into the 2019 operating segments, following the transfer of RLI DAC from Intermediary division into Other items, with no change to EEV operating profit before tax.

2. Segmental information (continued)

(a) Segmental EEV operating profit (continued)

Other items include strategic development costs relating to long-term projects, including implementation of our new pension technology and IT systems across the Group, and an impairment charge of £100m (2018: £28m arising within IFDL) arising on the pensions technology in the period. Refer to the supplementary EEV reporting on pages 221 to 233 for further detail on the EEV financial results.

(b) Geographical analysis

The table below presents IFRS revenue split by the geographic region in which the underlying business was written.

	Group – 2019			Group – 2018		
	UK £m	Ireland and other £m	Total £m	UK £m	Ireland and other £m	Total £m
Revenue						
Net earned premiums	619	57	676	940	51	991
Fee income from investment and fund management contracts	402	-	402	327	-	327
Investment return	11,561	-	11,561	(2,694)	15	(2,679)
Other operating income	52	6	58	24	34	58
Total revenue	12,634	63	12,697	(1,403)	100	(1,303)

(c) Major customers

The directors consider the Group and Parent company's external customers to be the individual policyholders. As such, the Group and Parent company are not reliant on any individual customer.

3. Premiums

(a) Gross earned premiums

	Group	
	2019 £m	2018 £m
Regular premiums		
• Insurance contracts	817	813
• Participating investment contracts	17	18
	834	831
Single premiums		
• Insurance contracts	172	337
• Participating investment contracts	3	3
	175	340
	1,009	1,171

(b) Premiums received on investment contracts

As set out in note 1(w) the Group does not account for the amounts received as premiums in relation to non-participating and certain hybrid participating investment contracts as premium income in the statement of comprehensive income. These amounts are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet. The amounts received by the Group during the year were £9,725m (2018: £8,842m) in respect of non-participating contracts and £12m (2018: £15m) in respect of hybrid participating contracts.

4. Fee income from investment and fund management contracts

	Group 2019 £m	Group 2018 £m
Investment contract fees receivable		
• Annual management charges applied to linked funds	**240**	168
• Policy administration fees	**6**	8
• Bid/offer spread and other charges	**1**	2
	247	178
Fund management fees receivable	**137**	129
	384	307
Change in deferred fee income	**18**	20
	402	327

5. Investment return

	Group 2019 £m	Group 2018 £m
Investment income from financial investments held at fair value through profit or loss	**2,705**	2,419
Fair value gains/(losses) from financial investments held at fair value through profit or loss	**8,737**	(5,532)
Rental income from investment property	**351**	314
Fair value (losses)/gains from investment property	**(169)**	195
Interest income from cash and cash equivalents	**36**	45
Net foreign exchange loss	**(99)**	(120)
	11,561	(2,679)

The fair value gains/(losses) from financial investments held at fair value through profit or loss (FVTPL) and the fair value (losses)/gains from investment property include both the net fair value gain and loss on the revaluation of assets held at the balance sheet date and the gains and losses realised on assets disposed of during the year. The significant movement in the year was driven primarily by strong performance in global and UK equity markets.

The fair value gains/(losses) from financial investments held at FVTPL include a gain of £21m (2018: loss of £122m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 32) and fair value gains of £147m (2018: losses of £86m) arising on financial investments classified as held for trading.

6. Other operating income

	Group 2019 £m	Group 2018 £m
Commission income	**11**	11
Foreign currency translation	**1**	3
IFDL – platform asset administration	**34**	34
Other	**12**	10
	58	58

IFDL other operating income is generated through the administration of assets on its wrap platform.

7. Claims

(a) Claims paid

	Group 2019 £m	Group 2018 £m
Claims paid, before reinsurance		
• Insurance contracts	**2,737**	2,567
• Participating investment contracts	**247**	154
	2,984	2,721
Reinsurance recoveries		
• Insurance contracts	**(524)**	(506)
Claims paid, after reinsurance		
• Insurance contracts	**2,213**	2,061
• Participating investment contracts	**247**	154
	2,460	2,215

(b) Claims on investment contracts

As set out in note 1(w) the Group does not account for the amounts paid out as claims in relation to non-participating and certain hybrid participating investment contracts as a claim expense in the statement of comprehensive income. These amounts are accounted for as deposits repaid and are deducted from the value of investment contract liabilities in the balance sheet. The amounts repaid by the Group during the year totalled £4,637m (2018: £3,430m) in respect of non-participating investment contracts and £46m (2018: £39m) in respect of hybrid participating investment contracts.

8. Administrative expenses by nature

	Group 2019 £m	Group 2018 £m
Staff costs	**195**	216
Movement in deferred acquisition costs on investment contracts (note 18)	**21**	40
Acquisition commission	**125**	125
Renewal commission	**31**	32
Depreciation and impairment of property, plant and equipment (note 14)	**11**	12
Information systems, maintenance and rent	**61**	43
Property costs	**15**	19
Regulatory, professional and administration fees	**98**	104
Movement in provision for future commission (note 33)	**3**	(14)
Other expenses	**75**	11
	635	588

8. Administrative expenses by nature (continued)

Auditors' remuneration, net of VAT

	Group	
	2019 £000	2018 £000
Fees payable to PwC for the audit of the Parent company and consolidated financial statements	**2,658**	2,758
Fees payable to PwC for other services:		
• Audit of the company's subsidiaries	**945**	820
• Audit related assurance services	**1,089**	1,227
• Tax compliance services	**-**	48
• Other assurance services	**162**	167
• Other non-audit services	**492**	710
	5,346	5,730

Other non-audit services of £0.5m (2018: £0.7m) represents: Internal Model validation of £0.2m, Issuance of Sub-debt assurance £0.1m, Board understanding of Solvency II and Controls maturity support totalling £0.1m, and other £0.1m.

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 act independently from the management of the Group.

Fees in respect of the Royal London Group Pension Scheme – Audit	**52**	51
Fees in respect of the Royal Liver Assurance Superannuation Fund – Audit	**16**	15
Fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI) – Audit	**14**	14
Fees in respect of Royal London Ireland Pension Plan – Audit	**5**	6
	87	86

Additional information on the non-audit services provided by the auditor is provided in the Corporate Governance report on page 89, including how objectivity and independence is safeguarded.

9. Staff costs

(a) Analysis of staff costs

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Wages and salaries	**304**	274	**283**	258
Social security contributions	**25**	23	**22**	22
Other pension costs – defined contribution arrangements (note 19)	**21**	19	**21**	19
Other pension costs – defined benefit schemes (note 19)	**5**	27	**5**	27
Termination benefits	**2**	2	**2**	2
	357	345	**333**	328

The Parent company pays its employees via a subsidiary company. Wages and salaries include contractor costs. The total staff costs of the Group of £357m (2018: £345m) are included within the consolidated statement of comprehensive income within the following lines:

	Group	
	2019 £m	2018 £m
Administration expenses (note 8)	**195**	216
Investment management expenses (note 10)	**60**	51
Other operating expenses (note 11)	**102**	78
	357	345

	Group		Parent Company	
	2019	2018	**2019**	2018
The average number of persons (including executive directors) employed during the year was:	**Number**	Number	**Number**	Number
Sales and sales support	**479**	481	**433**	438
Administration	**4,910**	4,437	**4,531**	4,117
	5,389	4,918	**4,964**	4,555

9. Staff costs (continued)

(b) Directors' emoluments

	Group	
	2019 £m	2018 (restated)[1] £m
Total emoluments	6	6
Long-term incentives vesting in the year	2	2

1 Following our change in approach to calculating the single figure for total remuneration for executive directors to align with the market standard calculation and the legislative requirements for listed firms, we have restated the 2018 figures for Phil Loney, Tim Harris and Jon MacDonald.

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 104 to 125. 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. The number of key management for the year, including executive and non-executive directors, was 31 for the Group and 26 for the Parent company (2018: 36 for the Group and 29 for the Parent company).

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
Salaries, short-term incentive plans and other benefits	17	18	13	13
Change in amounts payable under long-term incentive plans	8	9	5	7
	25	27	18	20

The Group's policy for determining key management remuneration, including 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 £7m as at 31 December 2019 (2018: £7m). The amount of long-term incentive plans exercised by key management during the year was £8m (2018: £9m).

10. Investment management expenses

	Group	
	2019 £m	2018 £m
Property expenses	38	41
Other transaction costs	18	28
Costs of in-house investment management operations – staff costs	60	51
Costs of in-house investment management operations – other	80	61
Distributions to external unit holders from consolidated funds	155	125
Other	41	55
	392	361

11. Other operating expenses

	Group	
	2019 £m	2018 £m
Operating interest payable	5	2
Provisions	(1)	43
Foreign currency translation	3	-
Other project costs – staff costs	102	78
Other project costs – other	1	53
	110	176

12. Finance costs

	Group	
	2019 £m	2018 £m
Finance costs comprise interest payable arising from:		
• Subordinated liabilities	**54**	47
• Other	**2**	1
	56	48

13. Tax charge/(credit)

(a) Tax charge/(credit) in the statement of comprehensive income

	Group	
	2019 £m	2018 £m
Tax has been provided as follows:		
UK and ROI corporation tax charge/(credit)		
• Current year	**116**	(4)
• Adjustments in respect of prior periods	**(7)**	(3)
	109	(7)
Foreign tax partially relieved against UK corporation tax	**48**	41
Deferred tax (note 36)	**54**	(97)
	211	(63)

All of the tax charge/(credit) in the statement of comprehensive income is included in the result for the year and there is no tax charge/(credit) within other comprehensive income.

(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 results of the Group as follows.

	Group	
	2019 £m	2018 £m
Result before tax and before transfer to/(deduction from) the unallocated divisible surplus	**436**	(111)
Tax calculated at the applicable tax rate[1]	**86**	(21)
Factors affecting tax charge:		
Accounting profit not subject to policyholder tax	**(73)**	2
Items taxed on a different basis	**153**	(107)
Items disallowed in tax computation	**(6)**	16
Group consolidation adjustments	**3**	5
Foreign tax partially relieved against UK corporation tax	**48**	42
Tax charge/(credit) for the year	**211**	(63)

1 Corporation tax in the statement of comprehensive income has been calculated at a rate of 20% (2018: 20%) on the taxable profits in respect of insurance business of the long-term fund and the taxable profits of the OEICs, at 12.5% (2018: N/A) on the taxable profits of the Irish subsidiaries of the long-term fund and at 19% (2018: 19%) on the taxable profits of the UK subsidiaries of the long-term fund.

The Finance Act 2016 reduced the rate of corporation tax to 17% from 1 April 2020. The impact of this reduction in tax rate, which is applicable to the UK subsidiaries of the long term fund, is reflected in the deferred tax charge above in accordance with applicable Accounting Standards. In the Budget on 11 March 2020 the Chancellor announced that a corporation tax rate of 19% will apply from 1 April 2020, although this has not yet been legislated. The increase in tax rate from 17% to 19% does not have a material impact on the deferred tax disclosed.

14. Property, plant and equipment

	Group 2019				Group 2018		
	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Right of use assets £m	Total £m	Owner-occupied land and buildings £m	Computers, office equipment and vehicles £m	Total £m
Cost or valuation							
At 1 January	71	45	-	116	48	31	79
Opening balance of right of use asset on implementation of IFRS 16	-	-	28	28	-	-	-
Additions	16	9	-	25	23	14	37
At 31 December	87	54	28	169	71	45	116
Accumulated depreciation and impairment losses							
At 1 January	(13)	(28)	-	(41)	(10)	(16)	(26)
Opening depreciation of right of use asset on implementation of IFRS 16	-	-	(10)	(10)	-	-	-
Depreciation charge	-	(8)	(3)	(11)	-	(12)	(12)
Impairment losses	(2)	-	-	(2)	(3)	-	(3)
At 31 December	(15)	(36)	(13)	(64)	(13)	(28)	(41)
Net book value							
At 1 January (restated)	58	17	18	75	38	15	53
At 31 December	72	18	15	105	58	17	75

	Parent company 2019
	Right of use assets £m
Cost or valuation	
At 1 January	-
Opening balance of right of use asset on implementation of IFRS 16	18
Additions	-
At 31 December	18
Accumulated depreciation and impairment losses	
At 1 January	-
Opening depreciation of right of use asset on implementation of IFRS 16	(3)
Depreciation charge	(2)
Impairment losses	-
At 31 December	(5)
Net book value	
At 1 January (restated)	15
At 31 December	13

For the purposes of the disclosure required by IAS 1, 'Presentation of Financial Statements', all property, plant and equipment held by the Group is classified as being held for more than 12 months from the balance sheet date.

The opening balance adjustment for right of use assets in 2019 arose on implementation of IFRS 16 (as noted in note 1(a)). These are the only property, plant and equipment assets held by the Parent company.

Owner-occupied land and buildings shown above are held on a freehold basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows.

	Group	
	2019 £m	2018 £m
Cost	74	61
Accumulated depreciation and impairment losses	(15)	(13)
Net book value	59	48

15. Leases

This note provides information on leases, where the Group is the lessee. The Group also acts as lessor for properties let under finance leases, as disclosed in note 24.

Amounts recognised in the balance sheet	Group 2019 £m	Group As at 1 January 2019 £m	Parent company 2019 £m	Parent company As at 1 January 2019 £m
Right-of-use assets:				
Buildings	15	18	13	15
Investment Property	636	720	412	443
Total	651	738	425	458
Lease liabilities:				
Expected to be settled within 12 months	5	1	3	-
Expected to be settled in more than 12 months	29	13	18	4
Total	34	14	21	4

In 2018, lease assets and liabilities were only recognised for leases that were classified as finance leases under IAS 17, which were all reported within investment properties. As set out in note 1 (a), the Group has implemented IFRS 16 from 1 January 2019 using the modified retrospective method, which has resulted in right-of-use assets and lease liabilities being recognised for some leases previously classified as operating leases under IAS 17.

Additions of £nil were made to right-of-use building assets during the year.

Amounts recognised in the statement of comprehensive income	Group 2019 £m	Parent company 2019 £m
Depreciation charge:		
Buildings	(3)	(2)
Interest expense on lease liabilities	(1)	(1)

The total cash outflow for leases in 2019 was £4m for the Group and £3m for the Parent company.

16. Investment property

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Fair value				
At 1 January	**6,834**	6,103	**4,073**	3,404
Additions				
• Capitalised expenditure on existing properties	**145**	115	**114**	112
• Acquisition of new properties	**513**	608	**499**	623
Disposals	**(65)**	(167)	**(38)**	(131)
Net (loss)/gain from fair value adjustments	**(179)**	175	**(136)**	65
At 31 December	**7,248**	6,834	**4,512**	4,073
Rental income from investment property	**351**	314	**211**	181
Direct operating expenses arising from investment property	**38**	41	**22**	20

For the purposes of the disclosure required by IAS 1, the amount of investment property at the balance sheet date that is classified as being held for more than 12 months is £7,159m for the Group (2018: £6,768m) and £4,489m for the Parent company (2018: £4,036m).

The fair value of investment property above includes right-of-use assets of £636m for the Group and £412m for the Parent company for property held under leasing arrangements. In 2018 the fair value of investment property included £720m for the Group and £443m for the Parent company for property held under finance leases.

The total direct expenses above relating to properties that did not generate income are £7m (2018: £7m) for the Group and £nil (2018: £2m) for the Parent 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, Cushman & Wakefield, and Knight Frank LLP. Fair value is determined using market and income approaches (note 21 (b)). In estimating the fair value of properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The net gain from fair value adjustments shown above represents the net fair value gain 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 company 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		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Not later than one year	**288**	274	**174**	162
Later than one year and not later than five years	**851**	838	**533**	519
Later than five years	**1,255**	1,493	**531**	536
	2,394	2,605	**1,238**	1,217

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Freehold	**2,099**	2,269	**1,170**	1,138
Leasehold	**295**	336	**68**	79
	2,394	2,605	**1,238**	1,217

17. Goodwill, Acquired PVIF and Other Intangible assets

The following tables show the movements in the intangible assets of the Group. The Parent company is not presented as it is not materially different to the Group.

	Group – 2019			
	Goodwill £m	Acquired PVIF on insurance contracts £m	Other intangible assets £m	Total £m
Cost				
At 1 January	250	1,013	419	1,682
Additions	-	-	73	73
At 31 December	250	1,013	492	1,755
Accumulated amortisation, impairment losses and disposals				
At 1 January	(21)	(959)	(318)	(1,298)
Amortisation charge	-	(9)	-	(9)
Impairment losses	-	(1)	(104)	(105)
At 31 December	(21)	(969)	(422)	(1,412)
Net book value				
At 1 January	229	54	101	384
At 31 December	229	44	70	343

Within 12 months	-	9	1	10
In more than 12 months	229	35	69	333
	229	44	70	343

Included within other intangible assets are software assets of £69m (2018: £101m). The net book value of intangible assets at 31 December 2019 can be analysed between amounts expected to be amortised (subject to annual impairment review) as shown above.

	Group – 2018			
	Goodwill £m	Acquired PVIF on insurance contracts £m	Other intangible assets £m	Total £m
Cost				
At 1 January	250	1,013	314	1,577
Additions	-	-	105	105
At 31 December	250	1,013	419	1,682
Accumulated amortisation, impairment losses and disposals				
At 1 January	(18)	(932)	(283)	(1,233)
Amortisation charge	-	(22)	(7)	(29)
Impairment losses	-	(5)	(28)	(33)
Disposals	(3)	-	-	(3)
At 31 December	(21)	(959)	(318)	(1,298)
Net book value				
At 1 January	232	81	31	344
At 31 December	229	54	101	384

17. Goodwill, Acquired PVIF and Other Intangible assets (continued)

The net book value of intangible assets at 31 December 2018 can be analysed between amounts expected to be amortised (goodwill subject to annual impairment review) and is shown below:

	Group – 2018			
	Goodwill £m	Acquired PVIF on insurance contracts £m	Other intangible assets £m	Total £m
Within 12 months	-	9	2	11
In more than 12 months	229	45	99	373
	229	54	101	384

(a) Goodwill

Goodwill is the only intangible asset that has an indefinite useful life. The carrying value of £229m comprises £119m (2018: £119m) relating to the acquisition of the former Resolution businesses and assets in 2008 and £110m (2018: £110m) in respect of the acquisition of Scottish Life in 2001.

Goodwill is tested for impairment annually. The impairment test involves comparing the carrying value of the goodwill to its recoverable amount on a cash-generating unit basis. The recoverable amount of the goodwill has been determined using a value-in-use calculation. This is determined as the present value of the expected profits arising from the future new business written by the relevant business unit. The key assumptions used for the value-in-use calculations are as follows:

- expected profits from future new business are based on the medium-term plan approved by the Board of Directors, which covers a five-year period, and as such reflects the best estimate of future profits based on both historical experience, expected inflation and growth rates of around 3%. Some of the assumptions that underlie the budgeted expected profits include customer numbers, premium rate and fee income changes, claims inflation and commission rates;
- growth rates – cash flows beyond that period have been assumed to grow at a steady rate of 2% per annum (2018: 1% per annum); and
- discount rate – the cash flows have been discounted using a risk-adjusted discount rate of 6% (2018: 6%).

For all goodwill items held on the Group and Parent company balance sheets as at 31 December 2019 the recoverable amount exceeds the carrying amount of the goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the goodwill to exceed its recoverable amount.

(b) Other intangible assets

Other intangible assets include software assets. 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 £100m (2018: £28m) where the carrying value of the intangible asset exceeds its recoverable amount. The impairment is reported within the 'Amortisation charges and impairment losses on goodwill, acquired PVIF and other intangible assets' 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 economic life of the software license are included. The cash flows are based on the medium-term 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 2% per annum;
- project cost 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 14.9%.

18. Deferred Acquisition Costs (DAC) on investment contracts

	Group and Parent company	
	2019 £m	2018 £m
Cost		
At 1 January	**348**	344
Additions	**-**	4
At 31 December	**348**	348
Accumulated amortisation		
At 1 January	**(44)**	-
Amortisation charge	**(21)**	(44)
At 31 December	**(65)**	(44)
At 1 January	**304**	348
At 31 December	**283**	304
Expected amortisation		
Within 12 months	**40**	42
In more than 12 months	**243**	262
Carrying amount at 31 December	**283**	304

Included within the DAC on investment contracts balance is an amount of £152m (2018: £149m) relating to anticipated future commission amounts. For further information refer to note 33.

19. Pension schemes

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), the Ascentric Group Personal Pension Plan (AGPPP) or the Royal London Ireland Pension Plan (RLIPP) according to their employment. The RLGPP, the AGPPP and the RLIPP are all defined contribution arrangements.

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 2019 is £21m (2018: £19m) and reported within staff costs (note 9(a)).

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.

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 £13m (2018: £13m) of liabilities, for which a provision is held in the Group's balance sheet.

The Group has agreed a funding framework with the RLGPS Trustees, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent 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.

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.

19. Pension schemes (continued)

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 Parent 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 arrears and interest.

(a) Amounts recognised in the balance sheet

The amounts recognised in the balance sheet for the Group and Parent company are shown in the following tables:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Fair value of plan assets	**3,367**	3,125	**2,743**	2,531	**386**	361	**238**	233
Pension scheme obligation	**(3,198)**	(2,912)	**(2,705)**	(2,457)	**(299)**	(269)	**(194)**	(186)
Net pension scheme asset	**169**	213	**38**	74	**87**	92	**44**	47

No contributions were made to the schemes in the year to 31 December 2019 (2018: none).

In accordance with paragraph 64 of IAS 19, '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. As defined under IFRIC 14, 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.

19. Pension schemes (continued)

(b) Reconciliation of pension scheme asset

The movement in the net pension scheme asset during the year can be analysed as follows.

	Group and Parent company		
Total	Present value of obligation £m	Fair value of plan assets £m	Total pension scheme surplus/(deficit) £m
At 1 January 2018	(3,120)	3,306	186
Costs recognised in result for the year:			
Administration costs	-	(4)	(4)
Interest (expense)/income	(74)	80	6
Past service cost	(29)	-	(29)
	(103)	76	(27)
Remeasurements recognised in OCI:			
Return on plan assets in excess of interest income	-	(112)	(112)
Changes in demographic assumptions	15	-	15
Changes in financial assumptions	127	-	127
Experience gains	23	-	23
	165	(112)	53
Other movements:			
Exchange differences	(1)	2	1
Benefit payments	147	(147)	-
At 31 December 2018	(2,912)	3,125	213
Costs recognised in result for the year:			
Administration costs	**-**	**(4)**	**(4)**
Interest (expense)/income	**(78)**	**84**	**6**
Past service cost	**(7)**	**-**	**(7)**
	(85)	**80**	**(5)**
Remeasurements recognised in OCI:			
Return on plan assets in excess of interest income	**-**	**306**	**306**
Changes in demographic assumptions	**35**	**-**	**35**
Changes in financial assumptions	**(390)**	**-**	**(390)**
Experience gains	**13**	**-**	**13**
	(342)	**306**	**(36)**
Other movements:			
Exchange differences	**10**	**(13)**	**(3)**
Benefit payments	**131**	**(131)**	**-**
At 31 December 2019	**(3,198)**	**3,367**	**169**

19. Pension schemes (continued)

(c) Analysis of plan assets

	Group and Parent company					
	2019			2018		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments:						
Fixed interest bonds	753	-	753	281	-	281
High-yield bonds	111	-	111	108	-	108
Index-linked bonds	840	-	840	848	-	848
Corporate bonds	944	11	955	851	11	862
Deposits with credit institutions (Repos)	-	(421)	(421)	-	(6)	(6)
Debt instrument investment funds	-	170	170	-	157	157
Deposits with credit institutions (Cash fund)	32	-	32	-	-	-
Equities	459	-	459	407	-	407
Equity investment funds	52	100	152	47	84	131
Diversified growth collective investment scheme	-	-	-	-	8	8
Property investment funds	212	54	266	223	55	278
Derivative instruments:						
Foreign exchange forwards	-	3	3	-	(1)	(1)
Interest rate and inflation swaps	-	(7)	(7)	-	(1)	(1)
Total return swaps	-	(13)	(13)	153	(149)	4
Cash and other receivables	-	67	67	-	49	49
Fair value of plan assets	3,403	(36)	3,367	2,918	207	3,125

The RLGPS IAS 19 plan assets include a total investment of £560m (2018: £517m) in Group managed funds.

(d) 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 2019 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 annual report and accounts of each scheme which are available on the Group's website.

19. Pension schemes (continued)

(e) Assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme asset for both the Group and the Parent company are shown below.

	2019		2018	
	UK %	ROI %	UK %	ROI %
Discount rate	**2.0**	**1.0**	2.8	1.8
Price inflation (RPI)	**3.0**	**N/A**	3.3	N/A
Price inflation (CPI)	**2.3**	**1.8***	2.2	1.7*

* 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 15 years junior, being 45 now). A weighted average is shown for the UK schemes.

	Group and Parent company					
	2019			2018		
	RLGPS	RL UK	RL ROI	RLGPS	RL UK	RL ROI
Pensioner						
Male	**26**	**26**	**26**	27	26	26
Female	**29**	**28**	**29**	29	28	29
Non-pensioner						
Male	**27**	**27**	**28**	28	27	28
Female	**30**	**29**	**30**	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	
	2019 £m	2018 £m
100 basis point decrease in discount rates	**635**	551
5% proportionate decrease in mortality	**44**	45
100 basis point increase in price inflation (RPI & CPI)	**359**	326

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.

(f) Maturity profile

The weighted average duration of the defined benefit obligation is 18 years (2018: 20 years).

20. Financial assets by measurement category

As set out in note 1(a), the Group has chosen to defer application of IFRS 9, 'Financial Instruments'. The table below shows an analysis of the Group's Financial assets split between those which are considered to have contractual terms that are solely payment of principal and interest (SPPI) on the principal amount outstanding (excluding assets managed or evaluated on a fair value basis) and all other financial assets not in that category.

	Group	
	2019	2018
FVTPL		
Financial Investments designated at FVTPL on initial recognition under IAS 39	**102,563**	86,437
Financial Investments classified as held for trading derivative assets under IAS 39	**4,229**	3,171
Other financial assets - SPPI	**928**	863
Total	**107,720**	90,471

	Parent	
	2019	2018
FVTPL		
Financial Investments designated at FVTPL on initial recognition under IAS 39	**94,800**	81,080
Financial Investments classified as held for trading derivative assets under IAS 39	**4,226**	3,171
Other financial assets - SPPI	**584**	582
Total	**99,610**	84,833

Financial assets that are classified above as SPPI consist of 'Trade and other receivables', where the carrying value is considered to be a reasonable approximation of fair value. The fair value of SPPI assets as at 31 December 2019 was £928m (31 December 2018: £863m) and the change in fair value in the year was an increase of £65m. All other financial assets are held on a fair value basis and have a value of £106,791m as at 31 December 2019 (31 December 2018: £89,608m) with a change in fair value in the year, which was an increase of £17,183m.

21. Fair value assets and liabilities

(a) 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 Parent 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 Parent 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, 7.7% (2018: 8.8%) of assets and 0% (2018: 0.3%) of liabilities are recorded as Level 3. At Parent company level, 9.1% (2018: 10.3%) of assets and 0% (2018: 0.3%) of liabilities are recorded as Level 3.

21. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Group – 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
• Quoted	32,726	32	-	32,758
• Unquoted	-	-	436	436
Debt and fixed income securities				
• Government bonds	16,342	1,566	-	17,908
• Other quoted	-	24,652	7	24,659
• Loans secured by policies	-	-	2	2
• Deposits with credit institutions	-	-	-	5,611
• Other unquoted	-	2,853	66	2,919
Other investments				
• Unit trusts and other pooled investments	10,424	-	373	10,797
Total financial investments designated as FVTPL	59,492	29,103	884	95,090
Financial investments classified as held for trading				
Derivative assets	-	4,229	-	4,229
Total financial investments	59,492	33,332	884	99,319
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	-	-	72	72
Investment property (note 16)	-	-	7,248	7,248
Future commission included in investment contract DAC (note 18)	-	-	152	152
Total assets at fair value	59,492	33,332	8,356	106,791
Liabilities held at fair value				
Non-participating investment contract liabilities (note 28)	-	(54,027)	-	(54,027)
Reinsurance liability (note 32)	-	(2,689)	-	(2,689)
Derivative liabilities (note 32)	-	(1,596)	-	(1,596)
Provision for future commission (note 33)	-	-	(152)	(152)
Liability to external unit holders (note 35b)	(10,068)	-	-	(10,068)
Total liabilities at fair value	(10,068)	(58,312)	(152)	(68,532)

Included in the figure for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments of £137m (2018: £196m).

Included in the figure for unquoted debt securities above is £2,689m (2018: £2,753m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 32).

Included in the figure for deposits with credit institutions is £1,150m (2018: £544m) of reverse repurchase deposits.

21. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Group – 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
• Quoted	27,140	23	2	27,165
• Unquoted	-	-	416	416
Debt and fixed income securities				
• Government bonds	13,368	1,600	-	14,968
• Other quoted	24	19,841	-	19,865
• Loans secured by policies	-	-	3	3
• Deposits with credit institutions	-	-	-	5,280
• Other unquoted	-	2,914	69	2,983
Other investments				
• Unit trusts and other pooled investments	8,332	-	384	8,716
Total financial investments designated as FVTPL	48,864	24,378	874	79,396
Financial investments classified as held for trading				
Derivative assets	-	3,171	-	3,171
Total financial investments	48,864	27,549	874	82,567
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	-	-	58	58
Investment property (note 16)	-	-	6,834	6,834
Future commission included in investment contract DAC (note 18)	-	-	149	149
Total assets at fair value	48,864	27,549	7,915	89,608
Liabilities held at fair value				
Non-participating investment contract liabilities (note 28)	-	(42,652)	-	(42,652)
Reinsurance liability (note 32)	-	(2,753)	-	(2,753)
Derivative liabilities (note 32)	-	(1,408)	-	(1,408)
Provision for future commission (note 33)	-	-	(149)	(149)
Liability to external unit holders (note 35b)	(7,428)	-	-	(7,428)
Total liabilities at fair value	(7,428)	(46,813)	(149)	(54,390)

21. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Parent company – 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
• Quoted	7,541	-	-	7,541
• Unquoted	-	-	436	436
Debt and fixed income securities				
• Government bonds	13,249	1,034	-	14,283
• Other quoted	-	11,186	6	11,192
• Loans secured by policies	-	-	3	3
• Deposits with credit institutions	-	-	-	1,437
• Other unquoted	-	2,853	66	2,919
Other investments				
• Unit trusts and other pooled investments	9,396	-	165	9,561
Total financial investments designated as FVTPL	30,186	15,073	676	47,372
Financial investments classified as held for trading				
Derivative assets	-	4,226	-	4,226
Total financial investments	30,186	19,299	676	51,598
Other assets held at fair value				
Investment property (note 16)	-	-	4,512	4,512
Investments in Group entities (note 23)	36,971	2,038	3,765	42,774
Future commission included in investment contract DAC (note 18)	-	-	152	152
Total assets at fair value	67,157	21,337	9,105	99,036
Liabilities held at fair value				
Non-participating investment contract liabilities (note 28)	-	(54,027)	-	(54,027)
Reinsurance liability (note 32)	-	(2,689)	-	(2,689)
Derivative liabilities (note 32)	-	(1,591)	-	(1,591)
Provision for future commission (note 33)	-	-	(152)	(152)
Total liabilities at fair value	-	(58,307)	(152)	(58,459)

Included in the figure for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £98m (2018: £175m).

Included in the figure for unquoted debt securities above is £2,689m (2018: £2,753m) in respect of a loan note held in respect of a reinsurance rearrangement (see note 32).

Included in the figure for deposits with credit institutions is £1,150m (2018: £544m) of reverse repurchase deposits.

21. Fair value assets and liabilities (continued)

(a) Fair value hierarchy (continued)

	Parent company – 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Financial investments designated at FVTPL				
Equity securities				
• Quoted	6,908	2	2	6,912
• Unquoted	–	–	413	413
Debt and fixed income securities				
• Government bonds	10,938	1,102	–	12,040
• Other quoted	2	10,085	–	10,087
• Loans secured by policies	–	–	3	3
• Deposits with credit institutions	–	–	–	906
• Other unquoted	–	2,914	67	2,981
Other investments				
• Unit trusts and other pooled investments	7,795	–	247	8,042
Total financial investments designated as FVTPL	25,643	14,103	732	41,384
Financial investments classified as held for trading				
Derivative assets	–	3,171	–	3,171
Total financial investments	25,643	17,274	732	44,555
Other assets held at fair value				
Investment property (note 16)	–	–	4,073	4,073
Investments in Group entities (note 23)	30,722	1,001	3,751	35,474
Future commission included in investment contract DAC (note 18)	–	–	149	149
Total assets at fair value	56,365	18,275	8,705	84,251
Liabilities held at fair value				
Non-participating investment contract liabilities (note 28)	–	(42,652)	–	(42,652)
Reinsurance liability (note 32)	–	(2,753)	–	(2,753)
Derivative liabilities (note 32)	–	(1,390)	–	(1,390)
Provision for future commission (note 33)	–	–	(149)	(149)
Total liabilities at fair value	–	(46,795)	(149)	(46,944)

21. Fair value assets and liabilities (continued)

(b) Fair value of the Group and Parent company's assets and liabilities that are measured at fair value on a recurring basis

The assets and liabilities outlined in the fair value hierarchy are measured at fair value on a recurring basis. The following table gives information about the valuation techniques and inputs used to develop those measurements.

Asset/liability	Valuation techniques and key inputs
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
Debt and fixed income securities – loans secured by policy	Carrying value
Debt and fixed income securities – other unquoted	Third party prices Mark to model
Other investments – unit trusts and other pooled investments – Quoted	Quoted prices in active market Quoted prices, insufficient activity to confirm active market
Other investments – unit trusts and other pooled investments – Unquoted	NAV
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).
Owner-occupied land and buildings	Income capitalisation & market comparison
Investment property	Income capitalisation & market comparison
Investment in Group entities – shares	Net present value of future projected cash flows, PE multiple and NAV/Carrying value
Investment in Group entities – loans	Carrying value
Investment in Group entities – investment funds	Quoted prices in an active market Quoted prices (insufficient activity to confirm active market) NAV provided by external fund manager
Future commission included in investment contract DAC	Present value of future projected cash flows
Non-participating investment contract liability	Determined by the fair value of the net assets of the underlying unitised investment fund
Reinsurance liability	Discounted cash flows are used to derive the fair value
Provision for future commission	Present value of future projected cash flows
Liability to external unit holders	Quoted prices in an active market

There are no fair value measurements in the balance sheet on a non-recurring basis.

21. Fair value assets and liabilities (continued)

(c) Fair value of the Group and Parent company's assets and liabilities that are not measured at fair value on a recurring basis (but the fair values are disclosed)

		Group and Parent company			
		2019		2018	
Asset/liability	Valuation techniques and key inputs	Fair value £m	Fair value hierarchy level	Fair value £m	Fair value hierarchy level
Subordinated liabilities	Quoted market price.	1,508	2	806	2

(d) Level 3 assets and liabilities

For the majority of level 3 investments, the Group and Parent company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and Parent 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.

The Audit Committee review the fair value measurements for level 3 investments and make recommendation to the Group Board to approve such valuation of investment assets at the half year and year end for inclusion in the financial statements.

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 IFRS result before tax for the year. Only changes in assets held by the Royal London Open Fund would impact the Group's total IFRS 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 2019 would result in a £nil increase or decrease in result before tax or total assets or liabilities; and
- for level 3 corporate bonds, increasing assumed yields at 31 December 2019 by 100bps would result in a decrease in result before tax and the fair value of the corporate bonds of £nil. Decreasing assumed yields at 31 December 2019 by 100bps would result in an increase in result after tax and the fair value of the corporate bonds of £nil.

21. Fair value assets and liabilities (continued)

(d) Level 3 assets and liabilities (continued)

Information about fair value measurements 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%-8.3% (5.2%)
		Estimated rental value per square foot	£13.68-£22.00 (16.29)
	Market comparison	Price per acre	£2,670,000
Equity securities – unquoted – private equity and property funds	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	Adjusted net asset value	Adjustment to net asset value	n/a
Investments in Group entities – shares	Net present value of future projected cash flows and PE multiple	RLUM	
		Per policy annual expenses:	
		Premium paying	£40.54
		Non-premium paying	£34.62
		Expense inflation	RPI +2.6%
		Rate card expenses:	
		Premium paying	£24.20
		Non-premium paying	£21.82
		Rate card expense inflation	RPI +0.5%
		Rate card fund expenses (%) pa	0.216%
		Tax	At enacted rates of corporation tax
		RLAM	
		PE multiple	15
Investments in Group entities – Loans	Carrying value	Carrying value	n/a
Provision for future commission	Present value of future projected cash flows	Future based renewal commission rated (%) p.a.	0.00%-1.00% (0.52 %)
		Investment return (%) p.a.	0.98%
		Surrender rate (%) p.a.	1.00%-24.00%
		Value of underlying funds at end 2019 (£m)	3,713

The Group and Parent company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period. £3m in the Group and the Parent company has been transferred from level 2 to level 1 as a quoted price in an active market was available as at 31 December 2019 (2018: £2m in the Group and the Parent company). In addition, £1m in the Group (2018: £7m) and £nil in the Parent company (2018: £7m) was transferred from level 1 to level 2, as although quoted prices were available at 31 December 2019, there was insufficient trading activity to evidence that the market was active at that date. Transfers in and out of Level 3 are disclosed in the tables overleaf.

21. Fair value assets and liabilities (continued)

(d) Level 3 assets and liabilities (continued)

Movement during the year in the level 3 assets and liabilities.

	Group – 2019				
	Financial investments £m	Owner-occupied property £m	Investment property £m	Future commission included in investment contract DAC £m	Total £m
At 1 January	874	58	6,834	149	7,915
Purchases	121	16	659	-	796
Sales	(95)	-	(66)	-	(161)
Net (losses)/gains recognised in statement of comprehensive income	(16)	(2)	(179)	3	(194)
At 31 December	884	72	7,248	152	8,356
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(31)	(2)	(182)	3	(212)

The movement during the year on the provision for future commission liability held within level 3 is outlined within note 33.

	Group – 2018				
	Financial investments £m	Owner-occupied property £m	Investment property £m	Future commission included in investment contract DAC £m	Total £m
At 1 January	867	38	6,103	-	7,008
Purchases	103	23	723	-	849
Sales	(138)	-	(167)	-	(305)
Net gains/(losses) recognised in statement of comprehensive income	21	(3)	175	-	193
Transfers into level 3	21	-	-	149	170
At 31 December	874	58	6,834	149	7,915
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(23)	(4)	220	(14)	179

21. Fair value assets and liabilities (continued)

(d) Level 3 assets and liabilities (continued)

	Parent company – 2019				
	Financial investments £m	Investment property £m	Investments in Group entities £m	Future commission included in investment contract DAC £m	Total £m
At 1 January	732	4,073	3,751	149	8,705
Purchases	89	613	237	-	939
Sales	(76)	(38)	(87)	-	(201)
Net (losses)/gains recognised in statement of comprehensive income	(69)	(136)	(135)	3	(337)
At 31 December	676	4,512	3,766	152	9,106
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(85)	(135)	(135)	3	(352)

The movement during the year on the provision for future commission liability held within level 3 is outlined within note 33.

	Parent company – 2018				
	Financial investments £m	Investment property £m	Investments in Group entities £m	Future commission included in investment contract DAC £m	Total £m
At 1 January	695	3,404	3,317	-	7,416
Purchases	146	735	361	-	1,242
Sales	(129)	(131)	(163)	-	(423)
Net gains recognised in statement of comprehensive income	1	65	144	-	210
Transfers into Level 3	19	-	92	149	260
At 31 December	732	4,073	3,751	149	8,705
'Net (losses) and gains recognised in statement of comprehensive income' that relate to assets still held at the balance sheet date	(23)	115	144	(14)	222

The 'Net gains and (losses) recognised in statement of comprehensive income' shown in the tables above are included within 'Investment return'. The Group and Parent company's policy is to recognise transfers into and out of level 3 at the end of the reporting period.

22. Financial investments

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Financial investments held at FVTPL				
• Classified as held for trading	**4,229**	3,171	**4,226**	3,171
• Designated as FVTPL	**95,090**	79,396	**47,372**	41,384
	99,319	82,567	**51,598**	44,555

For the purposes of the disclosure required by IAS 1, it has been assumed that financial investments will be realised in order to settle the claims expected to arise during the 12 months following the balance sheet date. On this basis, the amount of financial investments at the balance sheet date that are classified as being held for more than 12 months is £93,006m for the Group (2018: £77,404m) and £48,322m for the Parent company (2018: £39,392m).

The Parent company includes within its investment portfolio a significant holding in OEICs and other investment funds managed by subsidiary companies. Those funds over which the Parent company has control (as defined in Note 1(b)) are classified as subsidiaries ('consolidated funds'). The Parent company's investment in these consolidated funds is shown in Note 23 and is not included in the Parent company figures above. On consolidation, the underlying investments of the consolidated funds are included within the appropriate investment line in the balance sheet and are therefore included in the Group figures.

(a) Derivative financial instruments

The Group and Parent company utilise derivative instruments to hedge market risk (see note 41(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 41(c).

The Group and Parent 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 predetermined 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.

22. Financial investments (continued)

(a) Derivative financial instruments (continued)

Fair value of derivative instruments held

	Group					
	2019			2018		
	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Equity options and warrants	1	-	-	423	52	-
Interest rate swaps	32,272	4,026	(1,488)	34,396	2,892	(1,368)
Interest rate swaptions	6,329	122	-	6,681	182	-
Total return swaps	3,152	10	(26)	793	16	-
Inflation swaps	664	11	(4)	664	24	-
Currency forwards	5,880	60	(78)	2,439	5	(40)
Total derivative assets/(liabilities)		4,229	(1,596)		3,171	(1,408)

	Parent company					
	2019			2018		
	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract/ notional amount £m	Fair values Assets £m	Fair values Liabilities £m
Equity options and warrants	-	-	-	422	52	-
Interest rate swaps	32,272	4,026	(1,488)	33,995	2,893	(1,368)
Interest rate swaptions	6,329	122	-	6,681	182	-
Total return swaps	3,152	10	(26)	793	16	-
Inflation swaps	664	11	(4)	664	24	-
Currency forwards	5,184	57	(73)	2,015	4	(22)
Total derivative assets/(liabilities)		4,226	(1,591)		3,171	(1,390)

In addition to the above, the Group and Parent company make use of futures contracts. At 31 December 2019, the Group and Parent company had entered into equity futures trades giving exposure to equities with a notional value of Group £5,962m (2018: £3,238m) and Parent company £5,346m (2018: £2,807m). 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 paid initial cash margin of £262m (2018: £162m) and Parent company £230m (2018: £137m) in respect of these trades, which is included within ‘trade and other receivables’.

The net variation margin payable by the Group was £39m at 31 December 2019 (2018: £18m) and Parent company £27m (2018: £17m), being the amount due for the movement on the last business day of 2019, which was settled on the first business day in 2020. Variation margin receivable is included within ‘trade and other receivables’ and variation margin payable is included within ‘payables and other financial liabilities’.

22. Financial investments (continued)

(b) Collateral and other arrangements

(i) Stock loan agreements

The Group and Parent 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 Parent company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and Parent 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 (2018: none).

The following table shows the assets within the Group and Parent company balance sheets that have been transferred under stock loan agreements and the related collateral received.

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Stock loan agreements				
• Listed equities	**2,663**	2,601	**738**	977
• Corporate bonds	**232**	251	**202**	222
• Government bonds	**1,259**	1,211	**989**	1,015
	4,154	4,063	**1,929**	2,214
Collateral received	**4,468**	4,309	**2,048**	2,347

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £853m for both the Group and the Parent company (2018: £650m). 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 re-pledged in the year (2018: £nil) and there were no defaults in the year (2018: none).

Cash margin received was £1,825m (2018: £1,214m) for both the Group and the Parent company. Cash margin received is included within 'cash and cash equivalents', with an offsetting liability included within 'payables and other financial liabilities'.

The market value of derivatives in respect of which collateral and cash margin were received was £2,698m for both the Group and the Parent company (2018: £1,877m).

Collateral of £2,811m was received for both the Group and the Parent company (2018: £2,761m) 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 £2,689m (2018: £2,753m).

22. Financial investments (continued)

(b) Collateral and other arrangements (continued)

(iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £26m for both the Group and the Parent company (2018: £3m). The collateral pledged was in the form of UK Gilts. It may be sold or re-pledged in the absence of default.

Cash margin pledged in respect of derivatives was £22m (2018: £81m) for both the Group and Parent company. A corresponding asset is included within 'trade and other receivables'.

The market value of derivatives in respect of which collateral and cash margin were pledged was £45m for both the Group and the Parent company (2018: £79m).

In addition, the Group and Parent company pledged £836m of initial margin (2018: £656m) in respect of derivatives. This was pledged in the form of UK gilts.

The Group and Parent company have entered into reverse repurchase transactions with a cash value of £1,151m (2018: £544m). The value of the UK gilts associated with these deposits at 31 December 2019 was £1,142m (2018: £546m). Collateral in the form of UK gilts of £14m (2018: £7m pledged) was received in respect of those transactions.

The Parent has also received government and corporate bonds of £1,133m to its wholly owned subsidiary, RLI DAC, in respect of the internal reinsurance arrangement between the Parent Company and RLI DAC.

(c) Sovereign debt exposures

Included within the Group and Parent company's government bonds are the following exposures to sovereign debt shown by country.

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
UK	16,334	13,368	13,249	10,938
Germany	188	127	157	101
France	130	178	103	156
Belgium	39	46	36	42
Other Europe	238	205	151	155
USA	182	223	18	60
Japan	122	92	27	11
Rest of World	80	34	53	26
Total	17,313	14,273	13,794	11,489

Group exposure to the sovereign debt of Italy and Spain was less than 1% of total sovereign debt exposure (2018: less than 1%).

23. Investments in Group entities

The Parent company's investments in Group entities comprise:

	Parent company	
	2019 £m	2018 £m
Shares	758	673
Loans	20	29
OEICs and other investment funds	41,996	34,772
	42,774	35,474

Investments in Group entities are carried in the balance sheet at fair value. For the purposes of the disclosure required by IAS 1, all of the investments in Group entities held at the balance sheet date are classified as being held for more than 12 months.

The OEICs and other investment funds represent the Parent company's investment in funds which are managed by subsidiaries of the Group and over which the Group has control.

On 7 February 2019, certain insurance and investment contracts amounting to £808m together with related assets and liabilities were transferred from the Parent company to its wholly-owned subsidiary company, Royal London Insurance Designated Activity Company (RLI DAC), by way of a transfer made under Part VII of the Financial Services and Markets Act 2000. The transfer had an effective date of 1 January 2019. The transfer resulted in no gain or loss in either the Parent company or RLI DAC.

Immediately after the Part VII transfer, internal reinsurance agreements were effected between the Parent company and RLI DAC to reinsure the business within the RLI DAC closed funds (the Liver Ireland sub fund and the German Bond sub fund) back to the Parent company. Further details of the internal reinsurance between the Parent company and RLI DAC is included in note 39(b) (i).

23. Investments in Group entities (continued)

(a) Subsidiaries

The Parent company has the following subsidiaries which 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 184. All subsidiary undertakings are included in the consolidation.

Name	% holding 2019	% holding 2018	Nature of business	Registered 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[2]	100.0	N/A	Finance company	-
• RLUM Limited	100.0	100.0	Unit trust management	-
• Royal London Management Services Limited	100.0	100.0	Service company	-
• Hornby Road Investments Limited[1]	100.0	100.0	Property company	-
• Cambridge Research Park Limited	100.0	100.0	Property company	G
• Cambridge Research Park Management Company Limited	69.0	69.0	Property company	H
• RLPPF Kings Norton Limited[4]	N/A	100.0	Property company	I
• Wrap IFA Services Limited[1]	100.0	100.0	Holding company	-
• Investment Funds Direct Group Limited	100.0	100.0	Holding company	B
• Investment Funds Direct Holdings Limited	100.0	100.0	Holding company	B
• Investment Funds Direct Limited	100.0	100.0	Regulated Wrap platform management	B
• RL Corporate Pension Services Limited[3]	N/A	100.0	Pensions administration & consultancy services	-
• Royal London Cambridge Limited[2]	100.0	N/A	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 (previously known as Rockspring UK Value 2 Abingdon (Jersey) Limited)	100.0	100.0	Property company	P
Nominee companies:				
• Fundsdirect Isa Nominees Limited	100.0	100.0	Nominee company	B
• Fundsdirect Nominees Limited	100.0	100.0	Nominee company	B
• IFDL Personal Pensions Limited	100.0	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	-
• R.L.M. Staff Pension Trust Limited[4]	N/A	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	-

23. Investments in Group entities (continued)

(a) Subsidiaries (continued)

Name	% holding 2019	% holding 2018	Nature of business	Registered Office
Unit trusts, OEICs and other investment funds reported as subsidiaries under IFRS:				
• The Royal London UK Mid Cap Growth Fund	76.5	75.9	OEIC	–
• The Royal London UK Opportunities Fund	98.2	98.7	OEIC	–
• The Royal London European Opportunities Fund	99.9	99.9	OEIC	–
• The Royal London Japan Tracker Fund	93.7	95.0	OEIC	–
• The Royal London FTSE 350 Tracker Fund	96.8	95.7	OEIC	–
• The Royal London US Tracker Fund	97.7	98.2	OEIC	–
• The Royal London All Share Tracker Fund	52.0	63.7	OEIC	–
• The Royal London Index Linked Fund	54.5	59.9	OEIC	–
• The Royal London UK Growth Fund	94.8	94.5	OEIC	–
• The Royal London European Growth Fund	95.2	94.1	OEIC	–
• The Royal London Growth Fund	55.3	56.1	OEIC	–
• The Royal London UK Equity Fund	94.2	93.8	OEIC	–
• The Royal London Asia Pacific ex Japan Tracker Fund	96.6	96.5	OEIC	–
• The Royal London UK Smaller Companies Fund	97.7	98.1	OEIC	–
• The Royal London Cash Plus Fund	54.2	60.1	OEIC	–
• The Royal London Enhanced Cash Plus Fund	39.5	52.1	OEIC	–
• The Royal London Global Bond Opportunities Fund	48.2	80.9	OEIC	A
• The Royal London European Corporate Bond Fund	98.4	98.3	OEIC	–
• The Royal London Europe ex UK Tracker Fund	95.3	96.9	OEIC	–
• The Royal London International Government Bonds Fund	96.6	94.1	OEIC	–
• The Royal London Short Duration Gilt Fund	40.3	32.4	OEIC	–
• The Royal London Short Duration Global High Yield Fund	39.8	40.7	OEIC	A
• The Royal London Global High Yield Bond Fund	96.4	95.7	OEIC	A
• The Royal London Short-term Money Market Fund	66.7	73.9	OEIC	–
• The Royal London Absolute Return Government Bond Fund	75.6	81.1	OEIC	A
• The Royal London Conservative Fund	98.8	97.3	OEIC	–
• The Royal London Balanced Fund	44.7	51.7	OEIC	–
• The Royal London Adventurous Fund	63.5	60.7	OEIC	–
• The Royal London Dynamic Fund	95.4	96.8	OEIC	–
• The Royal London Defensive Fund	59.6	72.2	OEIC	–
• The Royal London Emerging Markets Equity Tracker Fund	96.5	96.4	OEIC	–
• The Royal London Global Equity Diversified Fund	100.0	100.0	OEIC	–
• The Royal London Global Equity Select Fund	99.2	99.2	OEIC	–
• The Royal London UK Real Estate Fund	98.1	100.0	OEIC	–
• The Royal London UK Government Bond Fund	52.7	52.7	OEIC	–
• The Royal London Multi Asset Credit Fund	71.8	72.6	OEIC	–
• The Royal London Duration Hedged Credit Fund[2]	N/A	41.6	OEIC	–
• The Royal London Sterling Liquidity Fund[2]	99.9	99.9	OEIC	–
• The Royal London Monthly Income Bond Fund[2]	90.5	99.9	OEIC	–
• The Royal London Multi Asset Strategies Fund[2]	53.7	50.0	OEIC	–
• The Royal London Short Duraton Plus Fund	99.1	N/A	OEIC	–
• The Royal London Sustainable Managed Income Trust	N/A	63.9	Unit trust	–
• The Royal London US Growth Trust	58.3	59.7	Unit trust	–
• The Royal London European Growth Trust	35.2	37.9	Unit trust	–
• The Royal London Property Trust	100.0	100.0	Property trust	–
• Vision Park Management Limited	86.0	86.0	Property trust	F

23. Investments in Group entities (continued)

(a) Subsidiaries (continued)

Name	% holding 2019	% holding 2018	Nature of business	Registered Office
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	-
• Investment Sciences Limited[4]	N/A	100.0	Non-trading	-
• Leyburn Developments Limited	100.0	100.0	Non-trading	-
• Nodessa File (One) Limited[4]	N/A	100.0	Non-trading	E
• Nodessa File (Two) Limited[4]	N/A	100.0	Non-trading	E
• RL Finance Bonds plc	100.0	100.0	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 Bonds Plc[3]	N/A	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	100.0	100.0	Non-trading	-
• Royal London 360 Holdings Limited[4]	N/A	100.0	Non-trading	D
• Royal London Asset Management (CIS) Limited[4]	N/A	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
• Southpoint General Partner Limited[4]	N/A	50.0	Non-trading	E
• 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 2019: Hornby Road Investments Limited, Wrap IFA Services Limited, Royal London UK Holdings Limited, RLM Finance Plc and Royal London Cambridge Limited.

2 Royal London Cambridge Limited and RL Finance Bonds No. 4 Plc have been acquired in 2019. They were not included as subsidiaries in 2018.

3 XPS Pensions (RL) Limited (formerly known as RL Corporate Pensions Services) was sold on 3 June 2019.

4 The following companies were dissolved during the year: RLPPF Kings Norton Limited , R.L.M Staff Pension Trust Limited, Investment Sciences Limited, Nodessa File (One) Limited, Nodessa File (Two) Limited, RLM Finance Bonds plc, Southpoint General Partner Limited, Royal London 360 Holdings Limited and Royal London Asset Management (CIS) Limited.

23. Investments in Group entities (continued)

(a) Subsidiaries (continued)

The Parent 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	KPMG LLP, 8 Princes Parade, Liverpool, L3 1QH, United Kingdom
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, EC4N 7AE, United Kingdom
I	1 Waverley Place, Union Street, St Helier, Jersey, JE1 1SG
J	PO Box 650, 1st Floor Royal Chambers, St Julian's Avenue, St Peters Port, Guernsey, GY1 3JX
K	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
L	9 West 57th Street, Suite 4200, New York, 10019, United States
M	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom
N	8-9 Well Court, London, EC4M 9DN, United Kingdom
O	PO Box 282, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3RH
P	27 Esplanade St Helier Jersey JE1 1SG

23. Investments in Group entities (continued)

(b) Interests in associates

All of the Group's associates are investment funds accounted for as financial assets held at fair value through profit or loss and are all incorporated in England with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom. At 31 December 2019, the following funds have been recognised as associates.

	Group's % holding	
Name of investment fund	2019	2018
• Royal London UK Growth Trust	**24.6**	24.3
• Royal London Corporate Bond Monthly Fund	**23.0**	23.7
• Royal London Investment Grade Short Duration Credit Fund	**35.2**	23.7
• Royal London Sustainable Managed Income Trust[1]	**22.5**	N/A
• Royal London Sustainable Managed Growth Trust[2]	**N/A**	20.8
• Royal London Property Fund	**26.5**	22.8
• Royal London Global Index Linked Fund	**27.5**	24.8
• Royal London Sterling Credit Fund[2]	**N/A**	26.8

1 The Royal London Sustainable Managed Income Trust was reclassified from a subsidiary to an associate in 2019.

2 The Royal London Sustainable Managed Growth Trust and Royal London Sterling Credit Fund were unclassified as an associate in 2019, as Royal London's holding reduced to below 20%.

Summarised financial information for associates:

(i) Summarised balance sheet

	2019						
	Royal London UK Growth Trust	Royal London Property Fund	Royal London Global Index Linked Fund	Royal London Sustainable Managed Income Trust	Royal London Investment Grade Short Duration Credit Fund	Royal London Corporate Bond Monthly Fund	Total
	£m	£m	£m	£m	£m	£m	£m
Current assets							
Cash and cash equivalents	14	32	-	1	10	4	61
Other current assets	3	7	2	1	18	4	35
Total current assets	17	39	2	2	28	8	96
Current liabilities							
Financial liabilities	2	6	1	-	-	-	9
Other current liabilities	-	1	2	-	3	-	6
Total current liabilities	2	7	3	-	3	-	15
Non-current assets	1,154	371	278	89	1,336	254	3,482
Total net assets	1,169	403	277	91	1,361	262	3,563

23. Investments in Group entities (continued)

(b) Interests in associates (continued)

(i) Summarised balance sheet (continued)

	2018							
	Royal London UK Growth Trust	Royal London Property Fund (restated)[1]	Royal London Global Index Linked Fund	Royal London Sustainable Managed Growth Trust	Royal London Investment Grade Short Duration Credit Fund	Royal London Corporate Bond Monthly Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Current assets								
Cash and cash equivalents	12	26	1	3	10	1	3	56
Other current assets	3	8	2	3	11	4	50	81
Total current assets	15	34	3	6	21	5	53	137
Current liabilities								
Financial liabilities	2	10	1	–	–	–	2	15
Other current liabilities	–	1	2	–	3	–	16	22
Total current liabilities	2	11	3	–	3	–	18	37
Non-current assets	1,001	382	227	198	843	257	1,763	4,671
Total net assets	1,014	405	227	204	861	262	1,798	4,771

1 The comparative figures have been restated to reflect trades awaiting settlement at the year ended 31 December 2018.

(ii) Summarised statement of comprehensive income

	2019						
	Royal London UK Growth Trust	**Royal London Property Fund**	**Royal London Global Index Linked Fund**	**Royal London Sustainable Managed Income Trust**	**Royal London Investment Grade Short Duration Credit Fund**	**Royal London Corporate Bond Monthly**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Investment income	**39**	**–**	**2**	**2**	**37**	**12**	**92**
Net gains on investments	**198**	**16**	**16**	**2**	**7**	**14**	**253**
Other expense	**(41)**	**–**	**(3)**	**(2)**	**(25)**	**(12)**	**(83)**
Net income	**196**	**16**	**15**	**2**	**19**	**14**	**262**

	2018							
	Royal London UK Growth Trust	Royal London Property Fund (restated)[1]	Royal London Global Index Linked Fund	Royal London Sustainable Managed Growth Trust	Royal London Investment Grade Short Duration Credit Fund	Royal London Corporate Bond Monthly Fund	Royal London Sterling Credit Fund	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Investment income	39	–	2	5	26	16	75	163
Net (losses)/gains on investments	(147)	13	(5)	(7)	(25)	(18)	(97)	(286)
Other expense	(38)	–	(5)	(5)	(17)	(16)	(66)	(147)
Net (expense)/income	(146)	13	(8)	(7)	(16)	(18)	(88)	(270)

23. Investments in Group entities (continued)

(c) 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 'financial investments'. The registered addresses of the private equity funds are included in the table on page 183.

	% holding		Registered
Name	2019	2018	Office
SPL ARL Private Finance	99.4	99.4	J
WP Global Mezzanine Private Equity	100.0	100.0	K
Core Alpha Private Equity Partners	29.9	29.9	K
KKR CIS Global Investor L.P.	100.0	100.0	L
Enterprise Ventures Growth Ltd	45.2	45.2	M
RJD Private Equity Fund III 'A' L.P.	31.9	31.9	N
Rising Star Growth Fund II	21.8	21.8	M
Cubera RL Nordic PE LP	100.0	100.0	O

(d) Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group's interests in structured entities are comprised of investments in a range of investment vehicles, principally pooled investment funds and unquoted equity securities, managed both internally and externally, and some investments in asset-backed securities.

(i) Consolidated structured entities

Where it has been determined that the Group has control over a structured entity it has been consolidated. The Group has not provided, nor has any intention of providing, financial or other support to any consolidated structured entity.

(ii) Unconsolidated structured entities

The Group also invests in unconsolidated structured entities. The Group has not provided financial or other support to any unconsolidated structured entity. While not planning to provide financial support, the Group will meet future capital calls if required.

The following table shows the carrying value of the Group's holdings in unconsolidated structured entities, all of which are reported within 'financial investments'.

	2019 £m	2018 £m
Debt and fixed income securities		
Asset-backed securities	1,707	1,665
Unquoted equity securities		
Private equity funds	197	168
Land investment pools	239	245
Unit trusts and other pooled investments		
Investment in associates	924	1,088
Unit trusts	610	730
OEICs	5,387	4,044
Venture capital offshore funds	180	266
Other investment funds	2,637	2,007
Total	11,881	10,213

The Group's maximum exposure to loss from those investments that are not managed by Group companies is the carrying value of the investment on the Group balance sheet.

23. Investments in Group entities (continued)

(d) Interests in structured entities (continued)

(iii) Other interests in unconsolidated structured entities

The Group also has interests in structured entities through management fees received on those investments that the Group manages. The Group's maximum exposure to loss from these investments is the carrying value on the Group balance sheet and future management fees. The Group's holdings in these investments are included in the table on the previous page.

The table below shows those assets under management in which the Group does not have a holding and the management fees earned during the year.

	2019		2018	
Investment funds	Assets under administration £m	Management fees £m	Assets under administration £m	Management fees £m
OEICs	15,397	56	11,161	38
Unit trusts	5,259	21	3,371	13
Total	20,656	77	14,532	51

(e) Interests in joint operations

The Group has an interest in a joint operation giving rise to a 7.5% (2018: 7.5%) beneficial ownership interest in a property, the Bluewater Shopping Centre, Kent. The arrangement entitles the Group to 7.5% (2018: 7.5%) of the net rental income of the property.

The Group has also entered into joint ventures with RLW Estates Limited (50% holding), Waterbeach Development Company LLP (41.5% holding) via its wholly owned subsidiary, RL Cambridge, and Southpoint General Partner Limited (50% holding, however dissolved 26 January 2019).

24. Trade and other receivables

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts due from customers	104	127	28	32
Receivables arising under reinsurance contracts	35	31	29	31
Investment income receivable	200	169	115	108
Amounts due from brokers	440	372	329	294
Finance lease receivables	4	4	4	4
Amounts due from other Group entities	-	-	13	22
Prepayments and accrued income	37	28	-	1
Other receivables	149	164	70	95
	969	895	588	587
Expected to be recovered within 12 months	965	891	584	583
Expected to be recovered in more than 12 months	4	4	4	4
	969	895	588	587

Trade and other receivables are carried in the balance sheet at amortised cost, which approximates to fair value.

24. Trade and other receivables (continued)

Finance lease receivables

The Group and the Parent company have leased to third parties a number of properties under long-term leases, which are classified as finance leases. The average term of the finance leases entered into is 55 years.

	Group and Parent company	
	2019 £m	2018 £m
Receivables under finance leases – minimum lease receipts		
Later than one year and not later than five years	**2**	2
Later than five years	**10**	10
	12	12
Less: future charges	**(8)**	(8)
Present value of receivables under finance leases	**4**	4
Present value of receivables under finance leases		
Later than one year and not later than five years	**2**	2
Later than five years	**2**	2
	4	4

25. Cash and cash equivalents

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Bank balances	**1,835**	1,961	**633**	688
Short-term bank deposits	**1,368**	905	**578**	502
Short-dated debt	**121**	15	**121**	15
	3,324	2,881	**1,332**	1,205

The cash and cash equivalents for the purposes of the statements of cash flows are as follows.

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Cash and cash equivalents	**3,324**	2,881	**1,332**	1,205
Bank overdrafts (note 32)	**(67)**	(48)	**(56)**	(45)
Cash and cash equivalents in the statements of cash flows	**3,257**	2,833	**1,276**	1,160

26. Insurance contract liabilities and reinsurance assets

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Gross				
Total participating insurance contract liabilities	**32,646**	30,628	**32,645**	30,628
Total non-participating insurance contract liabilities	**6,858**	6,909	**6,902**	6,909
Total insurance contract liabilities	**39,504**	37,537	**39,547**	37,537
Reinsurers' share of insurance contract liabilities				
Total participating insurance contract liabilities	**(1,271)**	(1,277)	**(1,271)**	(1,277)
Total non-participating insurance contract liabilities	**(3,736)**	(3,793)	**(3,695)**	(3,793)
Total reinsurers' share of insurance contract liabilities	**(5,007)**	(5,070)	**(4,966)**	(5,070)
Net of reinsurance				
Total participating insurance contract liabilities	**31,375**	29,351	**31,374**	29,351
Total non-participating insurance contract liabilities	**3,122**	3,116	**3,207**	3,116
Total insurance contract liabilities, net of reinsurance	**34,497**	32,467	**34,581**	32,467

(a) Movement analysis

The movement in long-term insurance contract liabilities and reinsurance assets in the year is shown in the following tables.

	Group 2019					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	**30,628**	**6,909**	**(1,277)**	**(3,793)**	**29,351**	**3,116**
Expected changes during the year	**(1,645)**	**(288)**	**129**	**177**	**(1,516)**	**(111)**
Expected closing position	**28,983**	**6,621**	**(1,148)**	**(3,616)**	**27,835**	**3,005**
New business	**45**	**(112)**	-	**(63)**	**45**	**(175)**
Experience variations	**2,633**	**171**	**(29)**	**(4)**	**2,604**	**167**
Changes in assumptions	**998**	**195**	**(86)**	**(52)**	**912**	**143**
Other movements	**(13)**	**(17)**	**(8)**	**(1)**	**(21)**	**(18)**
At 31 December	**32,646**	**6,858**	**(1,271)**	**(3,736)**	**31,375**	**3,122**

26. Insurance contract liabilities and reinsurance assets (continued)

(a) Movement analysis (continued)

	Group 2018					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	33,154	7,301	(1,440)	(3,886)	31,714	3,415
Expected changes during the year	(2,318)	(335)	179	186	(2,139)	(149)
Expected closing position	30,836	6,966	(1,261)	(3,700)	29,575	3,266
New business	190	(14)	-	(124)	190	(138)
Experience variations	53	(30)	(56)	(3)	(3)	(33)
Changes in assumptions	(461)	44	42	-	(419)	44
Other movements	10	(57)	(2)	34	8	(23)
At 31 December	30,628	6,909	(1,277)	(3,793)	29,351	3,116

	Parent company 2019					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	30,628	6,909	(1,277)	(3,793)	29,351	3,116
Expected changes during the year	(1,644)	(307)	129	178	(1,515)	(129)
Expected closing position	28,984	6,602	(1,148)	(3,615)	27,836	2,987
New business	45	(76)	-	(64)	45	(140)
Experience variations	2,636	165	(29)	1	2,607	166
Changes in assumptions	1,005	159	(86)	(24)	919	135
Other movements	(25)	52	(8)	7	(33)	59
At 31 December	32,645	6,902	(1,271)	(3,695)	31,374	3,207

26. Insurance contract liabilities and reinsurance assets (continued)

(a) Movement analysis (continued)

	Parent company 2018					
	Insurance contract liabilities, gross of reinsurance		Reinsurers' share of insurance liabilities		Insurance contract liabilities, net of reinsurance	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	33,234	7,301	(1,440)	(3,886)	31,794	3,415
Expected changes during the year	(2,318)	(335)	179	186	(2,139)	(149)
Expected closing position	30,916	6,966	(1,261)	(3,700)	29,655	3,266
New business	190	(14)	-	(124)	190	(138)
Experience variations	53	(30)	(56)	(3)	(3)	(33)
Changes in assumptions	(541)	44	42	-	(499)	44
Other movements	10	(57)	(2)	34	8	(23)
At 31 December	30,628	6,909	(1,277)	(3,793)	29,351	3,116

For the purposes of the disclosure required by IAS 1, the amount of insurance contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £36,248m for the Group (2018: £34,376m) and £36,295m for the Parent company (2018: £34,376m).

The amount of the reinsurers' share of insurance liabilities classified as due to be recovered in more than 12 months from the balance sheet date is £4,503 m (2018: £4,608m) for the Group and £4,473m for the Parent company (2018: £4,608m).

The amounts presented above for the Group and Parent company represent the liabilities of the open and closed sub-funds.

27. 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		Parent company	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
At 1 January				
Non-participating value of in-force business included within participating contract liabilities	**1,625**	1,488	**1,625**	1,488
Acquired PVIF	**54**	81	**54**	81
Adjusted deferred acquisition costs arising on investment contracts	**155**	181	**155**	181
Deferred fee income on investment contracts	**(109)**	(128)	**(109)**	(128)
Total value of in-force business at 1 January	**1,725**	1,622	**1,725**	1,622
Expected changes during the year	**(11)**	(91)	**(11)**	(91)
Expected closing position	**1,714**	1,531	**1,714**	1,531
New business	**258**	246	**258**	246
Experience variations	**225**	(92)	**225**	(92)
Changes in assumptions	**(99)**	40	**(99)**	40
Other movements	**(12)**	-	**(13)**	-
	2,086	1,725	**2,085**	1,725
At 31 December				
Non-participating value of in-force business included within participating contract liabilities	**2,001**	1,625	**2,001**	1,625
Acquired PVIF	**44**	54	**44**	54
Adjusted deferred acquisition costs arising on investment contracts	**131**	155	**131**	155
Deferred fee income on investment contracts	**(90)**	(109)	**(91)**	(109)
Total value of in-force business at 31 December	**2,086**	1,725	**2,085**	1,725

The adjusted deferred acquisition costs arising on investment contracts shown on the previous page are equal to the deferred acquisition costs arising on investment contracts shown in note 18 less the element of those deferred acquisition costs that relates to future commission.

The deferred fee income on investment contracts shown on the previous page is equal to the deferred fee income shown in note 34.

For the purposes of the disclosure required by IAS 1, the amount of non-participating value of in-force business classified as due to be recovered in more than 12 months from the balance sheet date is £1,884m (2018: £1,556m) out of the total balance of the Group and Parent company balance as at 31 December 2019.

28. Investment contract liabilities

The movement in investment contract liabilities in the year is shown in the tables below.

	Group			
	2019		2018	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	**2,061**	**42,652**	2,214	38,847
Expected changes during the year	**(72)**	**(1,679)**	(124)	(2,065)
Expected closing position	**1,989**	**40,973**	2,090	36,782
New business	**10**	**7,396**	13	7,344
Experience variations	**175**	**5,589**	(3)	(1,512)
Changes in assumptions	**41**	**53**	(46)	-
Other movements	**33**	**16**	7	38
At 31 December	**2,248**	**54,027**	2,061	42,652

	Parent company			
	2019		2018	
	Participating £m	Non-participating £m	Participating £m	Non-participating £m
At 1 January	**2,061**	**42,652**	2,214	38,847
Expected changes during the year	**(72)**	**(1,679)**	(124)	(2,065)
Expected closing position	**1,989**	**40,973**	2,090	36,782
New business	**10**	**7,396**	13	7,344
Experience variations	**175**	**5,589**	(3)	(1,512)
Changes in assumptions	**41**	**53**	(46)	-
Other movements	**32**	**16**	7	38
At 31 December	**2,247**	**54,027**	2,061	42,652

The participating investment contract liabilities include a discretionary element, determined by management from time to time, with regard to the returns earned on investments in the relevant with-profits fund. These liabilities have been calculated on a basis consistent with the valuation of insurance contracts. It is not considered practicable to provide a fair value for these liabilities.

For the purposes of the disclosure required by IAS 1, the amount of investment contract liabilities classified as due to be settled in more than 12 months from the balance sheet date is £53,432m (2018: £42,250m) for the Group and Parent company.

The amounts presented above represent the liabilities of the open and closed sub-funds.

29. Insurance and investment contract liabilities 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.

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.

The principal mortality assumptions are shown in the following table.

29. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Mortality and morbidity (continued)

Class of business	2019 mortality	2018 mortality
Ordinary long-term assurances		
RL Legacy (Royal London Mutual (RLM) and Ex- United Assurance Group (UAG)) non-linked	**85.68% AMC00 and 111.18% AFC00**	85.68% AMC00 and 111.18% AFC00
RL Intermediary Pensions	**56.10% AMC00 and 91.80% 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 non-linked term assurances (level benefits)		
• 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)		
• male non-smokers	**77.52% TMNL08 sel**	78.54% TMNL08 sel
• male smokers	**79.56% TMSL08 sel**	59.16% TMSL08 sel
• female non-smokers	**95.88% TFNL08 sel**	92.82% TFNL08 sel
• female smokers	**76.50% TFSL08 sel**	116.28% TFSL08 sel
RLI DAC term assurances (level benefits)		
• male non-smokers	**90.78% TMNL08 sel**	60.18% TMN00 sel
• male smokers	**83.64% TMSL08 sel**	75.48% TMS00 sel
• female non-smokers	**95.88% TFNL08 sel**	68.34% TFN00 sel
• female smokers	**87.72% TFSL08 sel**	54.06% TFS00 sel
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
Pensions – deferred annuities in deferment		
RL Legacy (Ex-Refuge Assurance OB) non-linked	**78.40% PPMD00 and 80.36%PPFD00**	78.40% PPMD00 and 80.36%PPFD00
RL Pensions – individual	**68.60% AMC00 and 71.54% 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
Pensions – immediate annuities and deferred annuities in payment		
RL Legacy (Royal London Mutual and Ex-UAG) non-linked	**97.02% PML08 CMI (2018) S_k=7.5[1] 1.5% pa[2]**	95.06% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	93.10% PFL08 CMI (2018) S_k=7.5[1] 1.5% pa[2]	90.16% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
RL Intermediary Pensions (excluding opt-outs from compromise scheme)	**97.02% PML08 CMI (2018) S_k=8[1] 1.5% pa[2]**	94.08% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	90.16% PFL08 CMI (2018) S_k=8[1] 1.5% pa[2]	90.16% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
RL Intermediary Pensions (opt-outs from compromise scheme)	**88.20% PML08 CMI (2018) S_k=8[1] 1.5% pa[2]**	81.34% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	84.28% PFL08 CMI (2018) S_k=8[1] 1.5% pa[2]	78.40% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
RL Legacy (Ex-RL (CIS)) immediate annuities in payment		
• Personal pensions	**109.76% PML08 CMI (2018) S_k=7.5[1] 1.5% pa[2]**	106.82% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	98.98% PFL08 CMI (2018) S_k=7.5[1] 1.5% pa[2]	98.00% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
• Section 226 retirement annuity	**104.86% PML08 CMI (2018) S_k=7.5[1] 1.5% pa[2]**	100.94% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	94.08% PFL08 CMI (2018) S_k=7.5[1] 1.5% pa[2]	93.10% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
RL Legacy (Ex-RL (CIS)) deferred annuities in payment		
• Personal pensions	**102.9% PML08 CMI (2018) S_k=7.5[1] 1.5% pa[2]**	100.94% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	97.02% PFL08 CMI (2018) S_k=7.5[1] 1.5% pa[2]	97.02% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
• Section 226 retirement annuity	**100.94% PML08 CMI (2018) S_k=7.5[1] 1.5% pa[2]**	98.00% PML08 CMI (2017) S_k=7.5[1] 1.5% pa[3]
	94.08% PFL08 CMI (2018) S_k=7.5[1] 1.5% pa[2]	94.08% PFL08 CMI (2017) S_k=7.5[1] 1.5% pa[3]

29. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(i) Demographic (continued)

Mortality and morbidity (continued)

Class of business	2019 mortality	2018 mortality
Industrial assurance		
RL Legacy (RLM)	**60.18% ELT16 (males)**	60.18% ELT16 (males)
RL Legacy (Ex-UAG)	**74.46% ELT16 (males)**	74.46% ELT16 (males)
RL Legacy (Ex-Royal Liver UK)	**57.12% ELT16 (males)**	61.20% ELT16 (males)
RLI DAC	**64.26% ELT16 (males)**	61.20% ELT16 (males)
RL Legacy (Ex-RL (CIS))		
• Endowment	**76.50% ELT16 (males)**	76.50% ELT16 (males)
• Whole life	**52.02% ELT16 (males)**	66.30% ELT16 (males)

1 The smoothing parameter (Sk) was introduced in CMI (2016) with a core value of 7.5 for CMI (2016) and CMI (2017). Following consultation with the industry, the smoothing parameter reduced to a core value of 7 for CMI (2018) however this is not expected to be suitable for users interested in populations other than the general England and Wales population. Therefore the appropriateness of core parameterisations for Royal London's business has been reviewed and smoothing parameters reflect the socio-economic mix of policyholders of each fund.

2 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.

3 The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2017 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. The rates vary by product line, sales channel, duration in force and, for some products, by fund size.

A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and, for business transferred to the Parent 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% (2018: UK RPI +0.5%) for UK business and RoI CPI plus 1.2% (2018: RoI CPI +0.5%) 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 +0.5% (2018: 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% for post vesting GAO business and UK RPI +2.5% for other business (2018: UK RPI +0.5% for post vesting GAO business and 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% (2018: ROI CPI +1%) for ex-Caledonian (part of RLI DAC) business and UK RPI +0.5% (2018: UK RPI +0.5%) for other business. The actual expenses incurred from servicing Liver fund business are assumed to increase at UK RPI +4% (2018: UK RPI +4%) for UK business and RoI CPI +6.2% (2018: ROI CPI +4%) for Irish business.
- For other closed books, the assumptions are UK RPI +2% for PLAL business (2018: UK RPI +2%) and UK RPI +4% for legacy business within the Royal London Long-Term Fund (2018: UK RPI +4%).

29. Insurance and investment contract liabilities and reinsurance assets – valuation assumptions (continued)

(a) Assumptions (continued)

(ii) Expenses (continued)

The principal expense assumptions are shown in the following table.

Class of business	2019 Per policy £	2019 Reserve %	2018 Per policy £	2018 Reserve %
Ordinary long-term				
RL Legacy (RLM) WP life	**17.83**	**0.088**	20.02	0.086
RL Legacy (RLM) AWP pensions	**16.30**	**0.088**	15.81	0.086
RL Legacy (Ex-RA) WP pre 1998	**17.43**	**0.080**	19.57	0.083
RL Legacy (Ex-RA) WP pre 1998 pensions	**15.12**	**0.080**	14.17	0.083
RL Legacy (Ex-United Friendly (UF)) WP DWP pensions	**14.81**	**0.080**	14.04	0.083
RL Intermediary UK Protection (closed book)	**28.04**	**0.061**	26.47	0.061
RL Intermediary UK Protection (open book)	**16.25**	**0.061**	15.47	0.061
RL Legacy protection business	**12.00**	**0.061**	12.42	0.061
RLI DAC Protection	**36.62**[1]	**0.061**	36.27[1]	0.061
RL Legacy (Ex-RL (CIS)) Investments				
• premium paying	**23.46**	**0.190**	22.88	0.190
• single premium/paid up	**19.89**	**0.190**	19.69	0.190
RL Legacy (Ex-RL (CIS)) Protection				
• premium paying	**21.33**	**0.190**	21.11	0.190
• single premium/paid up	**18.71**	**0.190**	18.55	0.190
• OB annuities in payment	**19.27**	**0.190**	19.07	0.190
RL Intermediary Pensions – Individual RP	**33.31**	**0.059**[2]	37.70	0.059[2]
RL Intermediary Pensions – Group RP	**22.09**	**0.059**[2]	25.93	0.059[2]
RL Legacy (Ex-RL (CIS)) Pensions				
• premium paying	**20.77**	**0.190**	20.43	0.190
• paid up	**17.96**	**0.190**	17.59	0.190
Industrial assurance				
RL Legacy (RLM)	**13.44**	**0.088**	12.95	0.086
RL Legacy (Ex-RA)	**13.13**	**0.061**	12.66	0.061
RL Legacy (Ex-Royal Liver UK)	**11.92**	**0.260**	11.64	0.260
RL Legacy (Ex-UF)	**13.13**	**0.080**	12.66	0.083
RLI DAC	**11.92**[1]	**0.260**	11.64[1]	0.260
RL Legacy (Ex-RL (CIS))				
• premium paying	**14.69**	**0.190**	14.58	0.190
• paid up	**12.55**	**0.190**	12.47	0.190

1 RLI DAC Protection is quoted in Euros.

2 Rate shown applies to non-linked funds. For unit funds, the assumption is 0.064% (2018: 0.067%).

29. Insurance and investment contract liabilities 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. Unallocated divisible surplus

The movement in the unallocated divisible surplus (UDS) during the year is shown in the table below.

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
At 1 January restated for opening adjustments of IFRS 16/IFRS 15	**3,813**	3,808	**4,073**	3,937
Transfer to/(deduction from) the statement of comprehensive income	**225**	(48)	**206**	85
(Deduction from)/ transfer from other comprehensive income	**(40)**	53	**(35)**	53
At 31 December	**3,998**	3,813	**4,244**	4,075

The UDS represents a surplus for which the allocation between participating policyholders has yet to be determined. Therefore, for the purposes of the disclosure required by IAS 1, the whole of the UDS at the balance sheet date has been classified as a balance that will be settled after more than 12 months.

The closing balance on the UDS for both the Group and Parent company includes amounts attributable to the Royal London Open 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.

31. Subordinated liabilities

	Group and Parent company			
			Effective interest rate	
	2019 £m	2018 £m	2019 %	2018 %
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	**396**	396	**6.20**	6.20
Guaranteed Subordinated Notes due 2028	**351**	349	**6.20**	6.20
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049	**584**	-	**5.04**	-
	1,331	745		

All of the balance shown above is expected to be settled more than 12 months after the balance sheet date.

Subordinated liabilities are carried in the balance sheet at amortised cost. The fair value at 31 December 2019 was £1,508m (2018: £806m).

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 Parent 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 Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 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 reset 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 Parent 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 Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 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 13 November.

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 Parent 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 Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the 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%.

32. Payables and other financial liabilities

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Amounts due to customers	**217**	196	**207**	193
Payables arising under reinsurance contracts	**2,729**	2,796	**2,721**	2,796
Amounts due to brokers	**235**	83	**62**	34
Lease liabilities (note 15)	**34**	14	**21**	4
Cash collateral	**1,825**	1,214	**1,825**	1,214
Derivative liabilities (note 22a)	**1,596**	1,408	**1,591**	1,390
Amounts due to other Group entities	**-**	-	**56**	151
Bank overdrafts (note 25)	**67**	48	**56**	45
Other payables	**204**	209	**55**	71
	6,907	5,968	**6,594**	5,898
Expected to be settled within 12 months	**860**	1,908	**556**	1,894
Expected to be settled in more than 12 months	**6,047**	4,060	**6,038**	4,004
	6,907	5,968	**6,594**	5,898

The payables arising under reinsurance contracts include a financial liability of £2,689m (2018: £2,753m) which is valued at fair value through profit or loss. The liability 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 Parent 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 £21m (2018: loss of £122m) which is included in premiums ceded to reinsurers.

The reinsurance liability and the derivative liabilities are stated at fair value. The lease liabilities are measured as the net present value of lease payments. All the remaining payables and other financial liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

(a) Cash collateral

	Group and Parent company	
	2019 £m	2018 £m
Cash collateral – contractual maturity analysis:		
Not later than one year	**3**	3
Later than one year and not later than five years	**42**	18
Later than five years	**1,780**	1,193
	1,825	1,214

33. Provisions

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Provision for future commission	**152**	149	**152**	149
Other provisions	**134**	145	**118**	117
	286	294	**270**	266
Expected to be settled within 12 months	**94**	92	**84**	76
Expected to be settled in more than 12 months	**192**	202	**186**	190
	286	294	**270**	266

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 comprise amounts in respect of the Group's long-term incentive plans, regulatory projects and rectification programmes.

The movement in provisions during the year is shown in the following table.

	Group		Parent company	
	Provision for future commission £m	Other provisions £m	Provision for future commission £m	Other provisions £m
At 1 January 2019	**149**	**145**	**149**	**117**
Additions in the year	**-**	**74**	**-**	**64**
Releases in the year	**-**	**(63)**	**-**	**(50)**
Experience variations	**19**	**-**	**19**	**-**
Utilised during the year	**(18)**	**(22)**	**(18)**	**(13)**
Unwind of the discount rate	**2**	**-**	**2**	**-**
At 31 December 2019	**152**	**134**	**152**	**118**

34. Other liabilities

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Deferred fee income	**90**	109	**91**	109
Accrued expenses	**68**	86	**-**	-
Other	**72**	66	**45**	43
	230	261	**136**	152
Expected to be settled within 12 months	**156**	171	**61**	62
Expected to be settled in more than 12 months	**74**	90	**75**	90
	230	261	**136**	152

Deferred fee income is front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

Other liabilities are carried in the balance sheet at amortised cost, which approximates to fair value.

35. Balances in respect of external unit holders

(a) Investment return attributable to external unit holders

The investment return attributable to external unit holders represents the portion of the investment return included within the Group statement of comprehensive income that relates to the consolidated funds that are owned by third parties.

(b) Liability to external unit holders

The liability to external unit holders represents the portion of the consolidated funds included within the Group balance sheet but which is owned by third parties. The balance is stated at fair value being the quoted bid price of the relevant fund on the last day of the accounting period on which investments in such funds could be redeemed.

For the purposes of the disclosure required by IAS 1, none of the balance (2018: none) is classified as being expected to be settled in more than 12 months from the balance sheet date.

36. 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					
	1 January 2019 £m	Recognised in the statement of comprehensive income £m	31 December 2019 £m	1 January 2018 £m	Recognised in the statement of comprehensive income £m	31 December 2018 £m
Deferred acquisition expenses	(19)	7	(12)	(24)	5	(19)
Revaluation of investments	156	44	200	251	(95)	156
Defined benefit pension schemes	8	1	9	7	1	8
Other short-term timing differences	(20)	2	(18)	(12)	(8)	(20)
Net deferred tax liability	125	54	179	222	(97)	125

	Parent					
	1 January 2019 £m	Recognised in the statement of comprehensive income £m	31 December 2019 £m	1 January 2018 £m	Recognised in the statement of comprehensive income £m	31 December 2018 £m
Deferred acquisition expenses	(19)	7	(12)	(24)	5	(19)
Revaluation of investments	156	40	196	250	(94)	156
Defined benefit pension schemes	8	1	9	7	1	8
Other short-term timing differences	-	(1)	(1)	-	-	-
Net deferred tax liability	145	47	192	233	(88)	145

36. 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.

(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 £4m (2018 (restated): £5m), of which £nil (2018: £1m) related to the Parent 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 Parent company as it controls the timing of any sale of a subsidiary and the repatriation of any dividend and it is not probable that a sale or repatriation will happen in the foreseeable future as the Group's intention is that these investments will be held to provide long term returns. The potential tax liability arising is less than £1m (2018: less than £1m).

There are no other unrecognised deferred tax assets or liabilities within the Group.

37. Contingent liabilities

Regulatory reviews

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

38. Commitments

(a) Capital expenditure

The Group and Parent company have the following commitments to make capital purchases as at the balance sheet date.

	Group		Parent company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Investment property	**117**	111	**91**	94

(b) Investments in private equity funds

The Group and Parent 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 Parent company is £350m (2018: £321m).

39. Related party transactions

The Parent company is the ultimate parent undertaking of the Group. The Group and Parent company carried out the following transactions with related parties.

(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.

(i) 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 and hence are included within the Group. For those funds not consolidated within the Group the transactions during the year were as follows.

	2019 £m	2018 £m
Management fees earned during the year	93	87

There were no amounts outstanding between the Group and the funds at the year end (2018: £nil). The total value of units held by the Parent company at 31 December 2019 in the funds that are not consolidated into the Group was £2,578m (2018: £1,896m). The acquisition and sale of units in the funds during the year were as follows.

	2019 £m	2018 £m
Acquisition of funds	1,349	905
Proceeds from sale of funds	755	597

(ii) Administration and investment management services provided by subsidiaries to Royal London Insurance Designated Activity Company (RLI DAC)

Subsidiary companies perform administration and investment management activities for RLI DAC. RLI DAC is charged fees for these services under management services agreements.

The following table summarises the fees incurred by RLI DAC.

	2019 £m	2018 £m
Administration fees	17	-

(b) Related party transactions of the Parent company

The subsidiaries of the Parent company are shown in note 23. Transactions between the Parent company and its subsidiaries and other related party transactions of the Parent company are shown below.

(i) Reinsurance provided to subsidiary company

The business within RLI DAC closed funds (the Liver Ireland sub fund and the German Bond sub fund) is fully reinsured back to the Parent company.

The following table shows the reinsurance premium accepted and claims and expenses reimbursed to RLI DAC.

	2019 £m	2018[1] £m
Reinsurance premiums accepted	967	-
Reinsurance claims paid	87	-
Reinsurance expenses reimbursed	9	-

1 No figures are included in 2018, as the Part VII and reinsurance were effective from 1 January 2019.

The reinsurance premium accepted includes £955m of initial reinsurance premium whereby, immediately after Part VII, all the closed insurance business was reinsured back to the parent.

39. Related party transactions (continued)

(b) Related party transactions of the Parent company (continued)

(ii) Administration and investment management services provided by subsidiaries

Subsidiary companies perform the administration and investment management activities of the Parent company. The Parent company is charged fees for these services under management services agreements and for business transferred to the Parent company, in accordance with the appropriate scheme of transfer.

The following table summarises the fees and recharges incurred by the Parent company during the year.

	Parent company	
	2019 £m	2018 £m
Administration fees	320	290
Investment management fees	45	40
	365	330

(iii) Financing transactions undertaken with subsidiaries

The Parent company has provided loans to subsidiaries.

As set out in note 31, three subsidiaries have issued subordinated liabilities, lending the proceeds to the Parent company on the same terms as the original debt issue.

The following table summarises the interest expense incurred by the Parent company during the year in relation to these transactions.

	Parent company	
	2019 £m	2018 £m
Interest expense on subordinated liabilities	54	47

(iv) Other income received from subsidiaries

	Parent company	
	2019 £m	2018 £m
OEIC management fee rebates	28	87
OEIC distributions	780	713
Other dividends receivable from subsidiaries	131	56
Rental income	4	3
	943	859

The OEIC management fee rebates relate to the investment in Group OEICs made by certain unit-linked funds of the Parent company. The Parent company deducts an investment management fee from the unit-linked fund. The authorised corporate director of the OEICs, which is a subsidiary of the Parent company, deducts an investment management fee from the OEIC in which the unit-linked fund has invested. In order to avoid the unit-linked fund bearing both these investment management fees, the subsidiary company rebates the portion of its charge relating to the internal holding of OEICs to the unit-linked fund.

OEIC distributions are those received from OEICs that are classified as subsidiaries for financial reporting purposes.

(v) Outstanding balances with Group entities at the year end

At the year end, the following balances were outstanding with Group entities in relation to the transactions above.

	Parent company	
	2019 £m	2018 £m
Amounts due from Group entities	13	22
Loans to Group entities	20	29
	33	51
Subordinated liabilities	(1,331)	(745)
Amounts due to Group entities	(52)	(151)
	(1,383)	(896)

The amounts due to and from Group entities are due on demand and are not secured.

39. Related party transactions (continued)

(vi) Other transactions of the Parent company with related parties

As part of its portfolio of investment assets, the Parent company has holdings in OEICs and other funds, managed by subsidiaries. The Parent company's acquisitions and sales of these funds during the year are shown below.

	Parent company	
	2019 £m	2018 £m
Acquisition of funds	8,294	9,584
Proceeds from sale of funds	4,655	5,194

(vii) 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).

40. Additional cash flow information

(a) Adjustments for non-cash items

Adjustments in the statements of cash flows for non-cash items comprise the following:

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
Tax charge/(credit)	211	(63)	170	(96)
Depreciation and impairment of property, plant and equipment	13	15	-	-
Fair value gain on investment property	173	(195)	136	(70)
Amortisation and impairment charges on Goodwill, acquired PVIF, and other intangible assets	114	62	110	35
Change in deferred acquisition costs	21	40	21	40
Change in reinsurers' share of insurance liabilities	63	256	104	256
Change in net pension scheme asset	44	(27)	44	(27)
Fair value (gain)/loss on financial investments	(8,732)	5,532	(9,058)	4,672
Net foreign exchange (gain)/loss on financial investments	94	120	(4)	33
Change in participating insurance contract liabilities	2,018	(2,526)	2,017	(2,606)
Change in participating investment contract liabilities	187	(153)	186	(153)
Change in non-participating value of in-force business	(376)	(137)	(376)	(137)
Change in non-participating insurance contract liabilities	(51)	(392)	(7)	(392)
Change in non-participating investment contract liabilities	11,375	3,805	11,375	3,805
Change in provisions	(8)	12	4	(2)
Non-cash transfer of investments	-	15	-	15
Other non-cash items	(216)	70	(339)	(37)
	4,930	6,434	4,383	5,336

There were no non-cash transfers of investments out to external clients (2018: £15m).

(b) Adjustments for non-operating items

Adjustments in the statements of cash flows for non-operating items comprise the following:

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
Fair value loss on investments in Group entities	(2)	1	111	5
Dividends received from subsidiaries	-	-	(131)	(56)
Finance costs	56	48	56	48
	54	49	36	(3)

The fair value (gain)/loss on investments in Group entities and the dividends received from subsidiaries shown above exclude amounts in relation to OEICs and other funds treated as subsidiaries for financial reporting purposes.

40. Additional cash flow information (continued)

(c) Dividends and interest

Interest and dividend receipts and payments included in the statements of cash flows are as follows.

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
Dividends received:				
• Operating cash flows (including Group OEICs)	1,465	1,218	1,097	911
• Investing cash flows	-	-	131	56
	1,465	1,218	1,228	967
Interest received:				
• Operating cash flows	1,278	1,225	839	851
Interest paid:				
• Operating cash flows	5	2	5	2
• Financing cash flows	56	48	56	48
	61	50	61	50

(d) Acquisition and disposal of Group entities

The Parent company's operating portfolio of investment assets includes OEICs and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows for the Parent company statement of cash flows. The amount included within 'Net acquisition of financial investments' relating to the acquisition and disposal of such funds was a net acquisition of £3,639m (2018: £4,390m).

The figures for the acquisition and disposal of Group entities in the statements of cash flows can be analysed as follows:

- £50m purchase of ordinary shares in Wrap IFA;
- £59m acquisition of property subsidiaries;
- £9m loan to RLI DAC.

(e) Changes arising from movements in debt and other borrowing

Group	Opening balance as at 1 January 2019 £m	Cash flows £m	Non-cash movements[1] £m	Closing balance as at 31 December 2019 £m
Liabilities				
Subordinated debt	745	586	-	1,331
Lease liabilities	14	-	20	34
Total liabilities from financing activities	759	586	20	1,365

Parent	Opening balance as at 1 January 2019 £m	Cash flows £m	Non-cash movements[1] £m	Closing balance as at 31 December 2019 £m
Liabilities				
Subordinated debt	745	586	-	1,331
Lease liabilities	4	-	17	21
Total liabilities from financing activities	749	586	17	1,352

1 Included in non-cash movements in lease liabilities is £3m in relation to the implementation of IFRS 16 (see note 1a), which resulted in the Group recognising additional lease liabilities for certain leases, previously accounted for as operating leases under IAS 17.

41. 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 desirable, neutral towards or undesirable 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 62.

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 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 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 increasing 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.

These techniques are supported by the use of actuarial models to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used to determine appropriate assumptions for those models.

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.

41. Risk management (continued)

(a) Insurance risk (continued)

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 maintaining and reviewing the policy on an annual basis.

Concentration risk

The Group and Parent 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 this 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 lapse rates. This sensitivity reflects a single, downward movement in 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.

41. Risk management (continued)

(a) Insurance risk (continued)

	Group							
	2019				2018			
		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 insurance contract liabilities, gross of reinsurance								
Participating insurance contracts	32,646	13	3	(12)	30,628	14	-	(17)
Non-participating insurance contracts								
• Unit-linked	1,365	(25)	(6)	(3)	1,449	(24)	(5)	(3)
• Non-profit, other than annuities	626	(186)	26	(56)	665	(182)	29	(47)
• Non-profit annuities	4,540	98	-	(7)	4,474	91	-	(7)
• Claims outstanding	327	-	-	-	321	-	-	-
	6,858	(113)	20	(66)	6,909	(115)	24	(57)
	39,504	(100)	23	(78)	37,537	(101)	24	(74)
Long-term insurance contract liabilities, net of reinsurance								
Participating insurance contracts	31,374	(12)	3	(12)	29,351	(10)	-	(17)
Non-participating insurance contracts								
• Unit-linked	1,383	(16)	(6)	(2)	1,472	(14)	(5)	(3)
• Non-profit, other than annuities	380	(6)	14	(55)	357	(15)	15	(47)
• Non-profit annuities	1,132	22	-	(7)	1,074	19	-	(7)
• Claims outstanding	227	-	-	-	213	-	-	-
	3,122	-	8	(64)	3,116	(10)	10	(57)
	34,496	(12)	11	(76)	32,467	(20)	10	(74)
Non-participating value of in-force business	(2,001)	(3)	(267)	(103)	(1,625)	(2)	(257)	(94)
Investment contract liabilities								
Participating investment contracts	2,248	(10)	(1)	6	2,061	(8)	(1)	7
Non-participating investment contracts	54,027	-	-	-	42,652	-	-	-
	56,275	(10)	(1)	6	44,713	(8)	(1)	7

The Parent company has a similar insurance risk profile to that shown for the Group above, and therefore it has not been analysed separately.

41. 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 delegated to the Group's asset management subsidiary with monitoring procedures in place.

The investment management agreement in place between the Parent 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).

(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 Parent company uses interest rate swaps to provide interest rate sensitivity matching.

A sensitivity analysis to interest rate risk is included in section (vi).

(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.

41. Risk management (continued)

(b) Market risk (continued)

(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 Parent 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 Parent company's exposure to currency risk is included in section (vi).

	Group		Parent company	
	2019 £m	2018 £m	2019 £m	2018 £m
Non-linked assets denominated in GBP	54,017	51,581	47,605	43,926
Non-linked assets denominated in non-GBP	7,172	3,555	3,394	3,858
	61,189	55,136	50,999	47,784
Linked assets not subject to currency risk	55,590	44,124	55,590	44,124
	116,779	99,260	106,589	91,908
Non-linked liabilities denominated in GBP	60,487	54,289	50,236	46,937
Non-linked liabilities denominated in non-GBP	702	847	763	847
	61,189	55,136	50,999	47,784
Linked liabilities not subject to currency risk	55,590	44,124	55,590	44,124
	116,779	99,260	106,589	91,908

At 31 December 2019, the Group and Parent company held currency forwards with a sterling notional value of £202m (2018: Group and Parent company £254m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

(vi) Market risk sensitivity analysis

The following table shows the impact on the unallocated divisible surplus (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 unallocated divisible surplus.

41. Risk management (continued)

(b) Market risk (continued)

(vi) Market risk sensitivity analysis (continued)

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 unallocated divisible surplus will be reduced by a fall in asset values.

	Group		Parent company	
Impact before tax on the UDS	2019 £m	2018 £m	2019 £m	2018 £m
Interest rates +100bp	**8**	(45)	**2**	(45)
Interest rates -100bp	**(56)**	44	**(45)**	44
10% increase in non-GBP exchange rate	**(219)**	(178)	**(219)**	(178)
10% decrease in non-GBP exchange rate	**219**	178	**219**	178
Equity/property prices +10%	**252**	247	**266**	247
Equity/property prices -10%	**(258)**	(253)	**(272)**	(253)

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 unallocated divisible surplus 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.

(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 the assets of the Group that are subject to credit risk and a reconciliation to the balance sheet carrying values. 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. The Parent company has a similar credit risk profile to that shown for the Group and therefore it has not been analysed separately.

41. Risk management (continued)

(c) Credit risk (continued)

	Group					
	2019			2018		
	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m	Non-linked assets subject to credit risk £m	Linked assets £m	Balance sheet carrying value £m
Financial investments						
• Debt and fixed income securities	**32,567**	**18,533**	**51,100**	20,677	58,719	79,396
• Derivatives	**4,174**	**55**	**4,229**	3,171	-	3,171
Cash and cash equivalents	**1,235**	**2,089**	**3,324**	1,248	1,633	2,881
Reinsurers' share of insurance liabilities	**5,007**	**-**	**5,007**	5,070	-	5,070
Trade and other receivables	**595**	**374**	**969**	415	480	895
	43,578	**21,051**	**64,629**	30,581	60,832	91,413

The following tables show an analysis of the credit quality of those assets that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. 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. At 31 December 2019, these were predominantly either AA or A (2018: 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 Parent company invest primarily in higher graded assets, rated BBB or above. The Group and Parent 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 22(b).

	Group 2019							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
• Debt and fixed income securities	**4,140**	**15,338**	**4,805**	**2,760**	**2,665**	**178**	**2,681**	**32,567**
• Derivatives	**-**	**1,683**	**2,447**	**44**	**-**	**-**	**-**	**4,174**
Cash and cash equivalents	**-**	**574**	**661**	**-**	**-**	**-**	**-**	**1,235**
Reinsurers' share of insurance liabilities	**-**	**4,462**	**545**	**-**	**-**	**-**	**-**	**5,007**
Trade and other receivables[1]	**-**	**-**	**-**	**-**	**-**	**-**	**595**	**595**
	4,140	**22,057**	**8,458**	**2,804**	**2,665**	**178**	**3,276**	**43,578**

	Group 2018							
	AAA £m	AA £m	A £m	BBB £m	BB/B £m	CC £m	Not rated £m	Total £m
Assets subject to credit risk:								
Financial investments								
• Debt and fixed income securities	736	14,091	2,101	2,566	304	2	877	20,677
• Derivatives	-	1	3,133	37	-	-	-	3,171
Cash and cash equivalents	6	998	395	1	(152)	-	-	1,248
Reinsurers' share of insurance liabilities	-	5,046	12	-	-	-	12	5,070
Trade and other receivables[1]	-	-	-	-	-	-	415	415
	742	20,136	5,641	2,604	152	2	1,304	30,581

1 As set out in note 20, the Group has chosen to defer application of IFRS 9. Trade and other receivables are the only SPPI financial assets that are not held at fair value or managed on a fair value basis. All of these assets are unrated as at 31 December 2019 and 31 December 2018.

41. Risk management (continued)

(c) Credit risk (continued)

The following tables show the financial assets that are exposed to credit risk, analysing them between those that are neither past due nor impaired, those that are past due (by age band) but are not considered to be impaired and those that have been impaired.

	Group 2019						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
• Debt and fixed income securities	**32,567**	**-**	**-**	**-**	**-**	**-**	**32,567**
• Derivatives	**4,174**	**-**	**-**	**-**	**-**	**-**	**4,174**
Cash and cash equivalents	**1,235**	**-**	**-**	**-**	**-**	**-**	**1,235**
Reinsurers' share of insurance liabilities	**5,007**	**-**	**-**	**-**	**-**	**-**	**5,007**
Trade and other receivables	**595**	**-**	**-**	**-**	**-**	**-**	**595**
	43,578	**-**	**-**	**-**	**-**	**-**	**43,578**

	Group 2018						
		Assets that are past due but not impaired					
	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	>1 year £m	Assets that have been impaired £m	Total £m
Assets subject to credit risk:							
Financial investments							
• Debt and fixed income securities	20,677	-	-	-	-	-	20,677
• Derivatives	3,171	-	-	-	-	-	3,171
Cash and cash equivalents	1,248	-	-	-	-	-	1,248
Reinsurers' share of insurance liabilities	5,070	-	-	-	-	-	5,070
Trade and other receivables	415	-	-	-	-	-	415
	30,581	-	-	-	-	-	30,581

No collateral was held against assets that are past due or impaired (2018: £nil). There were no material financial assets that would have been past due or impaired had the terms of the instrument not been renegotiated.

(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;

41. Risk management (continued)

(d) Liquidity risk

- 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 IFRS 4, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the non-participating 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 IFRS 7) 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, reinsurance and lease liabilities presented on a contractual cash flow basis and for 2019, the lease liability recognised in accordance with IFRS 16.

The longer-term matching of assets and liabilities is covered within market risk, note 41 (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 Parent company has a similar liquidity risk profile to that of the Group and therefore it has not been analysed separately.

	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	**(32,646)**	**(11,519)**	**(10,372)**	**(7,847)**	**(3,741)**	**(1,855)**	**(35,334)**
Participating investment contract liabilities	**(2,248)**	**(683)**	**(618)**	**(496)**	**(279)**	**(448)**	**(2,524)**
Non-participating insurance contract liabilities	**(6,858)**	**(1,835)**	**(1,661)**	**(1,426)**	**(1,097)**	**(1,639)**	**(7,658)**
Non-participating investment contract liabilities	**(54,027)**	**(15,393)**	**(15,259)**	**(10,673)**	**(7,497)**	**(11,113)**	**(59,935)**
	(95,779)	**(29,430)**	**(27,910)**	**(20,442)**	**(12,614)**	**(15,055)**	**(105,451)**
Derivative liabilities	**(1,596)**	**(412)**	**(400)**	**(371)**	**(316)**	**(296)**	**(1,795)**
Reinsurance liability	**(2,689)**	**(509)**	**(586)**	**(570)**	**(491)**	**(1,018)**	**(3,174)**
Lease liabilities	**(34)**	**(18)**	**(184)**	**-**	**-**	**-**	**(202)**

	Group 2018						
		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	(30,628)	(11,211)	(9,479)	(7,774)	(3,600)	(1,875)	(33,939)
Participating investment contract liabilities	(2,061)	(631)	(565)	(492)	(357)	(347)	(2,392)
Non-participating insurance contract liabilities	(6,909)	(2,063)	(1,802)	(1,513)	(1,146)	(1,607)	(8,131)
Non-participating investment contract liabilities	(42,652)	(11,576)	(11,102)	(8,394)	(6,253)	(10,892)	(48,217)
	(82,250)	(25,481)	(22,948)	(18,173)	(11,356)	(14,721)	(92,679)
Derivative liabilities	(1,408)	(376)	(373)	(342)	(306)	(308)	(1,705)
Reinsurance liability	(2,753)	(496)	(595)	(606)	(545)	(1,267)	(3,509)
Lease liabilities	**(14)**	**(4)**	**(180)**	-	-	-	**(184)**

41. Risk management (continued)

(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 are maintained through investments and contributions from the Group when required. 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 19. 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.

(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, human resources, change management, tax, legal, fraud and compliance. 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.

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 Parent company, produced annually;
- Internal Capital Adequacy Assessment Process (ICAAP) results for regulated non-insurance firms (where applicable), produced annually; and
- Medium-Term Plans, produced annually.

41. Risk management (continued)

(i) Stress and scenario testing (continued)

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 Parent 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.

42. 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

Following the authorisation of RLI DAC with effect from 1 January 2019, Royal London became an insurance Group under the SII rules and consequently regulatory capital is reported in 2019 at a Group and Parent company level to the PRA, and for RLI DAC to the CBI.

Under SII, the Group and Parent 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 our Partial Internal Model (hereafter referred to as Internal Model) to calculate the capital requirements of the Group and Parent company with effect from 1 October 2019. The capital assessment of RLI DAC remains on a Standard Formula basis.

The Group and Parent company have a strong capital position, and have complied with all capital requirements throughout 2019.

42. Capital management (continued)

(b) Regulatory Capital (continued)

(ii) Regulatory capital position

The table below sets out the Group and Parent company's available own funds, solvency capital requirement, solvency surplus and capital cover ratio on a Regulatory View basis[1].

Regulatory View (£m)	Group 31 December 2019[2, 3]	Parent company 31 December 2019[2]	Parent company 31 December 2018[4] Restated
All 2019 figures are estimated			
Available own funds (A)[5]	**7,070**	**7,123**	5,987
Solvency capital requirement (SCR) (B)	**4,438**	**4,262**	3,693
Solvency surplus	**2,632**	**2,861**	2,294
Capital cover ratio (A/B)[3]	**159%**	**167%**	162%

1 In common with the rest of the Industry, we present two views of our capital position: an 'Investor View' (which does not restrict the surplus in the closed funds), 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 2019 figures are estimated. The final figures will be presented in the 2019 Single Group SFCR, which will be published on our website in May 2020. This SFCR meets the SII disclosure requirements of the Group and Parent company and mitigates the requirement to produce a separate SFCR for the Parent company.

3 Comparative figures for 2018 are not available for the Group capital position as Royal London became an Insurance Group for SII purposes with effect from 1 January 2019.

4 To provide a more meaningful comparison of the movement in the solvency surplus and capital cover ratio for the Parent company between 31 December 2018 and 31 December 2019 estimated figures, the comparative available own funds, SCR, solvency surplus and capital cover ratio have been restated to reflect the move to an Internal Model for calculating capital requirements. Estimated amounts were presented on a Standard Formula basis in the 2018 Annual Report and Accounts, being available own funds of £6,415m, SCR of £4,459m, solvency surplus of £1,956m and capital cover ratio of 144%.

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

The increase in the Regulatory View solvency surplus and capital cover ratio for the Parent company between 31 December 2018 and 31 December 2019 primarily relates to the subordinated debt issuance of £600m and economic assumption changes, partially offset by the capital used to write new business in the year, the allocation of ProfitShare and our continued strategic investment in the Group.

42. Capital management (continued)

(b) Regulatory Capital (continued)

(iii) Reconciliation of Group and Parent company IFRS UDS to regulatory capital available own funds

The SII available own funds are determined by aggregating the assets and liabilities of the Group and Parent company recognised and measured on a SII basis. A reconciliation of the Group and Parent company's UDS attributable to members on an IFRS basis to estimated SII available own funds is set out in the table below.

	Group	Parent company	
	31 December 2019[1] (£m)	31 December 2019 (£m)	31 December 2018 Restated (£m)
IFRS unallocated divisible surplus	**3,998**	**4,244**	4,075
Adjustments to a SII basis:			
• Adjustment to the value of technical provisions and reinsurance assets[2]	**895**	**897**	785
• Goodwill, other intangible assets and deferred acquisition costs[3]	**(627)**	**(625)**	(686)
• Other valuation differences[4]	**(22)**	**(214)**	(60)
• Inclusion of closed funds surplus classified as an IFRS liability[5]	**4,502**	**4,489**	3,902
Excess of assets over liabilities in SII balance sheet	**8,746**	**8,791**	8,016
• Subordinated liabilities[6]	**1,508**	**1,508**	806
• Deferred tax adjustment[7]	**(6)**	**-**	-
• Ring-fenced funds adjustment[8]	**(3,178)**	**(3,176)**	(2,835)
SII available own funds – estimated	**7,070**	**7,123**	5,987

1 Comparative figures for 2018 are not available for the Group capital position as Royal London became an Insurance Group for SII purposes with effect from 1 January 2019.

2 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 IFRS 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.

3 Goodwill, other intangible assets and deferred acquisition costs are recognised in the IFRS balance sheet. Under the SII valuation rules, these assets are valued at nil.

4 Other valuation differences relate principally to the value of participations, renewal commission and subordinated liabilities. In the IFRS 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 IFRS balance sheet but not on a SII basis. Subordinated liabilities are held at amortised cost for IFRS and at fair value for SII.

5 For IFRS any excess of assets over liabilities within the closed funds is included within liabilities, so the unallocated divisible surplus 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.

6 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 IFRS treats subordinated debt as a liability.

7 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.

8 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.

43. Non-adjusting events after the balance sheet date

2020 has begun with the outbreak of a new strain of the coronavirus (COVID-19) in China, with confirmed cases in more than 50 countries. The spread of the virus has been far reaching and has caused disruption to supply chains and the travel and tourism industry. It has slowed global growth and caused interest rate and investment market volatility in first quarter of 2020. We continue to review the exposure of our balance sheet to economic shocks and will take action to protect our capital position as appropriate. Our capital position remains resilient to this market volatility, with the estimated Group Regulatory Cover ratio at 150% on 13 March 2020 and further detailed included in the Financial Review on page 61. Notwithstanding our robust capital and liquidity position and the operational and financial actions that we are taking, a deterioration in the situation would have adverse implications for our businesses arising from the potential impacts on financial markets, our insurance exposures and our operations.

European Embedded Value supplementary information

Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information

The directors of Royal London have chosen to prepare supplementary information in accordance with the European Embedded Value Principles (the EEV Principles) issued in April 2016 by the CFO Forum. When compliance with the EEV Principles is stated, those principles require the directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV Guidance included in the EEV Principles. The directors have chosen not to adopt the Market-consistent Embedded Value Principles issued by the CFO Forum in April 2016.

In preparing the EEV supplementary information, the directors have:

- prepared the supplementary information in accordance with the EEV Principles;
- identified and described the business covered by the EVM;
- applied the EVM consistently to the covered business;
- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data and then applied them consistently;
- made estimates that are reasonable and consistent; and
- determined the basis on which business that is not covered business has been included in the supplementary information.

Independent auditors' report to the directors of The Royal London Mutual Insurance Society Limited on the European Embedded Value supplementary information ('the supplementary financial statements')

Report on the audit of the supplementary financial statements

Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's supplementary financial statements for the year ended 31 December 2019 have been properly prepared, in all material respects, in accordance with the European Embedded Value ('EEV') basis set out in Note (a) – Basis of preparation.

We have audited the EEV supplementary information of The Royal London Mutual Insurance Society Limited ('the Company') for the year ended 31 December 2019 which comprise the Consolidated income statement – EEV Basis, Consolidated balance sheet – EEV Basis and the related notes ('the supplementary financial statements') which have been prepared in accordance with the EEV basis set out in Note (a) – Basis of preparation and which should be read in conjunction with the Group's financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'), including ISA (UK) 800, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the supplementary 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 Company in accordance with the ethical requirements that are relevant to our audit of the supplementary financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the supplementary financial statements, which is not modified, we draw attention to Note (a) to the supplementary financial statements, which describes the Basis of preparation. The supplementary financial statements are prepared to assist the Company in applying the financial reporting provisions set out in Note (a). As a result, the supplementary financial statements may not be suitable for another purpose.

Conclusions relating to going concern

ISA's (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the supplementary financial statements is not appropriate; or
- the directors have not disclosed in the supplementary financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the supplementary financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the supplementary financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the supplementary 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 supplementary financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the supplementary 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 supplementary 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.

Responsibilities for the supplementary financial statements and the audit

Responsibilities of the directors for the supplementary financial statements

As explained more fully in the Statement of directors' responsibilities in relation to the European Embedded Value basis supplementary information, the directors are responsible for the preparation of supplementary financial statements in accordance with the EEV basis set out in Note (a) – Basis of preparation. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of supplementary financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the supplementary financial statements, the directors are responsible for assessing 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the supplementary financial statements

Our objectives are to obtain reasonable assurance about whether the supplementary 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 supplementary financial statements.

A further description of our responsibilities for the audit of the supplementary financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our engagement letter dated 25 July 2019 and for no other purpose. We do not, in giving this opinion, 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, including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
16 March 2020

Consolidated income statement – EEV basis

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Operating activities			
Contribution from new business	(g) (i)	**319**	301
Profit from existing business	(g) (ii)		
• Expected return		**126**	122
• Experience variances		**89**	16
• Operating assumption changes		**72**	90
Expected return on opening net worth	(g) (iii)	**8**	17
Loss on uncovered business	(g) (iv)	**(25)**	(39)
Strategic development costs and other items	(g) (v)	**(173)**	(111)
Total operating profit before tax		**416**	396
Economic experience variances	(g) (vi)	**339**	(111)
Economic assumption changes	(g) (vii)	**(206)**	86
Movement in Royal London Group Pension Scheme	(g) (viii)	**(36)**	27
Financing costs	(g) (ix)	**(56)**	(47)
EEV profit before tax and ProfitShare		**457**	351
ProfitShare	(g) (x)	**(147)**	(158)
EEV profit before tax		**310**	193
Attributed tax charge	(g) (xi)	**(36)**	(14)
Total EEV profit after tax		**274**	179

Consolidated balance sheet – EEV basis

as at 31 December 2019

	2019 £m	2018 £m
ASSETS		
Assets held in closed funds	**35,925**	33,289
Assets backing non-participating liabilities	**54,728**	43,514
Reinsurance assets	**5,016**	5,088
Assets backing participating liabilities and net worth	**9,821**	9,112
Value of in-force business	**3,330**	2,726
Pension scheme surplus (RLGPS)	**38**	74
Total	**108,858**	93,803
LIABILITIES		
Liabilities in closed funds	**35,925**	33,289
Non-participating liabilities	**54,728**	43,514
Reinsured liabilities	**5,016**	5,088
Participating liabilities	**6,795**	6,284
Other liabilities	**2,382**	1,889
Total	**104,846**	90,064
Embedded Value		
Net worth	**644**	939
Value of in-force business	**3,330**	2,726
Pension scheme surplus (RLGPS)	**38**	74
Total	**4,012**	3,739

Value of in-force business – EEV basis

as at 31 December 2019

	2019 £m	2018 £m
Value of in-force business before allowance for burn-through and capital costs	**3,345**	2,753
Burn-through cost	**-**	(2)
Cost of capital	**(15)**	(25)
Value of in-force business	**3,330**	2,726

(a) Basis of preparation

The EEV results presented in this document have been prepared in accordance with the EEV Principles and the EEV Basis for Conclusions issued in April 2016 by the CFO Forum. They provide supplementary information for the year ended 31 December 2019 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS, issued by the International Accounting Standards Board and adopted for use in the European Union.

The EEV Principles were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles accordingly. The reported embedded value provides an estimate of Royal London's value to its members.

EEV operating profit

The definition of EEV operating profit follows the same principles as IFRS operating profit with the exception of those items which are recognised under IFRS but are excluded from EEV as they cannot be recognised for regulatory purposes. Most notably, EEV operating profit includes the revaluation of VIF arising on the asset management and service subsidiaries, and IFRS operating profit includes accounting amounts such as the amortisation of intangible assets which are excluded under EEV as they are not permitted to be recognised for regulatory purposes.

(b) EEV methodology

(i) Overview

The EEV basis of reporting is designed to recognise the economic value of a new policy at the point it is written. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

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

(ii) Covered business

The EEV Principles require an insurance company to distinguish between covered and uncovered business according to whether the business is valued on EEV Principles. The covered business, which represents the vast majority of the Group's total business, incorporates:

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

(iii) Embedded value

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

The net worth is the market-consistent value of the net assets (excluding the value of in-force business and pension scheme surplus) over and above those required to manage the business in line with the published Principles and Practices of Financial Management (PPFM). It is based on the working capital, consistent with the previous realistic regime, in those funds within the Group that are open to new business and allows for the value of the subordinated debt.

The value of in-force business is the expected future profits from the existing business at the valuation date, on a realistic basis allowing for risk, adjusted for the cost of holding the required capital. The Royal London Group Pension Scheme (RLGPS) is discussed in section g (viii).

(b) EEV methodology (continued)

(iv) Allowance for risk

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

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

Market risk

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

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

Non-market risk

In general, the allowance for non-market risk is covered by the margin incorporated into the Group's estimates of future operating experience assumptions. The methodology used to determine the appropriate allowance for non-market risk is based on the analyses undertaken as part of the calculation of the Group's Internal Model capital requirements.

(c) Cost of capital

The EEV Principles require capital allocated to the covered business to be split between required capital, the future distributions of which are restricted, and free surplus. We have defined the amount of required capital to be that necessary to meet the Group's Internal Model assessment of capital requirements.

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

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

(d) Burn-through cost

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

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

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

(e) Expenses

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

Corporate costs

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

(e) Expenses (continued)

Service company costs

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

Costs within the in-house administration service company have been classified as either ongoing (including an element of development expenditure) or non-recurring costs. Non-recurring costs have not been anticipated within the EEV and instead are accounted for as they arise. The profits expected to arise from life and pensions business within the administration service company from activities related to the maintenance of existing business and within RLAM in respect of investment management services have been capitalised within the EEV. These calculations result in the recognition of further value of in-force business. £9m (2018: £6m) is recognised in respect of the administration service company and £121m (2018: £130m) is recognised in respect of RLAM's investment management services.

No allowance has been made for future productivity gains.

(f) New business

New covered business includes:

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

(g) Analysis of EEV profit

(i) Contribution from new business

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

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

The new business contribution in the table below represents the new business contribution grossed up for tax at 19% (2018: 19%). This is to aid comparability with proprietary companies which typically pay tax at the main corporation tax rate of 19% (2018: 19%). The EEV Consolidated Income Statement has been grossed up at the applicable tax rates.

The new business margin represents the ratio of the new business contribution to PVNBP.

2019	PVNBP £m	New business contribution £m	New business margin %
Intermediary			
Pensions	**9,461**	**206**	**2.2**
UK Protection	**678**	**40**	**5.9**
Ireland Protection	**137**	**17**	**12.4**
Consumer	**423**	**6**	**1.4**
Total life and pensions business	**10,699**	**269**	**2.5**
RLAM[1]	**10,111**	**90**	**0.9**
Total	**20,810**	**359**	**1.7**

2018	PVNBP £m	New business contribution £m	New business margin %
Intermediary			
Pensions	10,042	239	2.4
UK Protection	735	32	4.4
Ireland Protection	112	13	11.6
Consumer	419	(3)	(0.8)
Total life and pensions business	11,308	281	2.5
RLAM[1]	7,300	61	0.8
Total	18,608	342	1.8

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

(g) Analysis of EEV profit (continued)

Pension new business contribution decreased by 14% from 2018, due to a change in business mix away from higher margin individual business to lower margin Workplace business. Individual pension sales were £6,334 in 2019 (2018: £6,818m), due to the expected reduction in the defined benefit activity. Workplace pension new business sales remained strong with 873 new employee schemes set up in 2019, increasing PVNBP by 1% to £3,096m (2018: £3,131m), against a continuously competitive market.

Intermediary UK Protection focused on improving the profitability of new business through distribution quality management, resulting in new business margin increasing from 4.4% to 5.9% and new business contribution in the UK increased to £40m (2018: £32m).

Ireland Protection new business sales grew of 22% to £137m (2018: £112m) leading to an increase in our intermediated protection market share to 21.8% at Q3 2019 (Q4 2018: 19.3%). New business contribution also increased in 2019 to £17m (2018: £13m) due to stronger trading performance across all products, particularly for our Mortgage Protection and Term Assurance offerings.

Consumer achieved a new business margin of 1.4%, up from (0.8)% in 2018 through the launch of our unit-linked funeral plan product which attribute a higher margin than the with-profits funeral plan product sold in 2018. Sales of the Over 50s Life product achieved a market share of 24% at Q3 2019 (Q4 2018: 23%), driven by increased volume sales through digital and telephony channels.

RLAM's new business volumes and margin increased on 2018. Assets under Management increased to £139bn at 31 December 2019 (31 December 2018: £114bn), due to a combination of market growth and total net inflows of £9,892m (2018: £7,652m).

(ii) Profit from existing business

Profit from existing business comprises:

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

The expected return reflects the opening risk-free rate which is 1.5% (2018: 1.5%).

The assumption change impact consists of material changes to Guaranteed Annuities Options (GAOs) take up, mortality, morbidity and persistency assumptions.

- GAO take up assumptions were updated to reflect our expectation of lower future take up given recent experience.
- Mortality and morbidity assumptions were updated to reflect recent experience. In 2019, mortality and morbidity assumptions have a positive impact as compared to the negative impact seen in 2018.
- Persistency assumptions have also been updated to reflect recent experience, and introduce a more granular set of persistency assumptions for the material pension products, which better align assumptions to experience. Overall these changes have had a positive impact in 2019.Expense assumptions were less material overall than in 2018 and have a small negative impact.
- Overall these changes have had a positive impact in 2019.

(iii) Expected return on opening net worth

The expected return on opening net worth represents the expected investment return on the net worth over the period.

(iv) Loss on uncovered business

Loss on uncovered business has been valued on an IFRS basis, as used in the primary financial statements with the exception of goodwill which is not recognised in the EEV balance sheet. A breakdown of the loss reported on uncovered business is shown in the table below.

	2019 £m	2018 £m
General insurance commissions	1	1
Annuity and other commissions	4	6
IFDL	(32)	(47)
RLAM (cash mandates)	2	1
Total	**(25)**	(39)

The loss in IFDL in both 2019 and 2018 are as a result of the costs associated with developing the new back-office systems.

(g) Analysis of EEV profit (continued)

(v) Strategic development costs and other items
Strategic development costs represent investments that we believe are important for our future competitiveness and we expect will 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 EEV profits (for example, by reducing ongoing expense levels or increasing new business volumes); 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.

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

	2019 £m	2018 Restated[1] £m
Strategic development costs	(75)	(99)
Corporate and other development costs	(113)	(88)
Modelling and other changes	15	76
Total	**(173)**	(111)

1 The 2018 Strategic development costs and Corporate and other development costs have been restated to reflect revised cost allocation.

(v) Strategic development costs and other items (continued)
In 2019:

- The 'strategic development costs' include development of our Pensions platform and brand.
- The 'corporate and other development costs' included provisions set up to cover the costs associated with the servicing of remediation and future development arising from regulatory change.
- The 'modelling and other changes' component reflects modelling and methodology changes. Total model changes were much smaller during 2019 with only £(1)m impact in aggregate. Other changes include release of provisions held for compensation payments from the 2018 project to buy-out GAOs from the Scottish Life Fund.

In 2018:

- The 'strategic development costs' included development of our Pensions platform and brand.
- The 'corporate and other development costs' included provisions set up to cover the costs associated with the servicing of remediation and future development arising from regulatory change.
- The 'modelling and other changes' component reflected modelling and methodology changes. Total model changes of £35m related to improvements in our modelling as a result of the completion of our actuarial model transformation. Other changes included an increase in Funeral Bond annual management charges and acquisition of RLUM (a unit trust subsidiary previously owned by RL (CIS) Fund).

(vi) Economic experience variances
This shows the impact of actual investment returns relative to those expected. Economic experience variances have an impact on the VIF and net worth.

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

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

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

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

During 2019, sterling risk free yields decreased by c.45bps at most durations. This has increased the capital value of total bond assets by c7% (total return 10% including income). Index-linked bonds returned 8%. UK and overseas equities returned 21% and 22% respectively. All other asset categories returned 5% or lower. The overall return on the assets in the RL Long Term Fund was 12%.

(g) Analysis of EEV profit (continued)

(vii) Economic assumption changes

Long-term economic assumptions were revised to take into account the financial conditions at the end of the period including the impact of related management actions. The effect of these changes contributed a loss of £206m (2018 a profit of £86m) to the pre-tax result. Further details of the economic basis used are provided in section (h).

(viii) Movement in Royal London Group Pension scheme

The principal scheme is the Royal London Group Pension Scheme, a final salary scheme that closed to the future accrual of benefits during 2016. On an International Accounting Standard (IAS) 19 basis, the scheme had a surplus of £38m at 31 December 2019 (December 2018: £74m).

The surpluses of the two pension schemes acquired as part of the Royal Liver transaction are part of the closed Royal Liver Sub-fund and so are not included in the EEV income statement.

(ix) Financing costs

Royal London has three tranches of subordinated debt in issue at 31 December 2019, with the cost of servicing the debt over the year being £56m (2018: £47m).

- £400m nominal issued on 29 November 2013, carrying a coupon rate of 6.125% per annum;
- £350m nominal issued on 13 November 2015, carrying a coupon rate of 6.125% per annum; and
- £600m nominal issued on 7 October 2019, carrying a coupon value of 4.875% per annum.

(x) ProfitShare

In 2019, Royal London's Board exercised its discretion to allocate a proportion of the profits to certain asset shares by crediting an investment return in excess of the rate earned on the underlying assets, thereby directly increasing the value of the liabilities set aside to meet future payments to relevant policyholders. ProfitShare also benefits the vast majority of our unit-linked pension customers by enhancing their unit holdings.

The total ProfitShare for 2019 is £147m (£140m being the net of tax amount as referred to in the Chairman's statement). In 2018 the corresponding figure was £158m (£150m being the net of tax amount).

(xi) Attributed tax charge

EEV profits are calculated net of tax and then grossed up at an appropriate tax rate. In general this will be 5% (2018: 5%), the expected long-term rate of tax payable by the Group, although subsidiary companies may be subject to different rates of tax.

(h) EEV assumptions

(i) Principal economic assumptions – deterministic

Economic assumptions are reviewed actively and are based on the prevailing market yields on risk-free assets at the valuation date. The risk-free assumptions are based on the Solvency II swap curve including the credit risk adjustment but with no allowance for the Solvency II volatility adjustment. Sample assumptions are shown in the following table.

	2019 Euro %	2019 Sterling %	2018 Euro %	2018 Sterling %
15-year risk-free swap forward rate	0.94	1.15	1.83	1.60
15-year retail price inflation	1.60	3.21	1.95	3.65
15-year expense inflation – open books	2.80	3.71	2.45	4.15
15-year expense inflation – closed books (up to)	7.80	7.21	5.95	7.65

Further details on the closed book expense inflation assumptions are contained in note 29(a)(ii) of the IFRS notes to the accounts.

(ii) Principal economic assumptions – stochastic

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

The economic scenarios achieve market-consistency by:

- deriving the underlying risk-free rate from the forward swap curve; 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. We attempt to achieve the best possible fit, although modelling restrictions prevent this from being perfect.

(h) EEV assumptions (continued)

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

	Term (years)				
2019	5	10	15	20	30
15-year risk-free zero coupon bonds	7.2%	5.6%	4.4%	3.8%	4.7%
15-year AA-rated corporate bonds	8.6%	7.3%	6.3%	5.8%	6.3%
Equities	15.3%	15.9%	16.2%	16.7%	18.1%

	Term (years)				
2018	5	10	15	20	30
15-year risk-free zero coupon bonds	8.3%	6.5%	5.1%	4.3%	5.0%
15-year AA-rated corporate bonds	10.2%	8.5%	7.3%	6.6%	6.8%
Equities	17.4%	17.3%	17.5%	17.9%	18.5%

(iii) Expected returns in reporting period

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

	2019 %	2018 %
Cash	(1.00)	(1.00)
Index linked bonds	(0.50)	(0.50)
Corporate bonds	1.00	1.00
Property	3.00	3.00
UK equities	4.00	4.00
Overseas equities	4.25	4.25

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

(iv) Other assumptions

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

(v) Sensitivity analyses

The table below shows the sensitivity of the embedded value at 31 December 2019 and the 2019 contribution from new business to changes in assumptions.

	Change in embedded value £m	Change in new business contribution £m
100 basis point reduction in risk-free rates[2]	(133)	(35)
10% increase in market values of equities and property[1,2]	293	-
10% proportionate decrease in lapse and paid-up rates	297	54
10% proportionate decrease in expenses	249	36
5% proportionate decrease in mortality and morbidity[2]	(9)	3
50% increase in capital requirements	(7)	(1)

1 The value of new business is assessed at the point of sale. Increases in the value of equities and property at this date have no impact on the value of new business.

2 The sensitivities in the table include the impact of stress testing the RLGPS.

(i) Reconciliation of the IFRS unallocated divisible surplus to the European Embedded Value

	2019 £m	2018 £m
IFRS unallocated divisible surplus	**3,998**	3,813
Valuation differences between IFRS and EEV		
• Goodwill and intangible assets	**(229)**	(229)
• Deferred tax valuation differences	**(9)**	-
• Subordinated debt at market value	**(165)**	(56)
• Other valuation differences	**(38)**	(1)
Add items only included on an embedded value basis		
• Valuation of asset management and service subsidiaries	**435**	213
Other valuation differences	**20**	(1)
European Embedded Value	**4,012**	3,739

(j) Reconciliation of IFRS transfer to unallocated divisible surplus to EEV profit

	2019 £m	2018 £m
IFRS Total transfer to unallocated divisible surplus	**185**	5
Opening adjustment to UDS (IFRS note 18)	**(2)**	82
Amortisation and impairment of intangible assets	**-**	7
Differences in valuation of subsidiaries	**185**	92
Change in realistic value of subordinated debt	**(109)**	78
Movement in valuation differences for deferred tax assets	**(9)**	6
Other movements in valuation bases	**24**	(91)
EEV profit for the year	**274**	179

In 2019, an opening adjustment to UDS of £2m arose through IFRS 16 adoption. £185m of other valuation differences largely related to the increase in RLAM profits generated in the period, offset by the VIF within the management service company.

In 2018, an opening adjustment to UDS of £82m arose through IFRS 15 adoption. £92m of other valuation differences largely related to the adjustment for the renewal commission DAC. This valuation difference arose in the opening IFRS balance sheet (before the adoption of IFRS 15) where a mismatch existed between the DAC on investment contracts and the renewal commission liability.

OTHER INFORMATION

Notice of Annual General Meeting, commentary on the resolutions and financial terms glossary

Notice of Annual General Meeting

The Directors continue to monitor Government guidance regarding coronavirus (Covid-19). Please regularly visit our website for updated information about our AGM.

Notice is hereby given that the 2020 Annual General Meeting of The Royal London Mutual Insurance Society Limited (the Company) will be held at 1pm on Wednesday 3 June 2020, at One Whitehall Place, Westminster, London SW1A 2HE for the transaction of the following business:

To consider and, if thought fit, vote for the following resolutions as ordinary resolutions:

1. To receive the Company's Annual Report and Accounts with the related auditors' report for the year ended 31 December 2019

2. To approve the directors' remuneration policy

3. To approve the Annual report on remuneration for the year ended 31 December 2019

4. To reappoint PricewaterhouseCoopers LLP as auditors of the Company until the conclusion of the next Annual General Meeting

5. To authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers LLP

6. To reappoint Kal Atwal as a director of the Company

7. To reappoint Sally Bridgeland as a director of the Company

8. To reappoint Ian Dilks as a director of the Company

9. To reappoint Tracey Graham as a director of the Company

10. To reappoint Barry O'Dwyer as a director of the Company

11. To reappoint Kevin Parry as a director of the Company

12. To reappoint David Weymouth as a director of the Company

By order of the Board

Fergus HSpeight

Fergus Speight
Company Secretary
For and on behalf of Royal London Management Services Limited
16 March 2020

The Royal London Mutual Insurance Society Limited
55 Gracechurch Street, London EC3V 0RL
Registered in England and Wales, No.99064

Commentary on the resolutions

Resolution 1 – Annual Report and Accounts 2019

Following changes introduced by the Companies Act 2006 (the Act), the Company is not required to lay its accounts before a general meeting. The Board nonetheless considers it best practice to do so and will continue to present the Annual Report and Accounts to the Annual General Meeting.

Resolutions 2 and 3 – Annual report on remuneration

The Act requires FTSE-listed companies to include certain content in regard to remuneration within their annual report and accounts. Although Royal London is not a FTSE-listed company, your Board has elected to comply with the standards applicable to FTSE-listed companies under the Act. Therefore, Royal London's Remuneration Committee report includes:

- a statement by the Chair of the Remuneration Committee;

- our directors' remuneration policy; and

- our Annual report on remuneration.

Resolution 2 seeks approval for the directors' remuneration policy and is subject to a vote of the members at least every three financial years, or earlier if it is proposed that the policy is amended during that time. The Remuneration Committee will take into account the members' vote when setting future policy.

Resolution 3 seeks approval for the Annual report on remuneration.

Resolutions 4 and 5 – appointment and remuneration of auditors

PricewaterhouseCoopers LLP are the Company's existing auditors and it is proposed that they be reappointed, until the next general meeting. You are asked to authorise their reappointment and to authorise the Audit Committee to determine their remuneration.

Resolutions 6 to 12 – reappointment of directors

The Board considers that each of the directors offering themselves for reappointment brings a wealth of valuable experience to the Board, enhancing its skill and knowledge base and should be reappointed.

Note: The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office at 55 Gracechurch Street, London EC3V 0RL during business hours on any weekday (except public holidays).

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 Annual General Meeting 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.

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 (IFAs) 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.

Auto-enrolment
A governmental law designed to help people save more for their retirement. It requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. The scheme also requires employers to contribute if their employees do.

B

BAME
Black, Asian and Minority Ethnic.

Board
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, beginning a transition period that is set to end on 31 December 2020. During the 11-month transition period, the UK and EU will negotiate their future relationship.

Burn-through cost
Under adverse conditions, the fund that remains open to new business may be required to make good any deficits that arise in the closed funds. This potential liability is known as the burn-through cost. It is modelled using stochastic techniques, as it will only occur in adverse scenarios.

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.

CFO Forum
A high-level discussion group formed and attended by the chief financial officers of major European insurance companies to discuss and harmonise reporting standards.

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.

CLARA
Royal London's claims and case management system launched in 2019.

Climate 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.

Covered business
The business covered by the EEV methodology. This includes life and pensions business defined as long-term business by UK and overseas regulators and asset management business (excluding cash management).

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 EEV.

Employee Engagement Index (EEI)
A widely used measure of employee satisfaction.

Employers Network for Equality & Inclusion (ENEI)
The Employers Network for Equality & Inclusion 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 Embedded Value (EEV)
The EEV basis of reporting attempts to recognise the true economic value added over a period and is calculated according to guidelines issued by the CFO Forum. The total profit recognised over the lifetime of a policy is the same as that recognised under the IFRS basis of reporting, but the timing of the recognition is different.

European Union (EU) Audit Legislation
Directive 2014/56/EU and the Regulation (EU) No 537/2014

EEV operating profit
The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds.

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 Financial Reporting Council is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

FTSE 100
This is the share index of the 100 largest companies by market capitalisation listed on the London Stock Exchange.

Funds under management (FUM)
The total of funds actively managed or administered by, or on behalf of, the Group, including funds managed on behalf of third parties. It excludes assets administered by our platform business.

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.

Internal rate of return (IRR)
The discount rate at which the present value of the after-tax cash flows we expect to earn over the lifetime of the business written is equal to the total capital invested to support the writing of that business.

International Financial Reporting Standards (IFRS)
Accounting standards issued by the International Accounting Standards Board (IASB) applied to these financial statements.

Investment Funds Direct Ltd (IFDL)
Royal London's independent wrap platform services providing investment administration and consolidation services to long-term investors and financial advisers through its online wrap service.

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 does not restrict the surplus in the closed funds), and a Regulatory View where the closed funds' surplus is treated as a liability.

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.

Net worth
The excess of assets over liabilities on the EEV basis of reporting, where assets exclude PVIF and the pension scheme surplus.

New business contribution
The expected present value on the EEV basis of reporting of 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.

Non-governmental organisation (NGO)
A non-profit organisation that operates independently of any government, typically one whose purpose is to address a social or political issue.

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 EEV.

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 (IFRS basis)
The profit on an EEV basis resulting from our primary business operations, namely: life insurance and pensions; managing and administering investments; and acquiring and administering closed long-term insurance funds. It is similar to EEV operating profit other than a few methodology and valuation differences. For example, IFRS recognises the amortisation of certain intangibles whereas EEV does not; IFRS does not recognise the embedded value of our asset management business but EEV does; and additional provisions are recognised in EEV.

Own Funds
The excess of assets over Technical Provisions, 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, is used for internal capital management purposes.

Participating
Contracts that are with-profits in type.

Payback period
The period required for the after-tax cash flows expected to arise on new business to be equal to the capital invested to support the writing of the business.

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.

Pension freedoms
The pension legislation introduced in the 2014 Budget, which has become known as 'freedom and choice', introduced new ways by which pension savings can be accessed. Now, members of a defined contribution (DC) pension scheme have increased flexibility in the options available to them when taking their pension benefits.

Personal pension
A pension plan for an individual policyholder.

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 does not restrict the surplus in the closed funds), and a Regulatory View where the closed funds' surplus is treated as a liability.

Responsible Investment
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 for FTSE 250 companies, local authorities, universities, charities and individuals.

Royal London Foundation
The Royal London Foundation was established in 2011 to mark our 150th anniversary, giving donations to community groups nominated by our members.

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 Open Fund and a number of closed sub-funds from businesses acquired in the past.

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.

Royal London Open 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.

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 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. Our Partial Internal Model approved by the PRA with effect from 1 October 2019 is used for internal capital management purposes.

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.

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.

Stochastic techniques
Valuation techniques that allow for the potential future variability in assumptions by the running of multiple possible scenarios.

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

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 replaces IFRS and EV 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.

Unallocated divisible surplus (UDS)
The amount of surplus that has not been allocated to policyholders at the balance sheet date.

Uncovered business
Business not valued according to EEV principles for Royal London. This includes our wrap platform and cash mandates within our asset management business.

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.

2020 financial calendar

Date	Event
17 March 2020	Financial results for 2019
	Conference call on financial results for 2019
3 June 2020	Annual General Meeting
10 August 2020	Interim financial results for 2020
	Conference call on interim financial results for 2020
7 October 2020	RL Finance Bonds No 4 plc subordinated debt interest payment date
13 November 2020	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2020	RL Finance Bonds No 2 plc subordinated debt interest payment date

Registered office

The Royal London Mutual Insurance Society Limited
55 Gracechurch Street
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EC3V 0RL

Registered in England and Wales
Private company limited by guarantee
Registered Number: 99064
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