ROYAL LONDON

Results Announcement 2020 — 5 March 2021

STRONG FLOWS INTO SUSTAINABLE FUNDS DRIVES GROWTH IN ASSETS UNDER MANAGEMENT

Financial Highlights

		Year ended 31 December 2020	Year ended 31 December 2019
UK GAAP	Operating profit before tax[1]	**£41m**	£165m
	Profit before tax[2]	**£131m**	£414m
	ProfitShare[3]	**£146m**	£140m
New business	Life and pensions new business sales[4]	**£8,544m**	£10,699m
Inflows	Gross inflows[5]	**£26,407m**	£25,131m
	Net inflows[5]	**£3,870m**	£9,892m
		31 December 2020	31 December 2019
Funds	Assets under management[6]	**£148bn**	£139bn
Capital (Solvency II)	Regulatory View solvency surplus[7]	**£2.3bn**	£2.6bn
	Regulatory View capital cover ratio[7]	**147%**	159%
	Investor View solvency surplus[8]	**£2.3bn**	£2.6bn
	Investor View capital cover ratio[8]	**190%**	219%

- Operating profit before tax[1] decreased to £41m (2019: £165m), reflecting reduced new business sales and continued investment to enhance customer service and generate long-term growth.
- Profit before tax[2] of £131m (2019: £414m), reflecting reduced operating profit as well as lower relative returns on UK investments in 2020 and further reductions in yields to historic lows.
- ProfitShare[3] allocation rates to eligible customers maintained, with total ProfitShare increasing to £146m (2019: £140m) in line with the growth in the aggregate value of eligible policies.
- Life and pensions new business sales[4] 20% lower impacted by the national lockdowns.
- Net inflows[5] were £3,870m in 2020 (2019: £9,892m) as strong growth in demand for sustainable funds was offset by external institutional outflows. 95%[9] of actively managed funds outperformed their three-year benchmark (2019: 98%).
- Assets under management[6] increased to £148bn (31 December 2019: £139bn).
- Our capital position remains robust. This has allowed us to continue strategic investment in our pensions business and enhancements to our legacy systems, as well as maintaining ProfitShare allocations.

Barry O'Dwyer, Group Chief Executive, commented:

"Our asset management business successfully navigated volatile financial markets in 2020. Assets under management increased to £148bn and we saw strong inflows into our sustainable funds. Pensions new business sales reduced, primarily due to individuals delaying the decision to consolidate their investments and fewer people moving employer during these uncertain times.

Intermediated Protection performed strongly as a result of enhancements to our product proposition and maintaining excellent customer service. We have paid £13.1m in Protection claims to families of more than 2,100 customers who sadly died from Covid-19.

As a mutual we are able to take a long-term approach despite short-term uncertainties. Our robust capital position has allowed us to continue our investment in systems and service to benefit our customers. Eligible customers will also benefit from a ProfitShare of £146m, a unique feature of mutuality which enhances the value of their savings."

Kevin Parry OBE, Chairman, commented:

"The dedication shown by colleagues across the business as they support our customers has been exemplary and a testament to our values as a mutual organisation. Our mutual status allows us to put the needs of our customers above all else, focusing on the long-term to ensure we are best placed to help customers through the economic and societal challenges ahead.

In 2020 we demonstrated the wider role that we play in society by working with people who we all depend on and people who need our support. Our merger with Police Mutual allowed us to insure over 250,000 Police officers, members of the armed forces, staff and their families. We contributed over £1 million to charities that relieve poverty and counteract the impact of Covid-19.

In common with society as a whole, we look forward to a brighter and healthier future as the vaccinations programme progresses."

About Royal London

Royal London is the UK's largest mutual insurer providing approximately 8.8 million life, protection, pensions and savings policies to people in the UK and Ireland. The importance of having insurance coverage has been reinforced by the Covid-19 pandemic. We are committed to delivering best value for our customers and members.

Financial calendar:

- 5 March 2021 – Financial Results for 2020 and conference call*
- 2 June 2021 – Annual General Meeting
- 5 August 2021 – Interim Financial Results for 2021 and conference call
- 7 October 2021 – RL Finance Bonds No 4 plc subordinated debt interest payment date
- 13 November 2021 – RL Finance Bonds No 3 plc subordinated debt interest payment date
- 30 November 2021 – RL Finance Bonds No 2 plc subordinated debt interest payment date

*Royal London will hold an investor conference call to present its 2020 financial results on Friday 5 March 2021 at 09:00. Interested parties can register at: https://cossprereg.btci.com/prereg/key.process?key=PHH9PAWA8. A copy of the presentation to investors is available on the Group's website at https://www.royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/.

For further information please contact:
Meera Khanna, Corporate PR Manager, Meera.Khanna@royallondon.com 0203 272 5129 / 07919 170 502

Editor's notes

1. Operating profit before tax is represented as profit (transfer to fund for future appropriations before other comprehensive income) excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers & acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore UK operating profit represents the result of the RL Main Fund (including transfers to RL Main Fund from the closed funds).
2. Profit before tax represents the statutory 'Profit before tax and before transfer to the fund for future appropriations' in the statement of comprehensive income.
3. ProfitShare is a discretionary enhancement to eligible customers with unit-linked or with-profits policies. The allocation is considered annually and depends on a number of factors including financial performance, capital position, the risks and volatility of financial markets and the Group's outlook.
4. Life and pensions new business sales are presented as the Present Value of New Business Premiums (PVNBP), which 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 2020 swap curve provided by the Prudential Regulation Authority (PRA).
5. Gross and net inflows incorporate flows into RLAM from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, non-linked Protection business is not included.
6. Assets under management represent the total of assets actively managed by the Group, including funds managed on behalf of third parties. Figures are stated as at 31 December.
7. The 'Regulatory View' capital cover ratio restricts each closed fund's surplus to the value of the Solvency Capital Requirement (SCR) of that fund. 2020 capital figures are estimated.
8. The Group has changed the 'Investor View' capital cover ratio metric in 2020 to equal the Royal London Main Fund (RL Main Fund) capital position (excluding ring-fenced funds). The definition is considered to be more appropriate given the RL Main Fund is the primary source of capital for the group, and that the closed funds are ring-fenced and run on a standalone basis. The 31 December 2019 Group Investor View comparatives have been restated, and exclude the capital surpluses of the closed funds of £3.2bn reported in 2019. The 31 December 2019 Group Investor view comparatives have been restated from £5,810m solvency surplus to £2,632m and the capital cover ratio from 231% to 219%. All Group capital figures are stated on a Partial Internal Model basis. 2020 capital figures are estimated.
9. Investment performance has been calculated using a weighted average of active assets under management. Benchmarks differ by fund and reflect their mix of assets to ensure direct comparison. Passive funds are excluded from this calculation as, whilst they have a place as part of a balanced portfolio, Royal London believes in the long-term value added by active management.
10. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.

Review of the year

Introduction

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

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

Purpose

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

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

Strategic review

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

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

Power of mutuality

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

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

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

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

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

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

Covid-19 and our colleagues

We successfully transitioned to 98% of our colleagues working from home during the lockdowns of 2020, which enabled us to continue to provide our normal high level of service to customers. Our colleagues' professionalism meant that we stayed open for business without needing to ask customers to delay interactions with us. When the Covid-19 pandemic first struck, we committed to pay all colleagues 100% of their salary regardless of their situation and we made the decision not to furlough anyone.

Our trading performance

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

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

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

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

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

Despite the slowdown in the market, we have continued our investment in digital infrastructure as customers and advisers want to deal with us more online. Our pensions mobile app has seen an increase in registration, doubling over 2020.

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

Looking ahead

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

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

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

Financial Review

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

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

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

Financial Performance

Group operating profit before tax

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

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

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

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

Pensions
Our Pensions sales fell in 2020 as economic uncertainty, stock market volatility and the national lockdowns caused disruption to the services provided by intermediaries to their clients. Due to the fall in sales, Pensions new business margin reduced to 1.5% (2019: 1.8%).

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

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

Intermediated Protection
Sales of our intermediated protection products grew 22% to £825m (2019: £678m), following market share increases due to enhancements to our proposition, alongside maintaining strong customer service throughout the Covid-19 pandemic. Despite the growth in sales, a strengthening of mortality assumptions resulted in a reduced new business margin of 3.8% (2019: 4.9%).

To help our protection customers during the pandemic, we made a number of temporary changes to our protection proposition. This included the introduction of a premium deferral option to help customers retain their cover and increased underwriting non-medical limits, so that more customers could obtain protection without medical evidence, hence avoiding placing any additional burden on the NHS. We are also offering free access to mental and physical well-being apps, as well as discounted will-writing services to all customers through the Helping Hand service.

Ireland Protection
Our Irish business performed well, gaining further market share as we continued to innovate with enhanced propositions. Despite this, due to the market severely contracting over 2020 and policy cover sizes reducing, new business sales remained stable at £137m (2019: £137m). New business margin has decreased from 9.5% to 8.8%.

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

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

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

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

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

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

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

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

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

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

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

Reconciliation of operating profit before tax to statutory profit before tax

Profit before tax

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

Reconciliation of Operating Profit to Statutory Profit Before Tax	2020 £m	2019 £m	Change £m
Group operating profit before tax	**41**	165	(124)
Economic movements	210	378	(168)
Amortisation of goodwill arising from mergers and acquisitions	12	11	+1
Profit on sale of subsidiaries	14	-	+14
ProfitShare	(146)	(140)	(6)
Statutory profit before tax	**131**	414	(283)

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

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

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

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

Assets under management

2020 was another good year for Royal London Asset Management (RLAM). In an uncertain period, we maintained our consistent record of successfully navigating financial markets and safeguarding clients' funds. Our position at the forefront of the fast-growing ethical and sustainable investment sector was a key source of success. Assets under management grew to £148.4bn (31 December 2019: £138.9bn) driven by net inflows of £3.9bn, the inclusion of £0.7bn of assets under management from Police Mutual, and £4.9bn of positive market movements.

For the past five years we have placed a strategic emphasis on expanding into the wholesale market, to platforms, independent financial advisers and wealth managers. During 2020, this strategy has been very successful, providing a strong source of sales, with our sustainable funds proving attractive to investors.

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

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

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

Strength of our capital base

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

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

The table below sets out the capital position and key Solvency II metrics for the Group at 31 December 2020.

	Group	
Key metrics	**31 December 2020**	**31 December 2019**
Regulatory solvency surplus[7]	**£2,258m**	£2,632m
Regulatory capital cover ratio[7]	**147%**	159%
Investor view solvency surplus[8]	**£2,258m**	£2,632m
Investor view capital cover ratio8	190%	219%

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

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

Balance Sheet

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

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

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

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the 'Principal risks and uncertainties' section of the strategic report in Royal London's 2020 Annual Report and Accounts (ARA) (royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/). The effects of Covid-19 continue to impact global economies and investment markets, increasing uncertainty and in particular market risk, insurance risk (including assumptions in relation to mortality and persistency) and operational risk. These risks and uncertainties continue to be monitored and mitigated through our risk management system.

Forward-looking statements

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

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

As a result, Royal London's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Royal London's forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements Royal London may make. Forward-looking statements in this announcement are current only at the date on which such statements are made. This report has been prepared for the members and bondholders of Royal London and no one else. Royal London, its employees, or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

The Royal London Mutual Insurance Society Limited is registered in England and Wales (99064) at 55 Gracechurch Street, London, EC3V 0RL.
www.royallondon.com

Financial Statements

Consolidated statement of comprehensive income

For the year ended 31 December 2020

Technical account – long-term business	Group 2020 £m	Group 2019 £m
Gross premiums written	1,018	1,009
Outwards reinsurance premiums	(541)	(333)
Earned premiums, net of reinsurance	477	676
Investment income	5,447	5,184
Unrealised gains on investments	–	6,012
Other income	548	505
Total income	6,472	12,377
Claims paid		
• Gross claims paid	(2,657)	(2,984)
• Reinsurers' share	505	524
Change in provision for claims		
• Gross amount	77	(2)
• Reinsurers' share	(6)	(13)
Claims incurred, net of reinsurance	(2,081)	(2,475)
Change in long-term business provision, net of reinsurance		
• Gross amount	(1,522)	(2,291)
• Reinsurers' share	243	(57)
	(1,279)	(2,348)
Change in technical provision for linked liabilities, net of reinsurance	(1,426)	(6,434)
Change in technical provisions, net of reinsurance	(2,705)	(8,782)
Change in non-participating value of in-force business	140	388
Net operating expenses	(619)	(756)
Investment expenses and charges	(222)	(179)
Unrealised losses on investments	(597)	–
Other charges	(257)	(159)
Total operating expenses	(1,695)	(1,094)
Profit before tax and before transfer to the fund for future appropriations	131	414
Tax attributable to long-term business	(51)	(171)
Transfer to the fund for future appropriations	80	243
Balance on technical account – long-term business	–	–
Other comprehensive income, net of tax:		
Remeasurement of defined benefit pension schemes	(71)	(36)
Foreign exchange rate movements on translation of group entities	(36)	(4)
Deduction from the fund for future appropriations	(107)	(40)
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	–	–

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the fund for future appropriations. Accordingly, the total comprehensive income for the year is always nil after the transfer to or deduction from the fund for future appropriations.

Balance Sheets
As at 31 December 2020

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
ASSETS				
Intangible assets				
Goodwill	28	–	28	–
Negative goodwill	(52)	(64)	(9)	(14)
	(24)	(64)	19	(14)
Other intangible assets	70	70	69	69
	46	6	88	55
Non participating value of in-force business	2,229	2,089	2,229	2,089
Investments				
Land and buildings	168	169	168	169
Investments in group undertakings	–	–	16,322	13,201
Other financial investments	47,502	43,620	31,735	31,060
	47,670	43,789	48,225	44,430
Assets held to cover linked liabilities	60,229	55,605	60,229	55,605
Reinsurers' share of technical provisions				
Long-term business provision	5,181	4,925	5,138	4,889
Claims outstanding	93	99	87	95
Technical provisions for linked liabilities	(50)	(17)	(50)	(17)
	5,224	5,007	5,175	4,967
Debtors				
Debtors arising out of direct insurance operations	192	108	48	33
Debtors arising out of reinsurance operations	41	35	33	30
Other debtors	493	266	433	230
	726	409	514	293
Other assets				
Tangible assets	25	18	–	–
Cash at bank and in hand	851	706	633	337
	876	724	633	337
Prepayments and accrued income				
Deferred acquisition costs on investment contracts	163	194	163	194
Other prepayments and accrued income	35	36	–	–
	198	230	163	194
Pension scheme asset	128	169	128	169
Total assets	117,326	108,028	117,384	108,139

Balance Sheets (continued)

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
LIABILITIES				
Subordinated liabilities	1,332	1,331	1,332	1,331
Fund for future appropriations	3,673	3,700	3,993	4,005
Technical provisions				
Long-term business provision	42,181	40,016	42,245	40,077
Claims outstanding	259	326	234	307
	42,440	40,342	42,479	40,384
Technical provisions for linked liabilities	60,059	55,392	60,059	55,392
Provisions for other risks				
Deferred taxation	140	179	144	192
Other provisions	282	286	273	270
	422	465	417	462
Creditors				
Creditors arising out of direct insurance operations	237	228	216	217
Creditors arising out of reinsurance operations	2,871	2,729	2,869	2,731
Amounts owed to credit institutions	72	67	72	56
Other creditors including taxation and social security	6,055	3,617	5,828	3,470
	9,235	6,641	8,985	6,474
Pension scheme liability	44	–	44	–
Accruals and deferred income	121	157	75	91
Total liabilities	117,326	108,028	117,384	108,139

Basis of preparation

The financial statements of the Group and the Company ('the financial statements') have been prepared in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and FRS 103, 'Insurance contracts'.

The full UK GAAP accounting policies that have been applied in the preparation of the 2020 results can be found on the Royal London website at (royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/).

The results announcement for the year ended 31 December 2020 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information in this results announcement has been derived from the Group financial statements within the Group's 2020 ARA. The Group's 2019 ARA has been filed with the Registrar of Companies, and the 2020 ARA will be filed in due course. The results on a UK GAAP basis for full year 2020 and 2019 have been audited by PricewaterhouseCoopers LLP (PwC). PwC has reported on the ARA in 2020 and 2019. Both their reports were (i) unqualified, (ii) did not include a reference to any matters to which they drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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