



Delivering with purpose



Financial highlights

Operating profit
before tax¹

£133m

(2020: £41m)

Profit before tax

£192m

(2020: £131m)

Assets under
management

£164bn

(2020: £148bn)

Investor view
capital cover ratio²

216%

(2020: 190%)

Operational highlights

Total number
of members

1.8m

(2020 1.7m)

Total number
of policies held³

8.8m

(2020 8.8m)

Employee
engagement score

79%

(2020: 81%)

Total charitable
contributions in
the UK and Ireland

£1.1m

(2020: £1.1m)

Customer
Brand Health⁴

51.6

(2020: 53.3)

Reduction in our direct
operational (Scope 1)
carbon emissions⁵

68%

Read more about our key performance indicators (KPIs) in Measuring our performance on pages 18 to 20, and see page 208 for further details of our alternative performance measures (APMs)

1. Operating profit before tax represents 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 and acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore operating profit represents the result of the Royal London Main Fund (RL Main Fund).

2. The 'Regulatory View' solvency surplus and capital cover ratio restricts each closed funds' surplus to the value of the Solvency Capital Requirement (SCR) of that fund. The 'Investor View' equals the RL Main Fund capital position (excluding ring-fenced funds, which are run on a standalone basis). All capital figures are stated on a Group Partial Internal Model basis.

3. Excludes general insurance policies where Royal London acts as an intermediary via a subsidiary company and policies held as part of a discretionary healthcare scheme via a subsidiary company.

4. Customer Brand Health is our independently assessed indicator of customer engagement and allows us to measure engagement with our brand.

5. The reduction is from our 2019 baseline. The basis and assumptions underlying our climate change targets are set out on pages 39 and 40.

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Delivering our Purpose: Protecting today, investing in tomorrow. Together we are mutually responsible.

Our Purpose in action




Using mutuality for good

At Royal London we have a strong sense of our Purpose. We believe that we are mutually responsible for protecting the standard of living of this and future generations. We offer protection, long-term savings and asset management products in the UK, and protection products in Ireland.

We want to build financial resilience while also helping to fight climate change so we can move fairly to a sustainable world.

Our Purpose: Helping to build financial resilience

‘Protecting today’ goes beyond insurance policies



We want to help our customers build their financial resilience. We help them to save for the future and to protect themselves and their families in times of ill-health or bereavement, assisting them in making confident financial decisions.

Championing impartial advice

Impartial financial advice is the gold standard and we are strong advocates for the benefits it provides. We work in partnership with independent financial advisers and we are increasingly using technology to scale the provision of financial advice, making it more accessible.

Providing support and guidance

The cost of impartial advice means it is not right for everyone; we therefore focus on providing support and guidance in many ways, including helping people who are saving to make informed and confident choices. We also support those who need it most through our charitable partnerships.




To find out more about how we help to build financial resilience, please see page 22

Our Purpose: Moving fairly to a sustainable world

‘Investing in tomorrow’, making decisions today





We are responsible for managing £164bn of our customers' money. That money can play a significant part in helping society transition to a sustainable world, as well as providing customers with investment returns.

Positive change

Our Investment Philosophy is based on actively engaging with the companies in which we invest to help influence their behaviour. We are focused on optimising long-term risk-adjusted investment returns in a responsible way, recognising that our customers will live in the society that we mutually help to create. Royal London Asset Management (RLAM) manages the majority of the money customers invest with us and has championed responsible investment since 1988.

Making an impact

Some of our investments are in companies with large carbon footprints. We actively support initiatives encouraging the reduction of carbon emissions and transition to a sustainable world, in a way that considers the impact of the necessary changes on society. However, an active management approach also means that we can divest from companies that cannot or will not change.

Clear targets

We are a proud signatory to positive climate initiatives and are committed to achieving net zero by 2050 across Royal London's investment portfolio. By 2030, we are aiming to reduce carbon-equivalent emissions by 50%. These commitments are based on the expectation that governments and policy-makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement.

We also think carefully about our own operational impact on the environment. We have maintained carbon neutrality in our direct operational emissions since 2020 through carbon offsetting as well as continuing to decarbonise, exceeding our short-term targets, on our journey to net zero carbon.




Read more about our climate targets, including the basis and assumptions on which they are founded, on pages 30 to 40.

Our Purpose: Using mutuality for good

Together we are mutually responsible





We are the UK's largest life, pensions and investment mutual. We think differently to companies with shareholders. We exist to serve our customers. This influences the decisions we make every day.

Different thinking

We are an advocate for the role that mutuals play in financial services. We are committed to mutuality as a highly effective model for our business, whose role is to pool and manage financial risks and resources across generations.

For the long term

We are proud that we have never wavered from our commitment to run our business solely for the benefit of our members and customers. They can trust us to meet their needs through innovative products and services, while also growing sustainably.

Power of mutuality

Our members and customers benefit from the power of mutuality. We use our profits to invest in improving what we do for them. Members are able to have a direct say in how we run our business by voting at our Annual General Meeting, and eligible customers, the vast majority of whom are members, also directly benefit from our ProfitShare scheme. The scheme boosts the value of their savings, and since we started paying ProfitShare in 2007 we have shared over £1.2bn. This is only possible because we are a mutual.



To find out more about how we use mutuality for good, please see page 21.

Performance driven by our Purpose



“We are committed to our mutual status and we are strong advocates of the role mutuals play in financial services.”

Kevin Parry OBE
Chairman

We exist to meet the needs of our customers. All the profit we make is either returned to eligible customers through our ProfitShare scheme or reinvested in the business to enhance the services provided to customers. This focus influences the decisions we make, every day. Our Purpose is **‘Protecting today, investing in tomorrow. Together we are mutually responsible.’**

The Covid-19 pandemic introduced worry and uncertainty that affects the way we all live and work. For most of us, there is an increased awareness of possible life shocks and the daily risks we face, and the impact they can have on our lives. Throughout the pandemic our colleagues focused on responding quickly to our customers' needs and did what they could to minimise the impact. I am pleased we were able to demonstrate our dedication to improving our customers' financial resilience and standard of living.

Responsible investment

Environmental, social and governance (ESG) issues moved to the top of society's agenda in 2021. I am proud that Royal London pioneered and championed sustainability long before it caught the public's imagination. We recognise that we need to invest responsibly, in a way that influences businesses to adopt good behaviours and achieve positive climate impact through realistic, scientifically-supported goals.

We also support and champion a 'Just Transition': ensuring climate action supports an inclusive economy, is socially responsible and avoids exacerbating existing injustices or creating new ones.

Our credentials as a sustainable asset manager and increasing societal focus on responsible investment continue to drive strong flows into our award-winning range of funds. ESG capabilities are embedded across our investment activities, including our flagship Governed Range. In 2021, our RLAM responsible investment team continued to grow and now comprises 12 professionals. We have also made changes to £23bn of indexed equities in our Governed Range to improve their carbon footprint, reducing the carbon intensity by 16% by the end of 2021.

We have core sustainability commitments: to reduce carbon-equivalent emissions in our investment portfolio by 50% by 2030, and to achieve net zero by 2050. During 2021 we have also made significant progress on our journey to net zero carbon by 2030 in our direct operational emissions. Across our offices, 99% of the electricity is from renewable sources and we have reduced direct carbon emissions by 68%, well ahead of our 2025 target of a 60% reduction. We are also rightly proud of our environmentally-friendly office in Alderley Park, Cheshire, which opened this year.

You can read more about our approach to addressing climate change and the basis and assumptions on which our targets have been set on pages 30 to 40.

Social responsibility

We play an important role in creating a fairer and more compassionate society and we recognise that some people struggle to get by. Our flagship partnership with national charity Turn2us supports millions of families in financial crisis. Our Changemakers programme promotes social enterprise, transforms lives and creates opportunities for employment, improving financial resilience.

We share these same values of inclusivity with our sports partnerships and we are dedicated to levelling the playing field. In 2021, we partnered with The British and Irish Lions to support a feasibility study into establishing a Women's Lions team and we are helping to raise awareness of this important initiative. We were Global Partner to the Castle Lager Lions Series 2021 and also continue to work with the England and Wales Cricket Board (ECB). We welcomed and support the ECB's 12-point plan to tackle racism and all forms of discrimination in cricket. Pages 26 to 28 of the strategic report provide more detail on our social impact and sponsorship initiatives.

ProfitShare

Our ProfitShare scheme is a unique benefit that we can offer because we are a mutual, and it allows success to be shared with eligible customers by boosting their savings. I am delighted to report that we continue to enhance the return on eligible customers' life and pension policies, the vast majority of whom are members. In 2021, we maintained our allocation rates. As a result of growth in the aggregated value of eligible policies, the total ProfitShare increased by 15.8% on the previous year to £169m. Since ProfitShare was established in 2007, we have shared £1.2bn with eligible customers and our aim is to continue to pay ProfitShare consistently from year to year so that they can see it enhancing their returns.

Our Board

As a Board, we seek to operate to the highest governance standards. We are committed to reflecting the diversity of our workplace and the multi-cultural society in which we live. I am delighted that we have developed the membership of our Board during 2021 and we have welcomed new members who bring diverse skills, experience and opinions.

In June, David Weymouth retired from the Board after nine years and I would like to take this opportunity to thank him for his considerable contribution and work as the Senior Independent Director. We appointed Baroness Davidson and Jane Guyett CBE as non-executive directors. Both sit on the Board, Nominations and Governance, and Remuneration Committees. Jane will become chair of the Remuneration Committee in April 2022, when Tracey Graham steps down after serving nine years on the Board.

Colleagues

The commitment and hard work of all our colleagues during 2021 are testament to our resilience. I would like to thank everyone for their dedication over the past year. We have now adopted a hybrid way of working and, adhering to the relevant guidelines, have welcomed colleagues back to our offices, alongside working from home where beneficial. We recognise the value of the physical workplace in enabling social interaction, learning from other colleagues and maintaining our culture.

Outlook

The geopolitical outlook is more uncertain and more dangerous than it has been for many decades. The attention of the world is focused on the conflict in Ukraine and our thoughts go out to those affected by this humanitarian crisis. We are providing £250,000 of financial assistance by means of a charitable donation to the British Red Cross Ukraine Crisis Appeal.

Royal London has very limited direct exposure to Russia through our investment portfolio but we are closely monitoring the impact on investment markets and will continue to take action to protect value for our customers.

We remain focused on adapting to all relevant world events. The lockdowns associated with Covid-19 accelerated customers' and businesses' digital expectations. We are responding to this need and recognise we have more to achieve from our ongoing digital investment. Further enhancing our technology capability will be a key focus during 2022 and we will continue to develop our suite of products for later life to meet the emerging needs of an ageing population. Following a very successful year in its core protection business, our Irish business will also launch pension products this year.

We are committed to our mutual status and we are strong advocates of the role mutuals play in financial services. I believe mutuality is a highly effective way of running a commercial business with a strong customer focus. Mutuality is a relevant and much-needed concept in today's world; we exist to benefit our members and customers over the long term.



Kevin Parry OBE
Chairman

3 March 2022

Section 172 statement

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

When discharging their duties and making decisions, directors are required by Section 172 of the Companies Act 2006 to have regard, amongst other matters, to the:

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

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

You can find more information about how we support and engage with our stakeholders on pages 21 to 29 and our full Section 172 statement can be found on pages 80 and 81.

Protecting our customers' standard of living now and in the future



“Royal London plays an important role in how society moves fairly towards a sustainable world.”

Barry O'Dwyer
Group Chief Executive

2021 was a year of challenge and opportunity, in which we supported our customers as society began to emerge from the Covid-19 pandemic. I am pleased with what we delivered for our customers and stakeholders and with our achievements over the year.

There are several key factors influencing the retirement savings and protection market and, over the long term, society is facing a challenging predicament. We are facing climate change that is damaging the world into which we will retire. The population is ageing. Many people will be unable to support themselves adequately in later life. Our collective response to these immense challenges will shape the future of the world. To effect change, governments, industry and broader society need to work together.

Responsibility for funding later life has fallen to individuals, away from government and employers. Yet many people do not realise how to respond to this challenge or where to get help. We aim to help our customers to build financial resilience and to support a fair transition to a sustainable world, protecting standards of living now and in the future.

The COP26 UN Climate Change conference in Glasgow was a major milestone in putting action to limit climate change centre stage. Royal London was there, making the case for our customers. We are guardians of substantial funds that can play a significant part in influencing how we move fairly to a sustainable world.

Ensuring our customers are aware of the power of their pension is the focus of our recent marketing activity. The 'Invested Generation' campaign, which highlighted Royal London's responsible investment approach, launched in the final quarter of 2021 and has continued into 2022.

Our trading performance

Our strategy, built around being an insight-led modern mutual which is focused on growing sustainably by deepening customer relationships, continues to serve us well.

Our operating profit before tax for the year ended 31 December 2021 was £133m (2020: £41m). Trading in some areas of the Group has been affected by the ongoing impact of Covid-19, but there were also positive indicators of economic recovery.

Royal London Asset Management, which manages the funds for our customers and external clients, has performed well. Assets under management increased to £164bn (2020: £148bn), passing the £150bn milestone for the first time. Our expansion into the wholesale market continues to yield success, particularly with our sustainable funds, where demand is strong. Over three years, 99% (2020: 95%) of actively managed funds outperformed their benchmark.

Our Pension new business sales were £7,966m (2020: £7,190m). Individual Pension volumes were below pre-pandemic levels, but recovering. We have seen a steady improvement in Workplace Pensions sales, as employers stepped up their recruitment and were more willing to consider switching their workplace pension provider.

New business sales of our Protection business have performed strongly in the UK and Ireland, increasing by 5% to £1,251m (2020: £1,192m) in the UK and by 35% to £185m (2020: £137m) in Ireland.

Our capital base has remained robust throughout the year with an Investor View capital cover ratio of 216% at 31 December 2021 (2020: 190%).

Improving our customer offer

We have continued to enhance our propositions to meet customer needs. Over 2021, we introduced new products across all three business units. We launched our Global Sustainable Credit Fund and introduced a new product for existing customers who benefit from a guaranteed annuity rate to take their annuity with Royal London. We also launched Investment Pathways – a range of solutions aimed at non-advised customers who are moving their pension into income drawdown. In addition, we progressed the consolidation of four with-profits funds, already closed to new business, into the Royal London Main Fund, with an uplift in policy value for all eligible policyholders.

In 2021, we received over 100,000 calls in relation to bereavements across protection and pension products, paying out £25m in Covid-19-related claims. During the year we paid out protection claims totalling £596m in the UK, helping approximately 80,000 customers.

Our initiatives to help build financial resilience included the launch of 'How to Die Well: a practical guide to Death, Dying and Loss', which was part of our 'Lost for Words' campaign. This book features practical, emotional and financial guidance for people dealing with bereavement.

Investing for the future

We are investing in programmes to simplify and modernise our infrastructure and have progressed our Legacy Simplification programme. By focusing on fund consolidation and system migration, we have created a more efficient and de-risked operating model, improving the quality and ease of customers' servicing experience. By the end of 2021, we had migrated a further 171,000 policies onto new technology.

As well as building our UK business organically, we are open to opportunities that broaden our solutions. We have taken a 30% stake in Responsible Group, the later-life lending and product specialist. This investment builds our profile in a significant growth market.

We recognise the need to continue to build on our digital capabilities, as through data-driven insights we can better understand and anticipate customer needs and behaviour. Together with increasing digital capabilities, this insight helps us support advisers more efficiently. To this end, we acquired Wealth Wizards, a digital platform for financial advisers with market-leading technology to help improve efficiency in the provision of advice.

Our people

Our People Commitments for 2021 focused on developing a diverse and inclusive workforce and ensuring colleague wellbeing. New initiatives include diversity and inclusion learning and training for colleagues, and mentoring programmes with colleagues from our Women's, BAME (Black, Asian and Minority Ethnic), PRIDE and EARL (Enabling disability confidence At Royal London) networks.

In October 2021, we officially opened new offices in Alderley Park, Cheshire for around 2,000 Royal London colleagues. The 147,500 sq.ft building encourages collaborative working, inclusion and sustainable commuting. I am delighted the site has received a Very Good sustainability rating according to the Building Research Establishment Environmental Assessment Method (BREEAM).

Awards

We are also proud of the collection of industry awards we won over 2021, including:

- COVER Excellence Award for Outstanding Business Protection;
- Best Income Drawdown Provider from the Investment Life & Pension Moneyfacts Awards;
- Lifesearch Awards for Insurer of the Year;
- Investment Team of the Year at the Insurance Asset Risk Awards for RLAM's Sustainable Investment Team; and
- Claims Heroes and Best Mortgage Protection Awards at the National Consumer Awards in Ireland.


We also enjoyed another successful year at the UK Financial Adviser Service Awards. This annual event awarded our investments, pensions and protection service the maximum five stars: the 13th year in a row for pensions and 8th in a row for protection and RLAM. We also received the award for Outstanding Achievement, in recognition of our consistently high service performance over recent years.

Looking ahead

Enabled by our robust capital position and long-term approach to decision-making, we will continue to work in partnership with financial advisers to deliver better outcomes to customers.

Within our asset management business, we will continue to support customers seeking to achieve good financial returns while investing responsibly to help tackle some of the world's biggest challenges, such as climate change.

Royal London plays an important role in how society moves fairly towards a sustainable world. Our customers are not simply investing for the future – they are invested in it.



Barry O'Dwyer
Group Chief Executive

3 March 2022

Our mutual business model: how we create value

Our Purpose

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

We are committed to our strategy

**An insight-led, modern
mutual growing
sustainably by
deepening customer
relationships**

Our solutions

**We provide high-
quality solutions
that support good
customer outcomes**

We are driven by our Purpose and we are clear on the impact we want to create

We are focused on helping to build financial resilience and supporting the fair transition to a sustainable world.

By bringing these elements together we aim to achieve the best possible customer outcome: a good standard of living. This purpose-driven approach is at the core of everything we do and how we create value for customers, advisers and wider society.

Focused on six strategic shifts



**Purpose-
driven**



**Data-led,
digitally nimble**



**Customer
focus**



**Broader
solutions**



**Mutually valued
relationships**



**Sustainable
financials**

You can read more about our strategic shifts on pages 16 and 17 and how they align with our Directors' remuneration on pages 98 to 118.

Building long-term resilience

We look after 8.8 million life and pension policies. We provide high-quality propositions, supported by strong customer service, to help customers protect themselves and their loved ones against potential life shocks, save for the future, and manage their wealth in later life.

We offer long-term savings, protection and asset management propositions in the UK, and protection propositions in Ireland. A significant proportion of our business is distributed through intermediaries: via financial advisers (or brokers in Ireland), on aggregator sites or through automatic enrolment into workplace schemes by employers.

In addition, RLAM, as one of the UK's largest asset managers, provides the scale and capability to support Royal London's position as a value-for-money solutions provider.

	UK	Asset Management	Ireland
Access to customers	Providing propositions to customers and employers, primarily through independent financial advisers	Providing investment propositions to Royal London's life and pensions customers and to external institutional and wholesale clients primarily through intermediaries	Providing propositions to customers through brokers
Our propositions	<div> <div>1</div> <p>Long-term savings:</p> <ul style="list-style-type: none"> • Workplace Pensions • Individual Pensions • Annuities • Equity Release <p>1,880,000 Policies</p> </div> <div> <div>2</div> <p>Protection:</p> <ul style="list-style-type: none"> • Life Insurance • Illness and Income Protection • Business Protection <p>1,144,000 Policies</p> </div> <div> <div>1 2</div> <p>Long-standing customers¹:</p> <ul style="list-style-type: none"> • Pensions • Annuities • Protection <p>5,320,000 Policies</p> </div>	<div> <div>1</div> <p>Collective investment funds and segregated mandates:</p> <ul style="list-style-type: none"> • Equities • Fixed Income • Multi-asset • Private Assets <p>£164bn AUM² £119bn internal £45bn external</p> </div>	<div> <div>2</div> <p>Protection:</p> <ul style="list-style-type: none"> • Life Insurance • Illness and Income Protection • Business Protection <p>475,000 Policies</p> </div>
How we generate revenue	<p>We receive premiums and fees through two primary models:</p> <div> <div>1</div> <p>Customers and clients pay fees for investing money with us.</p> </div> <div> <div>2</div> <p>Customers pay insurance premiums, protecting them from a life shock.</p> </div>		
Reinvesting profits	<p>We generate value for customers, not shareholders.</p> <p>We use our profits to improve our propositions and services for customers and to maintain our financial strength. We also share profits with eligible customers through ProfitShare, boosting the value of their savings.</p>		

1. Long-standing customers also includes those invested in funds closed to new business.

2. Asset Management AUM includes external assets managed on behalf of third parties and internal assets managed on behalf of the Royal London Group.

Responding to trends in a fast-changing world

Our strategy enables us to respond to market and consumer trends, many of which have been accelerated by Covid-19.

The pandemic has reminded us all that our world can change quickly and unexpectedly. As a mutual, with a strong financial position, long-term perspective and ability to adapt quickly, we are well placed to respond to the needs of customers and society in this fast-changing world.

Living through a pandemic has accelerated the pace of change in consumer behaviour and expectations, particularly in relation to social and environmental challenges.

The climate crisis threatens the world we live in. It is critical for us all to act now to protect the world for future generations.

Customers increasingly expect seamless digital interactions and the move to remote or hybrid working has accelerated this trend. We are known for our service excellence¹ and we are investing in our digital experience to ensure it continues to meet evolving customer expectations.

We have seen the Covid-19 pandemic disproportionately impact the most vulnerable in our society. Our research has shown that across all parts of the UK there is concern about the rising cost of living and our children's prospects. The most vulnerable in society are increasingly concerned about their financial resilience, including job security and paying their bills.²

Covid-19

Key trends

The pandemic has created turbulence in all of our lives and throughout our markets. Looking after our members, customers, colleagues, independent financial advisers, and other stakeholders is a priority.

55%

of adults whose finances had worsened as a result of the pandemic say their confidence had decreased.

Source: FCA Financial Lives Survey 2020

Climate change

We are on a trajectory to see temperatures rise by more than 3°C by 2100³ if immediate action is not taken to curb global carbon emissions. There is more than £2 trillion invested in UK pensions⁴, so our industry plays a crucial role in the transition to a low carbon economy.

7 years

Including 2021, the past seven years have been the warmest on record.

Source: World Meteorological Organization, State of the Global Climate, 2021

Our response

We responded quickly and continue to support our customers, colleagues and communities through a range of measures.

Our focus on financial resilience is highly relevant in a Covid-19 world. In the early part of 2021 bereavement claims were double our normal winter peak levels. We prioritised resource to ensure we supported customers in making their claims.

As the economy recovers it remains uncertain what the 'new normal' will look like for many sectors; we continue to support advisers and customers to adapt to these changes.

We have been active in highlighting in the media the additional costs that families are facing, including explaining the impact of rising energy bills, which can potentially affect the decisions they make about short- and long-term savings.

We are founding signatories to the Institutional Investors Group on Climate Change (IIGCC) net zero commitment. We have a long track record as a responsible investor, and actively engage with the companies we invest in to influence them to transition to a sustainable world in a way that considers the impact on society.

This year we set short- and long-term targets to ensure we achieve net zero across our investments and operations. Responsible investment is integrated into our default pension proposition. In August 2021 we reduced the carbon intensity of equity funds across our core pension offering, through embedding ESG practices more deeply.

The details of our targets and broader approach to climate change are set out in full on pages 30 to 40.

Strategic shifts



Ageing population and transfer of risk to the individual

The combination of an ageing population, declining state provision and increased personal responsibility to save for retirement has enhanced consumers' need for support, to achieve the standard of living they have come to expect.

17.7 million

The projected population of people aged 65 or older in Britain by 2050 (which will account for 24.8% of the total population), compared to 11.9 million in 2018.

Source: ONS 2019

Responsible business

There is ongoing consumer demand for purpose-driven organisations with a strong stance on societal issues. People increasingly expect the companies they buy from to contribute positively to society.

4 in 10

Approximately 4 in 10 of the British population try only to buy from companies which are socially and environmentally responsible.

Source: YouGov, March 2021

Digital business models and engagement

The acceleration in digital adoption across many industries, combined with growing demand for high-quality and intuitive digital experiences, is driving a significant change in how financial services providers engage with and distribute to customers.

84%

of consumers expect brands to adopt new digital solutions to deliver products and services to them in the coming years.

Source: Appnovation, The Digital Consumer Report 2021

By providing high-quality and value-for-money propositions, we help customers to build the financial resilience they need in an ageing society. Our Individual Pensions, Workplace Pensions and Drawdown products all received a 5-star rating¹ during 2021.

We believe impartial financial advice is the gold standard in driving good customer outcomes. To support advisers, we provide highly regarded technical support,² a range of adviser tools, and ongoing continuous professional development (CPD) resources and training.

We are expanding our later-life solutions, including developing equity release capability through our partnership with Responsible Group, ensuring we can meet the changing needs of customers in an ageing society.

We use our voice and influence to represent the needs and beliefs of our customers and work in partnership with others to provoke the change needed to overcome the challenges in our society.

We helped customers to understand the link between how their pension is invested and the world they will retire into, through our responsible investment campaign.

We partner with Turn2us, a charity at the forefront of the fight against UK poverty. This year we made donations to support those in financial crisis, helping to build financial resilience. You can read more about our work with Turn2us in our Society and Communities section on page 26.

We continue to evolve our business and embrace technology and the opportunities it provides.

We are focused on providing the best possible servicing experience for customers and advisers, leveraging technology to enable them to engage with us in the way that best suits their needs, including through our mobile pension app.

During 2021 we acquired Wealth Wizards, a digital platform for financial advisers with market-leading technology to improve efficiency in the provision of advice. We are working with Wealth Wizards to integrate their capabilities with ours and to find innovative ways to support customers and advisers.



1. Defaqto star ratings 2021 and Financial Adviser Service Awards 2021.
2. Royal London vulnerable consumers research paper, 'Impact of Covid', May 2021.
3. UN Environment Programme, 'Making Peace with Nature' report, February 2021.
4. Make My Money Matter website, 2021.
5. Royal London adviser technical support research, October 2020.

Driving transformational change

Our strategy is to be an insight-led, modern mutual growing sustainably by deepening customer relationships. Our six strategic shifts, detailed in the table below, are the core areas that we believe will enable us to deliver on our Purpose and achieve our strategy.

Our strategic shifts

 Purpose-driven	 Data-led and digitally nimble	 Customer focus
 <p>We align behind our Purpose, signalling the impact we want to have on the world.</p>	 <p>We use data and digital capabilities to respond to our customers' needs and deliver the best possible experience.</p>	 <p>We put the needs of customers first, building financial resilience and delivering good outcomes.</p>

Key objectives

- Help build financial resilience for customers and support those who need it most through our social impact activities.
- Fight climate change and support a Just Transition to a sustainable world through investing responsibly.
- Deliver the optimum customer, adviser and employer experience through investment in technology and our data and digital capabilities.
- Increase automation where appropriate to improve the experience and drive efficiency.
- Use data-led insight to drive design and inform decision-making.
- Continue to structure the business around customer needs at each life stage.
- Support customers to take responsibility in order to achieve a lifetime of financial resilience.

Progress in the year

- We committed to cutting the carbon footprint of our investment portfolio and operations.
- We provided responsible investment support to advisers, including a series of educational videos and guides, in collaboration with Square Mile Research.
- We launched our Changemakers programme, to support social enterprises with a focus on solutions to financial resilience issues, by providing £722,500 of funding to support ten innovative social enterprises in 2021.
- Our pension mobile app had over 156,000 registrations, nearly doubling its users in the last 12 months, and has some of the highest user scores of any pension app in the UK.
- We continued enhancing content and functionality in our mobile app.
- We made improvements to our customer experience, including enhancing the navigation of the Royal London website to improve the ease of customer interaction.
- We launched a new digital wellbeing proposition with a phased rollout to all protection customers, giving them access to a suite of five different apps to improve physical and mental health.
- We successfully transformed our organisational structure to enable us to drive greater focus on the customer, their needs and their stage in life.
- To support continued strong service delivery, we increased the number of colleagues supporting customers in our Group Operations teams by an additional 100 people during 2021.
- Our service standards remain strong, receiving 5-star ratings for our Pension and Protection service.¹
- We have delivered improvements in service and flexibility, as well as certainty of estate distribution for long-standing customers in Royal London's closed with-profits funds, through our programme focused on enhancing and simplifying services for legacy customers.

1. Financial Adviser Service Awards 2021

Broader solutions



We meet a broader range of existing and new customer needs, and explore opportunities to innovate.

- Develop complementary propositions that respond to customer needs and deliver good outcomes.
- Explore opportunities to support the wellbeing of members and customers through our propositions.

- We acquired Wealth Wizards, reinforcing our ability to support customers to make informed decisions.
- We enhanced our later-life product capabilities through taking a 30% stake in Responsible Group, a later-life lending specialist.
- We continued to integrate Police Mutual Group into Royal London, providing high-quality propositions to police officers, members of the armed forces, and their families.
- We launched an annuity proposition for long-standing customers with pension policies that have guaranteed annuity rates. The proposition enables us to retain these annuitants as Royal London customers, rather than having to transfer them externally.

Mutually valued relationships



We build trusted relationships with our customers, employers, and financial advisers. We help customers take greater responsibility for their future.

- Provide customers with the right information, guidance and support when they need it.
- Support advisers in their relationships with clients.
- Strengthen our relationships with communities through our social impact and charity initiatives.

- For some pension customers, we launched an online chat bot to support digital conversations and help to answer customer questions more quickly and easily.
- During the year customers benefited from our telephone guidance service, at no extra cost. The service helps our non-advised customers who are accessing their pension, and who have experienced a life shock, such as job loss, illness or bereavement, by explaining the options available and signposting external sources of support.
- We launched our financial wellbeing hub, helping our customers feel more confident about money decisions, beyond their pensions and investments.

Sustainable financials



We maintain an ongoing focus on being financially sustainable, ensuring we continue to offer value-for-money propositions for our customers and future generations.

- Maintain a strong capital ratio and deliver operational efficiency cost savings.
- Aim to return value to eligible customers via ProfitShare.
- Continue to deliver sustainable growth.

- We maintained ProfitShare allocation rates with total ProfitShare increasing to £169m, in line with growth in the aggregate value of eligible policies.
- We have realised benefits from key strategic initiatives, including the launch of new propositions and modernisation of infrastructure, which will drive future revenue streams and improved efficiencies.
- We continue to manage our costs while investing in the business for growth and operational improvement.
- We took out additional hedges against equity risk to reduce volatility in our capital ratios.

Measuring our performance

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

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

Financial KPIs

Profitability – operating profit before tax^{1,5}

Why it is important

Presentation of operating profit facilitates comparison of the Group's performance over reporting periods and provides a more meaningful measure of the underlying trading performance of the Group than statutory profit.

Our performance

Operating profit was £133m and saw a return to higher levels following the impacts of Covid-19 in 2020, reflecting higher contributions from all of our businesses.



Profitability – profit before tax^{2,5}

Why it is important

Profit before tax reflects the operating profit from our primary business operations, and also includes non-operating items i.e. economic movements, amortisation of goodwill arising from mergers and acquisitions, profit on sale of subsidiaries and allocation of ProfitShare.

Our performance

Profit before tax increased to £192m due to the increase in operating profit, partially offset by higher ProfitShare allocated to eligible customers.



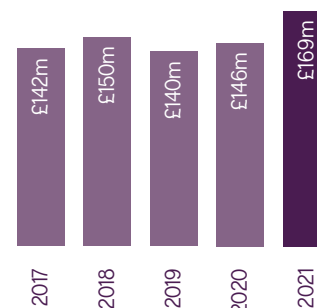
ProfitShare

Why it is important

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

Our performance

The ProfitShare allocation rate was maintained with the amount increasing to £169m, growing in line with the aggregate value of eligible policies. Maintaining the level of allocations demonstrates Royal London's resilience and our commitment to delivering value.



Financial KPIs

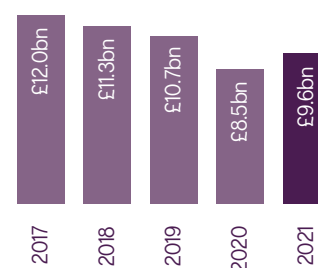
Life and pensions new business sales – present value of new business premiums (PVNBP)¹

Why it is important

Life and pensions new business sales (PVNBP) is the total of new single premium sales received in the year plus the discounted value of the regular premiums we expect to receive over the term of the new contracts sold in the year. This is how we measure the future value we deliver through writing new business.

Our performance

New life and pensions business sales on a PVNBP basis increased by 12% in 2021 to £9,588m. PVNBP increased across all product lines, and is returning to higher levels following the initial impact of the pandemic in 2020.



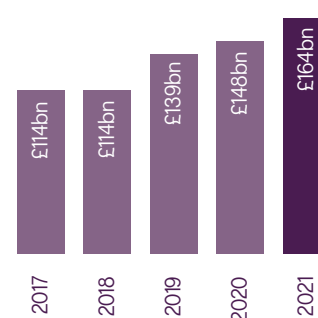
Funds – assets under management (AUM)^{1, 3, 6}

Why it is important

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

Our performance

The Group's AUM increased to £164bn due to positive market movements and net inflows, driven by the continued growth in our sustainable funds range.



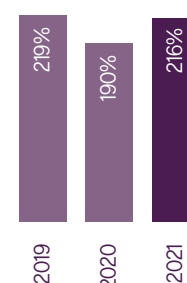
Capital^{1, 4}

Why it is important

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

Our performance

At 31 December 2021, our Investor View capital cover ratio was 216%, reflecting favourable economic movements in 2021 driven by positive equity and property returns, as well as rising yields. Additional equity hedges in 2021 and the consolidation of closed funds have improved key capital metrics which will help to maintain capital stability going forwards.



1. These metrics are classed as our APMS; see page 208 for more details.

2. Profit before tax represents 'Profit before tax and before transfer to the fund for future appropriations' in the Statement of comprehensive income.

3. 2017 AUM includes amounts held in RLAM C.I. Limited, which was sold in 2018 with AUM of £2bn.

4. The Group changed the Solvency II 'Investor View' metric in 2020 to equal the Royal London Main Fund (RL Main Fund) capital position (excluding ring-fenced funds) and this was reported in 2020 along with a 2019 comparative. Therefore only three years of data are shown for this measure. 2021 capital figures are estimated.

5. Our UK GAAP operating profit before tax APM and UK GAAP profit before tax were first reported in our 2020 Annual Report and Accounts, along with a 2019 comparative. Therefore only three years of data for these measures are shown.

6. AUM includes internal funds managed on behalf of the Royal London Group and external funds managed on behalf of third parties.

Non-financial KPIs

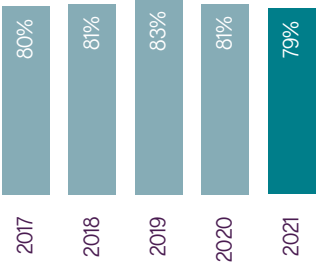
Colleagues – employee engagement

Why it is important

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

Our performance

We aim to maintain our high levels of colleague engagement and positive colleague experience with 84% of colleagues participating in the 2021 survey. We ended 2021 with an employee engagement score of 79%. This reflects a slight reduction versus that achieved in recent years, although our engagement was maintained throughout 2021 and remains a positive indicator within a challenging and changing environment.



Customers – Customer Brand Health

Why it is important

Customer Brand Health is our external indicator of customer engagement and allows us to measure engagement with our brand.

It is gathered by an external survey (YouGov's BrandIndex), which is also used by a number of our peers. The survey scores against six indicators, including customers' impression of the brand, whether they would recommend us to a friend, whether the brand offers good or poor value for money, and overall customer satisfaction.

Our performance

Our Customer Brand Health score in 2021 is 51.6 (2020: 53.3). This is a marginal reduction in a challenging environment, however we outperformed competitors who saw an average of 49.3. Positively, our score with the over 50s audience increased to 57.1 (2020: 55.3). In 2022, we will be gathering this information via our internal customer relationship study, which will allow us access to a greater reach of customers to measure brand sentiment.



Delivering for our stakeholders

Our key stakeholders are our members and customers, colleagues, the wider community, financial advisers and employers. We value their views and engage with them to understand their needs. Their perspectives help us ensure our business is robust and sustainable.

Creating long-term value for our stakeholders



Our members and customers

For more information see page 22



Our colleagues

For more information see page 23



Society and communities

For more information see page 26



Financial advisers and employers

For more information see page 28

Our members and customers

Our customers are facing a challenging predicament. Our population is getting older, and many people lack the means to support themselves in retirement in the way they would like. This coincides with a climate crisis that is damaging the world into which they will retire. Royal London is focused on the actions we need to take to help our customers protect their standard of living, and we believe that decisive action is needed now more than ever.

Standards of living are shaped by individual finances and the environment we live in. Financial products are important because they allow customers to invest and grow their money and protect themselves against life shocks such as ill-health or the loss of a loved one. However, people need more than just products. They need help and support to make confident and effective choices.

They also need their money to be invested responsibly in a way that influences businesses to adopt good behaviour, including making the changes needed to protect the planet. We want our customers to spend their lives in a climate in which their homes are not put at risk by extreme weather events, and in which they have access to sustainable sources of food.

Building financial resilience

Responsibility for funding later life has shifted from government and employers to people themselves.

When it comes to building financial resilience, we believe impartial advice is the gold standard and we are strong advocates for the benefits it provides. It helps people prepare for life events and is also proven to leave them better off both financially and emotionally.¹

However, the cost of impartial advice means it is not right for everyone and therefore we are focused on providing support and guidance in many other ways. This includes helping people who are saving to make informed and confident choices.

Over the past year, our customers have faced significant competing pressures, including the knock-on health and economic effects of Covid-19. So this year we launched a financial wellbeing hub as a one-stop shop for our customers. It is full of financial information to help customers deal with major life issues effectively: from budgeting and paying off debts, to dealing with a life event such as bereavement, divorce or ill-health.

ProfitShare

We do not have shareholders and we are proud that the benefits of our success go directly to our customers. We use our profits to invest in improving what we can do for our customers and we share the rest with eligible customers through ProfitShare, boosting the value of their savings.

Since its launch in February 2021, our hub has attracted over 9,500 views. It is promoted through our monthly customer newsletter, which reaches around 650,000 customers.

In September we were proud to be ambassadors for Pensions Awareness Week. We hosted a series of webinars to help our customers understand their pensions better. We were delighted that more than 6,000 attended our webinars.

Our mobile app continues to be a popular service for customers. Over the past year we expanded the services available on the app by introducing a new feature so pension customers can increase their contributions and nominate beneficiaries.

Customer engagement and campaigning

We have continued to seek customers' opinions through our ThinkCustomer panel, an online community of around 700 Royal London customers. Their invaluable feedback shapes the propositions we offer and informs our future plans.

“Our research has shown that 57% of consumers believe their pension provider should be responsible for investing their savings to positively impact climate change.”

Addressing climate change

We know our customers want the money they invest to make a positive difference,² as well as giving them a positive financial return.

Our research has shown that 57% of consumers believe their pension provider should be responsible for investing their savings to positively impact climate change.²

We are supportive of initiatives that encourage companies to make commitments aimed at achieving positive progress in achieving our climate change ambitions.

We are taking a more active approach to the way we manage climate considerations in our Governed Range of funds, and in 2021 introduced an approach which increases holdings of companies with good environmental, social and governance (ESG) practices.

To help our customers better understand the power of their pension to fight climate change, we communicated Royal London's sustainability commitments and actions through videos, mobile app notifications, and web and social media content. In October 2021, our 'Invested Generation' campaign increased customer awareness about the potentially positive impact of their pension on society and the environment.

1. Royal London's 'Feeling the benefit of financial advice' report. Research conducted with over 4,000 Royal London customers between 5 June and 23 June 2020.

2. Royal London-commissioned survey by Opinium between 4 June and 8 June 2021 with a sample of 2,000 nationally representative UK adults.

Protection

As the Covid-19 vaccination programme continues to progress, we are in the process of reverting to pre-pandemic underwriting, and have already removed many restrictions we put in place in 2020. Our revised approach is ensuring greater access to insurance, with more customers able to obtain cover. We continue to develop our products to support advisers and customers.

Over the past year, we launched award-winning innovative developments for Business Menu Plans and Relevant Life Plans for our protection customers, as well as Underwrite Later. Applying for business protection cover can take longer than personal protection applications due to medical evidence requests, and Covid-19 has resulted in additional delays. Underwrite Later provides cover earlier, providing flexibility and support to advisers and customers in a post-Covid-19 recovery environment. We were awarded an I Mark by 'Protection Review' for our innovative underwriting approach.

We have also signed up to the Explaining Underwriting Decisions initiative in 2021. This industry-wide agreement aims to provide transparent explanations of underwriting processes and decisions to people applying for life, critical illness and income protection insurance. This new initiative is working to ensure that people with pre-existing conditions and other potentially vulnerable customers are appropriately supported throughout their protection application, and aims to increase their trust in the underwriting decision, and that it is made fairly.

Police Mutual Group

The Police Mutual Group became part of Royal London in 2020. The Covid-19 pandemic has presented a challenging environment for Police Mutual and Forces Mutual customers, who are classed as key workers and have continued to protect and serve the public under the most challenging of conditions.

We made a number of changes to support our customers during this time including access to wellbeing services via an online hub and financial support communications. We also delivered our financial education seminars virtually, to allow customers to continue to benefit from access to our colleagues.

Our colleagues

Our Group values are to empower colleagues, to encourage collaboration, to be trustworthy and to achieve. Together, they help make Royal London a rewarding and enjoyable place to work. We champion the unique strengths of all our colleagues.

Our annual People Commitments provide a focus to make sure all colleagues feel able to do their best and are supported with the right tools. In 2021, our People Commitments focused on wellbeing and inclusion. We are determined to create a meaningful and inclusive workplace where all colleagues feel supported to be at their best.

We are committed to supporting colleagues in taking responsibility for their own wellbeing. During the year we promoted focused sessions on dealing with stress and financial emergencies, and our online wellbeing programme, covering a variety of topics enabling colleagues to practice wellbeing anytime. We also accredited an increasing number of colleagues as Mental Health First Aiders to boost the number of people available and offered 'Mental Health Awareness for Managers' courses.

We signed up to the HM Treasury Women in Finance Charter in 2016 and have been working towards targets to increase the number of women in our senior leader roles. We refreshed and increased our targets at the beginning of 2021 with a commitment to reach 42% of women in senior roles by 2025. At 31 December 2021, the figure was 36%.

Colleague experience and engagement

We made significant changes to our operating model in January 2021 whilst also supporting colleagues continuing to work from home. Following the lifting of restrictions in October, we supported colleagues with the transition to hybrid working – a blend of office and home working. Throughout our transition back to the workplace we regularly engaged with colleagues and guided them through the process, while ensuring we were aligned with the relevant government guidance.



Being together in our offices some of the time is core to our culture and to ensuring a sense of belonging. We value being together physically as a team but we also understand the benefits of flexibility to help colleagues manage their home and work-life balance. We believe our move to hybrid working enables our teams to retain the benefits of working from home but also to collaborate, learn and perform, reinforcing our mutual mindset.

To enhance collaboration and connect colleagues across Royal London, we introduced some key collaboration tools including Microsoft Teams and Yammer. Regular and consistent communication has been important, and we continued to share with colleagues the CEO blog, a range of podcasts, monthly Leader eBulletin and news content on our intranet. In addition we ran online Group Executive Committee and Board Q&A sessions for all colleagues.

We hosted a number of face-to-face events, including the official opening of our new Alderley Park offices by The Rt Hon Rishi Sunak MP in October.

We aim to maintain our high levels of colleague engagement and positive colleague experience. We ended 2021 with 79% colleague engagement and 81% of colleagues telling us they are proud to work for Royal London. With 84% of colleagues responding to our employee engagement surveys, we know our colleagues feel they can speak up.

Our Colleague Representative Forum (CRF) plays an important role in ensuring colleagues' voices are heard and advocating positive change. In 2021, the CRF held quarterly meetings with different Royal London teams, including the CEO and Group Executive Committee members, to discuss key aspects of our business. These meetings ensure CRF members understand Royal London's strategy, can contribute colleagues' views, and are able to positively shape our colleague experience. This year, the CRF focused on supporting colleagues through change, improving our colleague experience through internal policy reviews and supporting projects, including the transition to hybrid working.



Accelerating diversity and inclusion

We champion an inclusive workplace and continue to strengthen our inclusive culture. We have taken further steps to increase workforce diversity. Over the year, we established a Diversity and Inclusion Taskforce for colleagues to shape our strategy and accelerate change. We implemented a three-year positive action plan, based around five key pillars:

1. continue to build an inclusive culture;
2. ensure more robust data capture and tracking;
3. strive for better gender balance, particularly women in senior roles;
4. increase ethnic diversity across all grades, and particularly in senior roles; and
5. continue to support all under-represented colleagues across our Group.

With inclusion as one of our People Commitments, we are building on the foundations already in place to encourage positive conversations and actions in this area. This year our Board and Group Executive Committee held inclusive leadership sessions, exploring their key role in enabling inclusion and role-modelling inclusive behaviours. Senior leadership also hosted 'Everyday Inclusion' conversations, complemented by a new mandatory e-learning module for all colleagues that focuses on the importance of managing unconscious bias.

Attracting and retaining diverse talent

Attracting and retaining talent to build a truly diverse workforce is also a priority. We support all our colleagues, including those from under-represented groups. A mentoring programme was launched, initially focused on the Women's and BAME (Black, Asian and Minority Ethnic) networks, and this year we also launched our new Career Confidence programme for around 150 colleagues.

We embed inclusion throughout our colleague journeys at Royal London, from recruitment to reward and succession. By promoting internal roles and job shares, and widening our talent source pool, we hope to attract a wider diversity of applicants. This year, we signed the Association of British Insurers Making Flexible Work Charter and we are working with resourcing partners to improve the gender balance of candidate shortlists. We are also working with hiring managers to ensure we have diverse interview panels.

Our inclusion networks

Royal London's four colleague inclusion networks – Women's (with two sub-groups: Women in Technology and the Periods & Menopause Group), BAME (Black, Asian and Minority Ethnic), PRIDE and EARL (Enabling disability confidence At Royal London) – now have over 1,000 members. Our colleague inclusion networks remain a driving force behind our diversity and inclusion initiatives, their feedback influences topics we cover, guest speakers and focus issues. They also champion and direct our three-year positive action plan.

The compelling stories and actions of our inclusion network members are helping us to better understand diversity across Royal London and track the impact of our inclusion initiatives. By the end of 2021 81% of employees had disclosed their diversity data, including ethnic group, sexual orientation and whether they have a disability, ahead of the 70% we were targeting.

Talent, learning and development

In August, we launched the Royal London capability framework, which sets out the Group-wide capabilities we need to deliver on our strategy and is designed to ensure we focus on recruiting, developing and retaining talent. Through our framework, we can help all colleagues progress their careers throughout their time at Royal London, as well as ensure we are hiring diverse new talent.

We offer a range of professional qualifications. In 2021, 51 colleagues were on Apprenticeship programmes in areas such as digital marketing and technology. In support of our career starter programme, we hired eight new apprentices.

Through our workshops we explored various topics such as leadership, resilience and personal impact, and in total we ran 256 workshops with 1,974 colleagues.

In 2021 we welcomed 660 new colleagues and 745 colleagues left the Group.

Another priority for us during the year was to ensure we identify emerging talent, and manage and develop high-potential colleagues through their career journey at Royal London. We set out clear succession plans to ensure smooth transitions as colleagues move on to new roles within the organisation, or externally.

Performance and reward

We introduced a new, simplified approach to performance management this year, which will improve the experience for colleagues and leaders, by ensuring the conversations are more meaningful with a greater focus on development and continuous feedback.

To support this change, we introduced new learning materials and a range of workshops and guidance to help both leaders and colleagues get the most out of the process.

In addition, we have reviewed our remuneration approach to ensure it continues to support our Purpose, attracts and retains talent, and is aligned to the Group's strategy. We are focused on simplifying our pay arrangements and strengthening the link between executive pay and customer experience.



National Inclusion Week

In September we took part in Inclusive Employers' National Inclusion Week – celebrating inclusion in all its forms, with a focus on our own inclusive culture.

The theme was #UnitedForInclusion and our networks joined together to collectively celebrate, inspire and promote diversity and inclusion by sharing colleague stories, promoting ways all colleagues can help continue to build our inclusive culture and hosting events.

As part of this, on 29 September our networks hosted an event with Maggie Alphonsi, pictured above, the face of international women's rugby. Speaking to around 100 colleagues, Maggie shared her experiences around gender, race and sexuality, highlighting intersectionality and answering many questions from colleagues.

Society and communities

Our social impact work focuses on tackling financial vulnerability and supporting our customers to build their financial resilience.

We all face unforeseen shocks, from being made redundant or coping with an illness, to losing a loved one. These life events can have a big impact on our finances, particularly for those who are financially vulnerable, and one in three UK adults say they would not be able to manage without their income, or cope in the event of a life shock.¹

The Covid-19 pandemic is perhaps one of the biggest life shocks our society has ever experienced: research suggests one in four people will not recover financially from the pandemic for at least 12 months.² As we continue to feel its effects, there is an urgent need to help those who are financially vulnerable.

We are addressing this need through major new initiatives: supporting those already affected through our flagship partnership with national charity Turn2us, and accelerating innovation in financial resilience through our Changemakers programme. True to our roots, we are also supporting those facing funeral poverty through our partnership with Down to Earth, allowing people to access help with organising a funeral, finding ways to reduce costs or applying for grants.

Each year, Royal London commits over £1m to initiatives aimed at enabling thousands of people to build their financial resilience through a range of social impact initiatives. In 2022 we are also broadening our scope and focus to include those who will be most impacted by the move to a net zero world.

Turn2us

In 2021, we launched our first social impact flagship partnership, with national charity Turn2us, by providing funding and support for guidance, online tools and financial relief to people in crisis. Last year over 11 million people visited their website. Our partnership aims to tackle an urgent problem facing society today and use our strengths to create long-term change. In the first year of the partnership, we have used our voice in areas such as financial resilience and mental health, collaborated on projects that increase capacity, and directed funds towards Turn2us's helpline service.



Helping colleagues to make a difference

Our community programme helps our colleagues to support Royal London's social impact activities through fundraising and volunteering, including by giving every employee two paid days a year to volunteer. Through our digital community platform KindLink, colleagues can fundraise for, or donate to, our charity partners and causes they care about; find volunteering opportunities; and apply for matched funding from Royal London. Each of our five offices selects local charity partners, nominated and voted for by colleagues, that we support through local fundraising and volunteering.

Changemakers

In 2021, we launched our Changemakers programme. The programme focuses on creating and investing in social enterprises that are building financial resilience for the most financially vulnerable across the UK and Ireland, and exploring ideas and innovations to enable a Just Transition to net zero.

Working closely alongside our expert partners Year Here and School for Social Entrepreneurs (SSE), our Changemakers programme is finding innovative ways to drive change. There are two stages to the programme. The first stage is Bold Ideas, which selects and supports at least ten aspiring individuals each year, and together with Year Here helps them to gain insights and test and build new ideas. We then work collaboratively to explore unmet needs and pioneer innovative solutions.

During the second stage, Scaling Up, we will select existing social enterprises focused on helping their communities develop financial resilience, in partnership with SSE. Our role is to support these enterprises in growing their businesses and ideas to reach a wider audience. They will each receive funding and two years of support to scale and grow their business. In 2021, our advisory panel selected our first ten

Changemakers from over 70 applications. The panel includes two experts with 'lived experience' which provides an invaluable perspective from those who have personally experienced financial hardship.

The 2021 Changemakers are:

- **Jane Duncan-Rogers, Before I Go Solutions** – its mission is to 'make end-of-life plans as commonplace as birth plans', helping people to prepare for bereavement and mitigate the financial shocks that can result.
- **Martin Cosarinsky Campos, Breadwinners** – providing employment and training for refugees, who are at risk of being financially vulnerable, by selling artisan bread at farmers' markets and online.
- **Laurence Taylor, Easy as 123** – the Balance Project, part of Easy as 123, aims to help business owners and freelancers build their financial literacy and resilience through a new approach to financial management called Business Data Interpretations.
- **Jane Binnion, The Growing Club CIC** – this not-for-profit initiative provides training and employment opportunities and enterprise skills for women via an innovative peer-support model.
- **Louis Holliday, Pocket Power** – aims to tackle the poverty premium by helping people on low incomes find better deals on their household bills, through personalised support.

In 2021, our local charity partners were:

The Food Chain (London)

Providing vital groceries and hot meals for the most vulnerable people living with HIV in London



Petal (Glasgow)

Supporting people affected by homicide or suicide in Scotland



The Booth Centre (Alderley Park)

Bringing about positive change in the lives of people who are homeless or are at risk of homelessness, to help them plan and realise a better future



Held in our Hearts (Edinburgh)

Providing baby loss counselling and support to families



Féileacáin (Dublin)

Supporting anyone affected by the death of a baby during pregnancy or shortly after



During the year we also launched a new programme with Tutormate, a virtual volunteering platform, which enrolled 60 Royal London colleagues to support primary school children, from disadvantaged communities, with their reading. Through Sutton Trust's Pathways to Banking and Finance programme, we provided volunteer support to help students from non-privileged backgrounds to explore a range of careers in the financial sector. Working with the East London Business Alliance, we have enabled colleagues to access London volunteering opportunities including mentoring and supporting career guidance in schools.

- **Jerry During, Money A&E** – an award-winning social enterprise that provides money advice and educational services to disadvantaged groups and diverse ethnic communities.
- **Fiona O'Neill, Jobs for Family Carers** – helping people who care for an ageing or sick family member to access employment they can fit around their caring responsibilities, giving them a sustainable income and reducing their financial vulnerability.
- **Ebony Rebecca Walters, Rose Tinted Financial Services** – promoting mental wellbeing for women through financial and mental health support, including budgeting courses, one-on-one financial support and group mental health support, all with the aim of building confidence and financial resilience.
- **Rosie Oglesby, Page and Bloom** – creating handcrafted, recycled paper flowers for weddings, events and gifts, and providing employment and training for women survivors of domestic abuse, who are often financially vulnerable.
- **CJ Tayeh, Flank** – a fintech solution helping people on lower incomes to repay informal loans from friends and family, and sharing strategies to promote long-term debt avoidance, build stable wealth, and prevent family breakdown.

Turn2us

Royal London has donated over £430,000 to support Turn2us in the last two years. This has enabled Turn2us to support around 80,000 people, ensuring they had access to vital help and information in the face of a financial crisis. Of those who elected to share their information from January to December 2021, around 33% got in touch regarding benefits enquiries, while 52% were looking for grants, suggesting the critical situation of many people contacting the helpline. Royal London's support ensures these people can access help and advice when they need it most.

Donations to Turn2us

£430,000

During the past two years

1. Cost of Resilience report 2018, Zurich UK.
2. Turn2us.org.uk press release 22 March 2021.

Our sports partnerships

We are dedicated to levelling the playing field across sport and we share these same values with our sports partnerships. Royal London was the Global Partner to the Castle Lager Lions Series in 2021, played between The British and Irish Lions and South Africa.

We also became the first ever Principal Partner of the Women's Lions Programme, funding and participating in a feasibility study to examine whether a Women's Lions team could be formed. Through our partnership we aim to make a positive impact on the continued success of women's rugby.

England rugby international Shaunagh Brown and former Ireland rugby international Claire Molloy both became Royal London ambassadors. This helped to shine a light on women's rugby and raised its profile in the wider sporting community while working to break down barriers currently holding women and young girls back from participating in rugby.

We have been a partner of the England and Wales Cricket Board (ECB) since 2014. We are the title sponsors of England Women's and Men's international one-day cricket, known as the Royal London series. We also support domestic cricket through the Royal London Cup and encourage the development of the game nationwide, from a local community level through to international. We support the cricket charity ACE (African Caribbean Engagement) and its work in addressing the 75% decline of professional cricket participation by black British players in recent years. They have programmes in London and Birmingham and during 2021 we funded their expansion to a third city, Bristol.

Last year we were also delighted to be able to support Stuart McLaren, former account manager at Royal London, to compete in the 2021 PGA EuroPro Tour and develop his professional golfing career.



“We are dedicated to levelling the playing field across sport and we share the same values with our sports partnerships.”

Financial advisers and employers

We champion the role of advisers and the value of financial advice. We believe a combination of high-quality, affordable financial advice and value-for-money products and services is key to helping customers build their financial resilience.

We have built up strong relationships with our advisers through our partnership approach, working together to ensure customers get good outcomes.

Advice gap

Customers who take financial advice are, on average, £47,000 better off after ten years,¹ and it is also shown to improve their mental and emotional wellbeing. However, 39 million adults in the UK do not take any form of professional guidance on their finances; this is referred to as ‘the advice gap’. We feel that, together with advisers, we are responsible for tackling this important issue.

Innovative development

Over the past year, we have continued to enhance and flex many of our propositions to help advisers meet changing customer demand. To help advisers scale their business we are investing in data and digital capabilities which means we can provide them with insights into client behaviour, and offer a personalised review service.

In 2021, we acquired Wealth Wizards, a market-leading fintech provider that aims to make financial planners' advice processes more efficient, more scalable and more digital. It can also be used to support employers seeking to help their employees make better financial decisions. The acquisition will allow us to enhance the support and service we provide to advisers and broaden our workplace offering.

Over the past year, we have launched two new tools for protection advisers. Our Menu tool helps them talk to customers about the different types of cover and tailor a specific plan, while our new inheritance tax toolkit makes it easier for advisers to engage their clients on inheritance tax conversations. We are also supporting advisers to create links with lettings agents, and talk to renters about the need for them to protect their income in case of illness or injury.

Supporting advisers with responsible investment

We are also supporting advisers in incorporating responsible investment as part of their advice process. We created an adviser responsible investment toolkit with three key areas:

- educational information for advisers to deepen their knowledge of responsible investment;
- practical support to help advisers adapt existing processes to include responsible investment; and
- high-quality Royal London investment solutions, with responsible investment built in as standard.

Working with financial brokers in Ireland

In Ireland we focus solely on the financial broker market and during the year we worked with more brokers than ever before. This was a reflection of our excellent service as well as the enhancements and new initiatives we have implemented which have differentiated us within the market. This progress was substantiated in our broker-voted awards for Service Excellence, Protection Provider Excellence and Excellence in Broker Support at the end of the year.

We improved our online system to provide financial brokers with instant access to richer, real-time information and enhanced its functionality to make it quicker and more efficient to use, particularly during the application journey. We created a feature-rich dashboard that makes it easier for financial brokers to see and track applications. We also expanded our paperless options, making our digital experience simpler to use, more sustainable and more convenient for everyone.

Employers

We provide a range of support tools for employers so they can run their workplace pension scheme effectively. Our employer toolkit includes both online and offline resources to help them support their employees, covering areas such as passing on pension savings, financial wellbeing, salary exchange, making single contributions and understanding tax relief. Our Scheme Switch information packs highlight cost savings for employers, from reviewing an existing scheme and potentially benefiting from lower charges and ProfitShare when they move a scheme to Royal London. We also produce a monthly employer newsletter, Pension Matters, which helps employers to keep up to speed with the latest updates, product changes and other useful pensions information.



Modern slavery statement and approach

Royal London has a zero tolerance approach to slavery and human trafficking. When bidding for business, potential suppliers have to submit evidence of compliance with the Modern Slavery Act 2015. Any instances of modern slavery in our supply chain would be reported to our Group Executive Risk Committee (GERC). None were reported in 2021.

1. ILC What it's worth: Revisiting the value of financial advice, November 2019.

Investing for a sustainable future

We are committed to acting and investing responsibly. Aligned with our Purpose to protect today and invest in tomorrow, we place environmental, social and governance (ESG) issues at the heart of our investment decisions. As the UK’s largest mutual life, pensions, and investment company, we are guided by what is in our customers’ best interests. As a leading investor, we believe we can make a significant difference on our customers’ behalf by actively engaging with the businesses and projects we invest in to influence positive ESG outcomes, while also delivering investment returns.

Stewardship and Engagement

We believe that investing is about more than generating returns, and that generating returns is about more than simply buying and selling assets. We are advocates of the need to take a long-term view and being responsible owners of the companies we invest in. Engaging with investee companies on a broad range of issues is central to our stewardship approach and supports our aim of enhancing returns for our customers while delivering benefits for society as a whole.

This year we refined our approach to stewardship, voting and engagement priorities across our investments. Our revised Stewardship and Engagement policy outlines how we monitor and engage with investee companies, exercise our voting rights, co-operate with other shareholders, communicate with relevant stakeholders, and manage actual and potential conflicts of interest. Our high-level approach is set out below and more detailed information can be found on our website.

Our Stewardship and Engagement policy addresses Royal London’s obligations with regard to the implementation of the EU Shareholder Rights Directive in UK legislation. In addition, it outlines how we, as asset owners, evidence our commitment as responsible investors by actively exercising our rights as shareholders, instructing asset managers on priority engagement themes and reserving the right to decide on the exclusions that are important to our customers.

In addition to our responsibilities as an asset owner, our asset management business (RLAM) is responsible for managing over 95% of our assets and undertakes stewardship and engagement activity on our behalf. RLAM also does this on behalf of their own external customers and clients.

The quality of the activity undertaken by RLAM was recognised through its successful submission to become a signatory to the new UK Stewardship Code 2020. The Financial Reporting Council (FRC) reviews and approves all submissions to ensure that applicants meet the UK standards which are some of the highest in the world.

Asset manager monitoring framework	Voting	Company engagement
<p>To ensure that our customers’ money is managed in line with our Stewardship and Engagement policy, we have designed and implemented an asset manager monitoring framework. Under this framework, and working in collaboration with RLAM, which manages 95% of our total assets, we monitor and assess our asset managers’ responsible investing activity and performance, ensuring that the framework’s principles are put into practice.</p>	<p>We recognise that actively exercising voting rights is essential to being a responsible investor and is a key mechanism to positively influence investee companies on behalf of our customers and members.</p> <p>The RLAM Governance team voted at more than 3,700 company meetings in 2021.</p> <p>The voting principles that guide our asset managers, to ensure they vote in line with Royal London’s expectations, are described in detail on our website.</p>	<p>Engagement with companies on strategic and ESG matters is a core part of our stewardship responsibilities.</p> <p>We believe that good company engagement requires ongoing contact through regular meetings with either management or the Board with the aim of encouraging companies to adopt behaviours and achieve positive ESG outcomes which are in the interests of our customers and wider society.</p>



Our Investment Beliefs

We believe we must influence and invest in the transition to a low-carbon economy by working with the companies in which we invest. In doing so, we aim to protect the standard of living of this and future generations.

In 2021 the Board agreed to move away from market weight as an investment strategy. Our decision is driven by the belief that the full extent of the transition to a low-carbon economy is not yet priced into markets and we can better protect the value of our customers' investments by taking a more active investment approach.

The value of our customers' pensions in retirement is determined not only by how much they save and how much their investment grows but also by the environment into which they retire.

The Financial Conduct Authority (FCA) is introducing a new 'Consumer Duty' for financial services companies in 2022. It will raise the expectations on how products are designed and how services are delivered to customers. Royal London has advocated that this should include a new duty on firms to invest responsibly on their customers' behalf, so the investments we make also help improve the environment we all live in.

During 2021 we substantially revised our Investment Philosophy and Beliefs to explicitly incorporate climate considerations.

We believe:

- That our customers want to know where their money is invested and the impact that it has on the world around them.
- That the best future for our customers is one where we collectively achieve the goals of the Paris Agreement.
- That actions taken in the next ten years will determine the shape of the century to come.
- That we should act as a responsible steward of the assets we invest in on behalf of our customers, who rely on us to adopt a responsible investment approach.
- That change is best driven by being an active owner and engaging with companies where there are issues to be addressed.
- That allocating capital based solely on market weight is not a viable investment strategy for a responsible investor committed to ESG integration.

Responding to the climate crisis

2021 brought into sharp relief the dual crisis facing us as we manage the social, economic and financial fallout of the pandemic whilst tackling the on-coming climate crisis.

The latest report from the United Nations International Panel on Climate Change (IPCC) tells us that the actions taken so far to address climate change are insufficient to meet the goals of the Paris Agreement and the risk of exceeding 2°C of warming is becoming increasingly likely unless transformational action is taken. The next decade is crucial and ambition must now translate into action with clear policies that support and incentivise investment in the green economy and account for the environmental costs of high-carbon activities.

The agreement secured at the climate negotiations (COP26) in Glasgow in November 2021 indicates that governments are willing to take the necessary steps to keep the goal of limiting warming to 1.5°C alive. The Glasgow Financial Alliance for Net Zero (GFANZ) brings together financial sector organisations, collectively managing £130 trillion in assets, to mobilise private capital to accelerate the transition to a net zero economy.

This year's Annual Report and Accounts contains Royal London's third climate related disclosures and in it we describe the actions we took in 2021 to reduce the carbon intensity of our investment portfolio and our operations. We also detail the changes we have made to further embed the management of climate risks and opportunities in our business.

Our climate change policy outlines our commitments and the table below provides an overview of our progress this year.

Progress against our climate change policy commitments

Our climate change commitments	Summary of 2021 activity
Climate risk policies	
We require our asset managers to develop and put in place climate risk policies	RLAM manages 95% of our assets. The company has robust climate and ESG policies and is a signatory to the Net Zero Asset Managers Initiative. The external managers we work with also have climate policies in place.
Low-carbon economy	
We will promote the case for moving to a low carbon economy to policy-makers and influential stakeholders	We have engaged with policy-makers and regulators both directly and through industry bodies on the need for supportive policies to enable the transition to a low-carbon economy. We have focused our direct engagement efforts on securing Just Transition plans within the utilities sector, as a key driver of wider economy decarbonisation.
Risk management	
We will consider climate change within our risk management and business planning	We have developed a climate risk appetite statement and associated metrics, extended our assessment of climate risks and opportunities beyond the ORSA, and voluntarily participated in the Bank of England's climate stress tests. We have actively incorporated climate considerations into the development of new investment products to meet the evolving needs and expectations of our customers.
Operating efficiently	
We will consider climate change risks and opportunities in our own operations	We continued to deliver against our operational climate pledges and are ahead of target in the decarbonisation of our direct operations. We have also expanded our focus to all our operational Scope 3 emissions, which will enable us to establish our pathway to net zero in our indirect operational emissions too.
Keeping you updated	
We will report on our progress in our Annual Report and Accounts and on our website	Our Annual Report and Accounts consolidates and reports on our progress in 2021. We have also undertaken a broad communications programme to help advisers and customers understand the role that pensions can play in addressing the climate challenge, through our 'Invested Generation' campaign.



Focus on engagement

Utilities sector engagement and the Just Transition

RLAM is a large investor in the energy utilities sector, which brings power into our homes and workplaces. The sector has a critical role in decarbonising the economy by shifting away from fossil fuels towards green electrification.

During 2021, in partnership with Friends Provident Foundation, we continued active discussions with a number of utility companies about the trends transforming the power sector.

While most were already working on decarbonisation plans, the majority had not yet established specific approaches to addressing the social implications of their decarbonisation efforts. To remedy this we asked companies to publish a Just Transition plan ahead of COP26. SSE published their plan in 2020 and five more companies responded in 2021:

- March 2021: E.ON published a section on Just Transition in its climate transition plan.
- August 2021: National Grid committed to addressing the Just Transition in its Responsible Business Charter.
- September 2021: Centrica published its Just Transition plan.
- October 2021: EDF published its Just Transition plan.
- November 2021: Scottish Power published its Just Transition plan.

What is the Just Transition?

Rapid climate action that limits global warming to below 1.5° can help prevent some of the worst human and economic costs of climate change. The scale and pace of the change required to achieve this goal is unprecedented and we have seen that rapid and disorderly changes can lead to increased social costs and leave people, sectors and communities stranded. The concept of the Just Transition is to ensure that social issues are considered; climate action supports an inclusive economy and avoids exacerbating existing injustices or creating new ones.

Why we care about the Just Transition

Our employees, our customers and members and the companies that we provide workplace pensions to will all be impacted by the transition to a low-carbon economy. As a mutual this matters to us. We want to minimise the likelihood of the transition becoming a life shock.

The social risk of not taking climate action could be a significant barrier, if not addressed. Financial and social inclusion are also important drivers of our Purpose – and we believe that ensuring a Just Transition goes hand in hand with our decarbonisation and social inclusion aims.

Industry engagement

Royal London undertakes active engagement through RLAM and collaboration with other investors. We are focusing our efforts on engaging with the key high-carbon industries (e.g. utilities) and policy-makers to be an advocate for change that will protect our customers' standard of living and the sustainability of our business model.

We are committed to working with our peers in the financial sector, the companies we invest in and policy-makers to play our part in enabling the Just Transition. We lead and participate in various forums, which are detailed in the table below. One of the most important pieces of work we participated in during 2021 was the development of the Association of British Insurers Climate Roadmap which identified the potential and constraints the industry faces to unlock investment in the transition to net zero.

We support the development of new funds such as those being considered by the Treasury through its Long-Term Asset Fund initiative. However, the development of new financial products alone will not be sufficient. We contributed to the work of the Climate and Financial Risk Forum (CFRF) Innovation Working Group. This piece of work found that there needs to be a corresponding evolution in how investors make capital allocation decisions to mobilise financial capital. It also needs to be at a scale and speed not previously seen to deliver solutions and place-based investments that enable the transition of real economy systems – energy, buildings, transport, land use and industry.

Industry engagement

Organisation	Role	Key Publications in 2021
Investment Association (IA)	<ul style="list-style-type: none"> Sustainability Committee member Participant in climate change working group 	<ul style="list-style-type: none"> Guidance on sustainable fund standards
Association of British Insurers (ABI)	<ul style="list-style-type: none"> Participant in climate change steering and working groups 	<ul style="list-style-type: none"> ABI Climate Roadmap
The Institutional Investors Group on Climate Change (IIGCC)	<ul style="list-style-type: none"> Working group lead for the development of the Net Zero Investment Framework Utilities sector working group (Co-chair) 	<ul style="list-style-type: none"> Paris Aligned Investor Initiative Global Sector Strategies: Investor Interventions to accelerate Net Zero Electric Utilities
British Standards Institute (BSI)	<ul style="list-style-type: none"> Sponsor and steering group member for the development of sustainable fund standards 	<ul style="list-style-type: none"> Sustainable Standards Finance Programme
Climate Financial Risk Forum (CFRF)	<ul style="list-style-type: none"> Innovation working group participant Disclosure working group participant 	<ul style="list-style-type: none"> FCA Climate Financial Risk Forum
Financing a Just Transition Alliance (FJTA)	<ul style="list-style-type: none"> Member and lead of investor engagement with the utilities sector 	<ul style="list-style-type: none"> FJTA Just Zero Report 2021

COP26: stewardship in the climate era

The COP26 UN Climate Change conference was held in Glasgow in 2021. A number of Royal London colleagues attended, with our Group Chief Executive, Barry O'Dwyer, speaking at events. For many watching the opening, David Attenborough's words rang true when he talked about the potential for the globe's smartest species to be doomed by failing to see the bigger picture in pursuit of short-term goals. This is the essence of stewardship in the climate era. As stewards, we have a duty to influence and challenge the companies we invest in to overcome any inherent focus on the short term; to think and act for the long term in a way that allows us to meet our customers' and society's current needs without compromising the ability of future generations to meet theirs.

One of the most important outcomes of COP26 in Glasgow was the request for governments to 'revisit and strengthen' their 2030 national emission reduction targets before the end of 2022. Speaking at Chatham House in January 2022, COP26 President Alok Sharma gave a clear message: 'Unless we honour the promises made, to turn the commitments in the Glasgow Climate Pact into action, they will wither on the vine.'

There is positive action emerging from Glasgow, with the progress made by the GFANZ and the announcements from the UK Treasury on the need to rewire the financial system. In these announcements there is recognition that market forces alone cannot tackle the problems the world is facing, and an acceptance that regulatory interventions are required to drive financial flows onto a Paris-aligned pathway. Between now and November 2022, when COP27 kicks off, there is a crucial window of opportunity for governments and world leaders to raise their ambitions and provide clear and consistent policies.



Embedding sustainability into our working practices

Investing in our people

We are committed to incorporating climate objectives into roles and responsibilities across the organisation. We started with our Group Executive Committee, who provide the direction to the business, through the introduction of climate targets into executive remuneration. We are also working with the University of Edinburgh Business School to deliver a climate education and training programme. Internally, we are building wider organisational capability through the development of a Group-wide environmental awareness education module and supporting communications.

Enabling low-carbon ways of working

During 2021, in partnership with Mitie Energy, we completed a study of our non-investment-related Scope 3 greenhouse gas emissions. Scope 3 emissions occur at every point of an organisation's value chain, and for Royal London they are generated by the following activities: purchase of goods and services, construction, employee travel, waste, water, ungovernable energy consumption and investments.

The analysis concluded that the main contributors to our non-investment-related Scope 3 emissions were air travel, procurement of paper, employee commuting (2019) and working-from-home emissions (2020). In the coming year we will use this study to identify our pathway to net zero and set granular targets to drive urgent and rapid decarbonisation.

In line with the Government's streamlined energy and carbon reporting (SECR) requirements, we are reporting our organisation's carbon emissions using a financial control boundary, which includes both our operational estate and investment properties. We continue to use 2019 as our baseline year and our methodology aligns with both the Greenhouse Gas Protocol – Corporate Standard methodology and the requirements set out in the Government's Environmental Reporting Guidelines 2019.

Our operational emissions disclosure is on page 40.

Our operational sustainability strategy

We have maintained carbon neutrality in our direct operational emissions (Scopes 1 and 2) through carbon offsetting – this year supporting solar energy systems for communities in India – whilst continuing to decarbonise. On our journey to reach net zero carbon in Scopes 1 and 2 by 2030, we have achieved our 2025 targets three years early, recognising there have been some positive impacts on our emissions as result of the pandemic and that the categories of waste and paper use have increased during 2021 as we saw a gradual return to the office.

We have reduced our Scope 1 emissions by 68% from our 2019 baseline and source 99% renewables for all electricity (Scope 2) across our operational estate. We have implemented 93 energy conservation measures resulting in over 1 million kWh of energy savings in both gas and electricity across our offices, through our work with our facilities management partner, Mitie.

Our colleagues play an integral part in supporting our efforts. This year we launched the Pawprint app to enable all colleagues to measure, understand and reduce their carbon footprint. Our 'Eco Champs' group has grown substantially this year with over 400 colleagues helping us build a culture of sustainability across Royal London.

We installed ten electric vehicle (EV) charging points at our new office in Alderley Park, Cheshire and organised on-site displays of the benefits of electric vehicles to encourage our colleagues to switch. In addition, we removed all single-use plastic bottles from across our offices, as well as introducing Vegware to replace all plastic takeaway packaging in our restaurants. Through the introduction of QR codes in some of our customer communications we saved over 200 tonnes of paper. In addition, we saved over 2.5 million sheets of paper through the increased adoption of electronic signature technology.

We also work closely with our suppliers, and we asked our key supply partners to respond to the CDP's supply chain climate change questionnaire. This resulted in a 58% response rate and a strong foundation to build on in 2022.

Aligning with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations

We support the recommendations of the TCFD and have adopted its four-pillar framework to explain how we identify, manage, govern and respond to climate risks and opportunities.

Pillar 1: Governance

The Board has ultimate responsibility for the way we manage our response to climate change. How we manage the risks and opportunities associated with climate change was a key topic for the Board and its committees during 2021. Key matters discussed by the Board and its committees are outlined on pages 74 to 118.

This included the approval of:

- The 2020 ORSA which included climate considerations
- Group-wide climate targets;
- Revisions to the Group Investment Philosophy and Beliefs;
- The Group climate risk appetite statement and associated performance metrics; and
- The incorporation of climate targets into executive remuneration.

In addition, the Risk and Capital Committee reviewed the analysis and recommendations arising from the Climate Biennial Exploratory Scenario (CBES) analysis initiated by the Bank of England.

The Group Executive Committee is responsible for the overall management of climate change risks and opportunities and is supported by a Group Sustainability Oversight Committee and a Group Sustainability and Stewardship function. This function holds responsibility for:

- sustainability disclosures;
- co-ordinating asset-owner stewardship activity;
- providing subject-matter expertise across the Group;
- working with industry partners to influence wider action; and
- oversight of progress against climate targets, risk, and opportunity analysis.

Our Group Chief Financial Officer (Group CFO), Daniel Cazeaux, retains his regulatory responsibility for managing the financial risks arising from climate change.

“Now is not the time to be passive. The biggest way Royal London can make a difference in the fight against climate change is through an active investment approach.”

Barry O'Dwyer, Group Chief Executive

Pillar 2: Strategy

Customer research has shown growing public concern about climate change as a key theme and, as a member-owned organisation, reflecting our customers' and members' views in how we manage their money is important to us. In addition, our assessment of climate risks and opportunities indicates that continuing to enhance our proposition to meet changing industry, regulatory and customer expectations is key to delivering long-term sustainable value to our customers and members.

We continue to invest in the development of our products and proposition, by building on our existing ESG and climate capabilities to enhance existing funds and by bringing new funds and products to market.

Expanding ESG integration across RLAM

RLAM has continued to develop its climate and ESG assessment capabilities and model. The bespoke model scores companies in relation to ESG risks and opportunities by enriching third-party data with the knowledge and experience of our investment and Responsible Investment (RI) teams, including research and stewardship actions carried out by the RI team in collaboration with fund managers.

This model and its outputs, in the form of an aggregated dashboard, provide RLAM's fund managers instant access to the knowledge and experience we possess across the business, allowing for more efficient ESG integration.

Moving away from market-weight passive to 'equity tilt' solutions

During 2021 Royal London took a significant step forward in responsible investing by actively working with RLAM to transition the RLAM passive equity funds and our segregated mandates into climate- and ESG-tilted equity solutions. The proposition essentially increases holdings of companies with better climate and ESG practices and reduces holdings in companies which are not managing these issues as well as their peers. We transitioned £23bn of passive equities in our Governed Range reducing the range's carbon footprint by 16% by the end of 2021. This initiative echoes Royal London's wider commitment to being a responsible investor.

Pillar 3: Risk management

Understanding transition and physical risks

Climate risk could crystallise in a number of different ways given the complex nature of the risk and the different time horizons for impacts. The risk impacts are typically grouped in categories of physical and transition; primary and secondary. To assist our understanding and monitoring of the impacts on the Group, we have mapped the risks to four business categories within our risk universe: Strategic, Investment (through market, credit, and liquidity), Insurance and Operational. The mapping of business considerations to the risks and opportunities is detailed in the table below.

We have continued to integrate climate change into our risk management system. This includes developing a climate risk appetite statement within the Group's risk appetite framework and metrics for monitoring progress against climate targets in line with the new risk appetite statement.

During 2021 we voluntarily undertook Climate Biennial Exploratory Scenario (CBES) analysis as recommended by the Bank of England, which included modelling three scenario pathways. The desired outcomes of the 2021 CBES were to: size the financial exposures of participants and the financial system more broadly to climate-related risks; understand the challenges to participants' business models from these risks; gauge their likely responses and the implications this carries for the provision of financial services; and assist participants in enhancing their management of climate-related financial risks. Our findings indicate that increasing temperatures and/or a disorderly transition lead to a range of negative economic and social impacts, of varying severity, depending on the pathway that is assumed. The impacts of market shocks will be dampened by equity hedging in place.

However, financial stress tests are not able to measure all risks facing the organisation in particular the risks associated with changing customer expectations, the competitive environment or the political landscape. As outlined in the recent World Economic Forum report, the biggest risk we face is that collectively countries fail to take sufficient action to address climate change resulting in warming of more than 3°C by 2100 and the cascading impacts that this would have.

Risk category	Risk impact	Sub-category	Potential impact
Strategic	Transition	Policy	Government or Regulatory policy/requirements on climate change impacts the viability of our propositions.
		Market	Loss of market share if we fail to develop new propositions or modify existing ones to reflect growing demand for products which are perceived to have a positive (or neutral) impact on combating climate change.
		Reputation	Reputational damage to our brand.
Investment	Transition	Policy	Action from governments and regulators to meet the Paris Agreement targets and respond to public sentiment may lead to reduced values of some companies in which we invest.
		Market	The emergence of disruptive green technologies and changing consumer behaviours.
	Physical	Primary	The Group's investment portfolios contain significant direct investments in physical assets including property and asset-backed securities.
		Secondary	The indirect physical effects of climate change which include supply chain disruption, migration, political instability or conflict.
Insurance	Physical	Primary	An increase in average UK/Irish temperatures resulting in less predictable and more extreme temperature fluctuations that lead to reduction in life expectancy.
		Secondary	A risk that temperature changes increase the level of infectious diseases globally.
		Secondary	Falling crop yields, resource shortages, migration, political instability or conflict, with negative effects on lifestyles in the UK and Ireland, for example poorer diets and lower tax revenues to support the NHS. This results in lower life expectancy and an increase in morbidity risk.
Operational	Physical	Primary	Business disruption through more extreme weather including flooding and stronger storms. Consideration of our own office/ data centre locations, those of key suppliers and disruptions which could impact communications between locations.
	Transition	Market	Failure to retain and attract the skills we need as a result of not taking the necessary action to protect our reputation and to adapt ways of working as the UK transitions to a lower carbon economy.
Opportunity category	Opportunity impact	Sub-category	Potential impact
Insurance	Transition	Primary	Mortality rates could reduce in the event of a successful transition to a low carbon economy. This would reduce lapse, mortality and morbidity risks, in turn lowering our liabilities and capital requirements.
Strategic	Transition	Market	Positive impact on market share as a result of successful development of new propositions or modified existing ones to meet the growing demand for products which are perceived to have positive (or neutral) impact on combating climate change.

Pillar 4: Metrics and targets

Measuring and monitoring climate-related risks

Baselining the carbon emissions of our portfolio and setting climate targets is a necessary first step in the effective management of climate-related risks and opportunities as we contribute to the transition to a lower carbon economy. But as COP26 has shown, governments and regulators have a critical role to play to unlock the potential of the market and scale the opportunities available for institutional investment.

We are founding signatories to the IIGCC Net Zero Investment Framework and have adopted both long-term and short-term climate targets, aiming to halve the carbon intensity of our investment portfolio by 2030 and achieve net zero by 2050. This commitment is based on the expectation that governments and policy-makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations. We prefer engagement over divestment, as we cannot divest our way to a greener planet. Instead we engage with the companies we invest in to understand how they plan to navigate the transition to a low-carbon economy and promote the need for a Just Transition.

In addition to a portfolio emissions reduction target, we are setting objectives to develop new funds which offer access to climate solutions, a target to drive engagement on the Just Transition and targets to reduce the emissions from our own operations. Our approach means that we are measuring both the real-world emissions reductions, made by the companies we invest in, and the reduction achieved by changing our investment and asset mix.

Net Zero Investment Framework: climate targets and 2021 achievements

The basis and assumptions our targets are set out in detail on page 39

	Our commitments	What we achieved in 2021
Portfolio emissions	We have committed to reduce the emissions from our investment portfolio by 50% by 2030 as part of the transition to net zero by 2050. The actions of governments and a supportive policy environment are critical enablers to achieve our net zero ambitions.	We reduced the carbon intensity of the RLMIS equity and fixed income holdings, which represent 63% of our portfolio, by 35%. This was driven by the companies we invest in reducing their emissions and changes to our portfolio.
Climate solutions	As a Group we commit to developing solutions that will enable our customers to invest in the low-carbon transition. RLAM will transition core elements of its fund range to sustainable objectives.	RLAM transitioned six index-tracking funds from passive management to active climate consideration and ESG integration, and launched two new funds focused on climate and sustainability objectives.
Engagement	We will engage with the utilities sector and our top ten carbon emitters on the need for a Just Transition plan. When appropriate, we will consider divesting from companies which are unwilling or unable to put in place a credible net zero strategy.	RLAM engaged with seven leading utility companies, six of which published Just Transition plans.
Operational	Achieve net zero direct operational emissions by 2030 (Scopes 1 and 2).	Maintained carbon neutrality in our Scopes 1 and 2 operational emissions, reducing our direct carbon emissions by 68%, well ahead of our 2025 target of a 60% reduction.

The table below details the emissions arising from our portfolio of investments. During 2021 our internal assets increased from £114bn to £124bn. Despite the increase in assets the carbon emissions (tCO₂e) from our equity and corporate fixed income portfolios reduced by 26% and the carbon emissions per £m invested reduced by 35%. This reduction is a combination of reductions made by the companies we invest in (24%) and changes we have made to our portfolio composition (11%).

Whilst the reductions are positive there are material constraints in the collection of data and the asset class coverage. In addition company emissions will have been impacted by the economic effect of Covid-19. As a result we expect to see both total carbon emissions and emissions per £m invested fluctuate over time, albeit with a downward trajectory.

RLMIS portfolio emissions disclosure

	Year ended 2021	Year ended 2020	Year-on-year change ²	Year-on-year change company decarbonisation ³	Year-on-year change portfolio composition ⁴
RLMIS AUM (£bn)¹	124	114	8%		
Corporate Fixed Income (CFI) & Listed Equity (LE) (£bn)	78	70	11%		
MSCI Carbon Metrics for CFI & LE					
Carbon Emissions (tCO ₂ e ⁵ /£m Invested)	67	103	-35%	-24%	-11%
Total Carbon Emissions (MtCO ₂ e) ⁵	6.9	9.3	-26%		
Carbon intensity (tCO ₂ e ⁵ /£m Sales)	116	122	-5%		
Weighted Average Carbon intensity (tCO ₂ e ⁵ /£m Sales)	104	117	-11%		
Data Coverage Metrics					
Asset Class Coverage	63%	63%	-		
MSCI Data Availability	70%	68%	3%		

1. Represents the overall amount of the Group's investments excluding assets managed on behalf of third parties and including assets of the Group's pension schemes.
2. Year-on-year change represents the percentage change in the Year ended 2021 metric from the Year ended 2020 metric.
3. Decarbonisation over 2021 had RLMIS retained the exact portfolio of assets held at year end 2020. Indicates the impact of underlying companies' decarbonisation.
4. Balance of total decarbonisation over 2021, after allowing for company-level decarbonisation. Indicates the impact of RLMIS portfolio adjustments.
5. tCO₂e represents estimated amount of emissions during the year, measured in metric tons of carbon dioxide equivalent. MtCO₂e represents one million metric tonnes of carbon dioxide equivalent.

The basis and assumptions underlying our climate targets

Our climate targets are based on the expectation that governments and policy-makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and that the actions we take do not contravene Royal London's fiduciary duties.

Our operational emissions targets include emissions arising: directly from operations controlled by the Company ('Scope 1'); indirectly via consumed energy ('Scope 2'); and through the Company's full value chain ('Scope 3'). The baseline year for our operational emissions is 2019. We disclose separately the emissions ('Scope 3') from the companies in which we invest as our 'portfolio emissions'.

Our portfolio emissions assumptions

The portfolio emissions targets we have set include assets that are controlled by the Royal London Mutual Insurance Society Limited and are managed on its behalf by RLAM. This includes the regulated investment funds managed by RLAM. It excludes segregated mandates managed by RLAM on behalf of its external clients. The baseline year for our portfolio emissions is 2020.

Royal London's portfolio emissions targets are based on the weighted average carbon intensity (WACI) metric. This approach facilitates a consistent measure of Royal London's carbon emissions intensity over time, unaffected by business growth. The measure also enables stakeholders to make more direct comparisons across companies and funds.

The limitations of emissions data

Not all companies that we invest in consistently disclose their emissions. Where disclosures are made, these are often restricted to their Scope 1 and 2 emissions. For some companies their Scope 3 emissions are material, for example where the emissions arising from the use of a company's products exceed the emissions created during the production process. Furthermore, not all our investments are in companies and where this is the case emissions data can be even harder to quantify.

This year we can disclose the Scope 1 and 2 emissions associated with 70% of our listed equity and corporate fixed income holdings. These asset classes make up 63% of our total assets. Our disclosures will improve as data quality improves and we will be transparent about the quality and coverage of our emissions disclosures. We use MSCI as our data provider, they calculate carbon emissions based on dollars (\$) and this is reflected in our disclosure. Their methodology is available online at www.msci.com.

The planet – our approach to climate change *continued*

The table below details the emissions arising from our operations. The commentary on page 35 explains the actions we are taking to embed sustainability into our working practices and the progress we are making.

Operational disclosure

Operational metrics and targets

		2021 ¹	2020 ¹	2019 ¹ (baseline year)	Target
Scope 1 GHG emissions (tCO ₂ e) ²		453	818	1,421	60% absolute reduction by 2025
Scope 2 GHG emissions (tCO ₂ e) ³	Market-based	93	215	1,567	Purchase 100% renewable energy for electricity by 2025
	Location-based	1,235	1,502	1,895	
Scopes 1 and 2 GHG (market-based) per FTE ⁴ (tCO ₂ e)		0.09	0.18	0.60	
Scope 3 GHG (rail and air) emissions (tCO ₂ e) ⁵	Total	129	289	1,901	Reduce business travel (rail and air) by 50% per FTE from 2021
	Per FTE	0.02	0.05	0.38	
Paper use ⁶	Total (t)	945	927	1,111	
	Internal paper per policy (g)	0.92	0.58	6.07	Reduction of 90% per policy by 2025
	External paper per policy (g)	114	104	123	Reduction of 50% per policy by 2025
Waste (t) ⁷	Total	423	378	727	Reduction of 50% per FTE by 2025 and continue to send zero waste to landfill
	Per FTE	0.09	0.08	0.15	
Water consumption (cubic metres) ⁷	Total	8,828	19,313	31,916	Reduction of 15% per FTE by 2025
	Per FTE	1	3	6	

Streamlined energy and carbon reporting: operations and investment properties⁸

	2021	2020	2019 (baseline)
Scope 1 (tCO ₂ e)	3,568	3,689	4,554
Scope 2 (market-based) (tCO ₂ e)	93	215	1,567
Scope 2 (location-based) (tCO ₂ e)	6,281	7,126	10,540
Scopes 1 and 2 (market-based) emissions per sqm (tCO ₂ e)	0.005	0.005	0.013

1. Our absolute Scope 1 and Scope 2 emissions for 2021 shown in the operational metrics table have been assured by ERM CVS, an independent external assurance provider, to a Limited level of assurance. This assurance included a review of activity data and the calculation of emissions from those activity data. Full details of the scope, activities, limitations and conclusions of ERM CVS's assurance engagement are included in its Assurance Statement at royallondon.com/climatechange. The 2019 baseline figures have been adjusted following review and further data becoming available. Police Mutual Assurance Society data is now included from acquisition in October 2020.
2. Reported Scope 1 emissions: covers emissions generated from the gas and oil used in buildings, emissions generated from Group-owned vehicles and company cars used for business travel, and fugitive emissions arising from the use of air-conditioning and chiller/refrigerant equipment.
3. Reported Scope 2 emissions: covers emissions generated from the use of electricity in buildings and has been calculated in accordance with GHG Protocol guidelines in both location-based and market-based methodologies.
4. Full-time equivalent.
5. Reported Scope 3 emissions: covers emissions generated from Group rail and air business travel. The 2019 baseline figures have been adjusted following review and further data becoming available. Data excludes Wealth Wizards.
6. Paper data is based on actual volumes from suppliers, where available, and estimations based on invoice data. The 2019 baseline figures and subsequent years have been updated to include envelopes and additional data becoming available. The data excludes Wealth Wizards.
7. Waste and water data is based on actual volumes, where available, estimations and invoice data. Data excludes Wealth Wizards and offices where provision is covered by service charge.
8. The operational reporting period is 1 January to 31 December however the investment property reporting period is 1 October to 30 September, due to the timing of data availability.

Non-financial information statement

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

Reporting requirement	Relevant policies and disclosures reference on website ¹	Annual Report and Accounts page
Environmental matters	Our climate change commitments	<ul style="list-style-type: none"> Chairman's statement on pages 8 to 9 Climate change on pages 30 to 35 Taskforce on Climate-related Financial Disclosures on pages 36 to 40 Strengthening responsible business on pages 30 to 31 Streamlined energy and carbon reporting on page 40
Employees	Inclusion and diversity – Royal London	<ul style="list-style-type: none"> Chairman's statement on pages 8 to 9 Strengthening responsible business on pages 30 to 31 Engaging with, and delivering value for, our stakeholders on pages 21 to 29 Corporate governance on page 74
Social matters	Our social impact commitments	<ul style="list-style-type: none"> Chairman's statement on pages 8 to 9 Our strategy and business model on pages 12 to 13 Our social impact themes on pages 14 to 17 Engaging with, and delivering value for, our stakeholders on pages 21 to 29
Human rights	Modern Slavery Act – Royal London	<ul style="list-style-type: none"> Engaging with, and delivering value for, our stakeholders on pages 21 to 29
Anti-bribery and corruption		<ul style="list-style-type: none"> Risk management and internal control on pages 56 to 65
Business model		<ul style="list-style-type: none"> Our strategy and business model on pages 12 to 13
Non-financial key performance Indicators (KPIs)		<ul style="list-style-type: none"> Non-financial KPIs on page 20
Principal risks and uncertainties		<ul style="list-style-type: none"> Principal risks and uncertainties on pages 59 to 65 Longer-term viability statement on pages 66 to 67 Report of the Risk and Capital Committee on pages 90 to 92

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

Highlights

UK 2021 highlights

- Operating profit: £227m (2020: £126m)
- Present Value of New Business Premiums: £9,403m (2020: £8,407m)
- Governed Range assets reached £51bn (2020: £40bn)
- Acquisition of Wealth Wizards and purchase of 30% stake in Responsible Group

UK Awards

- 5 Star Pension Service Award (13th consecutive year)
- 5 Star Protection Service Award
- Winner – Best Income Drawdown Provider (Moneyfacts Award 2021)
- Best Provider Decumulation Proposition – Corporate Adviser
- Innovation Award – Protection Review 2021 Awards
- Underwriting and Claims Award – Protection Review 2021 Awards

“We will continue to champion the need to protect the standard of living of this and future generations through building financial resilience and investing responsibly.”

Jo Kite
Chief Customer Officer

£227m

Operating profit

£51bn

Governed Range assets

Market overview

Trading conditions were challenging in 2021, with turbulence stemming from a volatile economy and changes in customer behaviour. The success of the Covid-19 vaccination programme in the UK gave renewed confidence to businesses and consumers as life started to return to normal. In response to this, we saw employers return to reviewing their existing pension provider as they looked to drive more value from their scheme and, as the employment market recovered, an increasing number of employees joined pension schemes. The Workplace Pensions market saw a slower pace of recovery in the smaller/mid-sized market, where we mainly participate, impacted by the second lockdown in early 2021.

The pandemic has, however, given consumers a new perspective on their own mortality which has helped to drive an increased interest in protection products as customers appreciate the need for cover more than ever before. 2021 has also seen recovery in the protection markets which were hardest hit in 2020, including Income Protection, Business Protection and Mortgage Term lines.

It remains our view that the provision of impartial financial advice is key to customers achieving the best outcomes. Face to face appointments between customers and advisers remain an important part of the advice process and the continuation of a remote working environment over much of 2021 hindered some of these interactions. The use of technology to assist with the provision of impartial advice has been a growing theme over the year and one which we expect to continue in the future.

2021 saw a marked increase in global conversations about climate change. Our research has shown customers and advisers are increasingly looking for responsible investment and the role Life and Pensions providers can play has never been clearer.

Business performance

Operating profit increased to £227m (2020: £126m) as new business sales recovered following the reduction in 2020 and the successful delivery of key initiatives.

New business sales increased to £9,403m (2020: £8,407m), largely due to Workplace Pensions volumes where the market saw some recovery towards pre-pandemic levels. The new business performance also reflects continued investment in the business, putting customers at the heart of our proposition developments.

We have delivered key milestones in our strategic change programmes following the long-term investments we have made over the last few years. This included the launch of our annuity proposition, delivering both in year benefits as well as a new future revenue stream, and a one-off benefit arising from the consolidation of four closed funds into the Royal London Main Fund as part of the ongoing Legacy Simplification programme.

We also successfully completed the acquisition of Wealth Wizards in April and purchased a 30% stake in the Responsible Group in July. Wealth Wizards is a leading fintech business with technology that will help scale the provision of advice, with opportunities to utilise this digital capability alongside Royal London propositions. The Responsible Group operates in the growing later-life lending market as a provider of financial advice with a modern and digitalised process. Both investments will further strengthen our proposition and participation in key markets.



Pensions

Pensions new business sales increased to £7,966m (2020: £7,190m) primarily driven by Workplace Pensions, which grew by 30% to £3,200m (2020: £2,457m). This increase reflects a general recovery of the UK economy post-Covid, in which we saw active recruitment driving growth in new entrants to existing schemes. We also experienced more employers reviewing their existing pension provider driving growth in secondary market mandates on top of higher levels of new company scheme set ups. Whilst transfer activity was comparable to 2020, regular contributions from existing scheme members were up 37%. We made a number of exciting Workplace propositional changes in 2021, making it easier to consolidate pension with us, both digitally (as a new feature through our pension app) and offline. Continuing to be easy to do business with is a key focus for us. Digitalisation of a number of key servicing processes took place resulting in growth in digital customer engagement in 2021.

Individual Pensions new business sales have increased to £4,766m (2020: £4,733m), albeit trading levels remained below pre-pandemic levels across the year. Growth was curtailed by the slower recovery in the smaller/mid-sized adviser market, where we mainly participate. We continued to focus and build upon our key strengths in our investment proposition and value for money, by removing our charge for entering income drawdown. This is all while ensuring that we continue to deliver a quality customer experience. We have focused on engagement with customers, to ensure they have the support needed to achieve good financial outcomes. We also launched our financial wellbeing hub, which provides support on a range of topics.

We re-positioned asset allocations in the Governed Range in the first half of 2021 following underperformance of UK equities in 2020, rebalancing asset allocations to re-weight equity exposures from UK assets towards overseas and emerging markets. Our core propositions in the Governed Range have all outperformed their benchmarks in 2021, with assets of £51bn surpassing the £50bn milestone for the first time. Our belief in the value of diversification has aided our returns over the last year and this puts us in a strong position as we enter a future with increased inflationary risks.

Service standards have remained strong throughout the year, and we have won awards for 5* Pension service for the 13th year in a row.

Our pension mobile app reached over 156,000 registrations (2020: 77,000), more than doubling users in the last 12 months with some of the highest user scores of any pension app in the UK. We have continued enhancing content and functionality in our app, including the ability to add and view a nominated beneficiary (with over 12,000 completed applications), along with ability to transfer pensions to us (with over 4,000 requests made since the app launched in 2020). This is in addition to over 75,000 downloads of our new Wellbeing guides and articles which are available through the app. As a result, we have seen over 75% of externally registered users logging in at least once in the last three months.

Protection

Sales of our Protection products grew 5% to £1,251m (2020: £1,192m), reflecting continued momentum in helping customers put cover in place for themselves and their families. The pandemic has focused customers' appreciation for cover, and we continue to support advisers in helping their clients convert intent into action. We were delighted to be able to remove underwriting restrictions that were necessary during the earlier phase of the Covid-19 pandemic and completed a successful retender of our mortality reinsurance arrangements in the second half of the year.

We continued to provide advisers with support to help them respond to this increased demand, and ran a campaign to help educate consumers on the different types of protection and dispel some myths surrounding them. In the first quarter we launched our 'Value of Menu' tool, making it easier for advisers to demonstrate the benefits of their advice in improving customer coverage using our Menu proposition. This helped increase momentum in Income Protection business, a cover that most customers need but too few put in place. We followed this up with well-attended adviser webinars and an 'Income Protection for tenants and their families' campaign to highlight the risks that renters (not just mortgage holders) face if they become too ill to work, and how the right cover can help.

We introduced a new approach called 'Underwrite Later' for Business Protection. This enables cover to be put in place immediately while the remainder of the underwriting process completes, thereby removing one of the key barriers to completion. The innovation also led to specific awards – an I Mark for innovation from Protection Review and an Outstanding Business Protection award at the Cover Excellence Awards 2021. There were several other developments designed to enhance how we support customers. For example, we improved our mental health questions (in line with Association of British Insurers (ABI) standards) to be more empathetic to customer situations and delivered a new underwriting approach and web journey for direct applications.

We paid out £596m in claims for approximately 80,000 customers and their families across all Protection business. Over and above these financial pay-outs, we provided access to counselling and other services through our Helping Hand proposition and delivered a campaign to help customers and families to be prepared for death – emotionally, practically and financially.

New business volumes have been proactively managed in the year against a challenging low interest rate environment. We have performed a review of which segments we will participate in going forward to ensure we provide value for customers alongside writing profitable business.

Annuities

We successfully launched our new annuity proposition to provide a Royal London annuity to long-standing customers invested in the Royal London (CIS) Sub-Fund with pension policies that have guaranteed annuity rates. New business sales were £162m, contributing £3m in new business contribution. Retaining these customers as they move into retirement also retains the associated value allowing us to invest and further grow the business. We see the annuity market as an area in which value can be generated whilst providing the security of a stable income through a customer's retirement and we will be exploring further opportunities in this area.

Value Enhancement

In line with our aim of providing value for money through efficient operational and capital management, we delivered a series of changes to modernise and simplify our processes for the benefit of our long-standing customers.

We successfully completed a consultation process with the with-profits policyholders in four of our with-profits funds that are closed to new business, to merge these funds into the Royal London Main Fund, our largest with-profits fund. We implemented the changes for the Refuge Assurance Industrial Branch Fund on 30 June 2021 and the three remaining funds (United Friendly Industrial Branch Fund, United Friendly Ordinary Branch Fund and the Scottish Life Fund) on 31 December 2021. The changes were implemented following resounding approval from eligible policyholders as well as High Court approval. These changes sped up the distribution of surplus to those with-profits policyholders through immediate uplifts to policy values.



Through our Legacy Simplification programme, we are also migrating legacy books of business from older mainframe systems onto a single more modern IT system to reduce risk and improve services to customers. Two system migrations were completed in 2021, moving over 171,000 policies. This work builds on the migrations completed in 2020 and brings the total number of migrated policies to 3.2 million. We expect to migrate more than one million additional policies in 2022 and 2023 to simplify our IT estate further.

Looking ahead

We will continue to work in partnership with financial advisers to deliver better outcomes for customers and help to improve the efficiency of adviser businesses through continued investment in high quality technology enabled solutions. Our belief in the value of impartial financial advice remains core to our outlook, and we will continue to champion the need to protect the standard of living of this and future generations through building financial resilience and investing responsibly.

Further growth is anticipated in our pensions sales as the economic recovery continues and customer and employer confidence build and we will continue to be there for our increasing number of customers looking for protection products.

3.2 million

long-standing policies now migrated onto new technology

£596m

paid in Protection business claims in 2021

Asset Management

Highlights

Asset Management 2021 highlights

- Operating profit: £71m (2020: £71m)
- Assets under Management: £164bn (2020: £148bn)
- Gross external inflows: £17,910m (2020: £18,318m)
- Net external inflows: £4,372m (2020: £1,665m)
- Three-year fund outperformance vs benchmark: 99% (2020: 95%)

Asset Management Awards

- Investment team of the year – RLAM Sustainable investment team (Insurance Asset Risk Awards)
- ESG Investment strategy of the year (Insurance Asset Management Awards)
- UK Fixed Income manager of the year (Professional Pensions)
- Investment's category 5 Star winner (FASA 2021)

“The market for sustainable funds is growing rapidly. We are a clear leader in this area and have a track record measured over decades rather than months.”

Hans Georgeson
Chief Executive – RLAM

99%

Three-year fund outperformance v benchmark

£4,372m

Net external inflows

Market overview

Investment markets had another volatile year, with the Covid-19 pandemic and actions taken by governments playing a major role. While individual countries have attempted to manage markets with different approaches, most have used the same basic formula – cutting interest rates to very low levels, using some form of quantitative easing and supporting their economies with various economic support packages such as the UK's furlough scheme.

After the shock of 2020, this support has prompted an economic recovery in 2021, albeit with the rebound generally smaller than the scale of the negative impact seen in 2020. Equity markets made gains over the year, while bond markets have seen negative returns. The latter was primarily due to fears over inflation – which usually pushes bond yields higher and hence bond prices down.

Key trends in the investment management marketplace have been the move away from UK-focused products, for which we are traditionally well known, to global products and the growing importance of responsible investment.

Over the last four years we have been focused on developing our global investment capability. An example of this is in Global Equities. We recruited a new team in 2016, launching new funds in 2017. The strength of performance since launch, coupled with an extensive sales and marketing effort, means that we are seeing inflows with momentum growing in both institutional and wholesale channels, as well as through our Australian distribution partner.

Business performance

We delivered good financial performance despite a difficult market backdrop with operating profit of £71m, in line with the prior year (£71m). Increased revenue, which was driven by strong net inflows and market growth, was offset by cost increases as we continued to invest in the business to strengthen our operating model and ensure we are well positioned for future growth.

Delivering investment performance above the relevant benchmark for our clients is key to our success. The percentage of our clients' assets under management outperforming its stated comparative over a three-year period was 99% (2020: 95%). This increase reflects consistent outperformance by our investment teams across our fund range.

Alongside continued strong investment performance, we also saw flows into a wide range of strategies, reflecting both consistency of performance and the client focus that we have put into the development of our product range in recent years. This, alongside market gains over 2021, led to record assets under management of £164bn (2020: £148bn).

The success of the business in recent years has been evident, but in a very competitive market we continue to look for ways to improve our capabilities to service our clients. We have invested in our teams and are currently reviewing our technology operating model.

Flows and funds

External net inflows increased to £4,372m in 2021 (2020: £1,665m) driven by a lower level of institutional outflow compared with 2020 and continued high demand for sustainable funds. Our sustainable range has enjoyed huge success over the past two years – reflecting very good performance and growing interest in this type of investing.



Despite the trend away from UK focused investment styles, we believe that we are competitive in this area, with a notable highlight winning a sterling credit mandate for over £2bn from Brunel Pension Partnership – one of eight pooled Local Government Pension Scheme funds.

We are looking to take our services to a wider audience and have started the process to expand into Europe in 2022. We completed an extensive search process to find a distribution partner based in Luxembourg that will help ease the regulatory burden from taking our services further into the EU.

As our product range grows and we look to offer that range in more places, we need to make it easier for existing and prospective clients to gain insights into our strategies. Following the re-launch of our website in late 2020, we have posted more articles and blog posts than ever before, backed by multiple online webinars, culminating in our annual investment conference. Our online format allowed us to host over 20 sessions featuring live Q&As, with clients able to view on demand as well, meaning that we had over 800 attendees across the five days.

Responsible investment

Responsible investment is no longer just about having specialist ranges of focused funds, although there is still a market for that. Asset managers are expected to have ESG factors embedded across all processes.

The market for sustainable funds is growing rapidly – and many competitors have looked to launch similar products. We are a clear

leader in this area and have a track record measured over decades rather than months. We added further to our range in 2021, with the launch of a Global Sustainable Credit fund, complementing the Global Sustainable Equity fund launched in 2020.

We also took our tracker fund range and integrated carbon ‘tilts’ aimed at building cost-effective, broad market portfolios, which are also a key building block in the Governed Portfolio range that supports Royal London’s pension proposition. Our level of engagement on responsible investment has increased throughout: with the companies in whom we invest, with external bodies and regulators, with the adviser community and with customers.

Looking ahead

Building on the platform we have put in place by appointing a third-party management company for our Irish fund range and distribution partner in Luxembourg, we are seeking to expand our reach into Europe.

We are also investing in our Property team, strengthening our investment capability, broadening the range of asset classes we invest into and taking our product range to third party investors.

Our growth plans include investment in infrastructure and systems and we have started the process to undertake a strategic review of our operating platform and data requirements. This will enable us to simplify our operating model, develop more complex investment propositions for clients and build scale for the future.

Ireland

Highlights

Ireland 2021 highlights

- Operating profit: £16m (2020: £12m)
- Present Value of New Business Premiums: £185m (2020: £137m)
- Number one position in the Irish intermediated (broker) protection market achieved, with 28.4% market share¹
- Achieved Bronze accreditation from Investors in Diversity

Ireland Awards

- Service Excellence award (2021 Brokers Ireland Excellence Awards) – 4th consecutive win
- Protection Provider Excellence (2021 Brokers Ireland Excellence Awards)
- Excellence in Broker Support (2021 Brokers Ireland Excellence Awards)
- Best Mortgage Protection (2021 National Consumer Awards)

“Our exceptional growth and multiple award wins demonstrate our relentless focus on service excellence is paying off. Our investment to expand our product range further will provide even broader solutions for customers.”

Noel Freeley
Chief Executive – Royal London Insurance DAC

28.4%

Irish intermediated (broker) protection market share

£185m

Present Value of New Business Premiums

Market overview

Within an environment of Covid-19 restrictions, Ireland's economy performed relatively well. The broker protection market in Ireland regained most of the reduction seen in 2020, with financial brokers having adjusted to the more remote ways of working well. There was also benefit from the easing of some Covid-19 related underwriting restrictions during the year, which allowed greater case sizes and more older age customers to be placed with insurers.

It remains our view that impartial financial advice is key to customers achieving the best outcomes. We are firm believers in the value of advice and that it is brokers who help customers optimise their financial resilience. We believe the broker market in Ireland is robust and we are confident of its potential into the future to deliver good outcomes to customers. Brokers continue to be the largest distribution channel in the Irish market.

Business performance

Our Irish business had a very successful year, recording our highest ever new business sales and achieving market leader status in the Irish broker protection market. New business sales increased to £185m (2020: £137m) on a PVNBP basis, reflecting a significant outperformance against the market.

Our growth was driven by strong demand across all our products, in particular for mortgage protection and term assurance. We undertook a successful reinsurance tender at mid-year, which further boosted our margins and demonstrated reinsurance confidence in the quality of our underwriting.

We also made significant traction in the income protection market during 2021. We believe income protection is paramount in good financial planning and, alongside reviewing and planning further product enhancements, we implemented a successful price discount which generated significant business volumes whilst ensuring margins remained within targeted range.

The strong new business performance has led to an increase in operating profit to £16m (2020: £12m). This was against the backdrop of an increased level of strategic investments, made to develop the business in Ireland further.

Protection

Throughout 2021, we have continued to improve processes incrementally whilst recruiting talented colleagues to ensure we retained our strong service provision at higher levels of market share. Our culture of empowering our people and a customer-first approach means we deliver a 'one and done' service which bolsters our strong relationship with Financial Brokers.

We were delighted to win three awards in the prestigious Brokers Ireland Excellence Awards for 2021. This is testament to our team in Ireland and the proactive and positive culture created that has service and customer outcomes at its heart. These awards followed our third consecutive award for our Mortgage Protection product in the National Consumer Awards. It also recognises the continued work to innovate and improve our product proposition. This included improvements to our Specified Serious Illness offering, expanding the illnesses we cover.

1. Royal London analysis of market data report dated Q3 2021



We continued to focus on raising consumer awareness of financial resilience issues, including stay-at-home parents and first-time home buyers, through regular PR activity and while promoting the value of advice. Leveraging the Royal London sponsorship activity and launching the Changemakers programme in Ireland also helped to promote our brand and Purpose. All of this activity provided financial brokers with consistent support to help them in their protection conversations, aimed at ensuring customers have robust plans in place to optimise their financial future. We also made incremental improvements to our digital provision for brokers, including a new multi-application feature and improved business management functionality. We supported this activity with regular virtual meetings with brokers and our consultants, and with technical and sales focused webinars, the last one for 2021 being on 'the value of advice'. On average, more than a thousand brokers registered to attend each event, with 93% of attendees giving a very good or excellent rating and 100% confirming future attendance.

Pensions

In 2022, we will be broadening our solutions for customers and providing additional valuable choice and competitive options in the Individual Pensions market. We plan on replicating our successful formula of market leading service, compelling products and very strong broker support, which Royal London is now known for in protection, as we enter a new area of the Irish broker market.

We have developed a compelling offering, built with direct input from financial brokers and strengthened with the recruitment of specialised capabilities. The result is a holistic and customer centric offering, designed to be transparent, easy to understand and competitively priced. We will implement a phased delivery to market in 2022.

Our success in 2021 provides an excellent foundation to launch this new proposition and we are confident of a positive reception and continued growth of our business in Ireland.

Looking ahead

It is clear from the strong track record of growth that our current strategy is delivering. We will continue to improve and adapt our protection products and services, keeping positive customer outcomes at the forefront of all our decisions.

We are committed to the continued distribution of our valued products through financial brokers in Ireland. We believe in the value of advice to help customers build their financial resilience and to prepare for future life events. The pandemic has shone further light on the need to be prepared for unexpected events and we should see continued robust demand for protection products. The Irish economy has recovered very well with high levels of employment and buoyant demand for housing which in turn supports the need for mortgage and income protection. Household deposits have moved to record levels during the pandemic and so, as Covid-19 restrictions ease, we should see some of this translate into demand for insurance and investment products.

Financial review



“Operating profit returned to higher levels following the impacts of Covid-19 in 2020 and reflects increased contributions from all of our businesses.”

Daniel Cazeaux
Group Chief Financial Officer

Change in Group operating profit

To facilitate comparison of the Group's performance, the Company's Board of Directors utilise an Alternative Performance Measure (APM) of Group operating profit before tax. The Board considers this measure provides a more meaningful indication of the underlying trading of the Group than statutory profit, as explained on page 208.

The presentation of certain items to arrive at the Group's operating profit has been updated in 2021. These changes to presentation have been made to give a more accurate reflection of how the business is managed and to provide improved granularity of the costs the business incurs. Prior year comparatives have been restated so they are presented on a consistent basis to 2021, although the overall operating profit before tax is unchanged. The changes are explained more fully in note 2 to the financial statements.

Group operating profit before tax of £133m (2020: £41m) for the year ended 31 December 2021 is returning to higher levels following the impacts of Covid-19 in 2020. Statutory profit before tax for the year increased to £192m (2020: £131m). Despite the pandemic, we have continued to invest in our business for the benefit of our customers as our position as a mutual allows us to take a longer-term view of the investments we make.

Our Protection new business contribution grew strongly in both the UK and Ireland, whilst Pensions reduced slightly on 2020, as a recovery in Workplace Pensions was more than offset by a reduction in Individual Pensions which is recovering more slowly after the pandemic. The growth in contribution from AUM and other businesses has been driven by higher assets under management of £164bn at 31 December 2021 (31 December 2020: £148bn), driven by market movements and a continued strong demand for sustainable funds.

The Group's result in 2021 has benefited from two significant items totalling £58m. Following the successful launch of our annuity proposition, we have invested in higher yielding long-term assets allowing us to recognise a gain of £32m from the change to the rate used to discount the liabilities. There has also been a £26m contribution from the closed funds to the Royal London Main Fund (Main Fund), representing compensation for providing capital support for transferred business following the successful consolidation of four with-profits funds into the Main Fund.

ProfitShare allocation rates were maintained, with total ProfitShare for 2021 increasing to £169m (2020: £146m) in line with the growth in the aggregate value of eligible policies.

Our capital position remains robust, with our key capital metrics improving. This has allowed us to continue our investments in our UK Pensions business, and develop new propositions and systems in our Irish and asset management businesses. At 31 December 2021, the Solvency II Investor View capital cover ratio was 216% (31 December 2020: 190%) and the Solvency II Regulatory View capital cover ratio was 173% (31 December 2020: 147%). Both capital ratios have increased following the recovery in economic conditions in 2021, in particular due to strong equity and property returns as well as rises in yields, supplemented by additional equity hedges taken out during the year.

Financial performance

Key components of Group operating profit before tax

	2021 £m	2020 £m	Change £m
Long-term business			
New business contribution	164	149	15
Existing business contribution	125	99	26
Contribution from AUM and other businesses	124	95	29
Business development and other costs	(37)	(42)	5
Strategic development costs	(62)	(92)	30
Result from operating segments	314	209	105
Corporate costs	(106)	(93)	(13)
Financing costs	(75)	(75)	–
Group operating profit before tax	133	41	92

New business contribution

New business contribution increased to £164m (2020: £149m), driven by sales of intermediated protection products in the UK and Ireland which have seen strong demand from a heightened customer awareness of the value of protection through the pandemic as well as proposition enhancements we have made in 2021.

New business sales across all product lines increased, with the Present Value of New Business Premiums, increasing 12% to £9,588m (2020: £8,544m). Whilst new business sales have increased, margins across our business are flat at 1.7% (2020: 1.7%) as we have incurred higher ongoing costs to maintain our service levels throughout the pandemic.

	New business contribution		PVNBP		New business margin	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 %	2020 %
Individual Pensions	78	85	4,766	4,733	1.6	1.8
Workplace Pensions	30	27	3,200	2,457	0.9	1.1
Protection	39	27	1,251	1,192	3.1	2.3
Other	–	(2)	186	25	(0.1)	(8.8)
UK	147	137	9,403	8,407	1.6	1.6
Ireland (Protection)	17	12	185	137	9.2	8.8
	164	149	9,588	8,544	1.7	1.7

UK

Individual Pensions new business sales increased to £4,766m (2020: £4,733m). Whilst sales are below pre-pandemic levels, we have seen a steady recovery during the year as our customers have had more confidence in saving for their retirement. New business margin reduced slightly from 1.8% to 1.6% as costs have increased due to inflation and higher ongoing costs to meet regulatory requirements.

Workplace Pensions new business sales grew by 30% to £3,200m (2020: £2,457m) as higher levels of recruitment activity increased new entrants into existing schemes, more companies changed scheme provider and there were increased levels of new company scheme set ups. Despite the increase in new business sales, new business margin fell from 1.1% to 0.9%, reflecting a change in business mix, with a higher proportion of lower margin new schemes written in the year.

Sales of our Protection products grew 5% to £1,251m (2020: £1,192m) due to the continued emphasis customers are placing on ensuring they have an appropriate level of cover in place as well as enhancements to our propositions. New business margin increased from 2.3% to 3.1% following the increase in sales volumes.

Other business includes our annuity product that was launched in early 2021 as well as other saving products.

Ireland

New business sales in Ireland increased to £185m (2020: £137m) driven by continued strong demand across all products, in particular term assurance and mortgage protection. New business margin has increased from 8.8% to 9.2% due to improved reinsurance rates on our term assurance products, alongside changes in product mix.

Existing business contribution

Existing business contribution increased to £125m (2020: £99m), the components of which are shown in the table below.

	2021 £m	2020 £m	Change £m
Expected return	117	117	–
Experience variances and assumption changes	(56)	4	(60)
Modelling and other changes	64	(22)	86
Total	125	99	26

Experience variances and assumption changes were a charge of £(56)m (2020: £4m credit).

The positive persistency experience of 2020 has not been repeated as a higher number of pension policies have transferred out or converted to paid up status as the economy re-opened up following Covid-19 restrictions. The reduction in positive persistency has been partially offset by higher than expected regular premiums into Workplace Pensions. Given rising levels of inflation and the potential impact that this may have on our customers' ability to save for their retirement, we have retained the specific allowance first recognised in 2020 of £30m for potential adverse impacts on our Pensions business caused by the impact of Covid-19.

We have recognised a charge of £76m to reflect higher ongoing costs of running our Pensions business, driven by higher inflation in third party IT contract costs, the cost of maintaining service levels during Covid-19 and increased regulatory costs.

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 modelling changes. In 2021, the benefit of these changes was £6m (2020: charge of £22m). 2021 also benefited from two significant other items:

- In February we introduced a new product which allows us to offer existing pensions customers with policies in the Royal London (CIS) Fund who benefit from a Guaranteed Annuity Rate an option to take their annuity with Royal London. A ring-fenced portfolio of assets has been established to back this annuity business as well as our annuities in payment. As a result of creating this portfolio, the discount rate used to value these annuitant liabilities has been increased to reflect the illiquidity premium relating to the backing assets, resulting in a £32m benefit.

- Following the consolidation into the Main Fund of four with-profits funds that are closed to new business, the closed funds paid a contribution of £26m to compensate the Main Fund for providing capital support for the transferred business.

Contribution from AUM and other businesses

Contribution from AUM and other businesses increased to £124m (2020: £95m), driven by increased revenue from higher assets under management, following positive market movements and continued net inflows into our sustainable fund range.

The comparative period included a trading loss of £7m in relation to the Ascentric business which was disposed of in September 2020.

Business development and other costs

Business development and other costs of £37m (2020: £42m) include costs of investment in our products and propositions, as well as implementing product-related regulatory change. The reduction in spend in 2021 reflects the completion of a number of projects and regulatory driven activities.

Strategic development costs

Strategic development costs of £62m (2020: £92m) represent the investment we have continued to make throughout the pandemic in our pensions business. This investment has helped to drive digital transformation and improve customer experience as well as enhancements to our legacy systems. It also includes costs relating to the consolidation of four with-profits funds into the Main Fund, the launch of our annuity offering, which became available to customers in early 2021, and spend on developing and launching our new Pensions proposition to the Irish intermediated market in 2022.

Corporate and Financing costs

Corporate costs of £106m (2020: £93m) have increased reflecting higher restructuring costs as we have reorganised parts of our business and continuing investment to strengthen our information technology security and resilience. Financing costs of £75m (2020: £75m) are unchanged as they represent the interest payable on the Group's subordinated debt, which has not changed during the year.

Reconciliation of operating profit before tax to statutory profit before tax

Statutory profit before tax increased to £192m (2020: £131m), driven by the increase in operating profit before tax. ProfitShare allocated to eligible customers has grown in line with the growth in the aggregate value of policies. 2020 also included a one-off profit on the sale of the Ascentric business.

	2021 £m	2020 £m	Change £m
Group operating profit before tax	133	41	92
Economic movements	225	210	15
Amortisation of goodwill arising from mergers and acquisitions	3	12	(9)
Profit on sale of subsidiaries	–	14	(14)
ProfitShare	(169)	(146)	(23)
Statutory profit before tax	192	131	61

Economic movements

Economic movements were £225m (2020: £210m), reflecting higher than expected investment returns particularly on UK, overseas and private equity and property assets as well as increases in yields reducing the cost of providing guarantees.

Amortisation of goodwill arising from mergers and acquisitions

Amortisation of goodwill arising from mergers and acquisitions of £3m (2020: £12m) includes the amortisation charge of positive goodwill of £3m (2020: nil) following the acquisition of Police Mutual in 2020 and the fully amortised goodwill charge relating to the acquisition of Wealth Wizards in April of £2m. This is offset by an amortisation credit of negative goodwill of £8m (2020: £12m) relating to historic acquisitions.

ProfitShare

ProfitShare allocation rates were maintained, with total ProfitShare increasing to £169m (2020: £146m) 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 (2020: 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 to eligible customers.

Balance Sheet

Our balance sheet position remains robust. Our total investment portfolio, including investment property, increased to £118.1bn (31 December 2020: £107.9bn), primarily driven by positive returns on equity securities held by our OEIC investment funds. At 31 December 2021, £452m of assets are ring-fenced and are backing annuitant liabilities of £427m. The ring-fenced portfolio of assets includes a mix of corporate bonds and commercial real estate loans.

Our financial investment portfolio remains well diversified across a number of financial instrument classes, 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, 85% (31 December 2020: 91%) of our non-linked debt securities and 71% (31 December 2020: 81%) of our non-linked corporate bonds had a credit rating of A or better at 31 December 2021. There have been no significant defaults in our corporate bond portfolio.

As at 24 February 2022, we held approximately £90m in securities issued by Russian or Ukrainian companies, of which approximately 74% is held in unit-linked portfolios. This represents less than 0.1% of our investment portfolio.

Assets under management

Assets under management increased to a record high of £164bn (31 December 2020: £148bn), driven predominantly by positive market movements and net inflows.

	Gross inflows		Net inflows	
	2021 £m	2020 £m	2021 £m	2020 £m
External flows	17,910	18,318	4,372	1,665
Internal flows	8,522	8,089	915	2,205
Total	26,432	26,407	5,287	3,870

External net inflows increased to £4,372m (2020: £1,665m) driven by a lower level of institutional outflow compared with 2020 and continued high demand into our sustainable funds.

Internal net inflows decreased to £915m in 2021 (2020: £2,205m) due to relatively higher outflows in our Individual Pensions business.

Investment returns

Global stock markets performed strongly during 2021 as vaccine distribution picked up pace, economies gradually reopened and government stimulus buoyed sentiment. Equity markets rallied by more than 15% over the year, albeit with marked periods of volatility largely as Covid-19 variants emerged. Bond markets were more subdued as concerns about inflationary pressure and interest rate rises increased as the year progressed.

The Royal London Main Fund outperformed against the benchmark over 2021 and 99% of active funds outperformed their three-year benchmark (2020: 95%). At an asset class level equities and property delivered strong investment returns. Our multi-asset funds were positioned for rising equity markets and a fall in bond markets, which further benefitted performance over the year.

Our core propositions in the Governed Range have all outperformed their benchmarks this year, with assets at a record high of £51bn.

Pension schemes

The Group operates three defined benefit pension schemes. The net surplus of the three schemes at 31 December 2021 was £357m (31 December 2020: net surplus of £84m). The largest scheme, the Royal London Group Pension Scheme (RLGPS), which closed to future accrual of benefits on 31 March 2016, had a surplus of £216m as at 31 December 2021 (31 December 2020: deficit of £44m). The movement in the net surplus was due to positive investment returns and an increase in the discount rate reflecting higher yields which reduced the value of scheme liabilities.

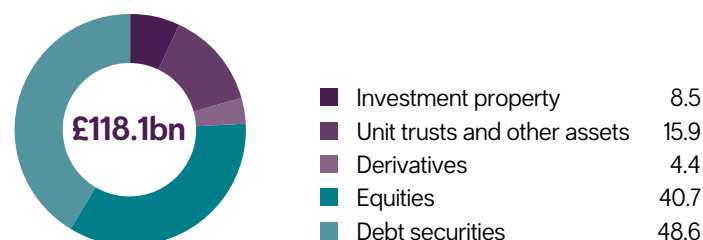
The two remaining schemes operate for former Royal Liver employees. The combined Royal Liver schemes' surplus as at 31 December 2021 was £141m (31 December 2020: £128m).

Corporate Transactions

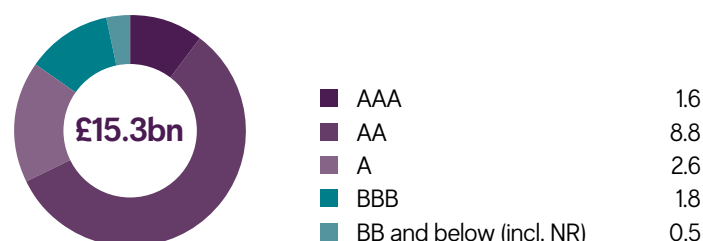
On 1 April 2021 the Group acquired Wealth Wizards Limited and its subsidiaries for nominal consideration. Net liabilities acquired were £2m and the goodwill arising of £2m was fully amortised in the period.

On 1 July 2021 the Group purchased 30% stakes in Responsible Life Limited and Responsible Lending Limited. The consideration paid (including transaction costs) was £20m and the investment is accounted for as an associate.

Investment portfolio: 31 December 2021 (£bn)



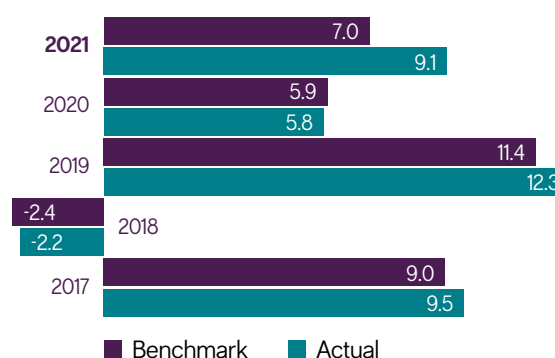
Non-linked debt security portfolio: 31 December 2021 (£bn)



Non-linked corporate bonds: 31 December 2021 (£bn)



Royal London Main Fund with-profits performance (%)



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 our commitments to them.

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

At 31 December 2021, the estimated Solvency II Group Investor View capital cover ratio was 216% (31 December 2020: 190%) and the Solvency II Group Regulatory View capital cover ratio was 173% (31 December 2020: 147%). Estimated solvency surplus on both the Group Investor and Regulatory View was £2,817m (31 December 2020: £2,258m).

The Investor View and Regulatory View capital ratios have increased, primarily due to favourable economic movements in 2021 driven by positive equity and property returns as well as rises in yields, supplemented by management actions including additional equity hedges being taken out during the year, de-risking of certain credit assets and the effect of fund consolidations.

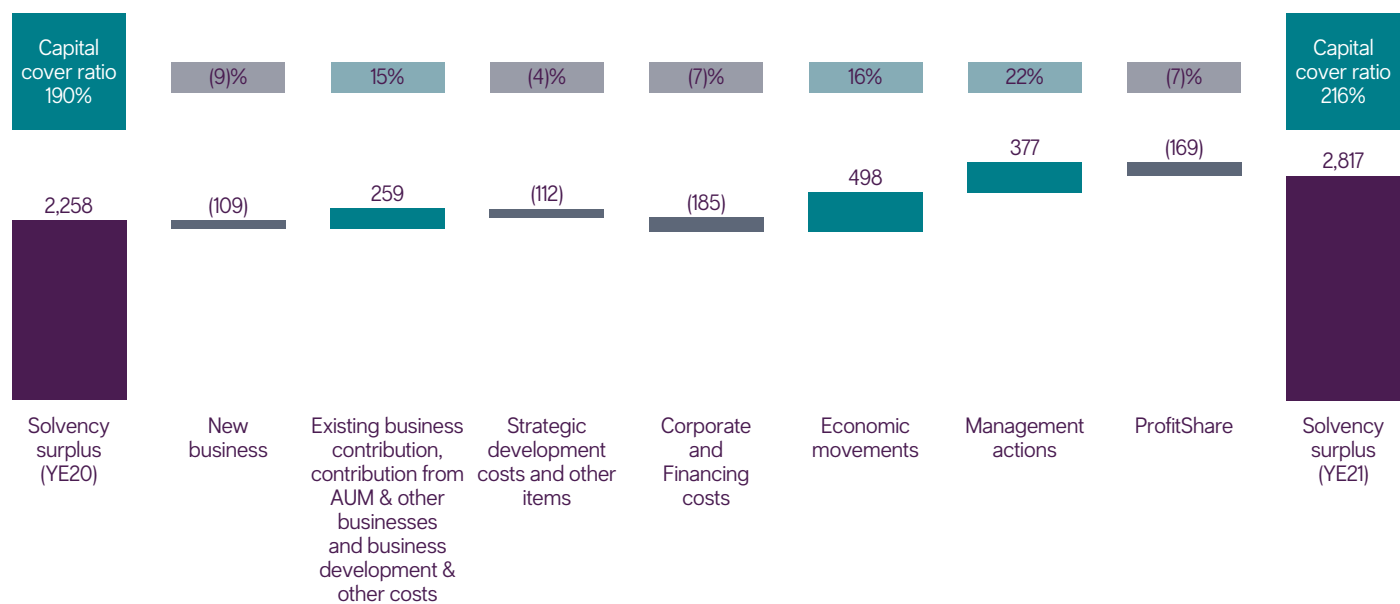
We continue to monitor our capital position given current market volatility as a result of the war in Ukraine. Scenario testing performed as part of our regular capital management activities (including the ORSA) demonstrates that our capital position remains robust under a number of plausible but extreme market scenarios.

Capital position and key Solvency II metrics (estimated and unaudited)

Group basis	Investor View £m	Closed funds £m	Regulatory View £m
Tier 1	3,706	4,350	8,056
Tier 2	1,534	-	1,534
Tier 3	14	-	14
Total own funds	5,254	4,350	9,604
Closed funds restriction	-	(2,897)	(2,897)
Deferred tax asset restriction	(11)	-	(11)
Adjusted own funds	5,243	1,453	6,696
SCR	2,426	1,453	3,879
Solvency surplus – 31 December 2021	2,817	-	2,817
Solvency surplus – 31 December 2020	2,258	-	2,258
Capital cover ratio – 31 December 2021	216%	299%	173%
Capital cover ratio – 31 December 2020	190%	208%	147%

The following diagram sets out an analysis of the movement in the Investor View solvency surplus and capital cover ratio between 31 December 2020 and 31 December 2021.

Movement in Group Investor View solvency surplus (£m)



Sensitivity analysis of Group Solvency II capital position

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

The 2021 Single Group Solvency and Financial Condition Report (SFCR) will be published on our website in April 2022 and will meet disclosure requirements for both the Group and Company.

Solvency II Investor View sensitivities

Scenario ¹	Capital cover ratio (%)	Impact on solvency surplus (£bn)
Base scenario: 31 December 2021	216	2.8
25% decrease in equity investments	(8)	(0.3)
15% decrease in property prices	(4)	(0.1)
100bps rise in interest rates ²	(1)	(0.1)
100bps fall in interest rates ²	(6)	0.0
25bps increase in government bond yields ³	(2)	0.0
200bps widening in credit spreads ⁴	10	0.2
15% fall in GBP exchange rates ⁵	1	0.1

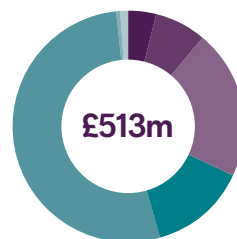
- Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTF), which was formally recalculated at YE21. The economic sensitivities presented reflect 1-in-20-year events. For equity and interest rate sensitivities, these stresses are consistent with the PRA's SS7/17: Solvency II: Data collection of market risk sensitivities, which is available at bankofengland.co.uk/pr/Documents/publications/ss/2017/ss717.pdf
- 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.
- The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Volatility Adjustment has been reassessed in the stressed scenario.
- The widening in credit spreads stress assumes a widening in all ratings and an associated increase in the discount rate for the Royal London Group Pension Scheme and Liver pension schemes at 25% of the asset spread stress. The Volatility Adjustment has been reassessed in the stressed scenario.
- The fall in GBP exchange rates stress assumes an increase to the value of assets held in currencies other than GBP by 15% in GBP terms.

Rating agencies

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

We carry an 'A' rating from S&P Global Ratings with a stable outlook and 'A2' rating with Moody's also with a stable outlook.

Tax paid by Royal London (£m)



UK and Irish transaction taxes	20
UK and Irish corporation tax	37
UK and Irish employment taxes	107
UK and Irish VAT	70
UK and Irish tax deducted at source	271
Other UK and Irish taxes	3
Overseas withholding taxes	5

Tax

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

How Royal London is taxed

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

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

In 2021, the total tax contribution of the Group was £513m (2020: £585m).

The Group's total tax contribution is made up of the taxes borne and collected in the period. Taxes borne are the taxes incurred by the Group, in the period, that impact on our results. Taxes collected are those administered by the Group and collected from others for onward payment to HMRC and other tax authorities. In 2021, taxes of £136m (2020: £241m) were borne by the Group and the Group collected £377m (2020: £344m) of taxes on behalf of the tax authorities.

Daniel Cazeaux
Group Chief Financial Officer

3 March 2022

Risk overview

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

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

Employees at all levels have risk management responsibilities. These are defined by the 'three lines of defence' model on page 57.

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

Our approach

We aim to balance risk and reward to achieve our business objectives safely. The Board approves our risk appetite, which defines the level of risk we are willing to take.

We use a continuous process to identify, measure and manage the risks faced by the Group.

Robust governance, with the Board and its Committees overseeing the work of all three lines of defence, is critical to our approach. Our structure is designed to support us in managing risk in changing economic, political and market environments. We have a formal governance structure of committees to oversee risk reporting to the Board. Accountabilities are defined and managed in line with the Senior Managers & Certification Regime (SM&CR) requirements.

Managing risks

Effective risk management is central to Royal London's strategy. Risk management activities are organised and defined by the risk management system, which is designed and owned by the second line of defence. The risk management system includes risk appetite – which sets the level of risk that Royal London wants to take in order to pursue its objectives safely – as well as risk policies and risk culture. Central to the framework are internal control activities, which are operated across the first and second lines of defence, and assured by the third line of defence. The risk management system is designed to:

- facilitate the effective and efficient operation of the Group. This enables us to respond appropriately to significant risks and uncertainties that could affect our customers and the delivery of our objectives;
- reduce the risk of material loss to the Group;
- promote the preparation of reliable published financial statements and selected financial data;
- facilitate compliance with applicable laws, regulations and internal policies; and
- promote an environment where there is openness and transparency in how we make decisions and manage risks. This includes aligning significant business decisions with our strategy.

There is a strong 'tone from the top' on the importance of effective risk management in day-to-day activities and decision-making.

Effective risk management aims to address the significant risks we are exposed to, so that our business remains sustainable and continues to serve our customers.

The early identification of risks – including those emerging from developments in the external environment, such as technology, regulatory or political changes – is a key part of the risk management system. This includes an assessment of likelihood and potential impact to enable us to fully understand the scale of a threat. The Risk and Capital Committee receives regular risk reporting. This reporting also goes to the Group Executive Risk Committee and includes details of mitigating actions put in place to reduce the material risks to which our UK, Asset Management and Ireland businesses are exposed.

Risk culture is central to our framework and seeks to ensure that all colleagues are fully aware of their duties and responsibilities, including escalation of significant matters to senior management. Our framework drives consistent risk management activities across the business and management of risks within the agreed risk appetite.

We measure culture through regular employee surveys. The responses are measured and benchmarked against the Group targets. These surveys measure the extent to which our culture encourages individuals to speak out about any concerns, and whether we learn from past mistakes.

In 2021, we adapted our risk management system to align to changes to our Group operating model. We also continued our programme of strengthening control standards. This included aligning controls to policy standards, delivering our education programme to build business capabilities, and increasing second line control testing.

The management of each business unit and Group function is accountable for identifying, measuring, reporting, managing and mitigating all risks relevant to its area of business. This includes the design and operation of suitable internal controls and the allocation of risk and control responsibilities.

Three lines of defence

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

1. Business units and Group functions (first line)

First line business units and Group functions which have primary responsibility for managing risks.

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

2. Risk and Compliance (second line)

An independent Risk and Compliance function, which provides specialist advice, oversight, challenge and assurance.

3. Group Internal Audit (third line)

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

The risk management system allows us to assess our overall exposure and form a view of major risks with related actions. These matters are monitored, refreshed, and reported to the business risk committees, the Group Executive Risk Committee and the Risk and Capital Committee.

Group Risk and Compliance supports these risk management processes and reports to the Group Chief Executive Officer via the Group Chief Risk Officer. Group Risk and Compliance provides specialist knowledge, review, challenge and quality assurance, and co-ordinates reporting to appropriate committees and the Board.

Appetite for risk

We have built a risk appetite framework that supports our strategy. It explains the nature and level of risks Royal London is prepared to be exposed to and measures our resulting risk exposure (see page 58 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. We review our policies regularly to establish whether they reflect the changing commercial and regulatory environment, as well as the Group's organisational structure.

The Group's risk governance structure

Risk responsibilities of the Board

Board

Responsible for the Group's risk strategy, risk preferences and risk appetite statements. It is also responsible for establishing and maintaining a framework of prudent and effective controls.

Risk responsibilities of the Board committees

Risk and Capital Committee

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

Audit Committee

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

Remuneration Committee

Supports the Board and the Group's subsidiaries in determining the Group's remuneration policy. It also determines the compensation of the Chairman, executive directors and designated key officers, including material risk-takers.

Risk responsibilities of management

Group Executive Risk Committee

Supports the members in discharging their Senior Management Function (SMF) responsibilities in respect of financial, operational and conduct risk management. This includes monitoring strategic risks, emerging risks, and aggregate Group exposures that may impact Group risk appetite, and instructing action where needed.

Capital Management Committee

Supports the Group Chief Financial Officer by giving consideration to, and developing proposals and recommendations in respect of, the following:

- economic and regulatory requirements;
- balance sheet risk;
- hedging strategies involving derivatives;
- risk appetite oversight related to market, credit and liquidity risks;
- Matching Adjustment portfolio;
- review of policies; and
- new risks.

Internal Model Governance Committee

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

Anti-corruption and anti-bribery

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, customers, suppliers and other stakeholders.

We have a financial crime policy, which sets out the framework for managing crime arising from bribery and corruption, fraud, money laundering and market abuse.

A financial crime unit operates within our Group Risk and Compliance team to monitor adherence to this policy.

We screen our policyholder and supplier databases for sanctions compliance on a monthly basis and any new customers or policy record changes are screened on a daily basis. We continually monitor for updates and screen for any further individuals or entities added to sanctions lists.

Cyber crime

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

Climate change risk

We have agreed climate targets and incorporated climate change into our risk management system. We have defined a climate change risk appetite statement, including metrics, to

monitor our progress. In January 2022, we created a Group Sustainability and Stewardship team that:

- provides expert insight and direction on climate and sustainability
- enables cross-functional delivery of our climate objectives, and external climate and sustainability reporting on behalf of the Group;
- facilitates the identification of climate-related risks and opportunities across the Group; and
- is accountable for asset-owner stewardship activities.

Internal Model

Our PRA-approved Internal Model enables us to make more effective decisions by integrating risk and capital management. Our Internal Model builds on our existing strong capital modelling and control capabilities.

In 2021, the PRA approved a major change to the Internal Model. This was due to an increase in in-house annuity business and the subsequent introduction of a Matching Adjustment portfolio. The PRA also approved a major model change to improve the modelling of counterparty credit risk.

The Board's review of our system of internal control

The Board is responsible for the system of internal control as well as for reviewing its effectiveness. It conducted a review of the Group's risk management system and internal control system effectiveness during the year ended 31 December 2021. This review took into account matters arising up to the date of approval of this Annual Report and Accounts.

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

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. It also sets the boundaries within which our risk appetite will operate.

2. Risk appetite statements

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

3. Risk metrics

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

High-level risk appetite categories

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

Capital

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

Liquidity

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

Insurance

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

Strategic

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

Operational

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

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on the following pages, along with the actions taken to mitigate and manage them. The Risk and Capital Committee completes a full review of the principal risks and uncertainties annually. This section sets out our approach to risk management, including the process of assessing and reviewing these risks.

Although most of the principal risks and uncertainties set out last year are still relevant, the nature of the exposures has changed over time based on new and evolving external influences. We also continue to monitor the impact of the Covid-19 pandemic and UK legislative, regulatory and social developments following the UK's withdrawal from the EU.

The evolving situation in Ukraine is highly uncertain and continues to develop. It is being actively monitored through our ongoing risk management processes, enhanced by expert input. As the situation changes, we consider the impact on the risks that the business is exposed to. In particular, the impact on the associated economic, social and cyber risks are set out within the principal risks and uncertainties on the following pages.

Through active risk management, we continue to take steps to reduce our exposure to certain risks.

Covid-19 impacts

While measures such as the vaccination programme and easing of restrictions have reduced some volatility, there is continued uncertainty relating to the external Covid-19 developments that correlate to exposures across our risk profile.

Risk	Mitigation and management	Change
<p>Uncertainty and volatility from long-term effects of the pandemic</p> <p>Ongoing Covid-19 impacts and infection prevention measures could affect the Group's financial position, profitability, operations, and ability to deliver for our customers.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • changes in consumer behaviour resulting in lower business volumes, investments and profitability; • demographic shifts (such as the changing nature of employment) resulting in social policy changes, affecting our ability to attract and retain talent; • the changing nature of fraud and cyber security risks driven by more home working in a hybrid model; • the potential impact of prolonged home working on colleagues; • disruption to operations and change delivery as a result of challenges in retaining colleagues and key skills, leading to operational loss and/or reputational damage; • further increases in mortality and persistency, affecting funding commitments; and • the length of time required to recover from prolonged market volatility, coupled with uncertainty following the UK's withdrawal from the EU. <p>The Covid-19 pandemic severely affected the global financial markets during 2020. Although there has been some recovery over 2021, there remains significant market volatility. This could affect the life and pensions sector further.</p> <p>A lack of external data around the impact of Covid-19 made it harder to apply expert judgement to long-term assumption-setting during 2021.</p>	<p>We have made provisions for the potential short-term changes to demographic experience in our pensions business.</p> <p>We monitor longer-term developments – such as Covid-19 – regularly through our emerging risk profile. These emerging risks include consumer behaviour, demographic shifts and economic uncertainty.</p> <p>Our regular monitoring enables us to focus on the risks relating to the Covid-19 pandemic when they develop, and to take action. We consider our incident management and planning, and regulatory focus, as a result of the pandemic. A change management process is in place to support our business in:</p> <ul style="list-style-type: none"> • responding effectively to the external challenges presented; and • taking appropriately controlled levels of risk and assessing the control environment in response to the pandemic. <p>We have reviewed our fraud standards and increased cyber security awareness (see page 64). Our health and safety procedures include a working environment assessment for colleagues who are working from home.</p> <p>During periods of market volatility, we monitor our capital and liquidity positions more frequently. We also perform stress and scenario testing. Our own risk and solvency assessment (ORSA) process included consideration of pandemic-related scenarios in 2020 and 2021. This helped us to understand potential impacts of a pandemic on our capital position and our wider business model.</p>	<p>No change</p> <p>Customer service demand volumes have stabilised and claims levels have returned to pre-pandemic levels.</p> <p>However, the outlook remains uncertain. Covid-19 continues to impact demographic experience. We are monitoring Covid-19 developments and taking action where appropriate across our risk profile.</p>

Climate change

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

Risk	Mitigation and management	Change
<p>Failing to appropriately prepare for and respond to the effects of climate change</p> <p>Climate change risk could potentially affect the Group across multiple risk categories. Due to its size and complexity, it is difficult to predict how and when the various risks associated with climate change may crystallise.</p> <p>The risk that the world's collective response to tackling climate change is insufficient to achieve a low-carbon economy continues to cause concern at national and global levels. If global warming targets are not achieved, the consequence could be catastrophic physical risks which impact global economies, markets, companies, and people.</p> <p>We are seeing increased intervention from governments and regulators to mitigate this risk. This in turn creates a risk that we fail to keep pace with new legislation and regulation. This includes the risks that we fail to:</p> <ul style="list-style-type: none"> • develop or modify propositions in line with changing government or regulatory policy and market sentiment; • adequately reflect changes in regulatory disclosure requirements; and • meet new or modified environmental targets set by the regulator or government. <p>The move to a low-carbon economy presents a range of associated financial risks. An example is the impact of this transition on the prospects of current and future investment holdings.</p> <p>The climate emergency is now well understood by our members, customers and the wider public. If our response to the problem is seen as inadequate, it may cause reputational damage to the Group's brand.</p>	<p>There is increasing urgency for the world to take collective action to achieve the goals of the Paris Agreement. Externally, we continue to lobby passionately for change and our approach to climate change is outlined on pages 30-40. It includes the creation of a new team and a governance approach to oversee progress against our climate targets.</p> <p>Consideration of climate-related risks and opportunities is incorporated into our Purpose and strategy. We have agreed climate targets and incorporated climate change into our risk management system. We have defined a climate change risk appetite statement, which includes metrics to monitor our progress.</p> <p>We have reviewed and enhanced our propositions to address climate change risks in line with the evolving expectations of our customers, and to compete in our markets.</p> <p>The Group considers a broad range of environmental, social and governance factors when selecting and managing investments.</p> <p>We are expanding our qualitative and quantitative scenario analysis. The analysis considers the potential impact of climate change scenarios so that the risks are appropriately reflected in the Group's risk management system.</p> <p>We continue to engage with our regulators and the industry on the need to address climate change. We support the productive finance initiative from the Government, the Association of British Insurers (ABI) Climate Change Roadmap and the development of sustainable finance standards.</p>	<p>No change</p> <p>The external scrutiny on companies to help achieve agreed climate targets has intensified. The position reflects this, along with the progress we have made.</p> <p>As a modern, purpose-driven mutual, we are clear on the positive impact we want to create. This includes moving fairly to a sustainable world.</p> <p>The changes we have made within our business reflect our continued commitment to play an important role in moving to this sustainable future.</p>

The economy and Royal London's key markets

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

Risk	Mitigation and management	Change
<p>Geopolitical risk and uncertainty in the economic environment</p> <p>Our business is subject to risks arising from economic conditions in the markets in which we operate.</p> <p>Increased inflation expectations continue to significantly affect the insurance sector. Fluctuations in both asset and liability values can arise from:</p> <ul style="list-style-type: none"> • volatility in global capital markets; • the economy of the UK; and • the global economy generally. <p>These may materially affect the Group when a market change has a differing impact on the value of assets and liabilities.</p> <p>Economic and social impacts can also arise from geopolitical risks that include increased international unrest between nations and war, and action by governments, such as sanctions and trading restrictions.</p>	<p>We monitor exposures regularly by risk class and consider possible risk concentrations, measured with reference to counterparty exposure limits. This enables us to evaluate scenarios where we may be exposed to asset and liability values moving differently. This in turn allows us to have a good understanding of the impact these exposures may have on our risk profile.</p> <p>We have a process to monitor emerging risks. In 2021 and early 2022, this included consideration of the developing conflict in Ukraine, which could affect investment markets, and have impacts, for example, on energy supplies and cyber security.</p> <p>Through regular review and discussion at executive and Board level, decisions are made to minimise risks where they do not align to our business strategy and risk preferences. We also offset risk by hedging.</p>	<p>Increased</p> <p>We continue to monitor our exposures to the economic environment regularly. Geopolitical risk has increased significantly in early 2022 in relation to the war in Ukraine. We continue to monitor our exposures and take appropriate measures as required to protect capital.</p>
Risk	Mitigation and management	Change
<p>A change in economic and market trends as well as consumer behaviour could affect performance</p> <p>Volatility in the economy and investment markets, alongside low growth rates, could affect consumers' appetite for our products and services.</p> <p>Changes in the distribution landscape (such as advisers developing in-house solutions, the evolution of adviser back-office technology and adviser consolidation) present both opportunities and challenges to our business model.</p> <p>Changing socio-economic trends (such as customers wanting to deal direct, mobile app transactions and data security) also present opportunities and challenges to our business model.</p>	<p>We complete regular reviews so that we are developing strategies and operational capabilities to consider:</p> <ul style="list-style-type: none"> • current and future changes in markets; and • consumer and adviser behaviour. <p>We monitor our product range and market position regularly through analysis of customer experience and business volumes. This helps us to re-price products dynamically and develop new ones in response to changes in demand.</p> <p>Changes that affect consumer behaviour are monitored through our emerging risk profile.</p>	<p>No change</p> <p>Consumer behaviour and changes to the distribution landscape have continued to evolve following the initial impact of the pandemic. However, the position remains consistent with the prior year.</p>
Risk	Mitigation and management	Change
<p>Competitor risk</p> <p>Competitive pressure exists within our industry. This could have an adverse impact on our success in our chosen markets. Achieving our strategy depends on our ability to sustain growth while managing economies of scale and continued strong financial discipline.</p> <p>Competitor activities also present opportunities and challenges to our business model. These factors could include investments in new technology, or the targeting of new markets.</p>	<p>We evolve our strategy to differentiate our products in our chosen markets. The Group continues to focus on delivering value for money for our customers. We continue to invest in our customer-facing infrastructure to deliver attractive propositions and efficient service levels. We are well placed to continue to offer value supported by our mutuality, customer-centricity and service excellence.</p> <p>We have a strategic programme focusing on costs, which is incorporated within the latest business plan.</p>	<p>Increased risk</p> <p>New technology and digital capabilities are of increasing importance in our chosen markets.</p> <p>Advisers' continued focus on price drives ongoing margin compression, which increases focus on costs in our markets to maintain profitability.</p>

Principal risks and uncertainties *continued*

Changing political and regulatory environment

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

Risk	Mitigation and management	Change
<p>The arrangements following the UK's exit from the EU create uncertainty over the prospects for financial markets and the UK economy, together with future regulation and legislation</p> <p>Technical discussions on the Memorandum of Understanding (MoU) concluded in March 2021 in respect of financial services following the UK's exit from the EU. However, the MoU remains unsigned. There is likely to be continued market uncertainty, resulting in adverse impacts on economic confidence, UK Sterling, the UK's credit rating, and inflation.</p> <p>The degree of freedom that the UK will have to determine its own laws and regulations governing financial services is unclear. The structural impact on the UK's insurance and asset management industries is also unclear.</p>	<p>Brexit has not had a detrimental impact on Royal London's strategy and business as most of our operations are based in the UK. Our Part VII transfer to our Irish subsidiary in February 2019 has protected and enhanced our existing market position in Ireland.</p> <p>We manage our market risks through our normal market risk monitoring and capital management activity.</p> <p>Given the Group's UK-focused business, we are less exposed than many of our peers to the risk of failing to access the European single market.</p> <p>We continue to maintain a watching brief on developments relating to EU and UK regulations.</p>	<p>No change</p> <p>While a trade deal has been secured, the MoU remains unsigned. Therefore, there remains uncertainty about how the UK's relationship with the EU may impact the Group's operations.</p>

Risk	Mitigation and management	Change
<p>Changes in the legislative and regulatory landscape could alter the design and marketing of propositions</p> <p>Unprecedented levels of change in legislation and regulatory activity could affect our ability to deliver change. These developments could also affect our reputational, operational and financial position. The conduct and prudential environments continue to evolve and could affect how we develop and distribute new propositions, as well as how we administer and deal with contracts sold in the past.</p> <p>It is possible that thematic, industry-wide reviews by regulators may have a significant impact on the Group.</p>	<p>Meeting the expectations of customers and our regulators is at the forefront of everything we do. We engage actively and transparently with regulators on an ongoing basis.</p> <p>We continue to monitor the impact of developments and, where necessary, enhance our processes to meet any new requirements. This includes the FCA's new Consumer Duty proposals, which will set clearer and higher expectations for the standards of care firms provide to customers.</p> <p>We have reviewed and enhanced our propositions to address climate change risks, where there is more external scrutiny to achieve climate targets. See our climate change risk on page 60.</p> <p>Our conduct risk framework is in place, alongside an associated proposition process designed to achieve fair outcomes for our customers.</p> <p>We continue to be represented on industry bodies including senior committees of the ABI and CityUK. Where relevant, we respond (either via the ABI or on our own account) to consultations on regulatory changes.</p>	<p>No change</p> <p>Our position remains stable.</p>

Risk	Mitigation and management	Change
<p>The political environment could change the financial services industry</p> <p>The political environment may give rise to changes that alter the viability of our propositions in our chosen markets. Examples could include a broadening and/or tightening of the rules applied to workplace pensions, and changes to tax-free allowances for pension contributions.</p>	<p>As the political environment evolves, we evaluate how our markets are affected so we can develop propositions that continue to meet the needs of customers and distributors.</p> <p>We monitor developments and potential outcomes. This includes the FCA's new Consumer Duty, changes to benefit statements and the evolution of the pensions dashboard.</p> <p>We also complete scenario testing of external factors that could detrimentally impact our business model. These include potential regulatory changes to pension charges and tax relief.</p> <p>In addition, we seek to influence the course of political and legislative issues in a way that we consider to be in the best interest of our customers.</p>	<p>No change</p> <p>Our position remains stable.</p>

Maintaining our financial strength

Our financial risks remain stable, managed with regular mitigation and monitoring activities.

Risk	Mitigation and management	Change
<p>An increase in our funding commitments for defined benefit pension schemes could affect our financial position</p> <p>Our main risks in managing our defined benefit pension schemes relate to inflation, interest rates and longevity, as well as the investment strategies of funds. Any adverse movements in these factors could increase future funding costs and could negatively impact our financial position.</p>	<p>These risks will continue to be monitored in the normal course of business. Our internal pensions team supports the Trustee boards to identify, assess and implement initiatives and opportunities to reduce volatility and risk.</p> <p>All of the Group's defined benefit schemes are closed to future accrual, reducing the funding commitment to those schemes.</p>	<p>No change</p> <p>All of the Group's defined benefit schemes remain well funded with no regular contributions required.</p>
Risk	Mitigation and management	Change
<p>We are exposed to the risk of failure or default of one or more of our counterparties</p> <p>As part of our business, we invest in debt securities and other assets in order to meet our obligations to policyholders. As a result, exposures can arise to issuers of debt and other financial instruments. Our day-to-day activities also mean we have exposures to banking, insurance and reinsurance counterparties.</p>	<p>We seek to manage our exposures to any one counterparty or third party. We actively monitor and report against limits in respect of investments.</p> <p>We govern our contracts with third parties by strict service level agreements. We manage and discuss these at regular account management meetings.</p> <p>The Capital Management Committee reviews large exposures that approach or exceed risk appetite. The Committee reviews the actions being taken to manage these exposures.</p>	<p>No change</p> <p>Our risk exposure remains stable as we continue to manage it through our frameworks.</p>
Risk	Mitigation and management	Change
<p>If our assumptions are subsequently proven to be wrong, then adjustments could affect our financial position</p> <p>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.</p> <p>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.</p>	<p>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. These include financial and economic conditions, investment performance, and product-specific matters.</p> <p>In the event that actual claims experience is less favourable than envisaged, our reinsurance arrangements will provide significant mitigation.</p>	<p>No change</p> <p>We continue to assess the appropriateness of our key assumptions to manage our financial position.</p>

Core processes and organisational delivery

We continue to maintain oversight of and manage our change and cyber security risks.

Risk	Mitigation and management	Change
<p>Organisational capabilities might not adapt to changes across the Group</p> <p>We have delivered change programmes in line with the Group's growth, to respond to regulatory change, and to improve our capabilities and the experience of our customers. There is a risk that our organisational capabilities are unable to adapt to operational changes, combined with the significant level of external change in markets, regulation and legislation. This could result in future ineffective organisational delivery and potential remediation activity.</p> <p>Covid-19 impacts also have the potential to affect the delivery of organisational change. Our employees' health, safety, and wellbeing may be affected by the change in circumstances caused by the pandemic. These factors could lead to operational loss and/or reputational damage.</p>	<p>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 underway and planned.</p> <p>Specific change programme monitoring and reporting take place at project, programme, portfolio and strategic execution level. A dashboard of measures is used so that appropriate risk-based decisions are made, and resources are allocated in an efficient and sustainable manner. The portfolio is also constructed to take account of the anticipated level of resourcing available.</p> <p>Our most significant strategic transformation and change programmes have quality assurance processes built into our internal management and governance. These are also subject to independent oversight by our Group Internal Audit and Group Risk and Compliance functions.</p> <p>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.</p> <p>We also keep our operational resilience under regular review, with contingency plans in place for any potential operational impacts relating to Covid-19. We have a change management process in place to manage the impacts of Covid-19.</p> <p>Our risk management processes also identify potential issues in our other books. We consider whether our processes have met all relevant legal, regulatory and tax standards, and whether we have produced good outcomes for our customers.</p>	<p>No change</p> <p>Our change programmes continue to have appropriate governance and oversight to monitor and manage this risk. Change activity prioritisation is regularly reviewed, including having the skills needed to leverage new technologies.</p> <p>In line with the new operational resilience regulatory expectations, we have an annual assessment process in place. This process enables our Board to monitor the current resilience position, and where required approve any new investment.</p> <p>We continue to monitor Covid-19 impacts and have seen demand return to pre-pandemic levels in our operations. Our people are transitioning to a return to the workplace in line with plans.</p>
<p>Cyber security breaches</p> <p>There is a risk that third parties and other unauthorised users gain access to our systems for the misuse of customer and company data, or to disrupt the business using malware and viruses.</p> <p>This risk is increased with more home working in a hybrid model.</p> <p>As a result of the situation in Ukraine, there is also an increased risk of cyber-attacks targeting the UK Financial Services sector.</p> <p>This could lead to corrupted or lost data, business interruption, compliance breaches, regulatory fines and reputational damage.</p>	<p>We continue to invest in our security systems to strengthen them beyond our core controls and reduce vulnerabilities. Our security is proactive with advanced monitoring, prevention and testing.</p> <p>Cyber security awareness is a key part of our training, with exercises and testing of security awareness. Where new threats are identified, awareness training and communications are immediately rolled out.</p> <p>We perform a number of stress test exercises and continue to review and test cyber risk developments regularly.</p>	<p>Increased risk</p> <p>We continue to focus on our cyber resilience, including where additional risk exposures have been created by home working. We also continue to assess our position based on intelligence from the National Cyber Security Centre and other sources.</p> <p>The global recovery has seen a significant increase in cyber crime. The risk of cyber-attacks is also heightened by the war in Ukraine in 2022.</p>

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.

Risk	Mitigation and management	Change
<p>Outsourced services may not meet our service requirements</p> <p>In line with other large financial services organisations, we have a number of material relationships with outsourcers and service providers. While these providers complete processing or specialist work, we remain responsible for the oversight, management and performance of the outsourced activity.</p> <p>There is a risk that we could be unable to meet our customer obligations following the failure of, or a significant degradation in, service received from a material outsourcer or service provider. This could also be caused by contagion and/or increased scrutiny across the outsourcing sector.</p> <p>These risks could result in major disruption to our operations.</p>	<p>We have a framework for the governance and oversight of material outsourcer and supplier arrangements. It includes the requirement for executive approval prior to engagement with material outsourcers and suppliers. We also have policies and processes to oversee as well as escalate risks and issues to the attention of the appropriate risk committees.</p> <p>The business manages outsourcer and supplier relationships closely. The governance arrangements for material outsourcers require that our customers do not face an increased level of risk due to an outsourced arrangement.</p>	<p>No change</p> <p>This risk remains stable as we continue to manage our outsourcers through our framework.</p>

Legacy products

We have continued to strengthen our risk management approach for legacy products to reduce the risk of issues emerging. Dedicated legacy and remediation functions are in place to ensure risks and outcomes remain effectively managed and monitored for our long-standing customers.

Risk	Mitigation and management	Change
<p>Legacy remediation</p> <p>Royal London has a large number of legacy products in which policyholders are still invested.</p> <p>There is a risk that remediation could be required within these books, as there are a large number of legacy systems and propositions involved. There are also manual and/or complex processes that must be managed carefully.</p>	<p>Our remediation function, ongoing proposition reviews and value for money dashboards have enabled us to enhance controls to identify any risks or issues around legacy systems and propositions. Any resulting remediation is managed through our remediation function.</p> <p>Our ongoing Legacy Simplification programme aims to reduce complexity in systems and processes, and deliver better customer outcomes.</p>	<p>Reduced risk</p> <p>There continues to be significant focus placed on managing this risk within the Value Enhancement team.</p> <p>Under our Legacy Simplification programme over 2020 and 2021, we have migrated five legacy books of business from older mainframe systems onto a single, more modern, IT system. Further migrations are planned in 2022 and 2023 to simplify our estate, standardise business processes and reduce this risk.</p>

Longer-term viability statement

Assessment of needs

The context for assessment

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

In particular, our framework sets out that we will maintain a strong and credible capital position supported by good-quality assets and that we will maintain sufficient liquidity to retain customer and member confidence, even in extreme but foreseeable circumstances.

The assessment process

The Group’s prospects are assessed primarily through its strategic and business plan process, which is led by the Group Chief Executive and involves all major functions and business units. The Board undertakes a robust review and challenge of the strategy and assumptions, in particular through the use of stress and scenario testing. The Board also receives regular updates from the relevant functions and committees. A number of test scenarios are updated annually, with a summary of those applied in 2021 set out below.

In addition to these scenarios, the Group’s own risk and solvency assessment (ORSA) specifically considered an additional economic scenario where inflationary pressures persisted for the medium term. Under all these scenarios, Royal London has sufficient excess assets to cover its Solvency II capital requirements and sufficient liquidity.

The Board continues to monitor short- and medium-term Covid-19-related factors, including employee and supplier-related issues. The Board carefully considered the impact of Covid-19 on the business plan as well as the management of issues resulting from the pandemic. A specific Covid-19 principal risk aggregates the external Covid-19 developments across our risks and is set out in the Principal risks and uncertainties section on pages 59-65.

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

Three years is considered an appropriate period because the ability to forecast for any longer period is more challenging due to uncertain future changes in the economic, technological and regulatory environment. Three years is within the period covered by the Group’s business plan, which includes in-depth analysis of the Group’s risk profile, liquidity, and profit and capital projections.

Risk scenarios	
Base	<p>UK economic growth forecast to be strong in 2022 but slows down later in the year, as a result of tighter fiscal policy. UK economic growth remains below its average in outer years of the business plan, as US-China trade tensions continue and there are frictional costs associated with transitioning to a lower carbon economy.</p> <p>Inflation is not sustained at high levels and overall equity returns are weak, with yields falling and staying low over the period.</p>
Adverse	<p>The impact of Covid-19 from vaccine-resistant strains and logistical problems around the delivery of vaccines results in a more subdued recovery than in the base scenario.</p> <p>Unemployment is higher than in the base case but does not rise to high levels by historic standards in the UK and Euro area. Additional fiscal and policy support is assumed to include the Bank of England cutting interest rates into (slightly) negative territory and inflation struggles to stay above central bank targets.</p> <p>Overall, equity returns are weak and yields fall and stay low over the period.</p>
Favourable	<p>A stronger global economy, leading to a more rapid recovery, and business behaviour returns to pre-crisis norms faster than in the base scenario.</p> <p>Unemployment rates are lower than in the base case, but without generating much higher inflation. Inflation and wage growth are higher in this scenario as the output gap shrinks faster, and oil prices are assumed stable rather than falling over the forecast.</p> <p>Overall, equity returns perform strongly and bond yields rise faster.</p>

Assessment of viability

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

- a range of sensitivity analyses and stress tests over key economic, insurance and operational risks – for example, a 1-in-200 chance of adverse impact from financial markets, counterparty failure or a significant medical science advance; and
- stress-testing the business plan, as part of the Group's own risk and solvency assessment (ORSA) process over a number of years, for adverse scenarios impacting profitability, liquidity and/or solvency including:
 - scenarios considering the insurance risks the Group faces;
 - a cyber-attack on the Group's systems and data;
 - regulatory changes;
 - a wide range of economic scenarios, including prolonged effects from the pandemic and higher inflation; and
 - the effects of climate change on economic and insurance risks.

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

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

Viability statement

Based on their robust assessment of the principal risks and uncertainties facing the Group, and the stress-testing-based assessment of the Group's prospects described above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation, and meet its liabilities as they fall due, over the period to December 2024.

Going concern

The directors also considered it appropriate to prepare the financial statements on a going concern basis, as explained in the Corporate governance section and in note 1 (a) to the financial statements on page 133.

Strategic report

The 2021 Strategic report, from pages 1 to 67, was approved by the Board of Directors on 3 March 2022.

By order of the Board



John-Green Odada
Company Secretary

For and behalf of Royal London Management Services Limited
3 March 2022

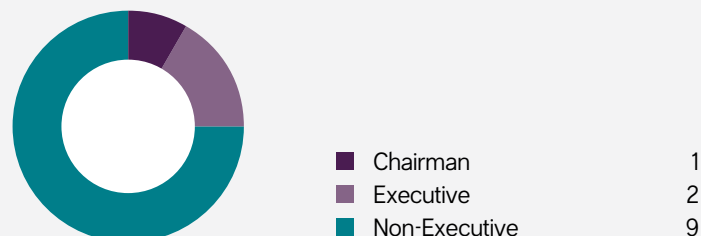
Corporate governance



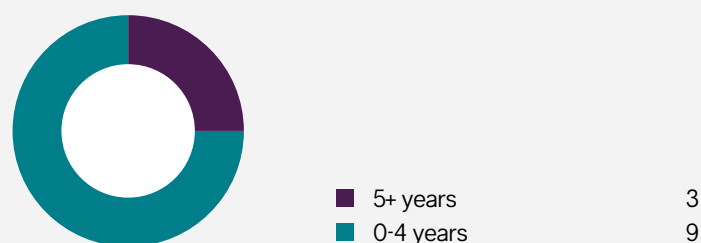
Governance overview

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

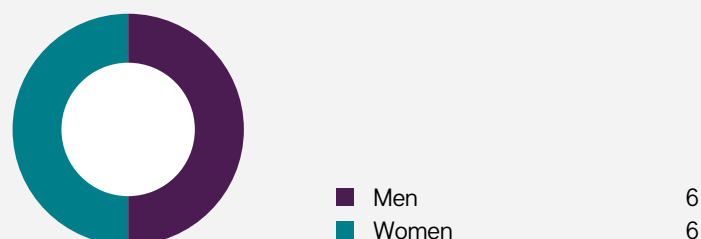
Board independence



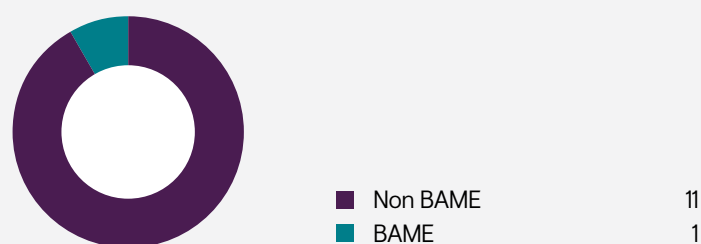
Board tenure



Board gender diversity



Board ethnic diversity



A strong and capable Board



NG D¹

Kevin Parry OBE

Chairman

Appointed
19 March 2019

Skills and experience

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

External appointments

Chairman of Nationwide Building Society, Non-Executive Director and Audit and Risk Committee Chairman of Daily Mail and General Trust plc.



D¹

Barry O'Dwyer

Group Chief Executive

Appointed
8 January 2020

Skills and experience

Barry O'Dwyer is an actuary with extensive financial services experience in the UK and Ireland. He began his career at Standard Life in 1988, when it was a mutual. In 2008, he moved to HBOS and shortly afterwards to Prudential UK & Europe, where he became Deputy CEO. He returned to Standard Life in 2013, where he became CEO of Standard Life's assurance, pensions and savings businesses. He joined the Board of Standard Life plc in 2018. Following their merger with Aberdeen Asset Management, he was the head of Standard Life Aberdeen's UK business.

External appointments

President of the Association of British Insurers.



D I WP

Daniel Cazeaux

Group Chief Financial Officer

Appointed
22 September 2020

Skills and experience

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



I A NG R

Ian Dilks OBE

Independent Non-Executive Director and Senior Independent Director

Appointed
14 November 2014

Skills and experience

Ian Dilks is a chartered accountant and spent his entire professional career at PricewaterhouseCoopers LLP (PwC), joining the firm (which was then Coopers & Lybrand) in 1974, and becoming a Partner in 1986. He rose to become a member of the Global Financial Services leadership team and global insurance leader. He has deep experience of the insurance sector, gained through providing audit, advisory and transaction support services to a wide range of major UK and international insurance groups. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network. From March 2014 to December 2020 he was Chair of NHS Resolution, an arm's-length body within the NHS. From 1 April 2022, he will become the Chair of the Care Quality Commission, subject to Parliamentary Committee approval.

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

A

Audit Committee

NG

Nominations and Governance Committee

WP

With-Profits Committee

D

Disclosure Committee¹

R

Remuneration Committee

IG

Independent Governance Committee²

I

Investment Committee

RC

Risk and Capital Committee

Chair of Committee



NG RC I

Kal Atwal

Independent
Non-Executive Director

Appointed
17 January 2020

Skills and experience

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

External appointments

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



WP NG RC

Sally Bridgeland

Independent
Non-Executive Director

Appointed
14 January 2015

Skills and experience

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

External appointments

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



NG R

Baroness Ruth Davidson

Independent
Non-Executive Director

Appointed
8 June 2021

Skills and experience

Baroness Davidson has extensive experience in the political frontline, leading the Conservative Party in Scotland and playing key roles in the referendum campaigns surrounding Brexit and Scottish independence. A regular attendee at political cabinet, she was a key adviser to two Prime Ministers on constitutional issues. She was appointed to the Privy Council in 2016 and joined the House of Lords in 2021 as Baroness Davidson of Lundin Links. She is committed to championing better environmental, social and governance practices and has worked extensively in promoting diversity across a wide range of organisations.

External appointments

Trustee of the HALO Trust and John Smith Trust and Non-Executive Director of W.A. Baxter & Sons (Holdings) Limited.



NG

Shirley Garrood

Independent
Non-Executive Director

Appointed
10 December 2020

Skills and experience

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

External appointments

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



Read more about the work of Royal London Board Committees on pages 82 to 97

1. The Disclosure Committee is chaired by either Kevin Parry or Barry O'Dwyer and is determined by the nature of the disclosure(s) being considered.
2. The Independent Governance Committee (IGC) is an independent committee that does not report to the Board, and has responsibilities set out in regulation to assess whether the Group is providing value for money for its workplace pension policyholders.

Our Board *continued*



Tracey Graham

Independent
Non-Executive Director

Appointed
10 March 2013

Skills and experience

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

External appointments

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



Jane Guyett CBE

Independent
Non-Executive Director

Appointed
4 August 2021

Skills and experience

Jane Guyett brings significant knowledge and experience of financial markets and corporate governance in the UK and globally. She has held senior roles with Bank of America Merrill Lynch in London and New York and was also Chief Operating Officer (EMEA and Asia) of the Global Markets Group, and sat on the Board of Bank of America Securities. Jane was a Non-Executive Director of UK Financial Investments Limited until 2018, advising the UK Government on its shareholdings in FTSE financial services companies. She was awarded a CBE in Her Majesty's New Year's honours list in 2021 for Services to the Economy.

External appointments

Senior Independent Director of UK Government Investments Limited, Independent Non-Executive Director of LCH Limited and Banque Centrale de Compensation SA, Paris and Chair of Connect Plus (M25) Plc.



Mark Rennison

Independent
Non-Executive Director

Appointed
25 September 2020

Skills and experience

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

External appointments

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



Tim Tookey

Independent
Non-Executive Director

Appointed
6 April 2020

Skills and experience

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

External appointments

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



John-Green Odada

Company Secretary

Appointed
14 February 2022

Skills and experience

John-Green Odada is a chartered governance professional, with 20 years' corporate legal and governance experience. He joined Royal London from BP

plc, where he was Head of Board and Board Committees. His principal responsibility at BP was to promote effective Board and Committee governance, including compliance with relevant corporate governance codes and regulations. Prior to BP, he worked in similar corporate governance roles, partnering with Boards and governance stakeholders in financial services organisations

including JPMorgan Chase, BlackRock and Friends Life. He began his career as a corporate lawyer in 2001 before joining EY in 2003 to train and specialise in governance and company secretarial practice.

External appointments

Member of the ICAEW Corporate Governance Committee.

Group Executive Committee

Noel Freeley

Chief Executive Officer Royal London Insurance DAC

Noel Freeley is the Chief Executive Officer of Royal London Insurance (RLI) DAC with responsibility for devising and executing the Group's strategy in the Irish business. Prior to this, he has been a Board member for a number of our subsidiary companies in the UK. Before joining Royal London in 2013, he headed up the pensions and protection business at Co-operative Insurance and previously performed roles for Friends Provident in the UK and Asia.

Hans Georgeson

Chief Executive Officer RLAM

Hans Georgeson is Chief Executive Officer of RLAM. He started his financial services career in 1996 as an equity analyst at BZW Investment Management, the asset management arm of Barclays, and progressed through a number of executive roles at Barclays Wealth, Gerrard Investment Management and Barclays Stockbrokers. In 2010 he joined Architas, AXA's fledgling UK asset management business. Under his tenure the business grew to over £40bn assets, operating across 13 countries. He joined RLAM in April 2021.

Jon Glen

Group Chief Operations Director

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

Jo Kite

Chief Customer Officer

Jo Kite is Chief Customer Officer for the UK business. A qualified actuary, she has extensive experience in financial services having started her career at Aviva, where she held a number of senior management positions in both the UK and Europe. She was also Managing Director at Willis Towers Watson, leading the Defined Benefit Scottish business, Defined Contribution Consultancy practice, and Master Trust business. She has led marketing, proposition, operations and finance functions at executive levels across platforms, retirement and workplace at Standard Life. She re-joined Royal London in 2021.

Tracey Kneller

Group Chief People Officer

Tracey Kneller is Group Chief People Officer. Prior to joining Royal London in 2020, she was Chief People Officer at The Co-operative Bank where, as a member of the Executive Committee, she was part of the team that managed the separation from the Co-operative Group and a recapitalisation in 2017. She has considerable industry and technical expertise, gained across multiple sectors including technology, FMCG and financial services, working for listed and privately owned companies as well as working internationally.

Susie Logan

Group Chief Marketing Officer

Susie Logan is Group Chief Marketing Officer. Prior to joining Royal London in 2020, she was Brand and Marketing Director at Standard Life where she led a significant transformation of marketing capabilities. She brings a wealth of knowledge in marketing in the financial services sector where she has 20 years' experience, including positions held at Scottish Widows, Zurich Life and Bank of Ireland Mortgages.

Dr James McCourt

Group Chief Risk Officer

Dr James McCourt is Group Chief Risk Officer, responsible for ensuring a robust risk management system is in place throughout the Group, leading our relationship with the regulators and managing the Internal Model. With over 20 years' experience in the financial services industry, he has had a diverse career spanning senior roles in banking, private equity, asset management, pensions and insurance. Since joining Royal London in 2012, his roles have included Chief Risk Officer RLAM, Group Chief Conduct Officer and Group Investment Director.

Will Pritchett

Group Chief Information Officer

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

Julie Scott

Chief Commercial Officer

Julie Scott is Chief Commercial Officer for the UK business. She has over 25 years' experience in banking, insurance and wealth management and, prior to joining Royal London in 2021, she was CEO of 1825 Financial Planning & Advice. She has worked across multiple brands and geographic territories with a focus on improving customer outcomes and experience. She has held senior positions for RBS, NatWest, Citizens Bank and Standard Life Aberdeen.

Fergus Speight

General Counsel

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

Corporate governance statement

Statement of compliance with the Code

During the period under review, The Royal London Mutual Insurance Society Limited was compliant with the Code. The Code is available at frc.org.uk. Our approach to Provision 5: the Code suggests three methods for engagement with the workforce and allows companies to adopt alternative arrangements. Royal London opted for bespoke engagement mechanisms and considers these to be effective. All directors have taken responsibility for engagement with the workforce. This engagement is facilitated through a number of workforce forums that provide feedback and opinion that is then reported to the Board during the year, and also in Board members' direct participation in live exchange forums alongside the executive directors.

Please refer to page 23 where you can read about our bespoke approach and how engagement with the workforce influenced the Board's decisions.

Governance framework

Royal London operates within a framework for governance that facilitates efficient, effective and transparent decision-making. The key parts of the framework are set out on page 75.

We utilise a committee structure to ensure that appropriate expertise and diverse opinion are engaged in managing and overseeing our affairs.

The Board delegates authority to the Group Chief Executive to manage the day-to-day affairs of the Royal London Group on behalf of its members whilst maintaining appropriate checks and balances designed to preserve the Board's independent oversight of the executive, with consideration of all stakeholders.

The framework is defined by the adoption of clear statements of the roles and responsibilities for the Chairman, the Group Chief Executive, the Senior Independent Director and the non-executive directors, and terms of reference for the Board and its Committees. They are designed to be complementary but balanced to prevent individual exercise of unfettered decision-making powers.

The statements of responsibility and terms of reference within the framework are reviewed regularly to ensure they remain fit for purpose.

The role of the Board

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

The Board acts in accordance with the responsibilities defined for it within the Group's constitution, all relevant laws, regulations and UK corporate governance and stewardship standards.

The Royal London Board Terms of Reference set out the Board's responsibilities collectively, including those matters specifically reserved for decision by the Board and the statements of the roles and responsibilities and terms of reference for the Board Committees set out the Board's delegation of responsibilities to individual directors and committees.

During 2021, these included challenging, approving and overseeing:

- the evolution of our Purpose and strategy in alignment with the Royal London culture and values;
- the implementation of a new operating model;
- the moderation of business planning to meet the recessionary market, considering the prolonged Covid-19 pandemic and more challenging economic outlook;
- the development of Royal London's climate ambitions to achieve net zero by 2050 across our investment portfolio and ongoing enhancements to the carbon footprint of our funds;
- a review of the Royal London Investment Philosophy and Beliefs;
- significant investment activity including the acquisition of Wealth Wizards, a minority interest in Responsible Life and Responsible Lending, and the seed capitalisation and launch of the RL European Sustainable Credit Fund;
- the continued enhancement of our technology systems and the focus on digital solutions;
- the maintenance of the Group's record of delivering creative and market-leading products for our members and customers to help them protect today and invest in tomorrow; and
- succession planning and appointments to the Board and its Committees.

Governance framework

Board

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

Chairman

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

Group Chief Executive

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

Non-executive directors (NEDs)

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

Senior Independent Director (SID)

The SID supports and acts as a sounding board for the Chairman in meeting their objectives. The SID also acts as an intermediary for other directors.

Audit Committee

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

Read the report on pages 82 to 85

Disclosure Committee

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

Investment Committee

Supports the Board in managing investments held as principal.

Read the report on pages 96 to 97

Nominations and Governance Committee

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

Read the report on pages 86 to 89

Remuneration Committee

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

Read the report on pages 98 to 118

With-Profits Committee

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

Read the report on pages 93 to 95

Independent Governance Committee (IGC)

The primary purpose of the IGC is to act independently to assess the ongoing value for money provided by Royal London to workplace pension customers and pathway investors. The Committee operates in accordance with the requirements of the FCA's Conduct of Business Sourcebook (COBS), section 19.5.

The IGC produces an Annual Report. You can find the 2020 Report along with further information on the Royal London IGC at:

<https://www.royallondon.com/about-us/corporate-information/corporate-governance/independent-governance-committee>

The 2021 IGC Annual Report will be published by 30 September 2022 and will be available via the above link.

Risk and Capital Committee

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

Read the report on pages 90 to 92

Group Executive Committee (GEC)

The GEC is an executive forum established to support the Group Chief Executive. All members of the GEC directly report to the Group Chief Executive.

Areas of focus and significant matters considered by the Board

Strategy

- Reviewed the evolution of the Group Purpose, strategy and values and its articulation as an insight-led, modern mutual growing sustainably by deepening customer relationships. In June 2021 the Board undertook a strategy review, receiving detailed customer feedback and profiling data from its strategy and insight team, including customer video presentations, to understand the approach to customer segmentation and for insight into the needs of our core customer groups across different life stages.
- Approved the acquisition of Wealth Wizards and a shareholder equity stake in Responsible Life and Responsible Lending, as part of the strategic review of the business led by the Group Chief Executive
- Held deep-dive reviews into various matters of strategic interest to Royal London, including the value and benefit of its mutual status, opportunities for inorganic growth, the competitive landscape and digital strategy
- Held deep-dive reviews into various matters of strategic interest to Royal London, including the value and benefit of its mutual status, the competitive landscape and digital strategy
- Careful consideration was given to opportunities for inorganic growth and in particular the Board was supportive of the discussions held with LV= to explore the mutual benefits of a transaction

Members and customers

- Undertook a strategic review into the needs of customer groups across different life stages utilising detailed customer feedback and profiling including customer video presentations to better understand the approach to customer segmentation and for insight
- Continued investment in the #thinkbeyond programme built to improve our customer experience
- Received regular updates on the management of the with-profits funds
- Reviewed and approved the level of bonus each fund should declare and approved principles for future bonus distribution
- Received updates on the Royal London brand
- Approved ongoing investment and operating model improvements to enhance product offerings, the customer journey and its delivery
- Approved an update of the Group's Investment Philosophy with a focus on maximising long-term returns in a responsible way and incorporating a distinctive mutually responsible element
- Supported our customers and their communities including valued members of the police and armed forces, with educational support such as our BeFit4Life initiative which sees us visiting police stations and engaging with forces across the UK, providing the tools to help the police family make the most of their money and keep them happy, healthy and fit for life

Performance

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

People

- Approved the appointment of two non-executive directors, one as Chair of the Remuneration Committee, the appointment of the Senior Independent Director, the appointment of the Company Secretary, and the appointment of the Chair of the Board of RLAM
- Approved the appointment of additional members to Board Committees and to the Independent Governance Committee
- Received regular updates on the results of the annual Employee Engagement Survey and other employee engagement tools
- Attended regular employee 'town hall' meetings with the Group Chief Executive, visited sites across the UK and attended other engagement events including within the inclusion networks operating within Royal London
- Reviewed the establishment of new working practices following the lifting of Covid-19 pandemic lockdown restrictions and the planned and considered return to modified office-based working for all employees
- Following the establishment of a diversity and inclusion taskforce the Board alongside the Executive team held inclusive leadership sessions, hearing the views of colleagues and exploring their key role in enabling inclusion and role-modelling inclusive behaviours

Finance and capital

- Received regular updates from the Group Chief Financial Officer 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 and longer-term viability statement
- Reviewed and approved the business plan and the own risk and solvency assessment (ORSA) and the Annual Solvency II reporting, including the Solvency and Financial Condition Report
- 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 Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) correspondence/letters

Key projects

- Received regular updates and reviewed and approved funding requests for the Group's strategic projects
- Received regular updates on the progress of #thinkbeyond, a programme to improve our customer experience
- Approved the principles underpinning the Group's approach to social impact funding, and £1.8m of funding, in 2021
- Approved the merger of four with-profits funds into Royal London Main Fund

Assurance

- Received regular updates on the key risks facing the business
- Received quarterly updates on conduct risk matters
- Undertook an annual review and approved changes to the risk appetite framework
- Reviewed the Whistleblowing Policy and agreed actions designed to raise the profile of the policy amongst employees

Governance

- The AGM was held virtually to ensure Covid-19 safety concerns were adequately managed
- Considered and recommended the re-election of directors at Royal London's AGM
- Participated in the 2021 internal Board effectiveness review
- Received updates from Board Committees and material subsidiaries

Board composition and succession

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

David Weymouth retired in June 2021 and Tracey Graham will retire in March 2022.

Having been appointed following the 2021 AGM, Baroness Davidson and Jane Guyett will stand for election at the 2022 AGM. All remaining directors as at the date of the 2021 AGM will retire and will stand for re-election at the 2022 AGM.

Succession planning and appointments are overseen by the Nominations and Governance Committee to achieve the right balance of skills, experience and diversity on the Board and also across senior management.

Please refer to pages 86 to 89 for more detail on how the Nominations and Governance Committee oversees Board appointments, evaluation and succession. In addition, the Chairman initiates regular and extensive reviews of external non-executive director candidates from a wide range of backgrounds and experience to identify potential successors or add skills, experience and diversity to the Board.

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

Each non-executive director is considered to be independent in accordance with the Code.

Details of the directors can be found on pages 70 to 72.

Board appointments and retirements

Name	Appointed	Retired
Kal Atwal	17 January 2020	
Sally Bridgeland	14 January 2015	
Daniel Cazeaux	22 September 2020	
Baroness Davidson	8 June 2021	
Ian Dilks	14 November 2014	
Shirley Garrood	10 December 2020	
Jane Guyett	4 August 2021	
Tracey Graham	10 March 2013	
Barry O'Dwyer	8 January 2020	
Kevin Parry	19 March 2019	
Mark Rennison	25 September 2020	
Tim Tookey	6 April 2020	
David Weymouth	1 July 2012	2 June 2021

Board meetings and meeting attendance

The Board met seven times during the year. Additionally, several ad hoc meetings were held to deal with matters that arose between scheduled meetings; these typically related to projects. Directors are required to attend all meetings of the Board and the Committees they serve on, and to devote enough time to the Group to perform their duties.

The Board held its meetings virtually until the Covid-19 pandemic lockdown restrictions were eased on 19 July 2021. The table below shows the total number of scheduled meetings held for the Board, together with the number of meetings each director attended.

Board meeting attendance

Chairman	
Kevin Parry	7/7
Executive directors	
Barry O'Dwyer	7/7
Daniel Cazeaux	7/7
Non-executive directors	
Kal Atwal	7/7
Sally Bridgeland	7/7
Baroness Davidson	4/4
Ian Dilks	7/7
Shirley Garrood	7/7
Jane Guyett	4/4
Tracey Graham	7/7
Mark Rennison	7/7
Tim Tookey	7/7
David Weymouth	3/3

Director induction, learning and development

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

The Board held a number of development sessions during the year, covering topics such as operational resilience, Internal Model updates and diversity and inclusion.

The Board proactively considers environmental, social and governance imperatives across its work, not just in meeting its Section 172 responsibilities but as a formative element of its Purpose and to add value in the delivery of its strategic ambitions.

Board committees

The Board has established committees, as set out on page 75, with delegated authority to consider and make recommendations to the Board on important issues of policy and governance. This statement includes annual reports from the Chairs of the Audit Committee, the Investment Committee, the Nominations and Governance Committee, the Risk and Capital Committee and the With-Profits Committee. The report on the responsibilities and activities of the Remuneration Committee can be found in the Directors’ remuneration report on pages 98 to 118.

The Board has also established the following committees:

- The Independent Governance Committee (IGC) is an independent committee that does not report to the Board, and has responsibilities set out in regulation to assess whether the Group is providing value for money for its workplace pension policyholders. The IGC holds full meetings at least every quarter, with additional workshops and interim meetings to progress specific projects as required during the year.

As well as assessing the ongoing value for money delivered to relevant policyholders, the IGC reviews (i) the adequacy of Royal London’s policy in relation to environmental, social and governance (ESG) and stewardship (ii) pathway investments on an ongoing basis and (iii) the publication of administration charges and transaction costs.

In accordance with the requirements of COBS and the IGC terms of reference, the Committee has a majority of independent members, including an independent chair. The Committee comprises four independent members and two non-independent members.

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

Each Committee operates as part of the governance framework within its terms of reference, as approved by the Board on recommendation from the Nominations and Governance Committee. Terms of reference are available on royallondon.com.

Board evaluation and Committee effectiveness

An evaluation of the Board and its Committees, individual directors and the Chairman is carried out annually. The 2021 effectiveness review was carried out internally as the final year of the review cycle. The 2022 effectiveness review will be externally facilitated.



Internal review

The 2020 evaluation highlighted the following:

Item	Recommendation made	Progress in 2021
Strategy and business drivers	Anticipate evolution of the life and pensions market, and identify sustainable sources of growth to meet business plan aspirations with focus on customer and brand strategies and IT challenges.	The Board undertook a full strategic review of the evolution of Royal London's strategy, markets and the competitive landscape to ensure alignment to its Purpose.
Responsible investment	Review Investment Philosophy, strategic direction and Purpose, to ensure a clear, consistent view on responsible investment.	The Board reviewed and approved an update of its Investment Philosophy and beliefs with further changes arising from its responsible investment and climate change programme and ambition. During the year the Board had a specific focus on responsible investment targets which were approved during its strategic review.
Group culture	Improve the interaction across the Board as it welcomes a number of new directors.	The Board undertook development sessions together to gain a common understanding of important aspects of the Group's culture and operations. These included sessions on diversity and inclusion, the newly implemented operating model and taxation principles and policy. In addition both the Board and Audit Committee reviewed an extensive assessment of culture within the Group. In line with the gradual relaxation of Covid-19 restrictions, the Board also increased the opportunities for face-to-face interaction.
Board and committee reporting	Development of a senior executive programme to ensure Board presentations and papers are focused with greater insight and appropriately detailed data points.	Senior executives presenting to the Board and its Committees were provided with a programme of training and guidance to assist with the preparation and delivery of focused and balanced reports.

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

The 2021 evaluation concluded that the Board operated effectively with a good culture.

The Board and its Committees continue to operate effectively, with a high degree of accountability to members and a high standard of governance and compliance work. New directors brought critical skills and Board dynamics were good, despite the continued limits placed on face-to-face meetings by the Covid-19 pandemic. The evaluation made several recommendations to sustain and improve the effectiveness of the Board and its Committees including to ensure the effective assimilation of new directors, enhancements in the Board training programme to maintain and evolve Board skills and competencies and to maintain the clear focus on the core strategic aspirations and Royal London's Purpose.

Issue	Recommendation	Actions
Balance of the Board agenda	Board meetings to increase time focused on strategic opportunities to assist the executive in the development of the Group strategy prior to its annual approval.	Where possible, Board should have earlier sight of evolving thinking, including in relation to business plans.
	Ensure written updates from Board Committees are enhanced with oral feedback on difficult and complex matters.	Committee chairs should approve written reports to the Board, and chairs' oral updates should provide additional context where they consider this is necessary.
Board education and training	Training is well received and welcome but would benefit from more structure and planning.	Develop a structured approach to annual education and training programmes that recognises the inherent skills and knowledge of the Board and helps to enhance and develop further relevant skills sets.
New Ways of working	Align with the business and adopt new ways of working when advantageous. Use should be made of virtual Committee meetings.	A protocol should be developed to aid consistency and planning around use of virtual meetings.
		Develop executive training and guidelines for preparation and early pre-meeting review of Board presentations with appropriate Directors

In addition, the Board agreed high-level objectives for 2022, which include:

- A continuing proactive and selective M&A strategy to strengthen and enhance the delivery of the benefits of mutuality to members and customers;
- Development of its strategy for later life requirements of customers.
- Increasing digital service provision.
- Increased digitalisation of pension services.

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

Section 172

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

Our section 172 statement is on page 9. The Board recognises that the long-term success of our business is dependent on the way it interacts with a large number of stakeholders. The table below shows how, during 2021, the Board considered the matters set out in section 172 and engaged with its largest stakeholder groups.

Members and customers

Why do they matter to us?

Royal London is constituted by and for its members.

How do we engage with them/understand their views?

In light of Government Covid-19 guidance at the time, our AGM was held in a hybrid format, with members invited to attend virtually and encouraged to ask questions of the Board.

What do they tell us?

Customers expect the best companies to use their resources to demonstrate what they stand for, rather than simply promoting their brands.

We also see a customer demand for seamless digital experiences when using our products and systems.

How does that engagement support/help to shape the Board's decisions?

Given the acceleration of digital opportunities in commerce, emphasised in the challenges brought about during the Covid-19 pandemic, our customers behaviours and needs have evolved. We have responded by embedding a new operating model with products and services that respond directly to give them the protection they need through different life stages, and that can be delivered as our customers want and need them through our ongoing investment in the digitisation of our processes.

We are also developing a new customer experience framework and methodology, which centres on our ambition to support customers by defining and delivering intuitive, modern and purposeful customer journeys.

Our investment in digital technologies will facilitate efficient and smooth customer access to those customer journeys.

The acquisition of Wealth Wizards should enable Royal London and its partners to provide guidance and advice more broadly to customers in the UK, improving customer outcomes and wider engagement.

Read more on pages 22 and 23

Our colleagues

Why do they matter to us?

Our colleagues have built Royal London and sustain its values.

How do we engage with them/understand their views?

In 2021 the Board heard feedback from our colleagues through receiving detailed analysis from the regular engagement surveys and from wider forums and also directly when non-executive directors led 'Town Hall' meetings. The Colleague Representative Forum, Culture Pod and four colleague-led inclusion networks also provided robust insight.

What do they tell us?

With excellent participation rates in our engagement surveys and considerable individual verbatim comments from colleagues the directors heard feedback on a wide range of topics, highlighting our strengths and where we can continue to do more to support them. Over 2021, our colleagues told us they wanted more support on their professional growth and learning including career paths across Royal London and continued support for them as we embed our hybrid ways of working to ensure they remain able and empowered to improve their skills to help us meet our strategic aspirations and Purpose.

How does that engagement support/help to shape the Board's decision?

Our People Commitments have been at the forefront of the Board's strategic oversight and decision making, particularly as our ways of working and the ongoing digital transformation of our processes have evolved to meet our customers' needs and will continue with a year of building empowered learning for professional development and continued focus on diversity and inclusion.

Read more on pages 23 to 25

Society and communities

Why do they matter to us?

Royal London is committed to giving back to society and making a positive contribution to communities.

How do we engage with them/understand their views?

The Social Impact team undertakes a continuous engagement process to identify charities and wider societal stakeholders and shares relevant information with the Board.

As part of our Purpose and strategy and Board engagement sessions in 2021, the Board were provided with collated knowledge and insight on societal and environmental issues and

challenges, from partners including Turn2us, our social enterprise partners and many others.

What do they tell us?

There are growing shifts towards inclusive, stakeholder capitalism sparking public, private and regulatory collaboration to address societal issues.

How does that engagement support/help to shape the Board's decision?

The Social Impact team continued to engage with our charity partners throughout the Covid-19 pandemic and adjusted our support to meet their changing needs.

Our social impact funding approach enables us to identify the relevant societal area to support, which is 'financial vulnerability and resilience' and 'life shocks' and aligns to one of our ESG engagement themes which is 'social and financial inclusion'.

Royal London continues to grow and take pride in the launch of our flagship charity programme with Turn2us.

We published a book which is available to charities, members, customers and wider stakeholders as part of our "How to Die Well" campaign – which focusses on helping people deal with life shocks.

Read more on pages 26 to 28

Financial advisers

Why do they matter to us?

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

How do we engage with them/ understand their views?

We are in regular communication with IFAs and carry out frequent adviser research to engage with the adviser landscape and trends.

What do they tell us?

Royal London offers extensive adviser

support, including a range of adviser tools and calculators, ongoing professional development resources and market updates.

The acquisition of Wealth Wizards has been positively received by IFAs.

How does that engagement support/ help to shape the Board's decision?

The benefits to advisers and wider stakeholders were a driver in the acquisition of Wealth Wizards, including the acceleration of digitisation of back-office processes and automation of part of the financial advice process.

The acquisition of Wealth Wizards is a strategic move which enhances our digitally-enabled guidance and advice capabilities to provide better support for our customers and advisers.

We will use technology to help scale the provision of impartial advice and offer high-quality solutions that mean financial advisers are confident to recommend us.

Read more on pages 28 and 29

Other key areas of consideration

How we invest for the long term

The Board undertakes a robust review and challenge of the Group's strategy and assumptions, in particular through the use of stress and scenario testing. The Board also receives regular updates from relevant functions and committees.

Read more on pages 82 to 97

The Board approved the Business Plan which sets out the objectives for our business in both the short and medium term, including the financial targets for the Group and the expected level of capital coverage. The Business Plan also embeds the support and investment required to meet both our climate and responsible investment targets.

The Board approved the responsible investment strategy. Responsible investment is a critical focus area for the business. Royal London's asset management arm, Royal London Asset Management, has a responsible investment strategy which covers stewardship and ESG integration. This includes building an ESG dashboard and having ESG analysis integrated into investment processes.

Royal London is committed to achieving net zero by 2050 across our investment portfolio. By 2030, we are aiming to reduce carbon-equivalent emissions from our portfolio by 50%. Our approach to addressing climate change and the basis and assumptions on which our targets have been set is explained on pages 30 to 40. Our near-term targets (2025) will guide organisational activity to manage and mitigate climate risks and invest in climate solutions to increase the likelihood of achieving the goals of the Paris Agreement.

The Board approved our Investment Philosophy which explicitly considers climate-related aspects, and makes explicit both our stewardship responsibilities and the need to incorporate ESG factors into all funds to realise our ambitions of being responsible investors.

Regulatory Considerations

Regulation plays a critical role in society and regulatory compliance helps protect our business, colleagues, members and customers.

The Board recognises regulatory impacts in its decision-making.

The Board is updated on key regulatory developments and plays an active role in the business' responses to regulatory bodies, including the following: Prudential Regulation Authority, Financial Conduct Authority, Central Bank of Ireland, HMRC, and Dear Board/Group CEO letters.

Suppliers

The relationship with our suppliers and the resilience of our supply chain are essential to drive better value for our business and ensure our colleagues and systems can function effectively for our members and customers.

The Risk and Capital Committee of the Board has oversight and approval of outsourcing and supplier management and procurement policies and receives regular reporting on supplier relationships. Royal London is a signatory to the Prompt Payment Code, which recognises a commitment to ensure prompt settlement of supplier invoices.

Audit Committee



“The significant matters considered by the Committee included the key assumptions and judgements supporting the Group’s UK GAAP and Solvency II reporting, the Group’s climate-related financial disclosures, and various matters raised by Group Internal Audit.”

Tim Tookey

Chair of the Audit Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Tim Tookey	Chair	2020	7/7
Ian Dilks	Member	2014	7/7
Mark Rennison	Member	2020	7/7
David Weymouth ¹	Member	2012	3/3

1. David Weymouth resigned from the Committee on 2 June 2021.

Dear member

As Chair of the Audit Committee (the Committee), I am pleased to present its report for the year ended 31 December 2021.

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

The significant matters considered by the Committee included:

- the key assumptions and judgements supporting the Group’s UK GAAP and Solvency II reporting, including the change in the valuation of in-force annuity business resulting from the use of the Matching Adjustment rate, as well as the accounting treatment of the consolidation of closed funds into the Royal London Main Fund;
- the Group’s climate-related financial disclosures resulting from the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations; and
- various matters raised by Group Internal Audit. These matters are set out later in this report, together with the key activities during the year.

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

Royal London responded to the Department for Business, Energy and Industry Strategy (BEIS) consultation on restoring trust in audit and corporate governance. Whilst the future is not yet clear, the Committee held discussions during 2021 on the direction of travel.

I would like to thank the members of the Committee and the executives supporting it for their diligence and hard work during this year.



Tim Tookey

Chair of the Audit Committee

Purpose and role of the Audit Committee

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

The Committee's main responsibilities include:

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

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

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

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available on royallondon.com.

Committee membership

The Committee comprises solely of independent non-executive directors. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Board is also satisfied that, when considered as a whole, the Committee has competence relevant to the sector in which the Group operates. The qualifications and experience of each member of the Committee are included in their biographies on pages 70 to 72.

The Committee members have received training during the year, in line with that provided to the Board, as set out on page 77, in order to keep their skills current and relevant.

The Committee held seven scheduled meetings during 2021, including a joint meeting with the Risk and Capital Committee to review and approve the combined assurance plan of the Group Internal Audit and Risk and Compliance functions. The joint meeting ensured that the two committees continue to operate effectively together on areas of adjacent responsibility, and in cases where either of the committees is required to collaborate on, or assume responsibility for, a review conducted by the other.

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

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

Areas of focus and significant matters considered by the Committee

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

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

- The Committee reviewed and challenged the Group's Annual Report and Accounts and 2021 Full-Year Results Announcement. The Committee considered the presentation of the Annual Report and Accounts and, in particular, whether the Annual Report and Accounts as a whole were fair, balanced and understandable.
- The Committee also reviewed and challenged the Group's Interim Results Announcement covering the six months ended 30 June 2021.
- The Committee recommended to the Board for approval the 2021 interim and 2021 full-year results.

Financial reporting

- The Committee reviewed the Group's UK GAAP accounting policies and confirmed they were appropriate to use in the financial statements. It considered the additional policy required in relation to investments in associates that resulted from the investment in Responsible Life and Responsible Lending.
- The Committee considered the climate change disclosures set out in the Annual Report and Accounts to ensure that they presented fairly the Group's strategy, governance arrangements and climate risk management as well as the metrics used by management to report climate change impacts.
- The Committee reviewed the Group's revised segmental reporting disclosures and the description of the new reporting segments set out in note 2 to the financial statements.

Alternative performance measures (APMs)

- The Committee continues to consider that certain non-GAAP measures, such as operating profit, aid an understanding of the Group's results.
- The Committee reviewed and approved the changes made to the format of presenting income and expenses within the Group's operating profit and the description of these changes as set out in note 2 to the financial statements.

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

- The Committee reviewed and challenged the principles underpinning the Statement for 2021 and concluded that Royal London and its subsidiaries will be able to continue in operation and meet their liabilities as they become due.
- The Committee confirmed the appropriateness of a three-year assessment period for the longer-term viability statement.
- The Committee reviewed the Group's assessment of viability over a period greater than 12 months. In assessing viability, the Committee considered the Group's position presented in the budget and Business Plan recently approved by the Board.
- The Committee reviewed and challenged the principles underpinning the Statement for 2021 and concluded that Royal London and its subsidiaries will be able to continue in operation and meet their liabilities as they become due. The Committee considered information on the risks to the Group's liquidity and capital when making this assessment.

Key assumptions and judgements

- The Committee reviewed the key assumptions and judgements supporting the Group's UK GAAP results, including those made in valuing the Group's investments, the carrying value of intangible assets, the acquisition of Wealth Wizards and investments in Responsible Life and Responsible Lending, the accounting for the consolidation of closed funds into the Royal London Main Fund, the appropriateness of accounting provisions and the valuation of the Group's defined benefit pension schemes.
- **Valuation of investments** – the Committee received information on the carrying value of investments in the Group's balance sheet, including information on how those values were calculated for those investments which require more judgement. The Committee satisfied itself that overall investments were valued appropriately.
- **Intangible assets** – the Committee considered the assessments made in relation to the carrying value of intangible asset balances. The Committee received a detailed report from management outlining the valuation methodology, the basis for key assumptions and the key drivers of the cash flow forecasts. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2021.
- **Consolidation of closed funds into the Royal London Main Fund** – the Committee considered the accounting treatment for the consolidation of four closed funds into the Royal London Main Fund and the associated reporting of the impact of this activity in the Group's UK GAAP results.
- **Business combinations** – the Committee reviewed the accounting treatment for the acquisition of Wealth Wizards. It also considered the assessment by management that the Company exerts significant influence over Responsible Life and Responsible Lending and the methodology used to account for these investments in the Group and Company financial statements.
- **Provisions** – the Committee considered management's assessment of the provisions required and was satisfied that the provisions were appropriate.
- **Pension scheme liability valuations** – the Committee reviewed the actuarial assumptions such as discount rate, inflation rate, expected return on scheme assets and mortality, which determine the pension cost and the valuation of the Group's defined benefit pension schemes, and concluded that they were appropriate.

Long-term business liability valuations – methodology and assumption recommendations

- The Committee considered the actuarial methods and assumptions for the year ended 31 December 2021 for UK GAAP and annual Solvency II reporting. The main assumption changes for 2021 were:
 - per policy unit cost expenses, and in particular, increases for our Individual Pensions product, as well as an ad-hoc provision for the temporary dual-running of our pensions administration platform;
 - mortality and longevity, with particular consideration of the uncertainty of future experience in both the short-term and longer-term, as a result of Covid-19;
 - persistency, including consideration of the long-term uncertainty around Workplace Pension premium-cessation and withdrawal rates, driven by changing employment patterns after the pandemic; and
 - guaranteed annuity option (GAO) take-up assumptions, including the consideration of take-up rates after normal retirement age.
- The Committee reviewed and challenged the Group's UK GAAP long-term business actuarial liability valuation as at 31 December 2021, including the methodology used to calculate the discount rate used to value the Group's annuitant liabilities.
- The Committee reviewed and challenged the Solvency II Internal Model technical provisions as at 31 December 2021, including valuation of own funds, capital requirement and the recalculation of the Transitional Measure on Technical Provisions (TMTP). Review of technical provisions by the Committee also included review and challenge of the calculation of the Matching Adjustment rate, following regulatory approval to use this in respect of the valuation of in-force annuity business.

Annual Solvency II regulatory reporting

- The Committee reviewed the Single Group Solvency and Financial Condition Report and the Regular Supervisory Report – Changes Report for the year ended 31 December 2020, and recommended them to the Board for approval.

Internal control and external audit

- The Committee considered regular reports from PwC and the Financial Control Oversight team on the effectiveness of the Group's control environment. The Committee also considered updates on how the Financial Reporting Data and Controls Framework (FRDCF) was being embedded across the Group, including assessment of outstanding control deficiencies and progress of projects such as the rationalisation of key controls and spreadsheet usage.
- Additionally, the Committee reviewed quarterly reports from GIA. These included internal audit reports from the Capital Internal Audit function. The Committee approved the GIA annual plan and the GIA charter, which sets out the purpose, activities, scope and responsibilities of GIA, and considered various issues raised by GIA relating to application systems and servicing.
- Regular reports from PwC were reviewed by the Committee throughout 2021. These included monitoring audit firm independence and the level of non-audit fees, and reviewing the findings raised during audits and management's responses to those findings. The Committee also considered the annual assessment of timing of the external audit tender.

Other matters

- The Committee considered financial reporting and corporate governance developments including the BEIS consultation on 'Restoring trust in audit and corporate governance'.
- The Committee reviewed and approved policies covering treasury and tax.

External audit

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

External auditor independence and non-audit services

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

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

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

Audit and non-audit fees

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

In 2021, the Group paid PwC £5.5m for audit, audit-related and other assurance services (2020: £5.3m), including £0.4m (2020: £0.4m) of Solvency II audit fees. In addition, PwC was paid £0.1m (2020: £0.1m) for other non-audit services, resulting in total fees to PwC of £5.6m (2020: £5.4m). The ratio of non-audit fees to audit and audit-related assurance fees is 16% for the Group and 17% for the Company. Further details are provided in note 8 to the financial statements. The Committee approved the appointment of PwC to perform these non-audit services in accordance with the Group's policy.

Effectiveness of PwC

To assess the effectiveness of PwC, the Committee conducts an annual review of PwC through completion of a questionnaire by senior management across the Group, members of the Group's finance community and members of the Committee.

The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by GIA. The results of the questionnaire,

the FRC's annual Audit Quality Inspection Report and other FRC guidance were considered by the Committee. The Committee concluded that PwC continued to perform a high-quality and effective audit, and provided objective 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. The Committee reviewed the process to select Lee Clarke to replace Tom Robb as lead PwC audit partner for their 2022 audit, including interviewing potential candidates, and validated that he had the requisite skills and experience.

The Committee acknowledges the provisions contained in the UK Corporate Governance Code in respect of audit tendering, along with legislation on mandatory audit rotation and audit tendering. In conformance with these requirements and the transitional arrangements granted when the changes came into effect on 16 June 2014, Royal London is required to change its auditor by the 2024 year end. Thereafter the audit will be put out to tender at least every ten years.

The Committee considers the need to re-tender the external audit on an annual basis. Following a review in June 2020, it concluded there was nothing in the performance of the auditor that required such a tender for the 2021 year end. In June 2021, the Committee approved holding an audit tender process in 2022 which will lead to the appointment of a new auditor effective for the 2024 year end.

Financial reporting

The Committee reviewed the content of the 2021 Annual Report and Accounts (Annual Report) and it reported to the Board that the Committee considered the Annual Report, taken as a whole, to be fair, balanced and understandable. In making this assessment, the Committee considered in particular the APMs and segmental reporting disclosed in the Annual Report. It also considered the matters of focus set out in this report including the key areas of assumptions and judgements. 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 was led by the Company Secretary. The conclusion of the 2021 review was positive and the Board is satisfied that the Committee remains effective.

Looking forward

The Committee will continue to focus on its oversight of the financial reporting and internal controls of Royal London. The Committee will also continue to work with the Risk and Capital Committee to ensure that the GIA and Risk and Compliance functions have appropriate and co-ordinated plans in place, and will monitor their progress and implementation.

Although we are a mutual, we hold ourselves to high standards of corporate governance in the broadest sense and as a Committee we are following closely the various reviews that have taken place and are in progress with respect to audit and corporate governance reform, and will respond to any regulation, guidance and recommendations following these reviews appropriately.

Nominations and Governance Committee



“Our Purpose of investing in tomorrow ensures continued focus on Board succession, composition and overseeing talent development to hire and retain diverse and capable leadership for Royal London.”

Kevin Parry OBE

Chair of the Nominations and Governance Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Kevin Parry	Chair	2019	6/6
Kal Atwal	Member	2020	6/6
Sally Bridgeland	Member	2015	6/6
Baroness Davidson ¹	Member	2021	3/3
Ian Dilks	Member	2014	6/6
Shirley Garrood	Member	2020	6/6
Jane Guyett ²	Member	2021	3/3
Tracey Graham	Member	2013	6/6
Mark Rennison	Member	2020	6/6
Tim Tookey	Member	2020	6/6
David Weymouth ³	Member	2012	3/3

1. Baroness Davidson was appointed on 8 June 2021.

2. Jane Guyett was appointed on 4 August 2021.

3. David Weymouth retired on 2 June 2021.

Dear member

As Chair of the Nominations and Governance Committee (the Committee), I am pleased to present its report for the year ended 31 December 2021.

The Committee's key role is to acquire the right balance of skills, experience, opinions and diversity of backgrounds so as to ensure that the Board and senior management make informed decisions in delivering against the Group's strategy, now and in the future.

Board composition and succession planning are at the forefront of the Committee's agenda. During the year, we welcomed two new, independent non-executive directors – Baroness Davidson and Jane Guyett CBE. These appointments recognise that diversity of thought, experience and background brings broader perspectives, fostering richer discussion and debate. Those characteristics position the Board optimally to provide effective oversight and guidance to management in this period of dynamic change and innovation. In addition, the Board is well positioned to ensure effective succession on the Board and Committees for those directors who will soon have served on the Board for the maximum tenure of nine years.

Ian Dilks OBE became Senior Independent Director in July upon the retirement of David Weymouth. In accordance with the UK Corporate Governance Code, which states that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors, our Board now duly comprises the Chairman, two executive directors and nine non-executive directors.

We also appointed a new Company Secretary, John-Green Odada, who will play an important role in advising and supporting the Chairman and the Board on matters of corporate governance.

I thank the members of the Committee for their continued dedication to the work of the Committee, especially in considering the skills and attributes the Board and senior management require to meet the anticipated opportunities and challenges that Royal London will face in the coming years.

The adjustments made to ensure that Royal London operates a coherent, efficient and effective governance framework will continue to be of benefit as we navigate both climate and economic challenges as well as the societal issues we encounter. Royal London is a modern mutual and I am confident that the expertise and perspectives that the directors bring to the Board and its Committees are those needed to continue our success.

Kevin Parry OBE

Chair of the Nominations and Governance Committee

Purpose and role of the Nominations and Governance Committee

The Committee's principal function is to ensure the Board and senior executives are suitably qualified and experienced to deliver long-term sustainable success for members and other stakeholders of Royal London.

The Committee's main responsibilities include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, its Committees and the Group Executive Committee;
- nominating for Board approval candidates to fill vacancies on the Board, committees and Group subsidiaries;
- undertaking succession planning for the Chairman of the Board, executive directors and non-executive directors;
- ensuring all directors commit sufficient time to the Group;
- assessing the independence of non-executive directors; and
- reviewing and approving the Group's corporate governance framework.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available on royallondon.com.

Committee membership

The Committee comprises solely independent non-executive directors and it held six scheduled and two ad-hoc meetings during 2021.

Areas of focus and significant matters considered by the Committee

Following its review of the Board and Board Committees' terms of reference and those of key subsidiaries, together with the refreshed profile and responsibilities of key senior management roles, the Committee is confident that it has an efficient, effective and coherent corporate governance framework.

The Committee has also undertaken significant activity in the year to evolve the strength and diversity of its non-executive and executive capabilities as part of ongoing succession planning.

Board and committee appointments

The success of the Group begins with a high-quality Board and senior management team. With the changes made during the year, the current composition of the Board and its Committees remains appropriate.

The Board appointments process is designed to identify a diverse and strong list of potential external and, where appropriate, internal candidates that will complement the skills of the Board and bring a diversity of views to the boardroom. Once the need for a successor or new appointment is identified, an external facilitator, which does not have any connection to the Group or any of the directors, is normally appointed to conduct an extensive search and selection process. The interview process involves meetings with the Chairman, the Senior Independent Director and, where appropriate, the Group Chief Executive and other senior executives.

On recommendation of the Committee, the Board welcomed two new independent non-executive directors:

- Baroness Davidson was appointed as a non-executive director in June and considerably strengthens the Board's insight on societal matters, including diversity and inclusion and governmental affairs.
- Jane Guyett CBE joined Royal London in August as a non-executive director, following an extensive search undertaken by Korn Ferry. This appointment has added significant remuneration and other people-related knowledge to the Group, along with executive and significant financial services experience. It is planned that, subject to regulatory approval, Jane Guyett will succeed Tracey Graham as Chair of the Remuneration Committee in 2022 when Tracey reaches the end of her nine-year tenure.

The Board is satisfied that each will make a significant contribution to its effectiveness. The biographies on pages 70 to 72 summarise the skills and experience of all directors and show the combination of experience and knowledge across the Board.

Other appointments comprise:

- Rebecca Hall was appointed as an independent member of the With-Profits Committee on 10 June 2021 following an open search on LinkedIn. Rebecca is an actuary who specialises in insurance company transformation.
- Alison Jones was appointed as an independent member of the With-Profits Committee on 10 June 2021 following an open recruitment process, with the role advertised via the Royal London website and LinkedIn. Alison is former General Counsel at Equitable Life and, as a lawyer, brings a different dynamic to the With-Profits Committee.
- Julie Russell was appointed as an independent member of the Independent Governance Committee on 1 November 2021 following an open recruitment process, with the role advertised via the Royal London website and LinkedIn. Julie has extensive experience (gained in senior executive roles) in financial services with a strong customer-orientated approach.

These appointments were undertaken in conjunction with the Committee's regular review and assessment of the Board's skills and tenure individually, and of its effectiveness collectively, as several current Board members move towards the end of their tenure.

Chairman

The Chairman was independent on his appointment and the Committee considers each of the non-executive directors to be independent in accordance with the criteria set out in the Code.

Executive management changes

- As reported last year, Julie Scott joined Royal London in May 2021 as Chief Customer Officer – Decumulation, and following the departure of Steven Murray, she became Chief Commercial Officer. Jo Kite, an experienced executive, returned to work for the Group in the role of Chief Customer Officer. She had previously worked with the Group before moving with the sale of the Group's subsidiary IFDL to M&G.
- Following an external search, undertaken by AMS, a search partner of the Group, John-Green Odada was appointed as Group Company Secretary. He took up the role in February 2022.
- Hans Georgeson joined Royal London as Chief Executive Officer RLAM following Andrew Carter's retirement.

Group subsidiary board composition

The Committee considers the appointment of all directors of subsidiaries.

In Ireland, Michael Cosgrave who had served as a non-executive director of Royal London Insurance DAC since its inception in 2019 left the Board to concentrate on his executive interests. Tom Browne joined as an independent director and the Risk Committee Chair. We were advised on Tom's recruitment by 360 Search, which does not have any other connection to the Group or any of the directors. Mr Browne brings extensive financial services and non-executive experience to the Board of Royal London Insurance DAC.

Technology advisers

The Board and the Group Executive Committee deal with the oversight of cyber, data management, technology and major projects as part of their responsibilities. The rapid changes in technology can have disruptive effects on the Group. Consequently, a Technology Advisory Group has been constituted to gain an external perspective on significant new developments in technology and innovation, and the impact on the Group in the medium and long-term. It is composed of independent experts with non-executive director representation.

Succession planning

The Committee regularly reviews succession planning activities and, in particular, the Committee discussed the future leadership and talent needs of the Group. It has received regular updates during the year on executive succession, including deep dives into the talent and succession planning of the functions within the Group. When considering succession, the Committee identifies both the talent available within the Group and the need for external recruitment.

The Committee believes that non-executive directors should generally stay in role no longer than nine years, in line with the Code.

Diversity and inclusion

The directors are committed to having a balanced Board which recognises fully the benefits of diversity.

Diversity and inclusion were important considerations in the appointment processes throughout the year. In the final selection decision, all Board appointments were made on merit and relevant experience, against the criteria identified by the Committee and with regard to the benefits of diversity, including gender. We engage with external executive search firms that are signatories to the Executive Search Firms' Enhanced Voluntary Code of Conduct.

As at 3 March 2022, the Board comprises the Chairman, nine independent non-executive directors and two executive directors. The Board is made up of six men (50%) and six women (50%) (as at 4 March 2021: men 64%, women 36%).

The Committee are determined to increase the number of women working for the Group, particularly in senior executive positions. As a signatory to the Women in Finance Charter, we are continuing our efforts to meet our gender diversity targets.

The Committee are working to reduce our gender pay gaps, which derive from women being under-represented in more senior positions. Our Gender Pay Gap report shows the gaps across our business, outlines why we have these gaps and sets out what we are doing to address them.

The Committee continue to seek reliable demographic data about our colleagues, including ethnicity. Our current data suggests that there may be an under-representation of people from ethnic backgrounds generally, which increases markedly at senior levels within Royal London. To address this, along with gender balance, we have developed and implemented a diversity and inclusion strategy for the period from 2021 to 2024.

Royal London is fully committed to equality for all our employees, applicants for employment and customers. Our Equal Opportunities Policy ensures that we follow a set of principles in all recruitment and selection activity, including attraction, transfers, promotion and redundancy exercises, training and development activities, terms and conditions and benefits. Our aim is to provide customers with unique and innovative solutions, which we can accomplish when we maintain a diversity of views, experiences and opinions.

Inclusion is encouraged and supported through a series of networks as described on page 24 of this report. You can find more about our diversity and inclusion, in our Gender Pay Gap report.

Board evaluation and Committee effectiveness

The Code requires the Chairman to lead an annual Board review. Following the external review by Niall Fitzgerald KBE DSA in 2019, the Board undertook internal reviews in 2020 and 2021.

The action plan adopted in response to the 2019 review had, through 2020, successfully addressed the key areas of focus on major infrastructure project oversight and governance and the development of Board and senior executive IT expertise, knowledge through recruitment and the support of strategic thought-leaders from the technology sector. During 2021 the outcomes from the 2020 strategic review led to continued investment in our response to our customers' evolving needs with two senior customer-focused appointments and a new operating model focused on customer needs through different life stages.

Following consideration of the findings of the 2021 effectiveness review, there is clear consensus among the directors that the Board operates with a good culture and works well. In the year ahead the Board will spend a greater proportion of its meetings on strategic issues, particularly future challenges and drivers of business performance, and have early discussions on the executive's evolving thinking on these matters. All Board Committees are considered to be working well and the detailed insight and advice these provide the Board is welcomed.

Looking forward

Considerable progress has been made over the last two years in terms of the composition of the Board. We intend to continue to maintain its broad composition replacing retirees with appropriate skillsets. Statistics on gender composition and other considerations will vary from time to time but are not intended to change structurally over the medium-term.

Gender split: Board



Gender split: GEC direct reports



Gender split: employees



Risk and Capital Committee



“The Committee seeks to identify and understand current and emerging risks, ensuring that these are managed effectively so that the Group operates within risk appetite.”

Mark Rennison
Chair of the Risk and Capital Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Mark Rennison	Chair	2020	7/7
David Weymouth ¹	Chair	2012	4/4
Kal Atwal	Member	2020	7/7
Sally Bridgeland ²	Member	2021	3/3
Tracey Graham	Member	2013	7/7
Tim Tookey	Member	2020	7/7

1. David Weymouth resigned from the Committee on 2 June 2021.

2. Sally Bridgeland became a member of the Committee on 8 June 2021.

Dear member

I am delighted to present my first report as Chair of the Risk and Capital Committee (the Committee), a role which I assumed in June 2021. I would like to start by thanking my predecessor David Weymouth for his valuable service and support until his retirement. I was fortunate to work alongside him for nine months as a member of the Committee, making for a seamless transition.

During the year, we also welcomed Sally Bridgeland as a new member of the Committee. Sally is Chair of the With-Profits Committee and has been an independent non-executive director of the Company since 2015. As such, she brings a wealth of experience and in-depth knowledge of the Company to the Committee.

The Committee plays an important role in supporting the Board and overseeing the management of risks facing the organisation. During 2021, the Committee continued to focus on the impact of the Covid-19 pandemic as well as maintaining strong oversight of other key risk areas. Our activity included challenging management on whether material risks to the Group are effectively managed within risk appetite and reflected in the Internal Model, which is our PRA-approved method of calculating our solvency capital requirement (SCR). This included consideration of the control environment, operational resilience, financial crime, and material change programmes.

The Committee also reviewed the risk management and compliance work programme, as well as the Group's systems for risk assessment, internal control, and reporting.

This report describes how the Committee fulfilled these responsibilities during 2021. More detail on the remit of the Committee can be found in its terms of reference. These are reviewed annually and can be found on the Royal London website.

In 2021 there were further pandemic-related challenges and sustained uncertainty over future economic conditions. The Committee has continued its focus on the resilience of the Group's capital and liquidity position. This involved maintaining compliance with prudential requirements and ensuring that the wider current and emerging risk landscape is effectively monitored and controlled. I would like to thank my fellow Committee members for their continued support and challenge during this period.



Mark Rennison
Chair of the Risk and Capital Committee

Purpose and role of the Risk and Capital Committee

The Committee supports the Board in managing the Group's risk and capital and in complying with prudential and conduct regulations. The Committee provides advice, oversight, and challenge to management on key risk matters, including longer-term risks to the Group's strategy and emerging issues that could affect future performance.

The Committee oversees the work of the Group Executive Risk Committee, which is the management committee responsible for risk management across the Group. There is a separate sub-committee which has provided detailed oversight of the Group's IT programme to enhance our digital capabilities for pension management.

Committee membership and proceedings

The Committee comprises five independent non-executive directors and held seven scheduled meetings during 2021. A joint meeting with the Audit Committee was also convened to review and approve the combined assurance plans of the Group Internal Audit and Group Risk and Compliance functions.

Committee meetings are routinely attended by the Group Chief Risk Officer, the Group Chief Audit Officer, the Group Chief Actuary, the Chairman of the Board, the executive directors, appropriate members of senior management and the external auditors.

Risk management framework

The Committee is also responsible for reviewing the effectiveness of the Group's risk management system. As part of this, it:

- approved and recommended to the Board updates to the Group risk appetite framework. This included the creation of a specific risk appetite statement relating to climate change risk;
- reviewed periodic risk and control self-assessment (RCSA) attestations from management;
- reviewed the assurance plans of the Group Internal Audit and Group Risk and Compliance functions and approved the risk and compliance annual work programme; and
- approved a number of risk-related policies.

Areas of focus and significant matters considered by the Committee

The Committee receives a report from the Group Chief Risk Officer at each meeting and relevant senior managers are invited to present on specific matters, such as compliance, financial crime, and data protection. The Committee also benefits from interactions with other Board Committees, principally the Audit and Remuneration Committees.

Key areas of focus in 2021 included: Internal Model governance; operational resilience (including cyber-related risks); climate change; environmental, social and governance (ESG) issues; the Group's risk appetite and its own risk and solvency assessment (ORSA). The Committee also has a rolling programme in place to review and approve key risk-management-related policies.

Prudential risk, including Solvency II and Internal Model

The Group maintains sufficient capital at all times to deliver its obligations to customers and to meet regulatory requirements. The Committee approved the annual capital management plan and the capital management framework and received quarterly updates on the Group's overall capital position. In addition, the Committee considered and challenged the Group's business plan. This included consideration of the assumptions and projections, as well as whether the plan supports the delivery of the Group's strategy.

During the year, the Committee reviewed a number of aspects of prudential risk as required by the PRA. This included:

- how the Internal Model is used in practice;
- the stress and scenario testing plan;
- the Group's ORSA and Solvency and Financial Condition Report; and
- the Regular Supervisory Report.

We also monitored the outcome of the PRA's Solvency II Quantitative Impact Study.

Operational and conduct risk management

The Group actively manages risks that could affect our ability to serve our customers and members, as well as risks which could cause financial loss and reputational damage. Monitoring of these risks is a key part of the Committee's role, through review of regular risk reports and submissions focused on specific areas.

During the year, the Committee considered the matters raised by the Group Chief Risk Officer, whose report includes his view of the Group's performance against the Board-approved risk appetite. These reports focused on the control environment, the impact of Covid-19, progress on major change programmes and the Group's new operating model. Detailed updates were also provided to the Committee on the progress of our operational resilience programme, and reviews of material service providers and important business services were completed.

Fair treatment of customers is at the heart of the Group's strategy and the Committee's focus includes assessing how effectively management mitigate risks to delivering good outcomes for customers and members. The Group Chief Risk Officer's report included specific consideration of these matters.

The Money Laundering Reporting Officer and the Data Protection Officer presented annual reports to the Committee. These reports updated the Committee on the adequacy of internal policies and procedures, and compliance with relevant regulation and legislation.

A full review of the Group's whistleblowing process was also completed at the request of the Committee with support from Protect, the whistleblowing charity.

Remuneration

The Committee's view of the Group's performance against the agreed risk appetite is reported to the Remuneration Committee annually. The Remuneration Committee is invited to use this report to support its decision-making on adjustments to senior leader remuneration.

Reports & accounts

The Committee reviewed and recommended to the Audit Committee the risk statements and risk-related notes included in the Annual Report and Accounts (Annual Report), and the Principal risks and uncertainties disclosure for the Interim Results Announcement and Annual Report.

Committee effectiveness

A review of the effectiveness of all Board Committees is conducted annually by the Board, led by the Company Secretary. The conclusion of the 2021 review was positive and the Board is satisfied that the Committee remains effective.

Looking forward

The Committee will continue to focus on the key financial and operating risks facing the Group, including sound maintenance of the Internal Model and oversight of key strategic change initiatives. A particular focus of the Committee in the coming year will be to monitor the impact of Covid-19 and the associated changes in customer behaviour. Further, as economic uncertainty continues, the Committee will maintain focus on promptly identifying and effectively managing emerging risks.

With-Profits Committee



“Throughout 2021 the Committee has continued to focus on its core role of ensuring the fair treatment of policyholders with an entitlement to share in the profits of the Group.”

Sally Bridgeland

Chair of the With-Profits Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Sally Bridgeland	Chair	2017	8/8
Daniel Cazeaux	Member	2020	8/8
Jim Gallagher ¹	Member	2012	3/4
Carl Dowthwaite	Member	2019	8/8
Emmy Labovitch	Member	2020	7/8
Alison Jones ²	Member	2021	5/5
Rebecca Hall	Member	2021	5/5

1. Jim Gallagher left the Committee on 30 June 2021.

2. Alison Jones and Rebecca Hall were appointed on 10 June 2021.

Dear member

As Chair of the With-Profits Committee (the ‘Committee’), I am pleased to present the Committee’s report for the year ended 31 December 2021.

Throughout 2021 the Committee has continued to focus on its core role of ensuring the fair treatment of policyholders with an entitlement to share in the profits of the Group, as well as advising the Board on matters impacting these with-profits policyholders. In addition to our regular programme of work, the Committee has also reviewed and supported a number of projects. Further details are provided on page 95.

A significant area of focus for the Committee during 2021 has been the continuation of the Legacy Simplification programme. This project is aimed at improving service, flexibility and certainty of estate distribution for long-standing customers.

The Committee also worked closely with the Group prior to the implementation of annuity-writing capability. This specifically related to writing annuities in the Royal London Main Fund for certain maturing Royal London (CIS) policyholders with a Guaranteed Annuity Option and the Committee’s focus was particularly on the pricing approach between the Royal London (CIS) Fund and the Royal London Main Fund.

The Committee has had a number of changes in membership during 2021; further details are provided in the Committee membership table alongside. I would like to take this opportunity to welcome Alison Jones and Rebecca Hall: both joined the Committee in June this year and are already making a significant contribution. I would also like to thank Jim Gallagher who left the Committee when his maximum tenure expired in June. Jim has been a knowledgeable and committed independent member of the Committee since its inception in 2012 and we wish him well for the future.

Sally Bridgeland

Chair of the With-Profits Committee

Purpose and role of the With-Profits Committee

The Committee operates in accordance with the FCA's Conduct of Business Sourcebook (COBS) section 20.5. The Committee's principal function is to support and advise the Board on managing with-profits funds, considering the interests and fair treatment of all policyholders with an entitlement to share in the profits of the Group (including unit-linked ProfitShare policyholders).

The Committee's main responsibilities include:

- advising the Board on how to allocate profits fairly by exercising independent judgement and considering the interests of all policyholders in the Royal London Group who are entitled to a share in the profits of the Group;
- providing an opinion on any material discretionary actions with regards to with-profits funds, having taken into account the opinion of the With-Profits Actuary;
- assessing compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);
- assessing investment performance reports and providing oversight of the way in which with-profits funds are invested and managed;
- reviewing material communications and literature provided by Royal London to with-profits policyholders to ensure they are clear, fair and not misleading; and
- assessing whether the interests of with-profits policyholders, and the respective interests of different groups of with-profits policyholders, are fairly reflected in the management of the funds and in the PPFMs.

The responsibilities of the Committee are set out in its terms of reference and reviewed annually. They are available on the Royal London website.

In accordance with the requirements of COBS and our terms of reference the Committee has a majority of independent members. At 31 December 2021 the Committee comprised four independent members and two non-independent members.

Other standing attendees at Committee meetings are the With-Profits Actuary and Group Chief Actuary. The Committee was pleased to welcome Anthony Lee to Committee meetings following his appointment as Group Chief Actuary (replacing Shaun Cooper), having received authorisation from the PRA in July 2021.

The Committee held eight scheduled meetings during 2021. In addition to formal meetings we also held a number of informal briefing sessions ahead of quarterly meetings, induction sessions for new members and a training session in November (specifically focusing on the Group's strategy and developments in the wider with-profits market).

Significant matter	How the matter was addressed by the Committee
Legacy Simplification programme	<p>The Committee continued its focus on Royal London's Legacy Simplification Programme during the year. The programme aims to achieve improvements to service, flexibility and certainty of estate distribution for customers in Royal London's closed with-profits funds.</p> <p>The Committee has worked with the project team on 'waves 1 & 2' and was pleased to note the policyholder support for the proposed consolidation of closed with-profits funds into the Royal London Main Fund. The first fund consolidation was successfully completed at the end of June 2021, and a further three fund consolidations were successfully implemented, as scheduled, by 31 December 2021.</p> <p>The Committee has also focused on 'wave 3' (which covers a further two closed with-profits funds, Liver and PLAL). In particular, having reviewed proposals related to the Royal Liver Sub fund in detail and the associated court documentation and policyholder communications, the Committee advised the Royal London Board of its support for the appetite mailing being issued to relevant policyholders in early 2022 to gauge their interest in Royal London making a formal offer later in 2022.</p>
Annuities	<p>During 2021, the Group introduced annuity writing capability, including writing annuities in the Royal London Main Fund for certain maturing Royal London (CIS) guaranteed annuity option policies. When considering the proposals prior to implementation, the Committee focused particularly on the proposed pricing approach between the Royal London (CIS) Fund and the Royal London Main Fund, with the aim of ensuring fairness between different groups of with-profits policyholders.</p>
Investment performance and investment strategy	<p>The Committee reviewed the investment performance and investment strategy (including developments in responsible investment, ESG matters and stewardship) for the various with-profits funds and remained supportive of the approach being taken by RLAM and the wider-Group.</p> <p>The Committee was consulted on a number of updates to strategic asset allocations for with-profits funds. Changes focused on improving long-term customer outcomes and risk-adjusted returns.</p>
Bonus rates and surrender values	<p>The Committee considered and provided recommendation to the Board on the ProfitShare and bonus rates to be declared in respect of 2021, and awarded in 2022.</p>
Policyholder communications, complaints and service	<p>The Committee considered reports on the quality of the service provided to with-profits policyholders, having regard to complaints and other measures. The Committee particularly focused on the support provided to vulnerable customers and the progress being made in response to regulatory guidance in this area.</p>
Capital management	<p>The Committee reviewed the financial and capital management of the Group's with-profits funds on a quarterly basis.</p>

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2021 review was that the Board operated effectively with a good culture.

In addition, the Committee conducted a separate effectiveness review at the end of 2021 and no material areas for improvement were identified.

Looking forward

The Committee will continue to focus on its key role of ensuring the fair treatment of with-profits policyholders. The Committee's priorities for 2022 are expected to include the continued roll-out of the Legacy Simplification programme.

Investment Committee



“During the year the Committee reviewed Royal London’s Investment Philosophy and Beliefs, augmenting these to reflect renewed focus on responsible investment, stewardship and engagement, and the Group’s climate change ambitions.”

Ian Dilks OBE

Chair of the Investment Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Ian Dilks	Chair	2014	6/6
Kal Atwal ¹	Member	2022	0/0
Daniel Cazeaux	Member	2020	6/6
Tracey Graham	Member	2020	6/6
Julius Pursaill	Member	2014	6/6

1. Kal Atwal became a member of the Committee on 1 January 2022.

Dear member

As Chair of the Investment Committee (the Committee), I am pleased to present its report for the year ended 31 December 2021.

2021 saw a strong recovery across developed and emerging economies as global efforts to counter the impacts of the Covid-19 pandemic took effect. This generally benefited investment values albeit with periods of volatility.

During the year the Committee reviewed Royal London’s Investment Philosophy and Beliefs, augmenting these to reflect a renewed focus on responsible investment, stewardship and engagement and the Group’s climate change ambitions. The Committee also monitored the Group’s climate change and responsible investment programme and related initiatives, including the transitioning of £23bn of indexed equities to reduce their carbon footprint and the launch of new funds focused on climate and sustainability objectives.

To support its ongoing work to assess whether assets remained appropriately invested to meet the needs of the Group’s members and policyholders through this period, the Committee considered elements of the Group’s investment strategy and reviewed the strategic asset allocations of a number of the Group’s portfolios. The Committee considered the contribution to portfolio performance from both strategic asset allocation and active investment activity undertaken in the year. The Committee also reviewed and supported new initiatives including those relating to the Group’s real estate investment strategy.

At the beginning of the year the Committee oversaw an independent review of the Group’s Investment Office (IO). The IO is tasked with monitoring regulatory developments relevant to investment matters, developing investment strategy and strategic asset allocation and implementing these for the Group, including overseeing the performance of Royal London Asset Management and other asset managers. The Committee reviewed and supported refinements to the IO’s operating model proposed by the Group Investment Director, who joined the Group in May 2021.

I would like to thank my fellow Committee members for their continued support and challenges during 2021.



Ian Dilks OBE

Chair of the Investment Committee

Purpose and role of the Investment Committee

The Committee is responsible for assisting the Board in discharging its responsibilities regarding investment matters, including investment strategy, and in its oversight of the investment assets of Royal London and its policyholders, including investment performance.

The responsibilities of the Committee are set out in its terms of reference, which are reviewed annually. They are available on royallondon.com.

Committee membership

The Committee comprises two independent non-executive directors, an independent member and the Group Chief Financial Officer.

The Committee held six meetings in 2021.

The Committee meetings were attended by the Chairman, the Group Chief Executive, the Group Investment Director, the Investment Strategy Director and the Group Chief Risk Officer. Members of senior management also attended Committee meetings at the invitation of the Chair. In addition, the Committee draws on the input of its advisers, Mercer.

Areas of focus and significant matters considered by the Committee

The Committee has a number of standing agenda items it considers each year.

In addition to its responsibility to oversee the investment strategy, strategic asset allocation and investment performance of the Group, the Committee has dedicated time to consider responsible investment, stewardship and engagement and climate change matters.

The Group's Investment Office, part of the Group Finance function, provides the Committee with significant support to help it discharge its responsibilities. The Investment Office makes recommendations regarding the investment risk framework, Investment Philosophy and strategy; it also oversees strategic asset allocation reviews linked to agreed risk appetites and investment constraints, and monitors how agreed strategy has been implemented. It reviews new fund launches and asset classes and oversees the investment performance and operational effectiveness of asset managers. It produces quarterly reports and information for the Committee to enable it to fulfil its duties.

In 2021, the Committee oversaw an independent review of the effectiveness of the Investment Office, carried out by Willis Towers Watson (WTW). Overall, WTW concluded that the Investment Office remained effective in discharging its responsibilities. The review highlighted some areas for improvement and the Committee oversaw management's response.

In May 2021, Royal London appointed a new Group Investment Director to lead the Investment Office and co-ordinate investment-related activities supporting the Group's life insurance and long-term savings customer propositions. The Committee supported refinements to the Investment Office operating model and infrastructure plans proposed by the Group Investment Director.

Investment Philosophy and Beliefs

- The Committee reviewed and approved amendments to the Group's statement of investment philosophy and investment beliefs, to clarify the Group's approach to stewardship, engagement and its climate-related ambitions. These aid the Committee and the Board in their decision-making. Further details are available on page 31.

Responsible investment and climate change

- The Committee monitored the Group's responsible investment and climate change programme, including the development of responsible investment engagement themes and topics, the implementation of voting policy and changes to propositions. A particular initiative in 2021 was the transitioning of the RLAM passive equity funds and our segregated mandates into climate and ESG tilted equity solutions, as further set out on page 36. Royal London transitioned £23bn of indexed equities reducing their carbon footprint by 16% by the end of 2021.

Strategic asset allocation and investment risk frameworks

- The Committee reviewed the updated strategic asset allocation and investment risk frameworks.

Deep dives

- The Committee considered in detail elements of the Group's strategic asset allocation process and the rewards to the Group's members and policyholders from active investment risk-taking activity.

Private assets and property

- The Committee conducted a review into private asset investment and supported an updated real estate investment strategy put forward by the Investment Office in conjunction with RLAM, addressing the further need to diversify property assets backing the Group's customer propositions.

Asset management performance

- The Committee reviewed the performance of its asset managers and assessed their suitability to manage the Group's investment mandates, including analysis of quarterly market and economic data, review of investment performance across all funds and the examination of changes to the Group's annuity business investment management agreements.

Committee effectiveness

An exercise to review the effectiveness of all Board Committees is conducted annually by the Board and led by the Chairman. The conclusion of the 2021 review was positive and the Board is satisfied that the Committee remains effective.

Looking forward

The Committee will continue to ensure that assets are invested in an appropriate way to meet the needs of our members and policyholders.

The Committee will maintain a focus on the impact on the investment environment and the outlook for differing patterns of economic growth as economies settle following a rapid recovery from the effects of the Covid-19 crisis. Responsible investment and climate change remain key priorities as we continue to embed the Group's approach throughout our investment activity for the benefit of members and customers.

Annual statement from the Remuneration Committee Chair



"I am pleased to report that the Directors' remuneration policy has operated well in another challenging macro-economic year, allowing for commensurate reward in light of performance and balancing stakeholders' interests."

Tracey Graham
Chair of the Remuneration Committee

Dear member,

On behalf of the Board, I am pleased to present the Directors' remuneration report (DRR) for 2021.

Reflections on 2021

Much like 2020, 2021 has been a challenging year, with the pandemic by no means behind us and continuing to disrupt home and working lives. Therefore, I wanted to thank all of our colleagues at Royal London for their perseverance and commitment over the past 24 months. Your teamwork and positive attitude have enabled us to provide members with continued exemplary support whilst also keeping each other safe.

As discussed in detail on pages 8 and 9 in the Chairman's statement, in 2021 we demonstrated our dedication to improving our customers' financial resilience, saw continued strong flows into our funds and, in spite of challenging market conditions, we continue to enhance the return on eligible customers' life and pension policies.

Whilst new business contribution was below expectation for the year, there has been positive Group performance in some areas, notably growth in Protection as customers took out cover during the pandemic and our Asset Management businesses reflected through continued strong investment performance. From a people perspective, it is satisfying to continue to see above-benchmark employee engagement and excellent progress on our transition to hybrid working. The latter ensures we are well placed to deliver high levels of customer service. Hybrid working is also expected to help Royal London drive progress against our commitment towards diversity and inclusion (D&I) and colleague wellbeing. In addition, during the year, the risk and control infrastructure was further embedded and there were no significant conduct issues.

2021 STIP outcome

Reflecting on performance delivered in the year, the Short-Term Incentive Plan (STIP) scorecard generated a formulaic result of 102.3% of target (out of a potential of 200%). In determining the final outcome for 2021, the Committee considered whether the scorecard outturn accurately reflected Group and individual performance, in combination with a range of additional factors including the economic climate, the Group's financial and investment performance and progress on key strategic projects. The Committee also considered performance in relation to the Group's risk framework and determined that the result was an accurate reflection of business performance, and chose not to apply any discretionary adjustments to the outcome. This resulted in an award under the 2021 STIP of 77% of salary (out of a possible maximum of 150%) for Barry O'Dwyer and 84% (out of a possible maximum of 150%) for Daniel Cazeaux.

2019 LTIP outcome

The Long-Term Incentive Plan (LTIP) outcome is determined based on the achievement of specific performance gateways, followed by the Committee's assessment of performance against the Group's LTIP scorecard which includes three-year financial and strategic performance measures. Both the capital gateway and minimum operating profit gateways were achieved for the 2019 LTIP. Outside the gateways, as detailed further on page 108, the profit metrics did not achieve threshold, resulting in 40% of the award lapsing. However, investment performance across the With-Profits and Governed Range outperformed plan across the three-year performance period, which resulted in full vesting of this element of the award (25% of the award). Good progress was also made against the market share metrics, particularly in Ireland, and the Group's cumulative ProfitShare was above threshold. The Committee also considered annual statements from the Audit and Risk Committees on quality of earning, and performance within risk appetite.

Overall, this resulted in a scorecard result of 40.8% of target. In reviewing the result, the Committee considered whether the scorecard result accurately reflected a number of factors including Group and individual performance, the economic climate and the ongoing impact of Covid-19, the Group's financial and investment performance, and progress on key strategic projects and determined that the result was an accurate reflection of business performance and therefore chose not to apply any discretionary adjustments to the outcome. This resulted in an award of 51.0% of salary for Barry O'Dwyer. Daniel Cazeaux joined the Group on 1 June 2020 and was not granted an award under the 2019 LTIP.

Wider workforce remuneration

At Royal London, our people are at the heart of the organisation. Therefore, it is important to us that our colleagues have equal opportunities and are treated fairly and inclusively. Additionally, wider workforce remuneration is always considered as context for Remuneration Committee decisions. Management provides the Committee with detailed information regarding annual pay reviews for all employee groups, with the Committee having oversight of remuneration policies across the workforce. The Committee also reviewed the Group Chief Executive Officer's recommendations for salary and STIP for his direct reports.

Over the course of 2021, the Committee conducted an all-employee reward strategy review in which we reviewed wider workforce remuneration arrangements and considered comments from our Colleague Representative Forum (CRF). As part of this review, it was determined that the current structure is generally fit for purpose. However, a number of changes have been made in order to streamline our approach to remuneration. These key changes include simplifying the approach to reward at Royal London Asset Management (RLAM); and ensuring the remuneration arrangements continue to reflect asset management practice and drive success within the business, whilst being cognisant of the mutual status of the Group. We have also confirmed adjustments to the approach to benefits within the Group, to ensure that the overall benefit offering remains in keeping with market trends. This includes no longer offering car allowances to colleagues, which aligns to market practice and supports our Environmental, Social and Governance (ESG) agenda.

Gender pay gap reporting

In line with previous years, we have reported the gender pay gap reporting data for both Royal London Mutual Insurance Society Limited (RLMIS) and RLAM for 2021. Whilst RLAM colleagues are included within the RLMIS disclosure, we have chosen to voluntarily publish their gender pay gap figures separately as well.

This data shows the Group saw a disappointing but small increase in the median pay gap, with the gap increasing by 4.1 percentage points from 24.2% to 28.3% across the Group. The key driver for the Group gender pay gap continues to be aligned to our diversity statistics with an imbalance of fewer women in our senior roles and fewer men in our junior roles. Our D&I strategy includes continuing to strive for better gender balance and encouraging female colleagues to progress their careers with us, alongside making Royal London an employer of choice for women looking to further their careers.

Within RLAM, the median pay gap progress continues with a decrease from 32.8% to 28.0%, and there was also a narrowing of the median bonus pay gap.

Our actions to improve the gap are directly linked to our diversity and inclusion strategy, which includes a proactive focus on continuing to build an inclusive culture so we can attract, retain and develop women alongside their male peers, together with continued positive action to encourage women to access opportunities. Positive action includes focused recruitment strategies to attract more female candidates and our mentoring, coaching and Career Confidence programmes.

Our latest gender pay gap data forms part of our enhanced Gender Pay Gap Report, which can be found on our website.

Focus on diversity

Royal London believes that individual differences are a collective strength, and we continue to ensure we are employing people from a range of backgrounds including gender, age, disability, race, religion and sexual orientations that reflect the diversity of the wider communities that we serve, as this provides us with a diverse range of people and personalities which ultimately improve the overall quality of our work. This is supported by an excellent group of colleague-led inclusion networks which help ensure colleague voice shapes and drives our focus. Along with other initiatives in 2021 we launched a new mandatory e-learning module to all colleagues, educating them to recognise and manage unconscious bias and proactively advocating inclusion. We also introduced a team inclusion discussion toolkit for leaders to hold exploratory conversations in their team meetings.

Looking forward to 2022

Remuneration decisions for 2022

In respect of remuneration for 2022, the key points are as follows:

- Salaries – The Committee agreed a 4% salary pot increase across the business. In line with previous years, increases will be targeted at junior colleagues and those that are positioned behind our desired market positioning. The Committee reviewed the Executive Director salaries and agreed a consistent approach with a 4% increase for both the CEO and CFO.
- 2022 STIP – No changes have been made to the maximum award opportunity for the Executive Directors. The award will be based 45% on financial metrics (including operating profit, new business contribution and cost metrics); 20% on customer metrics (including investment performance and brand loyalty metrics); 15% on metrics linked to building the future; 10% on people metrics and 10% on assurance related metrics. Further details can be found on page 117.
- 2022 LTIP – No changes have been made to the maximum award opportunity for the Executive Directors. The award will be based 40% on operating profit; 30% on customer metrics (linked to investment performance); 20% on metrics linked to building value for the future; and 10% on metrics linked to sustainability (including D&I). Further details can be found on page 118.

Over the coming year, as part of the triennial remuneration policy review, the Committee intends to review the overall remuneration opportunity for the Executive Directors to ensure that it remains appropriate to reflect the calibre of individuals in role and supports the delivery of the Group's strategic priorities.

Remuneration Committee membership changes

Sally Bridgeland stepped down from the Committee on 8 June 2021. I would like to thank Sally for her valuable contribution to the work of the Committee. Baroness Davidson and Jane Guyett were both appointed to the Board as Independent Non-Executive Directors in 2021 and joined the Remuneration Committee on 8 June 2021 and 4 August 2021, respectively.

This is my last report as the Chair of the Remuneration Committee, as I will be stepping down from the Board with effect from 22 March 2022 after serving a full nine-year term. Jane Guyett will take over as Remuneration Committee Chair, and as part of a planned transition we have been working closely together over the past few months to ensure an orderly handover. My best wishes to Jane in chairing the Committee going forward.

Conclusion

Overall, I am pleased to report that the Directors' remuneration policy remains fit for purpose, and has operated well during another year of uncertainty, carefully considering performance outcomes, and at the same time balancing and considering all stakeholder interests. The Committee believes that the Group's current approach to reward is well placed to support the Group as it emerges out of the global pandemic and that our strategic initiatives will enable us to attract and retain the talent needed to deliver desired outcomes, continuing the long-term success of the Group.

I hope you find this report to be clear in setting out our remuneration practices and that you will be supportive of our Directors' remuneration report at the 2022 AGM.



Tracey Graham

Chair of the Remuneration Committee

3 March 2022

2021 remuneration at a glance

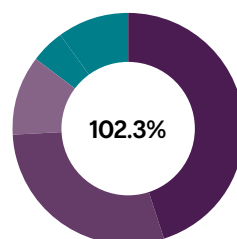
Performance resulted in a formulaic STIP scorecard result of 102.3% of target. The Committee considered a range of additional factors specifically in regard to the Group's underlying financial performance, progress on key strategic projects and the management of risk and determined that the result was an accurate reflection of business performance and chose not to apply any discretionary adjustments to the outcome.

Performance resulted in a formulaic LTIP scorecard result of 40.8% of target. The Committee determined that performance against the scorecard represented a fair representation of performance of the Group over the performance period and therefore determined that no adjustment was required.

Remuneration in the wider context

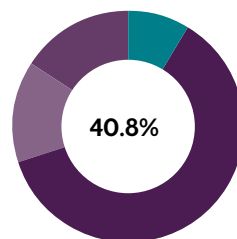
As a mutual we ensure that our members are at the heart of our remuneration philosophy. In light of our commitment to comply with the highest standards of corporate governance, we are now in our fifth year of reporting our gender pay figures and our fourth year of disclosing our Group Chief Executive Officer pay ratio; and our pension rate for executive hires continues to be aligned with the wider workforce. Since the start of 2020, our deferred and long-term incentive awards have been invested in a fund that our members also invest in; this provides greater alignment of the outcomes of remuneration with our members.

Incentive outcomes for 2021 STIP



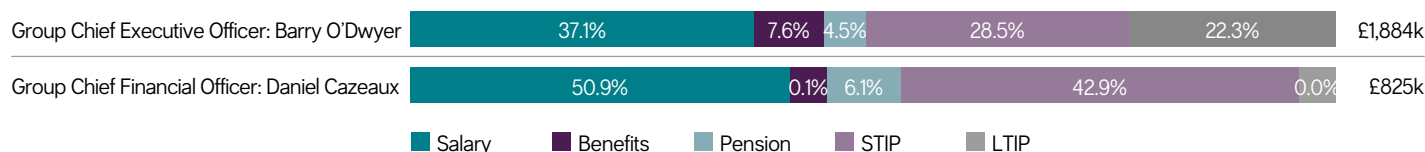
Financial	46.1%
Customer	29.9%
Our People	11.3%
Assurance	5.0%
Building the Future	10.0%

Incentive outcomes for LTIP vesting in 2021



Financial	3.6%
Investment Performance	25.0%
Customer Services	5.8%
Quality of Proposition	6.4%

Total remuneration for current executive directors for 2021

















































Remuneration package for executive directors – forward-looking policy


	Pay element	Approach	Key decisions for 2022	
			Group Chief Executive Officer (Barry O'Dwyer)	Group Chief Financial Officer (Daniel Cazeaux)
Fixed pay	Base salary	Fixed pay levels set competitively, with role-appropriate benefits arrangements	£728,000 – 4% increase from 2021 (see further details on page 104)	£436,800 – 4% increase from 2021 (see further details on page 104)
	Pension		12% – in line with wider workforce levels (further details on page 117)	12% – in line with wider workforce levels (further details on page 117)
	Benefits		Benefits package includes private medical insurance and health screening – further details on page 106	Benefits package includes private medical insurance and health screening – further details on page 106
Pay linked to performance	STIP	Incentive linked to short-term targets	Maximum opportunity: 150% of salary (40% deferred over three years) – further details on page 117	Maximum opportunity: 150% of salary (40% deferred over three years) – further details on page 117
	LTIP	Incentive linked to long-term priorities	Award granted: 150% of salary (additional two-year holding period) – further details on page 117	Award granted: 150% of salary (additional two-year holding period) – further details on page 117
	Minimum holding requirement	To align the interests of executives with those of members	200% of salary	200% of salary
	Post-cessation of employment holding requirement	To align the long-term interests of executives with those of the Group	200% of salary for two years post-cessation of employment	200% of salary for two years post-cessation of employment


Appropriateness of remuneration and link to strategy

Strategic rationale: the link between strategic priorities and 2022 incentive scheme measures

The performance measures that are used in the variable incentive schemes support the delivery of the strategy, and are critical in ensuring a transparent link between business performance and remuneration – as shown in the table below.

	Strategic Shifts									
	 Purpose Driven	 Customer Focus	 Broader Solutions	 Data-Led, Digitally Nimble	 Mutually Valued Relationships	 Sustainable Financials				
Measures used in incentive schemes										
Financial	 							 		
Investment Performance		 								
Customer		 				 				
Sustainability	 	 								
Our People	 									
Assurance										
Building the Future	 	 	 		 			 		

 2022 STIP

 2022 LTIP

How the Committee has addressed the following factors from the UK Corporate Governance Code

Royal London's core values drive our business strategy and underpin our approach to executive remuneration. Along with these values, the Committee has carefully considered the expectations of the UK Corporate Governance Code when reviewing our Directors' remuneration policy and its implementation. Set out below are examples of how the Committee has addressed these factors.

Factor	How this has been addressed
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Committee is committed to being transparent in our approach to pay, as demonstrated by our comprehensive 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 continues to review the structure of the Group STIP and LTIP, and has implemented new simplified rules which ensure there is sufficient flexibility to exercise discretion to override formulaic outcomes, as well as to recover and/or withhold sums or share awards in appropriate circumstances. As set out in the statement from the Committee Chair, following the review of the approach to remuneration across the Group, the approach to remuneration at RLAM was simplified both to allow for better understanding amongst participants and to align with asset management market practice.
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 and ensuring the appropriate management of risk. Risk-taking outside the Group's risk appetite is not rewarded. The Committee has absolute discretion to amend incentive amounts prior to payment to ensure they are appropriate. When assessing performance, the Committee will take into account not just the measures and targets in the balanced scorecard, but also wider views of Group performance, quality of earnings and the sustainability of performance, before finalising awards. As discussed above, the Committee also has discretion to adjust the STIP and LTIP outcomes to override formulaic outcomes if it considers these inconsistent with overall Group performance, taking into account any relevant factors. As disclosed in last year's report, the Committee has also taken the view that it would be more appropriate for deferred awards to be linked to a fund which our members are invested in, to increase the alignment between remuneration outcomes and our members. This applied to the 2021 deferred STIP awards and 2021 LTIP awards. The STIP and LTIP both contain malus and clawback provisions and post-employment holding requirements.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	We outline in our Directors' remuneration policy details of maximum opportunities for our incentive plans alongside actual pay-outs for our STIP and LTIP. Actual incentive outcomes vary depending on the level of performance achieved against specific measures.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance.	Our policy has been designed to have an appropriate balance between long- and short-term performance measures, linked to the Group's business goals and aligned with the Group's creation of long-term value for members. The Committee has discretion to make downward adjustments to STIP and LTIP award outcomes if it considers the outcomes are not a fair reflection of the overall business performance.
Alignment to culture Incentive schemes should drive behaviour consistent with Group Purpose, values and strategy.	As a mutual, Royal London aims to provide good outcomes and experiences for our customers and members. The categories measured in the Group scorecards track our delivery of key experiences and outcomes during 2022, our progress with key investments to improve experiences and outcomes in the longer term, and our delivery of these activities within risk appetite. The inclusion of sustainability measures for the 2022 LTIP, first introduced in 2021, to help drive behaviour that contributes to delivering long-term value for our stakeholders.

Summary of Directors' remuneration policy

The following table summarises our remuneration policy for executive directors, and how the policy will be implemented in 2022. The policy was approved by 95.55% of members at the AGM on 3 June 2020 and there is no change to the policy for 2022. Full details of the approved policy can be found within our 2019 DRR on the Group website.

Element of remuneration	Key features of the policy	Implementation for 2022
Base salary To support recruitment and retention of talented people.	<ul style="list-style-type: none"> Reviewed annually. No maximum salary or percentage salary increase, but increases typically in line with those for the Group's broader population. 	<ul style="list-style-type: none"> Barry O'Dwyer (CEO): £728k Daniel Cazeaux (CFO): £436.8k.
Pension To support the recruitment and retention of our people.	<ul style="list-style-type: none"> Executive directors can receive a cash allowance in lieu of pension or they may elect to pay all or part of their allowance into their pension plan. The maximum cash allowance in lieu of pension is 12% of salary, in line with the wider workforce default contribution rate. 	No change from 2021.
Benefits To support the recruitment and retention of our people.	<ul style="list-style-type: none"> Includes life insurance, private medical insurance and medical screening. Executive directors may participate in the Group's flexible benefits scheme and may be eligible to receive relocation support based on the requirements of their role, as determined by the Group. 	No change from 2021.
Short-Term Incentive Plan (STIP) To focus participants on the in-year results that need to be achieved to meet the Group's annual financial and non-financial objectives in the context of the agreed strategy.	<ul style="list-style-type: none"> Maximum opportunity is 150% of salary. Performance assessed using a scorecard of one-year financial and strategic measures, and individual performance status. Payment of 40% of any amount earned is deferred for up to three years. 	No change from 2021. <ul style="list-style-type: none"> The STIP opportunity will be 75% of base salary for target performance. See page 117 for details of performance measures and targets.
Long-Term Incentive Plan (LTIP) To align executives with the long-term interests of members and customers.	<ul style="list-style-type: none"> Maximum award granted is 150% of salary, which may be subject to a discretionary adjustment by the Committee of up to 25% or reduced to zero, based on a basket of performance measures, to create a maximum vesting award of 187.5% of salary. Performance assessed using a balanced scorecard of three-year performance measures, which may include strategic milestones and performance relative to peers. Payment of 100% is after five years from the date of grant following the completion of the additional holding period. 	No change from 2021. <ul style="list-style-type: none"> The LTIP opportunity will be 20% of base salary for threshold performance, 45% for target performance and 100% for maximum performance. See pages 117 and 118 for details of performance measures and targets.
Unit holding requirement To reinforce the principles underlying the Group's remuneration policy and align the interests of executives with those of members.	The holding requirement as a percentage of base salary is as follows: <ul style="list-style-type: none"> Group Chief Executive Officer: 200% Group Chief Financial Officer: 200% 	No change from 2021.
Post-cessation holding requirement To reinforce the principles underlying the Group's remuneration policy and align the interests of executives with those of members.	The post-cessation holding requirement as a percentage of base salary is as follows: <ul style="list-style-type: none"> Group Chief Executive Officer: 200% Group Chief Financial Officer: 200% 	No change from 2021.

2022 pay scenario charts

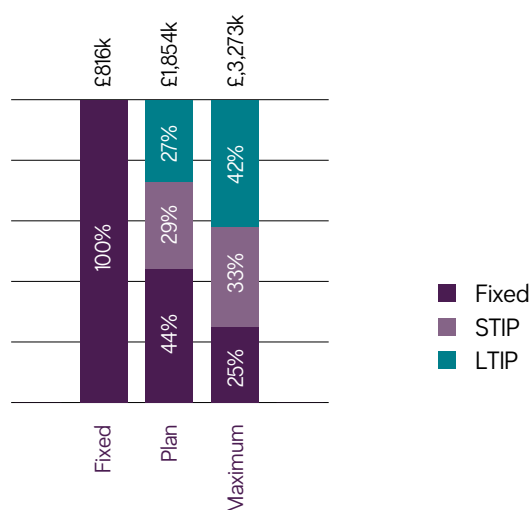
The charts below illustrate the potential pay opportunities available for the Group Chief Executive Officer and Group Chief Financial Officer for 2022, based on different performance scenarios.

Actual variable pay outcomes can vary between 0% and 100% of maximum, depending on actual performance delivered.

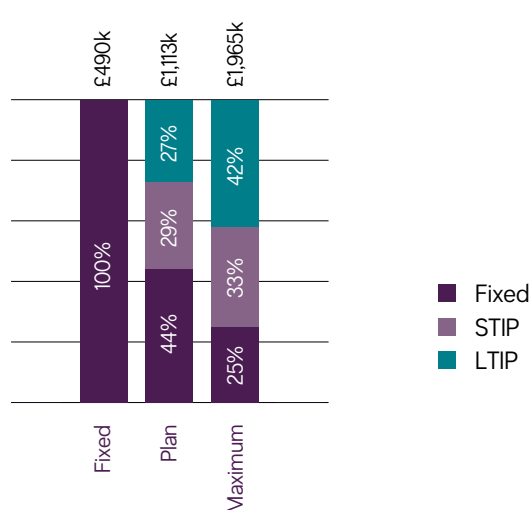
Scenario	Salary, pension and benefits	STIP outcome (% of maximum)	LTIP outcome (% of maximum) ¹
Fixed	Received in line with contractual entitlement	–	–
On-plan performance (achieves targets)		50	45
Maximum performance (significantly exceeds targets)		100	100

1. Excluding any discretionary adjustment.

Group Chief Executive Officer, Barry O'Dwyer



Group Chief Financial Officer, Daniel Cazeaux



2021 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 2021

Executive directors

Single figure of total remuneration (audited)

	Barry O'Dwyer		Daniel Cazeaux	
	2021	2020	2021	2020 ¹
Fixed pay (£000)				
Salary ²	700	695	420	245
Benefits ³	143	1	1	–
Pension supplement ⁴	84	83	50	29
Total fixed pay	927	779	471	274
Performance pay (£000)				
STIP ⁵	537	525	354	165
LTIP ⁶	420	–	–	–
Total performance pay	957	525	354	165
Total (£000)	1,884	1,304	825	439

1. Daniel Cazeaux joined the Group on 1 June 2020 and was formally appointed as an executive director in September 2020. The remuneration in this table for 2020 relates to the period from 1 June to 31 December 2020.
2. Salaries are shown gross of any salary-sacrifice element.
3. Benefits include private medical insurance, health screening and any relocation costs. In November 2021, Barry O'Dwyer was granted a one-off payment of £141,509 to support his relocation from Edinburgh to London.
4. Pension supplements received as a cash supplement in lieu of pension.
5. 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.
6. LTIP values for 2021 are the value of the 2019 LTIP vesting at the end of the performance period (31 December 2021). Daniel Cazeaux was not granted an award under the 2019 LTIP.

2021 STIP outcome (audited)

The maximum STIP opportunity levels and resulting overall STIP outcomes for each executive director in respect of 2021 are shown in the table below. Performance resulted in a formulaic scorecard result of 102.3% of target (out of a potential of 200%). In determining the final outcome, the Committee considered a range of additional factors specifically in regard to the Group's underlying financial performance, progress on key strategic projects and management of risk – and determined that the result was an accurate reflection of business performance, and chose not to apply any discretionary adjustments to the outcome.

2021 STIP executive director outcomes (audited)

	2021 Performance status	STIP recommendation (% of salary)	2021 scorecard result	Outcome (% of salary) ¹
Barry O'Dwyer	On Track	75.0%	102.3%	77%
Daniel Cazeaux	On Track	82.5%	102.3%	84%

1. Based on 31 December 2021 salary.

The STIP scorecard for 2021 was set at the start of the year and consisted of threshold, target and maximum targets for each measure, which were grouped into five categories. The categories for the 2021 STIP, and performance outcomes against each category, are detailed below. In addition to the scorecard metrics, the capital, profit and liquidity hurdles introduced for the 2021 STIP were achieved.

2021 STIP performance measures



Measures	Weighting	Threshold 0%	Target 100%	Maximum 200%	Contribution to scheme
Financials	45%				46.1%
<ul style="list-style-type: none"> Adjusted UK GAAP operating profit Risk-adjusted new business contribution BAU costs 					
Customer	17.5%				29.9%
<ul style="list-style-type: none"> Customer Value Statement (CVS) Index Customer brand health Performance vs benchmark on Governed Range Performance vs benchmark on long-term funds Net new external assets under administration 					
Our People	12.5%				11.3%
<ul style="list-style-type: none"> People dashboard assessment 					
Assurance	10%				5.0%
<ul style="list-style-type: none"> Risk and control management 					
Building the Future	15%				10.0%
<ul style="list-style-type: none"> Digital Reach Technology project Reducing the carbon intensity of our investments 					
Discretionary Adjustment					0.0%
Overall	100%				102.3%

Disclosure of financial targets for 2021 STIP awards

For additional context, related to the 2021 STIP awards paid in 2022, the table below discloses the threshold and maximum targets set for financial measures, alongside the actual financial performance achieved.

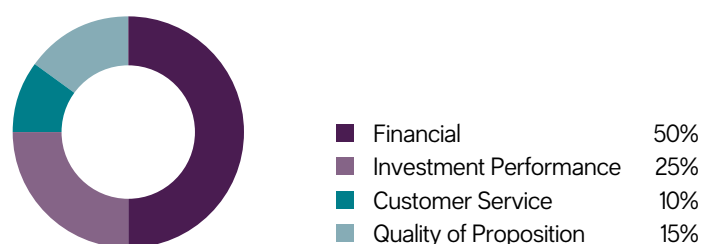
2021 STIP (paid in 2022)	Threshold target (£m)	Maximum target (£m)	Result (£m)
Adjusted UK GAAP operating profit ¹	176.6	238.9	226.7
Risk-adjusted new business contribution	55.4	74.9	57.1
BAU Costs	546.0	481.0	522.2

1. Operating profit before tax as reflected in the financial statements adjusted for the one off non-trading items (particularly the closed fund consolidations where the actual impact was dependent on economic conditions at the time of the transfer) and assumption changes that are based on longer term experience.

All STIP award outcomes are reviewed by Group Risk and Compliance and reviewed in line with our risk adjustment policy.

The performance measures and estimated outcomes for the 2019 LTIP are as shown below.

2019 LTIP performance measures



Directors' remuneration report *continued*

Measures	Weighting	Threshold 0%	Maximum 100%	Contribution to scheme
Financials <ul style="list-style-type: none"> Risk-adjusted profit metric (new business) UK GAAP existing business profit ProfitShare 	50%			3.6%
Investment Performance <ul style="list-style-type: none"> Three-year performance vs benchmark 	25%			25.0%
Customer Service <ul style="list-style-type: none"> Net promoter score External service awards – Pensions and Protection Customer complaints 	10%			5.8%
Quality of Proposition <ul style="list-style-type: none"> Group market share taking into consideration the different business areas Net new external assets under management 	15%			6.4%
Discretionary Adjustment				0.0%
Overall				40.8%

The Committee has discretion to adjust the LTIP result (up to +25% or a reduction to zero). Awards are also subject to a minimum operating profit and internal capital cover gateway, which, if not met, would mean awards do not vest. Based on performance against the internal capital cover gateway and operating profit gateway over the three-year performance period, the Committee assessed that these gateways had been achieved. In determining the final outcome, the Committee considered a range of additional factors including the economic climate, the Group's financial and investment performance and progress on key strategic projects over the performance period, and determined that the formulaic LTIP outcome for the 2019 LTIS of 40.8% of target was an appropriate reflection of performance delivered. No adjustment was therefore made to formulaic outcome.

In publishing the relative STIP and LTIP 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.

Disclosure of financial targets for 2019 LTIP awards

For additional context, related to the 2019–2021 LTIP incentive awards payable in 2022, the table below discloses the threshold and maximum targets set for financial measures, alongside the actual financial performance achieved.

2019-2021 LTIP	Threshold target (£m)	Maximum target (£m)	Result (£m)
Risk-adjusted profit metric (new business)	714.2	952.2	531.6
UK GAAP existing business profit	204.1	272.2	24.3
ProfitShare	419.4	559.2	454.6

All LTIP award outcomes are reviewed by Group Risk and Compliance and reviewed in line with our risk adjustment policy.

Exercise of discretion by the Committee

The Committee evaluated the formulaic outcomes of the 2021 STIP and 2019 LTIP, and considered a number of factors including the economic climate, the Group's financial and investment performance and progress on key strategic projects and determined that the results were an accurate reflection of business performance over the performance periods, and therefore chose not to apply any discretionary adjustments to the formulaic outcomes.

2019 LTIP vesting in 2021 (audited)

The following table details the estimated percentage of long-term incentive awards granted in 2019, which vested at 31 December 2021 as a result of Royal London's performance against the measures.

	Initial award (% of salary)	Vesting (% of salary)	Maximum vesting (% of salary)
Barry O'Dwyer	125%	51.0%	156.25%
Daniel Cazeaux ¹	–	–	–

1. Daniel Cazeaux joined the Group on 1 June 2020 and was not granted an award under the 2019 LTIP.

LTIP awards granted in 2021 (audited)

In 2021, the Committee granted an LTIP award of 150% of salary to the Group Chief Executive Officer, Barry O'Dwyer, and 150% of salary to the Group Chief Financial Officer, Daniel Cazeaux. The vesting of these awards will be dependent on the following performance measures and may be subject to a discretionary upwards adjustment by the Committee of 25% or reduced down to zero. Awards will be subject to an additional two-year holding period following the performance period and payment will be subject to satisfying the unit holding requirement.

2021 LTIP performance measures

Measures	Weighting	Sub-measures
Financials	40%	UK GAAP operating profit
Customer outcomes	10%	Three-year performance vs benchmark on With-Profits
	10%	Three-year performance vs benchmark on Governed Portfolio
	20%	ProfitShare
Building the future	10%	Climate change strategy
	5%	Diversity and inclusion strategy
	5%	Cyber security strategy

	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	2021 LTIP	150	1,050	–	31 December 2023	31 December 2025
Daniel Cazeaux	2021 LTIP	150	630	–	31 December 2023	31 December 2025

1. From 2020, values are linked to an RLAM fund that our members are invested in.

The Committee is committed to disclosing as much as is commercially possible on the financial measures and targets in the 2023 report when the 2021 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 (£000)	Total awards (£000)
	Awards subject to time (£000)	Awards subject to time and performance (£000)		
Barry O'Dwyer	675	1,013	973	2,661
Daniel Cazeaux	202	479	24	705

Directors' remuneration report *continued*

Holdings by executive directors (audited)

The table below sets out the value of deferred remuneration held by executive directors as at 31 December 2021 and their individual holding requirements. Furthermore, with effect from 1 January 2020, 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 2021 (£000)
Barry O'Dwyer	1,400	1,648
Daniel Cazeaux	840	226

Payments to past executive directors (audited)

There were no payments to past executive directors that vested in the year ended 31 December 2021.

Payments for loss of office (audited)

No payments of money or other assets were made for loss of office in the year ended 31 December 2021.

Group Chief Executive Officer's single figure remuneration growth

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Group Chief Executive Officer 'single figure' of total remuneration (£000)										
Barry O'Dwyer ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,761	1,304	1,884
Phil Loney	1,703	2,614	2,859	3,136	3,033	3,208	2,971	1,956	n/a	n/a
STIP paid against maximum opportunity (%)										
Barry O'Dwyer	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	50%	51%
Phil Loney	85%	93%	95%	100%	98%	82%	76%	68%	n/a	n/a
LTIP vesting against maximum opportunity (%)										
Barry O'Dwyer	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	33%
Phil Loney	n/a	71%	39%	37%	55%	88%	62%	74%	n/a	n/a

1. Barry O'Dwyer's 'single figure' of total remuneration for 2019 includes buy-out awards.

Annual percentage change in remuneration for directors compared with other colleagues

The table below shows the year-on-year percentage change for salary, benefits and STIP for directors and all other colleagues (based on total full-time equivalent total remuneration for the relevant financial year) pursuant to UK reporting requirements. The percentage change in STIP varies depending on the year-on-year performance against the measures which drive the annual STIP. For non-executive directors, the year-on-year percentage changes mainly reflect changes in Committee chair or memberships, and mid-year appointments of non-executive directors. Further details of the fee changes that occurred during the year are included on pages 114 and 115.

	% change for 2019 to 2020			% change for 2020 to 2021		
	Salary	Benefits	Bonus	Salary	Benefits	Bonus
Executive directors						
Barry O'Dwyer ¹	2.94%	2.18%	(5.06)%	0.72%	168.06%	2.30%
Daniel Cazeaux ²	n/a	n/a	n/a	71.43%	75.36%	114.83%
Non-executive directors³						
Kevin Parry, Chairman	(20.9)%	n/a	n/a	2.9%	n/a	n/a
Kal Atwal	n/a	n/a	n/a	2.4%	n/a	n/a
Sally Bridgeland	11.4%	n/a	n/a	3.8%	n/a	n/a
Baroness Davidson ⁴	n/a	n/a	n/a	n/a	n/a	n/a
Ian Dilks	23.4%	n/a	n/a	16.5%	n/a	n/a
Shirley Garrood ⁵	n/a	n/a	n/a	1,706%	n/a	n/a
Tracey Graham	0.9%	n/a	n/a	(22.2)%	n/a	n/a
Jane Guyett ⁶	n/a	n/a	n/a	n/a	n/a	n/a
Mark Rennison ⁷	n/a	n/a	n/a	242.4%	n/a	n/a
Tim Tookey ⁸	n/a	n/a	n/a	33.3%	n/a	n/a
David Weymouth ⁹	32.7%	n/a	n/a	(45.7)%	n/a	n/a
All other colleagues	4.70%	4.50%	(44.33)%	2.81%	5.68%	33.80%

1. In November 2021, Barry O'Dwyer was granted a one-off payment of £141,509 to support his relocation from Edinburgh to London.
2. Daniel Cazeaux joined the Group on 1 June 2020; his 2020 STIP, benefits and salary were pro-rated to reflect his date of joining Royal London.
3. Non-executive directors receive an annual fixed fee and do not receive any company performance-related payments.
4. Baroness Davidson was appointed to the Board on 8 June 2021 and therefore comparative remuneration data for 2020 is not available.
5. Shirley Garrood was appointed to the Board on 10 December 2020 and remuneration for 2021 reflects a full year on the Board versus one month in 2020.
6. Jane Guyett was appointed to the Board on 4 August 2021 and therefore comparative remuneration data for 2020 is not available.
7. Mark Rennison was appointed to the Board on 25 September 2020 and remuneration for 2021 reflects a full year on the Board versus four months in 2020.
8. Tim Tookey was appointed to the Board on 6 April 2020 and remuneration for 2021 reflects a full year on the Board versus nine months in 2020.
9. David Weymouth stepped down from the Board on 2 June 2021 and remuneration for 2021 reflects approximately six months on the Board versus a full year in 2020.

Managing performance

Our new approach to managing performance

In 2021, we changed the way we manage colleague performance. Our new approach replaces the old rating scale and twice-a-year review cycle with a continuous, forward-looking approach. We have kept a strong focus on both 'what' colleagues are delivering and 'how' they are applying our Spirit of Royal London values (Empower, Trustworthy, Collaboration, Achieve). Colleagues and their People Leaders review a set of goals that can evolve across the year and these consider both the 'what' and 'how' elements of performance. Throughout the year, an overall performance status of On Track or Off Track is updated in short progress reviews so that a colleague can get the support they need quickly if their performance falls below expectations. The definitions of On Track and Off Track are given below.

On Track status	
'What'	'How'
<ul style="list-style-type: none">• Is at least achieving against the expectations of them in their role.• Output is reliable and of a consistent quality.• Demonstrating good progress against their performance and development goals required to meet the expectations of them in their role.	<ul style="list-style-type: none">• Performance consistently demonstrates our values, even when under pressure.• Considering the values and putting them at the heart of how they do things, having a positive impact on the outcome of their work.• Rarely demonstrating any of the 'watch out' behaviours associated with the values.
Off Track status	
'What'	'How'
<ul style="list-style-type: none">• Not fully contributing at the level expected of them in their role. Even though they may be delivering some contribution, there is a need to improve consistency or quality of output.• Not focusing on their development to meet the ongoing expectations of their role.• Failing to pass essential exams or courses required in the performance of their role.	<ul style="list-style-type: none">• Inconsistent in demonstrating the values, showing that they are not yet at the heart of how they work.• Demonstrating some of the 'watch out' behaviours related to the values on more than one occasion.

When considering the annual reward outcomes, People Leaders look at the progress snapshots to form a view of sustained performance across the year and how this compares to peers. This then informs fair and commensurate salary and bonus reviews.

Group Chief Executive Officer pay ratio

The table below details the current Group Chief Executive Officer latest single total figure of remuneration and how it compares to the median (i.e. 50th percentile), 25th percentile and 75th percentile full-time equivalent (FTE) annualised remuneration of the Company's UK colleagues.

Representative colleagues were identified at each of the percentiles based on the full-time equivalent (FTE) total remuneration for UK colleagues as at 31 December 2021 (method A). As disclosed in last year's report, the Committee decided to move to method A methodology in 2020 for the Group CEO pay ratio calculation as this is the more statistically robust method.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017	B	125:1	71:1	50:1
2018	B	113:1	70:1	42:1
2019 (including buy-outs)	B	142:1	82:1	53:1
2019 (excluding buy-outs)	B	90:1	52:1	34:1
2020	A	42:1	26:1	17:1
2021	A	60:1	36:1	23:1

In 2021, the total remuneration (FTE) figures for the colleagues identified at the 25th, 50th and 75th percentiles were £31,519, £52,713 and £81,867. The salary components for the representative colleagues identified at these percentiles were £26,440, £42,382 and £64,084 respectively. The ratio will vary each year depending on performance against the measures which drive the annual STIP and LTIP.

From 2020 to 2021 the ratio between the total remuneration of the Group Chief Executive Officer and the total FTE remuneration of the employees at the median and the upper and lower quartiles increased. These increases are primarily driven by the Group Chief Executive Officer's total remuneration figure increasing as a result of the one-off relocation payment made in November 2021 and the long-term incentive awards which vested on 31 December 2021. The Committee is satisfied that the median pay ratio for 2021 is consistent with the pay and progression policies for Group colleagues as a whole.

The elements used in calculating the FTE remuneration consist of:

- **salaries:** gross of any salary-sacrifice elements;
- **benefits:** includes life insurance, private medical insurance, medical screening and company car (or cash allowance in lieu of a car) and any transport and overnight expenses received to fund travel between home and additional work locations;
- **pension benefits:** includes any employer contributions and any cash supplements paid by the Company in lieu of pension; and
- **bonus:** includes both the following aspects:
 - Short-Term 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; and
 - Long-Term Incentive Plan (LTIP) values are based on the full value of the 2019 LTIP vesting at the end of the performance period (31 December 2021), including any amounts to be deferred.

For 2021, as ratios could be unduly impacted by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the calculations exclude any colleagues not employed throughout the financial year. Data is based on FTE pay for UK colleagues as at 31 December 2021. For each colleague, total remuneration is calculated in line with the single figure methodology (i.e. fixed pay accrued during the financial year and the value of performance-based incentive awards vesting in relation to the performance year). Leavers and joiners are excluded. Colleagues on maternity or other extended leave are included pro-rata for their FTE salary, benefits and short-term incentives. No other calculation adjustments or assumptions have been made.

Relative importance of spend on pay

The illustration below shows the relative importance of spend on employee pay expenditure compared to operating profit before tax, profit before tax and ProfitShare.

ProfitShare is dependent on a number of criteria including the capital position on the Group and future economic conditions, whereas our total employee pay expenditure is 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)	
	2021	2020	2021	2020	2021	2020	2021	2020
Kevin Parry, Chairman	350	340	–	–	–	–	350	340
Kal Atwal	75	75	–	–	10	8	85	83
Sally Bridgeland	75	75	25	24	10	7	110	106
Baroness Davidson ¹	44	–	–	–	6	–	50	–
Ian Dilks	75	75	25	23	32	15	132	113
Shirley Garrood ²	75	6	–	–	33	–	108	6
Tracey Graham	75	75	35	32	20	60	130	167
Jane Guyett ³	31	–	–	–	4	–	35	–
Mark Rennison ⁴	75	25	21	–	14	7	110	32
Tim Tookey ⁵	75	56	35	26	10	8	120	90
David Weymouth ⁶	38	75	17	32	15	22	70	129

1. Baroness Davidson was appointed to the Board on 8 June 2021.
2. Shirley Garrood was appointed to the Board on 10 December 2020.
3. Jane Guyett was appointed to the Board on 4 August 2021.
4. Mark Rennison was appointed to the Board on 25 September 2020.
5. Tim Tookey was appointed to the Board on 6 April 2020.
6. David Weymouth stepped down from the Board on 2 June 2021.

Following a review of fees in 2020 and having considered a range of factors, including the economic climate, no changes were proposed to non-executive director fees in 2021.

The Senior Independent Director role was undertaken by David Weymouth until 2 June 2021. From 3 June 2021, Ian Dilks performed the role of Senior Independent Director.

In line with ensuring the appropriate governance and Board oversight of subsidiary companies, Shirley Garrood was appointed as Chairman of RLAM Limited on 24 June 2021, following regulatory approval on 25 May 2021, and received additional fees of £33,333 in 2021 for this additional responsibility. Prior to this appointment, Kevin Parry fulfilled the role of Chairman of RLAM Limited but received no additional fees for this extra responsibility.

Remuneration Committee meetings in 2021

The Remuneration Committee met 13 times in 2021. In addition, a joint Risk and Capital Committee and Remuneration Committee meeting was held in March 2021.

During 2021, the members of the Committee were as follows:

- Tracey Graham (Chair)
- Sally Bridgeland (stepped down from 8 June 2021)
- Baroness Davidson (joined from 8 June 2021)
- Ian Dilks
- Jane Guyett (joined from 4 August 2021)

Date of Board appointment

	Date of Board appointment
Kevin Parry, Chairman	19 March 2019
Kal Atwal	17 January 2020
Sally Bridgeland	14 January 2015
Baroness Davidson	8 June 2021
Ian Dilks	14 November 2014
Shirley Garrood	10 December 2020
Tracey Graham	10 March 2013
Jane Guyett	4 August 2021
Mark Rennison	25 September 2020
Tim Tookey	6 April 2020
David Weymouth ¹	1 July 2012

1. David Weymouth stepped down from the Board on 2 June 2021.

Advisers to the Committee

Following a review of remuneration advisers in 2017, which consisted of a full competitive tender process, Deloitte LLP (Deloitte) was appointed by the Committee as independent adviser to the Committee with effect from 1 February 2018.

During the year, the Committee received advice on specific matters in relation to the remuneration packages for joiners and leavers during 2021, the impact of Covid-19 on Royal London remuneration and the impact of the Investment Firms Prudential Regime (IFPR) which came into effect from 1 January 2022. The Committee is satisfied that the advice provided was objective and independent.

Deloitte's total fees (excluding VAT) for the provision of remuneration services to the Committee for the year ended 31 December 2021 were £138,975 (2020: £126,950).

Policy implementation for 2022

Activities of the Remuneration Committee during 2021

The table below sets out the principal activities of the Committee during 2021.

Area	Activity
Incentive scheme outcomes	The Committee reviewed STIP, LTIP and RLAM LTIP outcomes for 2020 in the context of overall Group performance and risk appetite.
Joint risk and remuneration meeting	The Committee held a joint meeting with the Risk and Capital Committee. 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 were 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.
Salary review	As part of the annual salary review, the Committee reflected on salary adjustments, taking into consideration current market pay positioning, the performance of the executives and the scope of their roles.
Covid-19 impact	The Committee considered the impact of Covid-19 on Royal London remuneration in 2021.
Recruitment and termination awards	The Committee reviewed and approved the remuneration packages for specific joiners and leavers during 2021.
Incentive scheme measures and targets	The Committee reviewed and agreed the measures and targets for the 2021 STIP, the 2021-23 LTIP and the 2021-23 RLAM LTIP.
Incentive scheme for 2022	The Committee had initial discussions in respect of the STIP and LTIP schemes to be implemented in 2022 and approved the 2022 sales incentive plans.
Regulatory considerations	The Committee ensured the Group complies and is up to date with all prevailing regulations – including, for example, the completion of the Solvency II Remuneration Policy Statement.
UK Corporate Governance Code	The Committee continued to review Royal London's response to new requirements under the Code.
Corporate citizenship	The Committee approved the Group's gender pay gap reporting for 2021.
Review of workforce remuneration-related policies	The Committee reviewed a number of workforce remuneration-related policies, e.g. overtime policy, out-of-hours policy, extra contribution awards policy and car policy.
RLAM remuneration	The Committee reviewed the approach to RLAM remuneration and reviewed all RLAM STIP and LTIP schemes as part of an annual reward cycle and in the context of FCA requirements. As set out in the Chair's cover statement, following the review, the Committee agreed a simplified approach to remuneration within RLAM.
Reward strategy	The Committee reviewed the Group's reward strategy for 2022. As set out in the Chair's cover statement, following the review, the Committee agreed that the overall approach to remuneration remained fit for purpose, and made only minor changes to how remuneration is operated within the Group.
Annual review of terms of reference	The key responsibilities of the Committee are set out in its terms of reference, which are reviewed annually and made available to members on the Group's website.

Members' views on remuneration matters

At the AGM on 2 June 2021, members passed the annual advisory vote on the annual report on remuneration and Directors' remuneration policy. The voting results were as follows.

Resolution	Votes for (and percentage of votes cast)	Votes against (and percentage of votes cast)	Shares on which votes were withheld
Annual report on remuneration	32,414 (97.65%)	781 (2.35%)	378

The following sections set out the proposed remuneration for executive and non-executive directors for 2022 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 2022. As part of that process, the Committee considered independent benchmarking data, the performance of the individuals and the Group as a whole, as well as the pay review arrangements that apply to all colleagues of Royal London. As set out on page 100, the agreed salary increase pot for the Group was 4%.

	2022 (£000)	2021 (£000)	% difference
Barry O'Dwyer	728	700	4%
Daniel Cazeaux	436.8	420	4%

Pension and benefits

In line with policy. The maximum pension contribution is 12% of salary.

2022 STIP opportunities and performance measures for 2022

STIP opportunities

The table below details the maximum STIP opportunity for 2022 for Barry O'Dwyer and Daniel Cazeaux.

	Maximum (as % of salary)
Barry O'Dwyer	150
Daniel Cazeaux	150

Performance measure selection and approach to target setting: 2022 STIP

Performance will continue to be assessed against a balanced scorecard and will take into account the personal performance of the individual executive director.

For 2022 the measures and weightings are as follows:

Measures	Weighting
Financials	45%
• Includes measures around new business contribution, operating profit and management of costs	
Customer	20%
• Includes measures around digitally active customers, customer brand and investment performance	
Our people	10%
• Assessment of achievement against People metrics	
Assurance	10%
• Assessment of risk and control management and risk culture	
Building the future	15%
• Assessment against sustainability metrics and strategic initiatives	
Total	100%

Payment of 40% of any amount earned under the STIP is deferred for up to three years. Deferred STIP and LTIP awards are linked to the funds that our members are invested in, to further increase the alignment between remuneration outcomes and our customers and members.

LTIP opportunities and performance measures for 2022

2022 LTIP opportunities

The following awards will be granted to executive directors.

	Face value (as % of salary)	% vesting for target performance	End of performance period
Barry O'Dwyer	150	45	31 December 2024
Daniel Cazeaux	150	45	31 December 2024

Performance measure selection and approach to target setting: 2022 LTIP

The performance measures and weightings for 2022 LTIP are expected to be as follows.

Measures	Weighting
Financials	40%
• Includes measures around operating profit	
Investment performance	30%
• Includes measures on three-year performance vs benchmark	
Building enterprise value	20%
• Assessment against key long-term strategic priorities for the Group that will aid long-term value creation for members	
Sustainability	10%
• Includes ESG measures including the reduction in portfolio CO ₂ e emissions, and diversity and inclusion	
Total	100%

Actual targets set for each measure will be disclosed in the Directors' remuneration report for 2024, unless the Committee considers them too commercially sensitive to disclose.

Non-executive directors

Fees will remain unchanged for non-executive directors until 31 March 2022. The annual base fee for non-executive directors is £75,000 and membership of additional committees is £10,000. Additional fees are payable for Committee chairmanship as follows:

- Risk and Capital Committee: £35,000
- Investment Committee: £25,000
- With-Profits Committee: £25,000
- Audit Committee: £35,000
- Remuneration Committee: £35,000
- Chair of RLAM: £50,000

The annual fee for the Group Chairman is £350,000 and the annual fee for the Senior Independent Director is £20,000.

The annual report on remuneration was approved by the Board and signed on its behalf.

As stated in my annual Chair's statement, I will be stepping down from the Board with effect from 22 March 2022. I would like to thank members for the support they have given during this period. It has been a pleasure meeting many of you at our AGMs.



Tracey Graham

Chair of the Remuneration Committee

Overview of directors' responsibilities for the year ended 31 December 2021

Directors' report and other disclosures

The directors of The Royal London Mutual Insurance Society Limited (the Company) present their report together with the audited consolidated financial statements for the year ended 31 December 2021. The Directors' report has been prepared in accordance with the requirements of the Companies Act 2006 (the Act) and should be read together with the Strategic report and the Corporate governance statement, which are incorporated by reference into this report.

Principal activities

The Group comprises the Company and its subsidiaries. The Group is structured into a number of segments 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 15a to the financial statements.

Directors and their interests

The names of directors of the Company who served during the financial year ended 31 December 2021 and up to the date of signing the financial statements are set out on page 77. The biographies of the current directors are set out on pages 70 to 72.

In accordance with the UK Corporate Governance Code (the Code), all our directors stand for election every year. David Weymouth retired from the Board at the 2021 Annual General Meeting (AGM). Having been appointed since the AGM, Baroness Davidson and Jane Guyett CBE will stand for election at the 2022 AGM. All remaining directors as at the date of the 2021 AGM will retire and will stand for re-election at the 2022 AGM. The details of the executive directors' service contracts are set out in the Directors' remuneration report on pages 98 to 118.

None of the directors has, or had, an interest in the equity shares of any Group undertaking. No director has any material interest in any contract with the Company or a subsidiary undertaking which was significant in relation to the Company's business.

Directors' conflicts of interest

In accordance with the Articles of Association, the Board is authorised to approve conflicts or potential conflicts of directors' interests. The Board has reviewed the interests of the directors and their connected persons, and has authorised any interests that conflicted or potentially conflicted with the interests of the Group. On an ongoing basis, the Board periodically reviews conflict authorisations to determine whether the authorisation given should continue, be added to, or be revoked by the Board.

Directors' indemnities and insurance

The directors have the benefit of a continuing third-party indemnity provision provided by the Company (in accordance with company law and the Articles of Association). The Group also maintains directors' and officers' liability insurance on behalf of its directors and officers to provide cover should any legal action be brought against them.

Persons with significant control

The Company is a mutual and limited by guarantee. It has no shareholders and therefore no individual controls 25% or more of the Company.

Dividend

The Company is limited by guarantee without share capital and therefore no dividends are declared.

Stakeholder engagement

The directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Act and have acted in accordance with these responsibilities during the year. Royal London's largest stakeholder groups are our members and customers and the financial advisers that support them, our colleagues, our suppliers and the society and communities in which we work. However, we also engage with other stakeholders including our pensioners and deferred pensioners, regulators and the Government. The Board continues to focus on stakeholder engagement and pages 21 to 29 show details of how the directors have engaged with its stakeholders and how they had regard to their interests in light of principal decisions taken by the Company during the year.

Consideration for employees

At Royal London the Colleague Representative Forum represents and consults on behalf of all colleagues, ensuring their voice is heard and colleagues are also regularly updated on developments and given the opportunity to comment by the Chief Executive officer through his weekly Blog and in regular 'Town Hall' meetings with the participation of the Board. Many colleagues are members of the mutual by their participation in our Group Pension Plan and can directly share in our success as a company through member-only initiatives like ProfitShare, where a share of Royal London profits are added to the pension plan each year. In addition, most of our colleagues are eligible to participate in incentive plans driven by a balanced scorecard aligned to our Purpose and strategy. This scorecard is well publicised internally, with a dedicated intranet site explaining the measures and how different colleagues can help improve each of them. Further details of how Royal London engages with its employees can be found on pages 23 to 25.

As a participant in the Disability Confident Employer scheme Royal London seeks to maximise the benefit from the talents brought by disabled colleagues into the workplace and make appropriate adjustments in our recruitment processes, in the workplace and with ongoing support. Our colleague-led 'Enabling disability confidence at Royal London' inclusion network offers additional support to colleagues and aims to raise awareness and combat stigma and stereotypes faced by people with disabilities, both visible and hidden.

Sustainability and Climate Change

The Company's corporate, social and environmental activities are set out on pages 30 to 35. Also included on these pages are details of our greenhouse gas emissions in line with requirements of the streamlined energy and carbon reporting framework. Within the Climate change section on pages 36 to 40 we have provided disclosures aligned to the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

Corporate governance

Whilst the Company is not required by any statute or regulation to apply the Code, the Board holds Royal London to high standards of governance and has voluntarily determined to comply with the Code. The Company was compliant with the Code during 2021. More information on compliance is disclosed in the Corporate governance statement on page 74.

Annual General Meeting (AGM)

The AGM of the Company will be held at 11am on Tuesday 7 June 2022 at The Royal Horseguards Hotel and One Whitehall Place, London, SW1A 2EJ.

The notice convening the meeting, together with guidance on voting at the AGM, is sent to all members. You can find more information about the AGM and voting by visiting royallondon.com/about-us/members/agm.

Financial instruments

The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments, and information on the risk exposures arising from those instruments, are set out in note 36 to the financial statements.

Political and charitable donations

No political donations were made in 2021 (2020: £nil). Foundation grants and community donations totalled £1,072,316 (2020: £1,107,328).

Significant agreements

The Company has contractual and other arrangements with a wide range of third parties in support of its business activities. The Company's Outsourcing and Supplier Management Policy, owned by the Risk and Capital Committee, ensures that the appropriate levels of governance and control are applied by categorising the criticality and importance of the services or products that have been procured. Tiers 1 and 2 are considered to be Royal London's most material relationships and are subject to enhanced levels of approval, governance and controls. The Risk and Capital Committee reviews the functioning of Tier 1 Supplier contracts annually.

Going concern

The Group's business activities, along with its financial position, capital structure, risk management approach and factors likely to affect its future performance, are described in the Strategic report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in business for at least 12 months from the date of approval of the financial statements and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements as detailed in note 1(a) to the financial statements.

Directors' report disclosures

Certain Directors' report disclosures have been made in the Strategic report so as to increase their prominence. These disclosures include those relating to greenhouse gas emissions, financial risks, employee involvement, the review of the Group's business during the year and any future developments.

Auditor

PricewaterhouseCoopers LLP (PwC) has indicated its willingness to continue in office. A resolution to reappoint PwC as the auditor of the Group will be proposed at the 2022 AGM.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and
- each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Company and Group financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Under company law the directors must not approve the Annual Report and Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Group for that period.

In preparing the Annual Report and Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK GAAP has been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- make a longer-term viability statement that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2024.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Act. They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Responsibility statement of the directors in respect of the annual financial report

Having taken into account all matters considered by the Board and brought to its attention during the year, each of the directors whose names and functions are shown on pages 70 to 72 confirms that to the best of their knowledge:

- the Group financial statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Directors' report and Strategic report include a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position, performance, business model, prospects and strategy.

Responsibility statement

The responsibility statement was approved by the Board and signed on its behalf.

Directors' report

The Directors' report was approved by the Board and signed on its behalf.

Directors' remuneration report

The Directors' remuneration report was approved by the Board and signed on its behalf.

Strategic report

The Strategic report was approved by the Board and signed on its behalf.

Corporate governance statement

The Corporate governance statement was approved by the Board and signed on its behalf.

By order of the Board



Company Secretary

For and on behalf of Royal London Management Services Limited
3 March 2022

Financial Statements

A photograph of a man and a woman in a kitchen. The man, with a beard and dark hair, is wearing a grey sweater and has his arm around the woman's shoulder, kissing her forehead. The woman has blonde hair and is wearing a brown top, holding a white mug. In the background, there are white shelves with jars containing herbs and a white pitcher.

Report on the audit of the financial statements

Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company Balance sheets as at 31 December 2021; the Consolidated statement of comprehensive income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the 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.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit scope has been determined to provide coverage of material financial statement line items. This allowed us to test 100% of the transfer to FFA and 99% of the total asset balance
- Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole

Key audit matters

- Valuation of non-participating value of in-force business persistency assumptions (Group and Company)
- Valuation of technical provisions – expense assumptions (Group and Company)
- Valuation of complex investments (Group and Company)

Materiality

- Overall Group materiality: £90m (2020: £90m) based on 2.2% of the Fund for Future Appropriations.
- Overall Company materiality: £85m (2020: £85m) based on 2.0% of the Fund for Future Appropriations.
- Performance materiality: £68m (2020: £68m) (Group) and £64m (2020: £64m) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Police Mutual Assurance Society Limited acquisition accounting (Group and Company) and transition to UK GAAP (Group and Company), which were key audit matters last year, are no longer included because they related to one-off transactions and events specific to the year ended 31 December 2020. The impact of Covid-19 on the Group and Company is now much clearer and assessed as having a limited effect on the operations of the Group and Company or the going concern assessment performed by the directors. We have therefore removed this as a specific key audit matter and have, to the extent relevant, referred to the impact of Covid-19 on our audit work within other key audit matters. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of non-participating value of in-force business persistency assumptions (Group and Company)</p> <p>Refer to page 84 of the Report of the Audit Committee and note 29 to the financial statements regarding this area. A sensitivity analysis is included in note 36. The Group has material non-participating value of in-force business totalling £2,333m (2020: £2,229m). This is the value of the projected future profits from servicing policies.</p> <p>When valuing the future cash flows of the long-term business provision, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. Persistency rates determine this and thus are a key assumption when valuing the non-participating value of in-force business. The persistency assumptions of most significance are the paid-up rates ("PUPs") for the Workplace Pensions business.</p> <p>PUP assumptions are estimated using past experience (the experience investigations) and assumptions about future changes to policyholder behaviour. These changes are difficult to predict, and therefore expert judgement is applied when setting an appropriate basis.</p>	<p>We focused our testing on the key areas of judgement. We used our industry knowledge and actuarial experience to:</p> <ul style="list-style-type: none"> • Examine past events in the data and whether these are representative of the likely future experience. In particular, we performed audit procedures to gain assurance that the decision to exclude 2020 data from the experience analysis, due to the impacts of Covid-19, was appropriate. For example, reviewing the analysis completed by management over 2020 data, which had been distorted by the pandemic. • Consider the impact Covid-19 may have on policyholder behaviour and the economic outlook for 2022, which is assumed will lead to an increase in PUP rates. • Test management's controls over the input of the persistency assumptions into the valuation models. • Check for contrary evidence. We used our in-house industry benchmarking data to compare the methodology used by management to derive the persistency assumptions with those adopted by other insurers. <p>Based on the work performed and the evidence obtained, we concluded that the assumptions used were appropriate.</p>
<p>Valuation of technical provisions – expense assumptions (Group and Company)</p> <p>Refer to page 84 of the Report of the Audit Committee and note 29 to the financial statements regarding this area. A sensitivity analysis is included in note 36. The technical provisions in the financial statements include a liability for the estimated future expenses that will be incurred to maintain the existing policies over their expected duration. This expense liability is included within the long-term business provision of £40,802m (2020: £42,181m).</p> <p>The expense assumptions are calculated using an activity-based costing (ABC) model. All costs are categorised as either one-off, acquisition or maintenance. Acquisition and maintenance costs are then allocated across the different products, with only the maintenance cost element then considered in the expense reserve calculation as these represent the costs expected to be incurred in fulfilling the Group's and Company's existing long-term insurance contracts. The model creates a maintenance unit cost for each policy which, along with expense inflation assumptions, the number of policies and their expected duration, is used to calculate the liability for these expenses.</p> <p>The significant assumptions in this model relate to:</p> <ul style="list-style-type: none"> • How costs are categorised between one-off, acquisition or maintenance costs. The categorisation can be judgemental, such as the removal of certain costs where they are considered to be one-off in nature and what methodology has been applied to split costs between the categories; and • The cost allocation between products. Where the costs are not directly attributable to a single product, judgements are made in deciding an appropriate method to allocate out costs. Products have different expected durations and therefore this allocation of costs impacts the total expense liability. 	<p>We obtained evidence over key inputs and assumptions as follows:</p> <ul style="list-style-type: none"> • We tested the completeness of the expenses used in the calculation of the expense liabilities, through reconciling the total expenses recorded within the accounting records of the Group to the total expenses included in the ABC model. • We tested the total number of policies used in setting expense assumptions, which are required for calculating the unit cost for each policy, by corroborating these to data extracts from the policy systems. The data within the policy systems has also been tested. • For a sample, we reviewed project costs and assessed management's methodology and judgements that were applied over the inclusion or exclusion of these costs from the maintenance expenses. • We assessed the judgements made in the allocation of costs between acquisition and maintenance and the allocation of costs to different products. This was performed by agreeing a sample of costs to supporting evidence, and tracing the allocation of each cost within the sample through the model, to verify that the final allocation was appropriate. • We recalculated the per-policy expense across all policies and products. • We compared the resulting expense assumptions to the expenses incurred over the prior 12 months in order to satisfy ourselves that the assumptions were sufficient in aggregate based on this trend analysis. • We have tested management's expense inflation assumptions. <p>Based on the work performed and the evidence obtained, we concluded that the expense assumptions used in the year end valuation of the technical provisions are appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of complex investments (Group and Company)</p> <p>Refer to page 84 of the Report of the Audit Committee and note 18 to the financial statements regarding this area. A sensitivity analysis is included in note 36. The Group holds investments across a number of asset classes including property, private equity funds and hedge funds. The assets held at fair value that were categorised as level 3 totalled £10,122m (2020: £9,089m). These investments are complex and their value is based on limited or no observable market data. All investments including property, private equity funds, and other unquoted investments are overseen by the Valuation Oversight Forum (formerly Valuation Oversight Committee).</p> <p>As such we have focused on these investments due to the significant judgement and estimation required in determining their fair value. They are also susceptible to macroeconomic factors and the turbulence of the current economic climate, including the impact of Covid-19, increases the estimation uncertainty in valuing these assets. Investment property is predominantly held directly and indirectly through real estate funds managed by the Group.</p> <p>The valuation of investment property is determined by third-party valuers engaged by the Group in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards. The valuers used have considerable experience of the types of properties held by the Group. The valuations take into account the property-specific information referred to above (including the current tenants, rental income, and the condition and location of the properties), as well as prevailing market yields and market transactions.</p> <p>The valuation of investments in private equity and hedge funds is determined by the underlying fund manager on a quarterly basis and assessed by management. At the year-end, management base their valuations on the most recent quarterly investor statements for the funds and update for cash flows since the last valuation up to the year-end.</p>	<p>Direct and indirect investment property</p> <p>We performed the following testing, which includes procedures performed by our Real Estate valuation experts, over investment property:</p> <ul style="list-style-type: none"> • We obtained valuation reports from management's valuation experts as at 31 December 2021 and assessed their objectivity and competency. • We tested the inputs into the valuation, such as rental amount and term, for a sample of tenancy agreements. • We performed a review of the assumptions and methodology used by the property valuation experts to confirm that the valuation approach was in accordance with RICS standards. • We performed a property-by-property analysis comparing the investment yields and movement in capital value over 12 months to estimated ranges based on published market benchmarks. • We considered recent transactions (both acquisitions and disposals) to compare the purchase/sale price to the market value to assess the appropriateness of the valuation. • We discussed with management's experts to obtain explanations for any unexpected or unusual differences arising. <p>Private equity</p> <p>We performed detailed testing for private equity and hedge funds as follows:</p> <ul style="list-style-type: none"> • We confirmed the latest available fund valuation to statements prepared by the underlying fund managers or administrators. • We tested transactions since the date of the latest available fund valuation where the valuation used by management was not coterminous with the balance sheet date. We also made enquiries of the private equity houses to determine if there are any factors that would require an adjustment to the net asset values, as well as performing independent searches. • We performed lookback 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. <p>Based on the work performed and the evidence obtained, we found that the valuations were reasonable.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

A component was deemed to be financially significant and in-scope if it contained more than 10% of the total Group technical provision liabilities. A component was also deemed to be financially significant and in-scope if it contained balances related to one of the areas of audit focus. For the one financially significant component identified, being the Company, a full scope audit was performed.

Additional balances from components were selected to ensure sufficient coverage across all material financial statement line items. For the balances identified from these components, specific procedures were performed. Our audit scope allowed us to test 100% of the transfer to FFA and 99% of the total asset balance.

Overall, we concluded that this gave us the evidence we needed for our audit opinion on the financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£90m (2020: £90m).	£85m (2020: £85m).
How we determined it	2.2% of the Fund for Future Appropriations	2.0% of the Fund for Future Appropriations
Rationale for benchmark applied	The engagement team concluded that £90 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £90 million was determined by considering the various benchmarks available to us as auditors, and our experience of auditing the Group. Fund for future appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Company, since it represents the amount of surplus yet to be allocated to those members of the Company and to whom our opinion is addressed.	The engagement team concluded that £85 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £85 million was determined by considering the various benchmarks available to us as auditors, and our experience of auditing the Company. Fund for future appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by members of the Company, since it represents the amount of surplus yet to be allocated to those members of the Company and to whom our opinion is addressed.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.4m and £85m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £68m (2020: £68m) for the Group financial statements and £64m (2020: £64m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4.5 million (Group audit) (2020: £4.5 million) and £4.25 million (Company audit) (2020: £4.25 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the assessment of principal risks and uncertainty facing the Group and Company and the scenarios included in the viability statement and compared it with our understanding of the risks and resources of the Group and Company. In doing so, we consider whether scenarios used by management are sufficiently plausible but severe;
- assessing the results of the Group and Company's stress and scenarios testing and their impact on the Group and Company, including challenging the rationale for the downside scenarios adopted and material assumptions using our knowledge of the business;
- reviewing the current and forecast Group solvency investor and regulatory ratios and the own risk and solvency assessment ("ORSA"), which include a number of severe but plausible scenarios;
- reviewing regulatory correspondence;
- confirmation of the existence of cash and cash equivalents and other financial investments to assess the availability of liquid assets;
- assessment of the fair value of financial investments to determine the appropriateness of their valuation; and
- independent challenge and assessment using our actuarial specialists over the methodology and assumptions used in the valuation of the technical provisions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the Corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code, which the

Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the Corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and relevant tax laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate revenue and management bias in accounting estimates and judgemental areas of the financial statements, such as the valuation of technical provisions, the non-participating value of in-force business and financial investments classified as level 3 in the fair value hierarchy. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with the Board, management, Internal Audit, senior management involved in Risk and Compliance functions and the Group's and Company's legal function including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of management's internal controls designed to prevent and detect irregularities, in particular controls around disclosure of related parties and associated transactions, and risk-based monitoring of customer processes;
- reading key correspondence with the PRA and the FCA in relation to compliance with laws and regulations;
- attendance at all Audit Committees as well as reviewing other relevant committee meeting minutes, including those of the Board, Risk and Capital Committee, Investment Committee, Remuneration Committee and With-Profits Committee;
- reviewing data regarding policyholder complaints, the Group's and Company's register of litigation and claims, Internal Audit reports and Compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- procedures relating to the valuation of the technical provisions and non-participating value of in-force business described in the related key audit matters section above;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which meet our risk criteria; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of material and immaterial financial statement line items.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: 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 Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 December 2000 to audit the financial statements for the year ended 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement is 22 years, covering the years ended 31 December 2000 to 31 December 2021.

Other voluntary reporting

Directors' remuneration

The Company voluntarily prepares a Directors' remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration Report specified by the Companies Act 2006 to be audited as if the Company were a quoted Company.

In our opinion, the part of the Directors' remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.



Thomas Robb (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

3 March 2022

Consolidated statement of comprehensive income

for the year ended 31 December 2021

		Group	
		2021	2020
	Notes	£m	£m
Technical account – long-term business			
Gross premiums written	3 (a)	1,156	1,018
Outwards reinsurance premiums		(82)	(541)
Earned premiums, net of reinsurance		1,074	477
Investment income	4	4,196	5,447
Unrealised gains on investments	4	4,875	—
Other income	5	659	548
Total income		10,804	6,472
Claims paid			
Gross claims paid	6	(2,806)	(2,657)
Reinsurers' share	6	531	505
Change in provision for claims			
Gross amount	6	(64)	77
Reinsurers' share	6	21	(6)
Claims incurred, net of reinsurance		(2,318)	(2,081)
Change in long-term business provision, net of reinsurance			
Gross amount	27 (a)	1,327	(1,522)
Reinsurers' share	27 (a)	(599)	243
		728	(1,279)
Change in technical provision for linked liabilities, net of reinsurance		(7,953)	(1,426)
Change in technical provisions, net of reinsurance		(7,225)	(2,705)
Change in non-participating value of in-force business		104	140
Net operating expenses	7	(623)	(619)
Investment expenses and charges	10	(275)	(222)
Unrealised losses on investments	4	—	(597)
Other charges	11	(275)	(257)
Total operating expenses		(1,173)	(1,695)
Profit before tax and before transfer to the fund for future appropriations		192	131
Tax attributable to long-term business	12	(113)	(51)
Transfer to the fund for future appropriations	26	79	80
Balance on technical account - long term business		—	—
Other comprehensive income, net of tax:			
Remeasurement of defined benefit pension schemes	24 (b)	267	(71)
Foreign exchange rate movements on translation of Group entities		(10)	(36)
Transfer to/(deduction from) the fund for future appropriations	26	257	(107)
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		—	—

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a Company statement of comprehensive income. 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 2021

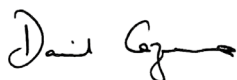
	Notes	Group		Company	
		2021	2020	2021	2020
		£m	£m	£m	£m
ASSETS					
Intangible assets					
Goodwill	13	25	28	25	28
Negative goodwill	13	(44)	(52)	(8)	(9)
		(19)	(24)	17	19
Other intangible assets	13	96	70	95	69
		77	46	112	88
Non-participating value of in-force business	28	2,333	2,229	2,333	2,229
Investments					
Land and buildings	14	149	168	149	168
Investments in Group undertakings	15	—	—	17,684	16,322
Other financial investments	17 (a)	45,293	47,502	28,160	31,735
		45,442	47,670	45,993	48,225
Assets held to cover linked liabilities	17 (c)	72,697	60,229	72,697	60,229
Reinsurers' share of technical provisions					
Long-term business provision	27 (a)	4,579	5,181	4,529	5,138
Claims outstanding		125	93	111	87
Technical provisions for linked liabilities	27 (b)	(53)	(50)	(53)	(50)
		4,651	5,224	4,587	5,175
Debtors					
Debtors arising out of direct insurance operations	20	46	192	45	48
Debtors arising out of reinsurance operations	20	56	41	48	33
Other debtors	21	499	493	381	433
		601	726	474	514
Other assets					
Tangible assets	22	18	25	—	—
Cash at bank and in hand		622	851	392	633
		640	876	392	633
Prepayments and accrued income					
Deferred acquisition costs on investment contracts	23	113	163	113	163
Other prepayments and accrued income		36	35	—	—
		149	198	113	163
Pension scheme asset	24 (b)	357	128	357	128
Total assets		126,947	117,326	127,058	117,384

Balance sheets continued

	Notes	Group		Company	
		2021 £m	2020 £m	2021 £m	2020 £m
LIABILITIES					
Subordinated liabilities	25	1,333	1,332	1,333	1,332
Fund for future appropriations	26	4,009	3,673	4,329	3,993
Technical provisions					
Long-term business provision	27 (a)	40,802	42,181	40,863	42,245
Claims outstanding		321	259	291	234
		41,123	42,440	41,154	42,479
Technical provisions for linked liabilities	27 (b)	72,499	60,059	72,499	60,059
Provisions for other risks					
Deferred taxation	30	228	140	241	144
Other provisions	31	250	282	241	273
		478	422	482	417
Creditors					
Creditors arising out of direct insurance operations	32 (a)	264	237	252	216
Creditors arising out of reinsurance operations	32 (b)	2,535	2,871	2,526	2,869
Amounts owed to credit institutions	32 (c)	42	72	42	72
Other creditors including taxation and social security	32 (d)	4,562	6,055	4,400	5,828
		7,403	9,235	7,220	8,985
Pension scheme liability	24(b)	—	44	—	44
Accruals and deferred income	33	102	121	41	75
Total liabilities		126,947	117,326	127,058	117,384

The Company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or deduction from the fund for future appropriations.

The financial statements on pages 130 to 208 were approved by the Board of Directors and signed on its behalf on 3 March 2022.



Daniel Cazeaux
Group Chief Financial Officer

Registered number: 99064 (England & Wales)

The Royal London Mutual Insurance Society Limited

55 Gracechurch Street, London, EC3V ORL

Notes to the financial statements

For the year ended 31 December 2021

1. Accounting policies

This section describes the Group's significant accounting policies that relate to the financial statements and notes as a whole. If an accounting policy relates to a specific item, the applicable accounting policy is contained within the relevant note. These policies have been consistently applied to all years presented unless otherwise stated.

(a) Basis of preparation

The Royal London Mutual Insurance Society Limited (the 'Company' or 'RLMIS') is a private company limited by guarantee, incorporated and registered in England and Wales with its registered office being 55 Gracechurch Street, London, EC3V 0RL.

The financial statements of the Group and the Company ('the financial statements') have been prepared in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and FRS 103, 'Insurance contracts'. The financial statements are also prepared in compliance with the Companies Act 2006 and under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations') relating to insurance groups, except that a true and fair override has been applied to:

- measure subsidiaries in the consolidated financial statements at fair value through profit or loss ('FVTPL') when they are not consolidated because they are held as part of an investment portfolio – see note 1 (b); and
- measure investments in associates that are part of an investment portfolio at FVTPL in the consolidated financial statements instead of using equity accounting – see note 1 (b).

The Group and Company are exempt from the requirements of Section 7 of FRS 102 to prepare a cash flow statement, as mutual life assurance companies are excluded from compliance with that section.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 from presenting its individual statement of comprehensive income. The Company is a mutual company and consequently the profit for the year is reported as £nil after a transfer to or deduction from the fund for future appropriations.

The financial statements have been prepared under the historical cost convention, as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by FRS 102.

The functional currency of the Group and Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. Foreign operations are included in accordance with the policies set out in note 1(d). Unless otherwise stated, all figures in the financial statements are presented rounded to the nearest million pounds.

The Group's business activities, financial position, capital structure, risk management approach and principal risks and uncertainties are described in the Strategic report.

The Group has considerable financial resources together with a diversified business model. The directors believe the Group is well placed to manage its business risks successfully.

The Group has an estimated Group Regulatory View solvency surplus of £2.8bn and capital cover ratio of 173% at 31 December 2021, which is after the regulatory requirement to restrict the closed fund surpluses of £2.9bn. The Group's business plan forecasts

that the Group Regulatory View solvency surplus and capital cover ratio will remain robust and within target range for at least the 12 months following approval of the financial statements.

The business plan is subject to stress and scenario testing. The most adverse scenario contains severe but plausible assumptions including adverse economic impacts including protracted slumps in consumer spending and business investment, high unemployment and inflationary pressures. This severe but plausible scenario demonstrates that the capital position remains sufficient to cover capital requirements for at least the next 12 months and beyond. Further details on the stress and scenario testing on the business plan can be found on pages 66 and 67 in the Strategic report.

Sufficient liquidity is available to settle liabilities as they fall due. Ongoing monitoring is in place over the liquidity coverage ratios and matching of asset and liability maturity profiles, and cash flow forecasts are also stressed under severe but plausible scenarios to ensure adequate levels of liquid assets are available to fund claims and other expenses.

Having considered these matters and after making appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue to operate as a going concern for a period of at least 12 months from date of approval of the financial statements. For this reason, they consider it appropriate to continue to adopt the going concern basis in preparing the financial statements. The directors have also concluded that there are no material uncertainties over the Group's ability to adopt the going concern basis of accounting.

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Company and its subsidiaries, and the Group's share of the results of associates, excluding investment fund subsidiaries and associates, held as part of an investment portfolio.

As required by Section 9 of FRS 102, subsidiaries that are held as part of an investment portfolio are not consolidated and are included within the consolidated financial statements as investments within 'Other financial investments', measured at FVTPL. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 30 of Schedule 3 to the Regulations, which has been applied so that the financial statements give a true and fair view.

Investments in associates that are part of an investment portfolio are also included in the consolidated financial statements as investments within 'Other financial investments', measured at FVTPL in accordance with Section 14 of FRS 102. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 21 of Schedule 6 to the Regulations, which has been applied so that the financial statements give a true and fair view.

The Group applies the purchase method in accounting for business combinations. The cost of business combinations comprises the fair value of the consideration paid and of the liabilities incurred or assumed and any directly attributable expenses. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

Notes to the financial statements continued

1. Accounting policies (continued)

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 on consolidation.

Investments in associates that are not part of an investment portfolio are included in the consolidated financial statements using the equity method. Under this method, the cost of the investment in a given associate, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset within Other financial investments in the Group balance sheet. The Group's share of their post-acquisition profit or losses is recognised in the consolidated statement of comprehensive income within Investment income.

The accounting policies for Goodwill and for Investments in Group undertakings including subsidiaries, associates and other significant investments are detailed in notes 13 and 15.

(c) Classification of contracts

The Group classifies its products for accounting purposes as insurance, investment, or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant proportion of the total contractual payments; and
- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
 - the performance of a specified pool of contracts, or a specified type of contract, or
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as 'with-profits' or as 'participating' contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with-profits (participating) investment mediums at the same time. Certain hybrid contracts that are classified as investment contracts are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue. Hybrid contracts that contain significant insurance risk are classified as insurance contracts.

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

(d) Foreign currency translation

Revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at the rates of exchange ruling at the time of the respective transactions. Assets and liabilities denominated in foreign currencies are expressed in sterling at the exchange rate ruling on the balance sheet date. Exchange differences from the settlement of transactions and from the translation of assets and liabilities at period-end exchange rates are dealt with in the statement of comprehensive income under the same heading as the underlying transactions are reported.

The results of foreign operations are translated at average rates of exchange for the year. The assets and liabilities of foreign operations are translated into sterling at the rates of exchange ruling at the balance sheet date. All resulting exchange differences are recognised in other comprehensive income.

(e) Impairment of financial assets

Financial assets held at amortised cost are assessed for impairment using expected credit losses. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Group at the point of default.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses; referred to as stage 1). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses; referred to as stage 2). Financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to stage 3.

The loss allowance for lease receivables and trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

1. Accounting policies (continued)

(f) Judgements and key sources of uncertainty

The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. In selecting accounting policies where FRS 102 and FRS 103 permit a choice of policy, the directors have applied judgement in determining the most appropriate policy. Judgements which have been applied in these financial statements are as follows:

- the measurement basis for financial assets under IFRS 9 depends on an assessment of the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. Further detail is given in note 17. For financial liabilities, other than derivative liabilities, the measurement basis is amortised cost unless the liability is designated at FVTPL. Further detail is given in note 32;
- the Group has holdings in investment funds which are classified as subsidiaries, but which are not consolidated in the Group financial statements. Section 9 of FRS 102 requires that subsidiaries 'held with a view to subsequent resale' are not consolidated and are instead included as investments held at FVTPL. The definition of 'held with a view to subsequent resale' includes assets held as part of an investment portfolio. The funds are held within the unit-linked funds of the Group or are held to back non-linked liabilities and therefore are considered to form part of the Group's investment portfolio. As a result, these funds are not consolidated and are held as investments at FVTPL in the Group's balance sheet;
- FRS 102 allows a choice between a cost or fair value measurement model for owner-occupied land and buildings, investment property rented to another Group entity and certain investments in Group entities. The Group and the Company have applied a fair value model to these assets. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;
- the financial liabilities for unit-linked non-participating investment contracts have been designated at FVTPL because the unit-linked liabilities are part of a group of financial assets and financial liabilities that are managed and whose performance is evaluated on a fair value basis;
- the Group categorises assets and liabilities measured at fair value using a three-level hierarchy. Assets and liabilities categorised as Level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of assets and liabilities categorised as Level 2 and, in particular, Level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the item and the availability of market observable information. Further details of the valuation techniques applied are described in note 18;
- the classification of contracts as insurance or investment on initial recognition, which requires an assessment of whether significant insurance risk has been transferred to the Group; and
- the determination of whether the Group has control over an entity, which requires the consideration of several factors, as set out in note 15.

The preparation of financial statements also requires the use of certain critical accounting estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant to the following:

- the valuation of the Group's assets and liabilities held at FVTPL. The fair value measurement note (note 18) explains the assumptions used in the valuation, particularly in respect of Level 3 assets and liabilities. The impact on the Group's result of changes in these assumptions to reasonably possible alternative assumptions is also illustrated;
- intangible assets are recognised and where necessary tested for impairment using the present value of future cash flows expected to arise from the asset. Significant estimates include forecast cash flows and discount rates. Further information is provided in note 13;
- insurance and investment contracts. The key assumptions used in calculating the year-end insurance and investment contract liabilities are described in note 29;
- provisions, contingent liabilities, and contingent assets – the Group evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimate of the expenditure required to settle the obligation. Further information is shown in notes 31 and 34. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits; and
- pension schemes – note 24 sets out the major assumptions used to calculate the pension scheme asset and the sensitivity of the schemes' liabilities to changes in key assumptions.

In addition to the above, the sensitivity of the Group and the Company's assets (including non-participating value of in-force business) and insurance contract liabilities to insurance risk and market risk is analysed in note 36.

Notes to the financial statements continued

2. Segment Information

Accounting for segmental reporting

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board of Directors.

(a) Operating segments

The Group's segmental reporting has been updated in 2021 to align the operating segments to the new Group operating structure. As a result, the new reporting segments are UK, Asset Management, and Ireland. The 2020 results have been restated on this basis. There is no change to the total Group operating profit for the year ended 31 December 2020.

The activities of each operating segment are described below:

UK

The UK segment includes the previous Intermediary, Consumer and Legacy segments. The UK business provides pensions and other retirement products to individuals and to employer pension schemes and protection products to individuals in the UK.

Asset Management

The Asset Management segment comprises Royal London Asset Management Holdings Limited and its subsidiaries. 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.

Ireland

The Ireland business was previously shown within the 'Other' segment and comprises the Group's Irish subsidiary, Royal London Insurance DAC (RLI DAC). It provides intermediated protection products to individuals in the Republic of Ireland.

(b) Operating profit

A key measure used by the Company's Board of Directors to monitor performance is operating profit, which is classed as an Alternative Performance Measure. The Company's Board of Directors considers this measure provides a more meaningful indication of the underlying trading of the Group than statutory profit.

Operating profit before tax is the transfer to the Fund for Future Appropriations before Other Comprehensive Income excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers & acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore, operating profit represents the result of the Royal London Main Fund.

The presentation of certain items to arrive at the Group's operating profit has been updated in 2021 to allocate both income and expenses, where relevant, into the operating segments. These changes to presentation have been made to better reflect how the business is managed and to provide improved granularity of the costs the business incurs. Costs are now presented under the following three headings:

- 'Business development and other costs' are those costs that relate to the enhancement of current or creation of new customer products and propositions, including product related regulatory change.
- 'Strategic development costs' are costs that relate to major strategic projects that are expected to deliver value for the Group by improving operations, delivering significant new product lines, or enhancing the structure or capital efficiency of the Group.
- 'Corporate costs' relate to Group-wide activities and hence are not allocated to operating segments. These include central management and brand costs, pensions, corporate development activities and Group-wide change activities, such as IT security.

Prior year comparatives have been restated so they are presented on a consistent basis to 2021, although the overall operating profit before tax is unchanged.

Revenues, assets, and liabilities by segment are not given as this information is not provided to the Company's Board of Directors and consequently there is no reconciliation of reportable segments' revenues, assets, or liabilities to the Group totals.

2. Segment Information (continued)

The operating profit by segment is shown in the following table.

	Group – 2021				Group – 2020			
	UK £m	Asset Management £m	Ireland £m	Total £m	UK £m	Asset Management £m	Ireland £m	Total £m
Long-term business								
New business contribution	147	—	17	164	137	—	12	149
Existing business contribution	118	—	7	125	96	—	3	99
Contribution from AUM and other businesses	29	95	—	124	8	87	—	95
Business development and other costs	(20)	(17)	—	(37)	(26)	(16)	—	(42)
Strategic development costs	(47)	(7)	(8)	(62)	(89)	—	(3)	(92)
Result from operating segments	227	71	16	314	126	71	12	209
Corporate costs				(106)				(93)
Financing costs				(75)				(75)
Group operating profit before tax				133				41
Economic movements				225				210
Amortisation of goodwill arising from mergers and acquisitions				3				12
Profit on sale of subsidiaries				—				14
ProfitShare				(169)				(146)
Profit before tax and before transfer to the fund for future appropriations				192				131

(c) Geographical analysis

The table below presents income split by geographic region in which the underlying business was written.

	Group – 2021			Group – 2020		
	UK £m	Ireland and other £m	Total £m	UK £m	Ireland and other £m	Total £m
Revenues						
Earned premiums, net of reinsurance	1,032	42	1,074	440	37	477
Investment income	4,196	—	4,196	5,447	—	5,447
Unrealised gains on investments	4,875	—	4,875	—	—	—
Other income	655	4	659	544	4	548
Total income	10,758	46	10,804	6,431	41	6,472

The directors consider the Group and Company's external customers to be the individual policyholders and investment clients. As such, the Group and the Company are not reliant on any individual customer.

Notes to the financial statements continued

3. Premiums

Accounting for premiums

Gross premiums written and outward reinsurance premiums relate to insurance and non-hybrid participating investment contracts. They are accounted for when due for payment except for recurring single premiums and premiums in respect of unit-linked business, which are accounted for when the related liabilities are established.

For non-participating (unit-linked) investment and certain hybrid participating investment contracts the amounts received as premiums are not included in the statement of comprehensive income but are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet.

(a) Gross premiums written

	Group	
	2021	2020
	£m	£m
Direct insurance		
Individual premiums	1,144	1,006
Premiums under group contracts	12	12
	1,156	1,018
Direct Insurance		
Regular premiums	931	871
Single premiums	225	147
	1,156	1,018
Direct insurance		
Non-profit insurance contracts	846	724
Participating insurance contracts	200	167
Participating investment contracts	17	19
Unit-linked insurance contracts	93	108
	1,156	1,018

(b) Premiums received on investment contracts

The amounts received in relation to non-participating (unit-linked) and certain hybrid participating investment contracts by the Group during the year were £10,669m (2020: £8,063m) in respect of non-participating contracts and £8m (2020: £7m) in respect of hybrid participating contracts.

4. Investment return

Accounting for investment return

Investment return comprises all investment income, including property rental income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Investment income derived from assets held at FVTPL includes dividends and interest income. Dividends are recorded on the date on which the shares are declared ex-dividend. Dividends are recorded gross, with the related withholding tax included within the tax expense as foreign tax. Interest income is recognised on an accruals basis. Rental income from investment property, net of any lease incentives received or paid, is recognised on a straight-line basis over the term of the lease. Realised gains and losses on investments held at FVTPL are calculated as the difference between net sales proceeds and purchase price.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or their purchase price for those acquired during the period, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

	Group	
	2021	2020
	£m	£m
Investment income		
Income from financial investments held at FVTPL	1,508	1,526
Income from investment property	240	210
Net realised gains on investment property	20	3
Net realised gains on other investments held at FVTPL	2,422	3,690
Interest income from cash at bank at amortised cost	—	1
Net foreign exchange gain	7	17
Group's share of the results of associates accounted for using the equity method	(1)	—
Total investment income	4,196	5,447
Net unrealised gains/(losses) on investment property	591	(320)
Net unrealised gains/(losses) on financial investments at FVTPL	4,284	(277)
Net unrealised gains/(losses) on investments	4,875	(597)
Investment expenses and charges (note 10)	(275)	(222)
Total investment return	8,796	4,628

Income from investment property includes service charge income. The 2020 comparative income from investment property of £210m was stated net of related property maintenance costs of £29m. For 2021 property maintenance costs are included within property expenses (note 10).

The net unrealised gains/(losses) on financial investments include a loss of £256m (2020: gain of £218m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 32(b)).

Notes to the financial statements continued

5. Other income

Accounting for other income

Other income principally comprises fee income from managing investment funds and commission income where the Group acts as an introducer for certain third-party insurers.

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees relating to the provision of future services, are deferred and recognised in the statement of comprehensive income over the anticipated period in which the services will be provided. Such deferred fee income is shown as a liability in the balance sheet.

Commission income and profit commission received on the underwriting results of third-party insurers is recognised in the statement of comprehensive income as the related services are provided.

The negative goodwill is recognised in profit or loss as set out in note 13.

	Group	
	2021	2020
	£m	£m
Fee income from investment contracts	321	279
Fund management fee income	227	187
Change in deferred fee income	34	16
Commission income	14	14
Subscription income	13	2
Amortisation of negative goodwill	8	12
Other	42	38
	659	548

6. Claims

Accounting for claims

Gross claims paid and the reinsurers' share of claims paid, relate to insurance and non-hybrid participating investment contracts. For non-linked policies, maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the related contract liabilities. Death claims and all other non-linked claims are accounted for when accepted. For linked policies, claims are accounted for on cancellation of the associated units.

Claims payable include related claims handling costs. The reinsurers' share of claims paid is accounted for in the same period as the related claim.

Amounts repaid as claims on non-participating (unit-linked) investment and certain hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as deposits repaid and are deducted from investment contract liabilities.

(a) Claims incurred

	Group					
	2021			2020		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims paid						
Insurance contracts	2,617	(531)	2,086	2,451	(505)	1,946
Participating investment contracts	189	—	189	206	—	206
	2,806	(531)	2,275	2,657	(505)	2,152
Change in provisions for claims						
Insurance contracts	64	(21)	43	(77)	6	(71)
Participating investment contracts	—	—	—	—	—	—
	64	(21)	43	(77)	6	(71)
Claims incurred						
Insurance contracts	2,681	(552)	2,129	2,374	(499)	1,875
Participating investment contracts	189	—	189	206	—	206
	2,870	(552)	2,318	2,580	(499)	2,081

(b) Deposits repaid on investment contracts

The deposits repaid by the Group during the year totalled £5,862m (2020: £4,625m) in respect of non-participating investment contracts and £61m (2020: £59m) in respect of hybrid participating investment contracts.

Notes to the financial statements continued

7. Net operating expenses

Accounting for net operating expenses

Net operating expenses comprise costs relating to the operating activities of the Group. These costs are charged to the statement of comprehensive income as they are incurred.

	Group	
	2021	2020
	£m	£m
Staff costs (note 9)	203	192
Movement in deferred acquisition costs on investment contracts	50	31
Acquisition commission	155	147
Renewal commission	33	30
Depreciation and impairment of tangible assets	11	6
Information systems, maintenance and rent	74	81
Property costs	19	16
Regulatory, professional and administration fees	73	82
Movement in provision for future commission	(10)	3
Amortisation and impairment of intangibles	5	—
Other expenses	10	31
	623	619

8. Auditors' remuneration, net of VAT

	Group	
	2021	2020
	£000	£000
Fees payable to PwC for the audit of the Company and consolidated financial statements	2,906	2,815
Fees payable to PwC for other services:		
Audit of the Company's subsidiaries	1,170	1,083
Audit related assurance services	1,065	1,051
Other assurance services	392	384
Other non-audit services	56	106
	5,589	5,439

The appointment of auditors to the Group's pension schemes and the fees paid in respect of those audits are agreed by the Trustee of the schemes who acts independently from the management of the Group.

	Group	
	2021	2020
	£000	£000
Audit fees in respect of the Royal London Group Pension Scheme	70	72
Audit fees in respect of the Royal Liver Assurance Superannuation Fund	18	17
Audit fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROL)	15	15
Audit fees in respect of Royal London Ireland Pension Plan	5	5
	108	109

Additional information on the non-audit services provided by the auditor to the Group is provided in the Report of the Audit Committee on page 85, including how objectivity and independence is safeguarded. In accordance with The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 the Company has not disclosed the fees payable to the Company's auditors for 'other services' as this information is included in the Group disclosure above.

9. Staff costs

(a) Analysis of staff costs

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Wages and salaries	296	275	283	259
Social security contributions	29	27	28	26
Other pension costs – defined contribution arrangements	26	24	25	24
Other pension costs – defined benefit schemes (note 24)	6	10	6	10
Termination benefits	7	3	7	3
	364	339	349	322

The Company pays its employees via a subsidiary company. Wages and salaries include contractor costs. The total staff costs of the Group of £364m (2020: £339m) are included within the consolidated statement of comprehensive income within the following lines:

	Group	
	2021	2020
	£m	£m
Net operating expenses (note 7)	203	192
Investment expenses and charges (note 10)	89	57
Other charges (note 11)	72	90
	364	339

	Group		Company	
	2021	2020	2021	2020
	Number	Number	Number	Number
The average number of persons (including executive directors) employed during the year was:				
Sales and sales support	395	512	328	460
Administration	4,297	4,111	4,016	3,763
	4,692	4,623	4,344	4,223

The average number of persons employed during the year disclosed for 2020 has been adjusted so it is prepared on a consistent basis with 2021.

(b) Directors' emoluments

	Group	
	2021	2020
	£m	£m
Total emoluments	4	3

Full details of the directors' emoluments are included in the Directors' remuneration report on pages 98 to 118. The information included therein, together with the table above, encompasses that required by the Companies Act 2006.

Notes to the financial statements continued

9. Staff costs (continued)

(c) Key management compensation payable

Compensation payable to key management, including executive directors, is shown in the table below.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Salaries, short-term incentive plans and other benefits	15	16	10	11
Change in amounts payable under long-term incentive plans	5	6	2	4
	20	22	12	15

The Group's policy for determining key management remuneration, including for executive directors, is for total remuneration to be at the median of the UK financial services market. Bonus plans are designed to encourage and reward increases in the value of the business for the benefit of members, while maintaining awards and conditions within risk appetite, through the use of short and long-term incentive schemes. The total amount receivable by key management, including executive directors, under long-term incentive plans was £5m as at 31 December 2021 (2020: £6m). The amount of long-term incentive plans exercised by key management during the year was £5m (2020: £10m).

10. Investment expenses and charges

Accounting for investment expenses and charges

Investment expenses and charges comprise costs relating to the investing activities of the Group. These costs are charged to the statement of comprehensive income as they are incurred.

	Group	
	2021	2020
	£m	£m
Property expenses	66	34
Other transaction costs	9	14
Costs of in-house investment management operations – staff costs (note 9)	89	57
Costs of in-house investment management operations – other	103	110
Other	8	7
	275	222

Property expenses includes property maintenance expenses, which were reported within income from investment property for the year ended 31 December 2020 (note 4).

11. Other charges

Accounting for other charges

Interest payable on subordinated liabilities is calculated using the effective interest method and includes the amortisation of any discount and attributable transaction costs (see note 25).

Other project staff costs and other project costs are charged to the statement of comprehensive income as they are incurred.

	Group	
	2021	2020
	£m	£m
Interest payable on subordinated liabilities	77	77
Other project staff costs (note 9)	72	90
Other project costs	126	90
	275	257

12. Tax expense

Accounting for tax

Tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is also recognised directly in other comprehensive income. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

(a) Tax attributable to long-term business in the statement of comprehensive income

	Group	
	2021	2020
	£m	£m
Tax has been provided as follows:		
UK corporation tax charge		
Current year	26	68
Adjustments in respect of prior periods	7	(2)
ROI corporation tax charge		
Current year	1	6
Adjustments in respect of prior periods	—	(2)
	34	70
Foreign tax partially relieved against UK corporation tax	6	7
Deferred tax (note 30)	73	(26)
	113	51

(b) Reconciliation of the effective tax rate

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the Group as follows:

	Group	
	2021	2020
	£m	£m
Profit before tax and before transfer to the fund for future appropriations	192	131
Tax calculated at the applicable tax rate ¹	38	26
Factors affecting tax charge:		
Accounting profit not subject to policyholder tax	(26)	(21)
Items taxed on a different basis for life assurance companies	89	40
Items disallowed in tax computation	(3)	(6)
Group consolidation adjustments	9	5
Foreign tax partially relieved against UK corporation tax	6	7
Tax charge for the year	113	51

- Corporation tax in the consolidated statement of comprehensive income has been calculated at a rate of 20% (2020: 20%) on the taxable profits in respect of insurance business of the long-term fund, at 12.5% (2020: 12.5%) on the taxable profits of the Irish subsidiaries of the long-term fund, 12.5% (2020: 12.5%) on the taxable profits of the Irish Branch of the Group's UK management company and at 19% (2020: 19%) on the taxable profits of the UK subsidiaries of the long-term fund.

The UK corporation tax rate will increase to 25% from 1 April 2023; this change was substantively enacted on 24 May 2021 and, therefore, is recognised in the measurement of relevant deferred tax balances in these financial statements.

Notes to the financial statements continued

13. Intangible assets

Accounting for intangible assets

Goodwill

Goodwill is the excess of the fair value of the consideration for a business combination plus directly attributable costs, over the fair value of the identifiable net assets acquired. It is capitalised at cost and amortised through the statement of comprehensive income on a straight-line basis over its useful economic life (the period over which the benefits of the business combination are expected to be realised). The amortisation charge is recognised within 'Net operating expenses'.

Negative goodwill is the excess of the fair value of identifiable net assets acquired in a business combination over the fair value of the consideration and directly attributable costs. It is capitalised at cost and shown as a negative asset. Subsequently, the value of negative goodwill up to the fair value of non-monetary assets acquired is recognised in 'Other income' in the periods in which those non-monetary assets are realised. Non-monetary assets are those that are not realised as cash but rather by utilisation of the asset. Any remaining value of negative goodwill in excess of the value of non-monetary assets acquired is recognised in 'Other income' in the periods expected to benefit.

The gain or loss on subsequent disposal of a subsidiary will include any attributable remaining balance of positive or negative goodwill.

Other intangible assets

Other intangible assets include computer software. Directly attributable costs necessary to create, produce and prepare the software asset to be capable of operating in the manner intended are included in the cost of the intangible asset. Intangible assets are carried at cost less accumulated amortisation and impairment losses and are amortised on a straight-line basis over their useful lives, which range from three to ten years. The useful lives are determined by considering relevant factors such as the remaining term of agreements, the normal lives of related products and the competitive position. Amortisation begins when the intangible asset is available for use i.e. when it is in the location and condition necessary for it to be useable in the manner intended by management.

Impairment of intangible assets

The carrying amounts of intangible assets, including goodwill, are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable, in which case an impairment test is performed. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Impairment losses are recognised in the statement of comprehensive income. With the exception of goodwill, an impairment loss is reversed if the reasons for the impairment loss have ceased to apply. 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 amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is never reversed.

The following tables show the movements in the intangible assets of the Group and the Company.

	Group – 2021			
	Goodwill	Negative goodwill	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 January	29	(206)	387	210
Additions	—	—	26	26
Acquisitions (note 16)	2	—	—	2
At 31 December	31	(206)	413	238
Accumulated amortisation, impairment losses and disposals				
At 1 January	(1)	154	(317)	(164)
Amortisation	(5)	8	—	3
At 31 December	(6)	162	(317)	(161)
Net book value				
At 1 January	28	(52)	70	46
At 31 December	25	(44)	96	77

13. Intangible assets (continued)

	Company – 2021			
	Goodwill £m	Negative goodwill £m	Other intangible assets £m	Total £m
Cost				
At 1 January	29	(87)	307	249
Additions	—	—	26	26
At 31 December	29	(87)	333	275
Accumulated amortisation, impairment losses and disposals				
At 1 January	(1)	78	(238)	(161)
Amortisation	(3)	1	—	(2)
At 31 December	(4)	79	(238)	(163)
Net book value				
At 1 January	28	(9)	69	88
At 31 December	25	(8)	95	112

The balance of negative goodwill at the balance sheet date relates to the acquisitions of Royal Liver Assurance Limited (Royal Liver) in 2011 and Royal London (CIS) Limited (RL (CIS)) in 2013. For these acquisitions the value of negative goodwill is being amortised on a straight-line basis over 15 and 20 years respectively, which are the periods expected to benefit.

Other intangible assets are software assets of £96m (2020: £70m) for the Group and £95m (2020: £69m) for the Company. The software assets are not in use at the year-end date; hence no amortisation has been charged. An impairment review has been performed in the year, resulting in there being no impairment charged (2020: £nil). The software is in the process of being developed and the recoverable amount has been estimated using the following key assumptions for the value in use calculation:

- expected profits from future new business over the ten-year useful life of the software licence are included. The cash flows are based on the business plan approved by the Board of Directors, which covers a five-year period, and cash flows beyond that period have been assumed to grow at a steady rate of 4.8% per annum;
- project cash flows to bring the software asset into use, as well as system maintenance costs, taking into account expected cost savings;
- existing business cash flows are based on the run off profile of the value of in-force (VIF) business; and
- cash flows have been discounted using a risk-adjusted discount rate of 11.6% (2020: 12.3%).

Notes to the financial statements continued

14. Land and buildings

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Investment property	96	96	149	168
Owner occupied property	53	72	—	—
Total Land and buildings	149	168	149	168

All land and buildings are held on a freehold basis, with the exception of one leasehold property valued at £300k (2020: £260k).

(a) Investment property

Accounting for investment property

Investment property is property held for rental, capital growth or both, excluding that occupied by the Group or the Company.

Investment property is initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. All investment property is subsequently measured at fair value in the balance sheet. Fair value is determined by independent professional valuers, who are members of the Royal Institute of Chartered Surveyors, based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

When the Group or the Company has given a lease incentive, the carrying value of the investment property is reduced by the value of the debtor arising from the lease incentive, which is shown separately within 'Other debtors'.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Investment property				
Fair value				
At 1 January	96	97	168	169
Additions	6	3	8	7
Disposals	(32)	—	(35)	—
Transfers from owner occupied land and buildings	18	—	—	—
Net gain/(loss) from fair value adjustments	8	(4)	8	(8)
At 31 December	96	96	149	168

The cost of investment property above was £65m (2020: £74m) for the Group and £131m (2020: £158m) for the Company.

Investment property is revalued to fair value annually with an effective date of 31 December. The principal valuers used were CBRE Limited, Cushman & Wakefield and Knight Frank. Fair value is determined using market and income approaches (see note 18 (a)). There has been no change to the valuation technique during the year. The net gain/(loss) from fair value adjustments shown above represents the net fair value gain/(loss) on the revaluation of properties held at the balance sheet date and does not include gains or losses realised on properties disposed of during the year.

Investment properties are leased to third parties under operating leases. Under the terms of certain leases, the Group is required to repair and maintain the related properties. At the balance sheet date, the future minimum lease payments receivable under non-cancellable leases are shown in the following table. For the purposes of this table, the minimum lease period has been taken as the period to the first possible date that the lease can be terminated by the lessee.

These total future minimum lease payments receivable can be analysed as follows:

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Not later than one year	3	3	3	3
Later than one year and not later than five years	8	8	8	8
Later than five years	5	7	5	7
	16	18	16	18

14. Land and buildings (continued)

(b) Owner-occupied land and buildings

Accounting for owner occupied land and buildings

Owner-occupied land and buildings are initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. Costs incurred after initial recognition are included in an asset's carrying value only to the extent that it is probable that there will be future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

All owner-occupied land and buildings are subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, 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.

Owner-occupied land and buildings are not depreciated.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

	Group	
	2021	2020
	£m	£m
Owner-occupied land and buildings		
Fair value		
At 1 January	72	72
Additions	2	4
Disposals	(3)	—
Transfers to investment property	(18)	—
Net loss from fair value adjustments	—	(4)
At 31 December	53	72

Owner-occupied land and buildings are held on a fair value basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows.

	Group	
	2021	2020
	£m	£m
Cost	84	77
Accumulated depreciation and impairment losses	(13)	(15)
Additions	2	—
Disposals	(3)	—
Transfers to investment property	(17)	—
Net book value	53	62

Notes to the financial statements continued

15. Investments in Group undertakings

Accounting for investment in Group undertakings

Subsidiaries

The Company has elected to present investments in subsidiaries in the Company balance sheet measured at FVTPL, as permitted by FRS 102 Section 9.

Subsidiaries are those entities (including OEICs and other investment funds) over which the Group has control. The Group controls an entity when it has power to govern its financial and operating policies. The Group considers all relevant facts and circumstances when determining whether control exists and makes a re-assessment whenever those facts and circumstances change. Profits or losses of subsidiaries sold or acquired during the period are included in the consolidated results up to the date that control ceases or from the date of gaining control.

The Group invests in investment funds, which themselves invest mainly in equities, bonds, property and cash and cash equivalents. Some of these funds are managed by Group companies. For these funds, where the Group's holding is greater than 50% it is presumed that it has the power to govern the fund's financial and operating policies; in such cases the fund is classified as a subsidiary. Where the Group's holding of internal investment funds is less than 50% it is classified as an associate, unless the Group's interest is less than 20% in which case the Group is not considered to have significant influence over the fund and the fund is accounted for within 'Other financial investments' at fair value.

The Group also invests in certain private equity funds and property unit trusts, which are managed by external third-party administrators. The structure of each fund, the terms of the relevant agreements and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the unit trust/ fund should be classified as a subsidiary.

In accordance with Section 9 of FRS 102, subsidiaries that are held as part of an investment portfolio are not consolidated and are held on the Group balance sheet as 'Other financial investments' measured at FVTPL. The inclusion of these entities at FVTPL is a departure from the requirements of paragraph 30 to Schedule 3 of the Regulations as set out in note 1(b).

Special purpose entities (SPE)

An SPE is an entity established to achieve a specific, narrow objective. An SPE is consolidated into the Group financial statements when the Group is deemed to control the SPE. Circumstances that may indicate that the Group controls an SPE include:

- the activities of the SPE are being conducted on behalf of the Group according to its specific business needs;
- the Group has the ultimate decision-making powers over the SPE even if the day-to-day decisions have been delegated;
- the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; and
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets.

Associates

Associates are entities over which the Group has significant influence but not control or joint control, generally accompanying an ownership interest of between 20% and 50%. The Company has elected to present investments in associates in the Company balance sheet measured at FVTPL, as permitted by FRS 102 Section 9.

The Group's investments in associates which are investment funds, are held as part of an investment portfolio and are measured at FVTPL, in accordance with Section 14 of FRS 102. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 21 of Schedule 6 to the Regulations, as set out in note 1(b). The Group's investments in associates which are not held as part of an investment portfolio are accounted for using the equity method as set out in note 1 (b).

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities. The Group's interests in joint ventures are all jointly controlled entities that are held as part of an investment portfolio, hence under FRS 102, Section 15, they are measured at FVTPL in both the Company and Group balance sheets.

The fair value of investments in Group undertakings which are unit trusts, OEICs and other pooled funds is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined by the Company's Board of Directors using the same valuation techniques as are used for unquoted investments, as described in note 18 (a).

15. Investments in Group undertakings (continued)

The Company's investments in Group undertakings comprises:

	Company	
	2021	2020
	£m	£m
Shares in subsidiaries	802	751
Loans to subsidiaries	22	20
Shares in associates	20	—
OEICs and other investment funds – subsidiaries	14,798	14,442
OEICs and other investment funds – associates	2,042	1,109
	17,684	16,322

The OEICs and other investment funds represent the Company's investment in funds which are managed by subsidiaries of the Group. The funds classified as subsidiaries are those over which the Group has control. The funds classified as associates are those over which the Group has significant influence but not control.

The investments in Group undertakings includes £nil in respect of directly held listed investments (2020: £nil).

(a) Subsidiaries

The Company has the following subsidiaries, including OEICs and other investment funds classified as subsidiaries and held within unit-linked funds. All subsidiaries have a registered office of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted by a letter which corresponds to the addresses listed in the table on page 154. All operational, nominee, trustee and non-trading subsidiary undertakings are consolidated in the Group financial statements and have a financial reporting date of 31 December.

Subsidiaries consolidated within the Group financial statements		% holding		Nature of business	Registered Office
Name		2021	2020		
Operational subsidiaries:					
Cambridge Research Park Management Company Limited		69.0	69.0	Property services company	A
Hornby Road Investments Limited ¹		100.0	100.0	Property company	-
Mortgage Excellence Limited		100.0	100.0	Mortgage intermediary	-
PM Advisory Limited		100.0	100.0	Independent financial adviser	-
PM Central Services Limited		100.0	100.0	Service company	-
PMGI Limited		100.0	100.0	Intermediary	-
PMHC Limited ¹		100.0	100.0	Discretionary healthcare products	-
PM Holdings Limited ¹		100.0	100.0	Holding company	-
Police Housing Fund Limited ¹		100.0	100.0	Holding company	-
RL Finance Bonds No.2 plc		100.0	100.0	Finance company	-
RL Finance Bonds No.3 plc		100.0	100.0	Finance company	-
RL Finance Bonds No.4 plc		100.0	100.0	Finance company	-
RL Marketing (CIS) Limited		100.0	100.0	ISA management	-
RL Wizard Holdings Limited ¹		100.0	100.0	Holding company	-
RLPPF Abingdon Limited		100.0	100.0	Property company	B
RLUM Limited		100.0	100.0	Unit trust management	-
Royal London (UK) Holdings Limited ¹		100.0	100.0	Holding company	-
Royal London Asset Management Funds Public Limited Company		99.9	99.9	Investment management	C
Royal London Asset Management Holdings Limited		100.0	100.0	Holding company	-
Royal London Asset Management Limited		100.0	100.0	Investment management	-
Royal London Cambridge Limited ¹		100.0	100.0	Property company	-
Royal London Insurance Designated Activity Company		100.0	100.0	Regulated insurance company	D
Royal London Management Services Limited		100.0	100.0	Service company	-
Royal London Marketing Limited		100.0	100.0	Intermediary	-
Royal London Savings Limited		100.0	100.0	ISA management	-
Royal London Unit Trust Managers Limited		100.0	100.0	Unit trust management	-
Vision Park Management Limited		86.0	86.0	Property services company	E
Wealth Wizards Benefits Limited ^{1,2}		100.0	N/A	Financial intermediary	F
Wealth Wizards Limited ²		100.0	N/A	Fintech company	F

Notes to the financial statements continued

15. Investments in Group undertakings (continued)

Subsidiaries consolidated within the Group financial statements	% holding			Registered Office
Name	2021	2020	Nature of business	
Nominee companies:				
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. Pensions Trustees (R.O.I.) Company Limited	100.0	100.0	Trustee company	D
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	D
Royal Liver Trustees Limited	100.0	100.0	Trustee company	-
Royal London Trustee Services Limited	100.0	100.0	Trustee company	-
Non-trading companies:				
Abacus Limited	100.0	100.0	Non-trading	-
Brightgrey Limited	100.0	100.0	Non-trading	-
Canterbury Life Assurance Company Limited	100.0	100.0	Non-trading	-
Capitol Way Commercial No 1 Limited	100.0	100.0	Non-trading	-
Capitol Way Commercial No 2 Limited	100.0	100.0	Non-trading	-
Capitol Way Estate Management Limited	100.0	100.0	Non-trading	-
Capitol Way Estate No 1 Limited	100.0	100.0	Non-trading	-
Capitol Way Estate No 2 Limited	100.0	100.0	Non-trading	-
Leyburn Developments Limited	100.0	100.0	Non-trading	-
No1 Farringdon (London) Unitholder Limited ³	100.0	N/A	Non-trading	G
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	H
RL NPB Services Limited	100.0	100.0	Non-trading	-
RLM Finance Plc ¹	100.0	100.0	Non-trading	-
Royal Liver (IFA Holdings) Plc	100.0	100.0	Non-trading	-
Royal Liver Asset Managers Limited 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	H
S.L. (Davenport Green) Limited	100.0	100.0	Non-trading	H
Scottish Life (Coventry) Property Limited	100.0	100.0	Non-trading	H
The Scottish Life Assurance Company	100.0	100.0	Non-trading	H
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	-
Wealth Wizards Advisers Limited ²	100.0	N/A	Non-trading	F

1. Denotes UK subsidiaries that will take advantage of the audit exemption by virtue of section 479A of the Companies Act 2006 for the year ended 31 December 2021.

2. Wealth Wizards Limited, Wealth Wizards Advisers Limited, and Wealth Wizards Benefits Limited were acquired on 1 April 2021.

3. Denotes company incorporated during the year.

4. Denotes company dissolved during the year.

15. Investments in Group undertakings (continued)

Unit trusts, OEICs and other investment funds reported as subsidiaries under FRS 102 but not consolidated within the Group financial statements							
	% holding ⁵		Nature of business	Latest financial reporting date	Aggregate of capital and reserves £m	Profit for the period £m	Registered Office
	2021	2020					
The Royal London UK Mid Cap Growth Fund	92.2	91.9	OEIC	31 Aug 2021	526	140	-
The Royal London UK Opportunities Fund	99.9	99.8	OEIC	31 Aug 2021	950	269	-
The Royal London UK Broad Equity Tilt Fund ⁶	51.3	—	OEIC	N/A	N/A	N/A	-
The Royal London Japan Equity Tilt Fund	97.0	98.2	OEIC	31 Aug 2021	1,279	159	-
The Royal London UK Core Equity Tilt Fund	99.1	98.5	OEIC	31 Aug 2021	6,816	1,265	-
The Royal London US Equity Tilt Fund	98.0	98.4	OEIC	31 Aug 2021	7,746	1,658	-
The Royal London All Share Tracker Fund	—	54.3	OEIC	31 Aug 2021	742	121	-
The Royal London Index Linked Fund	56.7	60.8	OEIC	31 Oct 2021	538	23	-
The Royal London European Growth Fund	99.6	99.6	OEIC	31 Aug 2021	2,166	423	-
The Royal London GMAP Growth Fund	88.2	63.9	OEIC	30 Jun 2021	636	44	-
The Royal London UK Equity Fund	96.3	96.4	OEIC	31 Aug 2021	704	145	-
The Royal London Asia Pacific ex Japan Equity Tilt Fund	97.1	97.7	OEIC	31 Aug 2021	1,258	255	-
The Royal London UK Smaller Companies Fund	97.9	99.0	OEIC	31 Aug 2021	450	153	-
The Royal London Cash Plus Fund	64.2	68.7	OEIC	31 Oct 2021	6,769	9	-
The Royal London European Corporate Bond Fund	—	93.3	OEIC	30 Apr 2021	94	(3)	-
The Royal London Europe ex UK Equity Tilt Fund	92.6	95.3	OEIC	31 Aug 2021	883	173	-
The Royal London International Government Bond Fund	64.7	73.4	OEIC	31 Oct 2021	458	(8)	-
The Royal London Global High Yield Bond Fund	96.8	95.8	OEIC	30 Jun 2021	3,452	371	C
The Royal London Short-Term Money Market Fund	55.5	57.1	OEIC	31 Oct 2021	3,207	14	-
The Royal London Absolute Return Government Bond Fund	88.9	81.0	OEIC	30 Jun 2021	1,363	24	C
The Royal London GMAP Conservative Fund	99.0	98.4	OEIC	30 Jun 2021	254	(4)	-
The Royal London GMAP Adventurous Fund	86.5	79.4	OEIC	30 Jun 2021	333	46	-
The Royal London GMAP Dynamic Fund	92.9	93.9	OEIC	30 Jun 2021	68	12	-
The Royal London GMAP Defensive Fund ⁶	N/A	59.2	OEIC	30 Jun 2021	63	4	-
The Royal London Emerging Markets ESG Leaders Equity Tracker Fund	94.7	97.4	OEIC	31 Aug 2021	4,119	172	-
The Royal London Global Equity Diversified Fund	97.4	100.0	OEIC	31 Aug 2021	3,317	713	-
The Royal London Global Equity Select Fund	80.9	99.2	OEIC	31 Aug 2021	378	87	-
The Royal London UK Real Estate Fund	100.0	100.0	OEIC	30 Jun 2021	3,000	244	-
The Royal London Multi Asset Credit Fund	52.6	65.1	OEIC	30 Jun 2021	1,143	113	C
The Royal London Sterling Liquidity Money Market Fund	100.0	100.0	OEIC	30 Jun 2021	3,464	1	C
The Royal London Monthly Income Bond Fund	81.2	86.7	OEIC	30 Jun 2021	47	3	-
The Royal London Multi Asset Strategies Fund	50.6	52.4	OEIC	30 Jun 2021	203	20	-
The Royal London Short Duration Plus Fund	100.0	100.0	OEIC	30 Jun 2021	199	25	C
The Royal London Global Equity Income Fund	99.6	100.0	OEIC	31 Aug 2021	26	6	-
The Royal London Global Sustainable Equity Fund	51.9	81.4	OEIC	31 Aug 2021	165	31	-
The Royal London UK Dividend Growth Fund	97.6	98.4	OEIC	31 Aug 2021	1,070	267	-
The Royal London GMAP Balanced Fund	77.0	71.3	OEIC	30 Jun 2021	238	22	-
The Royal London Global Bond Opportunities Fund ⁷	N/A	57.0	OEIC	30 Jun 2021	222	23	C
The Royal London Enhanced Cash Plus Fund ⁷	N/A	53.6	OEIC	31 Oct 2021	2,903	9	-
The Royal London US Growth Trust	60.9	58.9	Unit trust	30 Jun 2021	280	68	-
The Royal London Property Fund ⁸	63.0	N/A	Property fund	31 Dec 2021	443	67	-
The Royal London Property Trust	100.0	100.0	Property trust	31 Dec 2021	279	34	-

5. The percentage holdings shown include the holding of the Group's unit linked funds which are included within assets held to cover linked liabilities.

6. The Royal London UK Broad Equity Tilt Fund was launched on 3 December 2021 and therefore no financial reporting or comparatives are available.

7. The Group's holdings in these funds have fallen in the year. The funds are now reported as associates as shown in note 15(c).

8. The Group's holdings in the fund have increased in the year. The fund was previously reported as an associate in note 15(c).

Notes to the financial statements continued

15. Investments in Group undertakings (continued)

The addresses of the registered address of those Company subsidiaries, associates, and other significant holdings which have a registered office other than 55 Gracechurch Street, London EC3V 0RL, United Kingdom, are noted below by letter.

Reference	Registered address
A	27-28 Clement's Lane, London, England, EC4N 7AE, United Kingdom
B	27 Esplanade, St Helier, JE1 1SG, Jersey
C	70 Sir John Rogerson's Quay, Dublin 2, Ireland
D	47-49 St Stephen's Green, Dublin 2, Ireland
E	50/60 Station Road, Cambridge, England, CB1 2JH, United Kingdom
F	Wizards House, 8 Athena Court, Tachbrook Park, Leamington Spa, England, CV34 6RT, United Kingdom
G	Aztec Group House, 11-15 Seaton Place, St. Helier, JE4 0QH, Jersey
H	St Andrew House, 1 Thistle Street, Edinburgh, EH2 1DG, United Kingdom
I	PO Box 650, 1st Floor Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey, GY1 3JX
J	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
K	9 West 57th Street, Suite 4200, New York, 10019, United States
L	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom
M	8-9 Well Court, London, EC4M 9DN, United Kingdom
N	Oak House, Hirzel Street, St Peter Port, Guernsey, GY1 2NP

(b) Interest in special purpose entity

The Group owns 100% of the preference shares in Pinkerton segregated account (within Artex SAC Limited), a reinsurance transformer platform, which is incorporated in Bermuda. Its principal activity is reinsurance of general insurance policies that are arranged by another Group company. In accordance with FRS 102, section 9, Pinkerton meets the definition of a 'special purpose entity' and in accordance with the requirements of that section, Pinkerton is consolidated within the Group financial statements.

(c) Interests in associates

The Group's associates, which are investment funds are accounted for as financial assets held at FVTPL and are all incorporated in England with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom. At 31 December 2021, the following funds have been recognised as associates.

	Group's % holding	
	2021	2020
The Royal London UK Growth Trust	24.2	25.2
The Royal London Corporate Bond Monthly Income Trust	24.1	25.1
The Royal London Investment Grade Short Dated Credit Fund	32.4	41.3
The Royal London Sustainable Managed Income Trust	28.1	49.1
The Royal London Property Fund ¹	N/A	36.5
The Royal London Global Index Linked Fund	24.9	23.9
The Royal London Short Duration Gilts Fund	32.1	41.6
The Royal London Short Duration Global High Yield Bond Fund	32.4	49.2
The Royal London European Growth Trust	28.2	31.7
The Royal London UK Government Bond Fund	49.6	48.8
The Royal London Sterling Extra Yield Bond Fund	27.2	25.1
The Royal London Global Bond Opportunities Fund ²	37.4	N/A
The Royal London GMAP Defensive Fund ²	41.8	N/A
The Royal London Enhanced Cash Plus Fund ²	42.4	N/A
The Royal London UK Equity Income Fund	24.2	18.7

1. The Group's holdings in the fund have increased in the year. The fund is now reported as a subsidiary as shown in note 15(a).

2. The Group's holdings in these funds have fallen in the year. The funds were previously reported as subsidiaries as shown in note 15(a).

During the year the Company received dividends from investments in associates amounting to £87m (2020: £78m).

In addition, the Group has a holding of 30% in each of two entities not held as part of an investment portfolio: Responsible Life Limited and Responsible Lending Limited, both of which are incorporated in England. The registered address of Responsible Life Limited is Mills Bakery, Royal William Yard, Plymouth PL1 3GE and the registered address of Responsible Lending Limited is Princess Court, 23 Princess Street, Plymouth PL1 2 EX. The Group's share of the results of these associates is reported in note 4.

15. Investments in Group undertakings (continued)

(d) Interests in other significant holdings

The Group also invests in the following private equity funds, which represent an ownership interest of greater than 20%. These are all managed by external administrators and the Group has no involvement in the management, operation or decision making of the funds. As such, the presumption that significant influence exists is overcome and these investments have not been recognised as associates but have been treated as investment funds within 'other financial investments'. The registered addresses of the private equity funds are included in the table on page 154.

	% holding		Latest financial reporting date	Aggregate of capital and reserves	Profit/(loss) for the period	Registered Office
	2021	2020				
SPL ARL Private Finance	99.4	99.4	31 Mar 2021	£654,000	(£162,000)	I
WP Global Mezzanine Private Equity	100.0	100.0	31 Dec 2020	\$27,682,246	\$1,437,837	J
Core Alpha Private Equity Partners	29.9	29.9	31 Dec 2020	\$33,563,315	\$5,151,796	J
KKR CIS Global Investor L.P.	100.0	100.0	31 Dec 2020	\$104,681,016	\$10,804,455	K
Enterprise Ventures Growth Ltd	45.2	45.2	31 Mar 2021	£4,596,112	(£361,616)	L
RJD Private Equity Fund III 'A' L.P.	31.9	31.9	31 Dec 2020	£22,000,586	(£2,392,953)	M
Rising Star Growth Fund II	21.8	21.8	31 Mar 2021	£1,304,765	£991,770	L
Cubera RL Nordic PE LP	100.0	100.0	31 Dec 2020	€12,161,717	(€146,985)	N

(e) Interests in joint ventures

The Group has an interest in a jointly controlled entity giving rise to a 7.5% (2020: 7.5%) beneficial interest in a property, the Bluewater Shopping Centre, Kent. The arrangement entitles the Group to 7.5% (2020: 7.5%) of the net rental income of the property.

The Group has entered into joint ventures with RLW Estates Limited (50% holding) and Waterbeach Development Company LLP (41.25% holding) via its wholly owned subsidiary, Royal London Cambridge. A convertible funding arrangement for £2m has been provided by Royal London Cambridge Limited to Waterbeach Development Company LLP.

The Group has an interest in a jointly controlled entity giving rise to a 50% beneficial interest in a property at 1 St John's Lane, Farringdon, London.

16. Corporate transactions

On 1 April 2021 the Group acquired Wealth Wizards Limited and its subsidiaries for nominal consideration. Net liabilities acquired were £2m and the goodwill arising of £2m was fully amortised in the year.

On 1 July 2021 the Group purchased 30% stakes in Responsible Life Limited and Responsible Lending Limited. The consideration paid (including transaction costs) was £20m. Both entities are treated as associates, as explained in note 15.

Notes to the financial statements continued

17. Financial investments

Accounting for financial investments

All investment transactions are recognised at trade date i.e. the date the Group commits to purchase the asset from, or deliver the asset to, the counterparty.

Financial investments are classified on the basis of an assessment of the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. Financial assets are classified at FVTPL where they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or they do not meet the criteria to be measured at amortised cost.

With the exception of associates accounted for using the equity method in the Group balance sheet, all of the financial assets of the Group's non-linked funds, included on the balance sheet within 'Other financial investments', are part of a group of financial assets that are managed on a fair value basis and are classified upon initial recognition as held at FVTPL. All of the financial assets within the Group's unit-linked funds, included on the balance sheet within 'Assets held to cover linked liabilities', are also a group of financial assets that are managed on a fair value basis and are classified upon initial recognition as held at FVTPL.

Financial assets classified as FVTPL are initially recognised at the fair value of the consideration paid. They are subsequently measured at fair value with any resultant gain or loss recognised in the statement of comprehensive income.

Fair value for quoted investments in an active market is the bid price, which management believe is representative of fair value. For investments in unit trusts, OEICs and other pooled funds (including those classified as investments in Group undertakings) it is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. If the market for a quoted financial investment is not active or the investment is unquoted, the fair value is determined by using valuation techniques. For these investments, the fair value is established by the Company's Board of Directors 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.

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 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.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. All derivatives are accounted for on a contract-by-contract basis and are not offset in the balance sheet.

Collateral received and pledged

For non-cash collateral received and pledged the risks and rewards of ownership are not transferred by the transaction (unless there is a default by the counterparty). Therefore, non-cash collateral received by the Group or the Company is not recognised as an asset on the balance sheet and non-cash collateral pledged by the Group or the Company remains on the balance sheet and is not derecognised. For cash collateral received and pledged the risks and rewards of ownership are transferred. Therefore, cash collateral received is recognised as an asset with a corresponding liability to repay the collateral. For cash collateral pledged the cash asset is derecognised and an equivalent debtor for the repayment of the collateral is recognised.

17. Financial investments (continued)

(a) Other financial investments

The carrying values of the Group and Company's other financial investments and their original cost are summarised by category below:

	Group			
	Fair value		Cost	
	2021 £m	2020 £m	2021 £m	2020 £m
Derivative assets (note 19)	4,316	5,759	4,323	4,473
Equity securities				
Quoted	6,937	6,522	4,496	4,873
Unquoted	378	284	361	284
	7,315	6,806	4,857	5,157
Debt and fixed income securities				
Government bonds	5,217	6,100	5,246	5,795
Other quoted	5,126	5,215	4,964	4,795
Loans secured by policies	3	4	3	4
Deposits with credit institutions	2,353	3,364	2,322	3,334
Other unquoted	2,528	2,890	2,527	2,904
	15,227	17,573	15,062	16,832
Unit trusts and other pooled investments	18,395	17,364	16,792	16,513
Commercial real estate loans	40	—	40	—
Total other financial investments	45,293	47,502	41,074	42,975

Included in the figure for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £41m (2020: £60m). The figure for other unquoted debt securities above includes £2,477m (2020: £2,820m) for a loan note held in respect of a reinsurance arrangement (see note 32). The figure for deposits with credit institutions above includes £1,673m (2020: £2,192m) of reverse repurchase agreements. Included in the figure for unit trusts and other pooled investments above is £17,084m (2020: £15,762m) of OEICs and other investment funds and investments in joint ventures that are not consolidated within the Group financial statements.

	Company			
	Fair value		Cost	
	2021 £m	2020 £m	2021 £m	2020 £m
Derivative assets (note 19)	4,316	5,759	4,323	4,473
Equity securities				
Quoted	6,937	6,522	4,496	4,873
Unquoted	359	284	341	284
	7,296	6,806	4,837	5,157
Debt and fixed income securities				
Government bonds	5,217	6,100	5,245	5,795
Other quoted	5,125	5,215	4,964	4,795
Loans secured by policies	3	4	3	—
Deposits with credit institutions	2,353	3,364	2,322	3,334
Other unquoted	2,528	2,889	2,527	2,904
	15,226	17,572	15,061	16,828
Unit trusts and other pooled investments	1,282	1,598	1,191	1,530
Commercial real estate loans	40	—	40	—
Total other financial investments	28,160	31,735	25,452	27,988

Notes to the financial statements continued

17. Financial investments (continued)

Included in the figure for Government bonds above are corporate bonds, issued by companies and guaranteed by their respective governments, of £41m (2020: £60m). The figure for unquoted debt securities above includes £2,477m (2020: £2,820m) in respect of a loan note held in respect of a reinsurance arrangement (see note 32). The figure for deposits with credit institutions above includes £1,673m (2020: £2,192m) of reverse repurchase agreements.

(b) Other financial investments – listed investments

Included in the carrying value of other financial investments are amounts in respect of listed investments as follows:

	Group and Company	
	2021	2020
	£m	£m
Equity securities	6,935	6,520
Debt and fixed income securities	10,892	10,969
Unit trusts and other pooled investments	121	108
	17,948	17,597

(c) Assets held to cover linked liabilities

The carrying values of the Group and Company's assets held to cover linked liabilities are summarised by category below:

	Group and Company			
	Fair value		Cost	
	2021	2020	2021	2020
	£m	£m	£m	£m
Investment property	4,981	4,295	4,492	4,377
Derivative assets (note 19)	70	130	—	—
Derivative liabilities (note 19)	(87)	(51)	—	—
Equity securities	994	766	733	641
Debt and fixed income securities	16,520	14,119	16,175	13,575
Unit trusts and other pooled investments	7,645	6,811	6,072	5,993
OEICs and other investment funds - subsidiaries	39,985	31,155	30,755	25,446
OEICs and other investment funds - associates	2,093	2,036	1,747	1,792
Cash at bank	257	369	257	369
Net current assets	239	599	238	599
	72,697	60,229	60,469	52,792

The OEICs and other investment funds represent the Company's investment in funds which are managed by subsidiaries of the Group. The funds classified as subsidiaries are those over which the Group has control. The funds classified as associates are those over which the Group has a significant influence but not control.

The total assets held to cover linked liabilities of £72,697m (2020: £60,229m) are greater than the technical provisions for linked liabilities of £72,499m (2020: £60,059m). This difference comprises £166m relating to the value of future profits included within the technical provisions for linked liabilities (2020: £145m) and the inclusion within the assets held to cover linked liabilities of £32m of surplus units held for box management purposes (2020: £25m).

(d) Collateral and other arrangements

(i) Stock loan agreements

The Group and 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 Company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and 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 (2020: none).

The following table shows the assets within the Group and Company balance sheets that have been transferred under stock loan agreements and the related collateral received.

17. Financial investments (continued)

	Group and Company	
	2021	2020
	£m	£m
Stock loan agreements		
Listed equities	638	650
Corporate bonds	175	181
Government bonds	1,295	1,427
	2,108	2,258
Collateral received	2,373	2,367

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £5m for both the Group and the Company (2020: £24m). 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 (2020: £nil) and there were no defaults in the year (2020: none).

Cash margin received was £2,484m (2020: £3,710m) for both the Group and the Company. Cash margin received is included within 'other financial investments', with an offsetting liability included within 'other creditors, including tax and social security'.

The market value of derivatives in respect of which collateral and cash margin were received was £2,551m for both the Group and the Company (2020: £3,846m).

Collateral of £2,497m was received for both the Group and the Company (2020: £2,817m) in respect of an unlisted debt security. The collateral received was in the form of UK and US 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 £2,477m (2020: £2,820m).

The Group and the Company have entered into reverse repurchase agreements with a cash value of £350m (2019: £1,092m). The value of the UK gilts associated with these deposits at 31 December 2021 was £337m (2020: £1,099m). Collateral in the form of UK gilts of £14m (2020: £3m) was received in respect of those transactions.

(iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £38m for both the Group and the Company (2020: £55m). 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 £nil (2020: £nil) for both the Group and Company.

The market value of derivatives in respect of which collateral and cash margin were pledged was £34m for both the Group and the Company (2020: £43m). In addition, the Group and Company pledged £1,734m of initial margin (2020: £1,251m) in respect of derivatives. This was pledged in the form of UK gilts.

The Group and Company have entered into reverse repurchase agreements with a cash value of £1,305m (2020: £1,100m). The value of the UK gilts associated with these deposits at 31 December 2021 was £1,314m (2020: £1,127m). Collateral in the form of UK gilts of £3m (2020: £16m) was pledged in respect of those transactions. The Company has also pledged government and corporate bonds of £918m (2020: £1,011m) to its wholly owned subsidiary, Royal London Insurance DAC (RLI DAC), in respect of the internal reinsurance arrangement between the Company and RLI DAC.

Notes to the financial statements continued

18. Fair value measurement

(a) Fair value measurement techniques and inputs

The following table gives information about the valuation techniques and inputs used to develop the Group and the Company's fair value measurements:

Asset / liability	Valuation techniques and key inputs
Derivative assets and liabilities	Mark to model technique using market inputs. Market inputs vary by derivative type and include (i) market swap rates (interest rate swaps, total return swaps and inflation swaps); (ii) forward swap rates and interest rate volatility (interest rate swaptions); and (iii) foreign exchange rates (currency forwards).
Equity securities – quoted	Quoted prices in active markets
Equity securities – unquoted	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
Unit trusts and other pooled investments – quoted	Quoted prices in active market Quoted prices (insufficient activity to confirm active market)
Unit trusts and other pooled investments – unquoted	NAV
Commercial real estate loans	Net present value of future cash flows, adjusted for credit risk of underlying loans
Owner-occupied land and buildings (Group only)	Income capitalisation & market comparison
Investment property	Income capitalisation & market comparison
Investment in Group undertakings – shares (Company only)	Net present value of future projected cash flows, EBITDA, PE multiple and NAV/ Carrying value
Investment in Group undertakings – investment funds and joint ventures (Company only)	Quoted prices in an active market Quoted prices (insufficient activity to confirm active market) NAV provided by external fund manager
Investment in Group undertakings – associates (Company only)	EBITDA, PE multiple
Assets held to cover linked liabilities	Individual assets within this category are valued using the applicable technique and key inputs for the asset type as shown above Net current assets are held at their carrying value
Non-participating investment contract liability	Determined by the fair value of the net assets of the underlying unitised investment fund
Reinsurance liability	Discounted cash flows
Provision for future commission	Present value of projected future cash flows

(b) Fair value hierarchy

Assets and liabilities held at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The position assigned to the asset or liability in the fair value hierarchy must 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.

18. Fair value measurement (continued)

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 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 assets and liabilities measured at fair value are based on quoted prices in active markets or observable market data. Of the total Group assets and liabilities measured at fair value, 8.6% (2020: 8.4%) of assets and 0.2% (2020: 0.2%) of liabilities are recorded as Level 3. At the Company level, 9.2% (2020: 9.1%) of assets and 0.2% (2020: 0.2%) of liabilities are recorded as Level 3.

	Group – 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Derivative assets	—	4,316	—	4,316
Equity securities				
Quoted	6,937	—	—	6,937
Unquoted ¹	—	—	359	378
Debt and fixed income securities				
Government bonds	5,062	155	—	5,217
Other quoted	—	5,103	23	5,126
Loans secured by policies	—	—	3	3
Deposits with credit institutions ²	—	—	—	2,353
Other unquoted	—	2,497	31	2,528
Other investments				
Unit trusts and other pooled investments	13,102	1,767	3,526	18,395
Commercial real estate loans	—	—	40	40
Total other financial investments held at fair value	25,101	13,838	3,982	45,293
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	—	—	53	53
Investment property (note 14)	—	—	96	96
Assets held to cover linked liabilities (note 17 (c))	55,477	11,229	5,991	72,697
Total assets at fair value	80,578	25,067	10,122	118,139
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 27 (b))	—	(71,185)	—	(71,185)
Reinsurance liability (note 32 (b))	—	(2,477)	—	(2,477)
Derivative liabilities (note 32 (d))	—	(1,844)	—	(1,844)
Provision for future commission (note 31)	—	—	(145)	(145)
Total liabilities at fair value	—	(75,506)	(145)	(75,651)

1. Unquoted equities includes a £19m equity investment in associates (Responsible Life Limited and Responsible Lending Limited), which are equity accounted at Group level and not held at fair value. These are included in the table in order for the overall asset position to agree to Financial Investments in the balance sheet.
2. Deposits with credit institutions are not held at fair value but are included in the table in order for the overall asset position to agree to Financial Investments in the balance sheet.

Notes to the financial statements continued

18. Fair value measurement (continued)

	Group – 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets held at fair value				
Derivative assets	—	5,759	—	5,759
Equity securities				
Quoted	6,521	—	—	6,521
Unquoted	—	—	286	286
Debt and fixed income securities				
Government bonds	5,372	728	—	6,100
Other quoted	—	5,215	—	5,215
Loans secured by policies	—	—	4	4
Deposits with credit institutions ¹	—	—	—	3,364
Other unquoted	—	2,841	48	2,889
Other investments				
Unit trusts and other pooled investments	12,673	1,698	2,993	17,364
Total other financial investments held at fair value	24,566	16,241	3,331	47,502
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	—	—	72	72
Investment property (note 14)	—	—	96	96
Assets held to cover linked liabilities (note 17 (c))	45,723	8,916	5,590	60,229
Total assets at fair value	70,289	25,157	9,089	107,899
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 27 (b))	—	(58,787)	—	(58,787)
Reinsurance liability (note 32 (b))	—	(2,820)	—	(2,820)
Derivative liabilities (note 32 (d))	—	(1,986)	—	(1,986)
Provision for future commission (note 31)	—	—	(155)	(155)
Total liabilities at fair value	—	(63,593)	(155)	(63,748)

1. Deposits with credit institutions are not held at fair value but are included in the table in order for the overall asset position to agree to Financial Investments in the balance sheet.

18. Fair value measurement (continued)

	Company – 2021			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Assets held at fair value				
Derivative assets	—	4,316	—	4,316
Equity securities				
Quoted	6,937	—	—	6,937
Unquoted	—	—	359	359
Debt and fixed income securities				
Government bonds	5,062	155	—	5,217
Other quoted	—	5,102	23	5,125
Loans secured by policies	—	—	3	3
Deposits with credit institutions ¹	—	—	—	2,353
Other unquoted	—	2,497	31	2,528
Other investments				
Unit trusts and other pooled investments	1,113	3	166	1,282
Commercial real estate loans	—	—	40	40
Total other financial investments held at fair value	13,112	12,073	622	28,160
Other assets held at fair value				
Investment property (note 14)	—	—	149	149
Investment in Group undertakings (note 15)	11,733	1,757	4,194	17,684
Assets held to cover linked liabilities (note 17 (c))	55,488	11,226	5,983	72,697
Total assets at fair value	80,333	25,056	10,948	118,690
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 27 (b))	—	(71,185)	—	(71,185)
Reinsurance liability (note 32 (b))	—	(2,477)	—	(2,477)
Derivative liabilities (note 32 (d))	—	(1,844)	—	(1,844)
Provision for future commission (note 31)	—	—	(145)	(145)
Total liabilities at fair value	—	(75,506)	(145)	(75,651)

1. Deposits with credit institutions are not held at fair value but are included in the table in order for the overall asset position to agree to Financial Investments in the balance sheet.

Notes to the financial statements continued

18. Fair value measurement (continued)

	Company – 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets held at fair value				
Derivative assets	—	5,759	—	5,759
Equity securities				
Quoted	6,521	—	—	6,521
Unquoted	—	—	285	285
Debt and fixed income securities				
Government bonds	5,372	728	—	6,100
Other quoted	—	5,215	—	5,215
Loans secured by policies	—	—	4	4
Deposits with credit institutions ¹	—	—	—	3,364
Other unquoted	—	2,841	48	2,889
Unit trusts and other pooled investments	1,429	8	161	1,598
Total other financial investments held at fair value	13,322	14,551	498	31,735
Other assets held at fair value				
Investment property (note 14)	—	—	168	168
Investment in Group undertakings (note 15)	11,048	1,680	3,594	16,322
Assets held to cover linked liabilities (note 17 (c))	45,723	8,916	5,590	60,229
Total assets at fair value	70,093	25,147	9,850	108,454
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 27 (b))	—	(58,787)	—	(58,787)
Reinsurance liability (note 32 (b))	—	(2,820)	—	(2,820)
Derivative liabilities (note 32 (d))	—	(1,986)	—	(1,986)
Provision for future commission (note 31)	—	—	(155)	(155)
Total liabilities at fair value	—	(63,593)	(155)	(63,748)

1. Deposits with credit institutions are not held at fair value but are included in the table in order for the overall asset position to agree to Financial Investments in the balance sheet.

(c) Level 3 assets and liabilities

For the majority of Level 3 investments, the Group and the Company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and the Company review the appropriateness of these valuations on the following basis:

- for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market;
- 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; and
- commercial real estate loans are valued using a discounted cash flow model which includes contractual cash flows, a discount rate derived using swap rates and a credit spread based on the underlying asset quality.

18. Fair value measurement (continued)

(c) Level 3 assets and liabilities (continued)

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 result before tax for the year. Only changes in assets held by the Royal London Main Fund would impact the Group's result for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below:

- for Level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2021 would result in a £46m increase or decrease in result before tax or total assets or liabilities; and
- for Level 3 corporate bonds, increasing assumed yields at 31 December 2021 by 100bps would result in a decrease in profit before tax and the fair value of the corporate bonds of £4m. Decreasing assumed yields at 31 December 2021 by 100bps would result in an increase in result after tax and the fair value of the corporate bonds of £4m.

The following table shows information about fair value measurements for Level 3 assets and liabilities using significant unobservable inputs.

Asset/liability	Valuation technique	Unobservable input	Range (weighted average)
Owner-occupied property and investment property	Income capitalisation	Equivalent yield	5.15%-11.79% (7.8%)
		Estimated rental value per square foot	£5.76-£26.00 (£16)
	Market comparison	Price per acre	£2.22m
Equity securities – unquoted	Adjusted net asset value	Adjustment to net asset value	n/a
Debt and fixed income securities	Single broker quotes	Unadjusted single broker quotes	n/a
Loans secured by policies	Carrying value	Adjustment to carrying value	n/a
Unit trusts and other pooled Investments - unquoted	Adjusted net asset value	Adjustment to net asset value	n/a
Commercial real estate loans	Present value of future projected cash flows	Underlying loan quality and credit rating risk	n/a
Investments in Group entities – shares (Company only)	Royal London (UK) Holdings Limited, holding company of RLUM, based on net present value of future projected cash flows	Royal London (UK) Holdings Limited:	
		Per policy annual expenses:	
		Premium paying	£49.82
		Non-premium paying	£46.40
		Expense inflation	RPI +0.5%
		Rate card expenses:	
		Premium paying	£25.01
		Non-premium paying	£22.58
		Rate card expense inflation	RPI +0.8%
		Rate card fund expenses (%) pa	0.233%
		Tax	At enacted rates of corporation tax
	Royal London Asset Management Holdings Ltd, holding company of RLAM and Royal London Unit Trust Managers, based on PE multiple	Royal London Asset Management Holdings Ltd:	
		PE multiple	12.2
	PMAS subsidiaries (Healthcare and GI) based on PE multiple	PMAS subsidiaries (Healthcare and GI):	
		PE multiple	4.7
Investments in Group entities - associates (Company only)	Responsible Life Limited and Responsible Lending Limited based on PE multiple	PE multiple	12
Provision for future commission	Present value of future projected cash flows	Future based renewal commission rated (%) p.a.	0.05%- 1.00% (0.50%)
		Investment return (%) p.a.	SII risk-free discount rate
		Surrender rate (%) p.a.	0.00%- 38.67% (2.05%)
		Value of underlying funds at 31 December 2021 (£m)	3,231

Notes to the financial statements continued

19. Derivative financial instruments

Accounting for derivative instruments

The classification and measurement of derivatives is set out in note 18.

Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host contract, and they meet the definition of a derivative.

The Group and the Company utilise derivative instruments to hedge market risk (see note 36 (b)), for efficient portfolio management and for the matching of liabilities to policyholders. Derivatives are either 'exchange-traded' (regulated by an exchange), which have a quoted market price, or 'over-the-counter' (individually negotiated between the parties to the contract), which are unquoted.

The Group is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other financial investments. To mitigate this risk, a portion of the fair value of the derivatives held by the Group at any point in time is matched by collateral and cash margin received from the counterparty to the transaction. Cash margin is collateral in the form of cash. Initial cash margin is exchanged at the outset of the contract. Variation margin is exchanged during the life of the contract in response to changes in the value of the derivative. The remaining credit risk is managed within the Group's risk management framework, which is discussed further in note 36.

The Group and Company utilise the following derivatives:

Options and warrants

Options are contracts under which the seller grants the buyer the right, but not the obligation, to buy or to sell a specific amount of a financial instrument at a pre-determined price, at or by a set date, or during a set period. The Group uses equity options to manage its exposure to fluctuations in equity markets and to back certain products which include a guaranteed investment return based on equity values. Warrants give the holder the right to purchase a particular equity at a specified price.

Futures

A futures contract is an agreement to buy or sell a given quantity of a financial instrument, at a specified future date at a pre-determined price. The Group uses futures to manage its exposure to fluctuations in equity markets.

Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

Swaptions

Swaptions are options to enter into an interest rate swap at a future date, and are used to limit exposure to fluctuations in interest rates over the long term.

Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are principally used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

Currency forwards

A currency forward is a contract to exchange an agreed amount of currency at a specified exchange rate and on a specified date. The Group uses currency forwards to reduce exposure to movements in exchange rates.

Inflation swaps

An inflation swap is a contract under which there is an exchange of cash flows in order to transfer inflation risk. One party pays a fixed rate while the other party pays a floating rate that is linked to an inflation index.

19. Derivative financial instruments (continued)

Fair value of derivative instruments held

	Group and Company					
	2021			2020		
	Contract/ notional amount £m	Fair values		Contract/ notional amount £m	Fair values	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Interest rate swaps	18,405	3,905	(1,557)	18,089	5,615	(1,897)
Interest rate swaptions	5,180	113	—	5,963	81	—
Total return swaps	5,213	191	(274)	4,396	75	(78)
Inflation swaps	994	147	(10)	745	12	(11)
Currency forwards	8,240	30	(90)	8,165	106	—
Total derivative assets/(liabilities)	38,032	4,386	(1,931)	37,358	5,889	(1,986)
Included in the balance sheet within:						
Other financial investments/ (Other creditors)		4,316	(1,844)		5,759	(1,935)
Assets held to cover linked liabilities		70	(87)		130	(51)
		4,386	(1,931)		5,889	(1,986)

In addition to the above, the Group and Company make use of futures contracts. At 31 December 2021, the Group and the Company had entered into equity futures trades giving exposure to equities with a notional value of £6,991m (2020: £7,348m). The equity futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

The Group and the Company paid initial cash margin of £374m (2020: £618m) in respect of these trades, £65m is of which is included within 'Other debtors' (2020: £137m) and £309m in 'Assets held to cover linked liabilities' (2020: £481m).

The net variation margin payable by the Group and the Company was £(76)m at 31 December 2021 (2020: receivable £43m), being the amount due for the movement on the last business day of 2021, which was settled on the first business day in 2022. £76m of this variation margin payable is included within 'Other creditors including taxation and social security' (2020: £nil) and £nil within 'Assets held to cover linked liabilities' (2020: £43m).

20. Debtors arising out of direct insurance operations and reinsurance operations

Accounting for debtors arising out of direct insurance operations and reinsurance operations

Debtors arising out of direct insurance operations and debtors arising out of reinsurance operations are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Debtors arising from direct insurance operations at amortised cost				
Amounts due from policyholders	43	188	43	44
Amounts due from intermediaries	3	4	2	4
	46	192	45	48
Debtors arising from reinsurance operations at amortised cost				
Reinsurance receivable from external insurers	56	41	48	33
	56	41	48	33

None of the above debtors arising out of direct insurance operations or debtors arising out of reinsurance operations are expected to be recovered more than one year after the balance sheet date (2020: £nil).

The 2020 comparative for Amounts due from policyholders included £143m of amounts due in relation to fund management business which has been reclassified to Other receivables within Other debtors (note 21) in 2021.

Notes to the financial statements continued

21. Other debtors

Accounting for other debtors

Investment income receivable, amounts due from other Group entities, and other receivables are measured at amortised cost as they are financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Accounting for current tax assets

Current tax assets are measured at the amount of tax expected to be recovered using tax rates substantively enacted at the balance sheet date.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Investment income receivable	41	47	41	46
Amounts due from brokers	78	220	78	220
Amounts due from other Group entities	—	—	9	9
Management fees receivable	62	51	55	45
Other receivables	229	99	108	42
Current tax asset	89	76	90	71
	499	493	381	433

Other receivables in 2021 includes amounts due in relation to fund management business which was previously included in Amounts due from policyholders within Debtors arising out of direct insurance operations (note 20) in 2020.

22. Tangible fixed assets

Accounting for tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost comprises the original purchase price and expenditure directly attributable to bringing the asset to its working condition for its intended use.

Depreciation on tangible fixed assets is charged to the statement of comprehensive income and is calculated so as to reduce the value of the assets to their estimated residual values on a straight-line basis over the estimated useful lives of the assets concerned, which range from three to eight years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying amounts of tangible fixed assets are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are recognised in the statement of comprehensive income.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

	Group – 2021 Computers, office equipment and vehicles £m	Group – 2020 Computers, office equipment and vehicles £m
Cost		
At 1 January	67	54
Additions	5	13
Disposals	(1)	—
At 31 December	71	67
Accumulated depreciation		
At 1 January	(42)	(36)
Depreciation charge	(11)	(6)
At 31 December	(53)	(42)
Net book value		
At 1 January	25	18
At 31 December	18	25

The Company did not hold any tangible fixed assets at the balance sheet date or at the previous balance sheet date.

Notes to the financial statements continued

23. Deferred Acquisition Costs on investment contracts

Accounting for deferred acquisition costs (DAC)

Incremental costs that are directly attributable to the acquisition of new non-participating investment and hybrid participating investment contracts are recognised as a DAC asset, provided those costs are considered to be recoverable. Incremental costs comprise both initial commission and an amount representing the present value of future commission payable to third parties. All other acquisition costs are expensed as incurred. The asset is amortised over the period in which we expect to receive the related investment management services fees.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

	Group and Company	
	2021	2020
	£m	£m
Carrying amount at 1 January	163	194
Amortisation	(50)	(31)
Carrying amount at 31 December	113	163

24. Pension scheme asset

Accounting for pensions

The Group operates three defined benefit schemes and two defined contribution arrangements.

(i) Defined benefit schemes

The defined benefit schemes provide benefits based on pensionable pay. The assets of the schemes are held in separate Trustee administered funds. The position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The pension scheme asset recognised in the balance sheet is the excess that is recoverable of the fair value of the plan assets in a scheme over the present value of that scheme's liabilities. Deficits in the value of a scheme's assets over its scheme liabilities are recognised in the balance sheet as a pension scheme liability. The 'Administration costs' and 'Net interest (income)/cost' are included within 'Net operating expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Net operating expenses'. Remeasurements are recognised in other comprehensive income in the period in which they arise.

(ii) Defined contribution arrangements

The Group operates a number of defined contribution arrangements for employees. The Group pays contractual contributions in respect of these arrangements, which are recognised as an expense when they fall due.

Defined contribution arrangements

The Group provides pension benefits for its employees in order to support recruitment, retention, and motivation of talented people.

All employees are eligible to join either the Royal London Group Personal Pension (RLGPP) or the Royal London Ireland Pension Plan (RLIPP) according to their employment. The RLGPP and the RLIPP are both defined contribution arrangements.

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 Group's expense recognised in 2021 is £26m (2020: £24m) and is reported within staff costs (note 9).

Defined benefit schemes

In addition to the above arrangements, the Group operates three legacy funded defined benefit schemes, which are established under separate trusts. The assets of the schemes are held in separate Trustee-administered funds and the funding position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The ability of the defined benefit pension schemes to meet the projected pension payments is maintained through investments and, where applicable, contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions.

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.

24. Pension scheme asset (continued)

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. The liability for this arrangement is £15m (2020: £16m) and is recorded within other provisions.

The Group has agreed a funding framework with the RLGPS Trustee, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent completed triennial valuation dated 31 December 2019, RLGPS had a funding level of 100% and no contributions were required to be paid.

Consequently, as the Scheme is closed to future accrual, the only contributions payable are, if RLGPS has insufficient surplus, in respect of costs of any augmentations including the award of discretionary pension increases.

The Royal Liver schemes are supported in the first instance by the Royal Liver Assurance Fund. Only in the event of that fund having insufficient assets to meet the needs of the Royal Liver schemes would the Royal London Main Fund be required to provide support. This structure is supported via guarantees from the Company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2018. As these schemes are closed to future accrual, no contributions are currently payable.

The obligation figures below include an allowance for the impact of allowing for Guaranteed Minimum Pension (GMP) equalisation, following the Lloyds Banking Group High Court ruling in October 2018. The allowance reflects the costs to cover higher future payments for affected members plus interest and arrears. Following the further judgement on 20 November 2020, an additional allowance has been included for the estimated cost of equalising GMPs for pension scheme members who have previously transferred out.

In conjunction with the acquisition of the Police Mutual Assurance Society, all assets and liabilities of the Police Mutual Assurance Society Staff Pension Fund ("PMAS SPF") were transferred to RLGPS on 1 October 2020. This is shown under "acquisitions" in section c) below. RLMIS became the Principal Employer of the PMAS SPF on the same date. The wind up of the PMAS SPF was completed on 24 February 2021.

(a) Key assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme assets for both the Group and the Company are shown below.

	2021		2020	
	UK	ROI	UK	ROI
	%	%	%	%
Discount rate	1.8	1.1	1.3	0.7
Price inflation (RPI)	3.4	N/A	2.9	N/A
Price inflation (CPI) ¹	2.9	2.0	2.5	1.7

1. Figures shown for ROI 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 pensioner aged 60 and a non-pensioner aged 45.

	Group and Company					
	2021			2020		
	RLGPS	RL UK	RL ROI	RLGPS	RL UK	RL ROI
Pensioner						
Male	26	27	27	26	27	27
Female	29	28	29	28	28	29
Non-pensioner						
Male	27	27	28	27	27	28
Female	30	30	31	30	30	31

Notes to the financial statements continued

24. Pension scheme asset (continued)

The sensitivity of the defined benefit obligations to changes in the principal assumptions is shown in the table below.

	Increase in defined benefit obligation	
	2021	2020
	£m	£m
100 basis point decrease in discount rates	635	735
5% proportionate decrease in mortality	61	58
100 basis point increase in price inflation (RPI & CPI)	399	441

This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognised within the balance sheet.

The information provided above shows the sensitivity of the schemes' liabilities to changes in the key assumptions. Due to the asset-liability matching strategies, the impact of changes in discount rates and inflation will also impact the schemes' asset values, thereby mitigating the effect of such changes on the Group.

(b) Amounts recognised in the financial statements

The amounts recognised in profit and loss and other comprehensive income in respect of these defined benefit schemes are as follows:

	2021	2020
	£m	£m
Costs recognised in profit and loss:		
Administration costs	(4)	(5)
Net interest income	1	3
Past service costs	(3)	(8)
Total costs recognised in profit and loss	(6)	(10)
Remeasurements recognised in other comprehensive income:		
Return on plan assets excluding amounts included in interest income	222	285
Actuarial gains and (losses):		
Changes in demographic assumptions	(11)	16
Changes in financial assumptions	127	(444)
Experience (losses)/ gains	(56)	63
Total remeasurement gain/(loss) recognised in other comprehensive income	282	(80)
Deferred tax on remeasurements of defined benefit pension schemes (note 30 (a))	(15)	4
Remeasurement of PMAS Staff Pension Fund on acquisition	—	5
Total remeasurement gain/(loss) recognised in other comprehensive income	267	(71)

The amounts recognised in the balance sheet for the Group and Company are shown below:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
Fair value of plan assets	3,728	3,632	3,079	2,950	411	416	238	266
Pension scheme obligation	(3,371)	(3,548)	(2,863)	(2,994)	(324)	(343)	(184)	(211)
Net Pension scheme asset	357	84	216	(44)	87	73	54	55
Reported as:								
Net Pension Scheme asset	357	128	216	—	87	73	54	55
Net Pension Scheme liability	—	(44)	—	(44)	—	—	—	—

No contributions were required to be paid to RLGPS in the year to 31 December 2021 in relation to discretionary pension increases (2020: £4m). In accordance with paragraph 22 of FRS 102 Section 28, 'Employee Benefits', the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. The Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes, where applicable.

24. Pension scheme asset (continued)

(c) Reconciliation of pension scheme asset

Movements in the present value of defined benefit obligations were as follows:

	2021 £m	2020 £m
At 1 January	(3,548)	(3,198)
Interest cost	(44)	(61)
Past service cost	(3)	(8)
Net actuarial gains/(losses)	60	(365)
Benefits paid	149	137
Acquisitions	—	(42)
Exchange differences	15	(11)
31 December	(3,371)	(3,548)

Movements in the fair value of scheme assets were as follows:

	2021 £m	2020 £m
At 1 January	3,632	3,367
Interest income	45	64
Return on plan assets (excluding amounts included in interest income)	222	285
Employer contributions	—	4
Administration costs	(4)	(5)
Benefits paid	(149)	(137)
Acquisitions	—	42
Exchange differences	(18)	12
31 December	3,728	3,632

(d) Analysis of plan assets

	Total					
	2021			2020		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Bonds	3,339	10	3,349	3,031	11	3,042
Equities	367	—	367	352	—	352
Pooled Investment Vehicles	138	376	514	206	303	509
Derivatives	1	54	55	2	(5)	(3)
Repos/Reverse Repos	—	(686)	(686)	—	(384)	(384)
Insurance Policies	—	1	1	—	2	2
Cash	—	112	112	—	80	80
Current assets	—	1	1	—	1	1
Other investments receivables	—	85	85	—	46	46
Other investment liabilities	—	(67)	(67)	—	(10)	(10)
Current liabilities	—	(3)	(3)	—	(3)	(3)
Fair value of plan assets	3,845	(117)	3,728	3,591	41	3,632

The RLGPS FRS 102 Section 28 plan assets include a total of £487m (2020 £462m) investment in Group managed funds.

Notes to the financial statements continued

24. Pension scheme asset (continued)

(e) Risks

All three schemes are exposed to differing levels of interest rate, inflation, credit, and market risk. The Group has agreed with the Trustee Boards of each pension scheme that, where appropriate, each scheme's risks will be managed in line with the Group's risk appetite. In particular, the schemes' investment strategies are designed to minimise interest rate, inflation, and market risk exposure where this is cost and capital effective.

The schemes have active liability-driven investment strategies using a combination of corporate and sovereign debt and derivative instruments such as interest rate and inflation swaps. Approximately 60% of RLGPS assets and 90% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk. During the year the Trustees of the RLGPS maintained the hedge ratio at around 95% of interest rate and inflation exposure on the technical provisions through the use of various derivative instruments.

The schemes' exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. within RLGPS by allocations to property and to high-yield debt). Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection.

The schemes, and therefore the Group, are also exposed to longevity risk.

Further information on the schemes' risk management strategies can be found in the schemes' annual reports and accounts which are available on the Group's website.

(f) Maturity profile

The weighted average duration of the defined benefit obligation is 17 years (2020: 18 years).

25. Subordinated liabilities

Accounting for subordinated liabilities

Subordinated liabilities are recognised initially at the fair value of the proceeds received, net of any discount and less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost. The transaction costs and discount are amortised over the period to the earliest possible redemption date on an effective interest rate basis.

The amortisation charge is included in the statement of comprehensive income within 'Other charges'. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value. Interest costs are expensed as they are incurred.

	Group and Company			
			Effective interest rate	
	2021 £m	2020 £m	2021 %	2020 %
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	399	398	6.20	6.20
Guaranteed Subordinated Notes due 2028	348	349	6.20	6.20
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049	586	585	5.04	5.04
	1,333	1,332		

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043

On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment, and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023, the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

Guaranteed Subordinated Notes due 2028

On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly owned subsidiary of the Company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment, and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049

On 7 October 2019, RL Finance Bonds No. 4 plc, a wholly owned subsidiary of the Company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 (the 2049 Notes). The issue price of the 2049 Notes was 97.976% of the principal amount of £600m. The discount of £12m and the directly related costs incurred to issue the 2049 Notes of £4m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2049 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment, and subordination terms as those applicable to the 2049 Notes.

The 2049 Notes mature on 7 October 2049. The issuer has the option to redeem all the 2049 Notes at their principal amount on any day falling in the period commencing on 7 April 2039 and ending on 7 October 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 October 2039, payable annually in arrears on 7 October each year. If the 2049 Notes are not redeemed on 7 October 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%.

Notes to the financial statements continued

26. Fund for future appropriations

Accounting for the fund for future appropriations

The nature of benefits for participating contracts is such that the allocation of surpluses between participating policyholders is uncertain. The amount not allocated at the balance sheet date is classified within liabilities as the fund for future appropriations (FFA).

The movement in the FFA during the year is shown in the table below.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
At 1 January	3,673	3,700	3,993	4,005
Transfer from the consolidated statement of comprehensive income	79	80	68	59
Transfer from other comprehensive income	257	(107)	268	(71)
At 31 December	4,009	3,673	4,329	3,993

The closing balance of FFA for both the Group and Company includes amounts attributable to the Royal London fund only. The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes.

The Refuge Assurance IB Sub-fund, the United Friendly IB Sub-fund, the United Friendly OB Sub-fund, and the Scottish Life Fund were merged into the Royal London Main Fund during the year and are no longer accounted for as separate closed funds at 31 December 2021. The remaining closed funds as at December 2021 are the PLAL With- Profits Fund, the Royal Liver Assurance Fund and the RL (CIS) With- Profits Fund.

27. Technical provisions

Accounting for insurance contracts and participating investment contracts

Insurance and participating investment contracts are valued under FRS 103 using accounting policies consistent with those adopted prior to the application of FRS 103. A change to those accounting policies is permitted if it makes the financial statements more relevant and no less reliable, or more reliable and no less relevant. Non-participating investment contracts are financial liabilities, measured in accordance with IFRS 9 at amortised cost (non-linked business) or at FVTPL (unit-linked business).

The estimation techniques and assumptions used are periodically reviewed, with any changes in estimates reflected in the consolidated statement of comprehensive income as they occur.

Long-term business provision - participating insurance, non-participating insurance, and participating investment contracts

Participating insurance, non-participating insurance and participating investment contracts are measured using the requirements of the Solvency II (SII) regulatory regime, with the following adjustments:

- Remove the volatility adjustment (VA) from the discount rate so that a SII risk-free rate is used, other than for certain non-profit insurance business, for which the discount rate is the SII risk-free rate plus an illiquidity premium.
- Exclude the SII risk margin and instead include margins of prudence within demographic assumptions in a consistent way to the approach applied before the adoption of SII.
- Remove the SII transitional measure on technical provisions (TMTP).
- Include all excluded future premium payments restricted within the SII balance sheet.
- Closed fund surpluses. For the closed funds, any excess of the UK GAAP value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes.

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Company's Principles and Practices of Financial Management.

Present value of future profits on non-participating investment contracts and With-profits fund transfers

The present value of future profits on non-participating investment contracts are accounted for as part of the calculation of the participating contract liabilities. However, these values cannot be allocated to particular participating liabilities and so, in accordance with FRS 103, they are shown as a separate asset on the face of the balance sheet, the 'Non-participating value of in-force business'. For the 2020 comparatives, the 'Non-participating value of in-force business' also included the value of future transfers from the Group's 90:10 with-profits sub funds (Refuge Assurance IB, United Friendly IB and United Friendly OB) as these were also accounted for as part of the calculation of the participating contract liabilities but could not be allocated to particular participating liabilities. Following the consolidation of the with-profits sub funds into the Royal London Main Fund during the year, the value of future shareholder transfers can now be allocated and is recognised in the participating insurance contract liabilities.

Non-profit insurance contracts

For non-linked, non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts. The discount rate is the SII risk-free rate, other than for annuity contracts within the SII Matching Adjustment fund, for which the discount rate is the SII risk-free rate plus an illiquidity premium. The illiquidity premium is determined from the yield on the assets in a ring-fenced portfolio, allowing for deductions for downgrade and default risk.

Change in accounting estimate

Following a change during the year in the Group's asset and liability cash flow matching, an illiquidity premium has been included in the discount rate used to value certain annuity contracts as set out above. In accordance with FRS 102 Section 10, this change has been treated as a 'change in accounting estimate', which is required to be recognised in the current year with no restatement of prior year comparatives. The total impact of the change on existing business is a reduction in the Long-term business provision of £29m shown within 'other' in the table on note 27(a)(ii) below and a gain of £29m, which has been shown in the 2021 consolidated statement of comprehensive income within the line 'Change in long-term business provision'.

Long-term business provision - non-participating investment contracts

The financial liabilities for non-linked, non-participating investment contracts are measured at amortised cost. The liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate.

Notes to the financial statements continued

27. Technical provisions (continued)

Technical provisions for linked liabilities

The technical provisions for linked liabilities include liabilities for unit-linked insurance contracts and unit-linked investment contracts.

Unit-linked insurance contracts are measured using the requirements of the SII regulatory regime, adjusted for the items shown above for participating contracts, where applicable. The liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate. The cash flows are determined on a best estimate basis plus an allowance for risk, which is made by including margins within the assumptions used, determined on a basis consistent with that applied prior to the adoption of SII.

The financial liabilities for unit-linked investment contracts are designated at inception as at FVTPL. This classification has been used because the unit-linked liabilities are part of a group of financial assets and financial liabilities that are managed and whose performance is evaluated on a fair value basis. The fair value is determined using the current unit prices, which reflect the fair values of the financial assets contained within the Group's unithold investment funds linked to the financial liability, multiplied by the number of units held by the contract holder at the balance sheet date. If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

Liability adequacy test

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

Claims outstanding

The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date.

Reinsurers' share of technical provisions

The reinsurers' share of technical provisions 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.

(a) Long-term business provision

(i) Summary

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Gross				
Participating insurance contract liabilities	33,374	34,277	33,373	34,276
Participating investment contract liabilities	2,296	2,248	2,295	2,247
Non-profit insurance contract liabilities	5,132	5,648	5,195	5,714
Non-profit investment contract liabilities	—	8	—	8
Total long-term business provision	40,802	42,181	40,863	42,245
Reinsurers' share				
Participating insurance contract liabilities	(1,099)	(1,307)	(1,099)	(1,307)
Non-profit insurance contract liabilities	(3,480)	(3,874)	(3,430)	(3,831)
Total reinsurers' share of long-term business provision	(4,579)	(5,181)	(4,529)	(5,138)
Net of reinsurance				
Participating insurance contract liabilities	32,275	32,970	32,274	32,969
Participating investment contract liabilities	2,296	2,248	2,295	2,247
Non-profit insurance contract liabilities	1,652	1,774	1,765	1,883
Non-profit investment contract liabilities	—	8	—	8
Total long-term business provision, net of reinsurance	36,223	37,000	36,334	37,107

27. Technical provisions (continued)

(ii) Movement analysis

The movement in the long-term business provision in the year is shown in the following tables.

	Group – 2021									
	Long-term business provision, gross of reinsurance				Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	34,277	2,248	5,648	8	(1,307)	(3,874)	32,970	2,248	1,774	8
Expected changes during the year	(2,537)	(195)	(79)	(8)	171	231	(2,366)	(195)	152	(8)
Expected closing position	31,740	2,053	5,569	—	(1,136)	(3,643)	30,604	2,053	1,926	—
New business	34	5	25	—	—	(100)	34	5	(75)	—
Experience variations	2,887	206	(53)	—	(71)	21	2,816	206	(32)	—
Changes in assumptions	(1,188)	11	(420)	—	108	242	(1,080)	11	(178)	—
Fund consolidation	(162)	24	—	—	—	—	(162)	24	—	—
ProfitShare	74	5	—	—	—	—	74	5	—	—
Other	(11)	(8)	11	—	—	—	(11)	(8)	11	—
At 31 December	33,374	2,296	5,132	—	(1,099)	(3,480)	32,275	2,296	1,652	—

	Group – 2020									
	Long-term business provision, gross of reinsurance				Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	32,613	2,248	5,155	—	(1,271)	(3,654)	31,342	2,248	1,501	—
Expected changes during the year	(1,834)	(119)	(85)	(8)	133	191	(1,701)	(119)	106	(8)
Expected closing position	30,779	2,129	5,070	(8)	(1,138)	(3,463)	29,641	2,129	1,607	(8)
New business	34	6	(110)	—	—	(83)	34	6	(193)	—
Experience variations	1,442	76	51	—	(51)	(14)	1,391	76	37	—
Changes in assumptions	1,366	5	627	—	(118)	(322)	1,248	5	305	—
Acquisitions	599	28	11	16	—	(10)	599	28	1	16
ProfitShare	67	4	—	—	—	—	67	4	—	—
Other	(10)	—	(1)	—	—	18	(10)	—	17	—
At 31 December	34,277	2,248	5,648	8	(1,307)	(3,874)	32,970	2,248	1,774	8

ProfitShare of £71m was previously included within Changes in assumptions.

Notes to the financial statements continued

27. Technical provisions (continued)

	Company – 2021									
	Long-term business provision, gross of reinsurance				Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	34,276	2,247	5,714	8	(1,307)	(3,831)	32,969	2,247	1,883	8
Expected changes during the year	(2,537)	(195)	(106)	(8)	171	223	(2,366)	(195)	117	(8)
Expected closing position	31,739	2,052	5,608	—	(1,136)	(3,608)	30,603	2,052	2,000	—
New business	34	5	64	—	—	(97)	34	5	(33)	—
Experience variations	2,884	206	(52)	—	(71)	23	2,813	206	(29)	—
Changes in assumptions	(1,186)	11	(436)	—	108	252	(1,078)	11	(184)	—
Fund consolidation	(162)	24	—	—	—	—	(162)	24	—	—
ProfitShare	74	5	—	—	—	—	74	5	—	—
Other	(10)	(8)	11	—	—	—	(10)	(8)	11	—
At 31 December	33,373	2,295	5,195	—	(1,099)	(3,430)	32,274	2,295	1,765	—

	Company – 2020									
	Long-term business provision, gross of reinsurance				Reinsurers' share of long-term business provision		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	32,612	2,247	5,218	—	(1,271)	(3,618)	31,341	2,247	1,600	—
Expected changes during the year	(1,833)	(119)	(99)	(8)	133	189	(1,700)	(119)	90	(8)
Expected closing position	30,779	2,128	5,119	(8)	(1,138)	(3,429)	29,641	2,128	1,690	(8)
New business	34	6	(78)	—	—	(80)	34	6	(158)	—
Experience variations	1,439	76	51	—	(51)	(14)	1,388	76	37	—
Changes in assumptions	1,367	5	612	—	(118)	(316)	1,249	5	296	—
Acquisitions	599	28	11	16	—	(10)	599	28	1	16
ProfitShare	67	4	—	—	—	—	67	4	—	—
Other	(9)	—	(1)	—	—	18	(9)	—	17	—
At 31 December	34,276	2,247	5,714	8	(1,307)	(3,831)	32,969	2,247	1,883	8

ProfitShare of £71m was previously included within Changes in assumptions.

27. Technical provisions (continued)

(b) Technical provisions for linked liabilities

(i) Summary

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Gross				
Unit linked insurance contract liabilities	1,314	1,272	1,314	1,272
Unit linked investment contract liabilities	71,185	58,787	71,185	58,787
Total technical provision for linked liabilities	72,499	60,059	72,499	60,059
Reinsurers' share				
Unit linked insurance contract liabilities	53	50	53	50
Total reinsurers' share of technical provision for linked liabilities	53	50	53	50
Net of reinsurance				
Unit linked insurance contract liabilities	1,367	1,322	1,367	1,322
Unit linked investment contract liabilities	71,185	58,787	71,185	58,787
Total technical provision for linked liabilities, net of reinsurance	72,552	60,109	72,552	60,109

(ii) Movement analysis

The movement in the technical provisions for linked liabilities in the year is shown in the following tables.

	Group – 2021				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance	Unit linked investment	Unit linked insurance	Unit linked insurance	Unit linked investment
	£m	£m	£m	£m	£m
At 1 January	1,272	58,787	50	1,322	58,787
Allocation of 2020 ProfitShare to policies	—	75	—	—	75
Expected changes during the year	(188)	(3,078)	(3)	(191)	(3,078)
Expected closing position	1,084	55,784	47	1,131	55,784
New business	(22)	8,133	—	(22)	8,133
Experience variations	228	7,323	10	238	7,323
Changes in assumptions	11	(4)	—	11	(4)
Other movements	13	(51)	(4)	9	(51)
At 31 December	1,314	71,185	53	1,367	71,185

Notes to the financial statements continued

27. Technical provisions (continued)

	Group – 2020				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,365	54,027	17	1,382	54,027
Allocation of 2019 ProfitShare to policies	—	63	—	—	63
Expected changes during the year	(169)	(2,331)	(3)	(172)	(2,331)
Expected closing position	1,196	51,759	14	1,210	51,759
New business	(9)	5,706	—	(9)	5,706
Experience variations	66	1,176	10	76	1,176
Changes in assumptions	23	2	29	52	2
Acquisitions	—	115	—	—	115
Other movements	(4)	29	(3)	(7)	29
At 31 December	1,272	58,787	50	1,322	58,787

ProfitShare in respect of 2019 of £63m was previously included within Expected changes during the year.

	Company – 2021				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,272	58,787	50	1,322	58,787
Allocation of 2020 ProfitShare to policies	—	75	—	—	75
Expected changes during the year	(188)	(3,078)	(3)	(191)	(3,078)
Expected closing position	1,084	55,784	47	1,131	55,784
New business	(22)	8,133	—	(22)	8,133
Experience variations	228	7,323	10	238	7,323
Changes in assumptions	11	(4)	—	11	(4)
Other movements	13	(51)	(4)	9	(51)
At 31 December	1,314	71,185	53	1,367	71,185

27. Technical provisions (continued)

	Company – 2020				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share of technical provisions for linked liabilities	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,365	54,027	17	1,382	54,027
Allocation of 2019 ProfitShare to policies	—	63	—	—	63
Expected changes during the year	(169)	(2,331)	(3)	(172)	(2,331)
Expected closing position	1,196	51,759	14	1,210	51,759
New business	(9)	5,706		(9)	5,706
Experience variations	66	1,176	10	76	1,176
Changes in assumptions	23	2	29	52	2
Acquisitions	—	115	—	—	115
Other movements	(4)	29	(3)	(7)	29
At 31 December	1,272	58,787	50	1,322	58,787

ProfitShare in respect of 2019 of £63m was previously included within Expected changes during the year.

(c) ProfitShare

The Group and Company have allocated ProfitShare of £169m (2020: £146m) in the year. This is shown in the movement analyses in the following notes.

	Group	
	2021 £m	2020 £m
Participating contracts (note 27 (a) (ii))	79	71
Unit linked contracts (note 28)	90	75
	169	146

Notes to the financial statements continued

28. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
At 1 January				
Non-participating value of in-force business	2,229	2,089	2,229	2,089
Deferred acquisition costs arising on investment contracts (note 23)	163	194	163	194
Provision for future commission (note 31)	(155)	(152)	(155)	(152)
Deferred fee income on investment contracts (note 33)	(75)	(91)	(75)	(91)
Total value of in-force business at 1 January	2,162	2,040	2,162	2,040
Allocation of ProfitShare	75	63	75	63
Expected changes during the year	(171)	(117)	(171)	(117)
Expected closing position	2,066	1,986	2,066	1,986
New business	200	203	200	203
Experience variations	358	44	358	44
Changes in assumptions	(60)	17	(60)	17
Fund consolidation	(206)	—	(206)	—
Acquisitions	—	(1)	—	(1)
ProfitShare	(90)	(75)	(90)	(75)
Other movements	(8)	(12)	(8)	(12)
At 31 December	2,260	2,162	2,260	2,162
At 31 December				
Non-participating value of in-force business	2,333	2,229	2,333	2,229
Deferred acquisition costs arising on investment contracts (note 23)	113	163	113	163
Provision for future commission (note 31)	(145)	(155)	(145)	(155)
Deferred fee income on investment contracts (note 33)	(41)	(75)	(41)	(75)
Total value of in-force business at 31 December	2,260	2,162	2,260	2,162

2021 ProfitShare of £90m will be allocated to eligible policies on 1 April 2022. The £75m included in the table above relates to the allocation of the 2020 ProfitShare on 1 April 2021.

29. Technical provisions and reinsurance assets - valuation assumptions

(a) Assumptions

The assumptions used to determine insurance and investment contract liabilities are approved by the Audit Committee 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. The Company allowed for the expected impact of the Covid-19 pandemic on short-term mortality and morbidity experience as at 31 December 2020. Our claims experience has been in line with our expectations, leading to this provision now being fully utilised.

A margin is included to provide for potential adverse variations in experience. The margins are typically 2% for mortality risks, 4.8% for morbidity risks with reviewable premiums and 8.9% for morbidity business with guaranteed premiums.

29. Technical provisions and reinsurance assets - valuation assumptions (continued)

The principal mortality assumptions are shown in the following table.

Class of business	2021 mortality	2020 mortality
Ordinary long-term assurances		
RL Legacy (Royal London Mutual (RLM) and Ex-United Assurance Group (UAG)) non-linked	85.68% AMCO0 ult. and 97.92% AFC00 ult.	85.68% AMCO0 ult. and 97.92% AFC00 ult.
RL Intermediary Pensions	56.1% AMCO0 ult. and 52.02% AFC00 ult.	56.1% AMCO0 ult. and 52.02% AFC00 ult.
RL Legacy (Ex-Royal Liver UK) and RLI DAC	106.08% AMCO0 ult. and 111.18% AFC00 ult.	106.08% AMCO0 ult. and 111.18% AFC00 ult.
RL Legacy (Ex-RL (CIS))		
traditional with-profits, whole life	66.30% AMCO0	66.30% AMCO0
traditional with-profits, endowment	63.24% AMCO0	63.24% AMCO0
accumulating with-profits bond	96.90% AMCO0	96.90% AMCO0
RL Legacy non-linked term assurances (level benefits) ¹		
male non-smokers	102.00% TMNL08 sel	83.64% TMN00 sel
male smokers	102.00% TMSL08 sel	83.64% TMS00 sel
female non-smokers	102.00% TFNL08 sel	83.64% TFN00 sel
female smokers	102.00% TFSL08 sel	83.64% TFS00 sel
RL Intermediary UK Protection term assurances (level benefits) ¹		
male non-smokers	76.50% TMNL08 sel	76.50% TMNL08 sel
male smokers	78.54% TMSL08 sel	78.54% TMSL08 sel
female non-smokers	94.86% TFNL08 sel	94.86% TFNL08 sel
female smokers	74.46% TFSL08 sel	74.46% TFSL08 sel
RL Intermediary UK Protection accelerated critical illness (guaranteed premiums) ¹		
male non-smokers	96.95% ACMNL08 sel	96.95% ACMNL08 sel
male smokers	92.60% ACMSL08 sel	92.60% ACMSL08 sel
female non-smokers	102.40% ACFNL08 sel	102.40% ACFNL08 sel
female smokers	93.69% ACFSL08 sel	93.69% ACFSL08 sel
RL Intermediary UK Protection stand-alone critical illness (guaranteed premiums) ¹		
male non-smokers	80.61% ACMNL08 sel	80.61% ACMNL08 sel
male smokers	78.44% ACMSL08 sel	78.44% ACMSL08 sel
female non-smokers	106.76% ACFNL08 sel	106.76% ACFNL08 sel
female smokers	52.29% ACFSL08 sel	52.29% ACFSL08 sel
RL Intermediary UK Protection unit linked term assurances		
male non-smokers	97.92% TMNL08 sel	97.92% TMNL08 sel
male smokers	129.54% TMSL08 sel	129.54% TMSL08 sel
female non-smokers	106.08% TFNL08 sel	106.08% TFNL08 sel
female smokers	97.92% TFSL08 sel	97.92% TFSL08 sel
Pensions – in deferment		
RL Legacy (Ex-Refuge Assurance OB) non-linked	71.54% PPMD00 and 80.36%PPFD00	71.54% PPMD00 and 80.36%PPFD00
RL Pensions – individual	62.72% AMCO0 and 64.68% AFC00	62.72% AMCO0 and 64.68% AFC00
RL Pensions – group	59.78% AMCO0 and 50.96% AFC00	59.78% AMCO0 and 50.96% AFC00
RL Legacy (Ex-RL (CIS)) Personal Pensions	73.50% AMCO0	73.50% AMCO0
RL Legacy (Ex-RL (CIS)) Section 226 Retirement annuity	44.10% AMCO0	44.10% AMCO0
Pensions – immediate annuities and deferred annuities in payment		
RL Legacy (Royal London Mutual and Ex-UAG) non-linked	97.02% PML08 CMI (2019) Sk=7, A= 0% 1.5% pa ⁵	97.02% PML08 CMI (2019) Sk=7.5 ² , A= 0% 1.5% pa ³
	93.10% PFL08 CMI (2019) Sk =7, A=0% 1.5% pa ⁵	93.10% PFL08 CMI (2019) Sk =7.5 ² , A=0% 1.5% pa ³

Notes to the financial statements continued

29. Technical provisions and reinsurance assets - valuation assumptions (continued)

Class of business	2021 mortality	2020 mortality
Ordinary long-term assurances		
RL Intermediary Pensions (excluding opt-outs from compromise scheme)	97.02% PML08 CMI (2019) Sk =7, A=0.35% 1.5% pa ⁵	97.02% PML08 CMI (2019) Sk =7.5 ² A=0.35% 1.5% pa ³
	90.16% PFL08 CMI (2019) Sk =7 A=0.35% 1.5% pa ⁵	90.16% PFL08 CMI (2019) Sk =7.5 ² A=0.35% 1.5% pa ³
RL Intermediary Pensions (opt-outs from compromise scheme)	88.20% PML08 CMI (2019) Sk =7 A=0.35% 1.5% pa ⁵	88.20% PML08 CMI (2019) Sk =7.5 ² A=0.35% 1.5% pa ³
	84.28% PFL08 CMI (2019) Sk =7 A=0.35% 1.5% pa ⁵	84.28% PFL08 CMI (2019) Sk =7.5 ² A=0.35% 1.5% pa ³
RL Legacy (Ex-RL (CIS)) immediate annuities in payment		
Personal pensions	98.00% RL PP M Imm ⁴ CMI (2019) Sk =7 A= 0% 1.5% pa ⁵	109.76% PML08 CMI (2019) Sk =7.5 ² A= 0% 1.5% pa ³
	98.00% RL PP F Imm ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	98.98% PFL08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
Section 226 retirement annuity	98.00% RL TabP M Imm ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	104.86% PML08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
	98.00% RL TabP F Imm ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	94.08% PFL08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
RL Legacy (Ex-RL (CIS)) deferred annuities in payment		
Personal pensions	98.00% RL PP M Def ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	102.90% PML08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
	98.00% RL PP F Def ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	97.02% PFL08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
Section 226 retirement annuity	98.00% RL TabP M Def ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	100.94% PML08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
	98.00% RL TabP F Def ⁴ CMI (2019) Sk =7 A=0% 1.5% pa ⁵	94.08% PFL08 CMI (2019) Sk =7.5 ² A=0% 1.5% pa ³
Industrial assurance		
RL Legacy (RLM)	71.4% ELT17 (males)	71.4% ELT17 (males)
RL Legacy (Ex-UAG)	94.86% ELT17 (males)	94.86% ELT17 (males)
RL Legacy (Ex-Royal Liver UK)	72.42% ELT17 (males)	72.42% ELT17 (males)
RL Legacy (Ex-RL (CIS))		
Endowment	92.82% ELT17 (males)	92.82% ELT17 (males)
Whole life	64.26% ELT17 (males)	64.26% ELT17 (males)

1. The assumption is shown as a percentage of a base table in 2000 or 2008 projected in line with mortality improvement or morbidity deterioration factors as appropriate.
2. The smoothing parameter (Sk) was introduced in CMI (2016) with a core value of 7.5 for CMI (2016) and CMI (2017). The Core CMI Model is parameterised to reflect best estimate mortality improvements for the general UK population (based on England & Wales data) which is not expected to be suitable for users interested in populations other than the general England and Wales population. Following consultation with the industry, the smoothing parameter reduced to a core value of 7 for CMI (2018) to reflect the slowing in mortality improvements. In addition, a new parameter (A) was introduced, the "initial addition to mortality improvements", to allow users to adjust initial mortality improvements more easily to reflect their views on appropriate mortality improvements for their business. Therefore, the appropriateness of core parameterisations for Royal London's business has been reviewed and the parameters adjusted to reflect the socio-economic mix of policyholders of each type of business.
3. The mortality basis is displayed as a percentage of base table mortality in 2008 projected in line with the 2019 CMI model mortality improvements and a percentage per annum long-term improvement rate.
4. A new more granular process has been introduced for analysing RL(CIS) longevity experience which has resulted in bespoke mortality tables for both deferred annuities in payment ('Def') and immediate annuities in payment ('Imm').
5. The model parameters within CMI (2019) have been updated to allow for a bespoke in-house calibration. In addition, the smoothing parameter, 'A' parameter and long-term rate have been reviewed with the smoothing parameter reduced to 7 which is the default.

Persistency

Persistency is the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered, or transferred prior to maturity or expiry. The rates of persistency are set in line with recent Company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience, including the expected short-term impact of the Covid-19 pandemic. The rates vary by product line, sales channel, duration in force and, for some products, by fund size. A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

29. Technical provisions and reinsurance assets - valuation assumptions (continued)

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and, for business transferred to the Company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A check is carried out that the projected valuation expenses sufficiently cover the projected business plan expenses.

A margin is included to provide for potential adverse variations in experience. The margin is typically 2%. For RL (CIS) a margin of 0.7% is applied during the guaranteed period of the 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% (2020: UK RPI +0.5%) for UK business and RoI CPI plus 1.07% (2020: RoI CPI +1.24%) 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 +0.8% (2020: UK RPI +0.9%) except for post-vesting GAO expenses which are assumed to increase at UK RPI + 0.5%. The actual expenses incurred from servicing this business are assumed to increase in line with the change in the UK RPI +0.5% (2020: UK RPI +0.5%) for post vesting GAO business and UK RPI +2.5% (2020: UK RPI +2.5%) for other business.
- For Liver fund business, the costs are assumed to increase at UK RPI +4% (2020: UK RPI +4%) for UK business and RoI CPI +5.58% (2020: RoI CPI +6.63%) for Irish business.
- For other closed books, the assumptions are UK RPI +2% for PLAL business (2020: UK RPI +2%), UK RPI +2% for Scottish Provident business (2020: UK RPI +0.5%), and UK RPI +4% for legacy business within the Royal London Long-Term Fund (2020: UK RPI +4%).

The principal expense assumptions are shown in the following table:

Class of business	2021 ²		2020 ³	
	Per policy £	Reserve %	Per policy £	Reserve %
Ordinary long-term				
RL Legacy (RLM) WP life	17.35	0.091	19.58	0.091
RL Legacy (Ex-RL (CIS)) Investments				
premium paying	25.59	0.145	25.52	0.190
single premium/paid up	21.89	0.145	21.81	0.190
RL Legacy (Ex-RL (CIS)) Protection				
premium paying	23.07	0.145	23.31	0.190
single premium/paid up	20.44	0.145	20.65	0.190
OB annuities in payment	20.97	0.145	21.18	0.190
RL Intermediary Pensions – Individual RP	50.74	0.072 ⁴	36.68	0.064 ⁴
RL Intermediary Pensions – Group RP	21.54	0.072 ⁴	22.92	0.064 ⁴
RL Legacy (Ex-RL (CIS)) Investments				
premium paying	23.10	0.145	23.28	0.190
single premium/paid up	20.27	0.145	20.42	0.190
Industrial assurance				
RL Legacy (RLM)	15.41	0.091	17.55	0.091
RL Legacy (Ex-RA)	15.07	0.066	18.34	0.066
RL Legacy (Ex-Royal Liver UK)	6.75	0.260	12.12	0.260
RL Legacy (Ex-UF)	15.07	0.085	18.34	0.085
RLI DAC ¹	20.01	0.260	13.54	0.260
RL Legacy (Ex-RL (CIS))				
premium paying	16.40	0.145	16.53	0.190
paid up	14.26	0.145	14.36	0.190

1. RLI DAC expenses are quoted in Euros.

2. RL Intermediary Pensions shown in 2021 monetary terms with other business shown in 2022 monetary terms.

3. Shown in 2021 monetary terms.

4. Rate shown applies to non-linked funds. For unit funds, the assumption is 0.068% (2020: 0.067%).

Notes to the financial statements continued

29. Technical provisions and reinsurance assets - valuation assumptions (continued)

(b) Economic

- Non-participating liabilities: The non-participating liabilities have been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to a risk-free rate from the forward swap curve adjusted for risk of default. A reduction in interest rates will increase the liabilities.
- For annuity business within the SII Matching Adjustment fund, an illiquidity premium is applied as a flat increase to the above discount rate. The illiquidity premium is determined by calculating how much of the credit spread above the risk-free rate is attributed to the cost of downgrade and default risk with the remainder being attributed to other risks such as illiquidity.
- Participating liabilities: The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market consistency by:
 - deriving the underlying risk-free rate from the forward swap curve adjusted for risk of default; and
 - calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist.
- Non-participating value of in-force business: The non-participating value of in-force business has been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to risk-free yields.

30. Deferred tax

Accounting for deferred tax

Deferred tax is provided based on timing differences that arise from the inclusion of income and expenses in tax assessments in different periods from those in which they are recognised in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The following temporary differences are not provided for:

- the initial recognition of goodwill not deductible for tax purposes; and
- temporary differences arising on investments in subsidiaries where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

30. Deferred tax (continued)

(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 – 2021				
	At 1 January 2021 £m	Acquisitions/ Disposals £m	Recognised in the technical account – long- term business £m	Recognised in other comprehensive income £m	At 31 December 2021 £m
Deferred acquisition expenses	(10)	—	3	—	(7)
Revaluation of investments	158	—	76	—	234
Defined benefit pension schemes	5	—	—	15	20
Other short-term timing differences	(13)	—	(6)	—	(19)
Net deferred tax liability	140	—	73	15	228

	Group – 2020				
	At 1 January 2020 £m	Acquisitions/ Disposals £m	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	At 31 December 2020 £m
Deferred acquisition expenses	(12)	(2)	4	—	(10)
Excess management expenses carried forward	—	(2)	2	—	—
Revaluation of investments	200	(15)	(27)	—	158
Defined benefit pension schemes	9	—	—	(4)	5
Other short-term timing differences	(18)	10	(5)	—	(13)
Net deferred tax liability	179	(9)	(26)	(4)	140

	Company – 2021				
	At 1 January 2021 £m	Acquisitions/ Disposals £m	Recognised in the technical account – long- term business £m	Recognised in other comprehensive income £m	At 31 December 2021 £m
Deferred acquisition expenses	(10)	—	3	—	(7)
Revaluation of investments	153	—	82	—	235
Defined benefit pension schemes	5	—	—	15	20
Other short-term timing differences	(4)	—	(3)	—	(7)
Net deferred tax liability	144	—	82	15	241

	Company – 2020				
	At 1 January 2020 £m	Acquisitions/ Disposals £m	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	At 31 December 2020 £m
Deferred acquisition expenses	(12)	(2)	4	—	(10)
Excess management expenses carried forward	—	(2)	2	—	—
Revaluation of investments	196	(15)	(28)	—	153
Defined benefit pension schemes	9	—	—	(4)	5
Other short-term timing differences	(1)	(1)	(2)	—	(4)
Net deferred tax liability	192	(20)	(24)	(4)	144

The Group 2020 deferred tax on acquisitions/disposals of £9m comprised £20m relating to the transfer in of Police Mutual and £(11)m relating to the disposal of Ascentric. The Company figure of £20m related to the transfer in of Police Mutual.

Notes to the financial statements continued

30. Deferred tax (continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset as they all meet the criteria above.

In the next 12 months we expect the reversal of net deferred tax liabilities to be £18m (2020: £11m) for the Group of which £19m (2020: £10m) relates to the Company. The £19m (2020: £10m) for the Company is due to the spreading over seven years of specific gains and deferred expenses.

(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 £25m (2020: £15m), of which £nil (2020: £nil) related to the Company. These unused losses and allowances can be carried forward and utilised.

(ii) Unrecognised deferred tax liabilities

Deferred tax liabilities arising from gains on subsidiary holdings have not been recognised by the Company as it controls the timing of any sale of a subsidiary. It is the Group's intention that these investments will be held to provide long-term returns and any recognition of deferred tax will be accounted for accordingly. The potential tax liability arising is less than £1m (2020: less than £1m).

31. Other provisions

Accounting for provisions

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future losses. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Provision for future commission	145	155	145	155
Other provisions	105	127	96	118
	250	282	241	273

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force. Other provisions include:

- Property remediation costs of £20m (2020: £36m) which relate to remediation required to an investment property development in London. The work is expected to be completed in 2022;
- Rectifications of £41m (2020: £48m) which are the expected cost of addressing past sales practices and other servicing issues. The provision is expected to be utilised over the period from 2022 to 2023;
- Long-term incentive schemes of £10m (2020: £11m). The Group provides certain executives with cash-settled long-term incentive schemes. Amounts payable are dependent on a basket of individual performance measures, with performance assessed using a balanced scorecard of three-year performance measures. The amount provided is expected to be paid between 2022 and 2025;
- A provision of £15m (2020: £16m) relating to the unfunded unapproved retirement benefits schemes for certain executives who joined before 1 September 2005. Further information is disclosed in note 24; and
- Other provisions of £19m (2020: £16m) all individually less than £10m.

31. Other provisions (continued)

The movement in provisions during the year is shown in the following table.

	Group		Company	
	Provision for future commission £m	Other provisions £m	Provision for future commission £m	Other provisions £m
At 1 January	155	127	155	118
Additions in the year	—	26	—	22
Releases for the year	—	(6)	—	(6)
Experience variations	11	—	11	—
Utilised during the year	(21)	(42)	(21)	(38)
At 31 December	145	105	145	96

32. Creditors

Accounting for creditors

Creditors are measured at amortised cost with the exception of derivative liabilities, finance lease liabilities and a reinsurance liability designated at FVTPL.

The creditors measured at amortised cost are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Derivative liabilities are classified at FVTPL as required by IFRS 9. Movements in the fair value of the liabilities are recognised within unrealised gains/losses on investments.

The Group has a financial creditor in respect of a reinsurance arrangement and holds an unquoted debt security which has cash flows exactly matching those of the reinsurance liability. Consequently, the reinsurance liability is designated at FVTPL in order to avoid a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'). Movements in the fair value of the liability are recognised in the statement of comprehensive income within outwards reinsurance premiums. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within unrealised gains/losses on investments.

(a) Creditors arising out of direct insurance operations at amortised cost

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts due to customers	264	237	252	216

(b) Creditors arising out of reinsurance operations

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Creditors arising out of reinsurance operations with external insurers at FVTPL	2,477	2,820	2,477	2,820
Creditors arising out of reinsurance operations with external insurers at amortised cost	58	51	46	42
Creditors arising out of reinsurance operations with other Group entities at amortised cost	—	—	3	7
	2,535	2,871	2,526	2,869

The creditors arising out of reinsurance operations which are valued at FVTPL relates to a liability that is owed to a major reinsurer under a reinsurance agreement to reinsure a proportion of the Group's obligations in respect of deferred annuities and annuities in payment of the RL (CIS) with-profits fund. Under the reinsurance agreement, the RL (CIS) with-profits fund is contracted to pay premiums in accordance with a schedule of payments covering a period up to 2066. At inception of the contract, which was before RL (CIS) was acquired by the Group, it recognised its premium obligation in full within the statement of comprehensive income by a charge representing the net present value of the contracted payments. The Group and 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 reduction of £256m (2020: £218m increase) which is included in outwards reinsurance premiums.

Notes to the financial statements continued

32. Creditors (continued)

(c) Amounts owed to credit institutions at amortised cost

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Bank overdrafts	42	72	42	72

The bank overdrafts are repayable on demand.

(d) Other creditors, including taxation and social security

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Cash collateral	2,438	3,710	2,438	3,710
Derivative liabilities	1,844	1,986	1,844	1,986
Amounts due to brokers	23	81	5	39
Amounts due to other Group entities	—	—	50	28
Current tax liability	1	1	—	—
Other	256	277	63	65
	4,562	6,055	4,400	5,828

Analysis of cash collateral

	Group and Company	
	2021	2020
	£m	£m
Cash collateral – contractual maturity analysis:		
Not later than one year	36	5
Later than one year and not later than five years	50	33
Later than five years	2,352	3,672
	2,438	3,710

33. Accruals and deferred income

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Accrued expenses	61	46	—	—
Deferred fee income on investment contracts (note 28)	41	75	41	75
	102	121	41	75

Deferred fee income is front-end fees received from investment contract holders as a prepayment for investment management and related services. These amounts are non-refundable and are released to income as the services are rendered.

34. Contingent liabilities

Accounting for contingent liabilities

Contingent liabilities are disclosed if:

- there is a possible obligation as a result of a past event; or
- there is a present obligation as a result of a past event, but a liability is not recognised either because a payment is not probable or the amount cannot be reliably estimated.

Contingent assets are disclosed when an inflow of economic benefit is considered probable.

During the year, the Group and the Company continued to address issues from past selling practices, taxation, and other regulatory matters. Potential liabilities are influenced by several factors including the actions and requirements of the external bodies including regulators and tax authorities as well as Financial Ombudsman Service rulings, industry compensation schemes and court judgements. The directors consider that they have made provision for known liabilities arising across the Group and, as and when the circumstances calling for such provision arise, that the Group and the Company have adequate reserves to meet all reasonably foreseeable eventualities.

In the course of conducting business, the Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material losses will arise in this respect.

In addition, in line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with the disposal of entities previously owned by the Group. In the opinion of the directors, no material unprovisioned loss will arise in respect of these guarantees, indemnities, and warranties.

35. Commitments

(a) Capital expenditure

The Group and Company have the following commitments to make capital purchases as at the balance sheet date.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Investment property	71	165	71	165

(b) Investments in private equity funds

The Group and 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 Company is £278m (2020: £370m).

(c) Operating lease commitments

Accounting for operating lease payments

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments under operating leases, net of lease incentives received, are recognised as an expense in the statement of comprehensive income on a straight-line basis over the term of the lease.

Operating lease payments represent rentals payable by the Group for land and buildings. The total lease payments recognised as an expense in the year were £6m (2020: £4m). The total future minimum lease payments due under these arrangements, net of any related sub-lease receipts, are shown in the following table.

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Total future minimum lease payments under non-cancellable leases:				
Not later than one year	6	4	5	4
Later than one year and not later than five years	14	8	4	8
Later than five years	22	—	—	—
	42	12	9	12

Notes to the financial statements continued

36. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences for the types of risk the Group is exposed to. These preferences are classified as seek, manage, minimise, or avoid and 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 pages 56 to 58. The key control techniques for the major categories of risk exposure are summarised in the following sections.

(a) Insurance risk

Insurance risk arises within the Group from the inherent uncertainties as to the occurrence, amount, and timing of its insurance liabilities. The Group has a preference for several insurance risks in order to deliver value for our customers: mortality risk, morbidity risk, longevity risk, persistency risk (as a part of writing new business) and expense risk. The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future experience, in particular mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks can be summarised as follows:

- mortality – the risk that policyholders die sooner than expected. Mortality risk only applies to liabilities which increase under these circumstances;
- morbidity – the risk that policyholders make morbidity related claims more frequently or for a longer period of time than expected;
- persistency – the risk that the rate of policy lapses, terminations, renewals, partial withdrawals and surrenders, or the number of policies converting to paid-up status, is different from that expected, resulting in an increase in liabilities;
- longevity – the risk that policyholders live longer than expected resulting in higher payments under annuity or similar obligations and so an increase in liabilities;
- expense – the risk that the expense associated with investing in assets, or of administering pensions, insurance or reinsurance contracts held within the Group is higher than expected; and
- option take-up – the risk that the take-up rate of options, in particular guaranteed annuity options, provided to policyholders is different from expected, resulting in an increase in benefit payments and therefore liabilities.

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 Insurance Risk Committee are responsible for considering matters arising concerning all aspects of the identification, assessment, management and reporting of insurance risk;
- 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 using actuarial models to calculate premiums, monitor claims patterns and calculate liabilities. The derivation of the assumptions uses industry-standard actuarial and statistical methods based on up-to-date and credible information. The impact of Covid-19 has been considered when updating these assumptions for 2021 reporting. A separate principal risk and uncertainty is included to cover the wider-ranging potential impacts associated with Covid-19, seen on page 59.

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.

36. Risk management (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 reviewing the policy on an annual basis.

Concentration risk

The Group and Company write a diverse mix of business across a broad 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 excessive concentrations of risk through the use of reinsurance, portfolio analysis and risk limits (including limits on individual lives).

The Group's diverse portfolio of business helps mitigate concentration risk across sectors (pensions, protection, intermediated, direct), but there is some concentration risk within sectors. In particular, there is a risk associated with legislative changes affecting pension business, which could result in a marked worsening in persistency. However, although the Group's portfolio of employer-sponsored pension schemes includes some large schemes, there are no schemes that represent an excessive percentage of the relevant portfolio. Due to the nature of the UK market, another potential area of concentration is the reliance of the Group on new business from key Independent Financial Adviser (IFA) networks but exposure to any single IFA is not considered to be material.

A new Concentration Risk Limit Framework will be implemented during 2022.

Sensitivity analysis

The following tables present the sensitivity of insurance and investment contract liabilities to the insurance risks set out above. Sensitivities are only shown in one direction as an equal and opposite movement in the variable for the majority of business would have an equal and opposite impact on the value of insurance and investment contract liabilities.

- **Mortality and morbidity**

5% proportionate decrease in base mortality and morbidity rates. This sensitivity demonstrates the effect of a decrease in the rate of deaths and serious illness.

The impact of such a change on the contract liabilities varies depending on the type of business written. For life assurance business a decrease in mortality rates will typically decrease the liabilities as there will be fewer payouts for early death. However, for those policies which contain a guaranteed annuity option the policy liability may increase as its value depends in part on the length of time over which the guaranteed rate will be paid. Likewise, for annuity business a decrease in mortality rates will increase the liability as the average period over which annuity payments have to be made will be extended.

- **Persistency**

10% proportionate decrease in rates of lapse, conversion to paid-up and, for pensions business, retirement, partial withdrawal, and income drawdown. This sensitivity reflects a single, downward movement in these lapse rates. This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in force.

- **Expenses**

10% decrease in maintenance expenses – the ongoing cost of administering contracts. This sensitivity is applied to the projected level of expenses. There is no change to the assumed rate of future expense inflation. A reduction in expenses will reduce the value of the liabilities for most classes of business. For some unit-linked contracts where future charges cover expenses, however, the liability may be unaffected.

The tables demonstrate the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, the assumptions may be interdependent. It should also be noted that the impact on the liabilities from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

Notes to the financial statements continued

36. Risk management (continued)

	Group							
	2021				2020			
	Liability as reported £m	Impact of change in variable			Liability as reported £m	Impact of change in variable		
		Mortality and morbidity £m	Lapses £m	Expenses £m		Mortality and morbidity £m	Lapses £m	Expenses £m
Long-term business provision, gross of reinsurance								
Participating insurance contracts	33,374	64	11	(17)	34,277	14	6	(15)
Participating investment contracts	2,296	(5)	(2)	9	2,248	(12)	(2)	8
Non-profit insurance contracts								
Non-profit, other than annuities	723	(216)	42	(70)	919	(216)	55	(69)
Non-profit annuities	4,409	103	—	(10)	4,729	107	—	(9)
	5,132	(113)	42	(80)	5,648	(109)	55	(78)
Non-profit investment contracts	—	—	—	—	8	—	—	—
Total Long-term business provision, gross of reinsurance	40,802	(54)	51	(88)	42,181	(107)	59	(85)
Long-term business provision, net of reinsurance								
Participating insurance contracts	32,275	39	11	(17)	32,970	(14)	6	(15)
Participating investment contracts	2,296	(5)	(2)	9	2,248	(12)	(2)	8
Non-profit insurance contracts								
Non-profit, other than annuities	383	(4)	32	(70)	530	(2)	33	(66)
Non-profit annuities	1,269	25	—	(10)	1,244	24	—	(9)
	1,652	21	32	(80)	1,774	22	33	(75)
Non-profit investment contracts	—	—	—	—	8	—	—	—
Total Long-term business provision, net of reinsurance	36,223	55	41	(88)	37,000	(4)	37	(82)
Non-participating value of in-force business	(2,333)	(4)	(229)	(129)	(2,229)	(3)	(222)	(109)
Technical provisions for linked liabilities, gross of reinsurance								
Unit-linked insurance contracts	1,314	(16)	(4)	(3)	1,272	(24)	(7)	(2)
Unit-linked investment contracts	71,185	—	—	—	58,787	—	—	—
	72,499	(16)	(4)	(3)	60,059	(24)	(7)	(2)
Technical provisions for linked liabilities, net of reinsurance								
Unit-linked insurance contracts	1,367	(8)	(3)	(3)	1,322	(14)	(6)	(2)
Unit-linked investment contracts	71,185	—	—	—	58,787	—	—	—
	72,552	(8)	(3)	(3)	60,109	(14)	(6)	(2)

The Company has a similar insurance risk profile to that shown for the Group above, and therefore it has not been analysed separately.

36. Risk management (continued)

(b) Market risk

Market risk arises from the possibility that the fair value or cash flows of the Group's assets and liabilities change as a result of movements in interest rates, foreign currency exchange rates and other market prices. Market risk arises for the Group in particular where the impact of a market change impacts differently on the value of assets from the effect on liabilities.

The Group manages market risk within the risk management system outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Investment Strategy Committee and Capital Management Committee provide regular monitoring of these processes.

The Group is not materially exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements constrain the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk and currency risk.

(i) Equity risk and property risk

Equity risk and property risk are the risks that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices of equities or investment properties, other than those arising from interest rate or currency risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is principally given to the Group's asset management subsidiary RLAM, as the main asset manager for the Group, as well as third parties and external asset managers involved in delivering the investment strategy, with monitoring procedures in place.

The investment management agreement in place between the Company and RLAM specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular asset category or specific investment. The Investment Strategy Committee and Capital Management Committee along with the Group's Investment Committee monitor the actual asset allocation and performance against benchmark. The Group hedges some of its equity risk arising from investment guarantees and unit-linked charges using equity derivatives.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi). Note 17 provides analysis of assets by class.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Company uses interest rate swaps to provide interest rate sensitivity matching.

Interest rate benchmark reform resulted in the 31 December 2021 cessation of EUR, GBP, CHF, and JPY LIBORs and EONIA, and ceasing use of USD LIBOR in new contracts. During 2021 the Group completed a project to transition all financial instruments subject to the changes to alternative benchmarks, specifically SONIA, with no material exposures to the ceased interest rate benchmarks remaining as at 31 December 2021. The remainder of USD LIBOR settings cease after 30 June 2023, for which the Group is well placed to complete transitions to alternative benchmarks in advance of cessation.

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.

Notes to the financial statements continued

36. Risk management (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 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 Company's exposure to currency risk is included in section (vi).

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Non-linked assets denominated in GBP	49,893	53,316	50,044	53,460
Non-linked assets denominated in non-GBP	4,357	3,781	4,317	3,695
	54,250	57,097	54,361	57,155
Assets held to cover linked liabilities, not subject to currency risk	72,697	60,229	72,697	60,229
	126,947	117,326	127,058	117,384
Non-linked liabilities denominated in GBP	53,788	56,532	53,838	56,526
Non-linked liabilities denominated in non-GBP	660	735	721	799
	54,448	57,267	54,559	57,325
Technical provisions for linked liabilities, not subject to currency risk	72,499	60,059	72,499	60,059
	126,947	117,326	127,058	117,384

At 31 December 2021, the Group and Company held currency forwards with a sterling notional value of £60m (2020: Group and Company £187m) 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 Group and Company Fund for future appropriations (before tax), from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

Interest rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities increases when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

Currency rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and liabilities denominated in that currency. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the fund for future appropriations.

Equity/property capital values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. Consequently, the fund for future appropriations will be reduced by a fall in asset values.

36. Risk management (continued)

	Group		Company	
	2021	2020	2021	2020
Impact before tax on the FFA	£m	£m	£m	£m
Interest rates +100bp	(109)	58	(118)	49
Interest rates -100bp	98	(127)	115	(107)
10% increase in non-GBP exchange rate	(131)	(233)	(130)	(231)
10% decrease in non-GBP exchange rate	126	227	125	226
Equity/property prices +10%	227	305	241	320
Equity/property prices -10%	(247)	(325)	(261)	(340)

Limitations of sensitivity analysis

The table above demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks.

The Group's assets and liabilities are actively managed. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment market conditions change, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to with-profits policyholders and taking other protective action.

It should also be noted that the impact on the fund for future appropriations from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

(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, commercial real estate loans, 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. 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 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 Group's Matching Adjustment Committee, reporting to the Group's Capital Management Committee, provides oversight of the operation of the Matching Adjustment portfolio and compliance with the Matching Adjustment requirements. It also acts as a forum in reviewing and approving or rejecting Commercial Real Estate Loan investment opportunities as and when they arise.

The following tables show an analysis of the credit quality of those assets of the Group that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. The credit risk in respect of linked assets is borne by the holders of the contracts concerned, except where investment is made in the funds of other life companies via reinsurance contracts and the linked assets are therefore excluded from the table. The Company has a similar credit risk profile to that shown for the Group and therefore it has not been analysed separately.

AAA is the highest rating possible for assets exposed to credit risk. The credit ratings in respect of derivative financial investments are those of the counterparties to the derivative contracts. The debt and fixed income securities which have not been rated by an external agency are subject to internal analysis to provide an internal rating, which at 31 December 2021 was predominantly AA or A (2020: either AA or A).

Notes to the financial statements continued

36. Risk management (continued)

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 Company invest primarily in higher graded assets, rated BBB or above. The Group and Company also make use of collateral arrangements in respect of their derivative exposures and stock lending activity, wherever possible. Further details of the collateral held are shown in note 17.

	Group – 2021						Total £m
	AAA £m	AA £m	A £m	BBB £m	BB or lower £m	Not rated £m	
Stage 1 assets at amortised cost							
Cash at bank	—	405	217	—	—	—	622
Loss allowance	—	—	—	—	—	—	—
Exposure to credit risk	—	405	217	—	—	—	622
Simplified approach assets held at amortised cost							
Debtors arising out of direct insurance operations	—	—	—	—	—	48	48
Debtors arising out of reinsurance operations	—	—	—	—	—	56	56
Other debtors	—	—	—	—	—	501	501
Loss allowance	—	—	—	—	—	(4)	(4)
Exposure to credit risk	—	—	—	—	—	601	601
Assets at FVTPL							
Other financial investments:							
Derivative assets	—	567	3,749	—	—	—	4,316
Debt and fixed income securities	1,549	8,786	2,581	1,841	103	367	15,227
Commercial real estate loans	—	—	—	—	—	40	40
Other							
Reinsurers' share of insurance liabilities	—	4,561	18	—	—	—	4,579
	1,549	14,319	6,565	1,841	103	1,008	25,385

36. Risk management (continued)

	Group – 2020						Total £m
	AAA £m	AA £m	A £m	BBB £m	BB or lower £m	Not rated £m	
Stage 1 assets at amortised cost							
Cash at bank	—	647	204	—	—	—	851
Loss allowance	—	—	—	—	—	—	—
Exposure to credit risk	—	647	204	—	—	—	851
Simplified approach assets held at amortised cost							
Debtors arising out of direct insurance operations	—	—	—	—	—	197	197
Debtors arising out of reinsurance operations	—	—	—	—	—	41	41
Other debtors	—	—	—	—	—	494	494
Loss allowance	—	—	—	—	—	(6)	(6)
Exposure to credit risk	—	—	—	—	—	726	726
Assets at FVTPL							
Other financial investments:							
Derivative assets	—	635	5,124	—	—	—	5,759
Debt and fixed income securities	2,171	10,528	3,251	1,154	56	413	17,573
Other							
Reinsurers' share of insurance liabilities	—	5,151	30	—	—	—	5,181
	2,171	16,961	8,609	1,154	56	1,139	30,090

Cash at bank, included within Stage 1 assets, is considered to have low credit risk. Allowance is made for expected credit losses for Stage 1 assets based on default events that are possible within the next 12 months. Expected credit losses are calculated using three key input parameters: the probability of default, the expected loss given default and the exposure at default. The probability of default is estimated using quoted credit default swap spreads and the loss given default is taken to be 100%.

Debtor balances are assessed using the simplified method, which means that the assets default to Stage 2 and a lifetime expected credit loss is calculated. Expected credit losses are measured for these assets based on the ageing of the balances and historical payment experience or by the use of discounted cash flow techniques.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

(d) Liquidity risk

The Group defines liquidity risk as the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group has limited exposure to liquidity risk due primarily to its financial strength and availability of liquid assets. However, the Group recognises that extreme liquidity issues could have a serious impact on the Group. The Group believes that its liquidity risk is managed effectively and that the Group has good capabilities in this area within its Group functions and its investment management subsidiary.

Notes to the financial statements continued

36. Risk management (continued)

The Group's liquidity management process includes:

- maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term;
- holding sufficient assets in investments that are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- setting minimum amounts of cash balances in each of its long-term funds. These are set by reference to recent and expected cash outflows and include a margin above reasonably expected amounts in order to reduce risk;
- maintaining a contingency funding plan that covers the framework to enable ongoing monitoring of the Group's capacity to meet its short and medium-term liabilities. It also includes a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios;
- appropriate matching of the maturities of assets and liabilities. The Group's market risk policy covers asset liability management to ensure the duration of liabilities is matched by assets;
- a liquidity risk limit framework; and
- reporting of liquidity exposures to the Credit, Counterparty and Liquidity Risk Committee, which reports to the Group's Investment Strategy Committee.

These processes are regularly reviewed and updated to ensure their continued effectiveness.

The Group's exposure to liquidity risk arises from insurance and investment contracts and the use of derivatives. The following tables show a maturity analysis for the Group's insurance and investment contract liabilities. As permitted by FRS 103, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the unit-linked investment contracts has been shown on the same basis for consistency. Had the analysis for these liabilities been presented on the basis of the earliest contractual maturity date (as required by FRS 102 Section 34) then the whole balance would have been included in the '0-5 years' column, as customers can exercise surrender options at their discretion. In such a scenario the liability may be reduced by the application of surrender penalties (if applicable). The tables also show a maturity analysis for the Group's derivative liabilities and the reinsurance liability held at fair value through profit or loss (FVTPL) presented on a contractual cash flow basis.

The longer-term matching of assets and liabilities is covered within market risk, note 36 (b). As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Group considers the residual liquidity risk arising from its activities to be immaterial. Therefore, an analysis of the Group's asset cash flows by contractual maturity is not considered necessary to evaluate the nature and extent of the Group's liquidity risk. The Company has a similar liquidity risk profile to that of the Group and therefore it has not been analysed separately.

	Group 2021						
	Balance sheet carrying value £m	Cash flows (undiscounted)					Total £m
		0-5 years £m	5-10 years £m	10-15 years £m	15-20 years £m	>20 years £m	
Participating insurance contract liabilities	(33,374)	(13,094)	(10,770)	(7,288)	(3,285)	(1,746)	(36,183)
Participating investment contract liabilities	(2,296)	(784)	(664)	(484)	(253)	(361)	(2,546)
Non-profit insurance contract liabilities	(5,132)	(830)	(1,117)	(1,112)	(952)	(1,728)	(5,739)
Unit linked insurance contract liabilities	(1,314)	(634)	(456)	(191)	(73)	(56)	(1,410)
Unit linked investment contract liabilities	(71,185)	(22,560)	(19,076)	(13,469)	(9,408)	(13,794)	(78,307)
Derivative liabilities	(1,844)	(702)	(399)	(366)	(291)	(136)	(1,894)
Reinsurance liability	(2,477)	(537)	(579)	(532)	(440)	(827)	(2,915)

36. Risk management (continued)

	Group 2020						
	Balance sheet carrying value £m	Cash flows (undiscounted)					Total £m
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	>20 years £m	
Participating insurance contract liabilities	(34,277)	(12,303)	(10,892)	(7,320)	(3,046)	(1,615)	(35,176)
Participating investment contract liabilities	(2,248)	(711)	(571)	(492)	(280)	(295)	(2,349)
Non-profit insurance contract liabilities	(5,648)	(946)	(1,216)	(1,164)	(966)	(1,629)	(5,921)
Non-profit investment contract liabilities	(8)	(8)	—	—	—	—	(8)
Unit linked insurance contract liabilities	(1,272)	(627)	(382)	(160)	(70)	(58)	(1,297)
Unit linked investment contract liabilities	(58,787)	(16,874)	(15,408)	(10,865)	(7,340)	(10,537)	(61,024)
Derivative liabilities	(1,986)	(598)	(493)	(452)	(361)	(269)	(2,173)
Reinsurance liability	(2,820)	(524)	(584)	(551)	(465)	(919)	(3,043)

(e) Pension schemes

The Group maintains three defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and regular contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions. Management of the assets of the pension schemes is the responsibility of each scheme's Trustees, who also appoint the Scheme Actuaries to perform triennial valuations to assess the level of funding required to meet the scheme's liabilities. The schemes' main exposures are to equity, interest rate, inflation, and longevity risk. For further information on pension scheme assets and liabilities, see note 24. The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and are used in discussions with the Trustees, through whom any risk management activity must be conducted.

(f) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, people, change management, legal and regulatory, financial crime, and processing. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes, and systems under their control.

Details of risks on inherent (before controls) and residual (after controls) bases are maintained on risk registers, with each part of the business being responsible for identifying, assessing, managing, and reporting on its operational risks and for implementing and maintaining controls in accordance with the Group's operational risk methodology. In performing these assessments, account is taken of the Group's risk appetite with greater significance being placed on those risks that fall outside these parameters. This is used as a basis for review and challenge by senior management, Risk Committees, and the Board of Directors. Management attention is focused upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weakness is identified. In addition, the Group conducts a series of operational risk scenarios. These scenarios allow the Group to consider how effective controls would be should an extreme event occur and to make improvements where necessary. The scenarios also provide data that is used to calculate the capital held by the Group for operational risk. Within the Group's management of operational risks significant consideration is given to conduct risk and the risk of unfair outcomes to our customers and members.

(g) Climate Change Risks

A new risk appetite statement has been created for Climate Change during 2021.

The Group is committed to achieving net zero by 2050 across our investment portfolio. By 2030, we are aiming to reduce carbon equivalent emissions from our portfolio by 50%. The basis and assumptions on which our targets have been set are detailed on pages 30 to 40. Our near-term targets (2025) will guide organisational activity to manage and mitigate climate risks and invest in climate solutions to increase the likelihood of achieving the goals of the Paris agreement. Climate risk appetite is monitored and measured against tolerances around our progress towards our climate targets in the areas of asset holdings, funds, and Just Transition. We also set tolerances around our operational climate targets.

Notes to the financial statements continued

36. Risk management (continued)

(h) 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 and Strategic 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.

(i) 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.

(j) 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:

- Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- Reports on the capital requirements of the Company, produced annually;
- Own Risk and Solvency Assessment (ORSA) analysis, produced annually;
- Recovery and Resolution Plans, produced annually;
- Internal Capital Adequacy Assessment Process (ICAAP) results for regulated non-insurance firms (where applicable), produced annually; and
- Business Plans, produced annually.

The stress testing performed includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

Operational risk stresses and scenarios are completed to calculate the capital required for this risk. The stresses allow an assessment of the extreme impacts arising from a given risk by way of assessment of the frequency of occurrence and the distribution of the value of impacts. A top-down approach is used for determining the Company's capital requirements which involves the analysis of single, but potentially catastrophic, events/risks which cover all risks used for modelling the capital requirement.

Various broad-based scenarios and reverse stress tests have been considered in the Group over the year, as well as business model analysis activity. These scenarios provide a top-down analysis of events that would affect the Group in a significant way. These events could be in relation to issues such as the markets in which the Group operates, financial strength, long-term strategy, and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

37. Related party transactions

The Company is the ultimate parent undertaking of the Group. The Group and Company have taken advantage of the exemption in FRS 102 Section 33 not to disclose related party transactions between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member. The Group and Company have carried out the following transactions with related parties not covered by this exemption.

(a) Related party transactions of the Group and Company

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) 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 and associates for the purposes of financial reporting. However, as set out in note 15 the funds that are subsidiaries and associates are not consolidated in the Group financial statements as the funds are held as part of an investment portfolio. These funds are therefore all related parties of the Group and Company.

For those funds which are subsidiaries (excluding wholly owned) or associates and are not consolidated within the Group, the transactions during the year were as follows:

	2021	2020
	£m	£m
Management fees earned during the year	80	106

There were no amounts outstanding between the Group or Company and the funds at the year-end (2020: £nil). The total value of units held by the Company at 31 December 2021 in the funds that are subsidiaries (excluding wholly owned) or associates was £49,505m (2020: £39,507m). The acquisition and sale of units in the funds during the year were as follows:

	2021	2020
	£m	£m
Acquisition of funds	6,971	8,420
Proceeds from sale of funds	5,074	4,305

(ii) Other income received from subsidiaries that are not wholly owned

	Group and Company	
	2021	2020
	£m	£m
OEIC distributions	742	752

OEIC distributions are those received from all OEIC investment holdings which are subsidiaries (excluding wholly owned) and associates for financial reporting purposes.

(b) Related party transactions of the Company

The subsidiaries of the Company are shown in note 15. As set out above, the Company has taken advantage of the exemption in FRS 102 Section 33 not to disclose transactions with its wholly owned subsidiaries. Transactions between the Company and its other subsidiaries and the other related party transactions of the Company are shown below:

(i) Outstanding balances with Group entities at the year end

At the year end, the following balances were outstanding with Group entities (excluding wholly owned subsidiaries) in relation to the transactions above:

	Company	
	2021	2020
	£m	£m
Loans to Group entities	2	2

The amounts due to and from Group entities are due on demand and are not secured.

(ii) 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).

Notes to the financial statements continued

38. Capital management

(a) Capital management policies and objectives

The Group's capital management objectives are:

- to protect the Group's financial strength, providing security to policyholders;
- to ensure that the Group's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board; and
- to comply with SII's capital requirements.

The Group's capital position is monitored on a regular basis and reviewed formally by the Board. The Group's capital requirements are forecast on a regular basis and those forecasts are compared against the available capital.

(b) Regulatory Capital

(i) Regulatory capital framework

Royal London is an insurance Group under the SII rules and consequently regulatory capital is reported at a Group and Company level to the PRA, and for RLI DAC to the CBI.

Under SII, the Group and 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.

The PRA has approved the use of a Partial Internal Model (hereafter referred to as Internal Model) to calculate the capital requirements of the Group and the Company. The capital assessment of RLI DAC is on a Standard Formula basis.

(ii) Regulatory capital position

The table below sets out the Group and Company's available own funds, solvency capital requirement, solvency surplus and capital cover ratio on a Regulatory View basis¹.

	Group		Company	
	31 December 2021 ²	31 December 2020	31 December 2021 ²	31 December 2020
Investor View (£m)¹				
Available own funds (A)	5,243	4,766	5,271	4,773
Solvency capital requirement (SCR) (B)	2,426	2,508	2,258	2,360
Solvency surplus	2,817	2,258	3,013	2,413
Capital cover ratio (A/B) ³	216 %	190 %	233 %	202 %
Regulatory View (£m)¹				
Available own funds (A)	6,696	7,084	6,715	7,081
Solvency capital requirement (SCR) (B)	3,879	4,826	3,702	4,668
Solvency surplus	2,817	2,258	3,013	2,413
Capital cover ratio (A/B) ³	173 %	147 %	181 %	152 %

1. In common with the rest of the industry, we present two views of our capital position: an 'Investor View' (which is equal to the Royal London Main Fund capital position excluding ring-fenced 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 2021 figures are estimated. The final figures will be presented in the 2021 Single Group SFCR, which will be published on the Group's website in April 2022. This SFCR meets the SII disclosure requirements of the Group and the Company and mitigates the requirement to produce a separate SFCR for the Company.
3. Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.

The Investor View and Regulatory View capital ratios have increased following the recovery in economic conditions in 2021, in particular strong equity and property returns and rises in yields. The ratios were further enhanced through management actions we have taken including additional equity hedges taken out during the year, the closed fund consolidation into the Royal London Main Fund and moving away from higher yielding, higher risk investment assets.

38. Capital management (continued)

(iii) Reconciliation of Group UK GAAP fund for future appropriations to regulatory capital available own funds

The SII available own funds are determined by aggregating the assets and liabilities of the Group recognised and measured on a SII basis. A reconciliation of the Group's FFA attributable to members on a UK GAAP basis to estimated SII available own funds is set out in the table below.

	Group		Company	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	£m	£m	£m	£m
UK GAAP Fund for future appropriations	4,009	3,673	4,329	3,993
Adjustments to a SII basis:				
Adjustment to the value of technical provisions and reinsurance assets ¹	1,006	184	1,006	195
Goodwill, other intangible assets and deferred acquisition costs ²	(190)	(209)	(225)	(251)
Other valuation differences ³	(60)	(15)	(324)	(304)
Inclusion of closed funds surplus classified as a UK GAAP liability ⁴	3,305	4,367	3,292	4,354
Excess of assets over liabilities in SII balance sheet	8,070	8,000	8,078	7,987
Subordinated liabilities ⁵	1,535	1,604	1,535	1,604
Deferred tax adjustment ⁶	(11)	(8)	—	—
Ring-fenced fund adjustment ⁷	(2,898)	(2,512)	(2,898)	(2,510)
SII available own funds (Regulatory View) - estimate	6,696	7,084	6,715	7,081
Remove closed fund restricted own funds	(1,453)	(2,318)	(1,444)	(2,308)
SII available own funds (Investor View) – estimate	5,243	4,766	5,271	4,773

1. The adjustment to the value of technical provisions and reinsurance assets results from the recalculation of these balances using SII requirements. This includes the removal of the margins of prudence included in the UK GAAP values (so that assumptions are all best estimates), the inclusion of the SII risk margin, the use of the SII yield curve including the volatility adjustment for appropriate lines of business, the adoption of SII contract boundary definitions (mainly affecting unit-linked business) and also any benefit from the SII transitional provisions.
2. Goodwill, other intangible assets and deferred acquisition costs are recognised in the UK GAAP balance sheet. Under the SII valuation rules, these assets are valued at £nil.
3. Other valuation differences relate principally to the value of participations, renewal commission and subordinated liabilities. In the UK GAAP balance sheet participations are valued at fair value, and for SII the valuation equates to the value of net assets on a SII basis. Renewal commission is recognised in the UK GAAP balance sheet but not on a SII basis. Subordinated liabilities are held at amortised cost for UK GAAP and at fair value for SII.
4. For UK GAAP any excess of assets over liabilities within the closed funds is included within liabilities, so the FFA includes amounts relating to the Royal London Main Fund only. For SII, the excess within the closed funds is included within total available own funds, but only up to the value of the solvency capital requirement (SCR) of the closed funds.
5. Subordinated liabilities in the form of the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043, the Guaranteed Subordinated Notes due 2028 and the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 are included within available own funds on a SII basis, whereas UK GAAP treats subordinated debt as a liability.
6. The Group has deferred tax assets which are restricted under the SII rules and therefore do not form part of our SII available own funds.
7. The ring-fenced fund adjustment is where the closed funds' surplus in excess of the SCR is excluded from total available own funds and treated as a liability.

Notes to the financial statements continued

Alternative performance measures

The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with relevant financial reporting frameworks such as UK GAAP or Solvency II. These measures are known as alternative performance measures (APMs).

APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

Operating profit before tax

Operating profit excludes short-term investment return variances and economic assumption changes, amortisation and impairment of goodwill and intangibles arising from mergers and acquisitions, ProfitShare, tax, and one-off items that are not related to the underlying trading of the Group. A reconciliation to the UK GAAP profit before tax is included on page 52.

Assets under management

The total of assets actively managed or administered by, or on behalf of, the Group, including funds managed on behalf of third parties. This includes assets where the beneficial ownership interest resides with third parties (and which are therefore not recognised in the UK GAAP balance sheet) but on which the Group earns fee revenue.

Group Solvency II capital cover ratio (Investor View)

The capital cover ratio is a good indicator of our ability to withstand tough economic conditions, with higher numbers indicating more capital over and above our requirements. Further details of the capital position and its calculation are included in the Financial review on page 54.

New business

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as a total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year. The discounted value of regular premiums is calculated using the same methodology as on a Solvency II basis.

Other information

2022 Financial calendar

Date	Event
4 March 2022	Financial Results for 2021 and conference call
7 June 2022	Annual General Meeting
5 August 2022	Interim Financial Results for 2022 and conference call
7 October 2022	RL Finance Bonds No 4 plc subordinated debt interest payment date
14 November 2022	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2022	RL Finance Bonds No 2 plc subordinated debt interest payment date

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Forward-looking statements

Royal London may make verbal or written 'forward-looking statements' within this report, 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. The statements are based on plans, estimates and projections as at the time they are made and involve unknown risks and uncertainties. These forward-looking statements are therefore not guarantees of future performance and 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, some of which will be beyond Royal London's control. Royal London believes factors could cause actual financial condition, performance or other indicated results to differ materially from those indicated in forward-looking statements in the announcement. Potential factors include but are not limited to: the ongoing effects of the Covid-19 pandemic; the war in Ukraine; 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 (for example new government initiatives); 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 future financial condition, performance and results may differ materially from the plans, estimates and projections set forth in Royal London's forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements in this document or any other forward-looking statements Royal London may make. Forward-looking statements in this document are current only at the date on which such statements are made. This report has been prepared for the members of Royal London and no one else. None of Royal London, its advisers or its employees accept or assume responsibility to any other person and any such responsibility or liability is expressly disclaimed to the extent not prohibited by law.

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 (IFA).

Alternative performance measure (APM)

A financial measure of performance not defined or specified by accounting standards.

Annual General Meeting (AGM)

The AGM provides an important opportunity to give members a brief overview of Royal London's financial and business performance, and includes the reappointment of auditors and re-election of directors.

Annuity

An insurance policy that provides a regular income in exchange for a lump-sum payment.

Ascentric

The trading name of Investment Funds Direct Limited (IFDL), an independent wrap platform providing investment administration and consolidation services to long-term investors and financial advisers through its online wrap service. The business was sold to M&G plc on 1 September 2020.

Asset Management segment

The Asset Management segment comprises Royal London Asset Management Holdings Limited and its subsidiaries. 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.

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 of assets actively managed by the Group, including funds managed on behalf of third parties.

B

BAME

Black, Asian and minority ethnic.

Board

The Royal London Mutual Insurance Society Board.

Brexit

The withdrawal of the United Kingdom from the European Union at 11 pm GMT on 31 January 2020, followed by an 11-month transition period with the UK and EU negotiating their future relationship, concluding on 31 December 2020.

C

Capital Cover Ratio

Own Funds divided by Solvency Capital Requirement.

Capital markets

Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

CIS

The Co-operative Insurance Society Limited purchased by the Group on 31 July 2013. On 1 August 2013 it was renamed Royal London (CIS) Limited.

Closed funds

Our funds that are now closed to new business.

Company

The Royal London Mutual Insurance Society Limited.

Consumer Price Index (CPI)

A measure of changes in the price level of a basket of consumer goods and services purchased by households.

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.

Drawdown

Drawdown is a flexible way of using your savings. With a defined contribution scheme, once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

E

Economic assumptions

Assumptions of future interest rates, investment returns, inflation and tax rates. The impact of variances in these assumptions is treated as non-operating profit or loss under UK GAAP.

Employee Engagement Index

A widely used measure of employee satisfaction.

Environmental, social and governance (ESG)

Financially material environmental, social and governance risks and opportunities being embedded into investment and operational decisions.

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.

Fair value through profit or loss (FVTPL)

For any assets and liabilities measured at fair value, any movement in that fair value is taken directly to the income statement.

Final salary

A defined benefit scheme that provides a pension based on salary at retirement.

Financial Conduct Authority (FCA)

An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

Financial options and guarantees

For Royal London business, 'financial options' refers principally to guaranteed annuity options. 'Guarantees' refers to with-profits business where there are guarantees that parts of the benefits will not reduce in value, or are subject to a minimum value.

Financial Reporting Council (FRC)

The FRC is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

Funds for Future Appropriation (FFA)

The amount of surplus that has not been allocated to policyholders at the balance sheet date.

G

Governed Range

Ready-made investment options designed to suit customers needs, in which investments are automatically balanced dependent on the customer's risk appetite and length of time to retirement.

Group

The Royal London Mutual Insurance Society Limited and its subsidiaries.

Guaranteed Annuity Option (GAO) or Guaranteed Annuity Rate (GAR)

These primarily arise in connection with pension business as either:

- a guaranteed income rate specified in the policy; or
- guaranteed terms (option) for converting the pension fund of a policy into an income for life at the policy's pension date.

Gross inflows

Gross inflows incorporate flows into Royal London Asset Management Limited (RLAM) from external clients (external flows) and those generated from RLMIS (internal flows). External client gross inflows include cash mandates. Internal gross inflows from RLMIS represent the

combined premiums and deposits received (net of reinsurance). Given its nature, non-linked Protection business is not included.

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.

Individual pension

A pension plan for an individual policyholder.

Investor View

In common with the rest of the industry, we present two views of our Solvency II capital position: an Investor View for analysts and investors in our subordinated debt (which equals the RL Main Fund and excludes the capital position of the ring-fenced closed funds), and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

Ireland segment

The Ireland business was previously shown within the 'Other' segment and comprises the Group's Irish subsidiary, Royal London Insurance Designated Authority Company (RLI DAC). It provides intermediated protection products to individuals in the Republic of Ireland.

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

LGBT+

Lesbian, gay, bisexual, trans and plus, which represents other sexual and gender identities.

Life and pensions new business sales

Life and pensions new business sales represent life and pensions business only and exclude Asset Management and other lines of business. Sales are presented as the Present Value of New Business Premiums (PVNBP).

Long standing customers

Customers from our legacy businesses, including those who have long standing protection, life and pension policies, along with annuities and tax-efficient savings plans including ISAs.

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.

Matching Adjustment

An adjustment made to the risk-free interest rate for Solvency II purposes when the insurer sets aside a portfolio of assets to back a predictable portion of their liabilities.

Mutual

A company owned by its members rather than shareholders. A member of a mutual company can vote at its Annual General Meeting.

N

Net Asset Value (NAV)

This is equal to a company's total assets less its total liabilities.

Net inflows

Net inflows represent the net position of gross inflows and outflows in the period. This comprises net flows from external clients into RLAM (external net flows) and those generated from RLMIS (internal net flows). Internal outflows include claims and redemptions paid (net of reinsurance). Given its nature, non-linked Protection business is not included.

Net Promoter Score

An index used to measure the willingness of customers to recommend a company's products or services to others.

New business contribution

The expected present value on the UK GAAP basis of reporting 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.

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 profit under UK GAAP.

Operating experience variances

The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

Operating profit

The profit on a UK GAAP basis resulting from our primary business operations, defined as the transfer to Fund for Future Appropriations before Other Comprehensive Income, excluding the following: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers and acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group.

Own Funds

Regulatory capital under Solvency II. Broadly it is the excess of assets over liabilities (plus subordinated debt and less the ring-fenced fund restriction), as measured by the PRA's regulatory reporting requirements under Solvency II.

Own risk and solvency assessment (ORSA)

The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period, and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

P

Parent company (also Company)

The Royal London Mutual Insurance Society Limited.

Part VII transfers

Transfer of insurance business from one insurer to another insurer in accordance with Part VII of the Financial Services and Markets Act 2000.

Partial Internal Model

The processes, systems and calculations that together allow the Group to control the risks that it faces and quantify the capital needed to support those risks under the Solvency II

regime. It includes a calculation engine to quantify capital requirements, the Group's risk management framework and its system of governance. Our Partial Internal Model, approved by the PRA with effect from 1 October 2019, for reporting purposes, is also used for internal capital management purposes.

Participating

Contracts that are with-profits in type.

Pension

A means of providing income in retirement for an individual and possibly their dependants. Our pension products include Individual and Workplace Pensions, Stakeholder Pensions and Income Drawdown.

Police Mutual

The Police Mutual Assurance Society Limited (PMAS) and its subsidiaries, which includes Police Mutual and Forces Mutual. The business was transferred into Royal London on 1 October 2020.

Present value of in-force business (PVIF)

The present value of the projected future profits after tax arising from the business in-force at the valuation date.

Present value of new business premiums (PVNBP)

The PVNBP is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year.

Principles and Practices of Financial Management (PPFM)

A document detailing how we manage our with-profits funds. We have a separate PPFM for each with-profits fund.

Profit before tax

The statutory Profit before tax and before transfer to the fund for future appropriations in

the consolidated statement of comprehensive income.

ProfitShare

ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

Protection

A policy providing a cash sum or income on the death or critical illness of the life assured.

Prudential Regulation Authority (PRA)

Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

R

Rating agencies

A rating agency (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and indicate the likelihood of default.

Regular premium

A series of payments for an insurance contract, typically monthly or annually.

Regular Supervisory Report (RSR)

A report required under the Solvency II directive. This is a private report to the PRA and is not disclosed publicly. Life insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

Regulatory View

In common with the rest of the industry, we present two views of our capital position: an Investor View for analysts and investors in our subordinated debt (which equals the RL Main

Fund and excludes the capital position of the ring-fenced closed funds), and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

Responsible investment

To continuously embed advanced environmental, social and governance capabilities into our investment activities and support RLAM to influence positive corporate changes.

Retail Price Index (RPI)

A measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

Risk-free rate

The theoretical rate of return of an investment with no risk of financial loss.

Royal London

The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Asset Management (RLAM)

Royal London Asset Management Holdings Limited and its subsidiaries. It is responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds, local authorities, universities, charities and individuals.

Royal London Group

The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Insurance Designated Activity Company (RLI DAC)

Royal London's regulated Irish insurance subsidiary. The company was incorporated on 11 July 2018 with regulatory permissions effective from 1 January 2019. It is 100% owned by RLMIS.

Royal London Long-Term Fund

The long-term business fund of Royal London, comprising the Royal London Main Fund and a number of closed sub-funds from businesses acquired in the past.

Royal London Main Fund

The part of the Royal London Fund into which all of the Group's new pensions and insurance business is written.

S**S172**

Section 172 of the Companies Act 2006. This sets out the matters that a director of a company must consider when fulfilling their duty to promote the success of the company for the benefit of its members.

Single premium

A single payment for an insurance contract.

Solvency II

A European Union directive that became fully applicable to European insurers and reinsurers on 1 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

Solvency and Financial Condition Report (SFCR)

A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Solvency Capital Requirement (SCR)

The amount of capital that the PRA requires a UK Life insurer to hold, which is calculated using the European Union Solvency requirements, also known as Solvency II. The SCR is calculated using our Partial Internal Model.

Solvency surplus

The excess of Own Funds over the Solvency Capital Requirement.

Standard Formula

A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard Formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

Subordinated debt

In the event of bankruptcy, dissolution or winding-up, the payments arising from this debt rank after the claims of other creditors.

T**The Royal London Mutual Insurance Society Limited (RLMIS)**

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 117672. Registered in England and Wales number 99064.

Three lines of defence model

The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision-making, risk and control to achieve effective governance, risk management and assurance.

Tilt fund

An adjusted tracker fund that allows fund managers to deviate from the underlying index, by giving greater weight to securities according to a chosen measure (for example, ESG and climate practices).

Tracker fund

A passive fund that seeks to closely track the performance of a particular index.

Transitional Measure on Technical Provisions (TMTP)

The transitional measure smooths the transition from the previous Solvency I regime to the Solvency II regime, and spreads the capital impact over 16 years. Once approved by the PRA, this is included within the valuation of technical provisions.

U**UK Corporate Governance Code (the Code)**

This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

UK Generally Accepted Accounting Practice (UK GAAP)

This replaced IFRS and EEV reporting for the Royal London Group with effect from 1 January 2020.

UK Stewardship Code

Financial Reporting Council's draft UK Stewardship Code. The Stewardship Code focuses on sustainable and responsible investment and stewardship, and sets standards for asset owners and asset managers.

Unit-linked policy

A policy for which the premiums buy units in a chosen investment fund.

UK segment

The UK segment includes the previous Intermediary, Consumer and Legacy segments. The UK business provides pensions and other retirement products to individuals and to employer pension schemes and protection products to individuals in the UK.

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.

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)'.

Volatility Adjustment (VA)

An adjustment made to the risk-free interest rate for Solvency II purposes. It is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position.

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. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms.

Workplace pension

A pension plan that is arranged by an individual's employer.



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