Royal London Insurance DAC
Solvency and Financial Condition Report (SFCR)
for the year ended 31 December 2021

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Executive Summary

What is this report?

The information in this report relates to Royal London Insurance DAC ("the Company" or "Royal London") for the year ended 31 December 2021. This document covers the Solvency and Financial Condition Report ("SFCR") of Royal London.

The Company received authorisation from the Central Bank of Ireland ("the CBI") to transact life insurance business with effect from 01 January 2019. Prior to the CBI authorisation, Royal London Mutual Insurance Society Limited ("RLMIS"), a mutual life insurance company incorporated and regulated in the United Kingdom, operated in Ireland through a branch. The Company is a wholly owned subsidiary of RLMIS.

Why are we publishing this report?

Solvency II ("SII") is a European Union ("EU") directive for insurance companies embedded within Irish law, containing a set of rules designed to help insurance businesses across Europe calculate their available capital, assess and manage their risks and ensure that they hold sufficient capital to take account of those risks. 'Capital' is referred to in SII as 'Own Funds' and represents how much the Company has available to meet its financial obligations. In the case of the Company, its largest financial obligations are current and future liabilities to policyholders.

Publishing an SFCR each year is a regulatory requirement under SII. In addition, publishing the SFCR is an opportunity for the Company to provide information to our policyholders about our strong capital position, the governance processes we have in place to mitigate risks and our effective capital management strategies.

What does this report contain?

The following is a high-level description of the contents of each section in this document. The content is prescribed by regulations and some of the information is quite technical. The regulations are complex and some jargon is unavoidable, but we have aimed to make this understandable to all readers.

A. Business & Performance

Section A, Business and Performance, outlines the environment and market in which the company operates. It covers the overall financial performance of the Company.

Royal London's business is split into three funds: an Open Fund and two closed funds. The two closed funds comprise business that was sold by RLMIS in Germany (the "German Bond Fund") and Irish business that was acquired by RLMIS through the acquisition of Royal Liver Assurance in 2011 (the "Liver Fund"). Both blocks were transferred to the Company from RLMIS at the beginning of 2019. The closed funds are 100:0 with-profits funds, which means that shareholders have no entitlement to profits arising in these funds. The closed funds include a variety of products: protection and pension business, with-profits, non-profits and unit-linked.

The Open Fund includes Irish business that was sold by the Irish branch of RLMIS between 2011 and 2018; all new business sold by the Company since its authorisation is also underwritten in this fund. The Company sells protection products (Term Assurance, Specified Serious Illness, Multi-Claim Protection Cover, Income Protection, Mortgage Protection and Whole of Life) through the intermediary channel in Ireland.

The Company is developing capabilities to deliver further propositions and expects to be launching these into the Irish broker market in 2022.

On an Irish GAAP basis, the Company's operating profit after tax for 2021 was €8.3m (2020: €5.9m), which demonstrates the strong financial performance achieved over the reporting period.

B. System of Governance

Section B, System of Governance, outlines the corporate governance structure of the Company. It details the Board, committees and management structures. This section also outlines the three lines of defence model in the organisation and the functions within each.

C. Risk Profile

Section C, Risk Profile, sets out information regarding the risk profile of the Company including the exposures to each category of risk, the measures used to assess these risks and the techniques used to mitigate and monitor these risks.

D. Valuation for Solvency Purposes

Section D, Valuation for Solvency Purposes, gives an overview of the Company's balance sheet. It also outlines the valuation methods and principles used in valuing the assets and technical provisions of the Company.

E. Capital Management

Section E, Capital Management, provides details of the Company's own funds position. It also gives a breakdown of the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). At the end of 2021, reported eligible own funds were €162.9 million (2020: €156.9m). This was €81.8 million above the SCR of €81.1 million (2020: €70.1m).

The Company is therefore very well capitalised, with an overall solvency ratio (eligible own funds divided by SCR) of 201% (2020: 224%).

Forward-looking statement

The actual future financial condition, performance and results may differ materially from this document and the Company has no obligation to update any forward-looking statements included.

Glossary

This explains some of the unavoidable jargon and technical terms relating to SII, as well as other terms used in our business.

Quantitative Reporting Templates (QRTs)

These are the detailed forms we submit to the CBI, which contain financial information prescribed by the SII regulations. The forms included in this document are required to be disclosed publicly, but additional forms are privately submitted to the CBI on an annual and quarterly basis.

A. Business and Performance

Plain English introduction
In this section, we describe our business and our company:

- We describe our legal structure.
- We explain how we are regulated and who our external auditors are.
- We also describe how the business has performed during the year

A.1 Business

A.1.1 Name and legal form

Royal London Insurance DAC ("Royal London" or "the Company") was incorporated on 11 July 2018 and is a wholly owned subsidiary of Royal London Mutual Insurance Society Limited ("RLMIS"), a life insurance mutual incorporated and regulated in the United Kingdom ("UK").

The Company's operating and registered address is:

Royal London Insurance DAC
47-49 St. Stephen's Green,
Dublin 2,
Ireland.

A.1.2 Supervisory authority details

Royal London Insurance DAC is authorised and regulated by the Central Bank of Ireland ("the CBI"). The contact details of the CBI are set out below:

Supervisory Authority	Details
Central Bank of Ireland	New Wapping Street, North Wall Quay, Dublin 1, +353 1 224 6000.

A.1.3 External auditor

The external auditors are PricewaterhouseCoopers ("PwC"). They are based at the following address:

PricewaterhouseCoopers
One Spencer Dock,
North Wall Quay,
Dublin 1.

A.1.4 Shareholdings

Royal London Insurance DAC has issued share capital of 1,000,000 shares at €1 each. The entire shareholding is held by its direct and ultimate parent company, RLMIS.

Full registered name:	Royal London Mutual Insurance Society Limited
UK Company number:	00099064
Registered address:	55 Gracechurch Street, London,United Kingdom, EC3V 0RL.

A Business and performance (continued)

The PRA and the FCA are the supervisory authorities responsible for the regulation and financial supervision of RLMIS.

Supervisory Authority	Details
FCA	12 Endeavour Square, London, E20 1JN
PRA	20 Moorgate, London, EC2R 6DA

A.1.5 Legal structure of the Company

Royal London is a Designated Activity Company under Part 16 of the Irish Companies Act 2014.

It is a wholly owned subsidiary of RLMIS. The Company has no subsidiaries.

A.1.6 Significant events during the reporting period

Covid-19

The coronavirus outbreak and resulting lockdown measures had an adverse impact on the global economy. Due to the nature of its business and investment portfolio, the Company was not affected materially by the changed economic environment and remained very well capitalised throughout the year. As the Company and its service providers were well prepared for remote working, operations and services to customers continued seamlessly during 2021.

There remains uncertainty over the eventual impact of the pandemic, including on future rates of mortality and on the wider health impacts from the deferral of non Covid-19 related medical treatments. However, the Company had no material adverse experience as a result of the Covid-19 pandemic during 2021. An additional €0.2m net reserve (€2.0m gross of reinsurance) was maintained as at year-end 2021, to cover potentially higher claims in the near future.

The effects of Covid-19 increase future uncertainty and in particular market risk, insurance risk (including assumptions in relation to mortality and persistency) and operational risk. These risks continue to be monitored and mitigated through our risk management system.

There were no other significant events during the year.

A.1.7 Material lines of business and geographic areas

The products currently sold by the Company, and written in the Open Fund, are:

- Term Assurance.
- Specified Serious Illness.
- Income Protection.
- Mortgage Protection.
- Whole of Life cover.
- Multi-Claim Protection Cover ("MCPC").

The Open Fund comprises only business written in Ireland.

The main lines of business in the closed funds are:

Liver Fund

- Conventional life ordinary branch with-profits.
- Conventional life industrial branch with-profits.
- Conventional life ordinary branch non-profit.
- Conventional life industrial branch non-profit.
- Conventional pensions with-profit.
- Conventional pensions non-profit.
- Unitised with-profits life.
- Unitised with-profits pensions.
- Unit linked life.
- Unit linked pensions.
- Protection.
- Annuities.

A Business and performance (continued)

All the business in the Liver Fund was written in Ireland.

German Bond Fund

- Unitised with-profits life.
- Unit linked life.

The German Bond Fund includes only business written in Germany.

The Company strives to provide the same level of best in class service to all its customers, regardless of the fund in which their policy sits, whether that be the Open Fund, the Liver fund or the German Bond fund.

The Company is developing capabilities to deliver further propositions and expects to be launching these into the Irish broker market in 2022.

A.2 Underwriting performance

A.2.1 Underwriting performance

The Company prepares its financial statements in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and 103) – The Financial Reporting Standard applicable in the UK and Republic of Ireland ("Irish GAAP").

The table below illustrate premiums, claims, change in technical provisions and expenses for the Company's Open Fund on Irish GAAP basis.

Open Fund **€m**	**2021**	**2020**
Premiums earned (net of reinsurance)	48.5	40.2
Claims (net of reinsurance)	(2.7)	(1.8)
Change in technical provisions (net of reinsurance)	14.6	2.4
Expenses	(40.6)	(33.1)
Underwriting result	**19.8**	**7.8**

The underwriting result for the year ended 31 December 2021 highlights the continued strong trading performance of Royal London. Premium earned increased 21% on 2020 as the Company wrote significant amounts of new business during the year and increased the policy count within the Open Fund. The higher expenses are driven by commission costs related to the increased new business volumes. As noted in Section D.2.2, expected future profits are removed on an Irish GAAP basis.

The factors that influence the underwriting performance of the Company's Open Fund are:

- Mortality, morbidity and persistency experience over the year, including volatility of claim amount.
- Changes in our view of how mortality, morbidity and persistency will develop in future.
- Changes in yield curves used for discounting future cashflow when calculating technical provisions.
- Expenses incurred when selling and administering business.
- Volume and quality of new business sold during the year.

As the Liver and German Bond funds are 100:0 with-profits funds, any profits are earmarked for future distribution to policyholders by increasing the technical provisions (Fund for Future Appropriation or "FFA"). Furthermore, the business in the Liver and German Bond Funds is fully reinsured respectively into the RLMIS Royal Liver Fund and Main Fund, where profits and losses are consolidated, enabling policyholders to benefit from the larger with-profits funds. Therefore, any profit generated, or loss incurred by Royal London is driven from business transacted within the Open Fund.

Nonetheless, the underwriting result of the two closed funds before the FFA adjustment is presented in the table on the following page.

A Business and performance (continued)

Closed Funds – 2021 €m	Liver Fund	German Bond Fund
Premiums earned (net of reinsurance)	2.1	0.4
Claims (net of reinsurance)	-	-
Change in technical provisions (net of reinsurance and before FFA)	10.3	1.0
Expenses	(8.9)	(0.9)
Underwriting result	**3.5**	**0.5**
Reinsurance of expenses	8.6	0.9
Underwriting result net of reinsurance of expenses	12.1	1.4

Closed Funds – 2020 €m	Liver Fund	German Bond Fund
Premiums earned (net of reinsurance)	0.4	(0.2)
Claims (net of reinsurance)	-	-
Change in technical provisions (net of reinsurance and before FFA)	0.3	0.3
Expenses	(10.0)	(0.9)
Underwriting result	**(9.3)**	**(0.8)**
Reinsurance of expenses	9.8	0.9
Underwriting result net of reinsurance of expenses	0.5	0.1

The expenses of both funds are reinsured by RLMIS. The reinsurance on expenses is included within other technical income and so it is not included in the Underwriting result.

Reconciliation to Irish GAAP Profits

The table below shows the reconciliation between the underwriting result and Irish GAAP profits for the Company's Open Fund.

Open Fund - €m	2021	2020
Underwriting result	19.8	7.8
Other expenses (see note below)	(10.4)	(1.1)
Operating Profit before tax	**9.5**	**6.7**
Tax	(1.2)	(0.8)
Operating Profit after tax	**8.2**	**5.9**

Note – Other expenses
Other expenses primarily consists of project-related costs, investment income and investment expenses.

The Company's total Operating Profit before tax for 2021, including the Closed Funds, is €3.4m, and €8.3m after tax. There is a tax credit of €4.9m in the Liver Fund that is fully reinsured by RLMIS.

A.3 Investment performance

A.3.1 Investment income and expenses

The investment strategy of the Company is prudent and is currently confined to cash and high-grade Eurozone Corporate bonds (via collective investment funds).

Due to the current economic environment, where negative interest rates on cash and bonds are prevalent, the Company made a negative return on the investments held during the year.

A Business and performance (continued)

The investment return on the assets held in the Open Fund is presented below:

Investment return – Open Fund - €K	2021	2020
Investment income from financial investments	41	97
Fair value gains/(losses) from financial investments	(5)	(90)
Interest expense from cash and cash equivalents	(312)	(223)
Total investment return	(276)	(216)

The associated investment management expenses incurred by the Open Fund are presented below:

Investment management expenses – Open Fund - €K	2021	2020
Asset management fee	(26)	(20)
Other costs	-	(0)
Total investment management expenses	(26)	(20)

As the business in the Liver Fund and the German Bond Fund is fully reinsured, the assets in these funds are kept in cash for the purpose of managing payments between reinsurance settlement periods.

A.4 Performance of other activities

A.4.1 Material leasing arrangements

On 1st October 2021, the lease for the St. Stephens Green office which RLI DAC operates from was assigned from RLMIS to the Company.

A.5 Any other information

A.5.1 Other disclosures

There are no other material disclosures relevant to the Company.

B. System of Governance

Plain English introduction

In this section, we describe how we run our business (our System of Governance). Our Board of Directors ("the Board") is ultimately responsible for the financial position of the Company. We give you information about our Internal Control System ("ICS"), as well as our key functions, and how we manage outsourcing.

We also describe our approach to paying our people (our remuneration policy and practices), as well as how we meet our regulator's 'Fitness and Probity Regime'. These standards apply to employees who effectively run the Company or perform other key roles.

We describe the Company's governance structure, the Board's roles and responsibilities and the Company's Risk Management System ("RMS") and its Own Risk and Solvency Assessment ("ORSA") process.

Our Board is committed to high standards of corporate governance and risk management. It believes these processes are fundamental to achieving a safe and stable business which delivers against its objectives. We describe how this works in detail in this section of the report.

B.1 General information on the System of Governance

B.1.1 Governance structure

The Company is subject to the Corporate Governance Requirements for Insurance Undertakings 2015 issued by the CBI. These requirements impose minimum core standards on all insurance undertakings licensed or authorised by the CBI so that an appropriate and robust corporate governance framework is in place and implemented to reflect the risk and scale of the undertaking.

The System of Governance maintained by the Company has been designed to effectively provide for the sound and prudent management of the business in respect of the operations and risk profile of the Company.

The Board

The Company's Board of Directors retains primary responsibility for strategic business decisions and for the corporate governance, risk management, and other governance structures and processes within the Company. The actions of the Board are subject to applicable laws and regulations. Good governance, however, goes beyond compliance with statutes, rules and regulations, and is at the core of how the Company carries out its business. The Board maintains a focus on the strategic objectives of the Company, to ensure that it is appropriately managed and that it achieves these objectives.

As at 31 December 2021, the Board of Directors of the Company is comprised of seven members: two Executive Directors, two Non-Executive Director and three Independent Non-Executive Directors.

The Board is committed to maintaining high standards of corporate governance. It believes that sound corporate governance supports efficient and appropriate decision-making which contributes to achieving the Company's objectives and delivering long-term value to customers and policyholders.

The Board sets the Company's strategic aims, ensures that the necessary resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards so that its obligations are understood and met.

The Board maintains Terms of Reference, reserves certain matters for its sole authority and delegates certain matters to its Board Committees, the Chief Executive Officer ("CEO") and other members of the Company's Executive Management Team. There is a clear allocation of responsibilities among Committees, Executive Directors and senior managers, in order that the business of the Company can be effectively managed and reported.

Key responsibilities of the Board include:

- review of the most significant risks and mitigation techniques.
- review of business performance.
- ensuring the Company satisfies all regulatory and statutory requirements relating to its operations.
- approval of the main policies and procedures that enable the risks of the Company to be managed accordingly.
- appointment of Directors and determination of the CEO's responsibilities.
- declaration of annual and final bonuses on with-profits policies.
- approval of the Business Plan and annual Solvency II reporting.
- strategic decision-making responsibilities.
- setting and leading the Company's values, standards and culture.
- approval of the Company's Risk Appetite Framework and overall risk tolerance limits, including the appetite for risk acceptance.

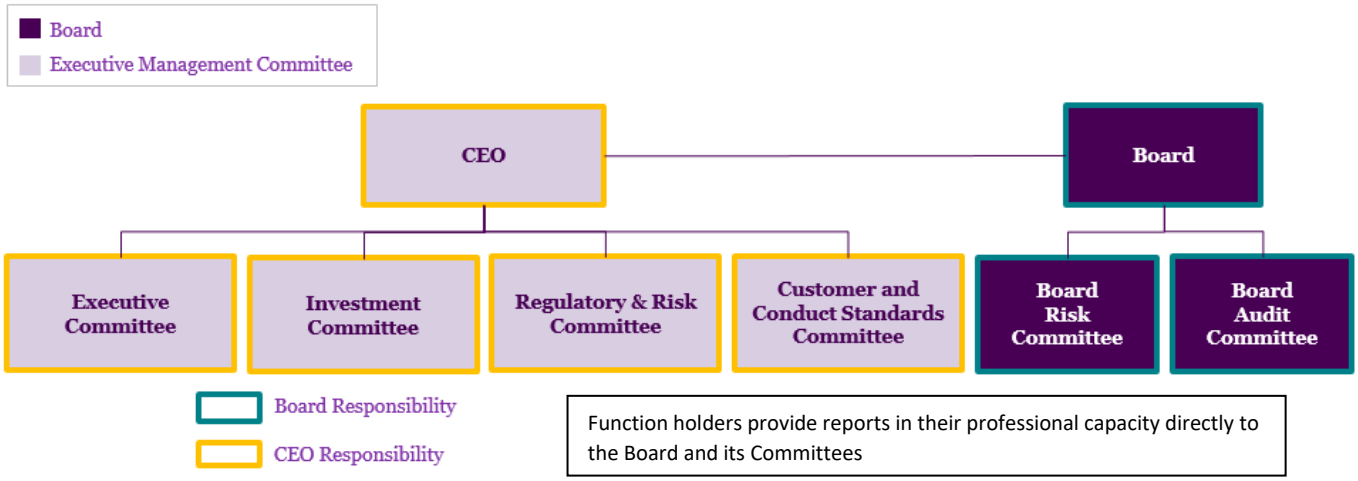
In carrying out these responsibilities, the Board must consider what is appropriate for the Company's business and reputation, taking into account the materiality of the risks inherent in the business. It must also consider the relevant costs and benefits of implementing specific controls.

B. System of governance (continued)

B.1.2 Board and Board Committee structure

The following diagram illustrates the Board and the Board Committees as at 31 December 2021.

The following diagram illustrates the Company's corporate governance structure and the interaction of the Company's Board, Board Committees and Executive Committees as at 31 December 2021.



Board Committees

The Board has established two delegated Board Committees, which aim to provide stand-alone governance and oversight within the governance framework: the Board Risk Committee ("BRC") and the Board Audit Committee ("BAC"). The Board retains oversight of each Committee and each Committee has, and is subject to, a Board-approved Terms of Reference which evidences the responsibilities and authority delegated to them, how it should be exercised and the means by which the Committees report to the Board. Each Board Committee performs a function on behalf of the Board, with key responsibilities summarised in the table below.

Board Committee	Key responsibilities
Board Audit Committee	• Monitoring the content, integrity and quality of the Company's financial statements, annual Solvency II reporting and formal announcements relating to the financial performance of the Company. • Monitoring the role, effectiveness, resourcing and standing within the Company of the Internal Audit Function. • Monitoring and reviewing the adequacy and effectiveness of the Company's system of internal controls, particularly financial controls. • Reviewing external auditors' findings and management response.
Board Risk Committee	• Reviewing the effectiveness of the Company's Risk Management System ("RMS"). • Reviewing the effectiveness of the Company's System of Governance. • Reviewing, challenging and considering the methodology used to calculate the Solvency Capital Requirement ("SCR") and the content of the Own Risk and Solvency Assessment ("ORSA"). • Ensuring the adequacy of the Company's Recovery Plan. • Reviewing and approving, on an annual basis, the Company's policies. • Providing advice, oversight, and challenge to management on key risk matters, including longer-term risks to the Company's strategy and emerging issues that could affect future performance. • Recommending to the Board as to the appropriateness of the Company's articulated risk appetite and risk preferences to ensure aligned strategy.

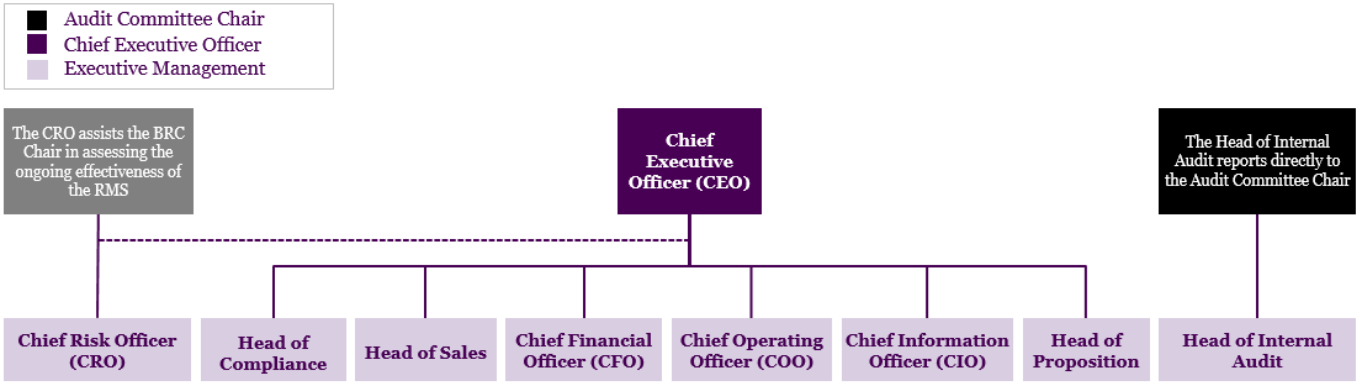
B. System of governance (continued)

Board and Board Committee membership structure as at 31 December 2021				
	Executive Director	Non-Executive Director	Independent Non-Executive Director	Total
Board of Directors	2 members	2 members	3 members	7
Board Audit Committee	0 members	1 member	2 members	3
Board Risk Committee	0 members	1 member	3 members	4

Executive Management committees

The Chief Executive Officer ("CEO") is the main executive officer of the Company and is accountable to the Board for the Company's performance. The CEO is responsible to ensure that the Company's System of Governance is aligned with the structures and policies approved by the Board. The CEO delegates certain responsibilities to their direct reports. In turn, the CEO's direct reports may delegate this authority to their direct reports and so on. These responsibilities are detailed in their role profiles and form part of the role each individual holds within the Company. The Executive Committee and the Regulatory and Risk Committee support the CEO in the discharge of their responsibilities.

The structure of the Executive Management Team and the Head of Internal Audit (who is not part of the Executive Management Team) are shown in the following diagram:



B. System of governance (continued)

B.1.3 Material changes in the governance structure

Material changes in governance structure are notified to the CBI through its Online Reporting System as per the requirements of the Fitness and Probity Regime, and via normal regulatory correspondence.

During the year, the following key changes to key management personnel and reporting lines took place:

- Appointment of a new Non-Executive Director (September 2021).
- Appointment of a new Independent Non-Executive Director (November 2021), following resignation of an existing Independent Non-Executive Director (September 2021).

B.1.4 Key functions

The Company has established the four key functions required under Solvency II and under the Corporate Governance Requirements for Insurance Undertakings 2015. These are Risk, Compliance, Actuarial and Internal Audit. These functions are responsible for providing oversight of, and challenge to, the business, and for providing assurance to the Board and Board Committees in relation to the Company's control framework. The key function holders must comply with the requirements of the Fitness and Probity Regime of the CBI.

The main roles and broad responsibilities for each of the key functions under Solvency II are summarised below:

Key Function	Main roles and responsibilities
Risk	• As a second line of defence, provides independent oversight and challenge over the identification, assessment and management of all significant risks. This supports the Company to operate within its agreed risk appetite. • Designs and maintains the Company's Risk Management System ("RMS"), facilitating and overseeing its embedding. • See section B.3 and B.4.1 for more detail.
Compliance	• Provides second line oversight and monitoring of regulatory compliance, which supports the business in managing its regulatory risk exposures appropriately. • See section B.4.2 for more detail.
Actuarial	• The Head of Actuarial Function coordinates the calculation of technical provisions, provides opinions on the insurance policy, reinsurance arrangements and the ORSA process and contributes to the effectiveness of the RMS. • See section B.6 for detail.
Internal audit	• Acts as the third line of defence in assessing the adequacy and effectiveness of the RMS and the Internal Control System ("ICS"). This includes challenging first line management to improve the effectiveness of governance, risk management and controls. • Reviews the Risk and Compliance Functions' activity to assess their capability as a second line of defence. • See section B.5 for detail.

B. System of governance (continued)

B.1.5 Remuneration policy and practices

The Company's approach to remuneration setting and oversight is to align with the Remuneration Policy of the insurance group, Royal London Group, of which it is a part. The policy will be regularly reviewed by the Board so to satisfy itself that it continues to be adequate for the Company and adheres to all relevant legislation and regulation.

The four key principles of this Remuneration Policy are that the remuneration structures and outcomes:

- Align employees' and executives' interests with those of the Company's policyholders and customers;
- Support the delivery of the Company strategy, whilst ensuring good governance and adherence to the Company's risk appetite;
- Ensure remuneration is competitive to enable the Company to attract and retain talent; and
- Ensure fair outcomes for the Company's people, including customers and policyholders.

The main techniques adopted and practices implemented to achieve these principles are:

- The maintenance of documented role profiles;
- Minimum standards as regards goal/objective setting;
- Minimum standards as performance measurement;
- Processes to determine salary and benefits banding; and
- Rigorous standards as to the setting, determination and oversight of performance-related pay. In particular, requirement for fixed pay to be set to be a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable incentive remuneration.

B.1.6 Transactions with shareholders and/or management

There were no material transactions between the Company and members of the Board or management, other than remuneration and Directors' emoluments as reported in the Financial Statements of the Company.

The Company did not declare any dividends during the year ended 31 December 2021.

B.1.7 Remuneration entitlements

Directors who do not already receive a salary from Royal London or from its parent company, RLMIS, receive a fee in respect of their services.

Fees for Directors' services are disclosed in the Company's financial statements.

B.2 Fitness and Probity Requirements

B.2.1 Skills, knowledge and expertise

Royal London's Directors and a number of other key roles within the Company are required to comply with the detailed rules pertaining to the Fitness and Probity Regime set out by the CBI. This Regime was introduced by the CBI under Part 3 of the Central Bank Reform Act 2010 and subsequently, the CBI published a statutory code, the Fitness and Probity Standards 2014. These standards apply to persons in senior positions, referred to as Controlled Functions ("CFs") and Pre-Approval Controlled Functions ("PCFs"). The Fitness and Probity ("F&P") standards require all persons in scope to satisfy, on taking up the role and on an ongoing basis, minimum criteria in the areas of competence and capability, acting honestly, ethically and with integrity, and being financially sound.

The Company is also subject to the CBI's Minimum Competency Code 2011 which covers all employees acting in certain specified roles. The requirements include the satisfaction of qualification requirements and continuing professional development. All personnel who fall within the code are also subject to the Company's Fitness and Probity Policy. This sets out the principles, regulatory requirements and minimum standards by which the Company shall adhere to, ensuring that individuals who effectively govern and run the Company or have other key functions are fit and proper in order to manage the duties and responsibilities related to their appointed roles. The Fitness and Probity Policy has been adopted by the Board to ensure roles are undertaken, on an ongoing basis, by individuals satisfying these requirements.

The specific requirements within the policy in respect of skills and experience, particularly those pertaining to individuals identified as a CF or PCF, can be summarised as follows:

- An individual's F&P, including their competence and capability, should be assessed at the point of recruitment and be included as part of review of relevant role profile and any changes documented as part of recruitment process.

B. System of governance (continued)

- Any person intending to perform a PCF role must be approved by the CBI before commencing performance of the function and any associated duties.
- CFs and PCFs must, at all times, be fit and proper and adhere to the conduct standards and rules that apply to the role they are performing.
- As part of ongoing performance monitoring, the Company will ask persons performing CFs to certify, at least annually, that they are aware of the F&P Standards and agree to continue to abide by those standards in line with Appendix 2 of the CBI's Guidelines on F&P Standards.
- Where applicable, employees must comply with related policies and procedures to ensure competence, that Company standards are maintained, and performance is managed appropriately.

Furthermore, where one of the key functions is outsourced, the Company must appoint an individual from within the Company to be responsible for overseeing that outsourced function. The designated individual must satisfy the following:

- Already be performing a PCF role;
- Not be an Independent Non-Executive Director of the Company; and
- Possess sufficient knowledge and experience regarding the outsourced function to be able to provide adequate oversight and challenge the performance and results of the service provider.

B.2.2 Assessing fitness and probity

The Company, as a regulated financial service provider, must, in accordance with, pursuant to Section 21 of the Central Bank Reform Act 2010, satisfy itself on reasonable grounds that an individual performing or proposed to be appointed to any of the CF or PCF roles is compliant with the Fitness and Probity Standards (the "Standards"). The Company has in place processes for assessing the fitness and probity of those persons who come within the scope of the Standards. The Company adopts appropriate systems and controls for the recruitment and ongoing assessment of any individual in the Company, in particular those performing specific controlled functions, to ensure that identified individuals meet the Standards.

In line with the Fitness and Probity Regime, Royal London follows set procedures relating to the appointment of individuals to Controlled Functions. These include a number of checks to ensure that the person possesses the level of competence, knowledge and experience and appropriate qualifications for their roles. These procedures are carried out at the point of recruitment and annually to ensure that they remain fit and proper for their role.

The processes include assessing the required qualities, both professional competence and the propriety of the person. Professional competence is based on the person's experience, knowledge and professional qualifications and whether this person has demonstrated due skill, care, diligence and compliance with relevant standards in the area in which they have worked. Such a person should also be of good repute. The assessment includes obtaining relevant external evidence to demonstrate an employee is financially sound and does not have any unacceptable criminal convictions.

At a functional level, an appropriate recruitment process for all roles, including senior management roles, is followed. The processes that operate before and during a person's employment include, but are not restricted to:

- Identity checks;
- Previous employment references;
- Financial checks;
- Criminal record checks;
- Politically Exposed Persons ("PEPs") and sanctions checks; and
- Verification of qualifications and satisfactory personal and professional references.

Lastly, in accordance with the regulations and the CBI's procedures, the Company shall notify the CBI immediately if:

- A person ceases to perform a PCF role.
- A person who performs a PCF role has been replaced because the person no longer complies with any standard of fitness and probity in a code issued by the CBI.
- The Company proposes to have the role of a PCF holder performed by another individual on a temporary basis.

B. System of governance (continued)

B.3 Risk management system including the Own Risk and Solvency Assessment

B.3.1 Risk management strategies and processes

The Board ensures that senior management implement risk policies, deliver the Business Plan within risk appetite and manage the Company's risk profile. This is achieved by implementing robust risk management and internal control systems. The Company has implemented a Risk Management System ("RMS") with the objective of enabling the Board and management to appropriately identify, assess, manage, monitor and report on its risks.

The effective operation of the RMS by the Company enables the Board of Directors to gain assurance that the risks to which the Company is, or may be, exposed to are being appropriately identified and managed within the Company's risk appetite, and that those risks that may result in significant financial loss or reputational damage are being mitigated. This helps to ensure that the achievement of the Company's performance and objectives is not undermined by unexpected events.

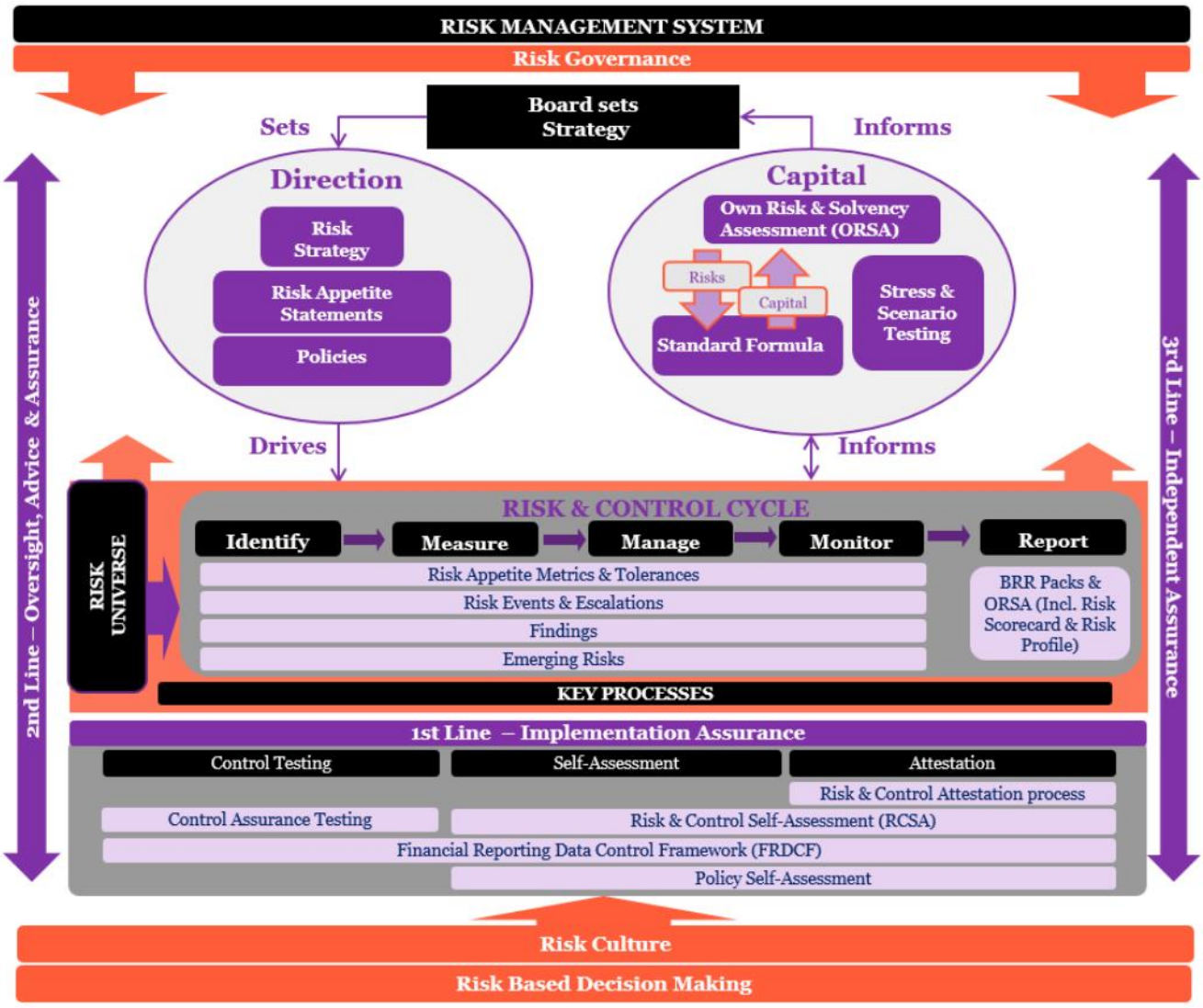
The RMS seeks to support the Company's business ambitions, enabling it to select those risks that can give sustainable returns, whilst closely managing those risks that are unrewarded, and to optimise the capital that is held so that it can deliver its strategy for the benefit of policyholders and customers.

Any changes to the RMS are subject to the approval of the Company's Board of Directors, on the recommendation of the Company's Board Risk Committee. The Company's Board Risk Committee monitors and reviews the effectiveness of the Company's controls. The one exception is the review of financial controls, which are the responsibility of the Company's Board Audit Committee.

A key element of corporate governance is good risk governance, which is the application of sound corporate governance principles to the identification, assessment, management, monitoring and reporting of risks within the defined risk appetite (which is determined by the Board). The Company operates a 'three lines of defence' model that clearly defines the ownership of, and responsibilities for, risk management. Primary responsibility for risk management lies with the departmental areas and specialist operational process functions. A second line of defence is provided by the independent Risk and Compliance functions, specialist functions which undertake monitoring, challenge and policy setting. The third line of defence is provided by Internal Audit, which provides independent assurance.

The RMS is a cohesive set of components that is designed to sustain and uphold high standards of risk management. It is enabled by people, processes and technology, underpinned by a prudent and balanced risk management culture. The Company uses an enterprise risk management system, Archer, to underpin risk management activities. The diagram in the following page provides an overall view of the Company's RMS and its interaction with its Capital Management Framework:

B. System of governance (continued)



The Company's Risk Management Policy supports the implementation of the RMS and its components. The core components of the RMS and their integration into the organisational structure of the Company are further explained below.

(1) Risk governance

Risk governance applies corporate governance principles to manage risks within the risk appetite determined by the Board. Decisions on risk are taken by the Board as well as committees and individuals with appropriately delegated authority. Policies, systems and controls support and inform decision-making. A formal governance structure of committees is in place to manage risk reporting to the Board.

(2) Risk culture

People at all levels within the Company are engaged in the management of risk. This is realised through a strong 'tone from the top' which emphasises the importance of effective risk management in day-to-day activities and decision-making. Management is accountable for their management of risk and for the embedment of risk management in their departmental areas.

(3) Risk strategy

The Company's risk strategy sets out how the Company approaches and manages the risks that it is exposed to in the pursuit of its business objectives. These principles, along with the Company's business strategy, help define the Company's risk preferences. These preferences describe the extent to which the Company seeks, manages, minimises or avoids certain risks,providing structure to the Company's decision-making processes.

B. System of governance (continued)

The risk strategy and risk preferences are used to provide direction and assistance in making key decisions relating to risk and capital management, including business planning, acquisitions, project/resource prioritisation, product design and pricing, risk management, performance management and external reporting.

The overall risk strategy of the Company is to ensure that all material risks are considered and maintained in line with the overall objectives of the Company and that these objectives are consistent with the approved Risk Appetite Framework of the Company.

(4) Risk Appetite Framework

The Board recognises that a well-defined risk appetite supports business decision-making and business planning. It helps establish the framework for defining the Company's strategy, planning and risk management. Together with risk preferences, it provides guidance to management on balancing risk and reward when making key decisions. The Company's Risk Appetite Framework consists of the risk strategy and risk appetite statements, plus the metrics used to monitor risks and the tolerances relating to these metrics.

The risk appetite statements define the amount and nature of the risks that the Company is prepared to accept in pursuit of its strategic objectives. The Company's Board reviews and approves the Company's Risk Appetite Framework at least annually, on the recommendation and advice of the Company's Board Risk Committee.

The key metrics and associated tolerances, which form the basis for risk reporting, help the Company and its departmental areas monitor their risk profile and assess their position against risk appetite. The regular management information ("MI") received by the Board and Board Risk Committee includes a risk appetite dashboard setting out actual risk positions relative to the targets and limits set in the risk appetite.

(5) Company policies

The Company maintains its own set of risk management policies and is obliged, under the CBI Corporate Governance Requirements and the governance requirements of Solvency II, to review these on an annual basis.

The suite of risk management policies to which the Company operates are approved by the Company's Board Risk Committee and adopted by the Company's Board.

The Company's policies set out the standards to be maintained in order to manage risk effectively. The Company's Board ensures that policies are regularly reviewed to reflect the changing commercial and regulatory environments, as well as the Company's organisational structure and emerging best practice.

The Company has established approaches for managing insurance, market, credit, liquidity, operational, conduct, strategic and Business Plan, and emerging risks. Formal policies define the Company's approach to risk management and the minimum control standards that should be applied in managing its significant risk exposures. This is explained further in section C – Risk Profile.

(6) Risk and control cycle

a) Risk universe

A key element of effective risk management is to ensure that the business has a complete and robust understanding of the risks it faces. The Company uses a risk universe as a way of categorising risks – splitting risks into three levels, with each level providing a deeper level of detail on the nature of the risk than the previous one.

b) Risk identification and assessment

The Company operates a risk identification and assessment process under which it regularly identifies and considers changes in the profile of existing and emerging risks. The risk assessment process evaluates the risks that are inherent in the Company's products as well as those that are caused by changes in the environment in which it operates.

The Company's risk identification and assessment process forms part of its broader ORSA process, designed to evaluate the resilience of the Company's balance sheet to a range of market conditions and external events and to monitor target levels of capital.

c) Key processes

There is a common categorisation of key processes to ensure a consistent understanding of the key processes across the business. This also supports the Company in identifying key risks and controls specific to these processes and assigning them to appropriate owners.

d) Risk management and monitoring

Key Risk Indicators ("KRIs") at Company and departmental area level are developed to assess performance against stated risk appetite. KRIs provide beneficial information to management about whether a risk has occurred or the probability of it occurring is decreasing or increasing. This information allows management to take early mitigating actions. A range of risk management techniques is deployed to manage and mitigate risks, thereby controlling the Company's risk exposures in line with its risk limits. These mitigating techniques are described in more detail in section C – Risk Profile.

e) Risk Management Information ("MI") and reporting

The Company's MI is structured to enable all significant risk positions to be monitored: actual risk exposures and capital positions are compared to targets/limits and those tolerances which have been established as part of the Company's Risk Appetite Framework.

(7) Risk implementation and assurance

In support of its overall risk strategy, and in line with industry standards, the Company operates a risk governance system based on the 'three lines of defence' model. This provides oversight and assurance to the Board that the RMS, together with the Internal Control System (see section B.4), has been designed, adhered to and maintained to the highest standard across the Company. Risk assurance activities also help to identify deficiencies or limitations which require mitigating actions so that the RMS is aligned with external best practice.

B. System of governance (continued)

In order to demonstrate that the RMS has been designed and is operating effectively, and to identify potential improvements, a programme of risk assurance is in place. This includes several components that involve all three lines of defence:

- Risk policy owners are required to review the extent to which their policies have been properly embedded across the Company;
- The Risk and Control Self-Assessment ("RCSA") process requires first line managers to assess their own risk management and control processes;
- The Financial Reporting Data & Control Framework ("FRDCF") requires certain staff to assess their financial controls, and management to certify the adequacy of the internal controls over the financial reporting data and financial reporting risks;
- The risk and control attestation process requires the Company's Executive Management Team and their direct reports across the Company's functions and departmental areas to certify the adequacy of the risk and control data maintained, and the effectiveness of the RMS operated;
- First line independent control testing is planned using a risk-based approach and is carried out on risks and respective controls;
- The second line Risk Function carries out independent reviews on the operation of embedding activities and maturity across the Company, reviewing specific risk-related matters that are both thematic and departmental area or function specific;
- The Chief Risk Officer ("CRO") works closely with the Board Risk Committee and the Board on articulating acceptable risk-taking and ensuring the effective operation of the Company's Risk Management and Capital Management Frameworks. The second line Risk Function provides objective advice and guidance on a range of risk matters to business managers, including matters such as product development and business transactions. The second line Compliance Function also plans and carries out structured reviews of compliance with regulatory requirements; and
- The third line of defence consists of an independent Internal Audit ("IA") Function that reviews Risk and Compliance activity to assess their capability as a second line of defence, in addition to providing independent assurance on the adequacy and effectiveness of the Company's Risk Management Framework and associated internal control activity.

(8) Stress and scenario testing

In order to understand the nature of the risks better and to identify weaknesses in the management of risk, various stress and scenario tests are performed. This may involve specialist areas such as the Actuarial Function who assists by providing test scenarios and metrics. These range from simple sensitivity analysis where the impact of a change in an individual assumption is assessed, through to more complicated stress tests involving a combination of various changes to consider scenarios that have more wide-ranging impacts. The scenarios tested can be focused on operational risks or can consider all types of risk arising from the chosen scenario. These include reverse stress tests, which consider circumstances that could result in failure of the Company's business model. Stress testing and scenario analysis are described further in section C – Risk profile.

(9) Standard formula

The Company has deemed that it is appropriate to compute the solvency capital requirement using the standard formula model as it is deemed to adequately capture the risks the business faces.

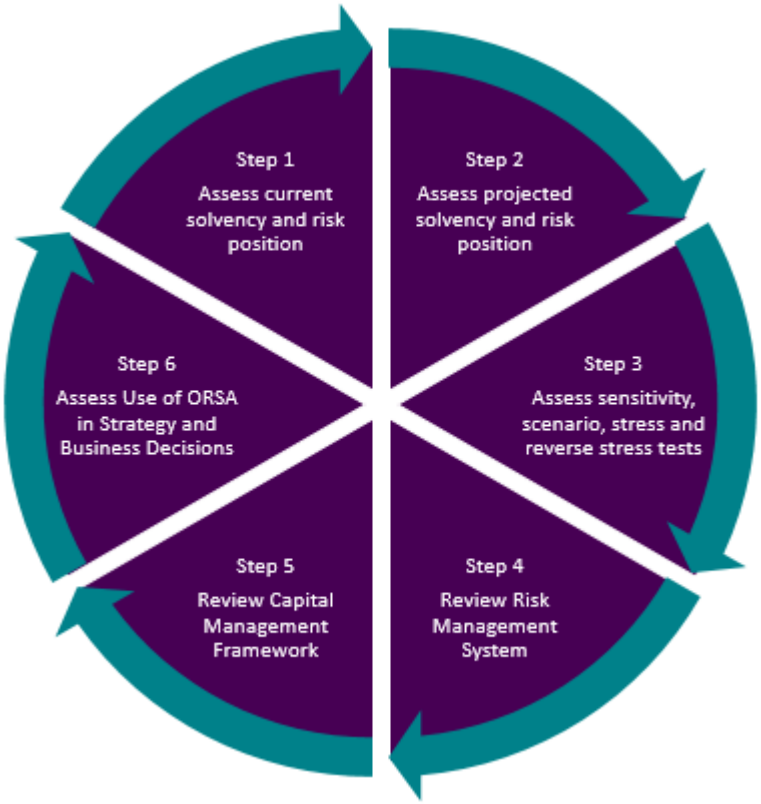
(10) ORSA

The ORSA is described in section B.3.2.

(11) Risk-based decision-making

The role of the ORSA in informing decision-making is described in section B.3.2.

B. System of governance (continued)



B.3.2 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ("ORSA") process is connected to the business planning process and is conducted as part of the overall governance and control system.

The ORSA process tests the business strategy, as articulated by the Company's Business Plan, against the agreed risk and capital appetite and limits through rigorous and business-relevant stress and scenario testing, including reverse stress tests. The results are then fed back into decision-making processes so that the residual risk remains within the risk appetite.

The ORSA is based on a range of inputs, processes and outputs as illustrated in the diagram below.

The key findings, results and conclusions are combined to form reports to the Board Risk Committee and to the Board. The ORSA is reviewed and approved by the Board on an annual basis.

Consideration of any distributions (i.e. to policyholders or movements in own funds to be paid by the Company) will have regard to the actual level of capital compared to target, which is set by reference to the Capital Management Framework.

The ORSA is governed by the ORSA Policy which is reviewed by the Board on an annual basis so that it remains fit for purpose and complies with relevant requirements.

All elements of the ORSA were considered during the course of the year and the Company's most recent ORSA report was submitted to the CBI in December 2021.

The stages below describe how the Company conducts its ORSA and how it is integrated into the organisational structure by engaging key people in assessing and challenging its key findings.

- Each key function or area provides key data required for the ORSA process. The data inputs are required to be consistent with the Financial Reporting Data Quality Standards (part of the Data Quality Framework), which stipulates that the data supplied must be appropriate, complete and accurate, and meet Solvency II data quality requirements.

B. System of governance (continued)

- Six main steps are performed to assess the inputs and complete the ORSA. The departmental areas and Company functions complete elements of these which feed into the overall assessment. Each process needs to be documented in full, both providing a record of the process followed and supporting the drafting of the ORSA report.
- The key findings, results and conclusions are combined to form reports to the Board Risk Committee and the Board for their challenge and approval off. The report is also distributed to the various key stakeholders. In addition, a record of the ORSA process is maintained to provide evidence of the process performed.

The conclusions of the ORSA report address/cover the following key themes:

- Performance of stress and scenario testing, to examine the robustness of the Company's capital position to a variety of market, insurance and operational risks. Each of the severe but plausible ORSA scenarios tested demonstrates the resilience of the capital position.
- Evaluation of the Company's risk profile, taking into account emerging risks relative to its Risk Appetite Framework and Capital Management Framework which are approved by the Board.
- Review of the appropriateness of the Company's Risk Management and Capital Management Frameworks and actions/recommendations where improvements have been identified.
- Verification of whether the Company has operated within its risk appetite and capital requirements. For example, that the Company has continued to meet its solvency requirements throughout the year
- Informing the Board and management committees of areas where actions are required in the decision-making processes.

B.3.3 Prudent Person Principle

Under the Prudent Person Principle ("PPP"), firms are expected to understand fully the risks involved with their investments, make proper provision for them through the SCR and ensure that investment decisions are made in the best interests of policyholders. All investment risks must be properly identified, measured, monitored, managed, controlled and reported.

Investment risks are managed and overseen by the Company's Chief Financial Officer ("CFO"), supported by their team and by the Investment Office team of Royal London Management Services ("RLMS"), who provide specific services under a services agreement. Investment risks are managed in accordance with Board-approved policies covering market, credit, and liquidity risk management.

The Company has established an Investment Committee as a forum for the Company's senior executives and managers to discuss and review aspects of the Company's investment related activity, unless otherwise specifically reserved for a Board or a Board committee of the Company. The Committee is responsible for ensuring the Company's investment related activity is being managed in line with regulatory requirements and the Company's relevant procedures, policies and processes, including oversight of adherence to Prudent Person Principles in investment decisions.

The Company's investment strategy is reviewed regularly, to ensure it reflects the latest view on the market and on the Company's business needs. The strategy is approved by the Board, and then implemented into the Investment Management Agreement ("IMA") between the Company and its asset manager, Royal London Asset Management ("RLAM").

The investment strategy sets out the investment categories in which assets may be invested, including a series of limits to control exposures, supported by asset allocation and performance benchmarks consistent with the Company's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Company's insurance contracts against the risks inherent in its assets and the capital available.

Management information, covering asset allocations and risk exposures relative to risk limits, is monitored on a regular basis.

Clauses in the IMA between the Company and RLAM mitigate the risk of any potential conflicts of interest that could arise while managing the Company's assets.

B. System of governance (continued)

B.4 Internal Control System

B.4.1 Internal Control System ("ICS")

The ICS is an integral part of the overall Risk Management Framework of the Company. The Company's ICS supports the RMS by putting processes, procedures, methods and structures in place to achieve effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The ICS is designed to provide reasonable assurance to the Board over the effectiveness and efficiency of the Company's internal control environment. The following diagram illustrates the six key components of the Company's ICS:

The ICS is supported by the Internal Control Policy and its components are explained further below:

Component	Description
Risk & Control Self-Assessment ("RCSA")	RCSA is an ongoing process performed by first line business functions. It is supported by a bi-annual attestation, over the adequacy of the risk and control data maintained and the effectiveness of the controls operated to manage risk in line with risk appetite and in compliance with the Company's policies. It provides a systematic approach for the identification and assessment of risks. By applying mitigating controls to weaknesses that could otherwise potentially prevent the achievement of process and Company objectives, and by implementing testing and attestation processes, RCSA provides a clear oversight of the control environment that enables the Company to operate and evidence effective controls. In conjunction with control assurance testing and attestation, the RCSA validates that processes are operating effectively, evidences effective risk management and enables timely identification and addressing of any potential failure to control risk as well as potential gaps or inaccurate data in the ICS. The RCSA forms an input to the annual review by the Board and Board Audit Committee on the effectiveness of internal controls.
Financial processes	Finance is responsible for the regular assessment of the adequacy and appropriateness of the control environment over Finance and Actuarial activities that could have an impact on the financial position of the Company. The Financial Reporting and Data Control Framework ("FRDCF") and RCSA provide assurance over this regular assessment. This includes, but is not limited to, internal and external financial reporting, management of payments and receipts, tax management, valuation of assets and liabilities and compliance with relevant regulatory standards and laws. Finance activities include establishing appropriate controls over: • The production of accurate and timely financial MI, reports and the monitoring of these both within Finance and from the appropriate data sources. • The calculation, use and reporting of technical provisions and capital numbers. • The distribution of surplus. • Actuarial models, including valuation models. Finance is also responsible for monitoring and reporting required and available capital levels for the Company.
Policy Self-Assessment ("PSA")	The PSA is performed by the first line business functions annually over how well each policy has been embedded and their compliance with each of the policy requirements. As part of the annual assessment all departmental areas are required to: • Have action plans in place to address gaps against requirements; • Provide a self-assessment rating (red, amber or green "RAG") based on prescribed criteria; and • Justify the rating, supported by appropriate evidence/documentation. Policy Owners, supported by Policy Content Owners (subject matter experts) are responsible for reviewing and challenging the self-assessment and reporting findings to the Regulatory and Risk Committee ("RRC").
Delegation of authority	Executive management is delegated by the Company's Board to the Company's Chief Executive Officer ("CEO"), who may further delegate to their direct reports (namely the Company's Executive Management Team). Any authority delegated in this way is detailed in the respective role profiles of the delegates, as well as being inherent in the position which they hold within the Company. The Company's CEO and the Company's Executive Management Team may also choose to form committees to assist them in their respective decision-making. The authority for these committees comes from the individuals themselves and the committees shall have no executive powers delegated to them.

B. System of governance (continued)

Component	Description
Risk events and escalations	The Company has adopted the escalation event process of RLMIS, tailored to its business. The purpose of the escalation process is to capture, communicate and allow the Company to respond to the most significant issues facing the Company at any one time. These cover events where a breakdown in controls has led to, for example, significant loss, customer impact, regulatory censure and/or reputational damage. The significance of each breach and escalated risk event is based on an assessment, which includes the number of customers impacted and the potential or actual customer detriment. If this is a material breach to regulation then the details are notified to the CBI.
Compliance Framework	The Company's Compliance Framework is the responsibility of the Company's Head of Compliance, in their capacity as the Company's PCF-15 (Head of Compliance with responsibility for AML-CTF legislation) and is supported by the Company's Compliance Team. The purpose of the Company's Compliance Framework is to safeguard the Company, its customers, its policyholders, its reputation and its assets and to help the business achieve its objectives. This is done by creating a culture of compliance with regulatory requirements, adhering to applicable laws and regulations to which the Company is subject, and identifying and mitigating regulatory risk. See section B.4.2 for further detail on the Compliance Framework and Function.

The ICS is intended to support the Company in achieving its strategic and business objectives, while operating within the requirements set out in its key policies and within the laws and regulations which apply. A robust internal control environment enables the Company to deal effectively with changes to the external environment, the needs of key stakeholders including policyholders, customers and regulators and within an evolving business and regulatory landscape.

The Risk Function acts as a second line of defence by providing independent oversight and challenge of the RCSA and policy self-assessment so that the Company is operating within agreed risk appetite. Internal Audit performs independent assurance activity by testing and validating the internal controls and opines to the Board on the effectiveness of the ICS. The Board Audit Committee and the Board Risk Committee perform an annual review of the Internal Audit Plan and of the Risk Assurance and Compliance Assurance Plans, respectively.

B.4.2 Compliance function

The Company's Compliance Function performs a second line of defence role to oversee and monitor compliance with the Company's legal and regulatory obligations. This forms part of Compliance's overall responsibilities for overseeing and monitoring the Company's compliance with all applicable laws and regulations, including the Company's conduct responsibilities, with the first line having responsibility for implementing controls to manage and mitigate regulatory risks.

The Company's Compliance Function is the responsibility of the Company's Head of Compliance (PCF-15, Head of Compliance with responsibility for AML-CTF legislation) and is supported by the Company's Compliance Team. The Company's Head of Compliance is also the Company's designated Data Protection Officer under GDPR. In overseeing and monitoring compliance with regulatory obligations, including Solvency II requirements, the Compliance Function manages a plan of activity so that the Company manages its regulatory risk exposures appropriately and has effective controls in place. This includes assessing the adequacy of measures adopted to prevent non-compliance.

The Head of Compliance is the key point of liaison with the CBI and other regulatory authorities. All monitoring and oversight processes, whether covering prudential or conduct regulatory requirements, follow established and consistent practices.

B.5 Internal audit function

B.5.1 Overview

The Company's Internal Audit Function is outsourced, as part of the outsourcing arrangements between the Company and RLMS, a subsidiary of RLMIS. The function reports directly to the Company's Board Audit Committee.

The primary role of the Internal Audit Function is to assist the Board protect the assets, reputation and sustainability of the Company. The function operates as the third line in the Company's 'Three Lines of Defence' model and is responsible for assessing whether all significant risks have been identified and appropriately reported by management and the Company's Risk and Compliance Functions to the Board. The Internal Audit Function provides independent assurance that the Company's risk management, governance and internal control processes are operating soundly, and challenges management to improve the effectiveness of same. Its scope is unrestricted and covers the Company and all activities undertaken by, and on behalf of, the Company.

The Board Audit Committee oversees the work of the Internal Audit Function, reviews and approves the Company's internal audit plan and monitors progress being made against the achievement of the plan. It also tracks management's responses to issues identified by Internal Audit and the timeliness of their resolution.

B. System of governance (continued)

The work of the Internal Audit Function is carried out in line with the internal audit plan approved by the Board Audit Committee. The plan is determined by an annual process, driven by a risk assessment of operations, informed by the risk profile of the business. Resources are prioritised to focus on the highest perceived risk, whilst supporting the Company's business strategy. In developing the internal audit plan, the following are considered:

- The design and operating effectiveness of the internal governance structures and processes.
- The information presented to the Board and Executives for strategic and operational decision making.
- The setting of, and adherence to, risk appetite.
- The risk and control culture.
- The risks related to poor customer outcomes, and associated conduct or reputational risk.
- Capital and liquidity risks.
- Key activities such as significant business process changes, the introduction of new products and services, outsourcing divisions, acquisitions and divestments.
- The outcomes achieved by the implementation of policies and processes, and whether these are in line with the Company's objectives, risks appetite and values.
- Trends and emerging issues that could impact the Company.
- Planned assurance work in first and second line.

The Internal Audit Function presents a report to the Board Audit Committee four times a year, summarising the results and analysis of audit activity in the preceding period. This reporting focusses on significant control weaknesses and any thematic issues identified across the Company.

B.5.2 Independence and objectivity

The independence and objectivity of the Internal Audit Function is evidenced as follows:

- The function communicates and interacts directly with the Board Audit Committee and has direct access to its Chair and its members;
- The remuneration of the function is structured in a manner that it avoids conflicts of interest, does not impair Internal Audit independence and objectivity, and is not directly or exclusively linked to the short-term performance of the Company;
- There is a process for managing and reporting conflicts of interest, including for internally recruited auditors. Safeguards also exist to limit any impairment to independence or objectivity. This also includes managing any potential conflicts of interest where team members hold other related roles outside of the organisation; and
- The Board Audit Committee monitors the effectiveness of the Internal Audit Function's performance.

The Internal Audit Function is independent of all the Company's functions, including Risk, Compliance, Actuarial and Finance. All functions may be subject to internal audit. The function also liaises with the external auditors to ensure there is effective communication and collaboration and retains the right to communicate with the CBI on its work.

B.6 Actuarial function

The responsibilities of the Company's Actuarial Function are aligned with the requirements established in the Solvency II regulations and in the CBI Domestic Actuarial Regime[1]. Most of the services supporting the Actuarial Function are outsourced, as part of the outsourcing arrangements between the Company and RLMS. The main responsibilities of the Actuarial Function are summarised below:

- Carrying out, checking and reviewing the calculation of the technical provisions and capital requirements;
- Supporting and assisting with the preparation of the Company's Own Risk and Solvency Assessment ("ORSA");
- Executing and monitoring the Company's reinsurance strategy;
- Maintaining and developing valuation models and methodologies;
- Performing experience analyses and assumptions reviews.

The Actuarial Function is led by the Head of Actuarial Function ("HoAF"), which is overseen by the Company's CFO. The HoAF is completely independent from the business, the role being outsourced under an agreement between Royal London and Deloitte Ireland LLP.

[1] "Domestic Actuarial Regime and Related Governance Requirements under Solvency II", first published by the CBI in 2015, subsequently amended in 2018.

B. System of governance (continued)

The HoAF is responsible for coordinating the calculations of the technical provisions, reviewing the appropriateness of the methodologies, assumptions and underlying models used, for opining on the adequacy of underwriting and reinsurance arrangements, and for producing an opinion on the ORSA process. In line with the requirements of the Domestic Actuarial Regime, the HoAF also reports to the Board on the ongoing compliance of the With-Profits funds with the principles detailed in the With-Profits Operating Principles ("WPOP").

The HoAF is a standing invitee to the Board Audit Committee meetings and attends the Board and Board Risk Committee meetings as necessary.

In line with Solvency II requirements, the Board reviews and approves the key assumptions and methodologies and is supported in this by the reports prepared by the HoAF. In order to provide assurance to the Board in discharging the responsibilities and activities outlined above, the HoAF provides an annual report to the Company's Board with an opinion on the reliability and adequacy of the calculation of technical provisions.

B.7 Outsourcing

B.7.1 Outsourcing of critical operational functions

The Company has a number of material relationships with outsourcers and suppliers. An outsourcer is an affiliated Royal London Group company or third party engaged by the Company to perform a service, process or activity (excluding short-term engagements less than a year) that would or could realistically be performed in-house by the Company's own employees and staff. Supplier is the term given to all "non-outsourcers" that the Company procures services or products from.

The Group carries out certain activities in connection with the Company's business, procured either through intra-group outsourcing agreements or intra-group service agreements. RLAM provides asset management services to the Company while the services outsourced to RLMS include the Company's Internal Audit Function, certain Actuarial, Finance, Tax, Legal and HR support services, and certain technology systems and supporting services.

As documented in the Company's Outsourcing and Supplier Management Policy (see section B.7.2), the Company has adopted a standardised framework that is in line with CBI and Solvency II requirements, with the objective of establishing effective oversight and management of all outsourcer and material supplier contracts. As part of this framework, all outsourced services are assessed against consistent criteria to determine the materiality of the service or product being procured. The materiality score categorises the criticality and importance of the service or product being procured to ensure that the appropriate levels of governance and control are applied. There are four tiers of which Tier 1 represents the highest level of risk to the Company. All products and services categorised as Tier 1 or Tier 2 (referred to as "material" outsourcers or suppliers) are subject to enhanced levels of approval, governance and controls.

The Company's material outsourcers cover the following activities: investment management, back office policy administration covering the German Bonds business, the Company's Head of Actuarial Function, other actuarial services, Internal Auidit services and IT infrastructure, application support and maintenance. These partners have scaled and common processes, often across multiple clients, which provide several benefits for the Company. These include minimising fixed costs as policies run off and improving the technology used within the Company's administrative capability. Whilst processing or specialist work is undertaken by these organisations, which is an effective use of Company resources, the Company remains fully responsible for the oversight, management and performance of the outsourced activity. Oversight of the outsource partners are retained in-house, ensuring the Company retains full control over the core capabilities necessary to manage its business objectives effectively.

The following is a list of the outsourcer arrangements within the Company deemed material as at 31 December 2021 under the Company's Outsourcing and Supplier Management Policy, and the jurisdiction in which the providers of those arrangements are incorporated.

Description of services	Service provider company name	Jurisdiction
Head of Actuarial Function	Deloitte Ireland LLP	Ireland
Underwriting support	Capita	UK
Website build and maintenance	Lunar Technologies Limited (trading as "Money Advice")	Ireland
Policy administration	RL360^0 Management Services Limited	Isle of Man
Information Technology	iPipeline/TCP Limited	UK
Actuarial, Financial Reporting, Information Technology, incl. IT Security, HR, Internal Audit	Intra-Group contract	UK
Investment Management	Intra-Group contract	UK

B. System of governance (continued)

The objective of the outsourcing within the Company is to delegate affiliate Royal London Group companies or third parties to carry out specific activities when one or more of the following reasons is met:

- There is a lack of resources – people and/or infrastructure – to carry out a specific activity.
- The outsourcing leads to a gain of external know-how.
- A decision is taken to outsource certain activities for a strategic reason (i.e. speed the time to market).
- The outsourcing can lead to a reduction of operating costs (i.e. economies of scale).
- The outsourcing can lead to a desired reduction of risk.

B.7.2 Outsourcing and Supplier Management Policy

The Board has approved an Outsourcing and Supplier Management Policy in relation to its outsourced activities which applies to the management of all outsourcers and suppliers across the Company.

The purpose of the policy is to ensure a robust and consistent governance framework and to ensure that the Company is effectively managing its material relationships in a manner that minimises risk and cost and maximises value to the Company and its policyholders. It supports the Company in meeting its outsourcing risk appetite by providing a standardised framework for the oversight and monitoring of outsourcer performance across the following three key areas:

- Contract governance.
- Risk management.
- Business continuity.

The policy establishes standards that the business must comply with to mitigate the risk of entering into inappropriate outsourced contracts and to implement sufficient controls to ensure risk is managed throughout the lifecycle of the arrangement. The policy requirements include key controls that have been designed to satisfy CBI requirements and Solvency II regulations. The Relationship Owners for all material outsourcers or suppliers are accountable for ensuring that these controls are effectively implemented. They must provide evidence to support the attestation of compliance with the policy on an annual basis.

The level of governance and oversight applied to outsourcing arrangements will depend on the materiality of the contract. An Outsourcer and Supplier Materiality Assessment ("Segmentation Exercise") has been developed to ascertain the materiality score of the procurement in order to determine the minimum requirements applicable to the arrangement. The segmentation tool scores the Company's outsourcers and suppliers against a set of criteria across spend, value generation, risk and business criticality criteria. The outputs of the exercise determine the level of governance and controls required to manage each outsourcer or supplier relationship to maximise service quality and continuity, while generating strong value and mitigating risk to the Company, with the outsourcers and suppliers being categories into four tiers. Tier 1 and Tier 2 relationships are those outsourcers or suppliers deemed to have a high risk profile, high spend and/or who are deemed critical to our business and require full compliance to the policy. The impact of any loss of provision from these outsourcers or suppliers would be significant to the Company and its customers.

The segmentation exercise is undertaken at the start of the sourcing cycle before the Company enters into a new tender exercise, in the event of a change to the arrangement/contract and on an annual basis thereafter.

In the event of a proposal to enter into an outsourcing arrangement deemed on the grounds of materiality to be of a critical or important function (Tier 1 or Tier 2), at least six weeks' notice prior to the contract's commencement must be provided to the CBI by the Company's Head of Compliance.

In summary, the Outsourcing and Supplier Management Policy:

- sets out a standardised framework for the oversight and management of all outsourcer and supplier arrangements that is in line with CBI & Solvency II requirements.
- provides guidance to Relationship Owners on how to implement the key controls effectively and achieve adherence to the policy.
- contributes to safeguarding the Company's operations from outsourcer risk and ensuring that customers and policyholders are protected from potential detriment.

Intra-group outsourcing arrangements

As a subsidiary of RLMIS, the Company leverages the extensive expertise and infrastructure of the Royal London Group for the purpose of carrying out its business. This results in the Group carrying out certain activities in connection with the Company's business, procured either through intra-group outsourcing agreements or intra-group service agreements.

The following companies, considered 'intra-group outsourcers' pursuant to the Solvency II regulations, provide services for the Company:

B. System of governance (continued)

- RLAM – provision of asset management services to the Company;
- RLMS – provision of systems, administration and reporting services to the Company.

The services outsourced to RLMS include the Company's Internal Audit Function, certain Actuarial, Finance, Tax, Legal and HR support services, and certain technology systems and supporting services.

Consistent standards are applied to all outsourcing arrangements. In the case of intra-group outsourcing (i.e. where the service provider is a separate legal entity within the Royal London Group) the Outsourcing and Supplier Management Policy is applied and adhered to in the same manner as with the Company's other external outsourcers.

B.8 Adequacy of the governance structure

The Company monitors and assesses its system of governance on an ongoing basis as described in the above sections.

There have been no significant findings in relation to the system of governance either through the RCSA or in internal audit reports during the reporting period.

While the Board is responsible for oversight, the Company monitors and assesses its system of governance on an ongoing basis as described in the above sections.The Board considers the system of governance to be effective in enabling the sound and prudent management of the business. The Board also considers that the system of governance is adequate to meet the Solvency II requirements as described in the above sections.

B.9 Any other information

There is no other material information on the system of governance to be disclosed over and above that already described in the above sections.

C. Risk Profile

Plain English introduction

Managing risk is fundamental to the business activities, in order to protect and deliver to policyholders. We have a system in place to identify, manage, monitor and report risks. This system is supported by risk tools and processes such as contingency planning, escalation of events, assessing scenarios and reverse stress tests.

In this section we describe our risk profile, including separately for each category of risk:

- risk exposure;
- risk concentration;
- risk mitigation; and
- risk sensitivity.

General information on the risk profile

As a financial service provider, the Company is in the business of underwriting and managing risks. The Company has a set of risk preferences which define the types of risk the Company seeks, manages, minimises or avoids. This forms the direction of the Company's RMS and control approach. The system is designed to manage and mitigate the risks of failure to achieve business objectives, and to ensure the Company is appropriately capitalised.

The Company is exposed to a range of financial, demographic and operational risks through its business operations. With the current profile of business, including mitigation techniques, the Company's main residual risks are insurance and operational risks, with limited market and counterparty default risk. The material risks faced by the Company are:

- Underwriting risk*;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk; and
- Other material risks, including strategic, business planning and emerging risks.

*The Company uses the terms 'insurance risk' and 'underwriting risk' interchangeably throughout section C.

Stress and scenario testing – overview

The Company conducts a range of sensitivity analysis and stress and scenario testing to help it understand its risk profile and assess and manage its risks. This is a key element of the Company's RMS, 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.

Stress testing is embedded in the planning process of the Company and is applied to the base case five-year Business Plan. Rigorous stress testing exercises are carried out to assess the impact of a range of scenarios, calibrated to be primarily, but not exclusively, adverse to the business, with different assigned probabilities and severities. These are provided as input into the ORSA and are used to inform strategic planning. This allows senior management and the Board to assess the base case plan in various scenarios and to adjust strategies and propose mitigating actions if the plan does not meet risk appetite in a stressed scenario.

The following types of analysis were carried out during 2021:

- Sensitivity analysis, stress tests or scenarios;
- Broad-based scenarios (covering multiple events and/or a sequence of events);
- Recovery planning; and

C. Risk profile (continued)

- Reverse stress tests.

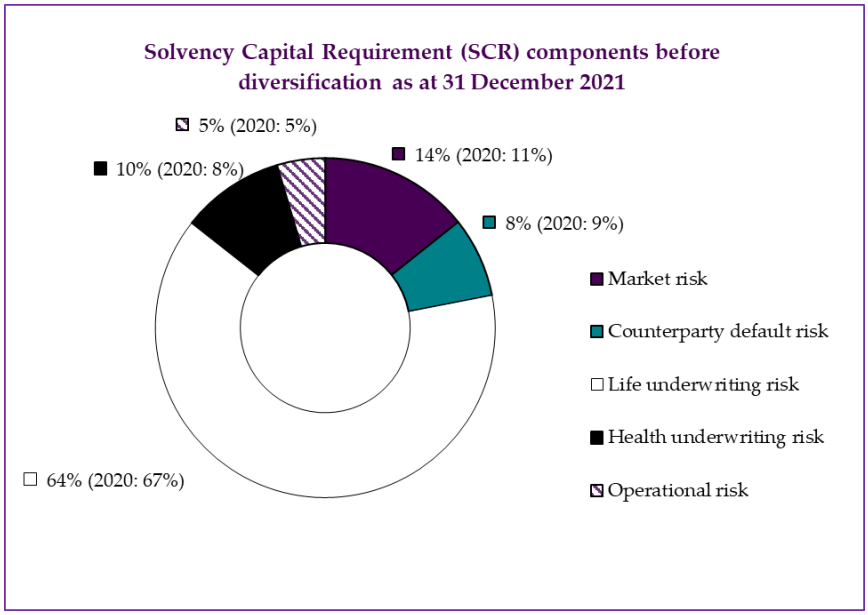
The undiversified components of the SCR calculation as at 31st December 2021 are presented below.

Undiversified SCR

Risk profile	Section reference	SCR components (€'000, undiversified)	%
Life Underwriting risk	C.1	66,055	64
Health Underwriting risk	C.1	10,172	10
Market risk	C.2	14,818	14
Credit counterparty risk	C.3	7,930	8
Operational risk	C.5	4,745	5
Other risks	C.6	-	0
Total		103,721	100

Sections C.1 to C.6 set out a description of the material risks that the Company is exposed to. This includes the risk concentrations, risk mitigation techniques and sensitivity analysis for each material risk.

The diagram below shows the breakdown of the SCR components by risk category, before diversification.



C.1 Underwriting risk

The Company uses the term insurance risk and underwriting risk interchangeably. Insurance risk is defined as 'the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities'. The exposure of the Company depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to meet the liability at the date of claim. Insurance risk within the Company principally arises in relation to:

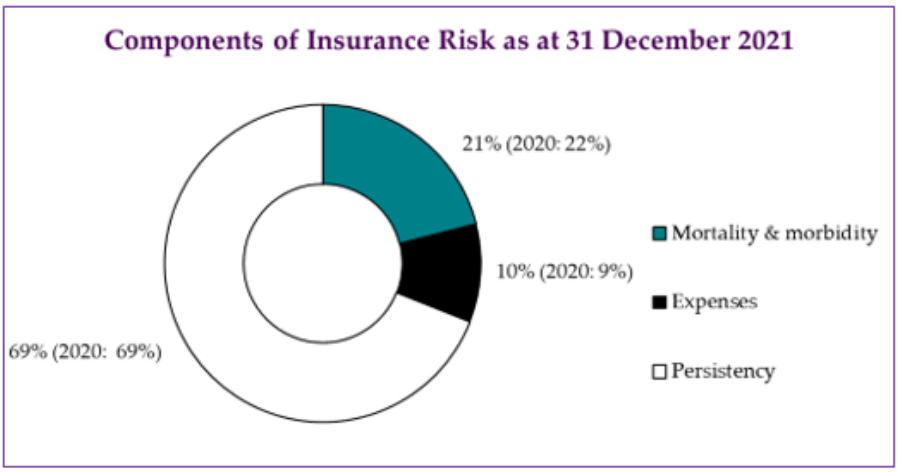
- changes in experience relative to our best estimates in the following material sub-risks: persistency, longevity, mortality, morbidity or expenses;
- inappropriate product design, pricing or selling; and
- erroneous interpretation of experience or assumptions.

C. Risk profile (continued)

Insurance risk within the Company arises primarily in relation to its strategy to write life assurance products. The Company's policy is to seek certain types of insurance risk in order to deliver good returns for its policyholders and shareholders by utilising its capital resources and technical skills in underwriting, pricing and managing those risks.

C.1.1 Insurance risk exposure

The following chart illustrates the components of the Company's Insurance Risk solvency capital requirement modules, calculated using the Standard Formula, as at 31st December 2021, before diversification between risks.



Of these, adverse experience relative to best estimate assumptions in respect of persistency is the most significant risk, particularly the mass lapse scenario. Mortality and morbidity risks are mitigated by the use of reinsurance.

Material changes to the risk profile over the reporting period

The Company's risk profile did not change materially during the year. During the reporting period there have been no new products launched that have a substantially different risk profile to the existing book and no material changes have been made to the Company's reinsurance strategy or its underwriting standards.

As noted in the prior reporting period, the Company made changes to the application form and underwriting acceptance limits with effect from mid-April 2020 to take account of considerations for COVID-19. During the course of 2021, the Company continued tomonitor the pandemic evolution and continues to engage regularly with reinsurers and update its underwriting philosophy accordingly. All changes and positions remain under regular review by the Head of Underwriting, and also with the Company's reinsurers. The Company also introduced measures to support clients who suffered adverse financial impacts from the societal restrictions introduced by the government to limit the spread of COVID-19, primarily in the form of a scheme whereby a client experiencing financial stress could elect to defer premium payment while maintaining on life cover.

C.1.2 Measures used to assess the risk profile

Insurance sub-risks are assessed and monitored using a combination of measures. For example, the Company calculates its capital requirements by looking at its insurance liabilities' sensitivity to changes in key insurance assumptions (primarily persistency, mortality and expenses).

The primary measures are the impacts on:

- Regulatory liabilities (e.g. those in Solvency II annual returns).
- Regulatory capital (e.g. the calculation of required capital amounts under Solvency II).
- The profitability of new business (e.g. changes due to new business mix and volume).
- Demographic and expense experience analyses (e.g. comparing actual experience to the assumptions used).

There have been no material changes to the measures used to assess insurance risk over the reporting period.

A regular assessment is performed on the insurance risk exposure of the Company across the following categories:

- Demographic experience;
- Claims control;

C. Risk profile (continued)

- Underwriting;
- Reinsurance; and
- Product pricing.

The demographic experience is used to support proposals for changes to valuation bases and pricing bases.

C.1.3 Insurance risk concentration

The Company writes appreciable quantities of a wide range of life protection business. These products are distributed to customers in Ireland through the independent intermediary channel (comprised of Financial Brokers). The business is well distributed across a number of Financial Brokers and by geographical region, which limits the Company's exposure to individual Financial Brokers and to geographical region. As the Company has written most of its business in Ireland, its performance is sensitive to demographic and economic changes arising in Ireland. However, this risk is spread across all geographical jurisdictions of the country.

Reinsurance is used to mitigate insurance risk exposures in excess of risk appetite. This approach aims to limit the Company's exposure to large single claims/catastrophes. The Company has formed relationships with large reinsurers active in the Irish market. The liabilities of the Company's closed funds are fully reinsured to RLMIS – further detail on this risk mitigation measure is set out in Section C.3.4.

C.1.4 Management and mitigation of insurance risk

As an insurance company, we believe we should manage these risks and indeed policyholders and customers expect us to do so as well. Insurance risks are managed through the following mechanisms:

- The use of the Company's Insurance Risk, Reinsurance and Proposition Development and Approval Process Policies to provide guidelines around the identification, measurement and assessment, management, monitoring and reporting of insurance risks.
- The consideration of, and statements relating to, insurance risk within the Company's Risk Appetite Framework ("RAF").
- Regular monitoring of agreed risk metrics is undertaken to provide an early warning of when the Company may be approaching insurance risk appetite limits.
- The establishment and maintenance of a reinsurance strategy to mitigate exposures to insurance risks.
- Control over product design, development, pricing and selling.
- Regular assessment of assumptions, underwriting strategy and actuarial models.

The Company does not make use of Special Purpose Vehicles to mitigate insurance risk.

The effectiveness of these risk-mitigation techniques is also monitored through the Company's Insurance Risk Policy review process. The policy provides guidelines around the management approach, governance arrangements and the minimum standards to be adhered to within the Company for managing insurance risks. The Policy Owner must make sure that the policy is reviewed and implemented appropriately within the Company. The Board Risk Committee is responsible for maintaining and reviewing the policy on an annual basis and recommending changes, where so identified, to the Board for consideration and approval.

Reinsurance is covered by the Company's Reinsurance Policy, which sets out the principles against which the Company's current reinsurance arrangements and any new transactions under consideration are assessed. The Company monitors the effectiveness of its reinsurance arrangements through the management of:

- Credit counterparty risk: covering limits on uncollateralised exposure to reinsurance entities or groups as well as current and prospective reinsurers meeting minimum financial strength criteria.
- Contracts in existence: covering contractual amendments, the adherence to exiting treaties and the production of reinsurance MI. In relation to the management of existing contracts, the Company benefits from having experienced professionals who have worked for both insurers and reinsurers.
- New reinsurance transactions: covering the governance of approving all new reinsurance contracts and the type and rationale for entering into an arrangement. It also covers whether to facilitate competitive new business pricing and/or more efficient capital usage or extract value on existing business through reducing reserves and/or reducing risks on the Company's balance sheet.

C. Risk profile (continued)

C.1.5 Insurance risk sensitivities

The SCR, solvency surplus and capital cover ratio are sensitive to changes in both economic and non-economic assumptions. The Company routinely assesses the sensitivity of its SCR to changes in various insurance risks. Liabilities are recalculated by changing each assumption in isolation. The Company considers the impact of a number of insurance risk scenarios on the SCR.

The results of the sensitivities are illustrated below.

Risk type	Assumption	Impact on Solvency surplus (€m)	Impact on Capital Coverage Ratio (%)
Mortality	15% increase in mortality rates	(8)	(5)
Mortality catastrophe	25% increase in mortality rates	(13)	(9)
Persistency	25% increase in lapse rates	7	16
Expense	25% increase to all expenses	(12)	(11)

The results of the analysis show that the Company's Open Fund is particularly sensitive to changes in lapse rates relative to best estimate assumptions.

C.2 Market risk

The Company defines market risk as the risk that arises where fluctuations in values of, or income from, assets, interest rates, foreign currency exchange rates or other market prices, cause a divergence in the value of the Company's assets and liabilities. The risk arises, in particular, where the impact of a market change impacts differently on the value of assets from the effect on liabilities. Where policy benefits are linked to the value of investments, the majority of this risk rests with the customer.

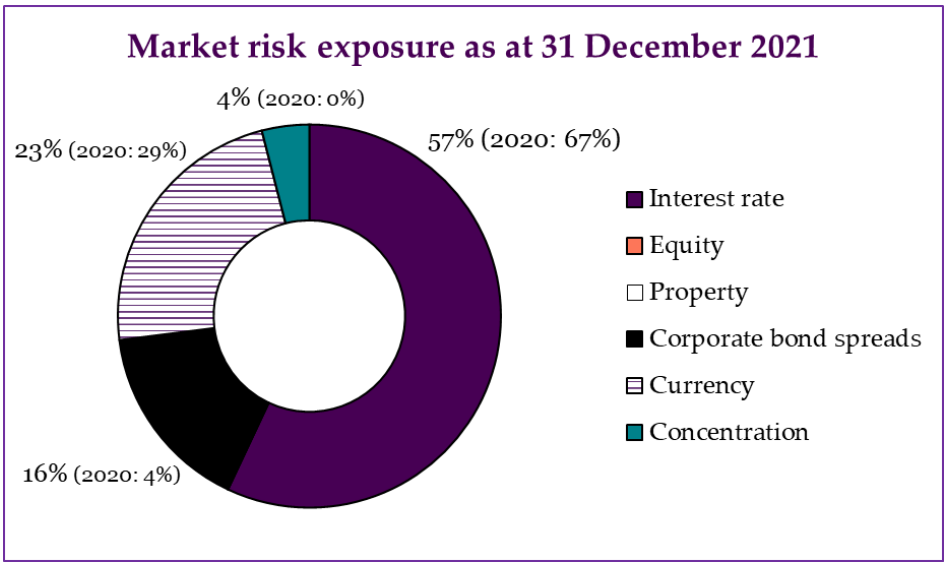
C.2.1 Market risk exposure

The Company's exposure to market risk, though not overly significant, arises mainly from interest rate (driving fluctuations in the value of liabilities), inflation and credit spread risks.

The Company's investment strategy currently confines the scope of investments to cash and high-grade government and corporate bonds, Euro denominated, which are accessed through collective funds. This reflects the liquidity requirements of the Company and results in limited market risk.

Given the Company's investment strategy, exposure to credit spread risk in relation to investment activity is limited, as the Company is primarily investing in highly rated corporate and sovereign debt and placing cash or deposits with banks.

The following chart illustrates the components of the Company's solvency capital requirement for the Market Risk sub-modules, calculated using the Standard Formula, as at 31st December 2021, before diversification between risks.



C. Risk profile (continued)

C.2.2 Measures used to assess the risk profile

The Company assesses market risk through the application of its Risk Management System (outlined in Section B.3) and in accordance with the relevant regulatory requirements. Sensitivity testing and scenario analysis are used to assess the impact on these measures of movements in interest rates and other variables in isolation and in combination.

The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Company's risk appetite and asset-liability matching approach. This balances the risks relating to the Company's liabilities against the risks inherent in its backing assets and the capital available.

There were no material changes to the measures used to assess market risk during 2021.

C.2.3 Market risk concentrations

The Company's liabilities are almost exclusively dominated in Euro. However, the Company's cost base has some exposure to currency risk and UK expense inflation, through the costs of services procured from RLMS, and from other UK-based third party suppliers, which are paid in GBP.

The investment strategy of the Company confines the scope of investments to euro-denominated cash and high-grade government and corporate bonds. Accordingly, the market risks to which the Company is exposed are limited and mainly confined to interest rate risk, inflation risk and currency risk, driving fluctuations in the value of liabilities.

C.2.4 Management and mitigation of market risk

The Company manages market risk through the application of its Risk Management System (outlined above in section B.3) and in accordance with the relevant regulatory requirements.

The asset-liability management requirements of the Company are relatively simple as, firstly, the Company's Open Fund consists mainly of protection liabilities with stable average duration and, secondly, the liabilities of the Company's closed funds are reinsured to RLMIS

The Company does not currently make use of derivatives for the purpose of mitigating market risk or for any other purpose.

Risk type	Description
Equity/Property risk	The Company currently has no direct exposure to equity or property risk.
Interest rate risk	The Company manages interest rate risk using performance benchmarks with appropriate durations as defined in the IMA with the Company's asset manager, RLAM. Exposure to interest rate risk is also managed through both product design, pricing and investment techniques and is monitored using scenario and stress testing.
Inflation risk	The only material inflation risk to which the Company is exposed is expense inflation risk. The Company seeks to minimise the risk through strong expense controls and monitoring.
Currency risk	All of the Company's assets are denominated in Euro. However, the Company has accepted, without mitigation, some exposure to currency risk and UK expense inflation, through the costs of services procured via work order from RLMS, and from other UK-based third party suppliers, which are paid in GBP.

The Board monitors the effectiveness of the various processes in place to manage market risk, in particular by reviewing the continuing appropriateness of the investment strategy and of the asset allocation benchmarks.

C.2.5 Market risk sensitivities

The SCR, solvency surplus and capital cover ratio are sensitive to changes in both economic and non-economic assumptions. The Company routinely assesses the sensitivity of its best estimate liability ("BEL") to changes in various market risks. As the assets held by RLI DAC are primarily cash and high-rated government and corporate bonds, the most relevant market risk is interest rate risk driving fluctuations in the value of the Company's liabilities (lower interest rates result in a lower discount rate and thus increase the present value of our insurance liabilities). The following table shows the impact on the solvency surplus and capital cover ratio from changes in interest rates. The sensitivity is performed with all other variables held constant.

Risk type	Assumption	Impact on Solvency surplus (€m)	Impact on Capital Coverage Ratio (%)
Interest rate	100bps rise in interest rate (parallel shift)	14	17
	100bps fall in interest rate (parallel shift)	(20)	(19)
Bond spread	n/a	-	-
Equity	n/a	-	-
Property	n/a	-	-

C. Risk profile (continued)

MI provided to the Board includes the sensitivity of surplus capital to changes in interest rates.

The ORSA includes the impact on the Company's operating profit and capital of favourable and adverse economic scenarios that are set by the Board Risk Committee and the Risk and Actuarial Functions (with input from the RLAM economist). This includes a combination of stresses to government yields, inflation, growth and credit spreads. The adverse scenario has shown lower overall levels of profit than the base and the favourable scenarios showing marginally higher levels of profit. The scenario results do not take into account management actions that would be taken to adjust the Company's strategy and mitigate the reduction in profitability in the downside scenario.

The results show that the business is not materially affected by the various economic scenarios, largely because protection business is not particularly interest rate sensitive and the investment strategy is conservative. However, should general economic impacts affect demand for life protection products, there may be a second order impact of reduced new business volumes. In the short-term this is not impactful (writing less new business is beneficial to the Company's solvency ratio) to the balance sheet, but in the long-term profitability is reduced.

C.3 Credit counterparty risk

The Company defines credit counterparty risk as the risk of loss if a counterparty fails to perform its obligations, or fails to perform them in a timely fashion. The exposure to credit counterparty risk arises through entering into bilateral arrangements with Group companies or third parties ('counterparties'). Exposure to credit counterparty risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty or with connected counterparties.

C.3.1 Credit risk exposure and material changes over the reporting period

The Company's material counterparty exposures arise principally from its reinsurance and asset-investment activities. The nature of the Company's business, and the reinsurance arrangements in place, mean that credit counterparty risk in respect of reinsurers is a material proportion of overall credit counterparty risk. The Company's exposure to credit counterparty risk in respect of investments can be considered non-significant given the predominant allocation of assets to cash or high-grade government securities. Furthermore, the inherent diversification within the Company's investment in a corporate bond fund reduces credit counterparty risk concentration. Even though the Company does not actively seek credit counterparty risk, the exposure to reinsurance is accepted as a residual risk arising from strategies employed to reduce other risks (i.e. insurance risk).

The Company's most significant credit counterparty exposure is its exposure to RLMIS through the reinsurance of the business in the Liver Fund and German Bond Fund to RLMIS. This reinsurance is supported by a collateral arrangement, by which RLMIS is obligated to post assets, of a defined quality and to a defined frequency, to a custodian, to secure its reinsurance obligations.

There is further counterparty exposure to suppliers and service providers (primarily to financial advisors in respect of unearned commission), but these are not deemed to be material in the context of the Company's balance sheet.

There were no material changes to the Company's exposure to credit counterparty risk during 2021.

C.3.2 Measures used to assess the risk profile

Credit counterparty risks are assessed and monitored using a combination of measures. The primary measure is the gross amount of the exposure with no allowance made for any expected recoveries in the event of default. The Company monitors exposure to reinsurance counterparties on a quarterly basis. The effect of reserve movements in the event of reinsurer default is the primary measure monitored.

While ratings provided by external agencies such as Standard & Poor's and Moody's are considered when setting limits to individual counterparties, expert investment advice is also taken into account. The credit rating of the counterparty, based on available ratings from external rating agencies coupled with an internal view of the credit rating, is also used to assess the risks. Further due diligence of counterparties is carried out where deemed advisable in order to assess the risk with more confidence.

The Company also assesses the risk based on its capital requirements for such risk, using the standard formula calculations. No simplifications allowed in the Delegated Acts are used when calculating this risk-module.

Exposure to credit counterparty risk to intermediaries in respect of indemnity commission is monitored via the RCSA process and an associated internal control framework is defined in its respect.

C. Risk profile (continued)

C.3.3 Credit counterparty risk concentrations

The material credit counterparty risk exposures to which the Company is subject through direct holdings are as follows:

Concentration	Description
Eurozone corporate debt	The assets backing the business of the Company are low risk in nature, predominantly cash, with a small exposure to corporate bonds (accesses via collective funds), all denominated in Euros.
HSBC	HSBC acts as custodian for the Company's investment assets and cash deposits. The latter are subject to credit risk in the event of default by HSBC in respect of the cash.
AIB	AIB are the Company's bankers, with which Royal London holds several bank accounts. These accounts are used for operational purposes, for example for lodging premiums and paying claims and expenses. Cash balances on these accounts are kept to a minimum; cash in excess of short-term liquidity needs is regularly transferred to HSBC.
Reinsurance arrangements	Even though the Company does not actively seek credit counterparty risk, the exposure to reinsurance is accepted as a residual risk arising from strategies employed to reduce other risks. The nature of the Company's business, and the reinsurance arrangements in place, mean that credit counterparty risk in respect of reinsurers is a material proportion of overall credit counterparty risk. The most material concentration of insurance risk relates to the Company's counterparty risk exposure to RLMIS through the reinsurance of the business in the Liver and German Bond funds. However, this reinsurance is supported by a collateral arrangement, which greatly reduces this credit counterparty risk exposure. The failure of a reinsurer would be material in terms of the level of disruption whilst alternative cover is put in place, which could be difficult if the failure took place in the context of wider market disruption. The impact incurred by the Company in this event would be the loss of the offset to the technical provisions in respect of the counterparty, but the level of immediate monetary loss would be limited to any outstanding claims at the point of the failure.

In each case of exposure to credit counterparty risk, the risk of loss is perceived to be extremely low due to the collateral arrangements and in view of the external ratings, supported by internal analysis. All exposures are consistent with the Company's business model, strategy, risk appetite and limits. Minor breaches occur from time to time, which are reviewed and decisions made to either take corrective action or accept the position.

C.3.4 Management and mitigation of credit counterparty risk

Exposures to individual counterparties are measured and monitored regularly, at least on a quarterly basis.

In order to minimise its exposure to credit counterparty risk, the Company invests primarily in higher graded assets, rated BBB or above. Direct investment in deposits or cash is limited to counterparties with a long-term rating of A- or equivalent from Standard & Poor's, Moody's or Fitch. Similarly, reinsurance counterparties should be rated at least A- or, if unrated, be supported by a guarantee provided by asrated counterparty (with the preceding conditions applying).

The Company mitigates its exposure to credit counterparty risk in respect of its reinsurance arrangements through:

- limiting and monitoring of its exposure to third party counterparties to defined limits;
- frequency of defined settlement periods;
- collateralisation framework agreements; and
- limits in respect of exposures to exo-Group reinsurance counterparties defined with reference to credit rating, as per the Company's Reinsurance Policy.

The Company does not use derivatives for the purpose of mitigating credit risk.

The Credit Counterparty Risk Policy sets out various high-level requirements relating to the identification, measurement, management, monitoring, reporting and documentation of credit counterparty risk. The policy is supported by a guidance document that indicates 'what good looks like' and provides examples of the type of evidence that would support compliance with the policy requirements.

C.3.5 Credit risk sensitivities

The main method used to assess sensitivity to credit counterparty risk is scenario analysis whereby a counterparty (to which there is a large exposure) defaults on its obligations. The Company has a significant counterparty exposure to RLMIS. However, this exposure is mitigated by a collateral arrangement.

C. Risk profile (continued)

C.4 Liquidity risk

The Company defines liquidity risk as the risk that the Company, though 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.

C.4.1 Liquidity risk exposure and material changes over the reporting period

Liquidity risk within the Company arises mainly in relation to short-term cash-flows, generally within the following 12 months, but also arises from the longer-term matching of assets and liabilities. The Company has limited exposure to liquidity risk due to its investment strategy, which maintains a significant proportion of assets invested in cash or cash equivalents. The Company recognises that extreme liquidity issues could have a serious impact on the Company and maintaining enough liquid assets even in extreme but foreseeable circumstances is a key target for sustainability.

The longer-term matching of assets and liabilities is covered within market risk in section C.2. As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Company considers the residual liquidity risk arising from its activities to be well controlled.

There were no material changes to the Company's liquidity risks over the reporting period.

C.4.2 Measures used to assess the risk profile

The Company maintains a framework to monitor the Liquidity Coverage Ratio ("LCR") over time and defines triggers whereby, should the LCR be projected to be below defined limits, actions are to be initiated to remediate the coverage level. Should monitoring find that the LCR falls below this target percentage, a review of the investment asset allocation would take place with the purpose of restoring the Company's LCR to a level comfortably above the defined target. The Company's LCR is calculated, based on available liquidity and stressed cash outflows, and is used to set the Company's investment allocation as appropriate.

Liquidity is monitored on at least a monthly basis. The risk metrics monitored are based on a combination of LCRs and whether any minimum cash limits required under the Investment Management Agreement ("IMA") have been breached. The LCR is a ratio that compares the assets that are available to be realised for cash by the end of the following business day with projected stressed gross outgoings. A series of six monthly projections of claims, commission and expenses is used to represent net of reinsurance outgoings and a 22% stress is then applied to the six monthly projections, with a target LCR of at least 125%.

C.4.3 Liquidity risk concentrations

Generally, the Company is not exposed to material concentrations of residual liquidity risk. There is concentration of liquidity risk through the Company's reliance on AIB, to process payments to its customers, suppliers and employees and on HSBC, as custodian. If either were to fail or have a major IT problem, then the Company may not be able to meet its obligations as they fall due for a period.

C.4.4 Management and mitigation of liquidity risk

The Company believes that its liquidity risk is managed effectively through the frameworks adopted and through a prudent approach to liquidity risk. The majority of liquidity risks are managed by maintaining appropriate liquidity within investment portfolios. The Company's liquidity management process includes:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements.
- Holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.
- Setting minimum amounts of cash balances. These are set by reference to recent and expected cash outflows and include a margin above reasonably expected amounts in order to reduce the risk.
- Appropriate matching of the maturities of assets and liabilities.

These processes are regularly reviewed and updated to ensure their continued effectiveness. Additionally, further sensitivity testing on the LCR is undertaken and reported on a quarterly basis.

The Company does not use risk mitigation techniques to manage liquidity risk.

C.4.5 Liquidity risk sensitivities

As noted in section C.4.2, the liquidity coverage ratio compares the assets that are available to be realised for cash by the end of the following business day with projected stressed outgoings during a period of six months, with no allowance for any income from premiums or investments or undertaking actions to source additional liquidity. The measure therefore allows for an element of sensitivity above the expected cash flows and the calculated ratios still show a liquidity position well within risk appetite. The measure will provide early identification of potential issues in order to allow more strategic actions to be assessed and implemented. Detailed sensitivities and liquidity stress scenarios are also considered as part of the ORSA process.

C. Risk profile (continued)

C.4.6 Expected Profit Included in Future Premiums

In line with Solvency II regulations, Royal London is required to report the amount of expected profit included in future premiums ("EPIFP"). This is the amount by which liabilities are reduced due to the premiums expected to be received from the Company's policyholders in the future. Future premiums are included only for certain policy types, in line with requirements. Given the nature of the products and benefits offered by Royal London, the majority of EPIFP can be recognised. The total amount of expected profit included in future premiums ("EPIFP") as at 31st December 2021 was €94m.

C.5 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 (excluding market events, which are included in market risk in section C.2).

The aims of operational risk management are to manage operational risks in line with defined appetites and to protect both policyholders and the Company, whilst delivering sustainable growth. The Company's operational risk framework is the method by which operational risks are managed in terms of setting risk appetite, evaluating key exposures, measuring risk, mitigating risk, and monitoring risks on an ongoing basis, as set out in this section.

Each departmental area is responsible for identifying, assessing, managing, monitoring and reporting on its operational risks which may impact the achievement of the Company's business objectives, and for implementing and maintaining controls in accordance with the Company's operational risk methodology.

C.5.1 Operational risk exposure and material changes over the reporting period

The Company faces operational risks in the normal pursuit of its business objectives. The impact arising from all operational risks could be on the Company's policyholders, customers, people, processes and systems. The principal operational risks that the Company is exposed to are listed below.

Operational risk	Description
Conduct	The risk of unfair outcomes to the end customer. This includes the risks of not delivering on our promises, failing to meet value expectations or providing materially inaccurate information to customers.
Processing	The operational risks associated with the design and execution of business processes operated in the Company. This includes incorrect or poorly designed processes, data entry or loading errors, accounting and attribution errors or incorrect use of models.
Information Security	The operational risks associated with protecting the Company's policyholders', customers' and management information, and information processing facilities, from threats.
Outsourcing and Supplier	The operational risks arising from outsourcing processes to, or obtaining key goods or services from, either third party providers or affiliated Royal London Group companies. This includes the management of the contract and/or relationships and ongoing monitoring of the third party provider, including intra-Group service agreements.
Change Management	The operational risks arising from the Company's change management processes and programmes.
Business Continuity/ Disaster Recovery	The operational risks associated with business continuity management and disaster recovery processes and plans.
Information Technology	The operational risks arising from development, delivery and maintenance activity for the Company's IT infrastructure.
Legal and Regulatory	The risk of a poor level of regulatory compliance and the materialising of breaches, which would pose a risk to the regulators' objectives and the Company's relationship with them.
Financial Crime	The operational risks that the Company's policyholders, customers or assets are subject to any kind of criminal conduct relating to money, data or to financial services.
People	The operational risks associated with the Company's processes to attract and retain capable people and provide an appropriate customer-based culture.

During 2021, the Company's operational risk profile remained stable. Risk management focus throughout 2021 was on ensuring ongoing minimal impact on the control environment from operating model changes implemented in response to the COVID-19 pandemic, primarily related to the move to majority staff home-working. Implementation has proven successful, with operational continuity achieved throughout the period and no significant issues experienced.

With regard to Brexit, the Company has taken steps to identify, assess, quantify and address Day 1 Brexit related risks and has put in place the processes to identify and address risks that may arise in the longer term. It is not believed that the outcome of Brexit will have a significant operational

C. Risk profile (continued)

risk impact on the business, though it will need to continue to monitor carefully any further developments that might affect the business/customers in relation to the outcome of Brexit in the longer term.

C.5.2 Measures used to assess the risk profile

Operational risk is managed through the Company's RMS, as set out in section B.3. A variety of measures are used, such as: risk identification and measurement mechanisms (including standardised scoring impact and likelihood), Key Risk Indicator thresholds aligned to its risk appetite, assessing control effectiveness and monitoring risk events and losses by size.

The Company's operational risks are assessed using a risk scoring system that considers the worst case impact and likelihood of each risk occurring within the next 12 months. Each risk assessment includes a financial and customer impact.

The Company records all operational risk events including actual losses, gains and near-misses. For each risk event, root cause analysis is completed, remedial actions to improve the control environment are identified and recovery is pursued where appropriate.

Stress and scenario testing is also used to get a better understanding of the significant risks that the Company may face under extreme conditions, including the level of capital it needs to hold to protect against these risks. These scenarios allow the Company to consider how effective controls would be should an extreme event occur and to make improvements where necessary.

The scenarios and sensitivity are described in section C.5.5

C.5.3 Operational risk concentrations

The primary source of concentration risk for the Company's operations is its reliance upon its material outsourcers to provide a broad range of services to the Company. Further details of how this is managed is set out in section B.7.

C.5.4 Management and mitigation of operational risk

The Company's Executives have 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.

Operational risk is mitigated and managed by all areas of the Company through the following mechanisms:

- Regular monitoring of actual exposures by accountable executives and their teams compared to agreed limits, and review on an aggregated basis by the Board Risk Committee, to ensure that operational risk remains within risk appetite;
- Operational risk details on an inherent (before controls) and residual (after controls) basis are maintained on risk and control registers, with each departmental area being responsible for identifying, assessing, managing, monitoring and reporting on its operational risks which may impact the achievement of the Company's business objectives, and for implementing and maintaining controls in accordance with the Company's operational risk methodology. These registers and the management information reported from them are used as a basis for review and challenge by the Company's Executives, Risk Committees and the Board; and
- The use of the RMS to inform on the adequacy and effectiveness of the risk management processes:
    - RCSA and control testing by management provide a view on the effectiveness of controls;
    - Key Risk Indicators, with appropriate thresholds, inform the business on the position against the Company's appetite for the major categories of operational risk;
    - Production of management information on risk events such as losses, near misses and breaches;
    - An escalation process operates to ensure that the most significant risk events are brought to the attention of the Company's Executives in a timely manner; and
    - Independent oversight and assurance is performed by Risk, Compliance and Internal Audit to assess the effectiveness of risk mitigation activity.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Company's Operational Risk Policy for an annual review of the policy by the Policy Owner. As the policy provides Company-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks then a review will include a review of their effectiveness. The Policy Owner must make sure that the policy is implemented appropriately within the Company.

The Company makes limited use of techniques that transfer operational risk to third parties. The main risk-mitigation technique used is to effect insurance against some risks, particularly of loss to its buildings and contents, and loss arising from legal claims against its directors and managers.

C. Risk profile (continued)

Legal agreements with outsourcers transfer some risks to the outsourcers, for example those arising from errors in servicing policyholders or customers. However, the outsourcing arrangements themselves generate different types of risk which would not otherwise exist. In order to provide comfort around the Company's outsourcing arrangements, the following oversight processes are in place:

- Appropriate and effective governance structures;
- Contractual standards which seek to drive legal and regulatory compliance;
- Effective controls to manage, monitor and govern the relationship:
    - The services provided are monitored through an agreed governance structure; suitably skilled Company resources retained performance, and manage contractual and regulatory obligations;
    - Appropriate processes are in place to report and manage risks such as incidents, compliance monitoring, audit or other operational or commercial risks; and
    - Before entering into an agreement, due diligence is carried out on the outsourcer; and
- In support of the Company's outsourcing risk appetite statement, risk metrics have been developed and are used to monitor and report, to the Regulatory and Risk Committee and to the Board Risk Committee, any concerns around operational risks related to the Company's material outsourcing arrangements.

C.5.5 Operational risk sensitivities

The Solvency Capital Requirement in respect of Operational Risk follows a prescribed calculation, taking as inputs the Basic Solvency Capital Requirement and the relevant expenses incurred in the last 12 months.

The Company's ORSA process supplements the regular capital requirement assessment, through stress and scenario testing.

Scenarios are largely bottom up but can be top down. Top-down scenarios concern the analysis of a number of potentially catastrophic macro or corporate-level events, whereas bottom up scenarios link to risks within the risk register and refer to single, but potentially severe, events. A wide variety of operational risk scenarios are assessed providing coverage across specified risk categories. Separately, expert judgement is used to derive the degree of interdependence between different types of operational risk.

In addition to the scenarios that are carried out to support and challenge the calculation of operational risk capital, specific scenarios are carried out to consider the Company's resilience to different types of operational risk. As well as regular scenario testing of how business continuity events would be handled, there is also consideration of operational risk when constructing broad based scenarios such as a pandemic or a major change in legislation.

The series of operational risk scenarios conducted by the Company are based on at least the following approaches:

- the failure of a key process, personnel or systems; and
- the occurrence of external events.

Two specific scenarios have been assessed over 2021 whereby a significant operational event was examined that would require the invocation of the business continuity plan. The two "worst-case" business continuity scenarios, for which the business continuity plan was developed to provide substantial mitigation, have been examined for their potential impact on the Company's balance sheet.

These scenarios allow the Company to consider how effective controls would be should an extreme event occur and to make improvements where necessary.

C. Risk profile (continued)

C.6 Other material risks

C.6.1 Other material risk exposure and material changes over the reporting period

The following table describes the other material risks faced by the Company.

Risk	Description
Strategic Risk	Risks that arise from the Company's choice of strategy or its strategic objectives including the risk to business plans (including budgets and resource allocations), which could potentially prevent the firm from achieving the business objectives specific to its area in the medium-term. This type of risk could directly impact the Company's future, its position in the market, its profitability, and its solvency or capital adequacy.
Business Plan Execution Risk	Risks to business plans (including budgets and resource allocations) that potentially prevent the firm from achieving its business objectives.
Emerging Risk	Newly developing or changing risks that are difficult to quantify and which may have a major impact on the Company. Typically, these risks will arise from the external environment and will be as a result of changes that are technological, economic, environmental or geopolitical in nature.

Emerging risks and uncertainties for the Company associated with Brexit and its aftermath have been subject to close scrutiny during the year and continue to be monitored, to respond to ongoing developments as they occur, particularly in relation to regulation and legislation. While the agreement of the Trade and Cooperation Agreement ("TCA") between the UK and EU removed the risk of immediate regulatory divergence in some areas, as well as the removal of the wider risk of economic turmoil that may have been caused by a reversion to WTO trading rules, there remain macro uncertainties to which the Company is exposed relating to ongoing developments in UK-EU trade negotiations. The Company is confident that there will be no significant impact to its operations or capital strength. Although we do not believe that the outcome of the post-Brexit trade agreements between the EU and the UK will have a significant operational impact on the Company, the influence that it will have on the Irish economy, and potential second-order impact on the Life Protection market in which we compete, remains uncertain and requires careful monitoring.

In response to the COVID-19 pandemic, the Company invoked its Business Continuity Plan and followed Irish Government and health care advice through 2021, enabling home working for employees where possible, with minimum disruption to broker and customer services. The Board were kept appraised by Management in relation to the impact assessment and active monitoring of the potential impacts of the pandemic on the Company's operations, insurance risks, asset values, liquidity and solvency.

Ongoing COVID-19 impacts and infection prevention measures could affect the Company's financial position, profitability, operations and ability to deliver for its customers. Examples could include:

- changes in consumer behaviours resulting in lower business volumes and profitability;
- demographic shifts (e.g. changing nature of employment) resulting in social policy changes, affecting the Company's ability to attract and retain talent;
- the changing nature of fraud and cyber security risks driven by more home working in a hybrid model;
- disruption to operations and change delivery as a result of colleague retention and retaining skills, leading to operational loss and/or reputational damage;
- 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;
- increases in mortality and persistency relative to our best estimates; and
- the length of time to recover from prolonged market volatility, coupled with uncertainty following the UK's withdrawal from the EU.

The COVID-19 pandemic severely affected the global financial markets across the world severely during 2020. Although there has been some recovery over 2021 in the markets affected, significant uncertainty remains. This could affect the insurance industry further. 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.

At the date of this report, there is no significant disruption to the Company's operations and the Company's financial position remains strong in the context of the Company's solvency capital requirement. We will continue to monitor the situation and take appropriate action.

The Company carries out stress and scenario testing as part of its ORSA process to better understand the impacts of unexpected events and circumstances such as adverse economic scenarios and increases in mortality on the wider business, as well as capital. With the outbreak of COVID-19, it was deemed appropriate to calibrate pandemic scenarios so that the resilience of the Company to such scenarios can be tested taking learnings

C. Risk profile (continued)

from COVID-19. As part of the 2021 ORSA, two pandemic scenarios tests were constructed based on adverse outcomes to key variables (or plausible combinations) applied to the entire balance sheet, to explore the potential capital and liquidity impact across the consolidated balance sheet. It is also worth highlighting that the Company holds capital for mortality catastrophe events within its Standard Formula capital requirement.

During periods of market volatility, the Company monitors its capital and liquidity positions more frequently. The Company also carries out stress and scenario testing and as part of its ORSA process it considered various pandemic-related mortality stress scenarios in 2020 and 2021 to better understand the potential impacts of a pandemic on the wider business model as well as on its capital position. Furthermore, the Company keeps its operational resilience under regular review with plans and contingencies in place around any potential operational impacts relating to COVID-19.

The Company monitors longer-term developments – such as COVID-19 – regularly through its emerging risk profile. Regular monitoring enables the Company to focus on the risks relating to the COVID-19 pandemic when they develop, and to take action. The Company considers incident management and planning, and regulatory focus, as a result of the pandemic. The Company has responded effectively to the external challenges presented and has assessed the control environment as it adapted its processes and practices as a result of COVID-19.

Climate change risk could potentially affect the Company 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. Consideration of the climate-related risks and opportunities are incorporated into the Company's purpose and strategy. The Company has agreed climate targets and is in the process of incorporating climate change into the RMS. The Company has reviewed and enhanced its propositions to respond to the evolving expectations of its customers, and to compete in its markets. The Company continues to engage with regulators and the industry on the need to address climate change.

The Company is closely monitoring the increasing geopolitical risk that has developed from the conflict between Russia and in Ukraine in early 2022. This monitoring includes an assessment of the associated economic, social and cyber impacts.

C.6.2 Measures used to assess the risk profile

Strategic, Business Plan execution and emerging risks are scored using the combination of impact and probability as described in section C.5.2.

C.6.3 Other material risk concentrations

There are no other material risk concentrations.

C.6.4 Management and mitigation of other material risks

The management of the Company's strategic, Business Plan execution and emerging risks are managed in a similar manner to all the other risk types that the Company faces which include:

- the use of the policy framework, guidelines, limits and authority levels. The Company's Executives have primary responsibility for the management of other material risks. This includes developing policies, procedures and controls across the different products, activities, processes and systems in their area and the allocation of responsibilities;
- regular monitoring of actual exposures by accountable executives and their teams and review on an aggregated basis by the Board Risk Committee; and
- risk details on an inherent (before controls) and residual (after controls) basis are maintained on risk and control registers. These registers and the management information reported from them are used as a basis for review and challenge by the Company's Executives, risk committees and the Board.

Independent oversight and assurance is performed by Risk, Compliance and Internal Audit to assess the effectiveness of risk mitigation and management activity.

C.6.5 Other material risk sensitivities

The methods and assumptions used for sensitivity analysis include the impact on profit of upside and downside commercial scenarios. These scenarios consider the risks that would lead to positive and negative changes to the competitive position faced by the Company, including changes in direct competition, re-pricing activity or changes to the regulatory landscape.

C.7 Any other information

There is no additional material information regarding risk profile to disclose in this section

D. Valuation for solvency purposes

Plain English introduction
In this section we explain the differences between the SII balance sheet and the Irish GAAP basis used in the preparation of our statutory financial statements.

We also describe the methodology used for the valuation of our:

- assets (D.1);
- technical provisions (D.2); and
- other liabilities (D.3).

Introduction

2021 Irish GAAP to SII balance sheet reconciliation

Differences between an Irish GAAP and SII balance sheet can be summarised into one of the following two categories:

SII presentation adjustments: Under the SII rules, certain assets and liabilities are categorised differently from their classification under Irish GAAP. Presentation adjustments, therefore, align the Irish GAAP balance sheet in the Company's 2021 financial statements to the prescribed format of the SII balance sheet.

Valuation differences: The SII rules require that assets and liabilities are valued for solvency purposes at fair value, unless a specific rule requires otherwise. Fair value is essentially what we would receive if we sold an asset or what we would have to pay to settle a liability in an arm's length transaction between willing parties. This is equivalent to the Irish GAAP fair value and therefore the majority of assets and liabilities are held at the same value on the Irish GAAP and SII balance sheets. Where there are differences in valuation between the Irish GAAP and SII values, a description of the valuation differences is presented in sections D.1 (assets), D.2 (technical provisions) and D.3 (other liabilities).

The tables in section D.1, D.2 and D.3 reconcile the Irish GAAP assets and liabilities reported in the 2021 financial statements to amounts reported in the SII balance sheet as at 31 December 2021. In the presentation of the numeric tables in this section, the sum of the parts may be different from the total in some cases due to rounding.

Balance sheet

	31 December 2021				31 December 2020	
€m	Irish GAAP value	Presentation adjustments	Valuation differences	SII value	SII Value	Section
Government Bonds	0.3	-	-	0.3	0.3	
Collective investments	51.2	-	-	51.2	6.4	–
Loans & mortgages	0.3	-	-	0.3	0.4	–
Reinsurance recoveries	940.6	8.4	(23.8)	925.3	949.8	D.2
Property	-	-	1.3	1.3	-	-
Assets held to cover linked liabilities	8.4	(8.4)	-	-	-	-
Insurance & intermediaries' receivables	1.5	(0.0)	-	1.5	0.9	–
Reinsurance receivables	30.7	-	-	30.7	26.1	D.1
Receivables (trade, not insurance)	0.1	3.2	-	3.3	2.9	-
Deferred tax asset	1.3	-	2.3	3.6	1.9	-
Cash and cash equivalents	50.3	0.6	-	50.9	95.9	-
Total Assets	**1,084.6**	**3.8**	**(20.1)**	**1,068.3**	**1,084.5**	
Technical provisions	864.6	(34.9)	(18.0)	811.8	847.1	D.2
Deferred tax liabilities	-	-	-	-	4.9	-
Debts owed to credit institutions	-	0.6	-	0.6	-	-
Financial liabilities other than debts owed to credit institutions	-	-	1.3	1.3	-	-
Insurance and intermediaries payables	14.8	34.9	-	49.7	41.1	-
Reinsurance payables	14.5	-	-	14.5	11.1	-
Payables (trade, not insurance)	19.1	3.3	-	22.4	19.2	-
Any other liabilities, not elsewhere shown	-	0.0	-	0.0	0.0	-
Total liabilities	**913.1**	**3.9**	**(16.7)**	**900.3**	**923.4**	
Excess of assets over liabilities	**171.5**	**-**	**(3.5)**	**168.0**	**161.1**	

D. Valuation for solvency purposes (continued)

D.1 Assets

D.1.1 Valuation basis by asset class and comparison to Irish GAAP

The majority of assets are held at the same value on the Irish GAAP and SII balance sheets.

The following table sets out for each asset class, as per the SII Balance sheet format for Royal London:

- The SII value of assets as at 31 December 2021;
- A brief description of both the SII and the Irish GAAP valuation bases;
- The Irish GAAP value as at 31 December 2021;
- The value of the difference between the two bases.

The Irish GAAP figures are presented in the SII Balance sheet format, and therefore do not necessarily correspond to the classifications in Royal London's statutory financial statements. They are also presented before any fund consolidation adjustments in order to provide a like for like valuation comparison. Any valuation differences between SII and Irish GAAP values for these asset classes are explained further in the related notes in the following table.

€m	31 December 2021						31 December 2020
SII Balance sheet class	Irish GAAP value	Irish GAAP valuation basis	SII value	SII valuation basis	Difference	Note	SII value
Government Bonds	0.3	Quoted prices provided by third party sources	0.3	Quoted prices provided by third party sources	-		0.3
Collective investments	51.2	Quoted prices provided by third party sources	51.2	Quoted prices provided by third party sources	-		6.4
Property	-	N/A	1.3	Fair value	(1.3)	1	-
Loans & mortgages	0.3	Fair value	0.3	Fair value	-		0.4
Reinsurance recoveries	940.6	Amortised cost	925.3	In accordance with Articles 76 to 86 of the SII Directive	15.3	2	949.8
Insurance & intermediaries' receivables	1.5	Amortised cost	1.5	Fair value	-	3	0.9
Reinsurance receivables	30.6	Amortised cost	30.6	Fair value	-	3	26.1
Receivables (trade, not insurance)	3.3	Amortised cost	3.3	Fair value	-	3	2.9
Deferred tax asset	1.3	Balance Sheet Liability Method	3.6	Balance Sheet Liability Method	(2.3)	4	1.9
Cash and cash equivalents	50.9	Fair value	50.9	Fair value	-		95.9
Total Assets	**1,080.0**		**1,068.3**		**11.7**		**1,084.5**

Note 1 – Property

This difference is due to the recognition of the Company's main office lease as a right of use asset under SII valuations rules. This lease was assigned to the Company from RLMIS during the year. The cost of the lease is expensed as incurred under Irish GAAP.

Note 2 – Reinsurance recoveries

This difference is the net of a €8.4m presentational difference and a (€23.8m) valuation difference. The valuation difference is due to the recalculation of the reinsurance recoverable balance using the SII requirements for technical provisions within Articles 76 to 86 of the SII Directive, as opposed to Irish GAAP rules. Further information on reinsurance recoveries is included in section D.2.9.

Note 3 – Insurance, intermediaries', reinsurance and trade receivables

There is no observable market for these specific assets or any similar assets that could be regarded as a suitable basis for the valuation. The value is therefore based on an estimate of the potential cash flows with reductions made for anticipated bad debts, i.e. the settlement value. No account has been taken of the effect of discounting short-dated receivables as the effect is immaterial. This produces a value equal to the statutory amortised cost.

Note 4 – Deferred tax

The deferred tax balances in the SII balance sheet are recognised on the same basis as under Irish GAAP, are calculated using the balance sheet liability method and have been provided for on the basis of the expected realisation/settlement of the carrying amount of assets and liabilities. Differences in the deferred tax balances arise where balance sheet items have different carrying amounts under SII and Irish GAAP.

D. Valuation for solvency purposes (continued)

D.1.2 Analysis of deferred tax

€2.3m of the deferred tax asset arises in the Open Fund due to the valuation differences between SII and Irish GAAP. In line with Article 76 of the Delegated Acts, the Company recognises this amount as Tier 3 own funds. The remaining €1.3m asset is recognised in the Liver Fund and is related to unrealised losses on investments. The right to this asset was transferred to the Company through the Part VII transfer enacted in 2019.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.

D.2 Technical provisions

D.2.1 Technical provisions by line of business

Technical provisions are calculated as the sum of Best Estimate Liability (BEL) and Risk Margin (RM). Technical provisions for the unit liability part of our unit-linked business are calculated as a whole, rather than as the sum of BEL and RM.

The BEL is the probability-weighted value of future cash flows required to fulfil obligations to policyholders under existing contracts, without allowance for cash flows under associated reinsurance arrangements. A negative BEL is allowed if the present value of the future cash flows is negative (i.e. future income exceeds future outflows).

The RM is an addition to the BEL, to ensure that the technical provisions as a whole are equivalent to the amount that third party insurance undertakings would be expected to require in order to meet the insurance obligations. The RM is calculated as the amount of capital needed to support the SCR over the lifetime of the business at a prescribed cost of capital rate of 6% per annum.

The Company's technical provisions at 31 December 2021 split by the SII lines of business and by component are shown below:

Technical provisions by line of business

	31 December 2021 - €m			
Line of Business (LoB)	**Best Estimate Liability (BEL)**	**Risk Margin (RM)**	**Technical provisions calculated as a whole (TPCAW)**	**Total Technical Provisions**
Insurance with-profits participation	542.9	1.5	-	544.4
Index-linked and unit-linked insurance	0.0	0.1	17.0	17.0
Health insurance	(23.4)	3.9	-	(19.5)
Other life insurance	(235.3)	34.6	-	269.9
Total	**754.7**	**40.1**	**17.0**	**811.8**
31 December 2020	**795.8**	**35.6**	**15.7**	**847.1**

D.2.2 Comparison between Irish GAAP and SII technical provisions

The table below shows the differences between the technical provisions under SII and Irish GAAP.

	31 December 2021 - €m		
Technical provisions	**SII value**	**Irish GAAP value**	**Difference**
Insurance with-profits participation	544.4	571.5	(27.1)
Index-linked and unit-linked insurance	17.0	17.1	(0.0)
Health insurance	(19.5)	(20.7)	1.2
Other life insurance	269.9	261.9	8.0
Total	**811.8**	**829.8**	**(18.0)**

The Irish GAAP figures are presented in the SII Balance sheet format and therefore do not correspond to the classifications in the Company's statutory financial statements.

In setting its Irish GAAP accounting policies, the Company applies FRS 103, and calculates statutory technical provisions by starting from the Solvency II basis and making any necessary adjustments, to ensure that the reporting is relevant, reliable and aligned with all laws and regulations.

D. Valuation for solvency purposes (continued)

The table below shows an analysis of the difference between the total gross technical provisions under SII and the Irish GAAP value.

		31 December 2021 - €m				
	Note	Insurance with-profits participation	Index-linked and unit-linked insurance	Health insurance	Other life insurance	Total technical provisions
Irish GAAP technical provisions		571.5	17.1	(20.7).	261.9	829.8
Removal of closed funds surplus	1	(15.4)	-	-	-	(15.4)
Removal of Margins of prudence	2	(0.4)	(0.0)	(2.7)	(26.6)	(29.7)
Inclusion of Contract boundaries	3	0.3	0.2	0.0	0.0	0.5
Adjustments for future profits	4	(13.1)	(0.3)	-	-	(13.4)
Inclusion of Risk Margin	5	1.5	0.1	3.9	34.6	40.1
SII technical provisions		544.4	17.0	(19.5)	269.9	811.8

The underlying discounted cash flow methodology used to calculate technical provisions is the same for Irish GAAP and SII. However, there are some specific key differences. The differences which apply to the Company's technical provisions are outlined below:

Note	Item	Information
1	Removal of closed fund surplus included in Irish GAAP Technical Provisions	Since the Liver and German Bond funds are with-profits funds, any surplus in these funds belongs to the policyholders. In Irish GAAP, this is recognised by adding the surplus to the Technical Provisions. Under SII, this is removed and flows into the excess of assets over liabilities.
2	Margins of prudence	The SII balance sheet is calculated using best estimate assumptions while the Irish GAAP assumptions contain margins for adverse deviation.
3	Contract boundaries	The Irish GAAP balance sheet values all future premiums due on each contract. The SII balance sheet only takes credit for future premiums where there is a future discernible benefit arising from their payment.
4	Adjustments for future profits	Any future profits are not included in the Irish GAAP balance sheet, in accordance with the provisions of the 2015 Insurance Regulations. Under SII, there are no such restrictions.
5	Risk Margin	The Risk Margin is included in the SII balance sheet only.

D.2.3 Basis, methodology and assumptions

Segmentation

The Company's products are segmented into the lines of business on the basis of the nature of the underlying risks as described in the SII guidance. The following table sets out how products are mapped to lines of business:

Line of business	Products
Health insurance	Stand-alone critical illness
	Income protection
Insurance with profit participation	Traditional with-profits Deposit administration
	Unitised with-profits
	Accumulating with-profits
Index-linked and unit-linked insurance	Property-linked
Other life insurance	Non-profit
	Accelerated critical illness
	Index-linked where the policyholder does not bear the risk
	With-profits business that has been converted to or re-classified as non-profit

D. Valuation for solvency purposes (continued)

Unbundling across lines of business
The following types of contract are unbundled on the basis that different benefits within the same policy fall under different SII lines of business.

Main product	Components	SII line of business
Unit-linked	Unit-linked	Index-linked and unit-linked
	Unitised with-profits***	Insurance with-profits participation
	Non unit-linked rider*	Other life insurance or health business
Unitised with-profits	Unitised with-profits	Insurance with-profits participation
	Unit-linked***	Index-linked and unit-linked
	Non-profit rider	Other life insurance or health business
Conventional with-profits	Conventional with-profits	Insurance with-profits participation
	Non-profit rider	Other life insurance or health business
Conventional non-profit**	Conventional non-profit	Other life insurance or health business
	Non-profit rider	Other life insurance or health business

* It is not proposed to unbundle these where the non unit-linked riders are embedded within the contract e.g. paid for from deduction from units.
** NB. The conventional non-profit and non-profit rider component can be mapped to different lines of business.
*** Hybrid products consisting of unitised with-profits and unit-linked funds will be unbundled.

Contract boundary
The term 'contract boundary' under SII defines:

- when a policy is first included within technical provisions (inception);
- which premiums should be included within the technical provisions calculation; and
- when the policy ends and is excluded from technical provisions (payment of final benefit or policy expiry or lapse).

Future regular premiums are included in the technical provisions calculation in the following cases:

- all conventional non-profit business;
- all with-profits policies; and
- unit-linked policies where a waiver of premium benefit is provided, or if there is a death, disability, accident or sickness benefit which is equal to or greater than 101% of the unit fund or there is a cap on potential expense charges. Future premiums are excluded for unit-linked policies that do not contain these risk benefits.

The contract end boundary is determined as follows:

- For policies with no renewal dates, the end boundary is based on the contract term or retirement date selected by the policyholder. Early and late retirements are reflected based on best estimate assumptions for future experience.
- Certain contracts such as annuities, pensions with GAOs and whole of life products have no specific contract end date.
- Where there are premium review dates on business providing risk benefits and Royal London does not have the option to re-underwrite at the premium review date, the end boundary is based on the contract term. Where Royal London has the option to amend premiums and/or benefits to fully reflect the risks, the boundary is the first review date.
- For reviewable reinsurance ceded, the reinsurance contract end boundary is the same as for the underlying reinsured policies, as the reinsurers do not have a unilateral right to amend the premiums.

Tax
Royal London is subject to Irish corporation tax and is taxed on an Income less Expenses ("I-E") basis for life business written before 01 January 2001, namely the business that was acquired by RLMIS through the acquisition of Royal Liver Assurance in 2011, and on profits for life business written from 01 January 2001 together with pensions and health business.

The calculation of the BEL includes future tax payments and receipts as follows:

- Where the BEL is calculated prospectively as the present value of future cash flows, the future cash flows are net of tax relief on expenses and are discounted at a discount rate net of any I-E tax.

D. Valuation for solvency purposes (continued)

Where the BEL is calculated as an asset share plus value of future policy related liabilities, the allowance for tax is as follows:

- In the retrospective asset share calculation, historic asset returns and expenses are accumulated net of tax and tax relief;
- When determining the value of future policy related liabilities, the projection of asset shares is net of future tax and tax relief. The value of future policy related liabilities is dependent on projected future payouts, which are dependent on the projected asset shares. The projected costs of providing guaranteed benefits, smoothing or financial options are then discounted using a discount rate net of any I-E tax; and
- Where the I-E tax position for a line of business indicates no future tax will be payable, a nil tax rate is assumed. Where tax is payable on I-E, the net of tax discount rate allows for the mix of assets held and the effects of tax on components of income.

D.2.4 Calculation of Best Estimate Liabilities ("BEL")

The following sections outline how the BEL is valued for each line of SII business.

BEL for with-profits insurance

For the majority of with-profits business, the BEL is calculated as the sum of:

- asset shares; and
- value of future policy-related liabilities.

Asset shares are an accumulation, to the valuation date, of premiums paid allowing for investment returns, expenses and/or charges, and any enhancements from miscellaneous surplus. Principles and practices underlying the asset share methodology are set out in the PPFMs ("Principles and Practices of Financial Management"). Asset shares for some products are calculated using prospective (or other methods) rather than retrospective methods, for example for some whole life policies.

The value of future policy-related liabilities is calculated as follows:

- The cost of providing financial guarantees (costs and other benefits not reflected in the asset share) determined using a stochastic valuation. A stochastic valuation is derived from estimating probability distributions of potential outcomes, when one or more of the variables are random. The key options and guarantees provided, in particular the investment guarantees, relate to policies within the Liver and German Bond funds. These are sensitive to market movements, so a stochastic valuation process is used. These funds are 100% reinsured and are closed to new business.
- **plus or minus** (as applicable) the cost of smoothing pay-outs to policyholders in accordance with the smoothing rules determined using a stochastic valuation.
- **plus** the cost of providing financial options determined using a stochastic valuation.
- **minus** the value of policy charges for providing options and guarantees from either a stochastic or deterministic valuation (dependent on business class).
- **minus** the value from other charges deducted from asset shares net of future expenses.
- For Open Fund only, **minus** the value of expense charging arrangements in respect of the Liver Fund.

BEL for index-linked and unit-linked insurance

With the exception of some products contained within the German Bond and Liver funds (for which part of the technical provisions are calculated as a whole), the BEL for linked life insurance business is calculated from a prospective deterministic valuation, as the present value of future cash flows. Cash flows are projected based on product terms, a set of demographic assumptions and assumed returns on unit-linked funds reflecting risk-free returns and fund charges. This leads to the BEL corresponding to the probability-weighted average of future cash flows.

For linked insurance business with options and guarantees, the BEL also includes the cost of the options and guarantees. For material options and guarantees the costs are calculated stochastically using the same methods applied to with-profits business.

BEL for health insurance and other insurance

The BEL for health insurance and other life insurance business is generally calculated from a prospective deterministic valuation, as the present value of future cash flows. Cash flows are projected based on a set of demographic assumptions and product features. This leads to the BEL corresponding to the probability-weighted average of future cash flows.

For policies with options and guarantees, the BEL is calculated as the present value of cash flows for an identical contract without options and guarantees plus the cost of the options and guarantees. For material options and guarantees, the costs are calculated stochastically using the same methods applied to with-profits business.

D. Valuation for solvency purposes (continued)

Simplified BEL calculations
The methods for calculating BEL described above are varied and simplifications are used for less material classes of business where their application would not be practical or proportionate. Simplifications used are chosen only where they are expected to produce a more prudent provision than applying the methods described above.

Data quality
There are data quality standards which set out the management approach, governance arrangements and the minimum standards used to ensure that data used for financial reporting is appropriate, complete and accurate.

The standards are part of FRDCF and assume a proportionate and risk-based approach. They are in line with the principles of SII and are also consistent with the Company's overarching Risk Management Policy.

There are no known limitations or inaccuracies in data that materially impact the technical provisions or, where there are inaccuracies, an adequate additional provision is held.

D.2.5 Risk Margin

The risk margin is an addition to the BEL to ensure that the technical provisions as a whole are equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. The Risk Margin is calculated as the amount of capital needed to support the SCR over the lifetime of the business at a prescribed capital cost of 6% per annum. Royal London's risk margin has been calculated on the basis of the Standard Formula SCR.

Residual market risk in the Company is taken as zero. This is based on the Company changing the asset mix so as to minimise market risk.

The Company's SCR does not include pension fund risk as the staff pension funds are not owned by the Company.

A risk driver approach is used to project the SCR under which the individual risk components of the Standard Formula SCR are projected in line with selected risk drivers. The risk drivers are selected so as to provide a true run off of each risk component.

D.2.6 Use of Stochastic techniques

Stochastic methods are used to calculate the costs of options, guarantees and smoothing, i.e. part of the BEL. A market-consistent set of economic scenarios is generated and the costs valued in each scenario using a discount curve equal to the projected future risk-free curve for that scenario (net of any I-E tax).

The BEL calculation is consistent with information provided by the financial markets as a market-consistent valuation is placed on the value of options and guarantees. This requires a specific set of scenarios to be produced as an input. These scenarios are produced by an economic scenario generator (ESG). The scenarios are validated against market data at the valuation date and meet certain properties to enable a market-consistent value of the liabilities to be produced.

D.2.7 Assumptions used

Demographic assumptions for future experience are set on a best estimate basis as described below:

- **Mortality and morbidity** risks are inherent in most life insurance 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 business experience, where it is available in sufficient volume to provide reliable results. Where business experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured.

- **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 business experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience. The rates vary by product line and duration in force.

- **GAO take-up rates**, where at retirement a customer chooses to take the pension fund as cash rather than receive the guaranteed regular income, are also key assumptions set using expert judgement and recent experience.

- **Expense** assumptions are set in line with service agreements, in accordance with the Scheme of Transfer, where relevant, or based on a combination of actual expenses incurred and projected expenses within the Company's Business Plan. Expenses are assumed to inflate in line with the change in the EUR inflation curve plus a margin. The Company performs a regular expense review in order to allocate the expenses between acquisition and maintenance and by book of business.

Where the BEL is calculated as the sum of an asset share (whether retrospective or prospective) and future policy related liabilities, a projection of **future annual and terminal bonuses** is required for the future policy-related liabilities. The methodology for projecting future terminal bonuses is

D. Valuation for solvency purposes (continued)

set out in the section on the BEL for with-profits insurance. The level of future annual bonus is assumed to change progressively from the most recently declared rates to a long-term assumption.

Economic assumptions used are based on:

- Risk-free rates of interest as defined for SII.
- Expense inflation (linked to ESG where stochastic methods are used).

Assumptions differ between SII and Irish GAAP reporting, as the SII risk margin is removed for Irish GAAP reporting and replaced with explicit and suitable margins in demographic and expense assumptions.

The key assumption changes during 2021 relate to:

- Longevity improvement assumptions for the Liver annuity business have been updated to use a bespoke calibration of the CMI Mortality Projections model.
- Per policy expenses have been updated to reflect the Company's latest Business Plan.
- Future expense inflation rates have also been updated reflecting the latest analysis of projected expenses by currency.

Where the BEL is calculated as the sum of an asset share (whether retrospective or prospective) and future policy-related liabilities, a projection of future annual and terminal bonuses is required for the future policy-related liabilities. The level of future annual bonus is assumed to remain unchanged from the rates declared at the most recent bonus declaration.

D.2.8 Level of uncertainty within the technical provisions

The BEL part of technical provisions represents the mean of a probability distribution while the risk margin part is a cost of providing capital on non-hedgeable risk over the run-off of existing business.

Uncertainties associated with the BEL arise principally from risks considered in the SCR and as part of the ORSA process (including market risk, credit risk and insurance risk); from volatility in the best estimate assumptions from year to year and from uncertainty that assumptions experience in the recent past can be assumed to apply over the future life of the business.

Uncertainties in the risk margin arise from future interest rates and factors affecting the methodology assumed for the run-off of SCR components. The approach taken for complex risk structures (options, guarantees, policyholder behaviour and future management actions) and limitations and approximations in the methodology are detailed in section D.2.3.

Technical provisions are most sensitive to persistency, mortality, morbidity, expense and economic assumptions.

D.2.9 Reinsurance recoveries

Royal London has a number of reinsurance arrangements, as described in previous sections.

Royal London does not use any finite reinsurance arrangements nor use any Special Purpose Vehicles to conduct its reinsurance programme.

Projections of reinsurance recoveries cash-flow

Reinsurance cash flows are projected using the same assumptions and methodology as used for the calculation of the BEL of the underlying reinsured products. All reinsurance cash flows are included, specifically:

- Reinsurance premium ceded.
- Reinsurance claim recoveries.
- Reinsurance commission and expenses payable, if any.
- Any tax associated with these commissions/expenses.

These cash flows are discounted using the same yield curve used to derive the BEL.

The timing of reinsurance claim recoveries is taken to be the same as for claim payments to the policyholder as it is expected, on average, to be within three months of the claim payment to the policyholder.

Reinsurer counterparty default adjustments

The amounts recoverable from each reinsurance arrangement are adjusted to allow for estimated losses due to reinsurer default. The estimated losses are calculated at each future time period as:

D. Valuation for solvency purposes (continued)

- The probability of default for each reinsurer at that time (based on a credit assessment of the reinsurer).
- Multiplied by the expected percentage lost on default (50%).
- Multiplied by the future value of expected reinsurance recoveries less payments (i.e. the value of future net income expected to be received from the reinsurer had they not defaulted).

D.2.10 Matching adjustment

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

D.2.11 Volatility adjustment

The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

D.2.12 Transitional risk-free interest rate term structure

The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

D.2.13 Transitional measures

The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

D.3 Other liabilities

D.3.1 Other liabilities valuation and comparison of values used for solvency purposes and for Irish GAAP

The following table sets out the other liabilities as per the SII Balance Sheet format, the amount and a brief description of the valuation basis compared to the Irish GAAP basis and the Irish GAAP amount for the reporting period. The Irish GAAP figures are presented in the SII Balance sheet format and therefore do not correspond to the classifications in the Company's statutory financial statements. Similar to the assets in section D.1, they are also presented before any fund consolidation adjustments in order to provide a like for like valuation comparison.

Any valuation differences between SII and Irish GAAP values for these asset classes are explained further in the related notes in the following table.

€m	31 December 2021						31 December 2020
SII Balance sheet class	SII value	SII valuation basis	Irish GAAP value	Statutory accounts valuation basis	Difference	Note	SII Value
Deferred tax liabilities	-	Irish GAAP value	-	FRS 102 Section 29	-	1	4.9
Debts owed to credit institutions	0.6	Irish GAAP value	0.6	Fair Value	-	2	-
Financial liabilities other than debts owed to credit institutions	1.3	Fair value	-	N/A	1.3	3	-
Insurance and intermediaries' payables	49.7	Irish GAAP value	49.7	Amortised cost	-	4	41.1
Reinsurance payables	14.5	Irish GAAP value	14.5	Amortised cost	-	4	11.1
Payables (trade, not insurance)	22.4	Irish GAAP value	22.4	Amortised cost	-	4	19.2
Any other liabilities not elsewhere shown	0.0	Irish GAAP value	0.0	Amortised cost	-	4	0.0
Total other liabilities	**88.5**		**87.2**		1.3		76.3

Note 1 – Deferred tax

The deferred tax liabilities in the SII balance sheet are recognised on the same basis as under Irish GAAP. They are calculated using the balance sheet liability method and have been provided for on the basis of the expected settlement of the carrying amount of assets and liabilities.

Note 2 – Debts owed to credit institutions

This balance represents negative cash and cash equivalents. There is no difference in valuation basis between Solvency II and Irish GAAP for this type of liability.

Note 3 – Financial liabilities other than debts owed to credit institutions

This difference is due to the lease liability created as a result of recognising the Company's main office lease as an asset under Solvency II valuation rules. This lease was assigned to the Company during the year from RLMIS. The cost of the lease is expensed as incurred under Irish GAAP.

Note 4 – Payables and creditors

There is no observable market for these specific liabilities or any similar liabilities that could be regarded as a suitable basis for the valuation. The value is therefore based on an estimate of the expected cash flows, i.e. the settlement value. No account has been taken of the effect of discounting short-dated payables as the effect is deemed to be immaterial. This produces a value equal to the statutory amortised cost.

D. Valuation for solvency purposes (continued)

D.4 Alternative methods for valuation

The valuation principle and methodology for valuing assets and other liabilities, including where alternative methods are used in accordance with Article 10(5), is described in section D.1.

D.5 Any other information

There is no material information on the valuation of assets and liabilities for solvency purposes that is not already included above.

E. Capital Management

Plain English introduction

In this section, we describe our approach to capital management. Royal London has a strong capital position under SII with our capital also being of a high quality.

Capital (which is broadly assets minus liabilities) absorbs a firm's losses in periods of stress and provides a buffer to increase resilience against unexpected losses. When a firm's capital is depleted, it is less likely to be able to meet policyholder claims as they fall due. The quantity of capital a firm has on the balance sheet can be used as a tool to understand the strength and solvency position of the firm. Capital is referred to as own funds under SII.

In this section we provide information on our own funds, including:

- The objectives, policies and processes for managing our own funds;
- The amount and quality of our own funds; and
- Expected development of own funds, including the intention to redeem items or raise additional own funds.

We also provide details of our Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). The capital (Own Funds) in excess of our requirements (SCR) is referred to as the 'solvency surplus'

Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies.

The SII position has been prepared in accordance with the SII Directive for insurance entities operating in Europe. The Company has adopted the Standard Formula approach for the purposes of measuring regulatory capital under SII. The Company is fulfilling the minimum and solvency capital requirements stipulated by Solvency II as at the reporting date of 31st December 2021 and it did so throughout 2021.

In the presentation of the numeric tables in this section, the sum of the parts may be different from the total in some cases due to rounding.

E.1 Own funds

E.1.1 Objectives, policies and processes for managing own funds

Royal London manages its Own Funds ("OF") in accordance with its Board-approved Capital Management and Dividend Policy and Capital Management Framework. The primary purpose of the policy is to help manage the Company's capital position in line with the Company's capital risk strategy and appetite. This is further explained in the Company's Risk Appetite Framework as follows:

- The Company will hold sufficient capital to be able to meet its regulatory requirements and fulfil its promises to policyholders on an ongoing basis.
- The amount of capital held will allow for the potential variability of risks to capital and the expected impact from new and existing business plans.
- Capital will be managed in each of the Company's funds on a stand-alone basis, balancing the risks of capital support being required from RLMIS, with the need to distribute dividends to RLMIS in a fair manner.

The Capital Management Framework sets a target level for capital of being able to withstand between a one-in-50 and one-in-20-year event, and still be able to meet an internal capital requirement. The capital position relative to the target acts as a guideline to inform distribution or determine if management actions are necessary.

The future progression of OF, including the position against the target set out in the Capital Management Framework, is considered under a range of scenarios as part of the Board-approved Business Plan and the ORSA, which both cover a five-year period.

The Company's capital cover ratio is reported to the Board, to show the Company's capital position against the solvency tolerance zones as set out in the Company's Capital Management Framework.

E. Capital management (continued)

E.1.2 Analysis of solvency position

In common with many in the industry, we present two key metrics for our SCR; an 'Investor View' which does not restrict the surplus in the closed funds, and a 'Regulatory View' where the closed funds' surplus in excess of the SCR is excluded from total own funds and treated as a liability, which is known as the closed funds restriction. The SII capital cover ratio (Regulatory View) restricts the capital in the closed funds to the level of the Standard Formula SCR only; this has the effect of reducing the capital cover ratio.

Key SII metrics

31 December 2021 €m	Open Fund	Closed Funds	Total Company	31 December 2020
Own Funds:				
Tier 1	151.6	12.8	164.4	159.2
Tier 2	-	-	-	-
Tier 3	3.6	-	3.6	1.9
Total Own Funds (A)	**155.2**	**12.8**	**168.0**	161.1
Closed funds restriction	-	(5.0)	(5.0)	(4.2)
Adjusted OF (B)	**155.2**	**7.8**	**163.0**	156.9
SCR (C)	**73.3**	**7.8**	**81.1**	70.1
Solvency surplus (Investor view) (A-C)	81.9	5.0	86.9	91.0
Capital cover ratio (Investor view) (A/C)	**212%**	**164%**	**207%**	230%
Solvency surplus (Regulatory view) (B-C)	81.9	0.0	81.9	86.7
Capital cover ratio (Regulatory view) (B/C)	**212%**	**100%**	**201%**	**224%**

Figures presented in the table are rounded and this may cause totals to be slightly different from the sum of individual items.

The Open Fund had an excess surplus of €81.9m (2020: €86.7m) and a capital cover ratio of 212% (2020: 237%) at 31 December 2021. The cover ratio for the closed funds is maintained at 164% through a quarterly experience adjustment mechanism put in place through the reinsurance agreement with RLMIS.

There are three tiers of capital defined by the SII regulations, based on the quality and availability of the capital. The majority of the Company's own funds are classified as Tier 1, the highest quality capital. The structure of the Company's OF of €163.0m (2020: €156.9m) is shown in the following table:

		31 December 2021	
Classification of OF		**€m**	**Tier amount as a % of total OF**
Tier 1 - unrestricted	Ordinary share capital*	1.0	1%
	Surplus funds	15.5	10%
	Reconciliation reserve	103.9	65%
	Other own fund items approved by the supervisory authority as basic own funds not specified above**	39.0	24%
Total Tier 1 - unrestricted		159.4	98%
Tier 1 – restricted	n/a	-	-
Tier 2	n/a	-	-
Tier 3	Net deferred tax assets	3.6	2%
Total available OF		**163.0**	**100%**
31 December 2020		156.9	

(*) The "Ordinary share capital" is the Company's share capital, based on Royal London's financial statements.
(**) The "Other own fund items approved by the supervisory authority as basic own funds not specified above" is the capital contribution that Royal London received from its parent RLMIS in advance of receiving authorisation. The capital contribution was approved as Tier 1 Own Funds by the CBI.

E. Capital management (continued)

Surplus funds
The Liver and German Bond funds are with-profits funds.

Surplus funds are the accumulated profits of a with-profits fund, which have not been made available for distribution to policyholders and beneficiaries and which meet the conditions to qualify as Tier 1 OF. Surplus funds have been calculated as:

- Total assets.
- **Minus** liabilities (other than technical provisions).
- **Minus** the BEL component of technical provisions and technical provisions calculated as a whole.

Surplus funds	31 December 2021			31 December 2020
€m	Liver Fund	German Bond Fund	Total	Total
Total assets	828.5	117.4	945.9	980.8
Less: liabilities (other than TPs)	(65.9)	(3.6)	(69.5)	(52.7)
Less: BEL and TPs calculated as a whole	(764.9)	(113.1)	(878.0)	(914.4)
Total	**14.1**	**1.4**	**15.5**	13.6

Reconciliation reserve
The reconciliation reserve is the excess of assets over liabilities, adjusted for surplus funds and the closed fund surplus restriction. The reconciliation reserve is treated as Tier 1 unrestricted own funds.

The reconciliation reserve is calculated as follows:

Reconciliation reserve

€m	31 December 2021	31 December 2020
Excess of assets over liabilities	168.0	161.1
Less: Other basic own fund items	(59.1)	(55.5)
Less: Restricted own fund items due to ring-fencing	(5.0)	(4.2)
Total	103.9	101.4

The other basic own fund items are equal to the capital contribution of €39m, the surplus funds of €15.5m (2020: €13.6m), the share capital of €1m and deferred tax asset of €3.6m. The ring-fenced fund adjustment is described further below.

Ring-fenced funds adjustment

As noted above, the Company comprises the Open Fund, the Liver Fund and the German Bond Fund. The Liver and German Bond funds are ring-fenced funds.

The OF of a ring-fenced fund are only available to absorb losses in that ring-fenced fund and are not (on a going concern basis) available to the Open Fund of Royal London. For this reason, they are known as 'restricted OF'. The maximum amount of restricted OF that can be recognised in Royal London's overall OF is the value of the ring-fenced fund's notional SCR (the notional SCR is also included in Royal London's overall capital requirement).

Any restricted OF over and above the notional SCR is deducted from Royal London's total OF to derive the eligible OF, which are available to cover the capital requirement for the entity as a whole.

E. Capital management (continued)

The calculation of the ring-fenced fund deduction as at 31 December 2021 is presented in the table below:

31 December 2021	Notional SCR €m	OF €m	RFF deduction €m	OF eligible for undertaking €m
Open Fund	73.3	155.2	n/a	155.2
Closed funds	7.8	12.8	(5.0)	7.8
Total	**81.1**	**168.0**	**(5.0)**	**163.0**

31 December 2020	Notional SCR €m	OF €m	RFF deduction €m	OF eligible for undertaking €m
Open Fund	63.5	150.2	n/a	150.2
Closed funds	6.6	10.9	(4.2)	6.6
Total	**70.1**	**161.1**	**(4.2)**	**156.9**

There are no other deductions from or restrictions on the availability and transferability of OF.

Subordinated debt
The Company does not have any subordinated debt as at 31 December 2021.

Eligible Own Funds covering the SCR and MCR by tier
The eligible amounts of OF to cover the SCR and the MCR as at 31 December 2021, classified by tiers, together with the solvency ratios, are set out below. The ratio of the eligible OF to SCR or MCR is calculated by dividing the total eligible OF to meet the SCR or MCR by the value of the SCR or MCR respectively.

	31 December 2021					31 December 2020			
€m	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3	Total	Tier 1 unrestricted	Tier 2	Tier 3
Total eligible OF to meet the SCR	163.0	159.4	-	-	3.6	156.9	155.0	-	1.9
Total eligible OF to meet the MCR	159.4	159.4	-	-	-	155.0	155.0	-	-
SCR	81.1					70.1			
MCR	20.3					17.5			
Ratio of eligible OF to SCR	201%					224%			
Ratio of eligible OF to MCR	786%					880%			

The Tier 3 OF as at 31 December 2021 of €3.6m (2020: €1.9m) relates to a Deferred Tax asset. The deferred tax balances in the SII balance sheet are calculated using the balance sheet liability method and have been provided for on the basis of the expected realisation/settlement of the carrying amount of assets and liabilities. The remainder of the OF are classified as Tier 1 unrestricted.

E.1.3 Differences between Own Funds and net assets on a financial reporting basis

We prepare our financial statements under Irish GAAP accounting rules. There are some differences between the equity presented in our financial statements and the Solvency II Own Funds:

- 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 Irish GAAP values (so that assumptions are all best estimate), the inclusion of the SII RM, the removal of any Irish GAAP restrictions on future profits and the adoption of SII contract boundary definitions.

- Valuation differences on deferred tax asset as explained in section D1.1.

- 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.

E. Capital management (continued)

The reconciliation below shows the value of the differences between the equity in our Irish GAAP financial statements and the Solvency II Own Funds at year end.

€m	31 Dec 2021	31 Dec 2020
Equity per Irish GAAP financial statements	171.5	163.2
Valuation differences on technical provisions and reinsurance assets	(5.9)	(0.2)
Deferred Tax Asset	2.3	(1.9)
Ring-fenced fund adjustment	(5.0)	(4.2)
Total OF under SII	**163.0**	**156.9**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirements

Royal London calculates its SCR using the Standard formula. The SCR includes:

- the Basic Solvency Capital Requirement
- the SCR for operational risk
- any adjustments for the loss-absorbing capacity of deferred taxes and technical provisions.

The table below provides a breakdown of Royal London's SCR, by risk categories at 31st December 2021. Further details on how these risks are managed, monitored and reported are included in section C.

€m	31 December 2021		31 December 2020	
	SCR value	% total diversified basic SCR	SCR value	% total diversified basic SCR
Market risk	14.8	19%	9.6	14%
Counterparty default risk	7.9	10%	7.7	11%
Life underwriting risk	66.1	85%	58.9	88%
Health underwriting risk	10.2	13%	7.1	11%
Diversification	(21.4)	n/a	(16.3)	n/a
Basic SCR	77.5	100%	66.9	100%
Operational risk	4.7		4.0	
Loss-absorbing capacity of deferred taxes	(1.2)		(0.8)	
SCR	81.1		70.1	

The S.25.01.21 QRT also gives a breakdown of the Standard Formula SCR, as at 31 December 2021, by risk module.

Allowance in the SCR for reinsurance and financial risk mitigation techniques

Reinsurance

Each reinsurance arrangement and any associated collateral arrangement are assessed against the SII criteria set out in Articles 208 to 215 of the Commission Delegated Regulation (EU) 2015/35. This assessment takes place before any new arrangements are entered into and is reviewed from time to time for existing arrangements. Changes in the status of reinsurance counterparties and reinsurance arrangements are also monitored and assessments updated as and when required.

E. Capital management (continued)

Loss-absorbing capacity of deferred taxes

The SCR has been adjusted by €1.2m (2020: €0.8m) for the loss absorbing capacity of deferred taxes ("LACDT"). The LACDT is calculated by allowing for losses aligned with those in the SCR stresses but it is capped at the tax payable over the past 12 months. The utilisation of this amount relates entirely to the carry back of losses against the tax charge arising in the Open Fund in the 2021 period.

E.2.2 Changes in Solvency Capital Requirement

A movement analysis which includes movements in the SCR is set out in section E.2.1.

E.2.3 Minimum Capital Requirement

The MCR is calculated according to a formula prescribed by the regulations and is subject to a floor of 25% of the SCR or €3.7m, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to the technical provisions and capital at risk as at 31 December 2021.

Before any cap/collar is applied, the MCR has been calculated at €2.5m (2020: €2.0m) as at 31 December 2021. However, as SII regulations prescribe that the MCR has to fall within a range of 25% to 45% of the Standard Formula SCR, the final value of the MCR as at 31 December 2021 is €20.3m (2020: €17.5m).

€m	31 December 2021	31 December 2020
MCR before the application of floors and caps	2.5	2.0
MCR cap (45% of SCR)	36.5	31.6
MCR floor (higher of 25% of SCR or €3.7m)	20.3	17.5
MCR (post application of floors and caps)	20.3	17.5

The QRT S.28.01.01 sets out the information on the input used by Royal London to calculate the MCR.

E.3 Use of a duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The duration-based equity risk sub-module in Article 170 of the Commission Delegated Regulation (EU) 2015/35 has not been applied.

E.4 Differences between the Standard Formula and any Internal Model used

Not applicable. The Company uses the standard formula to calculate the SCR.

E.5 Non-compliance with the MCR and SCR

The Company has maintained OF in excess of the MCR and the SCR throughout the year.

The risk of future non-compliance with the MCR and SCR is assessed as part of the ORSA. The ORSA demonstrates that the risk of future non-compliance with the MCR or the SCR is within acceptable limits.

E.6 Any other information

The valuation of the Company's balance sheet was prepared on a going concern basis, because there is a reasonable expectation that Royal London will continue in operational existence for twelve months from the date of approval of this document (the "period of assessment"). In making the going concern assessment, the potential impact of future negative developments was considered. The following items were reviewed:

- the Company's capital position and the surplus over its required solvency capital ratio;
- the potential range of impacts that could be caused by negative developments, based on stress and sensitivity testing, including those carried out during the ORSA process;
- the Company's experience over 2021 and to date;
- the level of reinsurance and the credit rating of the Company's reinsurance counterparties;
- the quality of the collateral backing the Company's largest reinsurance arrangements; and
- the Company's liquidity position.

On the basis of the above, it was concluded that the Company has no material uncertainties which would cast a significant doubt on the Company's ability to continue as a going concern over the period of assessment.

No significant events affecting the Company have occurred since the balance sheet date. In late February 2022 Russia launched an attack on Ukraine which was followed by a number of severe sanctions being imposed on Russia by the EU and other states. The Russia-Ukraine conflict is considered a non-adjusting post-balance sheet event.

E. Capital management (continued)

Forward-looking statement

This document may contain 'forward-looking statements' with respect to certain of the Company's plans, its current goals and expectations relating to its future financial position. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Company's control. These include, among others, economic and business conditions, market-related risks such as fluctuations in interest rates, the policies and actions of governmental and regulatory authorities, the impact of competition, the timing, impact and other uncertainties of future mergers or combinations within relevant industries.

As a result, the Company's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Company's forward-looking statements. The Company's undertakes no obligation to update the forward-looking statements.

Glossary

B

Best estimate liability (BEL)
The expected (or probability weighted average) value of the present value of future cash flows for current obligations, projected over the expected life of the contract, taking into account all available market and other information.

Board
Royal London Insurance DAC Board.

Brexit
The UK's departure from the EU which occurred 31 January 2020, following the UK referendum on 23 June 2016 where British citizens voted to leave the EU.

Business Plan (BP)
The BP is an internal forecast and business plan, which is approved by the Board annually. This sets out Royal London's forecast and targets over a five year time horizon; the latest Business Plan was approved in December 2021 and covers the period 2022 – 2026.

C

Capital Cover Ratio
Own funds divided by Solvency Capital Requirement.

CBI
Central Bank of Ireland.

Closed funds
Our funds that are closed to new business.

Company
Royal London Insurance DAC.

Contract boundary
The point where the insurer can unilaterally terminate the contract, refuse to accept a premium, or amend the benefit or premium without limit.

D

Discounting
The process of expressing a future cash transaction in terms of its present value using a discount rate which reflects the time value of money.

E

Economic assumptions
Assumptions of future interest rates, investment returns, inflation and tax.

Expected profit included in future premiums (EPIFP)
Profits which result from the inclusion in technical provisions of premiums on existing (in-force) business that will be received in the future, but that have not yet been received.

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.

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 part of the benefits will not reduce in value, or are subject to a minimum value.

Fitness and Probity (F&P)
The standard required by the regulators to be applied when appointing those employees who effectively run the Company or have other key functions, to make sure they are suitably competent and reputable.

G

Going Concern
Going concern is an accounting concept, under which it is assumed that a company will continue in operation for a period of 12 months from the date the financial statements are approved, and that there is neither the intention nor the need either to liquidate the company or to cease trading within that time period.

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.

M

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 when the insurer sets aside a portfolio of assets to back a predictable portion of their liabilities.

Minimum Capital Requirement (MCR)
The minimum level of capital required by the CBI, below which the amount of financial resources should not fall.

Mutual
A company owned by its members which is not listed on the stock market. A member of a mutual company can vote at its Annual General Meeting.

N

Non-profit policy
Long-term savings and insurance products other than with-profits policies.

O

Open Fund
The fund within Royal London into which all of the Company's new insurance business is written.

Operating profit
Operating profit is the profit resulting from our business operations. Our primary business operations is providing protection cover in the Irish intermediated market.

Own funds
Regulatory capital under SII. Broadly it is the excess of assets over liabilities (plus subordinated debt and less the Ring Fenced

Glossary (continued)

Fund restriction), as measured by the CBI's regulatory reporting requirements under SII.

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 Company 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

Part VII transfer
The court process that enables groups of insurance policies to be moved between insurers, under Part VII of the Financial Services and Markets Act 2000.

Participating
Contracts which are with-profits in type.

Pension
A means of providing income in retirement for an individual and possibly his/her dependants.

Pillar 1/2/3
Solvency II regulatory reporting requirements that came into force on 1 January 2016 include three 'Pillars':

- Pillar 1 covers the quantitative requirements, for example calculating the amount of capital an insurer should hold.
- Pillar 2 sets out requirements for effective governance and risk management frameworks.

Pillar 3 focuses on disclosure, reporting and transparency requirements. Insurers must produce two key reports, the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR), in addition to other specific templates.

Protection
A policy providing a cash sum or income on the death or specified serious illness of the life assured.

Q

Quantitative Reporting Templates (QRTs)
Forms required under Solvency II for regulatory reporting. They disclose detailed information including technical provisions, own funds and SCR. QRTs must follow a prescribed format.

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 and 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 Pillar 3 of the Solvency II directive. This is a private report to the CBI and is not disclosed publicly. Life insurers in Ireland are required to submit this report to the CBI in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

Reverse stress test
Valuation simulations carried out to assess the impact of a range of scenarios that start with a business failure outcome, in order to identify potential business vulnerabilities.

Ring-Fenced Fund (RFF)
Royal London contains two ring-fenced funds (Liver and German Bond). The ring-fenced funds are in run-off, with surplus to be distributed to policyholders in line with the WPOP for each fund.

Risk margin
Forms part of the calculation of the technical provisions, and represents the amount needed, should all surplus and capital be used up, to transfer all obligations to another insurer. The risk margin, like BEL, is sensitive to interest rate changes.

Risk-free rate
The theoretical rate of return of an investment with no risk of financial loss.

Risk Management Framework (RMF)
A disciplined and structured process that is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Company is well capitalised.

Risk Management System (RMS)
Provides assurance that the risks to which the Group may be exposed are being appropriately identified and managed within risk appetite, and that risks that may result in significant financial loss or reputational damage are being minimised.

Royal London Asset Management (RLAM)
Royal London Group's asset management business responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds for FTSE 250 companies, local authorities, universities, charities and individuals.

Royal London
Royal London Insurance DAC.

Royal London Group
The Royal London Mutual Insurance Society Limited and its subsidiaries.

S

Solvency II (SII)
A European Union directive which became fully applicable to European insurers and reinsurers on 01 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

Solvency II Directive
The Solvency II Directive (2009/138/EC) is a Directive in European Union law that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. This was transposed into Irish Law as the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) and the legislation entered into force on 01 January 2016.

Solvency Capital Requirement (SCR)
The amount of capital that the CBI requires an Irish Life insurer to hold which is calculated using Solvency II requirements. This can be calculated using the Standard Formula or the Internal Model methods.

Solvency and Financial Condition Report (SFCR)
A report required under Pillar 3 of the Solvency II directive. Life insurers in Ireland are required to disclose this report publicly and to report it to the CBI on an annual basis. The SFCR

Glossary (continued)

includes both qualitative and quantitative information.

Solvency surplus
The excess of own funds over the Solvency Capital Requirement.

Specified Serious illness cover
Cover that pays a lump sum if the insured person is diagnosed with a specified serious illness that meets the cover's definition.

Standard Formula (SF)
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 CBI.

Stochastic techniques
Valuation techniques that allow for the potential future variability in assumptions by the running of multiple possible scenarios.

Stress testing
Valuation simulations carried out to assess the impact of a range of adverse scenarios with different probabilities and severities.

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
Technical provisions
The amount the Company requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio of insurance contracts.

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.

Tier (of capital)
There are three tiers of capital defined by SII. The quality of capital is important as the higher quality the more likely it will be available in the event that it is needed, for example to be able to pay out claims. Tier 1 capital primarily represents high quality capital which is generally more secure and capable of absorbing losses; Tier 2 capital is of a lower quality and Tier 3 capital is the lowest quality of capital.

U
Unit-linked policy
A policy for which the premiums buy units in a chosen investment fund.

Unitised with-profits policy
A policy for which the premiums buy units in a with-profits fund.

V
Volatility adjustment (VA)
An adjustment made to the risk-free interest rate. It is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. It is provided and updated by EIOPA and can differ for each major currency and country.

W
With-profits policy
A policy which 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.

With-Profits Operating Principles (WPOP)
A document detailing how we manage our with-profits funds.

Appendix: Quantitative Reporting Templates

This appendix includes the annual Quantitative Reporting Templates (QRTs) for Royal London Insurance DAC in respect of year end 31 December 2021. All figures are shown in thousands (€'000). Please note there may minor differences in totals due to rounding.

Reference	Template Name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, Claims and Expenses by line of business
S.12.01.02	Life and Health SLT Technical Provisions
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity

Appendices (continued)

S.02.01.02 – Balance sheet

Assets		Solvency II value €000 C0010
Intangible assets	R0030	0
Deferred tax assets	R0040	3,592
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	52,734
Property (other than for own use)	R0080	1,275
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	0
Equities – listed	R0110	0
Equities - unlisted	R0120	0
Bonds	R0130	288
Government Bonds	R0140	288
Corporate Bonds	R0150	0
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	51,171
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	**0**
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	312
Loans on policies	R0240	43
Loans and mortgages to individuals	R0250	269
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	925,273
Non-life and health similar to non-life	R0280	0
Non-life excluding health	R0290	0
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	908,340
Health similar to life	R0320	(3,154)
Life excluding health and index-linked and unit-linked	R0330	911,494
Life index-linked and unit-linked	R0340	16,933
Deposits to cedants	R0350	0
Insurance and intermediaries' receivables	R0360	1,448
Reinsurance receivables	R0370	30,663
Receivables (trade, not insurance)	R0380	3,302
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	50,935
Any other assets, not elsewhere shown	R0420	0
Total assets	**R0500**	**1,068,259**

Appendices (continued)

Liabilities		Solvency II value €000
		C0010
Technical provisions – non-life	R0510	0
Technical provisions – non-life (excluding health)	R0520	0
TP calculated as a whole	R0530	0
Best Estimate	R0540	0
Risk margin	R0550	0
Technical provisions – health (similar to non-life)	R0560	0
TP calculated as a whole	R0570	**0**
Best Estimate	R0580	0
Risk margin	R0590	**0**
Technical provisions – life (excluding index-linked and unit-linked)	R0600	794,761
Technical provisions – health (similar to life)	R0610	(19,546)
TP calculated as a whole	R0620	0
Best Estimate	R0630	(23,450)
Risk margin	R0640	3,904
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	814,306
TP calculated as a whole	R0660	0
Best Estimate	R0670	778,180
Risk margin	R0680	36,127
Technical provisions – index-linked and unit-linked	R0690	17,029
TP calculated as a whole	R0700	16,875
Best Estimate	R0710	95
Risk margin	R0720	59
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	629
Financial liabilities other than debts owed to credit institutions	R0810	1,280
Insurance & intermediaries payables	R0820	49,673
Reinsurance payables	R0830	14,509
Payables (trade, not insurance)	R0840	22,391
Subordinated liabilities	R0850	0
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	0
Any other liabilities, not elsewhere shown	R0880	8
Total liabilities	**R0900**	**900,281**
Excess of assets over liabilities	**R1000**	**167,978**

Appendices (continued)

S.05.01.02 – Premiums, claims and expenses by line of business

€000		Line of Business for: life insurance obligations				Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0270	C0290	C0300
Premiums written								
Gross	R1410	8,773	4,299	232	85,650			98,953
Reinsurers' share	R1420	1,953	1,693	232	43,920			47,798
Net	R1500	6,820	2,606	0	41,729			51,155
Premiums earned								
Gross	R1510	8,773	4,299	232	85,650			98,953
Reinsurers' share	R1520	1,953	1,693	232	43,920			47,798
Net	R1600	6,820	2,606	0	41,729			51,155
Claims incurred								
Gross	R1610	2,225	63,446	1,388	46,233			113,292
Reinsurers' share	R1620	2,002	63,446	1,388	43,921			110,757
Net	R1700	222	0	0	2,313			2,535
Changes in other technical provisions								
Gross	R1710	4,721	21,612	(1,254)	4,145			29,224
Reinsurers' share	R1720	462	23,423	(1,245)	(6,065)			16,576
Net	R1800	4,259	(1,811)	(9)	10,209			12,648
Expenses incurred	R1900	4,426	234	(1)	38,570			43,230
Other expenses	R2500							10,013
Total expenses	R2600							53,242

Appendices (continued)

S.12.01.02 – Life and health SLT technical provisions

€000		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions calculated as a whole	**R0010**	0	16,875			0				
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**	0	16,838			0				
Technical provisions calculated as a sum of BE and RM										
Best Estimate										
Gross Best Estimate	**R0030**	542,880		0	95		235,299	0		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	554,812		0	95		356,682	0		
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	(11,932)		0	0		(121,382)	0		
Risk margin	**R0100**	1,546	59			34,581				
Amount of the transitional on Technical Provisions										
Technical provisions calculated as a whole – unaudited	**R0110**	0	0			0				
Best estimate – unaudited	**R0120**	0		0	0		0	0		
Risk margin – unaudited	**R0130**	0	0			0				
Technical provisions - total	**R0200**	544,426	17,029			269,880				

Appendices (continued)

S.12.01.02 – Life and health SLT technical provisions (continued)

€000		Total (Life, other than health insurance, incl Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted	Total (Health, similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees			
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	16,875	0					0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	16,838	0					0
Technical provisions calculated as a sum of BE and RM								
Best estimate								
Gross Best Estimate	R0030	778,275		(23,450)	0			(23,450)
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	911,589		(3,154)	0			(3,154)
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	(133,314)		(20,296)	0			(20,296)
Risk margin	R0100	36,186	3,904					3,904
Amount of the transitional on Technical Provisions								
Technical provisions calculated as a whole – unaudited	R0110	0	0					0
Best estimate – unaudited	R0120	0		0	0			0
Risk margin – unaudited	R0130	0	0					0
Technical provisions - total	R0200	831,336	(19,546)					(19,546)

Appendices (continued)

S.23.01.01 – Own funds

€000		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	1,000	1,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	15,477	15,477			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	103,924	103,924			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	3,592				3,592
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	39,000	39,000	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				

Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	**162,993**	**159,401**	**0**	**0**	**3,592**

Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	**0**			**0**	**0**

Available and eligible own funds						
Total available own funds to meet the SCR	R0500	162,993	159,401	0	0	3,592
Total available own funds to meet the MCR	R0510	159,401	159,401	0	0	
Total eligible own funds to meet the SCR	R0540	162,993	159,401	0	0	3,592
Total eligible own funds to meet the MCR	R0550	159,401	159,401	0	0	
SCR	R0580	**81,093**				
MCR	R0600	**20,273**				

Appendices (continued)

Ratio of Eligible own funds to SCR	**R0620**	**201.00%**
Ratio of Eligible own funds to MCR	**R0640**	**786.26%**

Reconciliation Reserve		
Excess of assets over liabilities	**R0700**	167,978
Own shares (held directly and indirectly)	**R0710**	0
Foreseeable dividends, distributions and charges	**R0720**	0
Other basic own fund items	**R0730**	59,069
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	4,985
Reconciliation Reserve	**R0760**	**103,924**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	93,758
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**	0
Total Expected profits included in future premiums (EPIFP)	**R0790**	93,758

Appendices (continued)

S.25.01.21 – Solvency Capital Requirement – for undertakings on Standard Formula

€000		Gross solvency requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	14,818		0
Counterparty default risk	R0020	7,930		
Life underwriting risk	R0030	66,055	9	0
Health underwriting risk	R0040	10,172	9	0
Non-life underwriting risk	R0050	0	9	0
Diversification	R0060	(21,445)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	**77,530**		

Calculation of Solvency Capital Requirement		
Operational risk	R0130	4,745
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	(1,183)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	**81,093**
Capital add-ons already set	R0210	0
Solvency Capital Requirement	R0220	**81,093**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	73,304
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	7,789
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Appendices (continued)

Approach to tax rate

Approach based on average tax rate	**R0590**	No

Calculation of loss absorbing capacity of deferred tax		**LAC DT**
LAC DT justified by reversion of deferred tax liabilities	**R0640**	(1,183)
LAC DT justified by reference to probable future tax economic profit	**R0650**	0
LAC DT justified by carry back, current year	**R0660**	0
LAC DT justified by carry back, future years	**R0670**	(1,183)
Maximum LAC DT	**R0680**	82,276

Appendices (continued)

S.28.01.01 – Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

€000

		C0010
Linear formula component for non-life insurance and reinsurance obligations		
MCR_{NL} Result	R0010	0
Linear formula component for life insurance and reinsurance obligations		C0040
MCR_{L} Result	R0200	2,523

€000		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230	37	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		3,604,399

Overall MCR calculation		C0070
Linear MCR	R0300	2,523
SCR	R0310	81,093
MCR cap	R0320	36,492
MCR floor	R0330	20,273
Combined MCR	R0340	20,273
Absolute floor of the MCR	R0350	3,700
Minimum Capital Requirement	R0400	20,273