Delivering with purpose

2021 Financial Results

4 March 2022

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Group Chief Financial Officer

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Agenda

1. Overview and Financial highlights
2. New business
3. Assets under management
4. Capital
5. Q & A

2021 Results overview

- Operating profit returned to higher levels
- Increased contribution from all of our businesses
- Robust capital position maintained
- Record level of assets under management
- Delivered a number of key strategic initiatives

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Performance of our business

UK

- New business sales up 12%
- Governed Range assets reached £51bn
- Delivered annuity proposition and closed funds consolidation
- Acquisition of Wealth Wizards and 30% stake in Responsible Group

Asset Management

- Record £164bn AUM
- Three-year active fund outperformance vs benchmark: 99%
- Leader in sustainable funds, extending our range
- Expanding reach into Europe and investing in Property team

Ireland

- New business sales up 35%
- No. 1 in the Irish intermediated protection market with 28% market share
- Invested in a new Pension proposition to launch this year

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Delivering in the UK

Annuities

- Launched annuity proposition for existing pension policies with guaranteed annuity options
- Matching adjustment approval obtained with initial £300m portfolio of Corporate Bonds and Commercial Real Estate Loans
- Future new business flows from pension policies in the CIS fund as they mature

Simplifying our business

- Completed consolidation of four with-profits funds into the Royal London Main Fund
- Immediate uplift to policy values delivered to policyholders
- Reduced aggregate capital requirements
- 3.2m long-standing policies have now been migrated to target system

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Financial highlights

		2021	2020	Change
UK GAAP	Operating profit before tax	£133m	£41m	+£92m
	Profit before tax	£192m	£131m	+£61m
	ProfitShare	£169m	£146m	+£23m
NEW BUSINESS	Life and pensions new business sales	£9,588m	£8,544m	+£1,044m
INFLOWS	Gross inflows	£26,432m	£26,407m	+£25m
	Net inflows	£5,287m	£3,870m	+£1,417m

		31 Dec 21	31 Dec 20	Change
FUNDS	Assets under management	£164bn	£148bn	+£16bn
CAPITAL	Regulatory View solvency surplus	£2.8bn	£2.3bn	+£0.5bn
	Regulatory View capital cover ratio	173%	147%	+26% points
	Investor View solvency surplus	£2.8bn	£2.3bn	+£0.5bn
	Investor View capital cover ratio	216%	190%	+26% points

Metrics are defined on page 20

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Life and pensions new business

	New business sales	New business margin
Individual pensions	£4,766m (2020: £4,733m)	1.6% (2020: 1.8%)
Workplace pensions	£3,200m (2020: £2,457m)	0.9% (2020: 1.1%)
Protection	£1,251m (2020: £1,192m)	3.1% (2020: 2.3%)
Other	£186m (2020: £25m)	-0.1% (2020: -8.8%)
UK	**£9,403m** **(2020: £8,407m)**	**1.6%** **(2020: 1.6%)**
Ireland	**£185m** **(2020: £137m)**	**9.2%** **(2020: 8.8%)**
Life and pensions new business	**£9,588m** **(2020: £8,544m)**	**1.7%** **(2020: 1.7%)**

- New business sales increased across all product lines
- Ongoing recovery in pensions market with increasing new entrants into Workplace
- Continued strong protection growth in UK and Ireland
- Overall new business margin consistent at 1.7%

Metrics are defined on page 20

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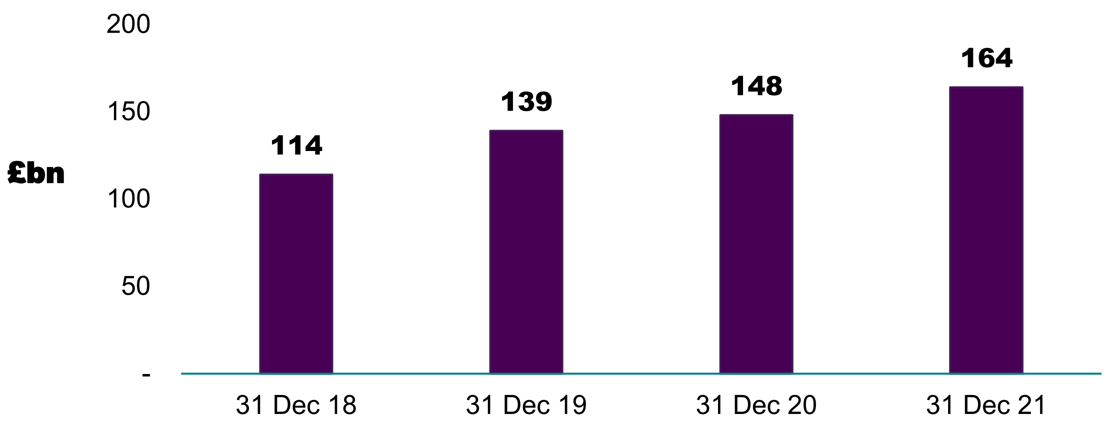
Assets under management



- Passed £160bn AUM milestone for first time
- Growth in AUM driven by positive market movements and net inflows
- Continued high demand into sustainable funds

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

Metrics are defined on page 20

Responsible investment

- Committed to short and long-term investment portfolio targets[1]
- Supported by refreshed Stewardship and Engagement policy
- Transitioned £23bn of equity investments in our Governed Range, reducing its carbon intensity by 16%[2]
- Reduced the carbon intensity of the RLMIS equity and fixed income holdings, which represent 63% of our portfolio, by 35%
- Continued to deliver against our own operational climate pledges and ahead of target in direct operations decarbonisation[3]

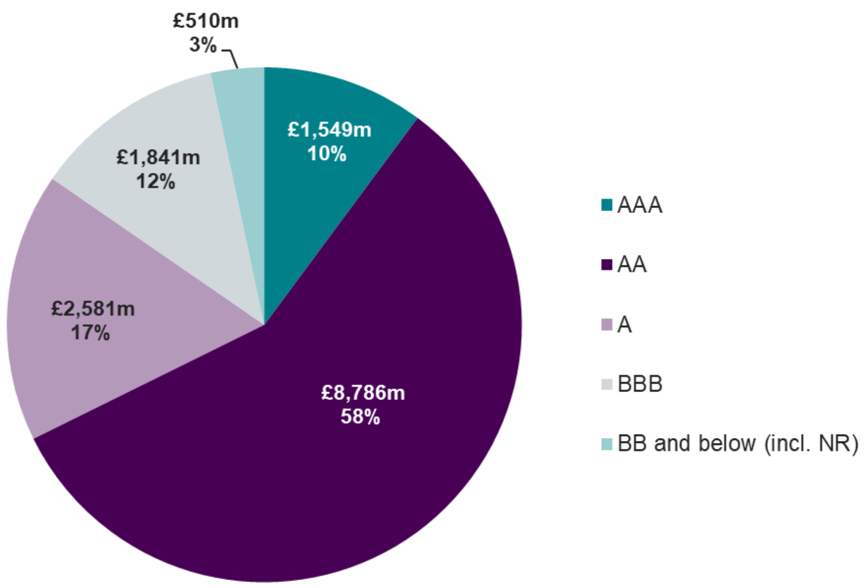
1. *These commitments are based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations.*
2. *16% reduction is Weighted Average Carbon Intensity (scope 1 & 2) for the equity funds. The total amount of all equity funds managed by Royal London Asset Management (RLAM) on behalf of RLMIS that have been "tilted" to achieve a reduced carbon intensity is £23bn, as at 31 December 2021. This includes equity investments underlying the Governed Range and other RLMIS funds. The main equity fund used in the Governed Range, RLP Global Managed, constituted 47% of all Governed Range assets, as at 31 December 2021.*
3. *The baseline for our operational emissions is 2019*

The basis and assumptions underlying our climate targets are set out on page 39 of our 2021 Annual Report and Accounts.

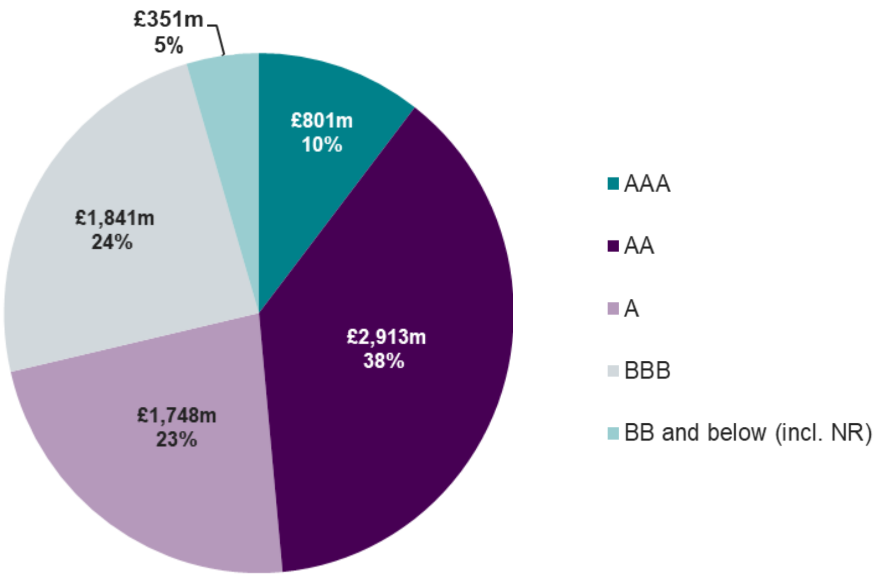
Balance sheet – Investment portfolio

- Investment portfolio increased to **£118.1bn** (31 Dec 20: £107.9bn)
- Continued to maintain a highly-rated, well diversified investment portfolio
- No significant defaults in our corporate bond portfolio

Non-linked debt security portfolio: 31 December 2021



Non-linked corporate bonds: 31 December 2021



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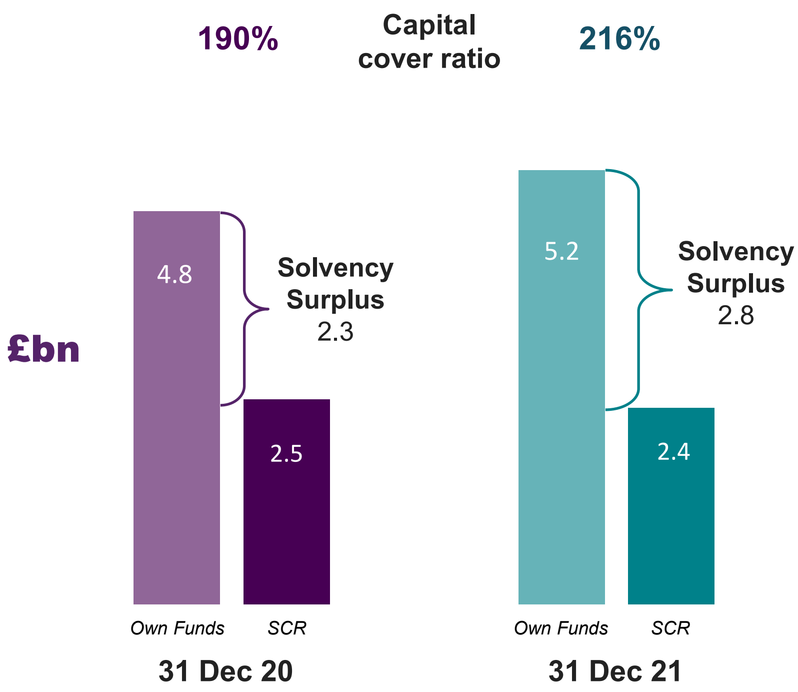
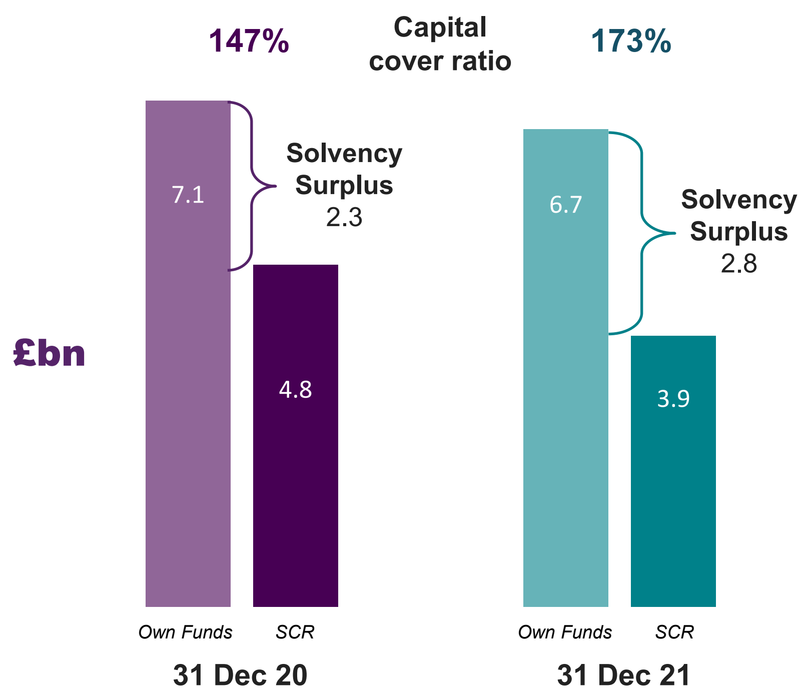
Capital

- Robust capital position maintained; increase in surplus and cover ratios
- Equity hedging and credit de-risking increased solvency surplus and improved capital stability

Investor View



Regulatory View



Metrics are defined on page 20

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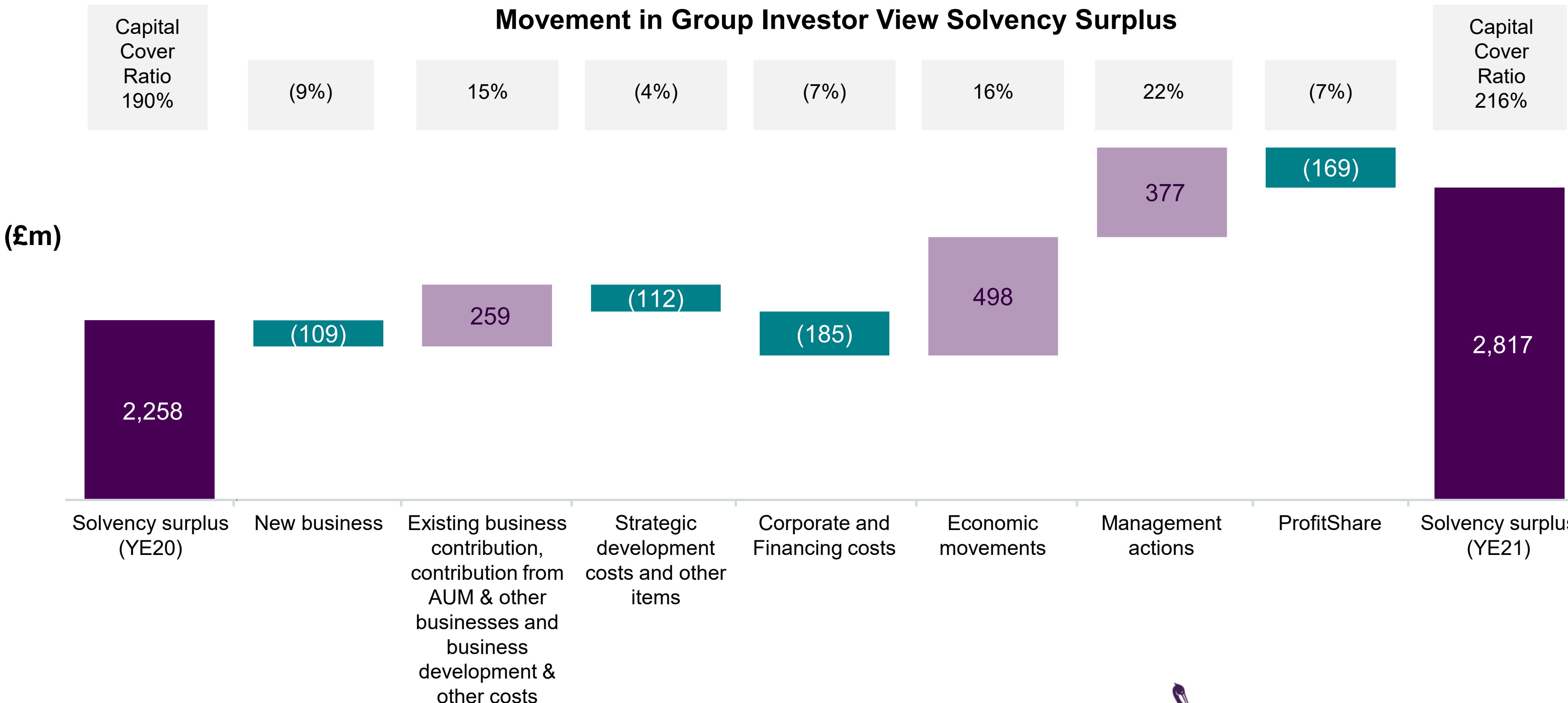
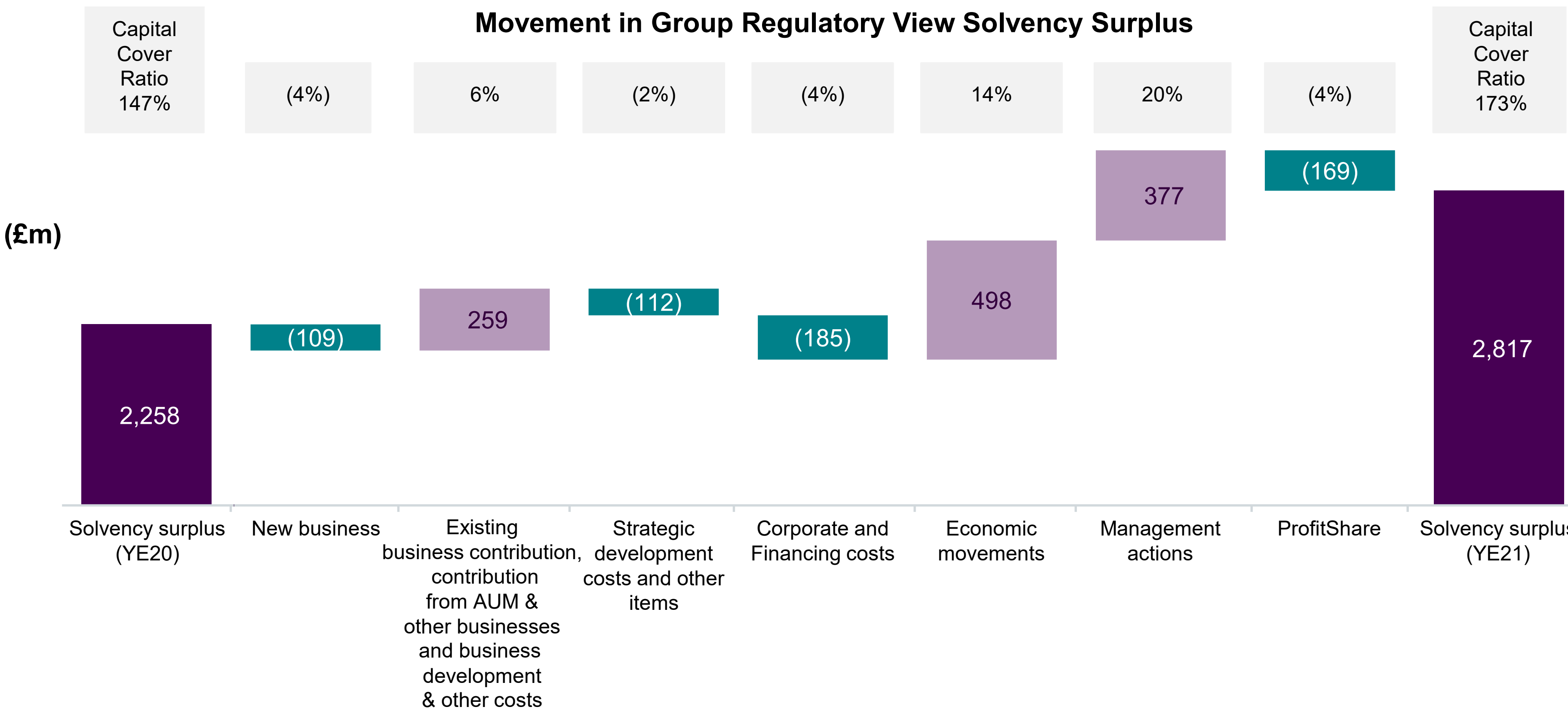
Capital – Group Investor view

- Economic movements driven by improved yield curves and positive equity and property returns
- Management actions primarily relate to the additional equity hedges taken out during the year, closed fund consolidations and moving away from higher yielding, higher risk credit assets in the estate



Capital – Group Regulatory view



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Summary

- Positive performance across the Group following the impact of the pandemic
- Record £164bn assets under management
- Actively reducing carbon intensity of our funds with commitment to short and long-term targets
- Robust capital position allows for continued investment in our business
- ProfitShare rates maintained, with increased total of £169m shared with eligible customers

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Q&A

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Appendix 1 – Operating profit before tax

	31 Dec 2021	31 Dec 2020	Change
Long-term business			
New business contribution	**£164m**	£149m	+£15m
Existing business contribution	**£125m**	£99m	+£26m
Contribution from AUM and other businesses	**£124m**	£95m	+£29m
Business development and other costs	**(£37m)**	(£42m)	+£5m
Strategic development costs	**(£62m)**	(£92m)	+£30m
Result from operating segments	**£314m**	**£209m**	**+£105m**
Corporate costs	**(£106m)**	(£93m)	-£13m
Financing costs	**(£75m)**	(£75m)	£0m
Group operating profit before tax	**£133m**	**£41m**	**+£92m**

Metrics are defined on page 20

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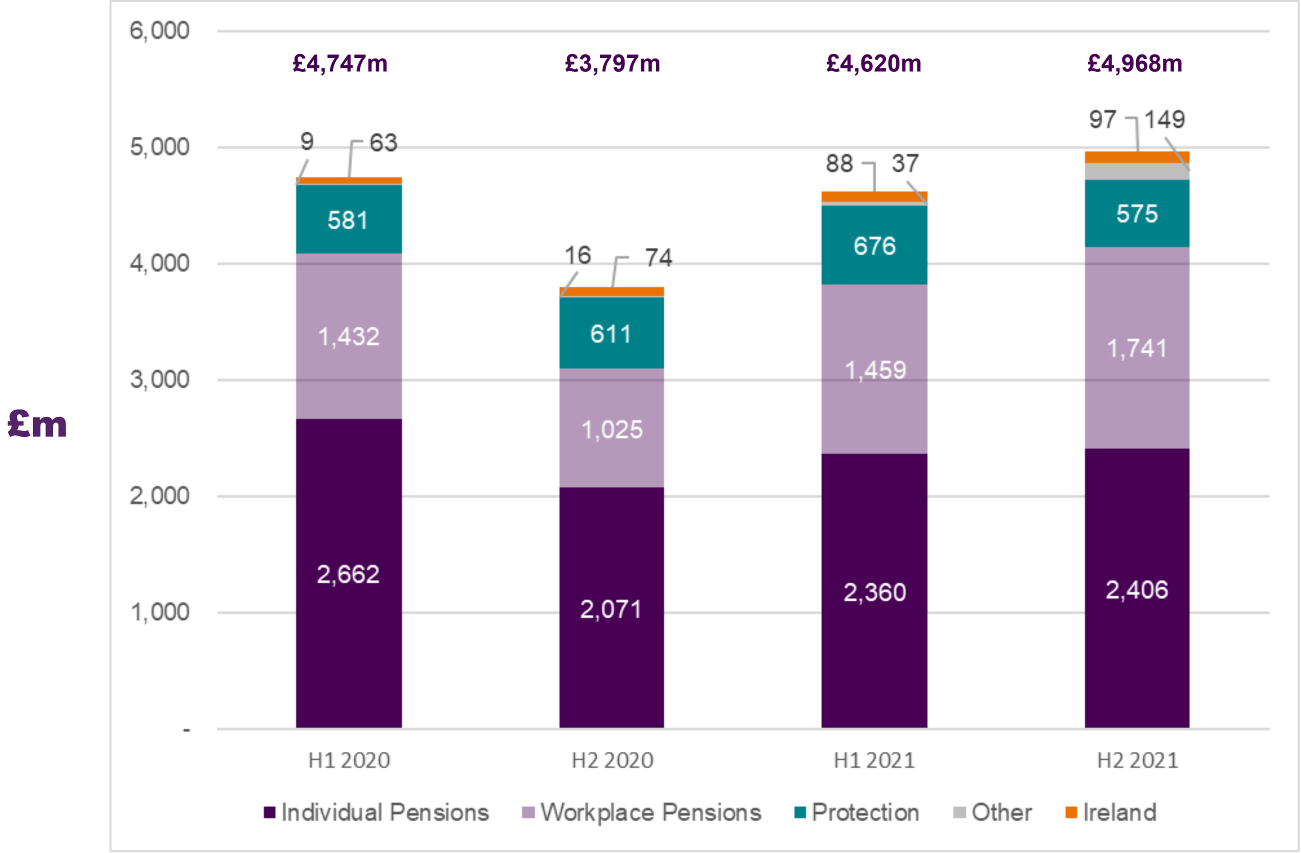
Appendix 2 – Life and pensions new business



Metrics are defined on page 20

Appendix 3 – Capital sensitivities

Scenario	Solvency II Investor View Sensitivities: Capital cover ratio (%)	Solvency II Investor View Sensitivities: Impact on solvency surplus (£bn)	Solvency II Regulatory View Sensitivities: Capital cover ratio (%)	Solvency II Regulatory View Sensitivities: Impact on solvency surplus (£bn)
Base: 31 December 2021	**216%**	**2.8**	**173%**	**2.8**
25% decrease in equity investments	-8%	-0.3	-7%	-0.3
15% decrease in property prices	-4%	-0.1	-3%	-0.1
100bps rise in interest rates	-1%	-0.1	+13%	-0.1
100bps fall in interest rates	-6%	0.0	-17%	0.0
25bps increase in government bond yields	-2%	0.0	-1%	0.0
200bps widening in credit spreads	+10%	+0.2	+12%	+0.2
15% fall in GBP exchange rates	+1%	+0.1	+1%	+0.1

Sensitivities are estimated. Scenarios are explained on page 20

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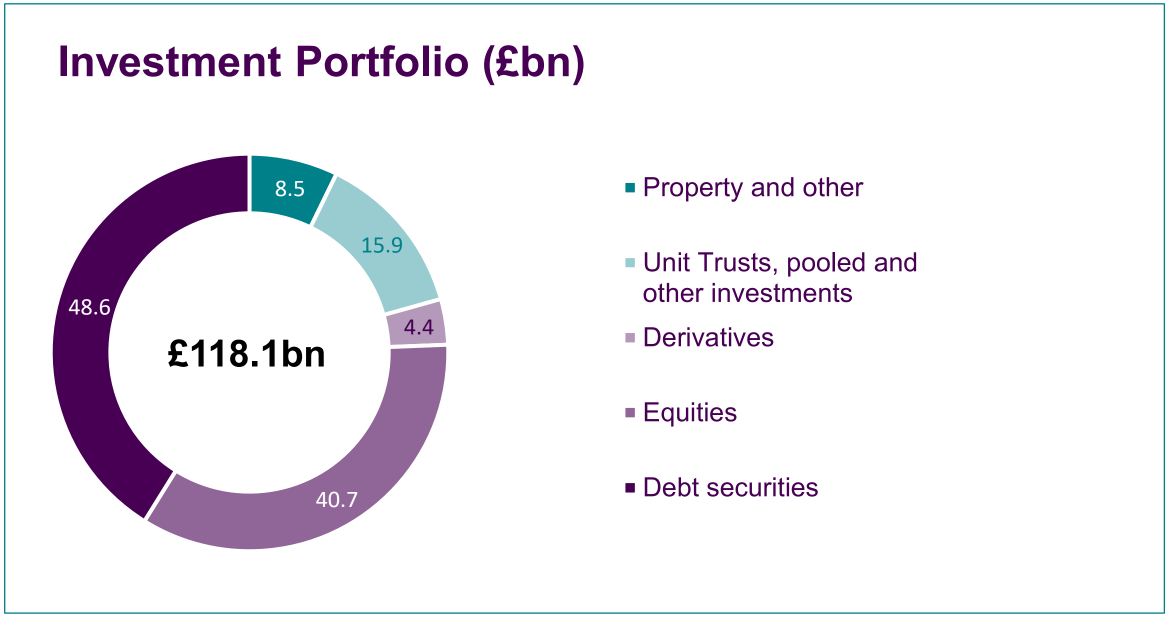
Appendix 4 – Investment portfolio

- Maintained a significant proportion of highly-rated assets:
  - **85%** (A rated or better non-linked debt securities).
  - **71%** (A rated or better non-linked corporate bonds).
  - Diversified investment portfolio.



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Footnotes

1. The information in this announcement relates to The Royal London Mutual Insurance Society Limited ('RLMIS' or 'the Company'), and its subsidiary undertakings, together referred to as 'Royal London' or 'the Group'.
2. Operating profit before tax represents profit (transfer to fund for future appropriations before other comprehensive income) excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers and acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore operating profit represents the result of the RL Main Fund.
3. Profit before tax represents the statutory 'Profit before tax and before transfer to the fund for future appropriations' in the consolidated statement of comprehensive income.
4. Life and pensions new business sales represent life and pensions business only and exclude Asset Management and other lines of business. Sales are presented as the Present Value of New Business Premiums (PVNBP), which is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the year. The rate used to discount the cash flows in the reported results has been derived from the opening swap curve at 31 December 2020.
5. Gross and net inflows incorporate flows into Royal London Asset Management (RLAM) from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, non-linked Protection business is not included.
6. Assets under management (AUM) represent the total of assets actively managed by the Group, including funds managed on behalf of third parties.
7. The 'Regulatory View' solvency surplus and capital cover ratio restricts each closed funds' surplus to the value of the Solvency Capital Requirement (SCR) of that fund. The 'Investor View' equals the Royal London Main Fund capital position (excluding ring-fenced funds, which are run on a standalone basis).
8. All capital figures are stated on a Group Partial Internal Model basis.
9. Investment performance has been calculated using a weighted average of active assets under management. Benchmarks differ by fund and reflect their mix of assets to ensure direct comparison. Passive funds are excluded from this calculation as, whilst they have a place as part of a balanced portfolio, Royal London believes in the long-term value added by active management.
10. Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was last formally recalculated at 31 December 2021. The economic sensitivities presented reflect 1-in-20-year events. For equity and interest rate sensitivities, these stresses are consistent with the PRA's SS7/17: Solvency II: Data collection of market risk sensitivities, which is available at bankofengland.co.uk/pra/Documents/publications/ss/2017/ss717.pdf
11. Interest rate sensitivities assume that government and other bond yields and risk-free rates all move by the same amount. Interest rates are allowed to be negative.
12. The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Volatility Adjustment has been reassessed in the stressed scenario.
13. The widening in credit spreads stress assumes a widening in all ratings and an associated increase in the discount rate for the Royal London Group Pension Scheme and Liver pension schemes at 25% of the asset spread stress. The Volatility Adjustment has been reassessed in the stressed scenario.
14. The fall in GBP exchange rates stress assumes an increase to the value of assets held in currencies other than GBP by 15% in GBP terms.
15. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.

FORWARD-LOOKING STATEMENTS

This document should be read in conjunction with Royal London's 2021 Results Announcement, which can be found at:

http://www.royallondon.com/about/media/news/

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