Financial results 2022

Using mutuality for good

8 March 2023

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Financial results 2022

Agenda

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

Financial results 2022

Overview

New business sales	Operating profit	Capital Cover Ratio[1]
+12%	**+58%**	**213%** (2021: 216%)

Governed Range AUM	Increase in long-standing customers' policy values[2]	ProfitShare[3]
£53bn (2021: £51bn)	**£675m**	**£155m** (2021: £169m)

1. Investor view basis
2. Total increase to long-standing customers' policy values over the last two years as a result of our closed with-profits fund consolidation programme
3. ProfitShare allocation rates maintained with the reduction primarily attributable to market movements in eligible policies

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Business unit highlights

UK

- Workplace Pensions new business sales up 29%
- 10% increase in Individual Pensions new business sales
- Governed Range net inflows of £3.4 billion
- Continued focus on enhancing digital services
- Completed major business simplification programme

Asset Management

- Positive external net inflows of £1.7bn
- Strong performance of actively managed funds over three years
- Launched two new sustainable fund offerings
- Engaged with 40 of our highest carbon emitting investee companies
- Investment in capabilities and systems supporting long-term growth

Ireland

- Record level of Protection new business sales of £198m
- 30.2% share of Irish intermediated protection market[1]
- Continued improvements to Protection propositions and services
- Individual Pensions products launched in Q4

1. Royal London analysis of market data as at Q3 2022

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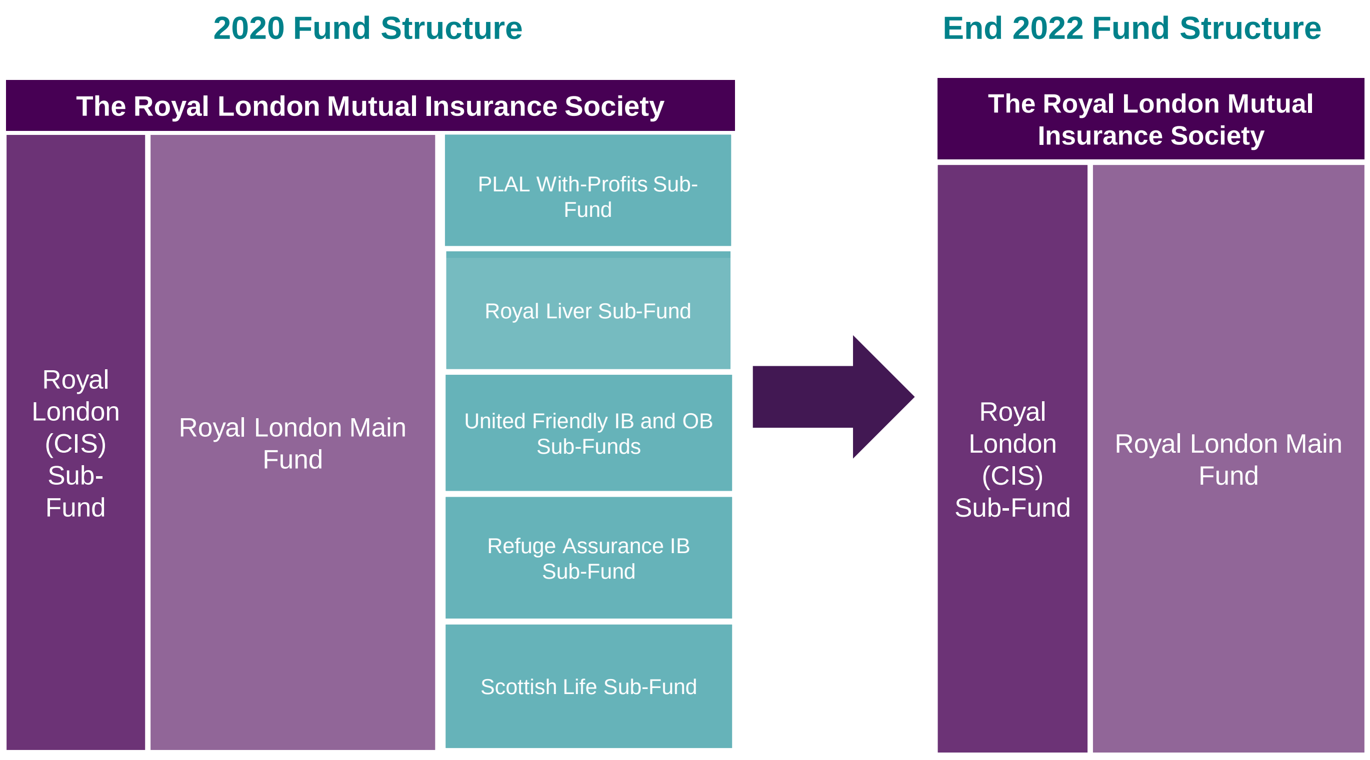
Simplification programme completed



- £675m increase in value of long-standing customers' policies through the consolidation of closed with-profits funds
- Migration of 1.1 million policies onto new technology in 2022, with over 4 million policies transferred since 2020

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Financial highlights

		FY 2022	FY 2021	Change
UK GAAP	Operating profit before tax	**£210m**	£133m	+£77m
	Transfer (from) / to FFA	**(£162m)**	£79m	-£241m
NEW BUSINESS	Life and pensions new business sales	**£10,776m**	£9,588m	+£1,188m
INFLOWS	Gross inflows	**£26,647m**	£26,432m	+£215m
	Net inflows	**£3,718m**	£5,287m	-£1,569m

		FY 2022	FY 2021	Change
FUNDS	Assets under management	**£147bn**	£164bn	-£17bn
CAPITAL	Regulatory View solvency surplus	**£2.5bn**	£2.8bn	-£0.3bn
	Regulatory View capital cover ratio	**206%**	173%	+33%
	Investor View solvency surplus	**£2.5bn**	£2.8bn	-£0.3bn
	Investor View capital cover ratio	**213%**	216%	-3%

- The financial results of the Group are prepared under UK GAAP and are therefore not subject to the implementation of IFRS 17

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Metrics are defined on page 20

Life and pensions new business

	New business sales	YoY change	New business margin
Individual pensions	£5,219m (FY21: £4,766m)		1.6% (FY21: 1.6%)
Workplace pensions	£4,114m (FY21: £3,200m)		1.0% (FY21: 0.9%)
Protection	£1,037m (FY21: £1,251m)		1.1% (FY21: 3.1%)
Annuities and Other	£203m (FY21: £186m)		4.5% (FY21: -0.1%)
UK	**£10,573m** (FY21: £9,403m)	**+12%**	**1.4%** (FY21: 1.6%)
Ireland	**£203m** (FY21: £185m)	**+10%**	**8.5%** (FY21: 9.2%)
Life and pensions new business	**£10,776m** (FY21: £9,588m)	**+12%**	**1.5%** (FY21: 1.7%)

- Individual and Workplace pensions new business sales up 17%
- UK Protection volumes down 17% as a result of increasing competition in a broadly flat market
- Annuities volumes reflect a full year of sales following launch in 2021
- Ireland recorded highest ever level of new business sales

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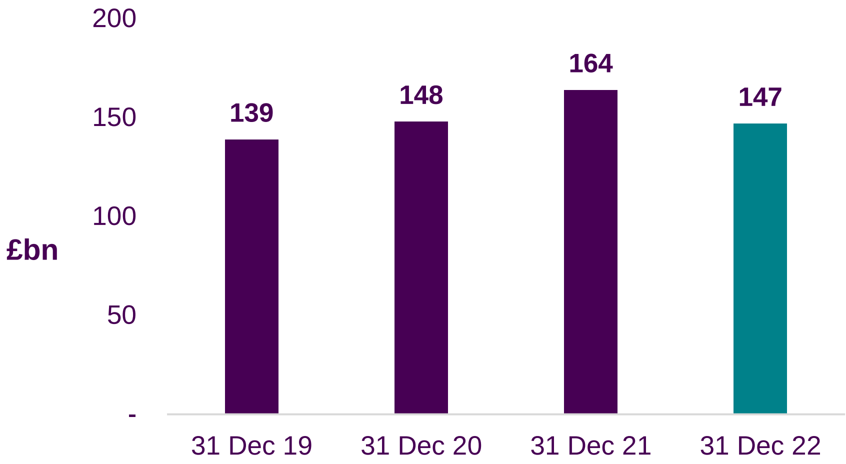
Metrics are defined on page 20

Assets under management

AUM



Flows

	Gross inflows		Net inflows	
£m	FY22	FY21	FY22	FY21
Internal flows	9,543	8,522	2,009	915
External flows	17,104	17,910	1,709	4,372
Total	26,647	26,432	3,718	5,287

- AUM reduced to £147bn, impacted by falls in asset values
- Net inflows of £3.7bn, despite cash outflows from LDI portfolios managed by other institutions
- Continued demand for Governed Range and Global Equity strategies

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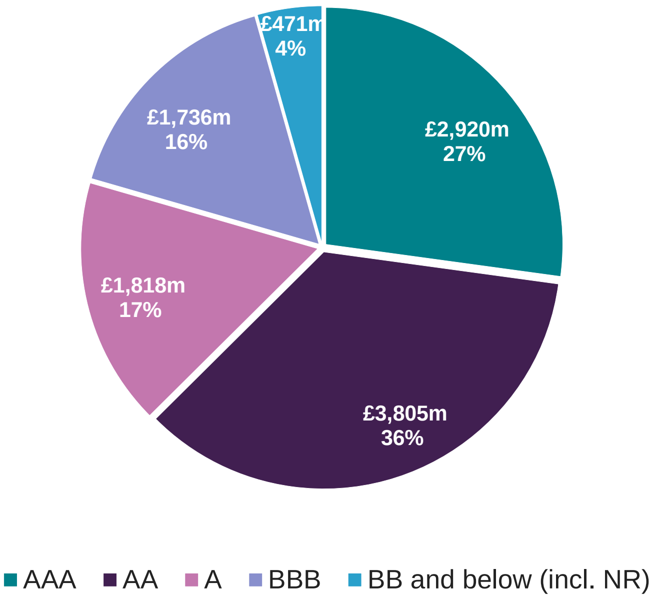
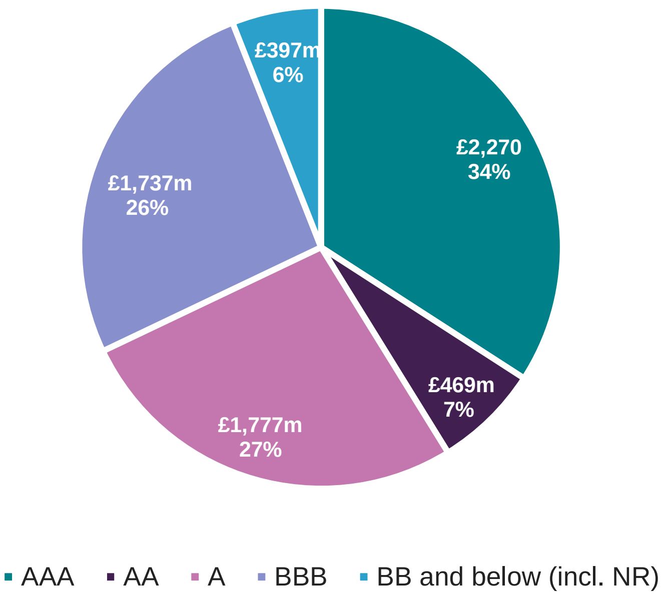
Metrics are defined on page 20

Balance sheet – investment portfolio

Non-linked debt security portfolio:
31 December 2022



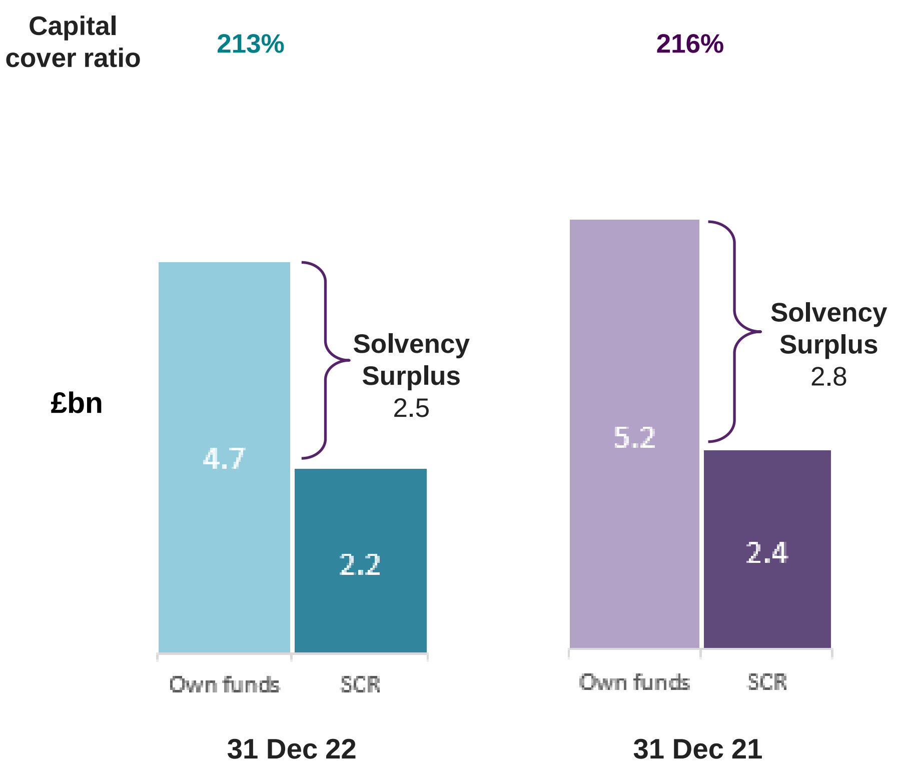
Non-linked corporate bonds:
31 December 2022



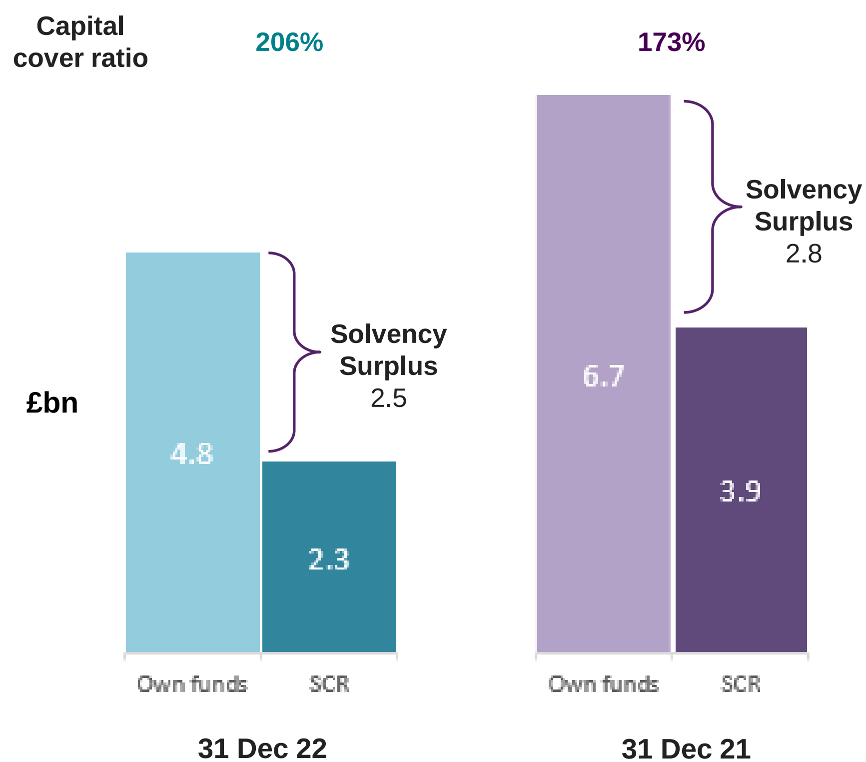
- Investment portfolio decreased to **£104.4bn** (31 Dec 21: £118.1bn)
- Continued to maintain a highly-rated, well diversified investment portfolio
- No significant defaults in our corporate bond portfolio

Capital

Investor View



Regulatory View



- Robust capital position maintained despite market volatility
- Investor View capital ratio stable with our hedging programmes operating as intended
- Increase in Regulatory View capital ratio reflects higher yields, resulting in lower closed fund capital requirements

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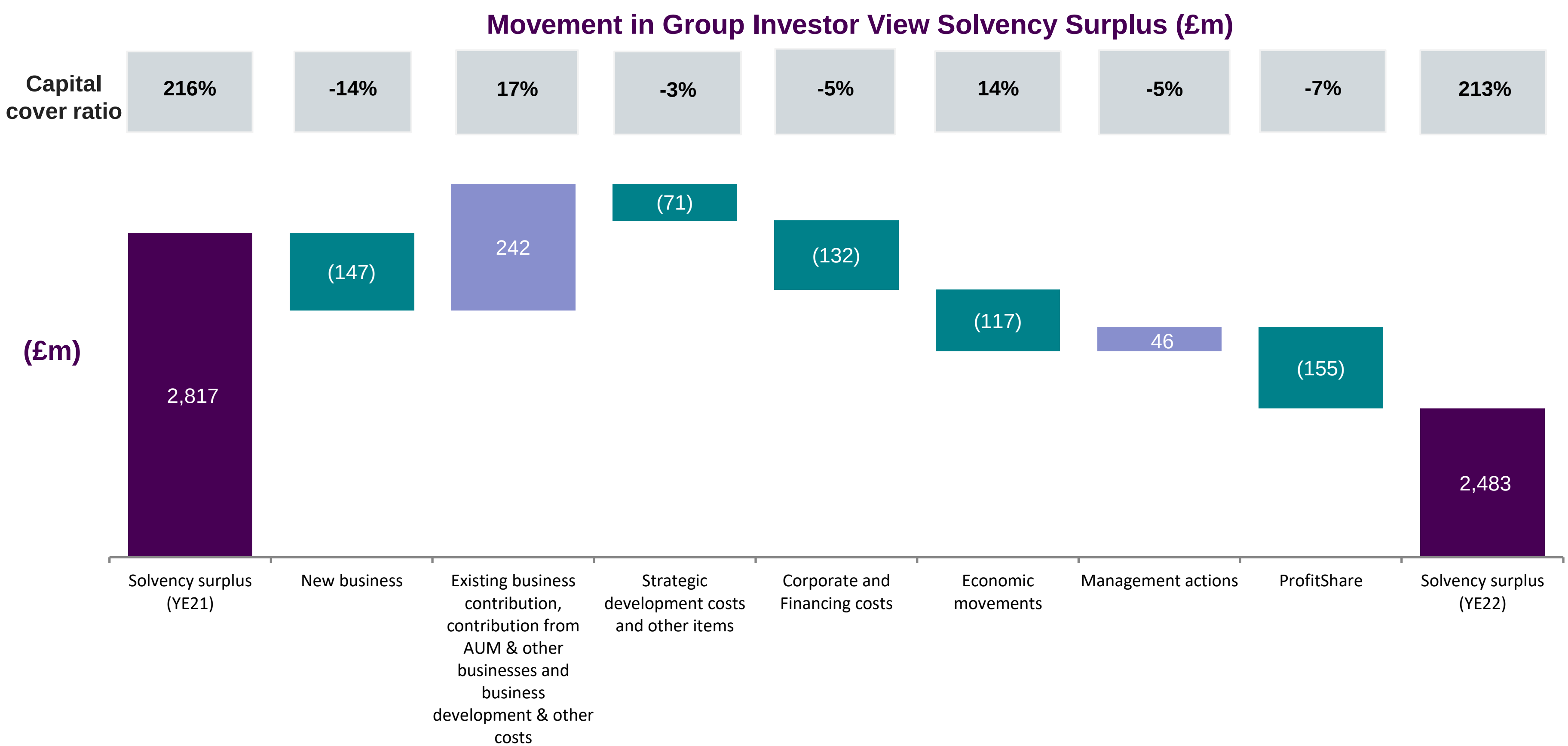
Metrics are defined on page 20

Capital – Group Investor view



- Management actions include the consolidation of a further two closed funds into the RL Main fund

Financial results 2022

Summary

- **Increase in new business sales** driven primarily by Individual and Workplace Pensions
- Significant **increase in operating profit** driven by:
  - Continued focus on cost control
  - Growth in the Annuity portfolio
  - Consolidation and simplification
- Launch of **Royal London Ireland's individual pension** proposition
- **Continued investment in RLAM** to build scale and support growth
- **Robust capital position** continues to enable long-term approach to decision making

Q&A

Appendix 1 – operating profit before tax

	FY 2022	FY 2021	Change	
Long-term business				
New business contribution	**£163m**	£164m	-£1m	-1%
Existing business contribution	**£181m**	£125m	+£56m	+45%
Contribution from AUM and other businesses	**£101m**	£124m	-£23m	-19%
Business development and other costs	**(£32m)**	(£37m)	+£5m	+14%
Strategic development costs	**(£71m)**	(£62m)	-£9m	-15%
Result from operating segments	**£342m**	**£314m**	**+£28m**	**+9%**
Corporate costs	**(£57m)**	(£106m)	+£49m	+46%
Financing costs	**(£75m)**	(£75m)	-	-
Group operating profit before tax	**£210m**	**£133m**	**+£77m**	**+58%**

Metrics are defined on page 20

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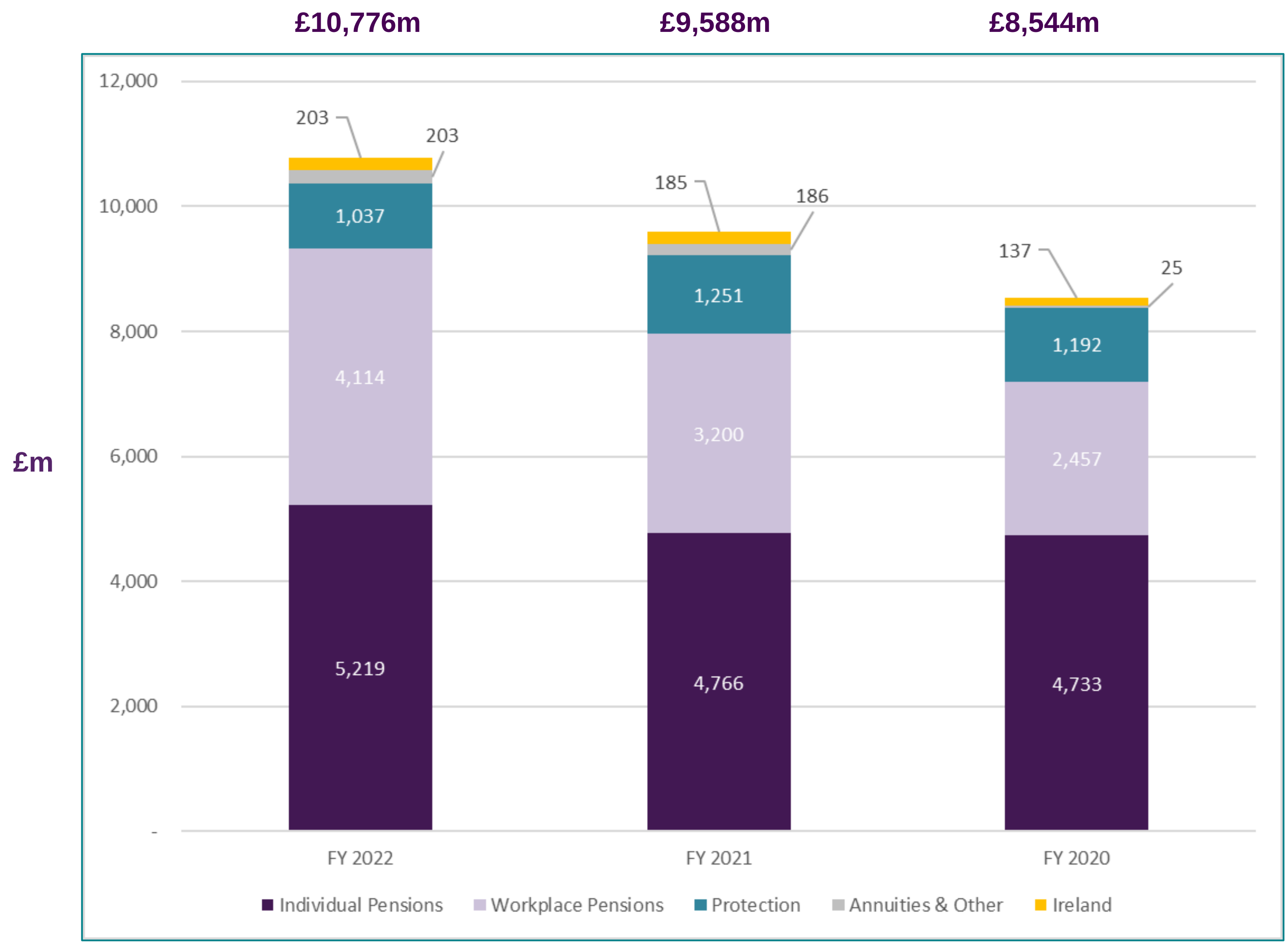
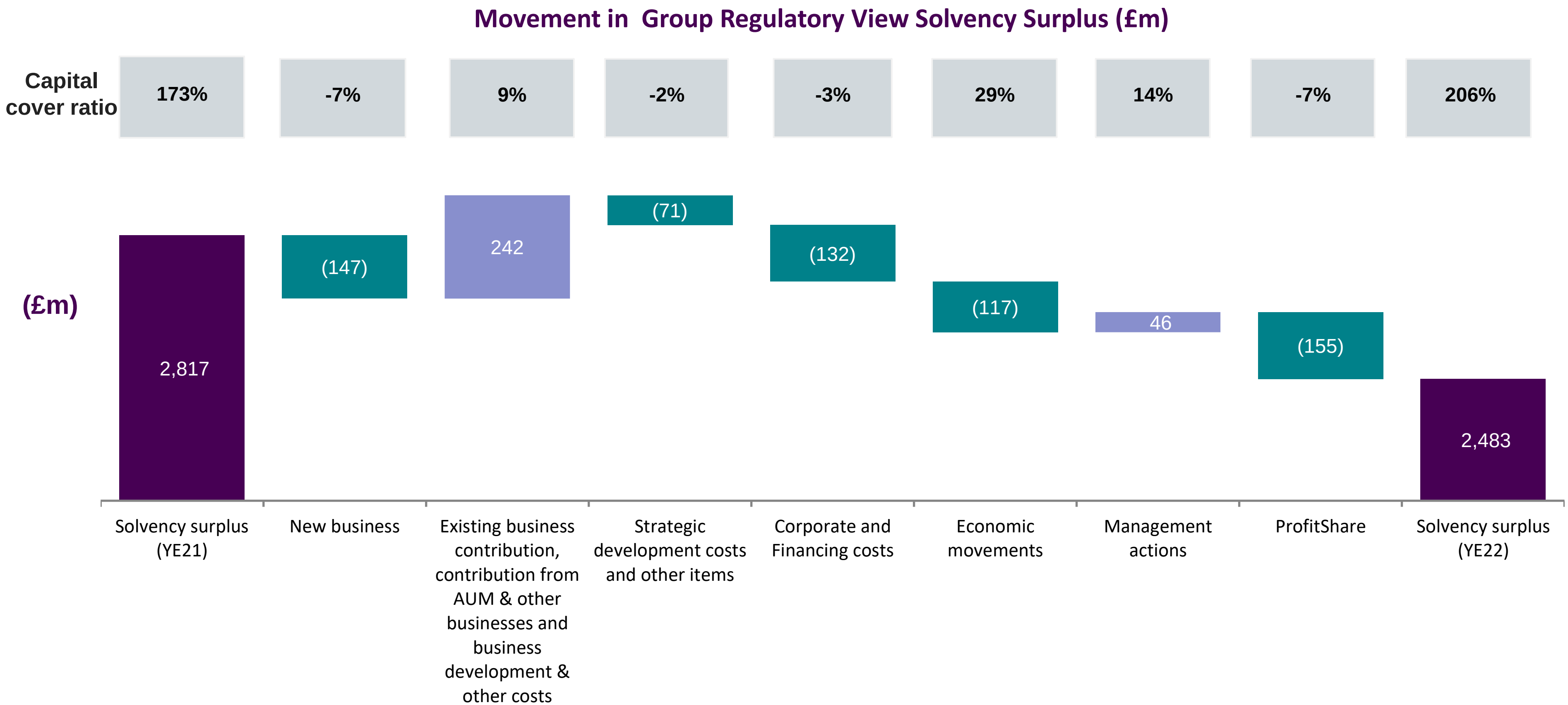
Appendix 2 – life and pensions new business



Metrics are defined on page 20

Appendix 3 – Capital Group Regulatory view



- Significant increases in yields have reduced capital requirements of the closed funds, particularly in relation to the capital requirements for guaranteed annuity options

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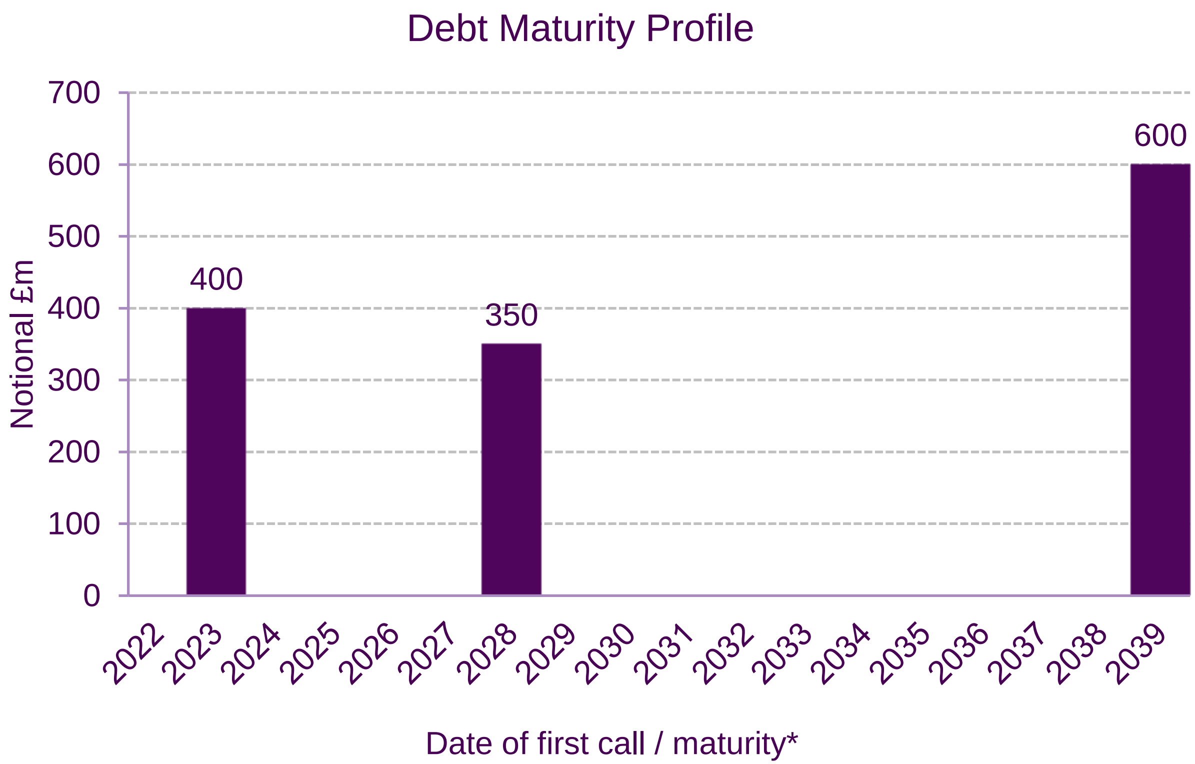
Appendix 4 – Capital sensitivities

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 2022	**213%**	**2.5**	**206%**	**2.5**
25% decrease in equity investments	+4%	-0.2	+2%	-0.2
15% decrease in property prices	-3%	-0.1	-3%	-0.1
100bps rise in interest rates	0%	-0.1	+6%	-0.1
100bps fall in interest rates	+1%	+0.2	-10%	+0.2
25bps increase in government bond yields	-2%	0.0	-1%	0.0
200bps widening in credit spreads	+3%	-0.1	+9%	-0.1
15% fall in GBP exchange rates	+1%	+0.1	+2%	+0.1

Sensitivities are estimated. Scenarios are explained on page 20

Appendix 5 - Debt profile YE22



Issue Date	Size	SII Classification	Coupon	First Call / Maturity*	Rating (Moody's / S&P)
Nov 2013	£400m	Tier 2	6.125%	Nov 2023	Baa1 / BBB
Nov 2015	£350m	Tier 2	6.125%	Nov 2028*	Baa1 / BBB
Oct 2019	£600m	Tier 2	4.875%	Apr 2039	Baa1 / BBB

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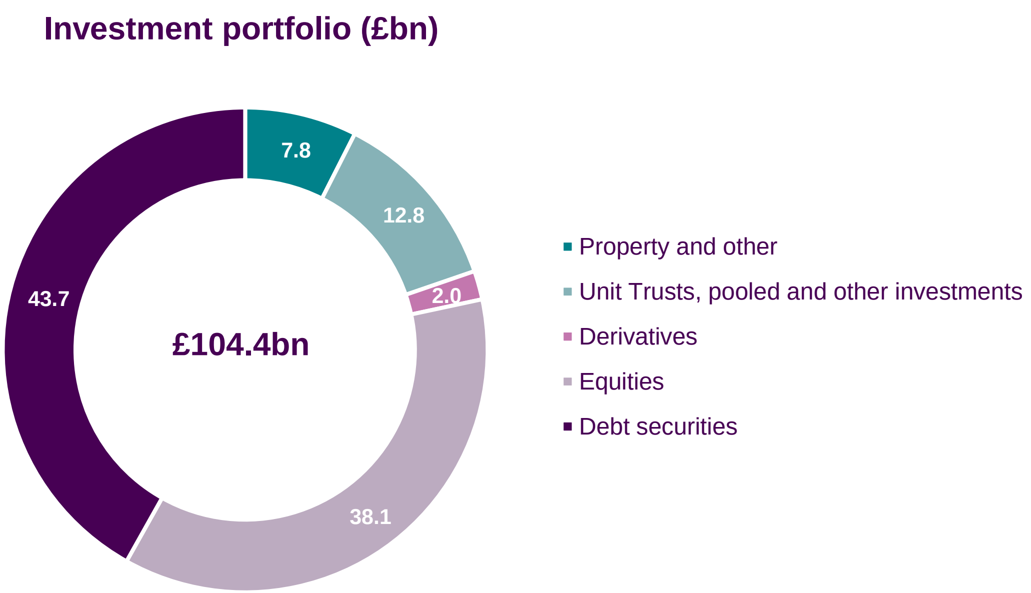
Appendix 6 – investment portfolio



- **80%** (A rated or better non-linked debt securities)
- **68%** (A rated or better non-linked corporate bonds)
- Diversified investment portfolio

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. The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with relevant financial reporting frameworks such as UK GAAP or Solvency II. These measures are known as alternative performance measures (APMs) and include Operating profit before tax. APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.
3. ProfitShare is a discretionary enhancement to eligible customers with unit-linked or with-profits policies. The allocation is considered annually and depends on a number of factors including financial performance, capital position, the risks and volatility of financial markets and the Group's outlook.
4. Investment performance has been calculated using a weighted average of active assets under management for funds with a defined external benchmark. 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.
5. Operating profit before tax represents profit/(loss) before transfer to/(from) the fund for future appropriations excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers and acquisitions; ProfitShare; ValueShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits/losses arising within the closed funds are held within the respective closed fund surplus; therefore operating profit represents the result of the Royal London Main Fund (RL Main Fund).
6. Transfer (from)/to the fund for future appropriations represents the statutory UK GAAP measure '(Deduction from)/transfer to the fund for future appropriations' in the technical account within the consolidated statement of comprehensive income
7. Life and pensions new business sales represent life and pensions business only and excludes Asset Management and other lines of business. New business sales are presented as the Present Value of New Business Premiums (PVNBP), which is the total of new single premium sales received in the period 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 period. The rate used to discount the cash flows in the reported results has been derived from the swap curve at 31 December 2021 for all new business except annuities, where instead the swap rate at the end of each prior month is used to discount the next month's new business cashflows.
8. Gross and net inflows incorporate flows into RLAM from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions paid (net of reinsurance). Given its nature, non-linked Protection business is not included.
9. Assets under management (AUM) represent the total of assets managed by the Group, including funds managed on behalf of third parties.
10. The capital cover ratio is calculated as the Group's Own Funds, being the regulatory capital under Solvency II, divided by the Solvency Capital Requirement (SCR). The 'Regulatory View' solvency surplus and capital cover ratio restricts each closed funds' surplus to the value of the SCR of that fund. The 'Investor View' equals the RL Main Fund capital position (excluding ring-fenced funds, which are run on a standalone basis). All capital figures are stated on a Group Partial Internal Model basis, and the 2022 figure is estimated.
11. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.
12. Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was last formally recalculated at 31 December 2022. The sensitivities do not include any subsequent rebalancing of the asset portfolio.
13. 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.
14. The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Volatility Adjustment has been reassessed in the stressed scenario.
15. 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 Royal Liver pension schemes at 25% of the asset spread stress. The Volatility Adjustment has been reassessed in the stressed scenario.
16. 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.

Forward-looking statements

This document should be read in conjunction with Royal London's 2022 Results Announcement, which can be found at:

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

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