

Using mutuality for good

Annual Report
and Accounts 2022



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Financial highlights

Operating profit before tax¹

£210m

(2021: £133m)

Transfer (from)/to the fund for future appropriations²

£(162)m

(2021: £79m)

Assets under management

£147bn

(2021: £164bn)

Investor View capital cover ratio³

213%

(2021: 216%)

Operational highlights

Total number of members

2.0m

(2021: 1.8m)

Total number of policies held⁴

8.7m

(2021: 8.8m)

Employee engagement score⁵

80%

(2021: 79%)

Total charitable contributions in the UK and Ireland

£1.8m

(2021: £1.1m)

Customer Brand Love⁶

68%

(2021: 68%)

Protection claims paid out

£631m

(2021: £596m)

Read more about our key performance indicators (KPIs) in the 'Measuring our performance' section on pages 14 and 15, and see page 202 for further details of our alternative performance measures (APMs).

1. 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 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 or 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).
2. 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.
3. 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 'Investor View' equals the RL Main Fund capital position (excluding ring-fenced funds, which are run on a standalone basis). The 'Regulatory View' solvency surplus and capital cover ratio, disclosed on page 50, exclude the closed funds' surplus as a restriction to Own Funds. All capital figures are stated on a Group Partial Internal Model basis and the 2022 figure is estimated.
4. Excludes general insurance policies where Royal London acts as an intermediary via a subsidiary company and policies held as part of a discretionary healthcare scheme via a subsidiary company.
5. Employee engagement score is assessed via a colleague survey with six core index questions linked to colleague loyalty, satisfaction, and belief in Royal London.
6. Customer Brand Love is our measurement of customer sentiment towards our brand and is assessed via an in-house customer relationship study.

Mutually responsible

Royal London is a purpose-driven mutual.

Our Purpose, 'Protecting today, investing in tomorrow. Together we are mutually responsible', defines the impact we want to have. It shapes what we do on behalf of our members and customers, financial advisers, our colleagues and the communities in which we operate.

We offer protection, long-term savings and asset management products and solutions in the UK and Ireland. Using our position as the UK's largest life, pensions and investment mutual looking after 8.7 million policyholders, entrusted to manage £147bn of their assets, we help build financial resilience while championing how we move fairly to a sustainable society.

As a proud, committed and modern mutual, we take a longer-term view, ensuring we deliver positive, enduring change on behalf of our members and customers and their families, helping to protect the standard of living for this and future generations.

You can read more about our Purpose and strategy on pages 10 to 13 and on our website.

Harnessing the mutual mindset

We are strong advocates for the role that mutuals play not only in financial services but also in wider society. Mutuality is a highly effective model for a business whose role is to pool and manage financial risks and returns across generations. It defines who we are, influences how we operate, our decision making and ability to make a real-world impact in the interests of all our stakeholders.

Mutuality is more than a business model, it is a mindset.



Over £1.5bn

ProfitShare shared with eligible customers since it was established in 2007

99.4%

of Protection claims paid in 2022

“I like Royal London’s mutuality. And it’s not just the ProfitShare but the way we are part of the company effectively. I get the impression and feeling you want to look after everybody and that goes a long way. And we’ll tell our children who we’re invested with and why.”

Alan, a Royal London member from York who attended our 2022 Annual General Meeting.

The vast majority of eligible customers are also members and directly benefit from sharing in the returns we generate. That is only possible because we are a mutual.

“I do not know honestly where we would be without our protection plans. I’ve always hoped in my heart that if we ever needed to claim that they’d be there for us when we needed them the most. And do you know what – they were. And Royal London had this Helping Hand service, which gave the kids counselling, which was amazingly helpful for them.”

Liz, a Royal London Protection customer who was diagnosed with a brain tumour in 2021.

Helping Hand is a free-to-use service available to many of our Protection customers. It provides access to a range of services during a significant life shock and access to early care medical services, so customers can seek advice on health issues.



“With our combined commitment to making sure people can survive the impact of a life-changing event, we are well placed to bring about meaningful change.”

Thomas Lawson, Chief Executive, Turn2us. Turn2us is our social impact charity partner which helps people in financial crisis build resilience.



Over £2m¹

in support of charities and social enterprises across the UK and Ireland in 2022

83%

of colleagues tell us they feel proud to work for Royal London

Over 9,000

financial advisers we work in partnership with

“Ever since day one, I felt Royal London was a bit different. The atmosphere and people are great and genuinely purpose-driven businesses like us are massively important.”

Tom, Impact Investment Analyst, who joined Royal London Asset Management (RLAM) in 2020.

We are committed to supporting our colleagues' financial resilience through education and support. In October 2022 we increased the salaries of employees who were paid £40,000 or less (on a full-time equivalent basis) by £1,000 to help them with the challenges of the increased cost of living.

“I think Royal London's mutual status is a huge strength. In the current climate, the 'shareholder first' approach really doesn't sit well with many clients and they feel that a mutual is something they would prefer to buy into.”

An independent financial adviser, a regular user of Royal London for individual pensions and drawdown, responding to an anonymous survey.

Customers who participated in our Value of Advice survey told us how advice makes them feel better about their money, themselves and their future – with 34% of people saying access to financial expertise made them feel more confident in their financial plans.

1. We donated over £1.8 million directly to charities and social enterprises and funded an additional £0.3 million to support related activities

Strength through challenging conditions

“As a mutual, our focus can be solely on our members’ and customers’ interests.”

Kevin Parry OBE
Chairman



We continue to face challenging times. The past year has been dominated by global disorder from humanitarian and geopolitical crises which, alongside the lingering effects of the pandemic, has had a profound impact on the domestic socioeconomic landscape.

Customers in the UK and Ireland are having to adjust to higher costs of living as a result of energy supply shortages arising from trade sanctions imposed on Russia. Whilst the consequential increases in energy costs, food prices and interest payments are, to an extent, being offset by governmental fuel rebates and by salary and pension increases, the heightened inflationary pressures are causing a significant squeeze on household budgets. The economic fallout cannot be underestimated, with rising interest rates, and inflation reaching the highest it has been for over 40 years.

Our standard of living is shaped by our finances and our environment. The role of any business should be to support a thriving society, as well as providing goods and services.

At Royal London, our members and customers are at the heart of everything we do, and we are focused on helping them protect their standard of living, both in these uncertain times, and in the future.

As a mutual, our focus can be solely on our members’ and customers’ interests. This overriding principle has enabled us to focus on the long-term horizon in difficult market conditions.

Mutuality remains as relevant now as it was when Royal London was established in 1861 and, as a result of the long-term decisions we have taken, we continue to be well positioned to cope with different external pressures.

Responsible investment

Royal London has championed sustainability and responsible investment for over three decades. We manage our customers’ money responsibly, by influencing the businesses we invest in to adopt practices that deliver returns for our customers, while having a positive impact on the world around us.

As active asset owners, we believe we must link environmental and social good to deliver impact. We champion a Just Transition to ensure our actions support an inclusive economy, are socially responsible and avoid exacerbating existing injustices or creating new ones.

We have leveraged our position as one of the UK’s largest asset managers by engaging with companies and using our votes at Annual General Meetings to express our views.

By holding to account the companies in which we invest, we can influence change, and we view this as a key part of being both an active manager and a good steward of our customers’ assets.

We have continued to focus on our commitments to reduce carbon equivalent emissions from our investment portfolio, engaging with companies responsible for the highest emissions as well as industry peers and policymakers on the key issues, while developing solutions that allow customers to invest in the low-carbon transition.

Our ambitions are aligned to achieving the goal of the Paris Agreement and we urge governments and policymakers to deliver on these commitments. To meet the challenges ahead of all of us, nations (manifested by their governments), businesses and individuals all need to act. The world needs to execute medium and long-term strategies to reduce carbon and other greenhouse gas emissions whilst also adopting short-term strategies that can have immediate beneficial impacts.

Social responsibility

As we confront the increases in living costs, individuals need access to support and financial guidance. We are strong advocates of the benefits of impartial financial advice and you can read more about how we work with financial advisers in the Stakeholder section on pages 16 to 21.

I am also proud of our work alongside our expert partners to support people in moments of crisis, and to drive social innovations to tackle some of society's biggest challenges.

We are acutely aware that many in the UK and Ireland have been under-saving for later life for a number of years and, as a result of the current economic environment, their situation could become more challenging than they were expecting. Over 2022, we have continued to work with policymakers to stress the importance of developing a long-term plan for building on the success of automatic enrolment, ensuring that more people can access and save into a Workplace Pension.

In 2022 a range of charitable and social impact initiatives benefited from over £2m¹ in donations and support, the equivalent of 1% of our operating profit. This included a donation of £250,000 to the British Red Cross Crisis Appeal in Ukraine and £214,000 to our social impact flagship partnership with national charity Turn2us, supporting individuals and their families to access funding and guidance.

In February 2023 we made a donation of £100,000 to the Disasters Emergency Committee's Turkey-Syria Earthquake Appeal to aid its efforts on the ground supporting those impacted by the devastating earthquake in the region.

The Board also decided to broaden our charitable giving to organisations that seek to prevent the onset and limit the impact of serious illnesses. Our protection policies help families that experience these kinds of life shocks but we would all prefer to see fewer families suffer from the onset of a critical illness. As such, we made a donation of £700,000 in 2022 to Cancer Research UK to support its efforts in saving lives and we will be looking at additional opportunities to work more closely with them over the coming year.

After eight years in partnership with the England and Wales Cricket Board, our sponsorship came to an end. The long-standing partnership had seen significant strides made to make the sport more accessible and diverse, from the launch of professional contracts for the England Women's team to the expansion of the ACE (Afro-Caribbean Engagement) Programme. You can read about our partnerships on page 21 of the Strategic report.

ProfitShare

Our ability to share profits with eligible customers is only possible because we are a mutual. Our aim is to award ProfitShare every year, to support and reward eligible customers so they can share in our success.

I am delighted to confirm we have maintained our allocation rates from last year with eligible customers receiving ProfitShare for the seventh year in a row, demonstrating Royal London's consistent approach. Our continued strength means that in 2022 we have awarded £155m to eligible customers.

1. We donated over £1.8 million directly to charities and social enterprises and funded an additional £0.3 million to support related activities.

Our Board

As you would expect, we hold ourselves to the highest standards of corporate governance, and ensure our Board possesses a highly relevant but also highly diverse background, experience and skillset. We are also committed to engaging with our key stakeholders throughout the year to understand their views and perspectives.

The Board and I were delighted to welcome members back in person to our Annual General Meeting in London in June. The meeting attracted some challenging questions for the Board on a range of topics allowing us to talk to members on some of our key areas of focus, including how we influence the companies in which we invest.

On a quarterly basis the Board also holds Q&A sessions which all Royal London colleagues are invited to attend. These interactive sessions allow us to gain a better understanding of their perspectives, as well as sharing the Board's priorities.

In 2022, Tracey Graham stepped down from Royal London's Board after nine years, the maximum tenure for an independent non-executive director. She has made a significant contribution to our ongoing success, including serving as Chair of the Remuneration Committee and as a member of the Investment Committee, Nominations and Governance Committee and Risk and Capital Committee. Jane Guyett CBE succeeded Tracey as Chair of the Remuneration Committee. She brings extensive knowledge of financial markets and vast experience of corporate governance.

Shirley Garrood, who also chairs Royal London Asset Management Holdings Limited and Royal London Asset Management Limited, will be standing down from the Board and her subsidiary directorships at the end of the 2023 AGM in June. Following the AGM, it is anticipated that Pars Purewal who was appointed to the Board in February 2023 will succeed Shirley as Chair of the asset management subsidiaries.

On behalf of the Board, I would like to thank Tracey and Shirley, for their service and dedication and wish them well for the future.

Outlook

Inflation is likely to take some time to reduce to sustainable levels. Consequently, it will be difficult for people to maintain their standards of living. We will continue to champion and work in partnership with independent financial advisers to deliver positive outcomes to customers.

As a custodian of substantial funds, we are playing our part in moving fairly to a sustainable world. We believe investing is about much more than just generating returns.

We are committed to remaining a mutual and, as the UK's largest life, pensions and investment mutual, we will use our mutuality for good. I am confident Royal London will continue to prosper.

I would like to thank all our colleagues for their hard work again over the past year. They have each played their part in contributing to our Purpose for the benefit of our members and customers, and broader society.



Kevin Parry OBE
Chairman

7 March 2023

Making an impact through our Purpose

“Clarity of purpose ensures we are very deliberate about the role we will play.”

Barry O'Dwyer
Group Chief Executive



Our mutual status helps us to be genuinely purpose-driven. Since it was conceived in 2020, the articulation of our Purpose – ‘Protecting today, investing in tomorrow. Together we are mutually responsible’ – has truly galvanised our colleagues. It has allowed us to successfully navigate short-term challenges, while focusing on the long term.

Clarity of purpose ensures we are very deliberate about the role we will play and the difference we intend to make for the benefit of our members and customers, and wider society.

While our Purpose determines our direction, our strategy to deliver it is to be an insight-led modern mutual, growing sustainably by deepening customer relationships. This means we will use the information our customers share with us to help them build their financial resilience in a sustainable way.

Sustainability is a key part of our strategy. First and foremost, we want to help customers to maximise their financial security but we also want to help them build the best possible world to retire into. This is a complex area but we want to use our customers' collective strength to best effect, influencing positive change in the companies where we invest their money and using our voice as the UK's largest mutual insurance group to lobby policymakers for societal change.

We also want Royal London to be financially sustainable. That means being careful stewards of our capital, investing sufficiently to make sure our products and services remain competitive, managing our costs carefully to generate the best possible value-for-money and sharing the benefits of our success with eligible members via ProfitShare.

You can read more about our Purpose outcomes and what we have achieved on pages 12 and 13.

Insight-led

In times of considerable uncertainty, the value of impartial advice and guidance is clear and so is having a deep understanding of the needs of customers, a central component of our strategy. In 2022 we began a new research series to gain better insight into how people are coping with pressures on their finances and to help us shape how we support our customers. As a result, we introduced a dedicated cost of living hub with information to help people navigate the challenges they are facing.

More generally, we use what we know about our customers to help them build the financial resilience they need to thrive in an ageing society. We are focused on helping customers accumulate the wealth required to retire well. We can protect them and their families against life shocks along the way.

As well as supporting our customers, we look to benefit those in wider society through our social impact activity.

A summary of what we delivered for our members and customers, and through our social impact work, is in the Stakeholder section starting on page 16.

Our trading performance

In a difficult external economic environment, we continued to demonstrate the delivery of our strategy during 2022. We increased life and pensions new business sales by 12%, reflecting strong growth in new Workplace Pension schemes and an increased market share in Individual Pensions, however Protection sales dipped as we saw increased competition in a broadly flat market. While our total assets under management were impacted by adverse market movements, reducing to £147bn (2021: £164bn), our net inflows from customers and clients remained positive at £3.7bn (2021: £5.3bn).

We also benefitted from our continued focus on streamlining our operations and managing costs effectively and the growth in our annuity portfolio. All of these elements offset the negative impact on asset management revenues from market movements and we delivered an operating profit before tax of £210m (2021: £133m), an increase of 58%.

Our capital position remains robust with an estimated Investor View capital cover ratio of 213% as at 31 December 2022 (2021: 216%).

Enhancing our products and services

As the increased cost of living continues to create uncertainty, building customers' financial resilience is a key focus for us. Following our acquisition of Wealth Wizards in 2021, we launched a free online tool for Workplace Pension members to assess their financial wellbeing in 2022. We have continued to enhance many other digital capabilities, like updating our mobile app so Workplace Pension customers can request a transfer using a digital signature.

As we continue to attract assets and build scale, we have been able to consider increasingly complex fund structures for the benefit of customers. Over 2022, Royal London Asset Management (RLAM) has developed two tax transparent funds which launched in March 2023. The funds will underpin the US and Japanese equity components of the Governed Range and deliver a more efficient investment outcome.

RLAM launched a new Sustainable Growth Fund to capitalise on investment opportunities in companies that can have a positive influence on society and the environment. It also introduced a Sustainable Short Duration Corporate Bond Fund giving access to a variety of socially impactful sectors that are often out of reach of investors such as charities, government agencies or privately owned businesses.

Building on our heritage in Ireland, we introduced a revised brand, 'Royal London Ireland', enhancing our market visibility. We have also looked to capitalise on our strong broker relations in Ireland by introducing a value for money and competitively priced individual pension proposition, the first life company to do so in 30 years.

Through our Simplification programme we continued to move long-standing customers onto a modern IT system to improve the service we offer while reducing risk. We successfully migrated 1.1 million policies onto new technology in 2022, bringing the total number to over four million since 2020. We also consolidated a further two closed with-profits funds, simplifying their services and our corporate fund structure. This finalised a four-year consolidation programme, with long-standing customers' policy values uplifted by a total of £675m.

During 2022 we took the difficult decision to withdraw from the Over 50s life insurance market as a result of the combination of a shrinking market and the rising cost of reinsurance. We remain committed to serving our existing Over 50s customers.

This year will see the introduction of the FCA's new Consumer Duty which aims to deliver higher standards of care across the industry. Royal London will fulfil the requirements of the Duty when it is brought in and our programme of work is well underway. In addition to this, we have been working with financial advisers to ensure they understand what is required to evolve their business practices to be compliant.

Our People Commitments

We are committed to building an inclusive culture across Royal London, where our people represent the diversity of our members, customers and the communities in which we work. Our new Diversity and Inclusion (D&I) Taskforce has been a vital part of strengthening our D&I strategy over 2022. During the year, the Taskforce was integral in supporting a review to identify those areas which required additional focus, including embedding inclusion through our colleague lifecycle and the introduction of a Career Confidence programme, open to everyone but particularly focused on women and ethnic minorities. In addition, and led by colleagues, our four inclusion networks collaborate and align their activities with our central D&I action plan to maximise impact across Royal London.

We listen to and act on regular feedback from our colleagues to continue to make Royal London a great place to work. Over the past year, we have brought our Purpose to life for colleagues through face-to-face events, so they better understand how their roles help deliver our strategy.

We are committed to supporting our colleagues' wellbeing. We offer support through a range of online materials, education and webinars through to services offered via our external healthcare provider, and in October we increased the salaries of over 50% of our colleagues by up to £1,000 to help them with the increased cost of living.

Awards

The commitment and passion of our colleagues to improve our offering for customers, members and financial advisers is why we continue to be recognised through key industry awards, in the UK and Ireland, which are referenced in the Business review section from page 38.

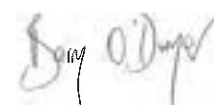
In particular, I am proud we have once again been awarded five stars in the annual Financial Adviser Service Awards (FASA) across our pensions, protection and asset management businesses; the 14th year in a row for pensions and the ninth for protection and asset management.

Looking ahead

A key focus for 2023 will be the enhancement of our technology across Royal London, to make it easier for customers and clients to deal with us. In Royal London Asset Management, we will broaden asset classes while extending our international footprint. We will continue to invest in our pensions and protection offerings both in the UK and Ireland, as well as developing additional 'later life' services to support longer-term financial planning.

2023 will be another demanding year, with ongoing geopolitical uncertainty and cost pressures at home. We are adapting to this challenging environment and, like our customers and members, responding with renewed focus on cost efficiency, so we can continue to provide great value products and services.

While the outlook remains challenging, our robust capital position means we are well-positioned to continue to take a long-term approach to decision making. Driven by our Purpose, we are focused on how we enhance our offering to meet the needs of members and customers to support and protect their standard of living now and in the future.



Barry O'Dwyer
Group Chief Executive

7 March 2023

The trends influencing our business

As we have experienced over the last few years, the world around us continues to change at a rapid pace.

We continually assess and scan the external landscape to ensure we are set up for success to meet all our stakeholders' needs and to deliver on their behalf, evolving our strategy and business structure. This allows us to respond quickly to trends and challenges while always taking a longer-term view.

Ageing population

Many factors are challenging customers' financial resilience, most notably the combination of an ageing population and the increasing cost of care. Financial services organisations must be purpose-driven and support consumers, by developing broader solutions that meet their needs.

38%

of UK consumers think they cannot ever afford to retire and 1 in 5 do not believe the state pension will exist by the time that they retire.

(Royal London, State Pension research, June 2022, 4,000 UK consumers)

Our response

We champion the benefits of impartial advice while also providing members and customers access to online educational support and guidance. We are continuing to invest in enhancing our products and services to meet customers' evolving needs while also developing new solutions, such as in later life. We have integrated access to property wealth into our customers' retirement journey to broaden the solutions available to meet their income needs. This strengthens the choice offered to our customers to support their long-term financial planning.

Read more on
pages 16 to 21

Transfer of risk to individuals

With the continued decline in defined benefit pension schemes and state pension provision, customers are burdened with increasing personal responsibility for their financial futures. This is particularly through the decisions they need to take as members of defined contribution pension schemes.

64%

of UK consumers have not approached anyone for help with the cost of living. At present, 1 in 10 consumers find themselves overdrawn before payday.

(Cost of Living research, August 2022, Opinium, 4,000 UK consumers)

Our response

We recognise the value financial advice provides to customers and we support and work in partnership with independent financial advisers. In addition, through Wealth Wizards, a 'digital-first' company, we are improving the accessibility and affordability of guidance and advice for consumers. We also regularly communicate with customers, providing information to help engage with, and support their understanding of, their pension. In addition, we are well positioned to meet the FCA's new Consumer Duty requirements which will place more accountability on providers to put consumers' interests at the heart of what they do, by ensuring that their offering meets new principles and rules to deliver good outcomes.

Read more on
pages 16 to 21

Financial health and wellness

Across the UK and Ireland, we are living in uncertain economic times as a result of the ongoing effects of the war in Ukraine and the turbulent political landscape. We are experiencing cost of living pressures and customers, colleagues and wider society are increasingly looking for support to understand the financial challenges they are facing and for guidance to help them make confident decisions.

95%

of UK consumers are worried about rising costs – 59% feel that prices have risen more than the current inflation rate.

(Cost of Living research, August 2022, Opinium, 4,000 UK consumers)

Our response

Our focus on the financial resilience support we offer members, customers and colleagues continues to increase. We have developed dedicated educational hubs, materials and financial wellbeing services to help people deal with the immediate challenges as well as planning over the longer term. We have also continued to improve our offering to ensure we protect customers through unplanned life shocks.

Read more on pages 16 to 21

Climate change

With global carbon emissions having risen by 60% over the past 30 years, the need for urgent and collective action on climate change is clear. UK pension funds have around £3 trillion of assets invested and the financial services industry, with support from governments and policymakers taking the relevant actions, has a key role to play in ensuring the fair transition to a low-carbon economy.

67%

of UK consumers believe we are facing a state of emergency due to climate change and 73% agree that 'a lesson learned from the Covid-19 pandemic is that if we work together we can have a positive impact on climate change'.

(Royal London Views on Climate Change survey, July 2021, 2,900 UK consumers)

Our response

As the UK's largest mutual life insurance and pensions provider, and a trusted asset manager, we can help make a difference. This year we have introduced a new Group-wide Sustainability and Stewardship team and launched an internal Sustainability Learning Programme. Through RLAM, we have expanded our Sustainable fund offering while continuing to engage with the largest carbon emitters to influence behaviours and actions.

Read more on pages 24 to 36

Sustainability and social activism

On top of the growing customer expectations putting pressure on organisations to have a strong stance on societal issues, there is an increased regulatory focus on environmental, social and corporate governance issues.

80%

of British consumers agree that it is important that brands 'show they have principles'.

(YouGov Profiles, GB Nat Rep sample 9,654, April 2022)

Our response

As a purpose-driven organisation, we are championing a Just Transition and to move fairly to a sustainable world whilst protecting the financial resilience of wider society. Our mutual status allows us to take decisions for the long term for the direct benefit of our members and customers and their families and wider society. We played a positive role in responding in the FCA's consultation (CP22/20) on sustainability disclosure, which includes a proposal to introduce a general 'anti-greenwashing' rule by the end of Q2 2023. The FCA aims to enhance consumer trust by ensuring that any sustainability-related claims made by regulated firms are 'clear, fair and not misleading'.

Read more on pages 16 to 21 and 24 to 36

How we create and deliver value

Our Purpose shapes everything we do



By using our mutuality for good, we are focused on achieving three positive outcomes



Helping build
financial resilience



Moving fairly
to a sustainable world



Strengthening the mutual
choice for customers

We are committed to our strategy

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

Enabled by our strategic shifts



Data-led, digitally nimble



Broader solutions



Mutually valued relationships

Through a clear strategy, underpinned by our Purpose, we create value for the benefit of our stakeholders.

We provide high-quality solutions that support good customer outcomes. We help customers to save and invest for the future and to protect themselves and their families against potential life shocks.

UK

Asset Management

Ireland

Access to customers

Providing propositions to customers and employers, primarily through independent financial advisers

Providing investment propositions to Royal London's life and pensions customers and to external institutional and wholesale clients primarily through intermediaries

Providing propositions to customers through brokers

Our propositions

1

Long-term savings:

- Workplace Pensions
- Individual Pensions
- Annuities
- Equity Release

2,100,000 policies

2

Protection:

- Life Insurance
- Illness and Income Protection
- Business Protection

1,188,000 policies

1

2

Long-standing customers¹:

- Pensions
- Annuities
- Protection

4,970,000 policies

1

Collective investment funds and segregated mandates:

- Equities
- Fixed Income
- Multi-asset
- Private Assets

£147.2bn AUM²
£107.6bn internal
£39.6bn external

1

Long-term savings:

- Individual Pensions

2

Protection:

- Life Insurance
- Illness and Income Protection
- Business Protection

474,000 policies

How we generate revenue

We receive premiums and fees through two primary models:

① Customers and clients pay fees for investing money with us.

② Customers pay insurance premiums, protecting them from a life shock.

Reinvesting profits

We generate value for members, customers and wider society, not shareholders.

We use our profits to improve our propositions and services for customers and financial advisers, to maintain our financial strength and to support social impact initiatives. We also share profits with eligible customers, boosting the value of their savings.

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

2. Asset Management AUM (assets under management) include external assets managed on behalf of third parties and internal assets managed on behalf of the Royal London Group.

Purposeful outcomes

Our Purpose is focused on achieving three overarching outcomes. We will achieve these by delivering on our strategy.

Our mutuality is one of our key differentiators as, without the short-term demands of shareholders, we utilise our profits to reward eligible customers while also continuously improving our offering for them and driving positive change for wider society. By delivering on our strategy and achieving our Purpose, we ensure that the full potential and benefits of our mutuality are realised for members, customers and the world around us.





Helping build financial resilience

Key outcomes

- Ensure our customers do not have to worry about their finances in times of ill health or bereavement
- Help customers to feel confident about making decisions on their long-term savings and investments
- For our customers to have sufficient savings to enjoy the retirement they planned
- Maximise financial inclusion and reduce vulnerability by working with partners

Progress in the year

- Launched our new Financial Wellbeing Service to Workplace Pension customers, utilising Wealth Wizards' technology
- Enhanced our Helping Hand service to include health and wellbeing support for new customers, including online access to hand-picked early care medical services
- Launched Protection customer portal delivering a more efficient servicing experience
- Introduced a series of changes to our underwriting philosophy, including relating to mental health and family history of diabetes to improve outcomes for customers
- Increased online support and awareness of building financial resilience including two cost of living research papers published along with our State Pension challenge
- Guaranteed annuity proposition, introduced in 2021, now being used by over 5,000 long-standing pension customers
- Published a report entitled 'Securing financial resilience in later life', exploring how public policy interventions could support people in saving for later life



Moving fairly to a sustainable world

Key outcomes

- Provide opportunities for customers to use their savings and investments to make a positive impact on climate change, the environment and society
- Help build a world and society that customers will look forward to retiring into
- Use our influence to champion the delivery of net zero in a way that is fair and sustainable
- Ensure customers and communities have the resilience to adapt and thrive as we transition to a sustainable world

Progress in the year

- The 'Invested Generation' marketing campaign continued into 2022, focused on how pensions have power
- RLAM broadened its Sustainable offering, introducing two new funds
- On behalf of investors RLAM engaged with 393 companies, including 175 climate-related interactions over the year and exercised voting rights at more than 3,500 company meetings
- Expanded our Just Transition engagement beyond the utilities sector to banks and social housing
- RLMIS achieved signatory status of the UK Stewardship Code 2020 for the first time, while RLAM retained its status
- Royal London Group achieved grade A- for environmental disclosure awarded by CDP, an independent body, up from grade C in 2021
- Launched an internal Sustainability Learning Programme in collaboration with the University of Edinburgh Business School
- Defined our value chain non-investment Scope 3 targets to reduce emissions 50% by 2030 and net zero by 2050
- Scope 1 emissions reduced by 79% from our 2019 baseline



Strengthening the mutual choice for customers

Key outcomes

- Invest in improving our customer offer by running a profitable and sustainable business
- Be cost efficient, so that customers receive the financial benefits of our mutuality
- Offer a sustainable alternative to companies run for the benefit of shareholders
- Do what is right for members, customers and for wider society

Progress in the year

- Continued active capital management, while investing for growth, with Investor View capital cover ratio remaining stable
- The increase in operating profit before tax was supported by an increase in new business sales but also a strong focus on streamlining our operations and controlling costs
- ProfitShare rates maintained for eligible customers in 2022
- Successful completion of closed fund consolidation, with a total uplift of £675m to customer policy values while also delivering capital efficiencies
- Group Chief Executive and Chairman addressed the All Party Parliamentary Group for Mutuels at Westminster, reinforcing our commitment to mutuality
- Donated over £1.8m to charitable and social impact initiatives, including Turn2us and CRUK
- Championed 'levelling the playing field' across our sports sponsorship activity aimed at helping to break down barriers, create opportunities and accelerate change

Key performance indicators

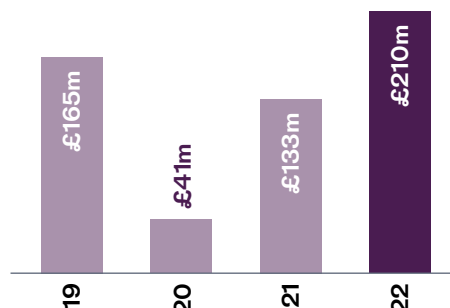
Our key performance indicators (KPIs) show how we are delivering.

We use a range of financial and non-financial metrics to measure and assess our performance, including financial strength, and customer and employee engagement. These include alternative performance measures (APMs), which are not prescribed by accounting standards, but give relevant insights into performance. These measures are reviewed annually and updated to ensure they remain an effective method of gauging delivery against our objectives.

The statutory UK GAAP Financial KPI has been changed from Profit/(loss) before tax to the Transfer to/(from) the fund for future appropriations (FFA) in the technical account as this shows the total impact of the current year's financial performance of the business after tax on the FFA (i.e. the amount of surplus that has not yet been allocated to policyholders having taken into account tax attributable to long-term business). The Directors believe that this provides a better understanding of the performance of the Group and is of more relevance to our members.

Financial KPIs

Operating profit before tax¹



Why it is important

Presentation of operating profit facilitates comparison of the Group's performance over reporting periods as it provides a measure of the underlying trading performance of the Group.

Our performance

Operating profit before tax increased by 58% to £210m, despite challenging market conditions, driven by higher contributions from our pensions and annuities business and a strong focus on cost control.

Transfer (from)/to the fund for future appropriations²



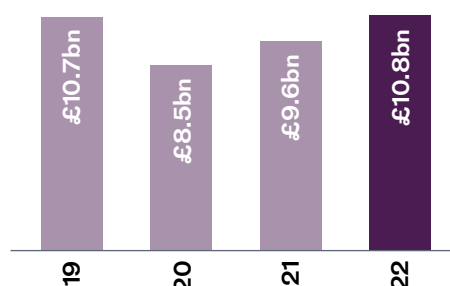
Why it is important

Transfer (from)/to the fund for future appropriations reflects our statutory result and so also includes non-operating items i.e. economic movements, amortisation of goodwill, allocation of ProfitShare and ValueShare, and is presented after tax.

Our performance

The Group transferred £162m from the fund for future appropriations, reflecting adverse market movements, in particular the fall in equity and bond markets that outweighed the benefits from increased yields.

Present value of new business premiums (PVNBP)¹



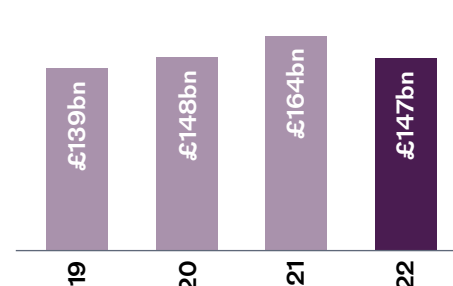
Why it is important

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

Our performance

Life and pensions new business sales on a PVNBP basis increased by 12% in 2022 to £10,776m reflecting the post-pandemic increase in new Workplace Pension schemes and a strong UK employment market, as well as an increased market share in Individual Pensions following the relative performance from our Governed Range.

Assets under management (AUM)^{1, 4}



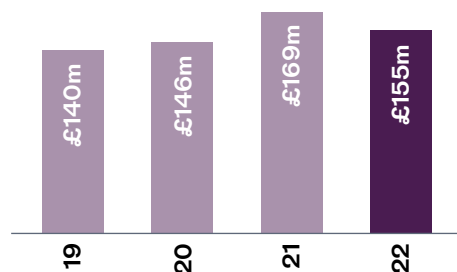
Why it is important

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

Our performance

The Group's AUM fell to £147bn, despite net inflows of £3.7bn, as falls in equity and bond markets have impacted underlying asset values.

ProfitShare¹



Why it is important

ProfitShare is our mechanism for rewarding our eligible customers directly. Our mutual status means that when Royal London does well, so do our eligible customers.

Our performance

The ProfitShare allocation rate was maintained, sharing £155m in line with the aggregate value of eligible policies. Maintaining the level of allocations demonstrates Royal London's resilience and our commitment to delivering value.

Investor View capital cover ratio^{1,3}



Why it is important

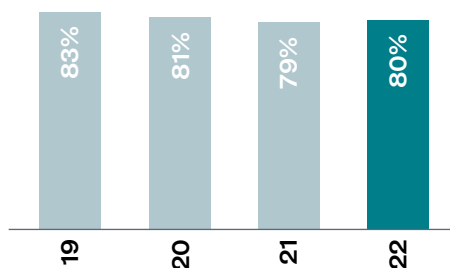
The strength of our capital base is essential to our business, both to ensure we have the capital to fund further growth and to give peace of mind to our customers that we can meet our commitments to them.

Our performance

As at 31 December 2022, our estimated Investor View capital cover ratio was stable at 213% despite significant movements in yields and asset values during the year, with our hedging programmes operating as intended.

Non-financial KPIs

Employee engagement



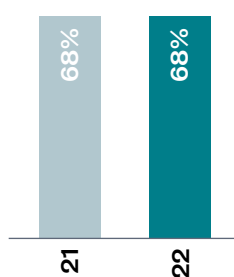
Why it is important

Monitoring employee engagement helps us to create and maintain a culture where everyone feels welcome, that develops talent and allows colleagues to achieve their full potential. This, in turn, allows us to deliver excellent service for our customers and members.

Our performance

Our engagement score was 80% at the end of 2022, with 89% of colleagues participating in our survey. Our stable engagement score is one point above the industry external benchmark and reflects a year of hard work and collaboration across the Group.

Customer Brand Love



Why it is important

Customer Brand Love measures customer sentiment towards our brand and is an important indicator of customer engagement. It is monitored via our internal Customer Relationship Study, which asks customers to rate how positively they feel about Royal London on a scale of 0 (hate) to 10 (love). This new study was carried out for the first time in 2021 and represents our most robust source of customer feedback.

Our performance

Our Customer Brand Love score for 2022 is 68% (2021: 68%). The score is based on the percentage of customers rating Royal London as 7 or above in our study. We have maintained our performance in delivering for our customers against the backdrop of a challenging environment in 2022.

1. These metrics are classed as our APMs; see page 202 for more details.
2. 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.
3. 2022 capital figures are estimated.
4. AUM includes internal funds managed on behalf of the Royal London Group and external funds managed on behalf of third parties.

Relationships built through insight

During 2022 we continued to work hard to engage with and understand the perspectives of our stakeholders to ensure we continue to meet their needs now and over the long term.

We place significant value on listening to feedback from our stakeholders, as well as undertaking extensive research to gain a deeper understanding of their views.

Across the Group we conducted over 50 surveys during the year with our members and customers, adviser partners and colleagues in the UK and Ireland to help shape our decision making and approach to providing them with valued propositions.



Members, customers and employers

As the increased cost of living continued to impact people across the UK and Ireland, we focused on how we supported our members' and customers' financial wellbeing during these uncertain times.

Improving financial resilience

In May, we launched a dedicated hub providing a range of support to help people manage their finances, including articles and guides on topics such as how to save money on energy bills, state benefits and tips to manage their money.

Employers play a vital role in maintaining the welfare of their workforce. That is why we continued to support them in running their Workplace Pension schemes effectively and looking after the wellbeing of their employees.

In 2021 we acquired Wealth Wizards, a digital advice platform, with the aim of helping to support the adviser market improve its efficiency in the provision of advice and addressing the increasing need for financial guidance and advice in the UK.

Through Wealth Wizards, we launched a new financial wellbeing service to support our Workplace Pension customers. The interactive service provides personalised financial guidance based on the answers given to just a few questions in the financial health check. Users can access bite-sized content in the form of videos, guides and tips to find out if they are on track for the retirement lifestyle they want or to help them make informed decisions around topics such as debt or the steps to buying a home.

In addition, over 248,000 customers have signed up to our mobile app since March 2019 – giving them access to financial knowledge at their fingertips. We made several improvements to our mobile app including the ability for customers to start a pension transfer and see their investments in more detail, including ProfitShare information.

Encouraging engagement with pensions

To encourage customers to engage with their pensions, we launched a video statement pilot to over 12,000 Workplace Pension Scheme members in July, containing personalised content which highlighted their total plan value, contributions and tax relief over the last 12 months. We will be rolling video statements out to more customers throughout 2023.

We were also a funding supporter of the Association of British Insurer's and Pension and Lifetime Saving Association's Pension Attention campaign. The three-year campaign aims to raise awareness of pensions – helping savers understand where their money is and how to keep track of it.

Working with rap artist and TV personality Big Zuu to target a younger demographic, the campaign also worked in partnership with Pension Awareness Week which curated a series of webinars to discuss a range of pension topics, as well as directing audiences to useful tools.

Our own customer webinar programme also launched this year. With topics such as 'Are you saving enough for the retirement you want?' and 'All you need to know about pension transfers', we reached over 6,000 viewers through four customer events.

2022 also saw us introduce a new transfer toolkit aimed at helping employers get to grips with moving their pension scheme to Royal London. The toolkit helps to support a smooth transition for employees, including the steps they need to go through to transfer their savings into a Royal London plan.

Customers in Ireland

In September we launched a new pensions business in Ireland, broadening our solutions and offering more value, choice and positive product features to customers.

Our new pension proposition was built on customer and financial broker insight and feedback. Like in the UK, we champion the value of advice, supporting financial brokers who make sure customers have the right plans and policies in place to be financially resilient now and for the future.

Offered exclusively through financial brokers, we initially launched a Personal Retirement Bond and an Approved Retirement Fund. These products offer a range of unique features such as zero policy fees or fund switching charges, automatic portfolio rebalancing and ValueShare, allowing customers to share in Royal London Ireland's success. Our new pension proposition is built around excellent service, systems, products and funds, all with a focus on our Purpose and investing in tomorrow.

Police Mutual Group

As key workers, both Police Mutual and Forces Mutual customers felt the negative effect of the cost of living pressures as it continued to impact their private and professional lives, with more support needed to help them continue to provide their vital services. In order to help, and to reach out to more customers, we supplemented our face-to-face financial resilience training sessions with a programme of webinars which have been made available to Forces across the UK. Police Mutual also provided support for police officers and staff working at the Commonwealth Games in Birmingham, through face-to-face financial wellbeing support, refreshments and essential kit issued to mutual aid officers.

Highlights

12,000

Workplace Pension scheme members piloted video statements

Over 248,000

customers signed up to our mobile app

Over 6,000

viewers of our new webinar programme

Our colleagues

We value the unique and diverse strengths of all our people. At the end of the year we had 4,232 colleagues working for the Royal London Group (2021: 4,318).

Engagement

We have a range of ways to listen to colleagues and act on their feedback. Our colleague engagement survey continues to have a high participation rate at 89%. Our index score increased to 80%, one point above our industry external benchmark, with 83% of colleagues telling us they feel proud to work for Royal London.

The Colleague Representative Forum (CRF) plays a key part in making sure colleagues’ voices are heard. The CRF supports all colleagues and works in constructive partnership with the business, bringing insight, ideas and collaborative challenge to make positive progress with the CEO, Chief People Officer, Group Executive members and with the Board. The Forum played an active role in shaping our hybrid working approach which supports our collaborative and inclusive culture.

We regularly communicate in an open and transparent way with colleagues through a variety of channels and employee-led communities. We ran colleague roadshows across the UK, discussing in detail our Purpose and strategy. Colleagues also had the opportunity to ask questions of the Board and Group Executive through regular Q&A sessions. In addition, the Group Executive hosted informal breakfasts and spent time with customer-facing teams to hear colleagues’ experiences and ideas.

This year we held a Group-wide recognition day, where over 7,000 nominations were made by colleagues to recognise and celebrate the contribution of others across the business.



Highlights

89%

participation in our colleague engagement surveys

7,230

colleague recognition nominations

143

colleagues took part in our Career Confidence programme



Embedding sustainability

Recognising that the challenge of managing climate-related risks and opportunities will not be solved by any single centralised team, we want colleagues in all business areas to understand key climate and sustainability-related issues and feel empowered to innovate within their teams. To support this approach, in 2022 we launched our inaugural sustainability learning programme in partnership with the University of Edinburgh Business School. Over 140 colleagues across six learning cohorts attended this eight-week sprint programme, covering topics such as climate-change data, modelling, measurement and regulation plus the role of financial services in addressing the climate crisis.

We have continued to develop our internal Eco Champs colleague network which by the end of 2022 had grown to over 400 members. This voluntary network helps to build a culture of sustainability across Royal London by educating, engaging and inspiring colleagues. During 2022, they organised 15 events and published a range of internal articles as well as playing an integral role in imagining and then creating our first Sustainability Summit in 2022.

Learning and growth

Investing in the personal and professional development of colleagues is at the heart of our People Promise. We support colleagues to achieve relevant professional qualifications alongside comprehensive development in their roles, championing career development in line with their personal aspirations.

Creating opportunities for talented people from diverse backgrounds to start their career at Royal London is an important part of growing the skills and capabilities we need for the future and fulfilling our social inclusion ambitions.

We actively promote apprenticeships as a development pathway. During 2022, 28 colleagues participated in an apprenticeship relevant to their role, while another 28 joined us directly on a programme in disciplines ranging from finance and marketing to digital and cyber security. Our asset management business, working in partnership with '10,000 Black Interns' and 'Her Capital', welcomed eight interns during the summer, four of whom are now in permanent roles.

Work is also underway to extend the reach and scope of our early careers offer across the business.



Technology degree apprentices

We launched our degree apprenticeship scheme in September 2020, with a cohort of eight apprentices studying for a degree in Digital and Technology Solutions, in partnership with Manchester Metropolitan University. In September 2021 we onboarded a further eight apprentices onto this course and a further five joined in 2022, with the most recent cohort studying for degrees in Software Development and Cyber Security in partnership with Edinburgh Napier University. The degree topics chosen are specialist areas, which are focused on closing immediate skills gaps or preparing for skills we will require in the future.

Our schemes allow colleagues to learn on the job whilst studying for a recognised qualification, and they rotate through all areas of Group Technology. Examples of activity undertaken by apprentices over the first two years on the scheme have included:

- Sam in Analysis & Design, who worked on a Windows 10 project reviewing email encryption requirements and supporting User Acceptance Testing
- Rebecca in Architecture, who helped create a new SharePoint site and implement a new Architecture Governance Model

Diversity, inclusion and wellbeing

We continue to champion an inclusive culture, supporting our inclusion networks – DAWN (Disability AWAREness Network), PRIDE, REACH (Race, Ethnicity and Cultural Heritage) and Women's Network – with a programme of inclusive activities and events.

We launched our 'everyday inclusion' conversations toolkit, encouraging every team to consider their diversity and work together to agree actions to further increase inclusivity.

Our colleagues enjoyed our biggest National Inclusion Week in September, focused on allyship; we celebrated our Summer of Pride with a range of activities, including Royal London's first attendance at Manchester Pride. We also continued to collaborate and learn from each other about our wider cultural heritage including our Ramadan fast-a-thon, South Asian heritage month and our Black History Month celebrations.

We are committed to our Race at Work Charter and also, as signatories of the 2016 Women in Finance Charter, we have committed to reach 42% of women in senior roles by 2025. As at December 2022 this was 37.2%.

We have taken further steps to attract, retain and progress workforce diversity. Key successes have been our Career Confidence programme for 143 colleagues and our Reciprocal Mentoring programme, matching our Executive Group with members of our REACH inclusion network.

Our progress was recognised as a finalist in the Personal Investment Management and Financial Advice Association's Best D&I Initiative (Large Firm) and we achieved Silver Accreditation from the Irish Centre for Diversity, Ireland's premier D&I accreditation mark.

Wellbeing of our colleagues remains a key priority for Royal London, focused on physical, mental and financial wellness, brought to life by events and activities to promote the support available. We are particularly proud of the launch of our new Financial Wellbeing tool and the work by our Periods and Menopause group to ensure we met our 'Wellbeing of Women Menopause Workplace Pledge' commitments.

“I've really enjoyed the rotations within the apprenticeship scheme at Royal London. It has been great to see the different roles that people do and different roles within Technology.”

Hashim, who joined the apprenticeship scheme in 2021

Financial advisers and brokers

While customers have been coming to terms with increased costs, they also continue to face the challenge of a population which is getting older, with many lacking the means to support themselves in retirement in the way they would like.

We have continued to focus on the importance of impartial financial advice when making long-term financial decisions, championing the role of advice and helping to bridge the engagement gap through regular and relevant communications. We continue to build strong relationships through our partnership approach with the financial adviser community and provide flexible, value-for-money products that contribute to customers' financial wellbeing.

We promoted the value of advice, highlighting how, by working together, we can connect more people with great advice. But we know that full advice is not always the right thing for customers and that guidance has a key role to play too. That is why we launched our financial wellbeing service for Workplace Pension customers, providing free financial guidance on a range of topics helping them build their financial resilience.

Supporting advisers with the new Consumer Duty

The FCA's new Consumer Duty delivers a fundamental shift in its approach to regulation. We will see a far greater focus on consumer outcomes, and financial services firms will be obliged to assess and evidence how their actions and processes are working to deliver good outcomes for their retail customers.

To support advisers, we launched our thought leadership report 'Counting down to the new Consumer Duty'. We wanted to understand how advisers saw their business adjusting, how prepared they felt and whether they had plans in place to be ready in time. Through our supporting content, including online materials and webinars, we explored the challenges advisers will face and the support we can provide through our pensions and protection services and products – helping them to demonstrate value for money and deliver good outcomes for their customers.

Enhancing our proposition

We improved our Direct Offer transfer process for Workplace Pension scheme members, making these much easier for advisers and their clients. As well as improving our adviser support material, we now offer a fast-track process for eligible pension schemes as well as being able to accept more information directly from the adviser, helping to improve the overall experience.

We supported adviser conversations around tax year end planning through our redesigned content hub while also launching a personalised client toolkit. The toolkit included leaflets that could be personalised with the adviser's logo and used, alongside the data and insight from our adviser data dashboards, to help them maximise the opportunities within their client bank. Topics included the impact of tax relief, single contributions and inflation.

We launched our new adviser portal for protection advisers, making it even easier for them to do business with us. As well as a new look and feel to the dashboard, they can now track the progress of applications from start to finish. If we are waiting for evidence or information from someone, they will see this in real time.

In addition, we improved the terms for customers with a family history of diabetes and extended our Underwrite Later option to Personal Menu Life cover and Whole of Life cover, making us the only provider in the market to currently do so for Whole of Life. Underwrite Later allows customers to be covered while medical evidence is being obtained, speeding up the onboarding process and making applications easier.

Asset management and financial market expertise

Advisers are also vital to RLAM's business and we are committed to providing them with high-quality asset management support, market commentary and investment solutions to help them deliver for their customers.

In 2022, RLAM expanded its Wholesale team, allowing us to build stronger relationships with a greater number of advisers. We also reintroduced face-to-face roadshows, running two significant events for Sustainable and Multi-asset enabling advisers to meet the fund managers in person.

When markets are difficult and uncertainty is greater, communication is vital. We therefore continued our regular blog activity through the year, backed by an extended webinar series giving advisers updates from across our investment team – particularly at times of extreme volatility, for example during the gilt and sterling sell-off in late September.

Irish brokers

We continued our focus on promoting the value of advice by encouraging people to contact a financial broker in a nationwide television and online advertising campaign.

Throughout the year, we have continued to focus on our service excellence, supporting this with digital enhancements to help financial brokers and, in turn, their customers. This included an improved initial underwriting decision feature, automated policy release functionality as well as enhanced document upload and notifications. Our colleagues are empowered to provide a 'one and done' service, which aligns dedicated case managers to the broker, further strengthening our relationships.

Society and communities

For the last two years, we have committed over £1m each year to social impact initiatives aligned to our Purpose. We work alongside expert partners to support individuals in moments of crisis and drive social innovations to help tackle some of society's biggest challenges.

In addition to supporting our flagship partnership with national poverty charity Turn2us, going back to our roots we supported the Quaker Social Action charity with their 'Down to Earth' programme which provided 631 most 'at need' clients with helpline support to access emergency funeral costs funding.

Our Changemakers Programme, which has been running for two years, focuses on investing in social enterprises. Working with our expert partner, School for Social Entrepreneurs (SSE), we provided funding and support to a further 10 social enterprises in 2022. These enterprises are focused on building financial resilience across the UK and Ireland, as well as exploring social ideas and innovations to enable a Just Transition to net zero including retrofitting (supporting updates to existing domestic or commercial facilities leading to partial or total emissions reduction), biodiversity, renewable energy and the circular economy.

In Ireland, our new charity partner, Family Carers Ireland, alongside our Changemakers, champion the contribution of family carers and seek to improve the lives of Ireland's 500,000 family carers through the provision of targeted support services, advocacy, and information, helping to build their financial resilience.

33 employees have supported the Changemakers Programme as business mentors or through supporting on volunteering projects to enable our Changemakers to tackle key strategic challenges to help them grow their businesses and impact more people.

Through our Community Programme our colleagues continued to fundraise for causes close to their hearts, receiving matched funding in the process. Our Community Champions across the UK and Ireland were critical to driving our fundraising efforts and supporting many events throughout the year, including 27 employees from across the UK taking part in the Yorkshire Three Peaks challenge trek in October.

For more information about our social impact and charitable initiatives, visit our website.

We share the same values around inclusivity in our sponsorships and during the year we continued our focus on levelling the playing field across sport and wider society. In our role as the first ever Principal Partner of the Women's Lions Programme, we funded a feasibility study to ascertain whether a Women's Lions rugby team could be formed.

The study investigated key aspects of creating a Women's Lions Tour with the findings being very positive, marking a significant step for the future of women's rugby. The initiative was supported by our ongoing partnership with player ambassadors Claire Molloy and Shaunagh Brown.

We continued our support of the ACE Programme and its work to address the decline of professional Black British players. With Royal London's support, the expansion of the ACE Programme from London and Birmingham into Bristol has been a huge success. Over 10,000 children and young people have been engaged through the ACE Programme since its inception in January 2020.



Section 172 of the Companies Act 2006

When making decisions, the directors recognise the long-term success of our business is dependent on the way the Group interacts with a range of stakeholders. You can read the Section 172 statement and how the Board has taken the views and interests of our stakeholders into account when considering their approach to key decisions on pages 72 to 74.

Modern slavery statement and approach

Royal London has a zero tolerance approach to slavery and human trafficking. When bidding for business, potential suppliers have to submit evidence of compliance with the Modern Slavery Act 2015. Any instance of modern slavery in our supply chain would be reported to our Group Executive Risk Committee (GERC). None were reported in 2022.

You can read more on the work of the GERC from page 54.

Delivering a sustainable future through effective stewardship

We believe that investing is about more than generating financial returns. As an investor entrusted with managing £147bn of customers' assets, we are committed to helping build financial resilience while also acting and investing responsibly in the interests of our members, customers and society at large.

We invest our customers' money for the long term and we take the same approach with the companies we invest in. Central to our stewardship approach, through our asset managers, is engaging with investee companies on a broad range of issues supporting our aims of enhancing returns for our customers while delivering benefits for society as a whole.

Engagement is a fundamental part of our strategy. As well as engaging with the companies we invest in, we also actively engage with asset managers, policymakers, regulators and other stakeholders to influence positive outcomes. We support this through collaboration with industry bodies, including the Association of British Insurers and the Investment Association, as well as through groups focused on key stewardship issues such as Institutional Investors Group on Climate Change and Financing a Just Transition Alliance, among others.

The Royal London Group comprises the Royal London Mutual Insurance Society Limited (RLMIS) and its subsidiary undertakings. RLAM, our internal asset manager, manages over 95% of our assets. Although RLMIS and RLAM are both part of the Royal London Group, RLAM is managed separately and is overseen by its own Board. RLAM undertakes stewardship and engagement activity on our behalf as well as on behalf of its own external customers and clients, and provides annual updates on its stewardship activities through an annual Stewardship Report available on its website. RLMIS also produced its inaugural Stewardship Report this year.

“We continue to embed our stewardship and sustainability responsibilities across our business practices and culture so that, even through challenging times, we are continually focused on doing the right thing for our customers.”

Joanna Walker
Head of Group Sustainability

The quality of the activity undertaken across the Group was recognised as RLMIS achieved signatory status of the UK Stewardship Code 2020 for the first time, while RLAM retained its status. The Financial Reporting Council reviews and approves submissions to ensure that applicants meet the UK stewardship standards which are some of the highest in the world.

Our mutuality allows us to take a longer-term view, ensuring we are well placed to invest responsibly and champion positive, enduring change. The consistency and authenticity of this approach provides an ideal platform to create and sustain value, and to protect the standard of living, through active engagement on all environmental, social and governance (ESG) issues.

Asset management monitoring framework

We have a Stewardship and Engagement policy to ensure our customers' money is managed appropriately. We monitor and assess all our asset managers' performance ensuring the framework's principles are being applied and continuing to meet the required standards.

Engagement

Good stewardship requires regular, ongoing engagement with our asset managers, and through them with the companies and projects in which we invest. RLAM engages with boards and senior management teams to encourage them to adopt the relevant behaviours to deliver positive outcomes on ESG issues.

Exercising our vote

Exercising our voting rights is essential to being a responsible investor.

During 2022, the RLAM Governance team voted at more than 3,500 company meetings.

You can read more about our voting principles on our website.

Our Investment Beliefs

We believe:

- That our customers want to know where their money is invested and the impact that it has on the world around them.
- That the best future for our customers is one where we collectively achieve the goals of the Paris Agreement.
- That actions taken up to 2030 will determine the shape of the century to come.
- That we should act as a responsible steward of the assets we invest in on behalf of our customers who rely on us to adopt a responsible investment approach.
- That change is best driven by being an active owner and engaging with companies where there are issues to be addressed.
- That allocating capital based solely on market weight is not a viable investment strategy for a responsible investor committed to ESG integration.



Protecting the standard of living of this and future generations

Everyone's standard of living is shaped by the environment they live in, as well as their financial position. We know moving to a sustainable world will require systemic changes that will impact jobs across all industries. That is why we are a strong advocate for a Just Transition to a sustainable low-carbon economy, ensuring social issues are considered and addressed as we move to net zero.

In 2021, we published our climate commitment to halve carbon equivalent emissions across Royal London's investment portfolio by 2030 and to achieve net zero by 2050. These targets are based on the expectation that governments and policymakers will deliver on commitments to achieve the goals of the Paris Agreement. We also committed to reducing the impact of our own operations, targeting net zero by 2030 for our Scope 1 and 2 emissions. In 2022, we expanded our focus to include our value chain Scope 3 emissions which, in line with our portfolio emissions commitments, are targeting net zero by 2050 with a 50% reduction by 2030. The basis and assumptions on which our targets are based are set out on page 33.

We remain dedicated to building financial resilience and moving fairly to a sustainable world. We will continue to advocate for progressive policy and aspire to effect real-world change that aligns with the best available climate science and the needs of our customers.

You can read more about our climate commitments on page 32. You can also find an explanation of carbon metrics and Scope 1, 2 and 3 emissions on our website.

What is the Just Transition?

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

Why we care about the Just Transition

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

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

Our focus on climate



Addressing the climate crisis

The choices we make in the face of economic and geopolitical risks, including the urgent response needed to the climate crisis, are in sharp focus. Maintaining clarity and consistency in our longer-term ambitions have never been more important.

The much-needed progress by governments and policymakers to implement their climate commitments has been slowed by other immediate crises arising from geopolitical tensions, the need for governments to ensure energy security and the need to restore global economies to sustainable growth.

The United Nations' Intergovernmental Panel on Climate Change (IPCC) has highlighted that the climate crisis is a threat to both human wellbeing and the health of the planet. Despite this, they say the actions being taken globally are insufficient to meet the goals of the Paris Agreement. In almost all future scenarios modelled by the IPCC in their April 2022 report, the global temperature rise is expected to hit 1.5°C by the early 2030s (IPCC WG2 AR6).

The need to address the climate crisis is a global issue that cannot be deferred any longer. It is therefore critical we take decisive action and make immediate improvements; changing the things we control directly and influencing others to do the same. When we consider the move to a sustainable world we think about both:

- the impact the climate crisis may have on our business, our members, and our customers; and
- the impact we have on the climate.

These dual considerations lead us to scrutinise potential business opportunities alongside responsible mitigation opportunities, while closely managing climate-related risks.

If we are to meet the challenges in front of us, across government, the financial services industry and broader society, we need to act together and we need to act quickly. Through industry bodies and directly, we will engage and influence government policy to provide the right framework and support to drive the transition to net zero across the real economy.

“The world faces unavoidable multiple climate hazards over the next two decades with global warming of 1.5°C (2.7°F). Even temporarily exceeding this warming level will result in additional severe impacts, some of which will be irreversible.”

United Nations' Intergovernmental Panel on Climate Change
(IPCC) 2022

The journey to net zero

Our key challenges and areas of focus

1	Engagement vs divestment	It is quick and easy to divest from high emitting companies but it risks assets falling under the stewardship of less responsible owners potentially causing more harm. We believe in engaging with these companies to effect positive change and have a real-world impact.
2	Data and methodology	Climate data quality and methodologies continue to evolve, meaning a data improvement plan is an essential part of our net zero pathway. As data quality and coverage improves there will be short-term volatility in reported emissions. Read more on pages 33 to 34.
3	Business changes	Business change activity within Royal London can impact our pathway to net zero. Our clear Purpose and strategy enable net zero and sustainability to be embedded into all strategic change.
4	Policy	Our targets are based on the expectations that governments and policymakers will deliver on commitments to achieve the goals of the Paris Agreement. We will continue our work with industry bodies to influence the changes needed to decarbonise the economy sustainably.
5	Embedding	We cannot achieve our Purpose and play our part in moving fairly to a sustainable world without sustainability being embedded across our entire business. We will continue to build colleague capabilities and support our Eco Champions network to bring our goals to life.

Summary of 2022 activity

Climate risk policies

We require our asset managers to develop and put in place climate risk policies

RLAM manages over 95% of our assets. The company has robust climate and ESG policies and is a signatory to the Net Zero Asset Managers Initiative. The external managers we work with also have climate policies in place.

Low-carbon economy

We promote the case for moving to a low-carbon economy to policymakers and influential stakeholders

We have engaged with policymakers and regulators both directly and through industry bodies on the need for supportive policies to enable the transition to a low-carbon economy. We have continued our direct engagement efforts to secure Just Transition plans within the utilities sector as well as expanding our focus to include the banking sector and social housing.

Risk management

We consider climate change within our risk management and business planning

We have broadened the scope of our climate risk appetite statement to consider the management and mitigation of our exposure to the financial, strategic and operational risks arising from climate change.

Operating efficiently

We consider climate change risks and opportunities in our own operations

We continued to deliver against our operational climate pledges and are ahead of our target in the decarbonisation of our direct operations. We have also expanded our focus to our non-investment related Scope 3 (value chain) emissions having set targets to reduce emissions by 50% by 2030 from a 2019 baseline and achieve net zero by 2050.

Keeping you updated

We will report on our progress in our Annual Report and Accounts and on our website

Our Annual Report and Accounts consolidates and reports on our progress in 2022. We also continue to undertake a broad communications programme to help advisers and customers understand the role that pensions can play in addressing the climate crisis. In line with FCA rules, we will publish our entity and product level Task Force on Climate-related Financial Disclosures (TCFD) reports by the end of June 2023.



Our 2022 Sustainability Summit

We held a Sustainability Summit at the end of November 2022 with a week-long focus on how everyone in the business can play their part in moving fairly to a sustainable world. Over 400 colleagues joined webinars and Q&As across the week with internal and external speakers covering a range of topics from recovering lost peatlands to jargon busting, with the aim of inspiring colleagues to take action, big or small, at work or home, to help tackle the climate crisis.

Climate risk governance

Effective risk management is fundamental to our Purpose, delivering on our strategy, serving our customers and growing our business safely. Robust governance, with the Board and its committees overseeing the work, is critical to our approach. Our three lines of defence model is defined on page 53. Its structure is designed to support us in managing risk in changing economic, political and market environments.

The Royal London Board is responsible for promoting the long-term sustainable success of the Group in a manner that seeks to generate value for our members whilst taking account of the interests of all its stakeholders. The Board therefore has ultimate responsibility for the way we manage our response to climate change across the Group, including our impact on the environment and contribution to wider society. Our full Section 172 statement can be found on pages 72 to 74.

The Board's Risk and Capital Committee has responsibility for the Group's risk management and internal control system. This is designed to manage and mitigate risks to achieving our business objectives within our risk appetite, which is also approved by the Board and defines the level of risk we are willing to take in alignment with our Purpose and strategy.

Accountabilities are defined and managed in line with the Senior Managers and Certification Regime requirements. The Board delegates the day-to-day management of the Group to achieve its Purpose, and to implement its strategy and objectives in line with its culture, values and ethical and regulatory standards, to the Group Chief Executive Officer (CEO), Barry O'Dwyer. The Group Chief Financial Officer (Group CFO), Daniel Cazeaux, has regulatory responsibility for managing the financial risks arising from climate change.

Our committees structure

We have a formal governance structure of committees to oversee risk reporting to the Board, which:

- ensures that appropriate expertise and diverse opinions are engaged in managing and overseeing our affairs; and
- facilitates efficient, effective and transparent decision making.

The Group Executive Committee (GEC) is responsible for the day-to-day management of climate change risks and opportunities across the Group.

The GEC is supported by the Group Sustainability Oversight Committee (GSOC), which is responsible for:

- supporting, overseeing and challenging the delivery of the product, investment and operational sustainability goals of the Group.
- providing clear direction, ensuring alignment and transparency of delivery across the Group.
- providing support, challenge and recommendations, as required, to the GEC.

The GSOC oversight of delivery complements the embedding of the assessment and management of climate-related risks across business units, under our standard risk management processes including the Royal London Risk Management Framework.

The GSOC is supported by the Group Sustainability and Stewardship function, which was established in January 2022 within our CEO Office and is staffed by eight full-time colleagues. The Group Sustainability and Stewardship team provides support, challenge and sustainability expertise with the aim of embedding sustainability throughout Royal London.

The Board Investment Committee supports the Board in discharging its responsibilities regarding investment matters, including climate-related investment risks and opportunities, in a manner consistent with our Investment Philosophy and Beliefs.

The Risk and Capital Committee oversees the management of non-investment climate-related risks.

Other committees, executive and non-executive, that consider climate-related impacts to customer outcomes include:

- The Independent Governance Committee (IGC), which acts independently to assess the ongoing value for money provided by Royal London for Workplace Pension customers and Investment Pathways customers. The IGC's remit includes consideration of ESG factors that are material to the suitability of an investment.
- The With-Profits Committee (WPC), which advises the Board in considering the interests of all policyholders with an entitlement to a share in profits.
- The Investment Advisory Committee (IAC), which comprises five pensions and investment experts including the Chief Investment Officer of RLAM, the Group Investment Director, an independent Chairperson and an independent representative. The IAC advises management, with a focus on the proposition design and performance of our Governed Range. This provides impartial challenge and clarity of thought to address issues and identify opportunities and solutions, ensuring the 'continuous improvement' mindset needed to deliver our Purpose.

Full terms of reference of the Board and all its committees are available on our website.

All governance committees must demonstrate that they take ESG considerations into account, including climate-related risks and opportunities. A mandatory template, prescribed in Board and committee paper templates, acts as a tool to embed these key considerations in day-to-day decision making.

Frequency of climate risk reporting

The Board receives updates at least every six months on climate-related activities. The Group Chief Risk Officer's quarterly report provides the Board with an aggregated assessment of risks against appetite, including material climate-related risks where relevant, across our business areas and geographies, alongside an overall Group-level assessment. The GSOC, Board Investment Committee and Risk and Capital Committee meet at least quarterly and will consider any pertinent climate-related items under their terms of reference.

Performance management and reward

The Group has an incentive framework that focuses activities on delivery of key strategic objectives. The framework includes a Short-Term Incentive Plan (STIP) which applies to a majority of our colleagues and a Long-Term Incentive Plan (LTIP) applying to certain members of the GEC. Both are based on a set of targets and metrics approved and monitored by the RLMIS Remuneration Committee.

These targets and metrics are based on scorecards that track delivery of key outcomes, including our climate commitments, and details can be found in the Directors' remuneration report on pages 94 to 115.

The STIP and LTIP are grounded in our Purpose and help instil behaviours that contribute to delivering long-term sustainable value for our members and other stakeholders.

Climate risk management

A decentralised approach

Climate risk is complex with significant uncertainty around the timing and severity of potential impacts. We use our risk management system alongside our capital management framework to manage climate-related risks, so that our business remains sustainable and continues to serve our customers.

As climate risk can manifest itself across any of our risk categories, the reporting of climate considerations within each subsidiary and from each subsidiary to the Group has been integrated into our Group risk management system. Climate risks are owned by and integrated into individual business units across our long-term savings, protection and asset management businesses in the UK and Ireland. With support from our Risk function, management of each business unit and Group function is accountable for identifying, measuring, reporting, managing and mitigating all risks relevant to its area of business.

This includes the design and operation of suitable internal controls and the allocation of risk and control responsibilities.

This collaborative decentralised approach helps drive consistent climate risk management activities across the business, within the agreed risk appetite. Furthermore, it supports all areas of the business to integrate key climate-related issues into their day-to-day and strategic planning activities.

Climate risk appetite statement

Over 2022 we refined our climate risk management process to allow for evolving best practice and to further support the embedding of climate risk management across Royal London. This included broadening the scope of our climate risk appetite statement within our Group risk appetite framework, to consider the management and mitigation of our exposure to the financial, strategic and operational risks arising from climate change. The embedding of these risks will be monitored with reference to our exposure tolerances and key climate risk metrics in line with best practice. Climate risk reporting will continue to be embedded into risk management disciplines across the Group.

A snapshot of 2022 climate-related governance activity

The Board and its committees directly engage with and consider key climate-related activity. During 2022 this included:

- a review of Royal London's climate commitments and initiatives to meet them, including our regulatory and voluntary sustainability reporting obligations.
- updates to the Group Climate Risk Appetite Statement to reflect the focus on embedding of climate risks across the Group.
- a review of the Stewardship and Engagement Policy and reporting.
- consideration of updated analyses of climate change scenarios, in respect of the ORSA¹ 2022, which was previously conducted in 2021 following the Bank of England's 2021 Climate Biennial Exploratory Scenario.
- a review of a refreshed Strategic Asset Allocation Framework to incorporate climate change scenario testing.
- consideration and approval of targets for our non-investment related Scope 3 (value chain) emissions.
- approval of our refreshed Investment Philosophy and Beliefs.
- consideration of the measurement against climate targets in executive incentive programmes.

1. The ORSA (Own Risk and Solvency Assessment) is an exercise carried out by insurers subject to the EIOPA Solvency II regulations (or equivalent regime e.g. under the Prudential Regulation Authority (PRA) within the UK) to assess the adequacy of an insurer's current and future solvency position and risk management position under stressed scenarios.

Internal capabilities

To identify, assess and manage climate-related risks and opportunities as effectively as possible across the Group we have continued to focus on building internal capabilities over 2022. Read about our sustainability learning programme on page 18.

Whilst we seek to embed the consideration of climate risks and opportunities across the Group as described on page 26, a number of core functions allocated specific resources and provided specialist expertise over 2022, including:

- the Group Sustainability and Stewardship function, as described on page 26.
- the Group Actuarial team, which conducted climate scenario stress testing to assess the impact of the climate crisis on our funds and capital position, and to address regulatory expectations.
- Group Risk and Compliance specialists who supported the embedding of climate-related risks into our risk management framework.

Monitoring our asset managers

As an asset owner we are exposed to climate-related risks through our asset managers. To manage these effectively we monitor and assess our asset managers' responsible investing activity and performance under our asset manager oversight framework.

Allowing for ESG factors in our investment decisions helps us invest more sustainably on behalf of our customers. As a result, we can be more confident in our assessment of companies' true long-term value by actively considering companies' ESG credentials. However, while a focus on ESG helps to mitigate investment risks and maximise investment opportunities, there is more to be done to address the climate crisis in the real world. That is why we are also committed to developing solutions that will enable our customers to invest in the low-carbon transition.

To support our climate commitments, listed on page 32, we require our asset managers to:

- develop a climate risk policy consistent with our Climate Change Framework.
- exercise their voting rights on all eligible investments, and make sure their voting takes into consideration the principles of our Stewardship and Engagement policy.
- set clear investor engagement priorities on climate change, taking into consideration their level of influence (the size of their investments), and the materiality of climate change to company risk and performance.
- demonstrate a divestment process, including the criteria they would use to trigger a divestment of holdings if the climate change associated risk can no longer be justified, and engagement activity has been exhausted.

Similarly, we have a list of expectations and requirements when selecting and considering whether to adopt or retain asset managers, with the Board Investment Committee holding responsibility for final approval. Following a baseline assessment of asset managers' responsible investment policies and procedures we focus on: climate change, exclusions, voting and engagement.

We seek to validate the information provided to us by cross-checking against third-party data.

External assurance

Consistent with the rest of our business, we apply the 'three lines of defence' model to provide assurance over the completeness and accuracy of our climate-related disclosures. We complement this with external assurance as necessary. We have received public assurance on our operational (Scope 1 and 2) emissions and our non-investment (scope 3) value chain emissions to a limited level of assurance from ERM Certification and Verification Services. Full details of the scope, activities, limitations and conclusions of this assurance engagement are included in the assurance statement on our website.

2022 climate pathway analysis

Our 2022 climate scenario analysis refreshed and built on the Climate Biennial Exploratory Scenario (CBES) analysis we voluntarily undertook during 2021. As recommended by the Bank of England, this included modelling outcomes from three possible climate pathways.

This pathway analysis helps us to better understand: our financial exposures to climate-related risks; the challenges to our business models from these risks; our potential responses; and the implications for our customers and members. It is therefore important in enhancing our Group-wide embedded assessment and management of customers' and members' exposure to climate-related financial and strategic risks.

This qualitative and quantitative analysis of the potential impacts across a range of future climate pathways has driven forward our thinking on climate impacts across a range of timeframes, supporting the development of our investment and business strategies to mitigate risks while maximising opportunities.

Our climate pathways

In line with the 2021 CBES recommendations, our 2022 climate pathway analysis explored the impacts of both transition and physical risks by interrogating climate pathways developed by the Network for Greening the Financial System (NGFS). These pathways allow interrogation of the impact to Royal London under possible futures, recognising the timing and effectiveness of climate policy is not certain.

Two of these three pathways consider feasible paths to global net zero carbon emissions by 2050: Paris Orderly (i.e. 'early action') and Paris Disorderly (i.e. 'late action'). In both these scenarios the net flow of greenhouse gas (GHG) emissions into the atmosphere will have been stemmed by 2050. Delayed policy action is assumed under the Paris Disorderly scenario, which would result in more stringent policies and leave less time to fine-tune policy over time.

Our third climate pathway considers the impact of governments globally failing to enact sufficient policy responses, i.e. assumes no further advance in the level of commitments to address climate change. In contrast to the two 2050 net zero pathways, the risks in this Failed Transition pathway would be predominantly physical and the impacts would continue to build beyond 2050. We recognise this makes it difficult to compare the effects to our business over a range of timeframes across all three pathways.

Climate risk assessment

Climate risks are complex and may crystallise in a number of ways across a range of time horizons. When assessing climate risks, potential impacts are typically grouped into the categories of physical and transition risks.

Climate risk category	Description	Sub-category	Sub-category description
Physical	Risks related to the physical impacts of climate change	Primary	Damage to land, buildings, stock or infrastructure owing to physical effects of climate-related factors, such as heatwaves, drought, sea levels, ocean acidification, storms or flooding
		Secondary	Knock-on effects of physical risks, such as falling crop yields, resource shortages, supply chain disruption, as well as migration, political instability or conflict
Transition	Risks related to disorderly adjustments to markets as a result of the transition to a low-carbon economy	Policy	Including carbon pricing, emission caps and subsidies
		Market	Including the emergence of disruptive green technologies and changing consumer behaviours
		Reputation	Stakeholder expectations to address climate change

Climate risks at a glance

The table summarises the risks by climate pathway.

	Paris Orderly Transition	Paris Disorderly Transition	Failed Transition
Global warming	Paris Agreement goals met · Average global warming stabilises at 1.5°C · CO ₂ emissions ~ IPCC RCP 2.6	Paris Agreement goals met · Average global warming stabilises at 1.5°C · CO ₂ emissions ~ IPCC RCP 2.6	Paris Agreement goals not met · Average global warming stabilises at 4°C · CO ₂ emissions ~ IPCC RCP 6.0
Transition risks	Transition risks increase due to · Ambitious low-carbon policies · High investment in low-carbon technologies · Substitution away from fossil fuels to cleaner energy sources and biofuel	Transition risks increase due to · Ambitious low-carbon policies · High investment in low-carbon technologies · Substitution away from fossil fuels to cleaner energy sources and biofuel · Abrupt pricing-in of transition risks and sentiment shock	No impact from transition to low-carbon economy because · Economies follow the business-as-usual track continuing current low-carbon policies and technology trends (e.g. significant falls in renewable energy prices) · No additional new policy measures
Physical risks	· Moderate physical impact with regional differences · Impacts are greater than observed today	· Moderate physical impact with regional differences · Impacts are greater than observed today, but still much less than under a Failed Transition pathway	· Severe physical impacts occur, increasing over time as temperatures rise – both gradual physical changes such as agricultural and worker productivity, as well as more frequent and severe extreme weather events
Impact on GDP	· Global GDP lowers	· Global GDP level is slightly lower than in the Paris Orderly Transition pathway due to the sentiment shock	· Global GDP is significantly lower than the baseline in 2010
Financial market impacts	· Transition is assumed to occur as smoothly as possible · The market gradually prices in perceived transition and physical risks over 2021-2025	· Sudden repricing of assets in 2025 · Followed by a sudden sentiment shock to the financial system in 2025 · Increased volatility in 2024-2026	· Markets price-in physical risks up to 2050 by the end of the decade (2026-2030) · A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks post-2050

Our analysis based on these pathways does not make explicit allowance for all potentially significant factors, particularly where it is not possible to integrate the timing, likelihood and impact into the model. Examples may include the geopolitical impacts of severe climate change, such as increases in migration and conflict, which alongside their enormous human costs, are likely to result in further financial losses.



Climate risk assessment *continued*

Qualitative results

The table on the next page summarises the qualitative outputs from our 2022 climate pathway analysis, describing the climate-related risks and opportunities we consider the most material to our Group. This table includes a qualitative assessment of the time periods over which we consider the crystallisation of these risks to be most likely. Short-term climate-related risks may already be contributory factors to current patterns, for example investment-related climate risks.

As climate-related projections and modelling activities are undertaken without the ability to assign probability to different pathways and severities, this table does not include detailed quantitative information on potential impacts. However, we recognise the likelihood and potential impacts from both transition and physical risks are likely to increase as the level of action from policymakers continues to lag behind what the UN's Intergovernmental Panel on Climate Change considers necessary to meet the goals of the Paris Agreement. We hope to provide more detailed quantitative information over time as climate-related financial models improve.

Our analysis of the potential impacts on our strategy and financial position across a range of future climate pathways has continued to drive forward our thinking on climate impacts over each timeframe, supporting the development of our investment and business strategies to mitigate these risks while maximising opportunities.

Quantitative results

Our findings indicate that increasing temperatures and/or a disorderly transition lead to a range of negative economic and social impacts, of varying severity, depending on the pathway that is assumed. Our scenario modelling has shown that the impacts of market shocks on Royal London's capital position will be mitigated by our equity hedging strategy. Our analysis shows a 'Failed Transition' would have the most material adverse impact. We will refresh our modelling of the impact from these scenarios on an annual basis, keeping the chosen pathways and assumed systemic impacts under review as policy, climate science and industry thinking evolve.

However, financial stress tests are not able to measure all risks facing the organisation, in particular the risks associated with changing customer expectations, the competitive environment or the political landscape. These non-financial risks may lead indirectly to financial impacts including volatility in our capital requirements, shocks to the profitability of existing business, and reductions to our new business sales. We will monitor and manage these transitional forces by seeking out internal and external climate-risk mitigation solutions as well as leveraging any new developments. We will also keep impacts to our pricing basis and product development under review considering these forces, including regular review of customer preferences.

A detailed report on the findings from our climate pathway analysis was disclosed to the PRA as part of our 2022 ORSA.

More detail on the principal risks and uncertainties facing the Group are set out on pages 56 to 59.

The impact of climate change on the valuation of the Group's investment assets and technical provisions as at 31 December 2022 is set out in the financial statements in note 17(a) on page 157 and 28(a) on page 179 respectively.

Risk category	Risk impact	Sub-category	Potential impact	Timeframe (S/M/L term) ¹
Strategic	Transition	Reputation	Reputational damage to our brand.	S, M, L
		Market	Lose market share if we fail to either develop new propositions or modify existing ones to reflect growing demand for products which are perceived to have a positive (or neutral) impact on combatting climate change.	M, L
		Policy	Government or regulatory policy/requirements on climate change impacts the viability of our propositions.	S, M, L
Investment	Transition	Policy	Action from government and regulators to meet the Paris Agreement targets and respond to public sentiment.	S, M, L
		Market	The emergence of disruptive green technologies and changing consumer behaviours.	M, L
	Physical	Primary	The Group's investment portfolios contain significant direct investments in physical assets including property and asset-backed securities.	L
		Secondary	The indirect physical effects of climate change which include supply chain disruption, as well as migration, political instability or conflict.	L
Insurance	Physical	Primary	An increase in more extreme temperature fluctuations in the UK and Ireland could reduce life expectancy (lowering life assurance/protection profitability). Or milder winters in UK and Ireland may lead to reduced mortality rates at later ages (decreasing profitability in annuity products).	L
		Secondary	Temperature changes increase the level of infectious diseases globally.	L
		Secondary	Falling crop yields, resource shortages, migration, political instability or conflict, posing negative effects on lifestyles in the UK, for example poorer diets, and lower tax revenues to support the NHS. Results in lower life expectancy and an increase in morbidity risk.	L
Operational	Physical	Primary	Business disruption through more extreme weather including flooding, and stronger storms. Consideration of our own office/data centre locations, those of key suppliers and disruptions which could impact travel between locations.	L
	Transition	Market	Failure to retain and attract appropriate skills as a result of not taking the necessary action to protect our reputation and to adapt working patterns and requirements as the UK transitions to a lower-carbon economy.	S, M, L

Opportunity category	Opportunity impact	Sub-category	Potential impact	Timeframe (S/M/L term) ¹
Insurance	Physical	Primary	Life expectancy could decrease as a result of more extreme temperature fluctuations within the UK and Ireland (increased profitability in annuities book). Or life expectancy could increase and morbidity risk decrease in the event of a successful transition to a low-carbon economy (increased life assurance/protection profitability).	L
Strategic	Transition	Market	Positive impact on market share as a result of successful development of new propositions or modified existing ones to meet the growing demand for products which are perceived to have positive (or neutral) impact on combatting climate change.	M, L

1. Timeframe term: Short (S): 1 year; Medium (M): up to 5 years; Long (L): longer than 5 years

Progress against our climate commitments

Royal London's climate commitments help define our actions. They help us play our part in moving fairly to a sustainable world, while contributing to the effective management of climate-related risks and opportunities on behalf of our customers and members.

Our commitments are listed below alongside a summary of the progress we have made over 2022 and a forward-looking action plan which summarises our current plans for how we will achieve or contribute to achieving our climate commitments. We are currently developing our 'Climate Transition Plan' (CTP) to cover in detail how we intend to achieve our climate commitments, with associated timeframes.

The basis and assumptions underlying our climate targets and metrics are set out in detail on page 33.

Climate risk category	1 Portfolio emissions	2 Climate solutions	3 Engagement	4 Operational
Our commitments	<p>We have committed to reduce the emissions from our investment portfolio by 50% by 2030 (tCO₂e/\$m invested) as part of the transition to net zero by 2050.</p> <p>These commitments are based on the expectation that governments and policymakers will deliver on the commitments to achieve the goal of the Paris Agreement and that the required actions do not contravene our fiduciary duty to our members and customers. Our commitment includes assets that are controlled by RLMIS and are managed on its behalf by RLAM and excludes segregated mandates managed by RLAM on behalf of its external clients.</p>	<p>As a Group we commit to developing solutions that will enable our customers to invest in the low-carbon transition. RLAM will transition core elements of its fund range to sustainable objectives.</p>	<p>We will engage with the utilities sector and our top ten carbon emitters on the need for a Just Transition plan. When appropriate, we will consider divesting from companies which are unwilling, or unable, to put in place a credible net zero strategy.</p>	<p>Net zero direct operational emissions by 2030 (Scopes 1 and 2).</p> <p>Net zero in our Scope 3 non-investment value chain by 2050.</p> <p>Purchase 100% renewable energy for our operations (Scope 2) by 2025.</p>
Progress over 2022	<p>The total financed emissions (MtCO₂e) from our corporate fixed income and listed equity portfolios have decreased, both year-on-year and since our baseline year (2020). The financed emissions per \$m invested have increased by 5% since last year which was in part impacted by the reduction in assets. Despite this, emissions have reduced by 11% against our 2020 baseline.</p>	<p>RLAM launched three new funds in 2022 with climate and sustainability objectives which were seeded by RLMIS.</p>	<p>RLAM expanded Just Transition engagement to include banks and social housing. During 2022, RLAM engaged with 40 companies on net zero.</p>	<p>We have reduced our Scope 1 emissions by 79% well ahead of target. We have also expanded our focus and set a net zero target for our non-investment related Scope 3 emissions.</p>

Forward-looking action plan

Authenticity is a core characteristic of Royal London. We recognise there is a lot of work to do and that we, as a business and industry, have more to do. Building the trust and confidence of our customers will remain a priority. We want to be clear about our purpose-driven ambition and the choices we make on their behalf, but also clear on the progress we have made and the challenges we face. To sustain and deepen this engagement with customers, we will seek and listen to their feedback, adapting our strategy and areas of focus so that we remain relevant and responsive to their needs and aspirations.

- We will continue to review our approach to asset allocation and portfolio construction, seeking opportunities to increase real-world positive impact through our allocations and investment decisions, while continuing to support customer outcomes with prudent management of investment risk.
- We will actively engage with the largest contributors to our carbon footprint and work with our peers, policymakers and the companies we invest in to play our part in enabling the transition to a low-carbon economy.
- We will continue to work collaboratively with industry bodies to support and influence policymakers to address the systemic change needed to decarbonise the economy sustainably.
- We will continue to be a strong advocate for a Just Transition to help ensure social issues are considered and addressed as society transitions to net zero.
- We will demonstrate our commitment by transparently reporting our activities and progress, including against our climate commitments whilst also better understanding related areas such as biodiversity.

Progress will not be linear, but we will not lose sight of the destination. Royal London will remain dedicated to building financial resilience and moving fairly to a sustainable world, advocating for progressive policies and aspiring to effect change that aligns with the best available climate science and the needs of our customers.

Pathway to net zero



The basis and assumptions underlying our climate targets and metrics

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

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

Our portfolio emissions assumptions

The portfolio emissions targets we have set include assets that are controlled by the Royal London Mutual Insurance Society Limited (RLMIS) and are managed on its behalf by RLAM. This includes the regulated investment funds managed by RLAM. It excludes segregated mandates managed by RLAM on behalf of its external clients. Royal London's portfolio emissions targets are measured against a 2020 baseline and are being tracked using Scope 1 and 2 financed emissions metric (tCO₂e/\$m invested). We also track our emissions using weighted average carbon intensity (WACI) metric. This approach facilitates a consistent measure of Royal London's carbon emissions intensity over time, unaffected by business growth. The measure also enables stakeholders to make more direct comparisons across companies and funds. This year we have recalculated our 2020 baseline to move from Market Capitalisation to Enterprise Value Including Cash (EVIC) as the attribution factor for our portfolio emissions calculations in line with best practice as recommended by the Partnership for Carbon Accounting Financials (PCAF).

The limitations of emissions data

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

This year we can disclose the Scope 1 and 2 emissions associated with 92% of our listed equity and corporate fixed income holdings. These asset classes make up 66% of our total assets. Our disclosures will improve as data quality improves and we will be transparent about the quality and coverage of our emissions disclosures. We use MSCI as our data provider, they calculate carbon emissions metrics based on both reported and estimated emissions from investee companies. The currency used for allocation is US dollars (\$). Their full methodology is available online at www.msci.com.

Progress against our climate commitments *continued*

1) Portfolio emissions

The table below details the emissions arising from our portfolio of investments. During 2022, the value of our internal assets reduced from £124bn to £108bn. The total financed emissions (MtCO₂e) from our corporate fixed income and listed equity portfolios have decreased, both year-on-year and since our baseline year (2020). The financed emissions per \$m invested have increased by 5% since last year which was in part impacted by the reduction in assets. The Weighted Average Carbon Intensity (tCO₂e/\$m Sales) (WACI) of our investments, which is not sensitive to share price movements, has decreased by 8% year-on-year, providing further insight into how the carbon profile of our portfolio has changed over time.

Whilst overall the reductions are positive there continue to be material constraints in the quality, quantity and timing of data and asset class coverage. In addition, there are other external factors that will impact our portfolio emissions such as market volatility, fluctuations of exchange rates and an increase in activity following Covid-19 lockdowns. As a result of these factors, we do expect to see both total carbon emissions and emission intensity metrics fluctuate over time, albeit with a downward trajectory as we transition to a low-carbon economy.

RLMIS portfolio GHG emissions disclosure

	Year ended 2022	Restated Year ended 2021	Restated Year ended 2020 (baseline)	Year-on-year change ²	Change against baseline year
RLMIS AUM (£bn)¹	108	124	114	-13%	-5%
Corporate fixed income (CFI) & listed equity (LE) (£bn)	71	78	70	-9%	-1%
MSCI carbon metrics⁵ for CFI & LE					
Total financed emissions (MtCO ₂ e) ³	3.82	4.18	4.05	-9%	-6%
Financed emissions intensity (tCO ₂ e ³ /\$m invested)	48	46	54	5%	-11%
Weighted Average Carbon Intensity (tCO ₂ e ³ /\$m sales)	96	104	117	-8%	-17%
Data coverage ⁴	78%	71%	67%	10%	17%

1. Represents the overall amount of the Group's investments excluding assets managed on behalf of third parties and including assets of the Group's pension schemes.

2. Year-on-year change represents the percentage change in the year ended 2022 metric from the year ended 2021 metric.

3. tCO₂e represents estimated amount of emissions during the year, measured in metric tons of carbon dioxide equivalent. MtCO₂e represents one million metric tonnes of carbon dioxide equivalent.

4. Portion of CFI & LE assets used in carbon metric calculations using reported and estimated emissions.

5. Calculated by MSCI using methodology as explained online at www.msci.com.

Restatement of financed emissions

To reflect current best practice, in 2022 we updated our methodology for calculating financed emissions metrics, which resulted in the recalculation of our 2020 (baseline) and 2021 comparators. We have changed how we measure the value of the corporate issuers within our portfolio, from Market Capitalisation to Enterprise Value Including Cash (EVIC) as the denominator in the calculation. EVIC more fairly attributes emissions across all contributors to capital for each holding in the portfolio as it also includes short-term and long-term debt, minorities' interests and any cash or cash equivalents on the company's balance sheet. It is the most widely used measure of capital issuer value for the purpose of calculating financed emissions metrics.

We replicated our 2022 EVIC based calculations on a market capitalisation basis to better understand the differences of the two attribution factors. The financed emissions (tCO₂e/\$m invested) calculated using market capitalisation increased from 67 tCO₂e to 82 tCO₂e since last year (23%) and fell from 103 tCO₂e (original baseline) showing a 20% reduction, reflecting the volatility of market capitalisation.

We will continue to use the most appropriate carbon emissions metrics and methodology, in line with best practice, to ensure relevant and transparent reporting.

1. Directly managed property assets are those over which RLAM has complete operational control, greater than 50% equity share and joint ventures where they would cover the proportionate amount of emissions.

2. Indirectly managed property assets are managed wholly by the occupier. Developments are any new development or major refurbishment that come online from 2030 onwards.

Targeting net zero in our property assets

Across RLAM's investment properties we are targeting achieving net zero carbon by 2030 for directly¹ managed property assets and developments, and by 2040 for our indirectly² managed property assets.

As announced in 2022, RLAM's new flagship development in London, The Earnshaw, looks to set new benchmarks commercially, socially and environmentally. Benefitting from impressive ESG credentials, it is designed to be rated as BREAAAM Outstanding and WELL Core Gold, and is a fully electric building. RLAM has incorporated several green initiatives into the space.

2) Climate solutions

RLAM manages £12bn in our award-winning UK domiciled sustainable investment products. The first of these was launched in 1990 and have been managed as sustainable products under their current investment process since 2001, and the nine single and multi-asset funds range from 100% equity to 100% fixed income.

The funds can invest in different areas, but all have the same underlying philosophy – to invest in companies that have a positive impact on society and have strong ESG credentials, and that will provide investors with strong returns over the long term.

During 2022 we added further to the range, with the launch of a mixed asset class Sustainable Growth Fund, and a Sustainable Short Duration Corporate Bond Fund.

Industry engagement

Organisation	Role	Key activity in 2022
Investment Association	<ul style="list-style-type: none"> · Sustainability Committee member · Participant in: <ul style="list-style-type: none"> · Climate Change Working Group · Impact Investing Working Group · Sustainable Disclosures Regime (SDR) Working Group 	<ul style="list-style-type: none"> · Reviewed draft of Sustainable Disclosures Regulation and provided feedback to discussion and consultation papers, including defining sustainable and impact investing · Defining impact investing in public and private markets
Association of British Insurers (ABI)	<ul style="list-style-type: none"> · Participant in Climate Change Steering and Working Groups · Financial and Corporate Reporting Committee 	<ul style="list-style-type: none"> · Response to the call for evidence on the independent review of the Government's approach to delivering net zero
The Institutional Investors Group on Climate Change (IIGCC)	<ul style="list-style-type: none"> · Utilities Sector Working Group (Co-chair) 	<ul style="list-style-type: none"> · Contributed to a letter for European utilities on energy security and affordability considerations and proactive lobbying for climate policies · Provided feedback to sector methodologies (banks, oil and gas)
Climate Financial Risk Forum (CFRF)	<ul style="list-style-type: none"> · Main forum member · Transition to Net Zero Working Group participant · Data, Disclosures and Metrics Working Group participant 	<ul style="list-style-type: none"> · Chaired and contributed to various workstreams from the working groups resulting in publications including the guidelines on climate solutions, managing legal risks of disclosures and a carbon primer for financial institutions
Financing a Just Transition Alliance	<ul style="list-style-type: none"> · Member of main forum 	<ul style="list-style-type: none"> · 'Making transition plans just' report published · Contributed to a tool for integrating a Just Transition in banking and investing activities launched at COP27
Institute and Faculty of Actuaries (IFoA)	<ul style="list-style-type: none"> · Net Zero Portfolio Alignment Working Group participant · Life Climate Change Working Party 	<ul style="list-style-type: none"> · 'Net Zero Investing – A Beginner's Guide' published · Co-presented at the annual IFoA Life Conference on 'Practical Insights into the Implementation of Climate Risk Management'

3) Engagement

Using our position as the UK's largest life, pensions and investment mutual we seek to influence the behaviour of investee companies, the financial services industry, regulators and policymakers, targeting real-world positive impact for the benefit of our members, customers and society at large.

We have a long track record as a responsible investor and actively engage with companies we invest in, influencing them to transition to a sustainable world while considering the impact of this transition on society. We also:

- actively exercise our rights as an asset owner;
- apprise key asset managers (including RLAM) of our priority asset owner engagement themes; and
- reserve the right to decide on the exclusions that are important to our customers.

During 2022 RLAM engaged with 393 investee companies on 604 separate occasions, through which 22 ESG topics were addressed and 45% was climate-related engagement. RLAM has also:

- engaged with 175 investee companies on climate, of these 175 companies, 40 representing 51% financed emissions were part of RLAM's net zero engagement programme;
- expanded our Just Transition engagement to include banks and social housing in addition to our focus on utilities. We reached out to 31 companies specifically in relation to the Just Transition; and
- sent 133 voting engagement letters advising investees of voting rationale in the instances of an abstain or against vote during the year.

As well as engagement through our asset managers, we collaborate with other institutional investors, both as an asset owner and through our asset manager subsidiary, RLAM. By actively collaborating with industry bodies on key climate-related issues and using our position to influence others, we are able to further Royal London's positive impact. Over 2022 we led and participated in a number of industry forums and initiatives focused on minimising and mitigating the effects of the climate crisis.

4) Operational

We recognise the contribution of our own operations and value chain to the climate crisis.

During 2022 we developed Royal London's non-investment-related Scope 3 net zero commitments, setting a target to be net zero by 2050 with a 50% reduction by 2030, while continuing to work toward reaching net zero Scope 1 and 2 emissions by 2030. Through implementing further energy-saving initiatives, our Scope 1 and Scope 2 location-based emissions have reduced by 2,312 tCO₂e (72%) against the baseline year (2019). Working in partnership with Mitie Energy, an external consultant, we identified that the main contributors to our value chain (non-investment Scope 3) emissions over the last three years were:

- purchased goods and services;
- employee commuting and emissions relating to homeworking; and
- business travel (mainly emissions associated with air travel).

In 2022, these accounted for 88% of our value chain emissions. Our net zero strategy has a priority focus on reducing these emissions as much as possible while continuing to pursue improvements in lower-emission categories such as waste and water.

Progress against our climate commitments *continued*

Operational and value chain metrics

Our 2022 operational and value chain emissions, and other environmental metrics, are shown in the table below against equivalent measurements over the previous year, 2021, and our baseline year, 2019.

		2022 ¹	2021	2019 (baseline year)	Change against baseline year	Target
Scope 1 GHG emissions (tCO₂e)²		254	420	1,210	-79%	60% absolute reduction by 2025 and net zero by 2030
Scope 2 GHG emissions (tCO₂e)³	Market-based	16	94	1,802	-99%	Purchase 100% renewable energy for electricity by 2025
	Location-based	645	752	2,001	-68%	
Scope 1 and 2 GHG (market-based) per FTE⁴ (tCO₂e)		0.08	0.13	0.71	-89%	
Scope 1 and 2 energy consumption (kWh)		4,519,309	5,575,472	13,240,157	-66%	
Scope 3 GHG (value chain) emissions (tCO₂e)¹³						
	Category 1. Purchased goods & services ⁵	2,940	3,336	4,014	-27%	
	Category 2. Capital goods ⁵	48	7	41	17%	
	Category 3. Fuel & energy related activities ⁶	615	586	1,035	-41%	
	Category 4. Upstream transportation & distribution ⁷	7	2	12	-45%	
	Category 5. Waste generated in operations ⁸	17	11	41	-58%	
	Category 6. Business travel ⁹	994	207	2,537	-61%	
	Category 7. Employee commuting & homeworking ¹⁰	2,385	2,967	2,552	-7%	
	Category 8. Upstream leased assets ¹¹	643	654	214	200%	
	Category 13. Downstream leased assets ¹²	0	0	253	-100%	
Scope 3 GHG (value chain) emissions (tCO₂e)	Total	7,649	7,770	10,699	-29%	Reduction of 50% by 2030 and net zero by 2050
Paper use¹⁴	Total (t)	631	945	1,111	-43%	
	Internal paper per policy (g)	0.81	0.98	6	-87%	Reduction of 90% per policy by 2025
	External paper per policy (g)	102	154	192	-47%	Reduction of 50% per policy by 2025
Waste (t)¹⁵	Total	358	338	727	-51%	Reduction of 50% per FTE by 2025 and continue to send zero waste to landfill
	Per FTE ⁴	0.06	0.05	0.15	-60%	
Water consumption (cubic metres)¹⁵	Total	9,263	8,761	31,916	-71%	Reduction of 15% per FTE by 2025
	Per FTE ⁴	1.5	1	6	-75%	

Streamlined energy and carbon reporting: operations and investment properties¹⁶

	2022	2021	2019 (baseline)
Scope 1 (tCO ₂ e)	3,566	3,535	4,554
Scope 2 (market-based) (tCO ₂ e)	16	94	1,567
Scope 2 (location-based) (tCO ₂ e)	6,135	5,891	10,540
Scopes 1 and 2 (market-based) emissions per sqm (tCO ₂ e)	0.001	0.005	0.013

* Footnotes on page 37.

Non-financial information statement

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

Reporting requirement	Relevant policies and disclosures reference on website ¹	Annual Report and Accounts page
Environmental matters	Our climate change commitments	<ul style="list-style-type: none"> Chairman's statement on pages 4 to 5 Our focus on climate on pages 24 to 36 Streamlined energy and carbon reporting on page 36
Employees	Inclusion and diversity – Royal London	<ul style="list-style-type: none"> Group Chief Executive's review on pages 6 to 7 Our stakeholders on pages 16 to 21 Corporate governance on page 62
Social matters	Our social impact commitments	<ul style="list-style-type: none"> Chairman's statement on pages 4 to 5 Our business model and Our Purpose outcomes on pages 10 to 13 Our stakeholders on pages 16 to 21
Human rights	Modern Slavery Act – Royal London	<ul style="list-style-type: none"> Our stakeholders on pages 16 to 21
Anti-bribery and corruption		<ul style="list-style-type: none"> Our risk overview on pages 53 to 55
Business model		<ul style="list-style-type: none"> Our business model on pages 10 to 11
Non-financial key performance Indicators (KPIs)		<ul style="list-style-type: none"> Non-financial KPIs on page 15
Principal risks and uncertainties		<ul style="list-style-type: none"> Principal risks and uncertainties on pages 56 to 59 Longer-term viability statement on pages 60 to 61 Report of the Risk and Capital Committee on pages 87 to 89

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

Footnotes for Operational and value chain metrics table

- Our Scope 1, 2 and 3 emissions from 1 January 2022 to 31 December 2022 shown in the operational and value chain metrics table have been assured by ERM CVS, an independent external assurance provider, to a limited level of assurance. This assurance included a review of activity data and the calculation of emissions. Full details of the scope, activities, limitations, and conclusions of ERM CVS's assurance engagement are included in its Assurance Statement at www.royallondon.com. The 2019 baseline figures have been adjusted following review and further data becoming available. We have changed our approach from an operational control to a financial control approach. This change resulted in a re-categorisation of emissions from the consumption of natural gas and electricity at our London, Alderley Park and Liverpool offices from Scope 1 and 2 to Scope 3 (category 8). We have applied this change in approach back to our 2019 baseline year. Police Mutual Assurance Society data and energy data from Wealth Wizards is included from acquisition.
- Reported Scope 1 emissions: covers emissions generated from the gas and oil used in buildings, emissions generated from Group-owned vehicles and company cars used for business travel, and fugitive emissions arising from the use of air-conditioning and chiller/refrigerant equipment.
- Reported Scope 2 emissions: covers emissions generated from the use of electricity in buildings and electric vehicles owned by the Company and has been calculated in accordance with Greenhouse Gas Protocol guidelines in both location-based and market-based methodologies.
- Full-time equivalent.
- Covers emissions from the extraction, production, and transportation of goods and services purchased.
- Covers emissions from the extraction, production, and transportation of fuels and energy purchased.
- Covers emissions from the transportation and distribution from the water supply to the offices.
- Covers emissions from the disposal and treatment of waste generated from the offices.
- Covers emissions generated from Group rail and air business travel, hotel stays, taxi travel, and personal car use. Data excludes Wealth Wizards.
- Covers emissions from transportation of employees between their homes and their work sites (in vehicles not owned or operated by the Group). In addition, covers emissions from employees working from home.
- Covers emissions from the operation of assets leased by the Group (lessee) and not included in Scope 1 and Scope 2. The significant increase against the baseline is due to our move from our old Wilmslow estate (Scope 1 & 2) to our new Alderley Park Office (Scope 3, Category 8).
- Covers emissions from the operation of assets owned by the reporting company (lessor) and leased to other entities. There were no Royal London Group downstream leased assets in 2021 and 2022.
- Categories 9, 10, 11, 12 and 14 of Scope 3 are not applicable to Royal London. Category 15 (Investments) emissions data is reported on page 34.
- Paper data is based on actual volumes from suppliers. The 2019 baseline figures and subsequent years have been adjusted due to further data becoming available. The data excludes third-party service providers and Wealth Wizards.
- Waste and water data is based on actual volumes where available, estimations and invoice data. Data excludes Wealth Wizards and offices where provision is covered by service charge.

Footnotes for Streamlined energy and carbon reporting table

- The operational reporting period is 1 January 2022 to 31 December 2022 however the investment property reporting period is 1 October 2021 to 30 September 2022, due to the timing of data availability.



“The importance of independent advice and investment diversification has never been clearer.”

Jo Kite
Chief Customer Officer

4.3m

Long-standing policies migrated onto new technology since 2020

£10,573m

Present Value of New Business Premiums

Highlights

- Operating profit: £305m (2021: £227m)
- Present Value of New Business Premiums: £10,573m (2021: £9,403m)
- Governed Range assets reached £53bn (2021: £51bn)

UK awards

- Feefo Platinum Trusted Service Award 2022 - Gold standard for three consecutive years
- 2022 Protection Guru – Best Insurer for Protecting Hard to Cover Clients
- 2022 Financial Adviser Service Awards (FASA) retained 5 stars for Protection and Pension; achieving this for the 9th and 14th year in a row respectively
- Bronze Winner Most Authentic Approach to Diversity and Inclusion: UK National Contact Centre Awards 2022
- Corporate Adviser Awards: 5 stars for service
- Commended Best Group Pension Provider and Highly Commended Best Income Drawdown Provider – Moneyfacts Investment Life & Pensions Awards 2022
- 2022 Benefits Guru Workplace Pension Two Gold Ratings (overall Workplace Pension and Auto Enrolment Offering)
- Best Protection Provider – Money Marketing Awards

Market overview

Financial uncertainty has featured heavily for many throughout the year with disposable income levels being squeezed against the backdrop of climbing energy prices and spiralling food costs.

The market for Protection new business was broadly flat in 2022 as a result of these pressures, with almost one in ten customers saying they anticipated reducing, or stopping, their protection premiums¹. This meant customer reassurance was key – ensuring that decisions being made did not lead to further financial insecurity.

However, the low level of UK unemployment seen across the year has driven a higher level of workplace participation, reflecting increased confidence as Covid-19 restrictions were lifted. The turbulence in many investment markets throughout the year underlined the value of broad diversification in our Governed Range portfolios to improve resilience to such market shocks.

The ethical and social risks of complex supply chains have been highlighted by the war in Ukraine, bringing our sustainability and responsible investment commitments into sharp focus. 2022 saw our continued commitment to invest the money in our care responsibly, increasing our industry's ability to influence those who can make the biggest difference.

Business performance

Our Pensions business performed well over 2022, with our continued focus on core service proposition and investment performance allowing us to capitalise on the continued recovery in the UK employment market. Our total number of members increased to over 2 million (2021: 1.8 million).

Protection new business sales reduced, as customers experienced rising inflation and cost of living pressures, with our own research indicating over 80% of our customers have changed their spending habits to some degree. Our customers are generally more resilient than the broader UK population, but they still face significant financial pressures. This throws an even sharper focus on the importance of helping our customers build financial resilience.

Throughout the year, we have improved key processes, customer support and product solutions that specifically help customers make better decisions and achieve good outcomes. These include simplifying pensions consolidation, improving the protection claims experience, offering wellbeing support and increasing access to advice by helping advisers reach more clients.

Whole of Life customers can now nominate beneficiaries, we offer a broader range of protection options and we have continued to develop our annuity offering. We have started to define a support and guidance service for our later life customers, introduced a referral service for advisers to source lending products for their clients and made changes to our funeral plan product that support regulatory objectives to create a fairer market that meets customer needs.

We enhanced our digital offering for advisers and customers, providing increasingly efficient services while also reducing paper usage.

Pensions

Workplace Pensions saw a significant increase in both new entrants to existing schemes and new employers choosing Royal London, leading to new business sales increasing by 29% to £4,114m.

We continued our focus on Workplace Pensions consolidation process improvements. More and more customers are now making these requests digitally via the mobile app and we introduced a fast-track question-set, reducing the time taken to complete transfers by removing the need to contact the previous provider for over a quarter of customer requests.

We have streamlined our approach to scheme eligibility, with over 90% of applications we receive being accepted at the outset without the need for physical evidence from the adviser or previous provider. We are also continuing to invest in the digital experience of customers, with the implementation of a fully digital consolidation experience which went live in January 2023.

Our Individual Pensions new business sales increased by 10% to £5,219m supported by the relative investment performance from our flagship Governed Range, alongside positive communication around our investment range to advisers and customers through our app. We have continued to focus on highlighting Royal London's approach to responsible investment and raising awareness among customers about the power their pension investments can have in making a difference. Our service teams continue to work towards providing faster responses to customers, and we have seen the effect of this in customer feedback.

We focused on the future of advice, promoting the value of financial advice for customers, and have provided dashboards to advisers allowing them to manage their client portfolios more effectively. Our work in this area has resulted in more customers taking guidance from Pensions Wise in 2022.

Protection

Sales of our Protection products fell 17% to £1,037m, as we saw increasing competition in a broadly flat market. We continue to manage the mix of our business to ensure we write profitable business through advisers and distributors who will deliver good customer outcomes. Part of the reduction in sales is a result of our decision to exit the Over 50s life insurance market at the end of 2022, following the shrinkage in the market whilst the cost of reinsurance has increased. We paid out £590m in protection claims supporting approximately 74,000 customers and their families.

Through the year we have continued to enhance our support for advisers, to help them operate efficiently and focus their time where it adds most value to customers. We delivered a dashboard to provide online, proactive updates to advisers and reduce demand on our servicing teams and as at the end of January 2023 we have had over 140,000 uses of the online service.

We have provided thought leadership around the impact of the FCA's new Consumer Duty, encouraging advisers to focus on the customer outcome and value rather than purely on price, and encouraging them to ensure protection cover is considered as a key part of building financial resilience and avoiding foreseeable harm.

1. Royal London Cost of Living Report September 2022.

We have also focused on improving experience and engagement for our customers, with the launch of the MyRoyalLondon portal for Protection customers. This portal enables customers to see the progress of their applications online and provides a platform for ongoing regular communication.

We continuously seek to improve our overall proposition, delivering incremental changes regularly to ensure we continue to meet customers' needs. This year we broadened our Critical Illness definitions to increase coverage for certain heart conditions and to improve children's cover. We also extended the use of our successful 'Underwrite Later' approach to cover more products and sums assured, enabling immediate cover for customers whilst underwriting is carried out and widened our capturing of nominated beneficiaries for Whole of Life customers, helping claims to be paid more quickly. We were also able to improve our underwriting approach for mental health disclosures, allowing decisions to be made more swiftly or cover to be provided in more situations.

Annuities

Our annuity proposition was launched in 2021 and provides a Royal London annuity to long-standing customers invested in the Royal London (CIS) Sub-Fund with pension policies that have guaranteed annuity rates. Over 2022 we have continued to expand our annuities portfolio (called a Matching Adjustment portfolio) to create value for our members. As well as providing an option for long-standing customers to remain with Royal London, we transferred £112m of Scottish Life deferred annuities and £233m of Royal London (CIS) annuities in payment into the Royal London Main Fund Matching Adjustment portfolio. Total annuities new business volumes increased by 17% to £190m, despite the significant rise in bond yields over the second half of 2022 reducing the average value of customers' pots at retirement.

Value enhancement

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

During 2022 we successfully completed a consultation process with our with-profits policyholders in two of the with-profits funds that are closed to new business, to merge these funds into the Royal London Main Fund, our largest with-profits fund. We implemented the changes for the Phoenix Life Assurance Limited (PLAL) Fund and the Royal Liver Fund on 31 December 2022, the latter following resounding approval from eligible policyholders, as well as from the UK High Court and the Irish High Court. These changes sped up the distribution of surplus to those with-profits policyholders through immediate uplifts to policy values of 5.6% and 23.1% for PLAL and Royal Liver policyholders respectively.

Our successes in 2022 built upon our extensive programme of work, which has previously seen the Refuge Assurance Industrial Branch Fund, United Friendly Industrial Branch Fund, United Friendly Ordinary Branch Fund, and the Scottish Life Fund merged into the Royal London Main Fund. We have now reduced the number of funds in our UK business structure from eight in 2020 to just two at the end of 2022.

In addition to the immediate benefits for these long-standing customers, our Legacy Simplification programme has reduced the complexity in our systems and processes, helping us to deliver better customer outcomes. By completing the three-year migration of 4.3 million long-standing policies from older mainframe systems onto new technology, we have improved the quality of customers' servicing experience.

Looking ahead

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

Asset Management



“Despite the difficult market backdrop, we continued to achieve net inflows and deliver a strong three-year investment performance.”

Hans Georgeson
Chief Executive – RLAM

80%

Three-year actively managed fund outperformance vs benchmark

£1,709m

Net external inflows

Highlights

- Operating profit: £32m (2021: £71m)
- Assets under management: £147bn (2021: £164bn)
- Gross external inflows: £17,104m (2021: £17,910m)
- Net external inflows: £1,709m (2021: £4,372m)
- Three-year actively managed fund outperformance vs benchmark: 80% (2021: 99%)¹

Asset Management awards

- Investment team of the year – RLAM Sustainable investment team (Insurance Asset Risk Awards)
- Equities Manager of the Year (Insurance Asset Risk Awards)
- Best Multi Asset Fund: Sustainable (Professional Adviser Awards)
- Category winner, Global ESG Fixed Income: Active – RL Global Sustainable Credit Fund (ESG Clarity Awards)
- Asset Manager of the Year (Money Age Asset Management Awards)
- Investment Providers category 5 Star winner (FASA)
- Active Global Equity Fund of the Year (Lonsec Awards, Australia)

Market overview

High inflation at the end of 2021, driven by the Covid-19 pandemic and supply chain constraints, increased further in 2022 and was exacerbated by the war in Ukraine. The conflict triggered the sharpest increase in bond yields since 1994, a strong sell-off across most equity market sectors and an energy crisis that has driven double-digit inflation rates in the second half of the year. Alongside this, there has been an increased level of instability as a result of the changing composition of the UK Government and its fiscal policy. The surge in inflation meant that central banks have been forced to intervene, raising interest rates whilst signalling that further rises are likely. The hike in rates globally has made for a more challenging economic environment for returns across all asset classes.

Growth, both domestically and globally, has slowed during the year and there is a threat of a recession in the UK in 2023. As a result, fiscal policy changes are now at the forefront as governments intervene to limit the impacts of an economic downturn and central banks flex monetary policy to wrestle with high and persistent inflation.

Within the investment management sector, the trends we identified in recent years have continued to affect investor behaviour and preferences. For example, when looking at product type, the move into globally focused strategies has continued, with clients moving away from more narrow UK equity and fixed income strategies. Responsible investment and the interest in sustainable investing continues to gather momentum – partly driven by regulatory change but more notably, due to underlying client interest, as investors increasingly want to know and understand the impact of their holdings on issues such as climate change.

Business performance

Operating profit reduced to £32m (2021: £71m), driven by lower performance fees as a result of the challenging investment environment and increased investment in core infrastructure as we embark on the implementation of the BlackRock Aladdin enterprise solution. In response to the market backdrop, costs have been closely managed and we have taken a controlled approach to hiring throughout the year.

In spite of challenging market conditions, we are continuing to invest in our strategic priority to build RLAM's systems, product and people capabilities for the longer term. We continue to focus on growth in Global Equities and Global Credit capabilities, whilst investment in our Property capability remains a key focus with several senior individuals joining in the year to support our investment plans.

Delivering investment performance above the relevant benchmark for our clients is key to our success. Even though conditions faced by investment teams in the year have been difficult, our three-year performance track record remains strong across our fund range in 2022 with 80% of our actively managed funds outperforming their benchmark over the three years to 31 December 2022 (2021: 99%)¹.

Peer rankings remain positive for key open-ended investment companies (OEICs) for the three years to 31 December 2022. Over the three-year period, 85% (2021: 89%) of funds were in the top two quartiles, with two Sustainable funds remaining in the top decile of their respective peer groups, despite a difficult 2022.

1. 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.



Flows and funds

Falls in asset values led to a decline of £20.3bn in assets under management. The decrease was partially offset by positive overall net flows of £3.7bn, resulting in assets under management falling to £147.2bn (2021: £163.8bn).

Despite the challenging macroeconomic and geopolitical environment in 2022, net flows remained positive. Internal flows increased to £2.0bn (2021: £0.9bn) due to higher gross inflows from our pensions business. External net inflows fell to £1.7bn (2021: £4.4bn) driven primarily by net inflows of £2.6bn into our Global Equity strategies, partially offset by net outflows of £0.9bn across our other offerings.

Our Sustainable fund range ended the year in a marginal net outflow position of £0.1bn (2021: £2.1bn net inflow). Although market appetite for responsible investment remains strong, investment returns across sustainable funds have been at lower levels in comparison to previous years, mainly due to the strong performance of oil and gas companies as the war in Ukraine inflated energy prices and technology valuations reduced due to the higher interest rate environment.

Cash funds have seen increased volatility in flows in the year. This was primarily due to events around September's mini-budget, when sharply rising gilt yields had a knock-on effect that meant institutional clients with leveraged liability driven investment portfolios managed by other institutions withdrew £2.1bn as they managed their liquidity requirements. This impact was offset by wholesale clients buying our short-term fixed income funds, as the yields available on cash funds rose sharply from the record lows seen in recent years and climbed back to levels seen before the Global Financial Crisis.

Our commitment to take our services to a wider audience has included expansion into Europe in 2022. We now have an established distribution partner based in Luxembourg allowing us to offer our services in the EU and have registered a number of key strategies in areas such as Global Credit, Global Equities and Global Sustainable for sale in several countries.

As we grow our product range and extend our distribution reach, we continue to focus on making it easier for existing and prospective clients to gain insights into our strategies. We have continued to publish a number of articles and blog posts, backed by multiple online webinars and podcasts, including short-notice events when markets were particularly volatile in the autumn.

Responsible investment

Responsible investing is a core capability and our investment teams are supported by specialists in climate change, corporate governance and other environmental, social and governance (ESG) topics. In 2022 we built an ESG analytics tool which allows teams to view key carbon and sustainability metrics to support deeper insights and analysis. We also worked with consultants to assist in developing our climate transition action plan, which will help us achieve our net zero carbon ambitions. As part of our net zero commitment, we have identified and engaged with 40 companies that represent 51% of our overall financed emissions, with our goal being to better align our highest emitting companies with a net zero pathway.

We continue to launch new funds, adding another fund to our Sustainable multi-asset range and launching Global Equity Transitions, a fund that invests in companies to support the transition to more sustainable activities over time. We have also responded to greater regulatory demands, implementing technology and reporting tools to meet new regulatory requirements and provided feedback to regulators on the adoption of a new sustainable fund labelling regime in the UK.

Looking ahead

The success of our asset management business in recent years is evident, but in a competitive market and against a backdrop of economic uncertainty we continue to look for ways to improve our capabilities to meet the needs of our clients – both in the investment strategies we provide and the service we offer. We are continuing to invest in the business for the longer term and have made good progress in our investment in our technology and developing our strategic priorities, particularly in supporting growth in Property and International business channels.

Our investment in our Property team strengthens our investment capability, broadening the range of asset classes we invest in and taking our product range to third-party investors. Continued investment in infrastructure and technology enables us to simplify our operating model, develop more complex propositions for clients and build scale for future growth.

Ireland



“The successful launch of our new pensions proposition expands our customer offering in Ireland.”

Noel Freeley

Chief Executive – Royal London Insurance DAC

30.2%

Irish intermediated (broker)
protection market share

£203m

Present Value of New Business Premiums

Highlights

- Operating profit: £5m (2021: £16m)
- Present Value of New Business Premiums: £203m (2021: £185m)
- Number one position in the Irish intermediated (broker) protection market achieved, with 30.2% market share¹
- Achieved Investors in Diversity: Silver accreditation (Irish Centre for Diversity)
- Expanded our business to offer a compelling new pension proposition in Ireland

Ireland awards

- Overall Financial Services Excellence, which is awarded to the overall winner in the market (2022 Brokers Ireland Excellence Awards)
- Protection Provider Excellence (2022 Brokers Ireland Excellence Awards)
- Service Excellence (2022 Brokers Ireland Excellence Awards) – fifth consecutive win
- Excellence in Broker Support (2022 Brokers Ireland Excellence Awards)
- Best Mortgage Protection (2022 National Consumer Awards)

Market overview

The broker protection market in Ireland continued to grow in 2022. Within this market, we were the first provider in Ireland to remove the broad questions related to Covid-19 from applications, allowing larger amounts of cover and more older age customers to get the cover they needed.

Brokers continue to be the largest distribution channel in the Irish market. Our view is that impartial financial advice is key to customers achieving the best outcomes. We are firm believers in the value of advice and that brokers help customers optimise their financial resilience and to deliver good outcomes.

Business performance

Our Irish business had another successful year, recording its highest ever level of new business sales and maintaining its market leader¹ status in the Irish broker protection market. New business sales increased to £203m (2021: £185m), however overall operating profit reduced to £5m (2021: £16m) driven by a loss on existing business arising from fund consolidation activity. As part of our next stage of development, we launched our new pension proposition in September.

We were proud to achieve the Investors in Diversity: Silver Accreditation from the Irish Centre for Diversity, Ireland's premier Diversity and Inclusion accreditation mark. Supported by Ibec, the programme both recognises existing efforts and supports the journey of continuous improvement by providing a structured framework to transform workplace practices and culture.

For the first time we launched a nationwide advertising campaign in Ireland. The campaign included television and video on demand adverts, as well as online video and paid social media. Through these adverts we conveyed our rich and long heritage in Ireland providing valued products and encouraged viewers to contact their financial broker. The campaign reached over 90% of our target audience and accounted for a 6% increase in our brand awareness amongst Irish consumers.

Protection

Sales of our Protection products increased to £198m (2021: £185m), as we continued to help customers and their families protect themselves and build their financial resilience.

Throughout 2022, we have continued our focus on service excellence. This included digital enhancements to help financial brokers and their customers.

We also continued to innovate and improve our product proposition. This included improvements to our Income Protection product and to our Specified Serious Illness offering, expanding the illnesses we cover. We were the first provider to introduce a Specified Serious Illness partial payment covering adults being treated for a specified severe mental illness.

We continued to provide financial brokers with support to help them in their protection conversations, aimed at ensuring customers have plans in place to build their financial resilience. We did this through regular meetings with brokers and our consultants, regular ezine and collateral updates and technical and sales focused webinars, with an average of more than 900 brokers registering to attend each event.

Our culture of empowering our people and a customer-first approach is key to our service delivery, and means our colleagues provide a 'one and done' service which strengthens our strong relationships with financial brokers.

We paid out over £41m in claims to over 5,000 customers and their families across all Protection business. Over and above these financial pay-outs, we provided access to counselling and other services through our Helping Hand support service.

Pensions

Our position as market leader in broker protection products¹ provides a strong distribution platform to build from to broaden our offer to include pensions. In September 2022, we launched a Personal Retirement Bond and an Approved Retirement Fund. Underpinned by strong customer service, these products offer a range of unique product features including zero policy fees or fund switching charges, automatic portfolio rebalancing and ValueShare, the Royal London Ireland equivalent of ProfitShare. This feature is unique in the Irish market and demonstrates our mutual mindset.

Following several years of consultation with financial brokers and significant capital investment, we have created a compelling pension proposition that aims to deliver value for money and competitive pricing for customers, combined with access to funds provided by our in-house asset manager RLAM and a further range of funds from BlackRock.

Looking ahead

We continue to improve and adapt our Protection products and services, with broadening our proposition and enhancing customer choice at the forefront of all our decisions. Further growth is anticipated in our Pensions proposition as we embed our new offering and we will continue to develop our proposition to the market in 2023.

We are committed to the continued distribution of our valued products through financial brokers in Ireland with impartial advice key to ensuring the best customer outcomes.

We will champion the value of advice and the importance of building financial resilience and moving fairly to a sustainable world as we help protect the standard of living of this and future generations.

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

Financial review



“In 2022 we delivered a 58% increase in operating profit and our capital ratio has remained resilient, allowing us to continue to invest for the longer term benefit of our members.”

Daniel Cazeaux
Group Chief Financial Officer

The financial markets have experienced significant turmoil during 2022, adjusting to interest rate increases in the face of inflationary pressures alongside ongoing supply chain constraints and geopolitical events such as the war in Ukraine. Despite these challenging conditions, Group operating profit before tax for the year ended 31 December 2022 increased to £210m (2021: £133m) following higher contributions from our pensions and annuities products and our continuing focus on cost control throughout the year.

There was a transfer from the fund for future appropriations (FFA)¹ of £162m (2021: transfer to FFA £79m), which reflects the adverse market movements over the year, in particular the fall in equity and bond markets, which outweighed the benefits from increased yields.

Overall we delivered a 12% increase in new business premiums driven primarily by our Individual and Workplace Pensions propositions. The falls in investment markets over the course of 2022 have impacted assets under management in RLAM which were 10% lower at £147bn. Whilst this has affected revenue, we have continued to invest in investment capabilities and systems which will support longer-term growth.

Given the current inflationary environment we have taken action to manage our cost base over the course of 2022 which protects the value of our in-force business and positions us well as we start 2023. This has included focused optimisation of spend, rationalisation of suppliers and a consolidation of our office space in Edinburgh. All of these actions have allowed us to mitigate the impact of inflation over 2022.

The Group's result in 2022 benefited from two significant items. Following the successful launch of our annuity proposition last year, we completed further transfers into our ring-fenced annuity portfolio. As part of this we have invested in higher yielding long-term assets allowing us to recognise a gain of £31m (2021: £32m) from the change to the rate used to discount the liabilities. There has also been a £31m (2021: £26m) contribution from closed funds to the Royal London Main Fund (Main Fund), representing compensation for providing capital support for the transferred business following the consolidation of two with-profits funds into the Main Fund.

ProfitShare for the year totalled £155m (2021: £169m), with underlying allocation rates maintained at prior year levels, demonstrating our consistent approach to sharing returns with eligible customers.

Our capital position remains robust with the estimated Solvency II Investor View capital cover ratio stable at 213% (31 December 2021: 216%) despite the movements in yields and asset values, with our hedging programmes operating as intended. The estimated Solvency II Regulatory View capital cover ratio has increased to 206% (31 December 2021: 173%), driven by the increases in yields during the year reducing the closed fund capital requirements, in particular in relation to guaranteed annuity options.

1. This 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.

Financial performance

The following table shows the Group operating profit for the year ended 31 December 2022. Further detail on the Group's segmental reporting is included on pages 130 to 131.

Group operating profit before tax

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

New business contribution

Total sales (i.e. Present Value of New Business Premiums) increased 12% to £10,776m (2021: £9,588m), reflecting strong sales growth in both Individual and Workplace Pensions, partially offset by a reduction in Protection new business sales following the higher sales we experienced over 2020 and 2021.

Overall new business contribution was broadly flat at £163m (2021: £164m) as the strong growth in pensions sales alongside growth in annuity product contributions were offset by the reduction in Protection new business contribution.

	New business contribution		PVNBP		New business margin	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 %	2021 %
Individual Pensions	83	78	5,219	4,766	1.6	1.6
Workplace Pensions	43	30	4,114	3,200	1.0	0.9
Protection	11	39	1,037	1,251	1.1	3.1
Annuities and other	9	–	203	186	4.5	(0.1)
UK	146	147	10,573	9,403	1.4	1.6
Ireland	17	17	203	185	8.5	9.2
Total	163	164	10,776	9,588	1.5	1.7

UK

Individual Pensions new business sales increased to £5,219m (2021: £4,766m) with growth in the first half of 2022 following an increased number of face-to-face adviser appointments post-pandemic. Sales levels were supported by the benefits of the relative performance and diversification of our flagship Governed Range. New business margin was flat at 1.6%.

Workplace Pensions new business sales grew by 29% to £4,114m (2021: £3,200m) with an increased number of new entrants into existing schemes reflecting a strong UK employment market across the year, and an increased number of new scheme wins. Growth was supported by improvements to our customer proposition, including digitalisation of the pension consolidation request process via our mobile app and the introduction of our interactive Royal London Financial Wellbeing service giving customers tailored guidance to help them make informed decisions across their life stages. New business margin increased from 0.9% to 1.0% reflecting the increased sales.

Protection sales fell to £1,037m (2021: £1,251m) reflecting the increasing competition in a broadly stable market, with new business margin decreased from 3.1% to 1.1% as a result of the lower volumes against a largely flat cost base.

Annuities and other business sales increased to £203m (2021: £186m) with the current period reflecting a full year of annuity trading.

Ireland

New business sales grew to £203m (2021: £185m) reflecting both an increase in our protection sales to £198m (2021: £185m) and £5m of pension sales, following the launch of our new pension product in September 2022. Enhanced application and underwriting processes helped to support the continued growth in our protection business. The reduction in new business margin to 8.5% (2021: 9.2%) reflects a change in business mix.

Existing business contribution

Existing business contribution increased to £181m (2021: £125m), the components of which are shown in the table below.

	2022 £m	2021 £m	Change £m
Expected return	108	117	(9)
Experience variances and assumption changes	(10)	(56)	46
Modelling and other changes	83	64	19
Total	181	125	56

Expected return reduced to £108m (2021: £117m) reflecting changes in the Group's asset mix.

Experience variances and assumption changes were a charge of £10m (2021: charge of £56m). Experience variances were small over the period, reflecting experience in line with long-term assumptions through 2022 overall. There have been minor updates to long-term expense, persistency, mortality and longevity assumptions reflecting recent experience as well as latest views on long-term future experience following the pandemic.

As part of our ongoing activities to ensure our actuarial models remain as reliable as possible and take account of the most recent experience data, we continue to make minor modelling changes. In 2022, the benefit of these changes amounted to £21m (2021: £6m). 2022 also benefited from the following one-off activities:

- During the year we transferred £112m of Scottish Life deferred annuities and £233m of Royal London (CIS) annuities in payment into our ring-fenced annuity portfolio. This led to a benefit of £31m due to an increase in the discount rate used to value these liabilities in order to reflect the illiquidity premium relating to the backing assets.
- Following the consolidation into the Royal London Main Fund of two further with-profits funds that are closed to new business, the closed funds paid a contribution of £31m to compensate the Main Fund for providing capital support for the transferred business. This is in addition to the £26m contribution in 2021 resulting from the consolidation of four funds last year.

Contribution from AUM and other businesses

Contribution from AUM and other businesses decreased to £101m (2021: £124m) as revenues were impacted by falls in the value of the underlying assets under management.

Business development and other costs

UK business development costs of £20m are consistent with 2021. Key proposition enhancements in year included the development of the Adviser Dashboard as well as the Workplace Pensions financial wellbeing proposition through our subsidiary, Wealth Wizards. Asset Management business development costs reduced to £11m (2021: £17m) as we focused on the implementation of larger-scale investment, recognised in strategic development costs.

Strategic development costs

Strategic development costs of £71m (2021: £62m) represent the ongoing investment we are continuing to make across our businesses. It comprises £52m of costs in our UK business including continuing investment in our pensions business and the costs of the two further fund migrations under our Legacy Simplification programme, £13m in Asset Management to enhance RLAM's capabilities through additional investment in core infrastructure and systems and £6m in Ireland relating to the successful launch of our pension proposition.

Corporate and financing costs

Corporate costs of £57m (2021: £106m) include the costs of Group-wide regulatory change development, strengthening of IT security, and restructuring. The reduction reflects the completion of work on a number of areas of investment in information technology, security and resilience during 2021. Financing costs of £75m (2021: £75m) represent the interest payable on the Group's subordinated debt, which has not changed during the year.

Reconciliation of operating profit before tax to transfer (from)/to the FFA

The transfer from the FFA was £162m (2021: transfer to FFA £79m) as the increase in operating profit was offset by adverse economic movements experienced during the year.

	2022 £m	2021 £m	Change £m
Group operating profit before tax	210	133	77
Economic movements	(446)	225	(671)
Amortisation of goodwill arising from mergers and acquisitions	2	3	(1)
ProfitShare	(155)	(169)	14
(Loss)/profit before tax and before transfer (from)/to the fund for future appropriations	(389)	192	(581)
Tax attributable to long-term business	227	(113)	340
Transfer (from)/to the fund for future appropriations	(162)	79	(241)

Economic movements

Economic movements were a charge of £446m (2021: credit of £225m), as investment portfolio returns were below our longer-term expected return assumptions, following significant falls in both bond and equity markets during the year. The change in economic movements from 2021 to 2022 reflects the significant market volatility seen over this period.

Amortisation of goodwill arising from mergers and acquisitions

Amortisation of goodwill arising from mergers and acquisitions was a net credit of £2m (2021: £3m) comprising the amortisation charge of positive goodwill of £5m relating to Police Mutual and our investment in the Responsible Group offset by an amortisation credit of negative goodwill of £7m relating to historic acquisitions.

ProfitShare

ProfitShare allocation rates were maintained, with total ProfitShare for the year decreasing to £155m (2021: £169m) in line with the fall in the aggregate value of eligible policies due to market movements. The enhancements to qualifying policies from ProfitShare were 1.2% for existing with-profits policies and 0.15% for unit-linked policies (2021: 1.2% and 0.15% respectively). New with-profits policies taken out since the start of 2022 received 0.3%.

Balance sheet

Royal London continues to maintain a robust balance sheet position. Our total investment portfolio reduced in value to £104.4bn (31 December 2021: £118.1bn), as a result of fair value movements across our equity, bond and property portfolios as well as a reduction in the value of our derivatives following increases in interest rates. At 31 December 2022, £733m of assets were ring-fenced (31 December 2021: £452m) to back annuitant liabilities of £691m (31 December 2021: £427m). The ring-fenced portfolio of assets includes a mix of corporate bonds, gilts, cash and commercial real estate loans.

Our financial investment portfolio remains well diversified across financial instrument classes, with the majority invested in equity securities and fixed income assets.

A significant portion of our debt securities portfolio is in high-quality assets with a credit rating of 'A' or above. In our non-linked debt securities, 80% (31 December 2021: 85%) of our non-linked debt securities and 68% (31 December 2021: 71%) of our non-linked corporate bonds had a credit rating of 'A' or better at 31 December 2022. There have been no significant defaults in our corporate bond portfolio.

Assets under management

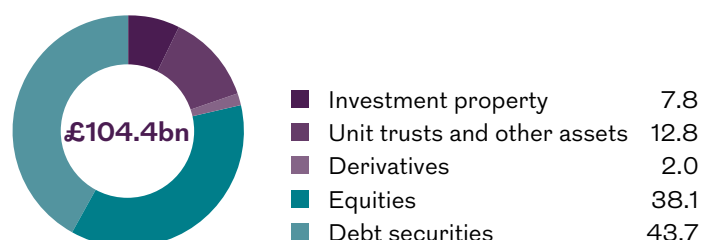
Assets under management decreased to £147bn (31 December 2021: £164bn) driven by negative market movements across equity and bond asset classes in response to the global economic slowdown, rising inflationary pressures and the geopolitical impacts of the war in Ukraine.

	Gross inflows		Net inflows	
	2022 £m	2021 £m	2022 £m	2021 £m
External flows	17,104	17,910	1,709	4,372
Internal flows	9,543	8,522	2,009	915
Total	26,647	26,432	3,718	5,287

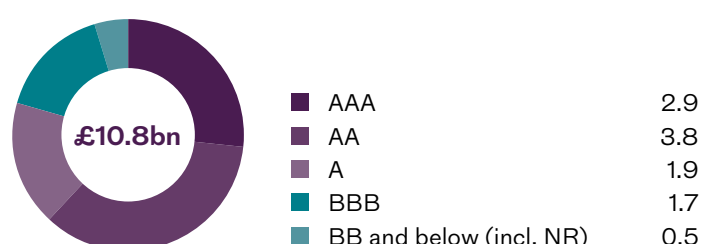
External net inflows were £1.7bn (2021: £4.4bn), driven in particular by net inflows of £2.6bn into our Global Equity strategies, offset by £0.9bn outflows across our other product offerings. Sustainable funds had a marginal net outflow of £0.1bn (2021: £2.1bn net inflow). Events around the September mini-budget meant certain institutional clients withdrew £2.1bn, in particular external pension funds following liability driven investment strategies managed by other institutions needing to meet margin calls brought about by the sharp fall in gilt values. However, this impact was more than offset by wholesale clients buying our fixed income funds as yields available on these funds rose.

Internal net inflows increased to £2.0bn (2021: £0.9bn) due to higher gross inflows from our pensions business.

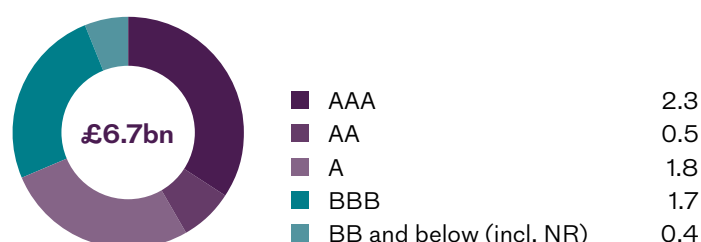
Investment portfolio: 31 December 2022 (£bn)



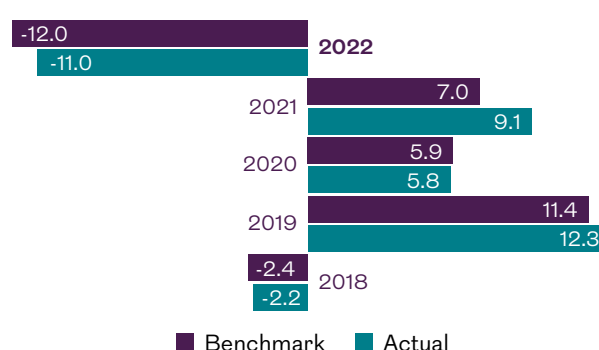
Non-linked debt security portfolio: 31 December 2022 (£bn)



Non-linked corporate bonds: 31 December 2022 (£bn)



Royal London Main Fund with-profits performance (%)



Investment returns

Whilst investors were already focused on increasing inflationary pressures following the reopening of global economies post-pandemic, these concerns were more persistent in 2022 than initially expected with supply chains being disrupted and energy prices in particular rising sharply. Inflationary pressures increased dramatically with the Russian invasion of Ukraine in February.

Central banks responded to surging inflation by changing course, with interest rates rising sharply in major economies including the US, UK and Europe. Economic growth slowed, leading to fears of recession. Against this backdrop, both equity and bond markets were weaker, particularly in areas such as government bonds where rising yields meant material losses for investors. Royal London and Royal London Asset Management portfolios generally therefore saw negative returns in 2022.

In this environment, whilst absolute returns were negative in 2022, the Royal London Main Fund outperformed its benchmark, due to strong tactical asset allocation and the outperformance of Property and Private Equity asset classes.

As at 31 December 2022, 80% of actively managed funds outperformed their three-year benchmark (2021: 99%).

Pension schemes

The Group operates three defined benefit pension schemes. The net surplus of the three schemes at 31 December 2022 was £207m (31 December 2021: £357m). The largest scheme, the Royal London Group Pension Scheme (RLGPS), which closed to future accrual of benefits on 31 March 2016, had a surplus of £112m as at 31 December 2022 (31 December 2021: £216m). The scheme remains well funded, despite significant market volatility during the year, due to the high levels of hedging within the scheme and relatively low allocations to growth assets.

The two remaining schemes operate for former Royal Liver employees. The combined Royal Liver schemes' surplus as at 31 December 2022 was £95m (31 December 2021: £141m).

Strength of our capital base

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

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

At 31 December 2022, the estimated Solvency II Group Investor View capital cover ratio was 213% (31 December 2021: 216%) and the estimated Solvency II Group Regulatory View capital cover ratio was 206% (31 December 2021: 173%). Estimated solvency surplus on both the Group Investor and Regulatory View was £2,483m (31 December 2021: £2,817m).

The Investor View ratio has remained stable over 2022, with our hedging strategy providing protection against market volatility through the year. Economic variances have been positive in cover ratio terms (primarily from rebalancing to less capital intensive assets) and have been broadly offset by the impacts of management actions (including the consolidation of two closed funds into the Main Fund) and the allocation of ProfitShare to eligible customers.

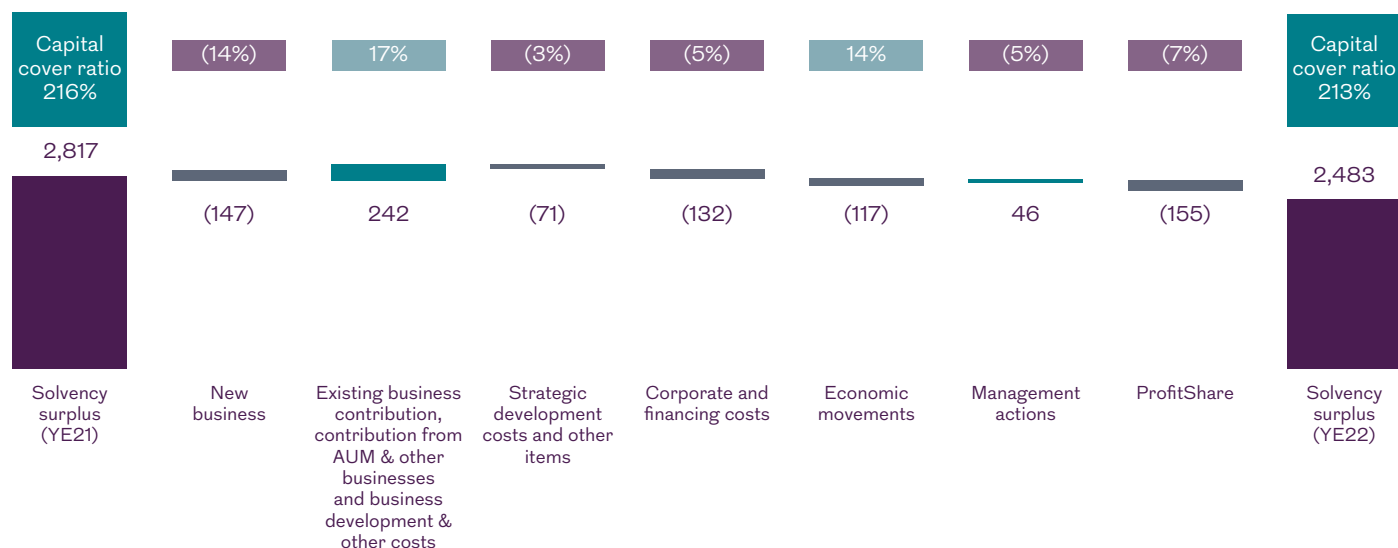
The Regulatory View ratio has increased during the year as a result of higher yields which result in a lower capital requirement in the closed funds, particularly in relation to guaranteed annuity options.

We continue to monitor closely our capital position given market volatility and wider global economic pressures. Scenario testing performed as part of our regular capital management activities has been expanded to consider further scenarios and demonstrates that our capital position continues to be robust under a number of severe but plausible market scenarios.

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

Group basis	Investor View £m	Closed funds £m	Regulatory View £m
Tier 1	3,580	2,885	6,465
Tier 2	1,210	–	1,210
Tier 3	36	–	36
Total Own Funds	4,826	2,885	7,711
Closed funds restriction	–	(2,740)	(2,740)
Tier 2 and Tier 3 Own Funds restriction	(143)	–	(143)
Adjusted Own Funds	4,683	145	4,828
SCR	2,200	145	2,345
Solvency surplus – 31 December 2022	2,483	–	2,483
Solvency surplus – 31 December 2021	2,817	–	2,817
Capital cover ratio – 31 December 2022	213%		206%
Capital cover ratio – 31 December 2021	216%		173%

Movement in Group Investor View solvency surplus (£m)



Sensitivity analysis of Group Solvency II capital position

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

The 2022 Single Group Solvency and Financial Condition Report (SFCR) will be published on our website in April 2023 and will meet disclosure requirements for both the Group and Company.

Solvency II Investor View sensitivities

Scenario ¹	Capital cover ratio (%)	Impact on solvency surplus (£bn)
Base scenario: 31 December 2022	213	2.5
25% decrease in equity investments	4	(0.2)
15% decrease in property prices	(3)	(0.1)
100bps rise in interest rates ²	–	(0.1)
100bps fall in interest rates ²	1	0.2
25bps increase in government bond yields ³	(2)	–
200bps widening in credit spreads ⁴	3	(0.1)
15% fall in GBP exchange rates ⁵	1	0.1

- Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was formally recalculated at 31 December 2022. The sensitivities do not include any subsequent rebalancing of the asset portfolio.
- Interest rate sensitivities assume that government and other bond yields and risk-free rates all move by the same amount. Interest rates are allowed to be negative.
- The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Volatility Adjustment has been reassessed in the stressed scenario.
- The widening in credit spreads stress assumes a widening in all ratings and an associated increase in the discount rate for the Royal London Group Pension Scheme and Royal Liver pension schemes at 25% of the asset spread stress. The Volatility Adjustment has been reassessed in the stressed scenario.
- The fall in GBP exchange rates stress assumes an increase to the value of assets held in currencies other than GBP by 15% in GBP terms.

Solvency II reform

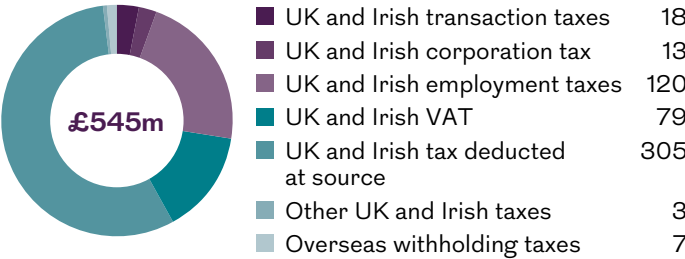
The proposed reform to Solvency II ('Solvency UK') should allow capital to be used more effectively, whilst continuing to ensure that customers are protected. Exact details of the Solvency UK regime, including the timing of any such changes, are subject to PRA consultation in 2023. Overall, we expect an increase in the capital cover ratio from the proposed reduction in risk margin, although some of the benefit will be offset by a reduction in the Solvency II transitional measures (TMTP). The broadening of the eligibility requirements for the Matching Adjustment portfolio to allow the inclusion of assets with 'highly predictable' cash flows should help widen the potential range of investments used to back annuities.

Rating agencies

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

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

Tax paid by Royal London (£m)



Tax

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

How Royal London is taxed

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

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

In 2022, the total tax contribution of the Group was £545m (2021: £513m).

The Group's total tax contribution is made up of the taxes borne and collected in the period. Taxes borne are the taxes incurred by the Group, in the period, that impact on our results. Taxes collected are those administered by the Group and collected from others for onward payment to HMRC and other tax authorities. In 2022, taxes of £122m (2021: £136m) were borne by the Group and the Group collected £423m (2021: £377m) of taxes on behalf of the tax authorities.

Daniel Cazeaux
Group Chief Financial Officer

7 March 2023

Risk overview



“A strong risk management approach is fundamental in delivering our strategic objectives in a way that protects our customers, members and business.”

Dr James McCourt
Group Chief Risk Officer

Overview

Understanding and effectively managing our risk exposure to within agreed boundaries helps us to grow our business safely, meet our regulatory responsibilities and deliver for our customers and members.

We achieve this through our risk management system which enables our people to proactively manage our risk exposure across each area of the business. This collective responsibility encapsulated in our ‘three lines’ model is critical to our approach and is underpinned by a robust risk governance structure that I am responsible for.

The Board has overall responsibility for the Group’s risk management and internal control system, and for reviewing its effectiveness. I work closely with the Board to define the risk strategy and provide an informed view of our risk exposure. We use a continuous process to identify, measure, manage and report the risks faced by the Group under changing economic, political and market environments. This adaptive approach allows us to quickly identify threats and opportunities and respond accordingly.

We have a formal governance structure of committees to oversee risk reporting to the Board. This encourages constructive challenge on our approach and helps to ensure that our risk exposure remains appropriate and within the defined limits.

Our risk management approach

Our risk management system

Is designed to help us manage our risks effectively and includes our risk appetites and policies. It is underpinned by a strong risk culture.

We use risk appetites to define the nature and level of risk we are prepared to accept to deliver our strategy. It is aligned to our Group Purpose and strategy and is approved by the Board.

Our risk policies outline the way we manage and control risks to within appetite.

Risk culture is our shared collective values, behaviours and attitudes towards risk management. It is best demonstrated in the execution of our duties and responsibilities that are outlined in our risk policies.

Three lines model

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

This is demonstrated across our ‘three lines’ model that defines the ownership of and responsibilities for risk management.

First line (business units and Group functions) is accountable for identifying, measuring, reporting, managing and mitigating all risks relevant to its area of business. This includes the design and operation of suitable internal controls and the allocation of risk and control responsibilities.

Second line (a Risk and Compliance function) provides specialist advice, oversight, challenge and assurance. The function also maintains the risk management framework and responds to new or evolving risks to develop best practice.

Third line (a Group-wide Internal Audit function) provides independent assurance and advice and has a reporting line independent of executive management.

Across each line we define and manage our role accountabilities in line with the Senior Managers and Certification Regime (SMCR) requirements.

The Group's risk governance structure

Risk-related responsibilities of the Board

Board

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

Risk responsibilities of the Board Committees

Risk and Capital Committee

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

Audit Committee

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

Remuneration Committee

Supports the Board and the Group's subsidiaries in determining the Group's Remuneration Policy and the compensation of key officers.

Risk responsibilities of management

Group Executive Risk Committee

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

Capital Management Committee

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

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

Internal Model Governance Committee

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

Anti-corruption and anti-bribery

We are committed to the highest standards of:

- governance, personal and corporate ethics;
- compliance with all laws and regulations; and
- integrity and honesty in dealings with employees, customers, suppliers and other stakeholders.

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

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

We screen our policyholder, employee and supplier databases on a regular basis against the sanctions lists issued by the US, EU and UK governments to ensure compliance. Additionally, we screen the databases against relevant politically exposed persons and adverse media lists to identify higher risk situations and meet our regulatory obligations.

Internal Model

Our Internal Model is used to quantify the amount of capital we need to support the risks we face as a business. It is approved by the PRA and enables us to make more effective decisions by integrating risk and capital management.

Group risk appetite framework

Our risk appetite framework is a key element of our overall risk management system. It informs our decision making and allows us to identify and effectively manage emerging risks. It consists of three components:

1. The risk strategy

The strategy, along with risk preferences, defines the risks we aim to take or avoid in the pursuit of our business objectives. It also sets the boundaries within which our risk appetite will operate.

2. Risk appetite statements

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

3. Risk metrics

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

High-level risk appetite categories

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

Capital

We will maintain a robust capital position supported by good-quality assets. We target a capital position that is higher than the amount needed to maintain regulatory solvency.

Liquidity

We will maintain an appropriate mix of assets in terms of their type, duration and liquidity in order to meet liabilities as they fall due. Maintaining liquidity is key for the sustainability of the Group and there is no appetite for not being able to meet liabilities as they fall due.

Insurance

We will apply strong insurance risk management disciplines for new and existing business. This means we have robust processes and controls around the level of reserves we hold, how we price our products, our underwriting arrangements and our claims and reinsurance processes.

Strategic

We will deliver on a strategy that is aligned with our Purpose and responds to our operating environment. Our Purpose, 'Protecting today, investing in tomorrow. Together we are mutually responsible', defines the impact we want to have. It shapes what we do on behalf of our members and customers, financial advisers, our colleagues and the communities in which we operate.

Operational

We will operate strong controls to minimise adverse impacts on our customers, reputation and capital, and make risk-based decisions that are aligned to our Purpose. Fundamentally we seek to keep to the promises that we make to our customers. To achieve this we must manage a number of different operational risks which include conduct towards customers, how we manage change and how we remain resilient as an organisation.

The Board's review of our system of internal control

The Board is responsible for the system of internal control as well as for reviewing its effectiveness. Throughout the year the Board conducted a review of the Group's risk management systems and internal control effectiveness. This review considered matters arising up to the date of approval of this Annual Report and Accounts.

The review covered all material controls across business, financial, compliance and risk management processes. It was conducted through review and challenge of reports submitted to the Board, the Risk and Capital Committee and the Audit Committee and by reports prepared as part of the year end process. These reports demonstrated broad progress on enhancing the Group's control environment, particularly in key areas such as cyber and operational resilience. These areas will remain a key focus for the Board in 2023, along with the Group's significant change agenda and planned enhancements to the wider control environment.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out on the following pages.

The Risk and Capital Committee completes a full review of these risks and uncertainties annually. This section describes our approach to risk management, including the process of assessing and reviewing these risks. It also explains how the Group's exposure to these risks has changed from our 2021 Annual Report and Accounts.

Our principal risks and uncertainties remain broadly consistent with those reported last year. However, the nature of the exposures continues to change over time based on new and evolving external factors. The cumulative and individual effects of these factors can impact several of our risk exposures to a certain degree and include the:

- ongoing war in Ukraine;
- cost of living pressures;
- continuing uncertainty about how the UK will use freedoms created as a result of its withdrawal from the European Union and navigate an evolving trading environment; and
- impacts from the Covid-19 pandemic.

These are all wide-ranging and interconnected factors that feed into a complex and uncertain external environment. These events may expose Royal London to risks which include:

- an adverse impact on business performance as a result of changes in consumer behaviour;
- a rise in fraudulent activities and cyber crime;
- further increases in mortality and experience variations in persistency, affecting funding commitments; and
- the length of time to recover from prolonged recession and market volatility.

These specific risk themes are considered across our principal risks and uncertainties with appropriate mitigation actions in place to keep our customers and business safe.

Climate change

Risk	Mitigation and management	Change
<p>Climate change has the potential to affect the Group across multiple risk categories. For example, we may fail to:</p> <ul style="list-style-type: none"> • appropriately manage climate-related impacts on market volatility (e.g. impact on asset values where investee companies face the potential of punitive climate-related policies); • develop or modify propositions in line with changing government or regulatory policy and/or market sentiment; • effectively report our response to climate change to meet evolving regulatory disclosure requirements and market expectations; • meet existing, new or modified environmental targets set by regulators or government; • effectively communicate our climate-related activities without being perceived to exaggerate our progress (i.e. 'greenwash'); • meet our own sustainability commitments; and • otherwise meet the expectations of our customers and other stakeholders. <p>In addition to these examples, the Group is exposed to a range of other financial, strategic and operational risks relating to climate change.</p> <p>Further information on the potential risks and opportunities that climate change poses to our business is included on pages 29 to 31.</p>	<p>Our approach to managing climate risks is outlined in detail on pages 26 to 28. In 2022, developments included:</p> <ul style="list-style-type: none"> • creating a Group Sustainability and Stewardship team tasked with, among other things, embedding appropriate climate-related considerations into all business areas across the Group; • revising our Climate Risk Appetite Statement to better reflect the breadth of business areas exposed to climate risk; and • developing a climate risk reporting approach that improves visibility of aggregate climate-related risks from across the Group. <p>In addition to incorporating climate risks into our risk management processes, as part of our Purpose and strategy we have also:</p> <ul style="list-style-type: none"> • committed to a set of climate targets for our operations and investment portfolios, as described on pages 32 to 33; • kept our propositions under review to address climate change risks in line with the evolving expectations of our customers and to remain competitive in our chosen markets; and • expanded our qualitative and quantitative scenario analysis in strategic asset allocation to include impacts from the physical and transition risks that will result from climate change. <p>We continue to engage with our regulators and industry peers to support developments required to address the climate crisis.</p>	<p>No change</p> <p>Evidence of climate change and the need for urgent and collective action continued to grow over 2022, with the UN's Intergovernmental Panel on Climate Change highlighting the threat to human wellbeing and the health of the planet. More tangibly for many of our customers, climate change was likely a major driver behind 2022 being the UK's warmest year on record.</p> <p>In this context, scrutiny on companies' climate targets has intensified with increasing expectations for transparent transition planning.</p> <p>As a modern, purpose-driven mutual, we are clear on the positive impact we want to create. This includes moving fairly to a sustainable world. We are clear on the activity we plan to undertake and the limits of our ability to achieve our targets without sufficient support from external policymakers.</p> <p>We manage climate risks as described on pages 26 to 28 and continue to be well positioned to withstand associated impacts to our capital position and strategy.</p> <p>The changes we have made within our business over 2022 reflect our continued commitment to play an important role in managing climate risks and helping our customers and members advance towards a sustainable future.</p>

The economy and Royal London's key markets

Risk	Mitigation and management	Change
<p>Changes in market conditions can affect the Group's capital position, profitability and long-term investment performance. The economic environment can be influenced by:</p> <ul style="list-style-type: none"> geopolitical conditions, including international unrest between nations and war; actions by governments, such as sanctions and trading restrictions; economic factors, comprising inflationary pressures and corresponding monetary and fiscal policy; intervention by central banks and regulators; and market and sector sentiment. <p>Impacts on the Group's key markets can be driven by:</p> <ul style="list-style-type: none"> changes in the distribution landscape, such as advisers developing in-house solutions, the evolution of adviser back-office technology and adviser consolidation; changing socio-economic trends, including customers wanting to deal direct and adopt digital channels while protecting their data security; and competitor pressure applied through pricing, innovation or operational efficiency. <p>Economic and market movements present both opportunities and challenges to our business model.</p>	<p>We monitor exposures regularly by risk class and consider possible risk concentrations, measured with reference to counterparty exposure limits. This enables us to evaluate scenarios where we may be exposed to asset and liability values moving differently. This in turn allows us to have a good understanding of the impact these exposures may have on our risk profile.</p> <p>We complete regular reviews so that we are developing strategies and operational capabilities to consider:</p> <ul style="list-style-type: none"> current and future changes in markets; and consumer and adviser behaviour. <p>We monitor our product range and market position regularly through analysis of policyholder experience and business volumes. This helps us to re-price products dynamically and develop new ones in response to changes in demand.</p> <p>Changes that affect consumer behaviour are monitored through our emerging risk profile.</p> <p>We evolve our strategy to differentiate our products in our chosen markets, while continuing to deliver fair outcomes to our customers.</p> <p>Against inflationary pressures our robust cost management approach has ensured that we continue to optimise our cost base for the benefit of our customers and members.</p>	<p>Increased risk</p> <p>Economic instability underpinned by growing inflationary pressures was amplified by the war in Ukraine which started in February 2022. This has led to a sustained period of stagflation in both the UK and many other G20 nations as monetary policy tightened abruptly leading to volatility in risk free yields.</p> <p>There is now a growing consensus across various economic forecasts that the UK faces the risk of a recession during 2023.</p> <p>Consumer behaviour and changes to the distribution landscape have continued to evolve. However, the full impact of the cost of living pressures has yet to take effect in our key markets.</p>

Maintaining our financial strength

Risk	Mitigation and management	Change
<p>Through failing to manage our risks adequately, the Group's financial position could be adversely impacted. This could be to such a degree that our long-term viability is under threat. If this risk crystallised, we may be unable to meet our ongoing financial obligations, including meeting customer liabilities and regulatory requirements. It could also result in us having insufficient resources to grow our business.</p> <p>The financial risks that we are exposed to include:</p> <ul style="list-style-type: none"> an increase in our funding commitments for defined benefit pension schemes; failure or default of one or more of our counterparties; reserves and our assessment of capital requirements are materially understated following changes in experience, regulation or legislation; and the use of assumptions that are subsequently proven to be wrong, resulting in a significant financial adjustment to correct. 	<p>The ability of the business to withstand 'severe but plausible' financial scenarios is assessed as part of the longer-term viability statement on pages 60 to 61.</p> <p>We monitor financial risks as part of the normal course of business. Our internal pensions team supports the trustee boards to identify, assess and implement initiatives to reduce volatility and risk in our defined benefit pension schemes.</p> <p>We govern our contracts with third parties by strict service level agreements and report on limits in respect of investments.</p> <p>We use our experience to assess and set prices for known risks, and to ensure that reserves are appropriate. The calculation of reserves is underpinned by stress and scenario testing, which considers the appropriateness of key assumptions to a combination of extreme events. In the event that actual claims experience is less favourable than envisaged, our reinsurance arrangements will provide significant mitigation.</p>	<p>No change</p> <p>Under the challenging external environment described above we continue to have a robust capital and liquidity position. This financial strength has many benefits, including giving us the ability to invest in improving our business under different market conditions. To assess this resiliency, we regularly test our capital and liquidity position under various stresses and scenarios.</p> <p>We continue to manage our financial strength through our risk management framework, taking actions where appropriate.</p>

Changing political and regulatory environment

Risk	Mitigation and management	Change
<p>Changes to our domestic political and regulatory environment can affect our business in several ways, including adversely impacting:</p> <ul style="list-style-type: none"> · the prospects for financial markets and the UK economy; · our ability to deliver change; · our reputational, operational and financial position if we fail to keep pace with regulatory developments; and · how we develop and distribute new propositions, as well as how we administer and deal with contracts sold in the past. <p>Developments in the political environment may give rise to changes that alter the viability of our propositions in our chosen markets. Examples could include a broadening and/or tightening of the rules applied to Workplace Pensions and changes to tax-free allowances for pension contributions.</p>	<p>We continually evaluate the effect political and regulatory changes have on both our business and the markets we operate in. Along with other considerations, this allows us to develop propositions that are compliant with regulations and continue to meet the needs of customers and distributors.</p> <p>Our conduct risk framework is in place, alongside an associated proposition process designed to achieve fair outcomes for our customers.</p> <p>We continue to be represented on industry bodies including senior committees of the ABI and respond to consultations on regulatory changes.</p> <p>We also undertake scenario testing of external factors that could detrimentally impact our business model. These include potential regulatory changes to pension charges and tax relief. In addition, we seek to influence the course of political and legislative issues in a way that we consider to be in the best interests of our customers.</p>	<p>Increased risk</p> <p>There has been a significant amount of political change in 2022. The current government is pursuing a policy of fiscal tightening at a time of inflation, low growth and cost of living pressures. These factors, combined with a rise in interest rates, are anticipated to result in a contraction of consumers' disposable income.</p> <p>A high level of regulatory change is anticipated in 2023. The new FCA Consumer Duty introduces a higher standard of care and will have an impact across all our products and services. Further, the long-trailed Pensions Dashboard will require careful management. These changes represent significant shifts in the regulatory environment that we are actively preparing for internally.</p> <p>There are also ongoing changes relating to the future regulatory framework. These include those in relation to Solvency II, the structure of authorised funds and further climate-related disclosure requirements. We remain an active participant in industry discussions around these reforms.</p>

Maintaining our operational resilience

Risk	Mitigation and management	Change
<p>A range of events may lead to the disruption or failure of our core processes and operational capabilities, causing reputational damage and/or operational loss.</p> <p>There is a risk that our organisational capabilities are unable to adapt to operational changes, combined with the significant level of external change in markets, regulation and legislation. This could result in future ineffective organisational delivery and potential remediation activity.</p> <p>Cyber security threats present a persistent risk to the Group's data and systems. Disruptive attacks such as ransomware are a lucrative revenue source for criminals, and there is an increasing risk from national state attacks as the war in Ukraine exacerbates political divisions.</p> <p>In line with other large financial services organisations, we have a number of material relationships with outsourcers and service providers. There is a risk that we could be unable to meet our customer obligations following the failure of, or a significant degradation in, a service received from a material outsourcer or service provider.</p>	<p>Our strategic and operational plans are regularly reviewed by the Board. At a project, programme, portfolio and strategic execution level there is specific change programme monitoring and reporting. A dashboard of measures is used so that appropriate risk-based decisions can be made, and resources are allocated in order of priority. Our most significant strategic transformation and change programmes have multiple levels of assurance built into our internal management and governance. These are also subject to independent oversight by Group Internal Audit and our Group Risk and Compliance function, further strengthened by specialist external partner oversight where appropriate.</p> <p>We continue to invest in our security systems to strengthen them beyond our core controls and reduce vulnerabilities. Our security is proactive with advanced monitoring, prevention and testing.</p> <p>Cyber security awareness is a key part of our training. This training includes practical examples and testing to assess the effectiveness of our cyber security culture. We also perform a number of stress test exercises and continue to review and test cyber risk developments regularly.</p> <p>We have a framework for the governance and oversight of material outsourcer and supplier arrangements. This includes the requirement for executive and Board approval prior to their engagement. We also have policies and processes to oversee as well as escalate risks and issues to the attention of the appropriate Risk Committees. There is a dedicated Supplier Relationship Manager for all material outsourcer and supplier arrangements to ensure that services are provided in line with the Group's Procurement and Third-Party Management Policy.</p> <p>The governance arrangements for material outsourcers require that our customers do not face an increased level of risk due to an outsourced arrangement.</p>	<p>No change</p> <p>The war in Ukraine has heightened the threat of national state-sponsored cyber attack. All industry sectors have seen a marked increase in ransomware attack activity in 2022. Under this increased activity, we have continued to improve our cyber resilience, while remaining on a heightened state of alert. We regularly assess our cyber resilience posture using intelligence from the National Cyber Security Centre and other sources.</p> <p>Our change programmes continue to have appropriate governance and oversight to monitor and manage this risk. During the past 12 months, we have continued to invest strongly to mature our operational resilience assessment and monitoring capability, ensuring we can properly inform the Board of any challenges requiring prioritisation of further investment.</p> <p>Our outsourcing risk remains stable and continues to be managed through our framework.</p>

Emerging risks

We define emerging risks as a threat or opportunity that could emerge from the external environment where the potential impact is not fully known. They can create new or increased exposure to existing principal risks and uncertainties.

Throughout the year we review the Group's emerging risks and assess how these could affect our strategy and existing risk profile. These assessments are formed through input from strategic risk owners and subject matter experts from across the business. The assessments incorporate risks that could impact on our strategy now and emerging drivers that could affect our strategy in the future. Once identified, the risks are managed in line with our Emerging and Strategic risk management framework and monitored at our Emerging and Strategic Risk Forum. Examples of emerging risks that are kept under close watch include:

- further expansion of the war in Ukraine or areas of influence, leading to a step change in European geopolitics;
- prolonged and material economic stagnation and continued customer affordability challenges; and
- growing intergenerational imbalances drive an increasing dependency on the working population to support an ageing, non-working population.

Longer-term viability statement

Assessment of needs

The context for assessment

Ever since we were founded more than 160 years ago, our business model has focused on achieving long-term value for our members and customers. Royal London’s business model and strategy are integral to assessing the Group’s prospects. Our risk appetite framework is fundamental to monitoring and maintaining our continued viability. In particular, our framework sets out that we will maintain a strong and credible capital position that is robust even in severe but plausible circumstances. This is supported by effective liquidity management that protects our customers in periods of volatility.

The assessment process

The Group’s prospects are assessed primarily through its strategic and business planning process, which is led by the Group Chief Executive Officer and involves all major functions and business units. The Board undertakes a robust review and challenge of the strategy and assumptions, in particular through the use of stress and scenario testing which considers the impact of economic and business specific risks. A number of test scenarios are updated annually, with a summary of those applied in 2022 set out below.

Under all these scenarios, Royal London has sufficient excess assets to cover its Solvency II capital requirements and sufficient liquidity. The Board continues to monitor short- and medium-term impacts of the war in Ukraine, including the potential for escalation and cyber warfare impacting wider regions. The Board carefully considered the impacts of market volatility and increased economic uncertainty, including rising interest rates and higher costs of living, on the Group. The market volatility experienced during the year, and in particular the increased collateral calls driven by market movements, was managed within the Group’s existing liquidity and collateral arrangements and the Board continues to ensure that the management of this risk is robust. The risk surrounding the development of these and other significant external events is set out in the Principal risks and uncertainties section on pages 56 to 59.

The directors have no reason to believe the Group will not be viable over a longer period, but they consider the three years up to December 2025 is the timespan for which they can form a reasonable expectation of the Group’s longer-term viability.

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

Risk scenarios

Base	Adverse	Favourable
<p>The global economy experiences a further slowdown in 2023 as households struggle with the high cost of living, companies postpone investment decisions in light of increased economic uncertainty and as interest rates continue to rise.</p> <p>Inflation remains at relatively high levels into 2023, but is forecast to fall as supply chain problems ease and commodity prices fall.</p> <p>Monetary policy tightens significantly into 2023, though fiscal policy becomes more supportive in a number of economies as governments attempt to ease cost of living challenges. Interest rates remain at 2023 levels for the remainder of the three year period.</p>	<p>The slowdown in economic activity is more serious than in the base case, resulting in recession as firms and households respond more strongly to central bank tightening. Central banks continue to tighten policy throughout 2023, as inflation expectations and domestic inflationary pressures fail to ease.</p> <p>Fiscal support, whether through tax cuts or increased government expenditure, is higher than in the base case, but not enough to prevent economies falling into recession or to prevent the unemployment rate rising more substantially.</p>	<p>Inflation falls substantially through 2023 as supply problems ease sooner than anticipated and is not replaced with significant wage inflation.</p> <p>Central banks signal clearly that they do not envisage more rate increases in the first half of 2023, helped by lower inflation expectations.</p> <p>Economies avoid recessions in 2023 and GDP growth is stronger than expected as real income growth recovers substantially and as companies and households use their savings to a greater degree than assumed in the base case. The employment participation rate increases faster than in the base case, helping to manage pay pressures and domestically driven inflationary pressure more broadly. Globally, China becomes a significant driver of growth towards the end of the three year period.</p>

Assessment of viability

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

- a range of sensitivity analyses and stress tests over key economic, insurance and operational risks – for example, adverse impacts from financial markets, significant counterparty failure or a significant medical science advance; and
- stress testing the business plan, as part of the Group's ORSA process over a number of years, for adverse scenarios impacting profitability, liquidity and/or solvency including:
 - scenarios considering the insurance risks the Group faces;
 - operational risks from the Group's data and processes;
 - regulatory changes;
 - a wide range of economic scenarios, including prolonged effects from the cost of living pressures and subdued financial markets; and
 - the effects of climate change on economic and insurance risks.

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

In addition, during the year the Group completed the PRA's Life Insurance Stress Test (LIST). The exercise showed that Royal London's capital position on an Investor and Regulatory View remained resilient throughout all four phases of the LIST.

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

Viability statement

Based on their robust assessment of the principal risks and uncertainties facing the Group and the stress-testing-based assessment of the Group's prospects described above, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation, and meet its liabilities as they fall due, over the period to December 2025.

Going concern

The directors also consider it appropriate to prepare the financial statements on a going concern basis, as explained in the Directors' report on page 76 and in note 1 (a) to the financial statements on page 127.

Strategic report

The 2022 Strategic report, from pages 1 to 61, was approved by the Board of Directors on 7 March 2023.

By order of the Board



John-Green Odada
Company Secretary

For and behalf of Royal London Management Services Limited

7 March 2023

Statement of compliance with the UK Corporate Governance Code

During 2022, The Royal London Mutual Insurance Society Limited applied the principles and provisions of the 2018 UK Corporate Governance Code (the 'Code') which is available at www.frc.org.uk. The Company has complied with all provisions of the Code.

Our approach to Provision 5: the Code suggests three methods for engagement with the workforce and allows companies to adopt alternative arrangements. The Board opted for bespoke engagement mechanisms and considers these to be effective. All directors have taken responsibility for engagement with the workforce. This engagement is facilitated through a number of workforce forums that provide feedback and opinion that is then reported to the Board during the year, and also in Board members' direct participation in live exchange forums alongside the executive directors.



Please refer to page 18 where you can read about our bespoke approach and how engagement with the workforce influenced the Board's decisions.

Governance framework

The Board has established a governance framework which is closely aligned with the Group's Purpose and strategy, enabling the Board to effectively oversee the Group.

Board

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

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

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

The Board's terms of reference can be viewed on the Group's website.

Chairman

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

Group Chief Executive Officer

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

Non-executive directors

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

Senior Independent Director

The Senior Independent Director supports and acts as a sounding board for the Chairman in meeting their objectives and act as an intermediary for other directors.

Audit Committee

Supports the Board in overseeing financial reporting; regulatory reporting; financial controls; and internal and external audit.

Read the report on pages 78 to 83

Disclosure Committee

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

Investment Committee

Supports the Board in managing investments held as principal, in a manner that is consistent with the Company's Investment Philosophy and Beliefs.

Read the report on pages 92 to 93

Nominations and Governance Committee

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

Read the report on pages 84 to 86

Remuneration Committee

With the key objective to ensure pay is aligned to members' interests, supports the Board in determining the Group's Remuneration Policy and the compensation of key officers.

Read the report on pages 94 to 115

With-Profits Committee (WPC)

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

The Committee operates in accordance with the requirements of the FCA's Conduct of Business Sourcebook, section 20.5.

Read the report on pages 90 to 91

Independent Governance Committee (IGC)

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

Risk and Capital Committee

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

Read the report on pages 87 to 89

Group Executive Committee (GEC)

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

A strong and capable Board



Kevin Parry OBE
Chairman

Appointed
19 March 2019

Skills and experience

Kevin Parry was appointed to the Board on 19 March 2019. He is Chairman of the Nominations and Governance Committee, co-Chairman of the Disclosure Committee, and an attendee at other Board Committees. He is a Chartered Accountant and has deep financial services experience as an executive and non-executive director encompassing life insurance, banking and asset management. His former appointments include as a Non-Executive Director and Audit Committee Chairman at Schroders plc and subsequently as their Chief Financial Officer, Chief Executive of Management Consulting Group plc and a managing partner at KPMG. He has also served as Chairman of Intermediate Capital Group plc, Senior Independent Director and Chairman of the Audit Committee at Standard Life Aberdeen plc and Non-Executive Director of Knight Frank LLP.

External appointments

His principal current external appointments are Chairman of Nationwide Building Society and Non-Executive Director of Daily Mail and General Trust plc, Chairman of its Audit and Risk Committee and member of its Investment and Finance Committee. He was awarded an OBE in 2017 for services to vulnerable children.



Barry O'Dwyer
Group Chief Executive Officer

Appointed
8 January 2020

Skills and experience

Barry O'Dwyer was appointed to the Board on 8 January 2020. He is an actuary with extensive financial services experience in the UK and Ireland. He began his career at Standard Life in 1988, when it was a mutual. In 2008, he moved to HBOS and shortly afterwards to Prudential UK & Europe, where he became Deputy CEO. He returned to Standard Life in 2013, where he became CEO of Standard Life's platform, pensions and savings businesses. He joined the Board of Standard Life plc in 2017. Following their merger with Aberdeen Asset Management, he was the head of Standard Life Aberdeen's UK business before joining Royal London.

External appointments

He plays a prominent role in the industry as President of the Association of British Insurers (until July 2023). He is also a Non-Executive Director of Coop Exchange Limited.

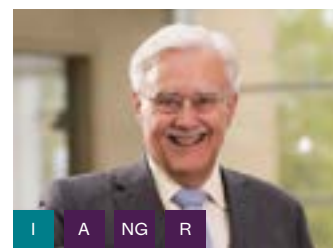


Daniel Cazeaux
Group Chief Financial Officer

Appointed
22 September 2020

Skills and experience

Daniel Cazeaux joined Royal London in June 2020. He was appointed to the Board on 22 September 2020. He is a member of the Disclosure Committee, the Investment Committee and the With-Profits Committee, and a director of Royal London Insurance DAC (Royal London's business in Ireland). He is a Chartered Accountant and from 2008 to 2020 was a Partner at KPMG in the UK where he led global client teams delivering audit services to UK and global insurance companies, as well as advising on finance change programmes and transactions. In his time at KPMG he also performed executive secondment roles into finance functions of large UK insurers and has deep rooted specialist and commercial expertise.



Ian Dilks OBE
Independent
Non-Executive Director and
Senior Independent Director

Appointed
14 November 2014

Skills and experience

Ian Dilks was appointed to the Board on 14 November 2014 and became the Senior Independent Director on 3rd June 2021. He is Chairman of the Investment Committee, and a member of the Audit Committee, the Nominations and Governance Committee and the Remuneration Committee. He is a Chartered Accountant and spent his entire professional career at PricewaterhouseCoopers LLP (PwC), joining the firm (which was then Coopers & Lybrand) in 1974, becoming a Partner in 1986. He rose to become a member of the Global Financial Services leadership team and global insurance leader. He has deep experience of the insurance sector gained through providing audit, advisory and transaction support services to a wide range of major UK and international insurance groups. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network. He is also a former Expert Adviser to the House of Commons Treasury Committee. From 2014 to 2020, he was Chair of NHS Resolution, an arm's-length body within the NHS.

External appointments

His current appointments include Chair of the Care Quality Commission, the independent regulator of health and social care in England. He was awarded an OBE in 2020 for services to the NHS.



Kal Atwal
Independent
Non-Executive Director

Appointed
17 January 2020

Skills and experience

Kal Atwal was appointed to the Board on 17 January 2020. She is a member of the Nominations and Governance Committee, the Risk and Capital Committee and the Investment Committee. She is an experienced strategy leader with international experience in start-up, scale-up, fintech and digital businesses. She began her career at EY on placement in Madrid after which she held a number of operational and strategic roles with Southern Derbyshire Chamber and Northcliffe Media Ltd. She joined BGL Group when the company took over Bennetts, the motorcycle insurance business, where she held the position of managing director. She then became the founding managing director of comparethemarket.com, a division of BGL. Following her promotion to Group Director of BGL Ltd, she was responsible for brand-led businesses, Group Strategy and Corporate Communications.

External appointments

She is currently a Non-Executive Director at Admiral Financial Services Limited, Whitbread plc (member of the Remuneration and Nomination Committees), WH Smith plc (Chair of the ESG Committee and member of several other Committees) and OSB Group plc (member of the Group Remuneration and People Committee). Formerly the Chair of SimplyCook Limited, she continues to provide advisory services to that Board.



Sally Bridgeland
Independent
Non-Executive Director

Appointed
14 January 2015

Skills and experience

Sally Bridgeland was appointed to the Board on 14 January 2015. She is Chair of the With-Profits Committee, a member of the Nominations and Governance Committee, and a member of the Risk and Capital Committee. An Actuary by profession, Sally has extensive experience in investment management and pensions, serving as a trustee of the Nuclear Liabilities Fund, NEST Corporation and the Lloyds Bank pension schemes. She was Chief Executive Officer of the BP Pension Scheme from 2007 to 2014 after 20 years with Aon Hewitt working both as a pensions and investment consultant and in research and innovation. She is a Fellow of the Institute of Actuaries and the Board benefits from her extensive knowledge of asset liability modelling, along with investment strategy design and implementation.

External appointments

She is currently Chair of Impax Asset Management Group plc and certain of its subsidiaries, a Non-Executive Director and Chair of Local Pensions Partnership Investments Limited, a Non-Executive Director of Pension Insurance Corporation plc and a Non-Executive Director of Royal & Sun Alliance Insurance Limited and RSA Insurance Group Limited. She is also a Committee Member of the Nesta Trust charity's investment committee and holds offices with livery companies, associations affiliated with the RAF, and educational bodies.



Baroness Ruth Davidson PC
Independent
Non-Executive Director

Appointed
8 June 2021

Skills and experience


Ruth Davidson was appointed to the Board on 8 June 2021. She is a member of the Nominations and Governance Committee and the Remuneration Committee. She has extensive experience in the political frontline, leading the Conservative Party in Scotland and playing key roles in the referendum campaigns surrounding Brexit and Scottish independence. A regular attendee at political cabinet, she was a key adviser to two Prime Ministers on constitutional issues. She was appointed to the Privy Council in 2016 and joined the House of Lords in 2021 as Baroness Davidson of Lundin Links. She is committed to championing better environmental, social and governance practices and has worked extensively in promoting diversity across a wide range of organisations. Before entering politics, she worked in journalism, first in newspapers and then in radio and television, including with the BBC as a presenter of news and current affairs.

External appointments

Her current appointments include as a trustee of the HALO Trust, Board member of The John Smith Centre for Public Service at the University of Glasgow, and Non-Executive Director of Scottish food group W.A. Baxter & Sons.

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

- A** **Audit Committee**
- D** **Disclosure Committee¹**
- IG** **Independent Governance Committee²**
- I** **Investment Committee**
- NG** **Nominations and Governance Committee**
- R** **Remuneration Committee**
- RC** **Risk and Capital Committee**
- WP** **With-Profits Committee**
- Chair of Committee**

 Read more about the work of Royal London Board Committees on pages 78 to 115

1. The Independent Governance Committee (IGC) is an independent committee that does not report to the Board, and has responsibilities set out in regulation to assess whether the Group is providing value for money for its Workplace Pension policyholders.



Shirley Garrood
Independent
Non-Executive Director

Appointed
10 December 2020

Skills and experience

Shirley Garrood was appointed to the Board on 10 December 2020. She is a member of the Nominations and Governance Committee and the Chair of Royal London Asset Management Holdings Limited and Royal London Asset Management Limited. She is a Chartered Accountant and Corporate Treasurer with extensive executive and non-executive financial services experience. Prior to joining Royal London, she was Senior Independent Director and Chair of the Risk Committee at Hargreaves Lansdown plc. Her former roles include Chief Financial Officer of Henderson Group plc from 2009–2013 and then Senior Independent Director, Deputy Chair and Chair of the Audit Committee at esure Group plc until 2019. As well as working in financial roles, she was previously Chief Operating Officer at Henderson Group plc and at Morley Fund Management (part of Aviva). She also served as a governor of the Peabody Trust housing association. Ms Garrood will step down from the Board at the end of the AGM to be held on 6 June 2023.

External appointments

She is a Non-Executive Director and Chair of the Audit and Risk Committee of the BBC Board, an Independent Non-Executive on the Deloitte Audit Governance Board providing oversight of the external audit and assurance business only, Non-Executive Director of Ashmore Group plc, Chair of its Audit and Risk Committee and a member of its Nominations and Remuneration Committees.



Jane Guyett CBE
Independent
Non-Executive Director

Appointed
4 August 2021

Skills and experience

Jane Guyett was appointed to the Board on 4 August 2021. She is Chair of the Remuneration Committee, a member of the Risk and Capital Committee and a member of the Nominations and Governance Committee. She has significant knowledge and experience of financial markets and corporate governance in the UK and globally. She has held senior roles with Bank of America Merrill Lynch in London and New York and was also Chief Operating Officer (EMEA and Asia) of the Global Markets Group and sat on the Board of Bank of America Securities. She was a Non-Executive Director of UK Financial Investments Limited until 2018, advising the UK Government on its shareholdings in FTSE financial services companies.

External appointments

She is the Senior Independent Director of UK Government Investments Limited, an Independent Non-Executive Director of LCH Limited and Banque Centrale de Compensation SA, Paris, Chair of Connect Plus (M25) Limited, and an Independent Non-Executive Director of BDO LLP, including as a member of its Public Interest Committee. She was awarded a CBE in 2021 for Services to the Economy.



Pars Purewal
Independent
Non-Executive Director

Appointed
8 February 2023

Skills and experience

Pars Purewal was appointed to the Board on 8 February 2023. He is a member of the Nominations and Governance Committee and Director of Royal London Asset Management Holdings Limited and Royal London Asset Management Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He retired as a senior partner of PricewaterhouseCoopers LLP (PwC) after a career of over 37 years, including 10 years as PwC UK Asset Management leader and Finance Partner for both Asset and Wealth Management. He has deep experience of asset management gained through providing audit and advisory services at PwC. Following his retirement from PwC, he served on the boards of directors of Brewin Dolphin Holdings plc and Federated Hermes Limited, respectively, until September 2022.

External appointments

He is an Independent Non-Executive Director of The Law Debenture Corporation plc, Chair of its Audit and Risk Committee and a member of its Nomination and Remuneration Committees. He is also an Independent Non-Executive Director of Finsbury Growth & Income plc and a member of its Audit and Risk, Nomination and Remuneration Committees. He also chairs the Board of Trustees of Beyond Food Foundation.



Mark Rennison
Independent
Non-Executive Director

Appointed
25 September 2020

Skills and experience

Mark Rennison was appointed to the Board on 25 September 2020. He is Chairman of the Risk and Capital Committee, and a member of the Audit Committee and of the Nominations and Governance Committee. He is a Chartered Accountant with significant experience of working both with and for large financial services organisations. He was Chief Financial Officer at Nationwide Building Society for 12 years and, prior to that, worked at PricewaterhouseCoopers LLP for more than 25 years, including 12 years as a Partner in its banking practice. He is a former member of the Bank of England's Prudential Regulation Authority Practitioner Panel and former Chair of the UK Finance Financial Risk and Policy Committee.

External appointments

He is currently a Non-Executive Director at Homes England, where he is Chairman of the Investment Committee and Home Ownership Committee and serves on the Audit and Risk Committee and the Change Committee. He is also a Non-Executive Director of both TSB Bank plc and TSB Banking Group plc, serving as Chairman of their Audit Committee and as a member of their Risk, Nomination and Technology Strategy Committees.



Tim Tookey
Independent
Non-Executive Director

Appointed
6 April 2020

Skills and experience

Tim Tookey was appointed to the Board on 6 April 2020. He is Chairman of the Audit Committee, and a member of the Risk and Capital Committee and of the Nominations and Governance Committee. He is a Chartered Accountant with strong experience of major retail financial organisations and significant Board experience. He was Chief Financial Officer of Quilter plc (previously known as Old Mutual Wealth Management Limited) and other former appointments include as Chief Financial Officer at Friends Life Group Limited, a position he held from 2012 until the sale of the business to Aviva in April 2015, Group Finance Director of Lloyds Banking Group, Finance Director of Prudential plc's UK business and Group Finance Director at Heath Lambert Group. Until his retirement from the Board in July 2022, he served as a Non-Executive Director of Nationwide Building Society, including as Chair of its Risk Committee.



John-Green Odada
Group Company Secretary

Appointed
14 February 2022

Skills and experience

John-Green Odada is a chartered governance professional, with 20 years' corporate legal and governance experience. He joined Royal London from BP plc, where he was Head of Board and Board Committees. His principal responsibility at BP was to promote effective Board and Committee governance, including compliance with relevant corporate governance codes and regulations. Prior to BP, he worked in similar corporate governance roles, partnering with boards and governance stakeholders in financial services organisations including JPMorgan Chase, BlackRock and Friends Life. He began his career as a corporate lawyer in 2001 before joining EY in 2003 to train and specialise in governance and company secretarial practice.

External appointments

Member of the ICAEW Corporate Governance Committee.

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

A	Audit Committee
R	Remuneration Committee
NG	Nominations and Governance Committee
RC	Risk and Capital Committee
	Chair of Committee



Read more about the work of Royal London Board Committees on pages 78 to 115

1. The Independent Governance Committee (IGC) is an independent committee that does not report to the Board, and has responsibilities set out in regulation to assess whether the Group is providing value for money for its Workplace Pension policyholders.

Group Executive Committee

Noel Freeley

Chief Executive Officer – Royal London Insurance DAC

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

Hans Georgeson

Chief Executive Officer RLAM

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

Mehdi Kadhim

Group Chief Transformation Officer

Mehdi Kadhim is Group Chief Transformation Officer with responsibility for change, procurement and workplace. He has worked in financial services for over 20 years and joined Royal London in October 2022 from Santander UK where he was Chief Executive of the UK's asset management business. In that role he led the transformation and reintegration of the division following the repurchase of the business from private equity. Prior to that he held a number of other senior roles at Santander spanning retail banking, wealth management and global markets.

Jo Kite

Chief Customer Officer

Jo Kite was appointed Chief Customer Officer in February 2022 having re-joined Royal London in 2021, as Chief Customer Officer Decumulation. A qualified actuary, Jo has extensive experience in financial services having started her career at Aviva, where she held senior management positions in both the UK and Europe. She has led marketing, proposition, operations, and finance functions at executive levels across platforms, retirement and workplace including 12 years at Standard Life where she led their platform and workplace businesses. Prior to joining Royal London, she was Managing Director at WTW, leading the Scottish business, and LifeSight, WTW's Master Trust business.

Tracey Kneller

Group Chief People Officer

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

Susie Logan

Group Chief Marketing Officer

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

Dr James McCourt

Group Chief Risk Officer

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

Will Pritchett

Group Chief Operating Officer

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

Julie Scott

Chief Commercial Officer

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

Julie Whitehead

Group General Counsel

Julie Whitehead was appointed as Group General Counsel in January 2023. Julie joined Royal London from AXA where she held a variety of leadership roles, including UK Group Regulatory and Compliance Director and Senior Counsel for AXA UK plc. With more than 25 years' financial services experience, Julie is a qualified lawyer and has also held legal roles at Geest Plc and AMP UK where she was responsible for providing legal advice to AMP Group, Pearl Assurance, London Life, Henderson Investors and NPI.

Corporate governance statement

Responsibilities of the Board and delegation of authority

The Board acts in accordance with the responsibilities defined for it within the Company's constitution, all relevant laws, regulations and UK corporate governance and stewardship standards. The Board's terms of reference set out its responsibilities collectively, including those matters specifically reserved for decision by the Board.

The Board has established committees with delegated authority to consider and make recommendations to the Board on important issues of policy and governance. Each Committee operates as part of the governance framework within its terms of reference, as approved by the Board on recommendation from the Nominations and Governance Committee.

The Board also delegates responsibilities to individual directors in the framework with defined role profiles and has generally delegated the day-to-day affairs of the Group to the Group Chief Executive Officer.

The separation of responsibilities between the Chairman, the Group Chief Executive Officer, the Senior Independent Director and non-executive directors ensures that no single individual has unfettered decision-making powers.

The boards of the Company's subsidiaries acknowledge and operate within this framework and respect the duties and responsibilities and matters reserved to the Board and its Committees as set out in their terms of reference.

Board Committees

This Directors' report includes annual reports from the Chairs of the Audit Committee, the Investment Committee, the Nominations and Governance Committee, the Risk and Capital Committee and the With-Profits Committee. The report on the responsibilities and activities of the Remuneration Committee is in the Directors' Report on Remuneration on pages 94 to 115.

The Board has also established the following committees:

- The IGC is an independent committee that does not report to the Board, and has responsibilities set out in regulation to assess whether the Group is providing value for money for its Workplace Pension policyholders. It holds full meetings at least every quarter, with additional workshops and interim meetings to progress specific projects as required during the year. As well as assessing the ongoing value for money delivered to relevant policyholders, the IGC reviews (i) the adequacy of Royal London's policy in relation to ESG and stewardship, (ii) pathway investments on an ongoing basis and (iii) the publication of administration charges and transaction costs. In accordance with the requirements of COBS and the IGC terms of reference, the Committee has a majority of independent members, including an independent chair. The Committee comprises four independent members and two non-independent members.
- The Disclosure Committee, which met nine times during the year to review announcements and the publication of sensitive information, financial information and regulatory information. Membership includes the Chairman, Group Chief Executive Officer, Group Chief Financial Officer and Group Chief Risk Officer.

Board composition and succession

The table below shows the names of all directors who served during the year, including changes during the period up to the date of the Directors' report.

Tracey Graham retired from the Board in March 2022. All remaining directors who served during 2022 were re-elected at the 2022 Annual General Meeting (AGM). Having been appointed following the 2022 AGM, Pars Purewal will stand for election at the 2023 AGM. Eithne McManus is expected to join the Board on 1 April 2023 and will also stand for election at the 2023 AGM. Other than Shirley Garrood, who will stand down from the Board and her directorship of Royal London subsidiaries at the end of the 2023 AGM, all remaining directors of the Company as at the date of this Directors' report will retire and offer themselves for re-election at the 2023 AGM.

Please refer to pages 84 to 86 for more detail on how the Nominations and Governance Committee oversees Board appointments, evaluation and succession. In addition, the Chairman initiates regular and extensive reviews of external non-executive director candidates from a wide range of backgrounds and experience to identify potential successors and add skills, experience and diversity to the Board. The Chairman also undertakes an annual evaluation with each director to affirm their skills and to inform succession planning and ongoing development needs. Having reviewed their performances, the Board recommends that all directors are elected or re-elected at the AGM.

Non-executive directors are expected to exercise independent judgement and to be free from any business or other relationship that could materially interfere with it. This independence is crucial in bringing constructive challenge to management, while providing support and guidance to promote meaningful discussion and, ultimately, informed and effective decision making.

The Board, led by the Chairman, regularly reviews the independence of the non-executive directors, as advised by the Group Company Secretary, and takes action to identify and manage conflicts of interest. The Board has satisfied itself that each non-executive director continues to be independent in accordance with the Code.

Name	Appointed	Retired/Retiring
Kal Atwal	17 January 2020	
Sally Bridgeland	14 January 2015	
Daniel Cazeaux	22 September 2020	
Baroness Ruth Davidson PC	8 June 2021	
Ian Dilks OBE	14 November 2014	
Shirley Garrood	10 December 2020	6 June 2023
Jane Guyett CBE	4 August 2021	
Tracey Graham	10 March 2013	22 March 2022
Pars Purewal	8 February 2023	
Barry O'Dwyer	8 January 2020	
Kevin Parry OBE	19 March 2019	
Mark Rennison	25 September 2020	
Tim Tookey	6 April 2020	

Details of the directors can be found on pages 64 to 67.

Board meetings and meeting attendance

The Board met regularly in 2022, as well as on an *ad hoc* basis, as required by business needs. There was full attendance by Board members who served during the year at each meeting, as shown in the table below.

Name	Number of Board meetings attended
Kal Atwal	7/7
Sally Bridgeland	7/7
Daniel Cazeaux	7/7
Baroness Ruth Davidson PC	7/7
Ian Dilks OBE	7/7
Shirley Garrood	7/7
Jane Guyett CBE	7/7
Tracey Graham	2/2
Barry O'Dwyer	7/7
Kevin Parry OBE	7/7
Mark Rennison	7/7
Tim Tookey	7/7

Board meeting agendas were structured along the following areas of focus:

- Strategy
- Performance (including operational reviews of business areas and functions)
- Risk and compliance
- Committee reports
- Governance

Primary tasks of the Board during 2022 included the areas of focus and significant matters set out below.

Strategy

- Reviewed the evolution of the Company's Purpose, strategy and values and its articulation as an insight-led, modern mutual growing sustainably by deepening customer relationships
- Conducted reviews of various matters of strategic interest to Royal London, including opportunities for the Group in key segments such as Workplace Pensions, Protection, Later Life and Wealth Wizards
- Reviewed the steps that the Group is taking to play its part in moving fairly to a sustainable world, one of the three key tenets of the Group's Purpose
- Reviewed and approved a proposal to close Royal London's Direct Over 50s business and direct-to-consumer Partnerships to new sales

Members and customers

- Approved ProfitShare rates in respect of the 2021 financial year
- Reviewed and approved implementation plans associated with the FCA's new Consumer Duty for the Company and its relevant subsidiaries
- Upon the advice of the With-Profits Committee, reviewed and approved a proposed buyout of the United Assurance Group transfer arrangement, which was implemented on 31 December 2022
- Reviewed and approved the level of bonus that each fund should declare and approved principles for future bonus distribution
- Approved ongoing investment and operating model improvements to enhance product offerings, the customer journey and its delivery
- Approved an update of the Group's Investment Philosophy with a focus on maximising long-term returns in a responsible way and incorporating a distinctive mutually-responsible element

Performance

- Received regular updates and detailed quarterly reports from the Group Chief Executive Officer and the Group Chief Financial Officer on the performance of the Company and its subsidiaries
- Received regular reports from the Group Chief Risk Officer on the key risks in the business and regulatory interactions
- Conducted operational reviews of businesses and functions that operate within the Group

People

- Approved appointments to the Board, its Committees and the Independent Governance Committee
- Received regular updates on the results of employee engagement surveys
- Attended regular employee 'town hall' meetings with the Group Chief Executive Officer, visited sites across the UK and attended other engagement events with colleagues across the business

Finance and capital

- Received regular updates from the Group Chief Financial Officer on the financial position of the Company and its subsidiaries
- Reviewed and approved the interim results and the Annual Report and Accounts
- Reviewed and approved the ORSA and annual Solvency II reporting, including the Solvency and Financial Condition Report
- Reviewed and made recommendations to management regarding the business plan

Key projects

- Received regular updates and reviewed and approved funding requests for strategic projects to be undertaken by the Group
- Received regular updates on the progress of #thinkbeyond, a programme to improve customer experience

Assurance

- Upon a recommendation from the Audit Committee, approved the appointment of KPMG as external auditor for the Company and its subsidiaries with effect from the financial year ending 31 December 2024
- Undertook an annual review of and approved changes to the risk appetite framework

Board evaluation

Each year, the Board completes a formal and rigorous evaluation of the performance of the Board, its Committees, the Chairman and individual directors. This is an opportunity to take stock of the Board's progress and to test that the Board is well placed to respond to evolving opportunities and challenges.

Good progress was made following the internally facilitated Board evaluation conducted in 2021. This is summarised in the table below.

Issue	Recommendation	Actions taken
Balance of the Board agenda	Board meetings to increase time focused on strategic opportunities to assist the executive in the development of the Group strategy prior to its annual approval. Ensure written updates from Board Committees are enhanced with oral feedback on difficult and complex matters.	The structure of agendas was revised in order to allow more time for Board review of management's development of strategy and other key priorities. Committee reports to the Board were enhanced to provide context, where relevant, and Chairs provided oral updates on the key aspects of work undertaken by their respective Committees at each scheduled Board meeting.
Board education and training	Training is well received and welcome but would benefit from more structure and planning.	The Board, supported by the Group Company Secretary, continued to develop a structured approach to annual education and training programmes that recognise the inherent skills and knowledge of the Board and help to enhance and develop further relevant skills sets.
New ways of working	Align with the business and adopt new ways of working when advantageous. Use should be made of virtual Committee meetings.	A protocol was developed to aid consistency and planning around use of virtual and hybrid meetings. Further work was undertaken to develop executive training and guidelines for preparation and, where appropriate, early pre-meeting review of Board presentations with directors.

Director induction, learning and development

On appointment to the Board, directors are provided with a comprehensive preparation and induction programme. The programme is designed around their background knowledge and experience and, where appropriate, includes induction to Committees of the Board. The induction programme includes meetings with senior management and other key stakeholders to help understand Royal London's Purpose, strategy, operations, risk profile and governance structures as well as its culture and values.

The Chairman conducts an annual assessment of the skills and experience of the Board collectively and in consultation with individual directors will consider any specific ongoing or additional support or training needed.

The Board held a number of development sessions during the year, covering topics such as customer experience, Protection strategy, social care and operational resilience.

2022 externally facilitated review

Every third year, recommended practice is for the Board evaluation to be externally facilitated. Having completed two annual cycles of internally facilitated reviews, the 2022 review was externally facilitated.

The Nominations and Governance Committee, led by the Chairman, oversaw the process, including the appointment of Christopher Saul Associates, a specialist board review firm, to conduct the 2022 review. There is no connection between Christopher Saul Associates and the Group.

The process followed in the evaluation included:

- Discussion of the evaluation process with the Chairman and the Group Company Secretary
- The evaluator setting the scope of the review, holding private meetings with individual directors and non-Board contributors, and observing a cycle of meetings of the Board and its Committees
- A meeting between the Chairman and the evaluator to discuss key impressions and provide confidential feedback on Board members
- Presentation of a report to the Board in March 2023 with a view to deciding upon next steps
- Focus areas and recommendations are to be agreed by the Board and actions will be implemented and monitored as part of the three-year evaluation cycle. Progress against these actions will be reported in the 2023 Annual Report and Accounts.
- The externally facilitated evaluation supported an overall view that the Board and its Committees continue to be effective, focused and engaged. The recommendations and actions to be agreed by the Board will aim to enhance the overall effectiveness of the Board and its Committees.

As part of the annual Board evaluation cycle, the Senior Independent Director also led a meeting with other Board members without the Chairman present, to provide feedback regarding the Chairman's performance. The conclusion from the annual evaluation was that the Chairman continues to be highly regarded by his Board colleagues and seen as an accomplished Chair. He continues to set the direction for the Board and has embedded improvements in governance that were introduced in recent years.

Section 172 statement

Each of the directors is mindful of their duties under section 172 of the Companies Act 2006, to run the Company for the benefit of its members, and in doing so, to have regard (amongst other matters) to:

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

The directors have regard to the views and interests of a wide range of stakeholders and, whilst acknowledging that each decision will not necessarily lead to a positive outcome for all stakeholders, believe that through extensive stakeholder engagement in the context of our Purpose and alignment with our strategy, the Board has maintained a consistent approach to its decision making.

The table below shows how, during 2022, the Board met its duties under section 172 and engaged with its largest stakeholder groups.

Members and customers

Why do they matter to us?

The Company is constituted by and for its members.

How do we engage with them/understand their views?

In 2022, we were delighted to welcome members to our hybrid Annual General Meeting both in person at the Royal Horseguards Hotel in London and via an online live stream where they were able to engage with directors during a question-and-answer session throughout the meeting and in informal discussions over lunch after the AGM. Across Royal London, we also conducted a number of surveys during 2022 with our members and customers to help shape our decision making and approach to providing them with valued propositions.

What do they tell us?

There is an increasing customer preference for simplicity, transparency and comparability of products with a shift in focus to solutions and personalisation driven by technology. Customer preference is for purpose-driven organisations with a strong stance on societal issues and sustainability.

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

We have continued to invest in a digitisation and pension platform modernisation programme in order to address increasing customer preference for simplicity driven by technology.

We have updated our Investment Philosophy and Beliefs, which explicitly incorporates climate considerations, making explicit our stewardship responsibilities and the need to consider ESG factors to realise our ambitions of being a responsible investor on behalf of our customers and members.

Our colleagues

Why do they matter to us?

Our colleagues have built the Group and sustain its values.

How do we engage with them/understand their views?

In 2022 the Board heard feedback from our colleagues through receiving detailed analysis from regular engagement surveys and also directly when non-executive directors led Board question-and-answer meetings. The Colleague Representative Forum (CRF), Culture Pod, the Eco Champs network and four colleague-led inclusion networks also provided excellent insight into our colleagues' views and opinions, including via a meeting between the CRF and representatives from the Board in December 2022.

What do they tell us?

We continued to see excellent participation in our engagement surveys and considerable individual verbatim comments from colleagues. The directors heard feedback on a wide range of topics, highlighting our strengths and where we can continue to do more to support colleagues.

In 2022, the CRF communicated the challenges they faced as a result of cost of living pressures. They highlighted that the rising costs of energy bills, food and housing costs would disproportionately affect our lower-paid colleagues.

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

In response to feedback from the CRF, the Group took targeted action on pay, increasing minimum salary as well as raising the salaries for the lowest-paid colleagues from 1 October 2022 going forward, consistent with the Group's values and principles.

The total salary increases awarded by taking this action amounted to an investment of £2.4m, rising to £3.2m once additional benefit and payroll tax costs were considered.

Society and communities

Why do they matter to us?

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

How do we engage with them/understand their views?

During 2022, the Board received updates on societal and environmental issues and challenges, including information from partners such as Turn2us and our social enterprise partners.

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

What do they tell us?

Society increasingly expects organisations such as Royal London to take an inclusive, stakeholder-based approach which seeks to address a number of societal issues faced by the communities in which the Group operates.

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

The Social Impact team continued to engage with our charity partners throughout 2022. Our social impact funding approach during 2022 focused on 'financial vulnerability and resilience' and 'life shocks', aligned with one of our ESG engagement themes which is 'social and financial inclusion'.

Royal London continued its partnership with Turn2us. Further, in order to assist the response effort to the humanitarian crisis in Ukraine, the Board approved a donation of £250,000 to the British Red Cross for their Ukraine Crisis Appeal as part of our Social Impact programme.

Financial advisers

Why do they matter to us?

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

How do we engage with them/understand their views?

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

Wealth Wizards continues to regularly engage with financial advisers to understand the best ways to support the market in servicing the needs of customers.

What do they tell us?

Royal London's mutual status is seen as a significant strength, particularly in the current financial climate. Financial advisers look to us for support which we deliver through a range of adviser tools, ongoing professional development resources and market updates.

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

We continue to be strong advocates of impartial financial advice in order to achieve better outcomes for our members and customers. We enhanced our adviser support material and launched a new portal for protection advisers making it even easier for them to do business with Royal London.

Wealth Wizards is continuing to enhance our digitally-enabled guidance and advice capabilities to provide better support for our customers and advisers.

We have continued to invest in digitisation and technology to help scale the provision of impartial advice and offer high-quality solutions that mean financial advisers are confident to recommend us.

Other key areas of consideration

How we invest for the long term

Driven by our Purpose, we seek to optimise long-term risk-adjusted investment returns for our customers in a sustainable way. The Board is responsible for promoting the long-term sustainable success of the Group, whilst taking account of interests and relationships with other stakeholders, including customers. The Board discharges this responsibility, among other ways, by regularly reviewing and challenging the Group's strategy and performance, supported by more detailed work that is undertaken by Board Committees and relevant functions.

The Board approved the responsible investment strategy. Responsible investment is a critical focus area for the business. The Company's subsidiary, RLAM, has a responsible investment strategy which covers stewardship and ESG integration. This includes building an ESG dashboard and having ESG analysis integrated into investment processes. Please see pages 22 to 23 for further information on delivering a sustainable future through effective stewardship.

The Company is committed to achieving net zero by 2050 across its investment portfolio. By 2030, we are aiming to reduce carbon-equivalent emissions from our portfolio by 50%. Our approach to addressing climate change and the basis and assumptions on which our targets have been set are explained on pages 32 to 36. Our near-term targets (2025) will guide organisational activity to manage and mitigate climate risks and invest in climate solutions to increase the likelihood of achieving the goals of the Paris Agreement.

The Board approved updates to the Company's Investment Philosophy and Beliefs which explicitly consider climate-related aspects and make explicit both our stewardship responsibilities and the need to incorporate ESG factors into all funds to realise our ambitions of being responsible investors. Please see pages 24 to 36 for further information on our focus on climate.

The Board also reviewed the business plan and made recommendations to management. The plan sets out the objectives for the Company's business in both the short and medium term, including the financial targets for the Company and its subsidiaries and the expected level of capital coverage.

Regulatory considerations

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

The Board recognises regulatory impacts in its decision making.

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

Suppliers

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

The Risk and Capital Committee maintains oversight of the risks associated with material outsourcing and supplier relationships, and receives regular reporting in this regard.

The Company is a signatory to the Prompt Payment Code, which recognises a commitment to prompt settlement of supplier invoices.

Other information

Directors' conflicts of interest

In accordance with the Articles of Association, the Board is authorised to approve conflicts or potential conflicts of directors' interests. The Board has reviewed the interests of directors and their connected persons and has authorised any interests that conflicted or potentially conflicted with the interests of the Group. On an ongoing basis, the Board reviews conflict authorisations to determine whether the authorisation given should continue, be added to, or be revoked by the Board.

Directors' indemnities and insurance

In accordance with company law and the Articles of Association the Company maintains directors' and officers' liability insurance on behalf of its directors and officers to provide cover should any legal action be brought against them.

Persons with significant control

The Company is a mutual and limited by guarantee. It has no shareholders and, therefore, no individual controls 25% or more of the Company.

Dividends

The Company is limited by guarantee without share capital and therefore no dividends are declared.

Corporate Governance Code

Whilst the Company is not required by any statute or regulation to apply the Code, the Board holds Royal London to high standards of governance and has voluntarily determined to comply with the Code. The Company was compliant with the Code during 2022. More information on compliance with the Code is disclosed in the Statement of compliance with the Code on page 62.

Stakeholder engagement

The directors are aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Act and have acted in accordance with these responsibilities during the year. Royal London's largest stakeholder groups are our members and customers, and the financial advisers that support them, our colleagues, our suppliers and the society and community in which we work. However, we also engage with other stakeholders including our pensioners and deferred pensioners, regulators and the Government. The Board continues to focus on stakeholder engagement and pages 72 to 74 show details of how the directors have engaged with stakeholders and how they have had regard to the stakeholders' interests in light of the principal decisions taken by the Company during the year.

Consideration for employees

The Colleague Representative Forum represents and consults on behalf of colleagues, ensuring their voices are heard. Colleagues are also regularly updated on developments and given the opportunity to comment by the Chief Executive Officer through his weekly blog and in regular town hall meetings with the participation of the Board. Many colleagues are members of the mutual by their participation in our Group pension plan and can share directly in our success as a Company through initiatives like ProfitShare, where a share of Royal London profits is added to the pension plan each year. In addition, most of our colleagues are eligible to participate in incentive plans driven by a balanced scorecard aligned to our Purpose and strategy. This scorecard is well publicised internally, with a dedicated intranet site explaining the measures and how different colleagues can help improve each of them. Further details of how Royal London engages with its employees can be found on page 18.

As a participant in the Disability Confident employer scheme Royal London seeks to maximise the benefit from the talents brought by disabled colleagues into the workplace and make appropriate adjustments in our recruitment processes, in the workplace and with ongoing support. Our colleague-led 'Disability Awareness Network' (DAWN) offers additional support to colleagues and aims to raise awareness and combat stigma and stereotypes faced by people with disabilities, both visible and hidden.

Annual General Meeting (AGM)

The Company's AGM will be held at 11am on Tuesday, 6 June 2023 at the Royal Horseguards Hotel, One Whitehall Place, 2 Whitehall Court, London, SW1A 2EJ.

The notice convening the meeting, together with guidance on voting at the AGM, is sent to all members.

Financial instruments

The Group makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Group in relation to its financial instruments, and information on the risk exposures arising from those instruments, are set out in note 35 to the financial statements.

Political and charitable donations

No political donations were made in 2022 (2021: £nil). Foundation grants and community donations totalled £1,839,830 (2021: £1,072,316).

Significant agreements

The Company has contractual and other arrangements with a wide range of third parties in support of its business activities. The Company's Outsourcing and Supplier Management Policy, owned by the Risk and Capital Committee, ensures that the appropriate levels of governance and control are applied by categorising the criticality and importance of the services or products that have been procured. Tiers 1 and 2 are considered to be Royal London's most material relationships and are subject to enhanced levels of approval, governance and controls. The Risk and Capital Committee reviews the functioning of Tier 1 supplier contracts annually.

Going concern

The Group's business activities, along with its financial position, capital structure, risk management approach and factors likely to affect its future performance, are described in the Strategic report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in business for at least 12 months from the date of approval of the financial statements and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements as detailed in note 1(a) to the financial statements.

Directors' report disclosures

Certain Directors' report disclosures have been made in the Strategic report so as to increase their prominence. These disclosures include those relating to greenhouse gas emissions, financial risks, employee involvement, the review of the Group's business during the year and any future developments.

Auditor

PricewaterhouseCoopers LLP (PwC) has indicated its willingness to continue in office. A resolution to re-appoint PwC as the auditor of the Group will be proposed at the 2023 AGM.

Branches

The Company and its subsidiary, Royal London Management Services Limited, have branches registered in the Republic of Ireland.

Anti-corruption and anti-bribery

The Company is committed to the highest standards of:

- governance, personal and corporate ethics;
- compliance with all laws and regulations; and
- integrity and honesty in dealings with employees, customers, suppliers and other stakeholders.

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

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

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

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- each director has taken all steps that he or she ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, the Directors' remuneration report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group and Company financial statements in accordance with UK Generally Accepted Accounting Practice (UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland', FRS 103, 'Insurance contracts' and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company, and of the profit or loss of the Group for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Under applicable law and regulation, the directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the Annual Report and Accounts

Having taken into account all matters considered by the Board and brought to its attention during the year, each of the directors whose names and functions are shown on pages 64 to 67 confirms that to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company and the Group's result;
- the Strategic report and Directors' report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- the Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position, performance, business model, prospects and strategy.

The 2022 Directors' report, from pages 62 to 77, was approved by the Board on 7 March 2023.

By order of the Board



John-Green Odada

Company Secretary

For and on behalf of Royal London Management Services Limited

7 March 2023

Audit Committee



“The significant activities of the Committee included leading the audit tender process which resulted in the appointment of KPMG as the Group’s new auditor effective for the 2024 year end, as well as reviewing and challenging the key assumptions and judgements supporting the Group’s UK GAAP and Solvency II reporting, the Group’s climate-related financial disclosures, and various matters raised by Group Internal Audit.”

Tim Tookey
Chair of the Audit Committee

Dear member,

As Chair of the Audit Committee (the Committee), I am pleased to present its report for the year ended 31 December 2022.

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

The significant matters considered by the Committee included:

- leading the external audit tender process and recommending to the Board the appointment of KPMG to become the Group’s new auditor effective from the financial year ending 31 December 2024;
- the key assumptions and judgements supporting the Group’s UK GAAP and Solvency II reporting, including changes to persistency, longevity and expense-related actuarial assumptions, accounting provisions as well as the accounting treatment of the consolidation of two further closed funds into the Royal London Main Fund;

- reviewing the Group’s climate-related financial disclosures to ensure they provide a clear understanding of the Group’s approach to managing climate-related risks and opportunities; and
 - overseeing the Group’s control environment supported by Group Internal Audit, Group Risk and Compliance and the Finance Controls Oversight teams.
- The Committee noted the Government’s response to the Department for Business, Energy and Industry Strategy’s (BEIS) consultation on Restoring trust in audit and corporate governance. Whilst the timing and nature of changes resulting from this consultation is not yet clear, the Committee held discussions during 2022 on the direction of travel.
- I would like to thank the members of the Committee and the executives supporting it for their diligence and hard work during this year.

Tim Tookey
Chair of the Audit Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Tim Tookey	Chair	2020	7/7
Ian Dilks OBE	Member	2014	7/7
Mark Rennison	Member	2020	7/7

Purpose and role of the Audit Committee

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

The Committee's main responsibilities include:

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

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

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

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

Committee membership

The Committee is comprised solely of independent non-executive directors. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Board is also satisfied that, when considered as a whole, the Committee has competence relevant to the sector in which the Group operates. The qualifications and experience of each member of the Committee are included in their biographies on pages 64 to 67.

The Committee members have received training during the year, in line with that provided to the Board, as set out on page 71, in order to keep their skills current and relevant.

The Committee held nine scheduled meetings during 2022, of which seven were normal meetings of the Committee. This included a joint meeting with the Risk and Capital Committee to review and approve the 2023 co-ordinated controls testing and assurance plans of the Business Controls, Group Risk and Compliance and Group Internal Audit functions together with the 2023 Risk Management plan. The joint meeting ensured that the two committees continue to operate effectively together on areas of adjacent responsibility. These normal Committee meetings were attended by the Chairman of the Board, Kevin Parry, the executive directors and appropriate members of senior management, including the Group Chief Audit Officer. The external auditors PricewaterhouseCoopers LLP (PwC) also attended all of these Committee meetings.

In addition, two meetings of the Committee were held to consider the selection of the audit firm to be recommended to the Board for appointment as the Group's new external auditor for the 2024 year end.

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

Areas of focus and significant matters considered by the Committee

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

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

- The Committee reviewed and challenged the Group's Annual Report and Accounts and 2022 Full-Year Results Announcement. The Committee considered the presentation of the Annual Report and Accounts and, in particular, whether the Annual Report and Accounts as a whole were fair, balanced and understandable.
- The Committee also reviewed and challenged the Group's Interim Results Announcement covering the six months ended 30 June 2022.
- The Committee recommended to the Board for approval the 2022 Interim and 2022 Full-year Results Announcements.

Financial reporting

- The Committee reviewed the Group's UK GAAP accounting policies and confirmed they were appropriate to use in the financial statements.
- The Committee considered the climate change disclosures set out in the Annual Report and Accounts to ensure that they continued to present fairly the Group's strategy, governance arrangements and climate risk management as well as the metrics used to report climate change impacts including the change to using Enterprise Value including Cash (EVIC) as the attribution metric in the Group's portfolio emission disclosures and the disclosures in respect of how the valuation of the Group's investment assets and the Group's technical provision valuation assumptions have considered climate change risks.

Alternative performance measures (APMs)

- The Committee continues to consider that certain non-GAAP measures, such as operating profit, aid an understanding of the Group's results.
- The Committee reviewed the key changes made to the application of the Group's methodology to calculate operating profit and considered these to be appropriate.

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

- The Committee reviewed and challenged the principles underpinning the Statement for 2022 and concluded that Royal London and its subsidiaries will be able to continue in operation and meet their liabilities as they become due. The Committee considered information on the risks to the Group's liquidity and capital when making this assessment.
- The Committee reviewed the Group's assessment of its longer-term viability. In assessing viability, the Committee considered the Group's position presented in the Business Plan recently approved by the Board.
- The Committee confirmed the appropriateness of a three-year assessment period for the longer-term viability statement.

Key accounting judgements

- The Committee reviewed the key accounting judgements supporting the Group's UK GAAP results, including those made in valuing the Group's investments, the carrying value of intangible assets, the appropriateness of accounting provisions and the valuation of the Group's defined benefit pension schemes.
- **Valuation of investments** – the Committee received information on the carrying value of investments, including property investments, in the Group's balance sheet, including information on how those values were calculated for those investments which require more judgement. The Committee satisfied itself that investments were valued appropriately.
- **Intangible assets** – the Committee considered the assessments made in relation to the carrying value of intangible asset balances. The Committee received a detailed report from management outlining the value-in-use methodology, the basis for key assumptions and the key drivers of cash flow forecasts. The Committee was satisfied that there was no impairment of the Group's intangible assets at 31 December 2022.

- **Consolidation of closed funds into the Royal London Main Fund** – the Committee considered the accounting treatment for the consolidation of two further closed funds into the Royal London Main Fund and the associated reporting of the impact of this activity.
- **Provisions** – the Committee considered management's assessment of the accounting provisions required and was satisfied that the provisions were appropriate.
- **Pension scheme asset valuations** – the Committee reviewed the actuarial assumptions which determine the pension cost and the valuation of the Group's defined benefit pension schemes, and concluded that they were appropriate. It also reviewed the impact on the pension scheme asset arising from the inclusion of future discretionary annual pension increases expected to be provided to the members of Royal Liver Assurance Limited Superannuation Funds (UK and ROI).

Long-term business liability valuations – methodology and assumptions

- The Committee considered the actuarial methods and assumptions for the year ended 31 December 2022 for UK GAAP and annual Solvency II reporting. The main methodology and assumption changes for 2022 for the RL Main Fund were:
 - persistency assumption changes, including expectations around higher long-term levels of employee turnover impacting future premiums received on Group Pensions policies;
 - updates to longevity assumptions to reflect slightly lower expectations around future life expectancies, including consideration of uncertainty around the direct and indirect effects of Covid and the changing macro-economic environment; and
 - updates to expense and expense-inflation assumptions to reflect latest experience and the Group's strategic review of the Over 50s protection product as well as smoothing out short-term fluctuations in recurring project costs and regulatory fees in particular.
- In the Group's closed funds, the main changes related to guaranteed annuity option (GAO) liabilities including:
 - GAO related assumption changes including take-ups, transfers and early and late retirement rates to reflect latest experience; and
 - methodology changes to more accurately model future longevity assumptions and post vesting annuity expenses within the calculation of GAO liabilities.
- The Committee reviewed and challenged the Group's UK GAAP long-term business actuarial liability valuation as at 31 December 2022, including the methodology applied to calculate the discount rate used to value the Group's annuitant liabilities.
- The Committee reviewed and challenged the Solvency II Internal Model technical provisions as at 31 December 2022, including the valuation of Own Funds, capital requirement and the recalculation of the Transitional Measure on Technical Provisions (TMTP).

Annual Solvency II regulatory reporting

- The Committee reviewed the Single Group Solvency and Financial Condition Report and recommended it to the Board for approval.

Internal control and external audit

- The Committee considered regular reports from the Finance Controls Oversight team on the effectiveness of the Group's financial reporting control environment, including the assessment of any outstanding control and data deficiencies within the Financial Reporting Data and Control Framework (FRDCF).
- Additionally, the Committee reviewed quarterly reports from GIA, relating to the Group's control environment, culture and risk management practices. Particular focus was paid to reports highlighting significant control weaknesses or cultural issues, their root causes and associated risk mitigation actions. Executive management responsible for impacted areas were invited to the Committee to discuss their response to such issues. The Committee also reviewed Internal Audit reports from the Capita Internal Audit function that relate to the Group's control environment. The Committee approved the GIA annual plan and the GIA charter, which sets out the purpose, activities, scope and responsibilities of GIA.
- Regular reports from PwC were reviewed by the Committee throughout 2022. These included monitoring audit firm independence including the level of non-audit fees and reviewing internal control findings raised during audits and management's responses to those findings.
- The Committee reviewed PwC's Audit Plan for the year ended 31 December 2022 and noted the additional risk assessment procedures required to be carried out by the auditor due to the requirements of ISA (UK) 315 (Revised) 'Identifying and Assessing the Risks of Material Misstatement'.

Other matters

- The Committee considered financial reporting and corporate governance developments including the governmental response to the BEIS consultation on 'Restoring trust in audit and corporate governance', Solvency II reform proposals and climate change reporting developments.
- The Committee reviewed and approved policies covering tax, investment asset and liability valuation, Group reporting and disclosure and external auditor independence.

External audit tender

- As mentioned in the 2021 Annual Report and Accounts, the external audit was last put out to competitive tender in 2000 when the present auditor, PwC, was appointed. In order to comply with rules and legislation governing the audit of Public Interest Entities (PIEs) the Group is obliged to appoint a new external auditor in time for the 2024 year end audit. Consequently, during 2022 the Committee led an audit tender process. Due to audit firm rotation regulations, PwC was not invited to tender but will continue in role until completion of the audit for the financial year ending 31 December 2023, subject to reappointment by the Company's members at the 2023 AGM.
- The Committee retained ultimate authority over the tender process and audit firm evaluation and made a recommendation to the Board. A steering committee was established to support the Committee in overseeing the design and execution of the audit tender. The Committee received updates at its March and June meetings on the progress of the tender process.
- The tender process commenced with the identification and assessment of four prospective audit firms, including both 'Challenger' and 'Big 4' firms. Two firms formally confirmed their intention to tender and their ability to meet independence criteria should they be appointed. Following a series of meetings with management, the Chair, other members of the Committee and the Chairman of the Board, these two firms submitted formal, written proposals and made final presentations to the Committee.
- The tendering firms were judged against five objective criteria determined in advance of the process: (i) Organisational capability and quality; (ii) Audit approach; (iii) Understanding of Royal London Group; (iv) Team competence; and (v) Cultural fit. In addition, the Committee considered the independence of each firm.
- Following meetings of the Committee in September and October, it submitted the two possible audit firm options to the Board, together with a justified recommendation to appoint KPMG as the Group's external auditor for the financial year ending 31 December 2024, subject to this being approved by the Company's members at the 2024 AGM. This recommendation was accepted by the Board.

- The tender process that was followed is set out in the following timeline:

Timing	Process stage	Further detail
January - April 2022	Assessment and selection of prospective audit firms	The assessment resulted in four firms being requested to respond to a Request for Information in April 2022. Two firms declined to participate, one due to lack of audit team capacity and one due to limited audit team breadth/capability.
June 2022	Request for Proposal (RFP) issued	An RFP was issued to the two tendering firms. An electronic data room was opened to provide documents and information to the firms and to enable them to raise questions. The data room was open throughout the process.
June - August 2022	Meetings with management, the Chair, other members of the Committee and the Chairman of the Board	The two firms were invited to a number of meetings with management to meet key stakeholders and gain a better understanding of the Group. Additional meetings were held with the Actuarial team to discuss a technical actuarial question to enable an assessment of the firms' technical capability and approach. Separate meetings were also held with the Committee Chair and other members, as well as with the Chairman of the Board.
September 2022	RFP closing date and audit firm presentations	Comprehensive written proposal documents covering responses to the questions outlined in the RFP were received from both firms. The firms gave presentations to management, including the Group and RLAM Chief Financial Officers, the Group Chief Actuary and the Group Financial Controller. Presentations were made to the Group and RLI DAC Audit Committees.
October 2022	Committee recommendation to the Board	The Committee evaluated the performance of the two firms and concluded that both firms had the capability to perform an effective audit. Of the two firms the Committee recommended to the Board the appointment of KPMG.

External audit

One of the Committee's key responsibilities is oversight of the relationship with the Group's existing external auditor, PwC. The Committee reviewed and approved PwC's terms of engagement for the statutory audit and the audit fee. The Senior Statutory Auditor is Lee Clarke, who is completing his first audit as the lead audit partner.

External auditor independence and non-audit services

During the year, the Committee reviewed updates made to the policy for the independence of the external auditor. This policy seeks to safeguard the current and incoming external auditor's independence and objectivity, and sets out the non-audit services that can be provided by the auditor in accordance with the auditor independence requirements set out in the FRC's Revised Ethical Standard.

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

PwC has reviewed its own independence in line with these criteria and its own ethical guidance standards. Following the review, PwC has confirmed to the Committee that it is satisfied that it has acted in accordance with relevant regulatory and professional requirements, and that its objectivity is not impaired. This confirmation included a consideration of the impact of Pars Purewal being appointed as a non-executive director on 8 February 2023. Having considered compliance with the Group's policy and the fees paid to PwC, the Committee is satisfied as to the continued independence and objectivity of PwC.

In order to ensure the independence of KPMG as the incoming auditor for the year ending 31 December 2024, any proposals for KPMG to provide new non-audit services have been, and will continue to be, monitored and assessed for appropriateness in light of their future role as external auditor and associated independence requirements.

To ensure an orderly and efficient transition, a closely monitored transition plan is in place, which includes regular meetings with management and shadowing the current auditor's work once KPMG meet the auditor independence criteria.

Audit and non-audit fees

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

In 2022, the Group paid PwC £5.7m for audit, audit-related and other assurance services (2021: £5.6m), including £0.4m (2021: £0.4m) of Solvency II audit fees. In addition, PwC was paid £0.1m (2021: £0.1m) for other non-audit services, resulting in total fees to PwC of £5.8m (2021: £5.7m). The ratio of non-audit fees to audit and audit-related assurance fees is 14% for the Group and 15% for the Company. Further details are provided in note 8 to the financial statements. The Committee approved the appointment of PwC to perform these non-audit services in accordance with the Group's policy.

Effectiveness of PwC

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

The questionnaire seeks opinions on the importance of certain criteria and the performance of the auditor against those criteria. The evaluation is managed by GIA. The results of the questionnaire, the FRC's annual Audit Quality Inspection Report and other FRC guidance were considered by the Committee. The Committee concluded that PwC continued to perform a high-quality and effective audit and provided objective and independent challenge to management.

Reappointment of PwC

The Committee recommended to the Board that PwC is reappointed as the Group's external auditor for the year ending 31 December 2023. The Board subsequently approved a resolution reappointing PwC as auditors which will be presented to members at the AGM in June 2023. The Committee made this recommendation following:

- a review of the Financial Reporting Council's (FRC) July 2022 Audit Quality Inspection and Supervision Report and PwC's 2022 Transparency Report which confirmed there were no audit quality issues which might impact PwC's reappointment;
- an assessment of PwC's audit approach, performance and the quality of the audit team; and
- PwC confirming it continues to be independent in accordance with the FRC's Revised Ethical Standard.

Financial reporting

The Committee reviewed the content of the 2022 Annual Report and Accounts (Annual Report) and it reported to the Board that the Committee considered the Annual Report, taken as a whole, to be fair, balanced and understandable. In making this assessment, the Committee considered in particular the APMs and climate-related financial disclosures in the Annual Report. It also considered the matters of focus set out in this report including the key areas of assumptions and judgements. The Committee further believes that the Annual Report provides the necessary information for members to assess Royal London's position, performance, business model and strategy.

Committee effectiveness

Following a review of the activities of the Committee against its terms of reference, the Committee and the Board are satisfied that the Committee has discharged its responsibilities appropriately during 2022. In addition, an externally facilitated review has considered the effectiveness of the Committee. The findings of this review and any actions arising will be considered by the Committee and acted upon as appropriate.

Looking forward

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

Although we are a mutual, we hold ourselves to high standards of corporate governance in the broadest sense and as a Committee we will continue to follow closely relevant developments in corporate governance and financial reporting including the implementation of the reforms surrounding the BEIS Restoring trust in audit and corporate governance consultation, changes to the Solvency II framework and climate change reporting developments.

Nominations and Governance Committee



“During 2022, the Committee maintained its focus on the careful succession planning of the Board and senior management, to ensure that they remain effective in driving forward Royal London’s strategy.”

Kevin Parry OBE

Chairman of the Nominations and Governance Committee

Dear member,

As Chairman of the Nominations and Governance Committee (the Committee), I am pleased to present the Committee’s report for the year ended 31 December 2022.

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

In accordance with the UK Corporate Governance Code, which states that at least half of the Board (excluding the Chairman) should comprise independent non-executive directors, our Board comprises the Chairman, two executive directors and nine independent non-executive directors. The diversity of background and experience across the Board ensures rich debate and optimises its ability to effectively oversee and guide management.

During 2022, the Committee maintained its focus on the careful succession planning of the Board and senior management, to ensure that they remain effective in driving forward Royal London’s strategy.

As previously reported, Tracey Graham stepped down from the Board in March 2022, having reached the end of her nine-year tenure. She was succeeded as Chair of the Remuneration Committee by Jane Guyett CBE.

Subsequent to the year end Pars Purewal was appointed to the Board as an independent non-executive director and as a director of Royal London Asset Management Holdings Limited and Royal London Asset Management Limited.

Shirley Garrood, who also chairs Royal London Asset Management Holdings Limited and Royal London Asset Management Limited, will stand down from the Board and her directorships of Royal London subsidiaries at the end of the 2023 AGM so as to avoid the risk of any potential conflicts of interest which may arise with our asset management business. On behalf of the Board, I would like to thank Shirley for her contribution to Royal London and in particular her insights in respect of financial management, operational execution and asset management. Following the AGM it is anticipated that Pars Purewal will succeed Shirley Garrood as Chair of the asset management subsidiaries.

Over the coming months there will be a number of scheduled retirements from the Board, with Ian Dilks OBE and Sally Bridgeland approaching the end of their respective nine-year tenures.

In line with these anticipated retirements, the Committee has been focused on finding suitable successors to further enhance the balance of skills and experience in order to ensure that the Board and its committees continue to effectively discharge their responsibilities. Further information on this can be found on pages 85 and 86.

Following internal Board effectiveness reviews in 2020 and 2021, we appointed Christopher Saul Associates to conduct an external Board evaluation. Further information on this can be found on page 71.

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

A handwritten signature in dark ink, appearing to read 'Kevin Parry'.

Kevin Parry OBE

Chairman of the Nominations and Governance Committee

Purpose and role of the Nominations and Governance Committee

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

The Committee's main responsibilities include:

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

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

Committee membership

The Committee comprises solely independent non-executive directors and it held six scheduled meetings during 2022.

Areas of focus and significant matters considered by the Committee

The Committee has undertaken significant activity during the year, primarily focused on continuing to evolve the strength and diversity of Royal London's non-executive and executive capabilities as part of ongoing succession planning.

Board and committee appointments

The success of the Group begins with a high-quality Board and senior management team. Following its annual review of the composition of the Board, the Committee has satisfied itself that the current composition of the Board and its committees and succession planning arrangements remain appropriate.

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

On recommendation of the Committee, the Board has recently approved two appointments.

- Pars Purewal was appointed as an independent non-executive director with effect from 8 February 2023. He strengthens the Board's expertise in asset management, strategy and financial management. It is planned that he will succeed Shirley Garrood as Chair of the boards of Royal Asset Management Holdings Limited and RLAM. His appointment followed a targeted search to identify individuals with asset management and investment skills which included interviews with directors, the CEO of RLAM and the Group Investment Director.
- The Board also approved the appointment of Eithne McManus as an independent non-executive director, with an expected start date of 1 April 2023. Her appointment followed an extensive search undertaken by Sainty Hird & Partners, who have no other connection to Royal London. She has an excellent understanding of the life and pensions industry and her appointment will strengthen the Board's actuarial and with-profits expertise in anticipation of Sally Bridgeland's retirement from the Board in January 2024. It is planned that, subject to regulatory approval, Ms McManus will succeed Ms Bridgeland as Chair of the With-Profits Committee in December 2023.

Committee membership

Member	Position	Year of appointment	Meeting attendance
Kevin Parry OBE	Chair	2019	6/6
Kal Atwal	Member	2020	5/6
Sally Bridgeland	Member	2015	6/6
Baroness Ruth Davidson PC	Member	2021	6/6
Ian Dilks OBE	Member	2014	6/6
Shirley Garrood	Member	2020	6/6
Jane Guyett CBE	Member	2021	6/6
Tracey Graham ¹	Member	2013	1/2
Pars Purewal ²	Member	2023	N/A
Mark Rennison	Member	2020	6/6
Tim Tookey	Member	2020	6/6

1. Tracey Graham retired on 22 March 2022.

2. Pars Purewal was appointed with effect from 8 February 2023.

Louise Eldred was appointed as an independent member of the Independent Governance Committee on 28 February 2022 following an open recruitment process, with the role advertised via the Royal London website and LinkedIn. Ms Eldred is an actuary with strong experience in the mutual sector having been With-Profits Actuary at Equitable Life (latterly Utmost Life and Pensions).

Korn Ferry is supporting the Board on the process for identifying a successor to Ian Dilks OBE, with particular focus on the skills and expertise required to succeed Mr Dilks in the role of Chair of the Investment Committee. The Committee will also consider and make a recommendation in respect of the appointment of a successor to Mr Dilks as Senior Independent Director, prior to his expected retirement in November 2023.

Succession planning

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

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

Chairman

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

Senior management changes

The Committee also considered and approved the following senior management changes, which have taken effect since the last Committee report.

- Arleen McGichen joined Royal London in March 2022, in the role of Group Chief Audit Officer.
- Mehdi Kadhim joined Royal London in October 2022, in the newly-created senior management role of Group Chief Transformation Officer.
- Will Pritchett took up the new senior management role of Group Chief Operating Officer with effect from January 2023.
- Julie Whitehead joined Royal London in January 2023, in the senior management role of Group General Counsel.

Group subsidiary board composition

The Committee approves the appointment of directors of regulated subsidiaries and the Chairs of all its subsidiaries. In this regard, during the year the Committee considered and approved a number of required changes to the boards of Royal London subsidiaries, including the appointment of Jill Jackson as an independent non-executive director of Royal London Unit Trust Managers Limited and RLUM Limited.

Diversity and inclusion

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

Diversity and inclusion were important considerations in the appointment processes throughout the year. In the final selection decision, all Board appointments were made on merit and relevant experience, against the criteria identified by the Committee and with regard to the benefits of diversity, including gender.

As at 7 March 2023, the Board comprises the Chairman, nine independent non-executive directors and two executive directors. The Board is made up of seven men (58%) and five women (42%) (as at 3 March 2022: men 50%, women 50%). The Board also meets the Parker Review's ethnic diversity target with two non-white directors.

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

Inclusion is encouraged and supported through a series of networks as described on page 19 of this report. You can find more about our diversity and inclusion, in our Gender Pay Gap report.

Gender split: Board



Committee effectiveness

Following a review of the activities of the Committee against its terms of reference, the Committee and the Board are satisfied that the Committee has discharged its responsibilities appropriately during 2022. In addition, an externally facilitated review has considered the effectiveness of the Committee. The findings of this review and any actions arising will be considered by the Committee and acted upon as appropriate.

Looking forward

We will continue to maintain the Board's broad composition, replacing retirees with appropriate skill sets and seeking new appointees with diverse backgrounds and skill sets that sustain and enhance that breadth. Statistics on gender composition and other considerations will vary as the Board evolves through succession and with new appointments, but are not intended to change structurally over the medium term.

Risk and Capital Committee



“In a challenging external environment, the Committee continued its robust and effective oversight of the key risks so that Royal London’s capital and customers remain protected.”

Mark Rennison

Chair of the Risk and Capital Committee

Dear member,

As Chair of the Risk and Capital Committee (the Committee), I am pleased to present its report for the year ended 31 December 2022. This report describes how the Committee fulfilled its responsibilities during this period. The Committee plays an important role in supporting the Board to oversee and manage the risks facing the organisation.

During the year, the Committee has focused on maintaining a clear understanding of the Group’s risk exposure following significant economic and geopolitical challenges. Our activity included challenging management on whether material risks to the Group are effectively managed within risk appetite and reflected in our PRA-approved Internal Model. Rising geopolitical tensions in 2022 have created new risks and increased the Group’s exposure to others, such as the risk of cyber attacks. The Committee has continued to assess this threat closely as part of the Group’s overall operational resilience to withstand various scenarios and events. We have verified the organisation has identified all the important services it provides, with mechanisms to check and assess that they are operating as intended.

As we adjust to life with Covid-19, the tragic repercussions of the war in Ukraine continue. The conflict added to an already complex external environment, with increasing market and economic volatility and the threat of a sustained recession in the UK. Against this backdrop, the Committee has retained a close focus on the Group’s capital and liquidity position. The organisation has continued to comply with prudential requirements and the Committee has focused on the effective monitoring and control of the wider current and emerging risk landscape. A key consideration has also

been on the organisation continuing to provide support and fair outcomes to its customers as many feel the effects of cost of living pressures. This work carries further significance as we look ahead to 2023 and the implementation of new requirements under the FCA’s Consumer Duty.

In 2022, the Committee also focused on progress and outcomes of the Group’s material change programmes and activity to strengthen its controls to continue to prevent financial crime. The Committee approved the risk management and compliance work programme, as well as the Group’s systems for risk assessment, internal control, and reporting.

During 2022, Tracey Graham stepped down from the Committee, having reached the end of her nine-year tenure on the Board. Jane Guyett CBE was appointed as a member of the Committee during the year, in order to maintain an appropriate overlap between membership of the Committee and the Remuneration Committee.

I am pleased to welcome Jane Guyett CBE to the Committee following her appointment in December 2022 and look forward to working with her in the future.

I would like to thank my fellow Committee members for their continued support and challenge during 2022.

Mark Rennison

Chair of the Risk and Capital Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Mark Rennison	Chair	2020	7/7
Kal Atwal	Member	2020	7/7
Sally Bridgeland	Member	2021	7/7
Tracey Graham ¹	Member	2013	1/2
Jane Guyett CBE ²	Member	2022	N/A
Tim Tookey	Member	2020	7/7

1. Tracey Graham resigned from the Committee on 22 March 2022.

2. Jane Guyett CBE was appointed with effect from 2 December 2022.

Purpose and role of the Risk and Capital Committee

The Committee supports the Board in managing the Group's risk and capital and in complying with prudential and conduct regulations, providing advice, oversight, and challenge to management on key risk matters. More detail on the remit of the Committee can be found in its terms of reference. These are reviewed annually and can be found on the Royal London website.

Committee membership and proceedings

The Committee comprises five independent non-executive directors and held seven scheduled meetings during 2022. A joint meeting with the Audit Committee was also convened to review and approve the co-ordinated assurance plans of the Group Internal Audit and Group Risk and Compliance functions.

Committee meetings are routinely attended by the Group Chief Risk Officer, the Group Chief Audit Officer, the Group Chief Actuary, the Chairman of the Board, the executive directors, members of senior management where appropriate and the external auditors.

Risk management framework

The Committee is also responsible for reviewing the effectiveness of the Group's risk management system. As part of this, it:

- approved and recommended to the Board updates to the Group risk appetite framework;
- reviewed periodic risk and control self-assessment (RCSA) attestations from management;
- reviewed the Group Internal Audit and Group Risk and Compliance plans; and
- approved a number of risk-related policies.

Prudential risk, including Solvency II and Internal Model

The Group maintains sufficient capital at all times to make sure it meets both the needs of its customers and its regulatory requirements. The Committee approved the annual capital management plan and the capital management framework and received quarterly updates on the Group's overall capital position.

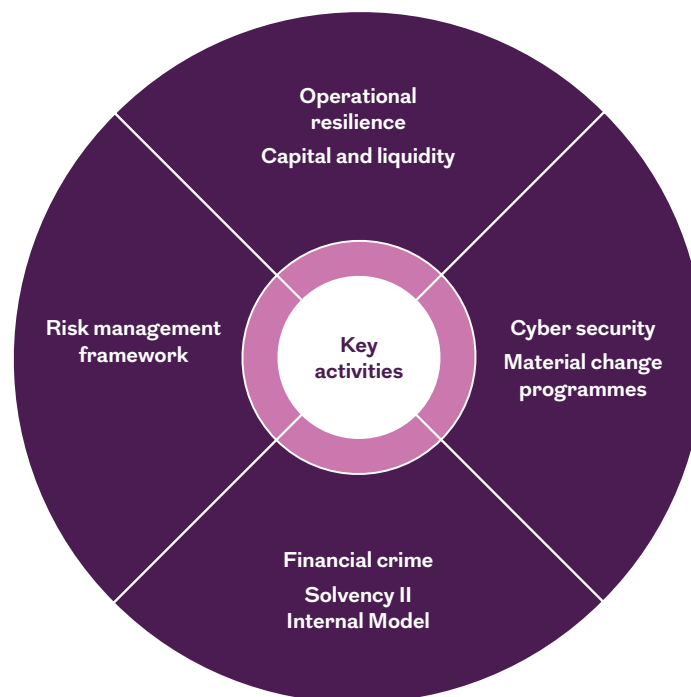
During the year, the Committee reviewed a number of aspects of prudential risk as required by the PRA. This included:

- how the Internal Model is used in practice;
- the stress and scenario testing plan;
- the Group's ORSA; and
- the risk sections of the Solvency and Financial Condition Report and the Regular Supervisory Report.

It also monitored the outcome of the PRA's Solvency II Quantitative Impact Study.

Key activities

The key activities for the Committee in 2022 were the oversight and assessment of risks which could impact the organisation in relation to:



Operational and conduct risk management

The Group actively manages risks that could affect its ability to serve its customers and members, as well as risks which could cause financial loss and reputational damage. Monitoring of these risks is a key part of the Committee's role, through review of regular risk reports and submissions focused on specific areas.

Fair treatment of customers is at the heart of the Group's strategy and the Committee's focus included assessing how effectively management mitigate risks that would impact customers and members.

During the year, the Committee considered reports that were focused on the impact of Covid-19, progress on major change programmes and the Group's control environment. Detailed updates were also provided to the Committee on the progress to improve operational resilience, and there were reviews of material service providers and important business services.

Annual reports from the Money Laundering Reporting Officer updated the Committee on the adequacy of internal policies and procedures, and compliance with relevant regulation and legislation.

After a full review of the Group's whistleblowing process the Committee oversaw improvements to the process to make it easier for employees to raise matters confidentially.

Remuneration

The Committee's view of the Group's performance against the agreed risk appetite is reported to the Remuneration Committee annually. The Remuneration Committee is invited to use this report to support its decision making on adjustments to senior leader remuneration.

Annual Report and Accounts

The Committee reviewed and recommended to the Audit Committee the risk statements and risk-related notes included in the Annual Report and Accounts, and the Principal risks and uncertainties disclosure for the Interim Results Announcement and Annual Report and Accounts.

Committee effectiveness

Following a review of the activities of the Committee against its terms of reference, the Committee and the Board are satisfied that the Committee has discharged its responsibilities appropriately during 2022. In addition, an externally facilitated review has considered the effectiveness of the Committee. The findings of this review and any actions arising will be considered by the Committee and acted upon as appropriate.

Looking forward

The Committee will continue to focus on the key financial and operating risks facing the Group. This will include sound maintenance of the Internal Model and oversight of key strategic change initiatives.

A particular focus of the Committee in the coming year will be to monitor the impact of the volatile economic environment. This will cover the associated changes in customer behaviour as a result of the cost of living pressures. The treatment of customers will remain in sharp focus for the Committee, including the successful implementation of the Customer Duty regulations. Further, as economic uncertainty continues, the Committee will maintain focus on promptly identifying and effectively managing emerging risks.

With-Profits Committee



“The Committee has monitored and supported the Legacy Simplification programme, a project aimed at improving service, flexibility and certainty of estate distribution for long-standing customers.”

Sally Bridgeland
Chair of the With-Profits Committee

Dear member,

As Chair of the With-Profits Committee (the Committee), I am pleased to present the Committee's report for the year ended 31 December 2022.

Throughout 2022 the Committee has continued to focus on its core role of ensuring the fair treatment of policyholders with an entitlement to share in the profits of the Group, as well as advising the Board on matters impacting these with-profits policyholders. In addition to our regular programme of work, the Committee has focused on a number of projects.

The Committee has monitored and supported the Legacy Simplification programme, a project aimed at improving service, flexibility and certainty of estate distribution for long-standing customers. This project has been running for a number of years and reached its conclusion with the consolidation of the PLAL and Liver Funds into the Royal London Main Fund on 31 December 2022.

Linked to the Legacy Simplification programme, the Committee reviewed and ultimately recommended to the Board a proposal to buy out the UAG Shareholder Transfers arrangement. The proposal is expected to improve customer outcomes and reduce operational costs, complexity and risks when compared to the structure that was put in place at the time Royal London acquired UAG in 2001.

The Committee also considered proposals to build on the Group's annuity-writing capability by transferring annuities in payment from the Royal London (CIS) Fund into the Royal London Main Fund. The Committee particularly focused on ensuring the transaction pricing between the Royal London (CIS) Fund and the Royal London Main Fund was fair to both funds. This transfer was implemented in October 2022.

Finally, towards the end of the year the Committee considered a review of the approach to be used for the Royal London (CIS) Fund estate distribution and confirmed its support for the proposals.

Membership of the Committee has remained stable throughout 2022 and it has been particularly pleasing to be able to meet face to face, following the lifting of Covid restrictions. I would like to take this opportunity to thank my fellow Committee members, and the executives who support the Committee, for their valuable work throughout 2022.

A handwritten signature in blue ink, appearing to read 'Sally Bridgeland'.

Sally Bridgeland
Chair of the With-Profits Committee

Committee membership

Member	Position	Year of appointment	Meeting attendance
Sally Bridgeland	Chair	2017	5/5
Daniel Cazeaux	Member	2020	5/5
Carl Dowthwaite	Independent member	2019	5/5
Emmy Labovitch	Independent member	2020	5/5
Alison Jones	Independent member	2021	5/5
Rebecca Hall	Independent member	2021	5/5

Purpose and role of the Committee

The Committee operates in accordance with the FCA's Conduct of Business Sourcebook (COBS) section 20.5. The Committee's principal function is to support and advise the Board on managing with-profits funds, considering the interests and fair treatment of all policyholders with an entitlement to share in the profits of the Group (including unit-linked ProfitShare policyholders). The Committee's main responsibilities include:

- advising the Board on how to allocate profits fairly by exercising independent judgement and considering the interests of all policyholders in the Royal London Group who are entitled to a share in the profits of the Group;
- providing an opinion on any material discretionary actions with regards to with-profits funds, having taken into account the opinion of the With-Profits Actuary;
- assessing compliance with each with-profits fund's Principles and Practices of Financial Management (PPFM);
- assessing investment performance reports and providing oversight of the way in which with-profits funds are invested and managed;
- reviewing material communications and literature provided by Royal London to with-profits policyholders to ensure they are clear, fair and not misleading; and
- assessing whether the interests of with-profits policyholders, and the respective interests of different groups of with-profits policyholders, are fairly reflected in the management of the funds and in the PPFMs.

The responsibilities of the Committee are reviewed annually and set out in its terms of reference. The Committee's terms of reference are available on the Royal London website.

Membership and proceedings

In accordance with the requirements of COBS and the Committee's terms of reference, it has a majority of independent members. At 31 December 2022 the Committee comprised four independent members and two non-independent members.

Other regular attendees at Committee meetings are the With-Profits Actuary and Group Chief Actuary.

The Committee met six times during 2022. In addition to five formal meetings there was also a training session on the UAG Shareholder Transfers Buyout proposals.

2022 highlights

Legacy Simplification programme

The Committee has continued to monitor and support the Legacy Simplification programme, a project aimed at improving service, flexibility and certainty of estate distribution for long-standing customers.

The Committee worked with the project team on 'wave 3' (which covered a further two closed with-profits funds, Liver and PLAL). Policyholders were required to vote on the Liver consolidation into the Royal London Main Fund and the Committee was pleased to note the policyholder support. These consolidations were successfully implemented, as scheduled, on 31 December 2022.

Annuities

The Group successfully introduced annuity-writing capability in 2021. During 2022 the Committee considered and supported proposals to build on this capability by transferring annuities in payment from the Royal London (CIS) Fund into the Royal London Main Fund. The Committee particularly focused on the transaction pricing between the Royal London

(CIS) Fund and the Royal London Main Fund, with the aim of ensuring fairness between different groups of with-profits policyholders. The Committee ultimately supported the proposals, having heard the views of both the With-Profits Actuary and Hymans Robertson (who performed an independent external review of the proposals). This transfer was implemented in October 2022.

UAG Shareholder Transfer Buyout

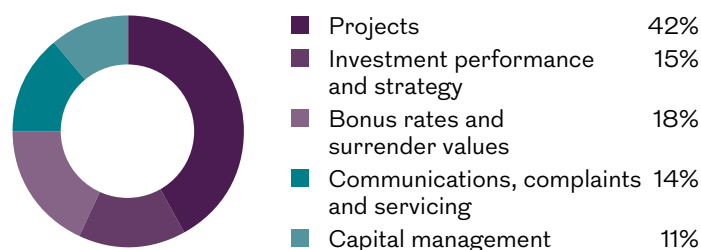
The Committee reviewed, and ultimately recommended to the Board, a proposal to buy out the UAG Shareholder Transfers arrangement. The proposal is expected to improve customer outcomes and reduce operational costs, complexity and risk inherent in the structure that was put in place at the time Royal London acquired UAG in 2001. The Board approved the buy-out proposals for implementation at year end 2022.

Investment

During 2022 the Committee reviewed the investment performance and investment strategy (including developments in responsible investment, ESG matters and stewardship) for the various with-profits funds and remained supportive of the approach being taken by RLAM and the wider Group. The Committee received updates on RLAM's strategic initiatives (including its investment in technology to support growth).

Following the completion of 'wave 2' of the Legacy Simplification programme at the end of 2021, the Committee was consulted on a number of updates to strategic asset allocations for with-profits funds. Changes focused on improving the resilience and risk adjusted returns of the portfolio.

Committee activity cycle



Committee effectiveness

The Committee conducted an effectiveness review at the end of 2022 and no material areas for improvement were identified.

Looking forward

The Committee will continue to focus on its key role of ensuring the fair treatment of with-profits policyholders. Specific priorities for the Committee in 2023 are expected to include further risk management initiatives between the Royal London (CIS) Fund and the Royal London Main Fund, continued harmonisation of policy management following the fund consolidations, reviews of policyholder communications, a review of the PPFMs (following a number of incremental changes having been made in connection with projects completed over recent years) and consideration of the impact of new Consumer Duty requirements on the treatment of with-profits policyholders.

Investment Committee



“2022 was a challenging year as investment markets were impacted by spiralling inflation, continuing geopolitical stresses, significant monetary tightening, political uncertainty in the UK and, latterly, the prospect of slower growth to come for much of the developing world and China.”

Ian Dilks OBE

Chair of the Investment Committee

Dear member,

As Chair of the Investment Committee (the Committee), I am pleased to present its report for the year ended 31 December 2022.

2022 was a challenging year as investment markets were impacted by spiralling inflation, continuing geopolitical stresses, significant monetary tightening, political uncertainty in the UK and, latterly, the prospect of slower growth to come for much of the developing world and China.

The Committee assessed the Group's Investment Philosophy and Beliefs (IPB), elements of the Group's investment strategy and investment activity, including the strategic asset allocations of a number of the Group's portfolios. The Committee also reviewed and supported new initiatives including those relating to the Group's real estate investment strategy and private assets. The Group's responsible investment and climate change programme, as well as its approach to stewardship and engagement, remained a key focus for the Committee.

I would like to thank my fellow Committee members for their continued support during 2022.

A handwritten signature in blue ink, appearing to read 'IDilks'.

Ian Dilks OBE

Chair of the Investment Committee

Purpose and role of the Committee

The role of the Committee is to support the Board in managing investments held as principal, in a manner that is consistent with the Group's Investment Philosophy and Beliefs. The Committee is responsible for assessing whether assets remained appropriately invested to meet the needs of the Group's members and policyholders throughout the period. The Committee monitored the Group's investment strategy and investment performance closely.

The responsibilities and duties of the Committee are set out in its terms of reference, which are reviewed annually. They are available at www.royallondon.com.

Membership and proceedings

The Committee comprises two independent non-executive directors, an independent member and the Group Chief Financial Officer. The Committee held six meetings throughout 2022. The Committee meetings were attended by the Chairman, the Group Chief Executive, the Group Investment Director, the Investment Strategy Director and the Group Chief Risk Officer. Members of senior management also attended meetings to present or support during the meetings, when it was necessary to do so. The Committee had the input of its advisers, Mercer, until their contracted term ended on 31 July 2022.

Committee membership

Member	Position	Year of appointment	Meeting attendance
Ian Dilks OBE	Chair	2014	6/6
Kal Atwal	Member	2022	5/6
Daniel Cazeaux	Member	2020	6/6
Tracey Graham ¹	Member	2020	1/2
Julius Pursaill	Member	2014	6/6

1. Tracey Graham retired on 22 March 2022.

2022 highlights

- Review and approval of strategic asset allocation (SAA) plans across certain of RLMIS' Long-Term Funds (LTFs) and the Governed Range
- Review of tactical asset allocation (TAA) and its implementation across RLMIS' customer portfolios
- Approval of RLMIS' Stewardship Code report
- Review of the private investment universe and Royal London's approach to investment in private assets
- Overseeing implementation of RLMIS' real estate investment strategy
- A review of activities being undertaken to achieve Royal London's climate change ambitions, including relevant infrastructure, tools and processes
- Triennial review of RLAM as RLMIS' principal asset manager
- Seeding of three new funds with sustainability objectives, either approved directly by the Committee or under delegations granted by it.

Turbulent times

In 2022, as much of the world gradually recovered from the Covid-19 pandemic, the war in Ukraine brought a new human tragedy. Much of the world saw a once-in-a-generation surge in inflation, driven by fiscal and monetary expansion through the Covid crisis, global supply chain issues and strained energy supply. As central banks tightened monetary policy aggressively in response, global equity and bond markets saw historic reversals. 2022 delivered poor returns for the traditional balanced investor with a 60:40 allocation to equities and bonds.

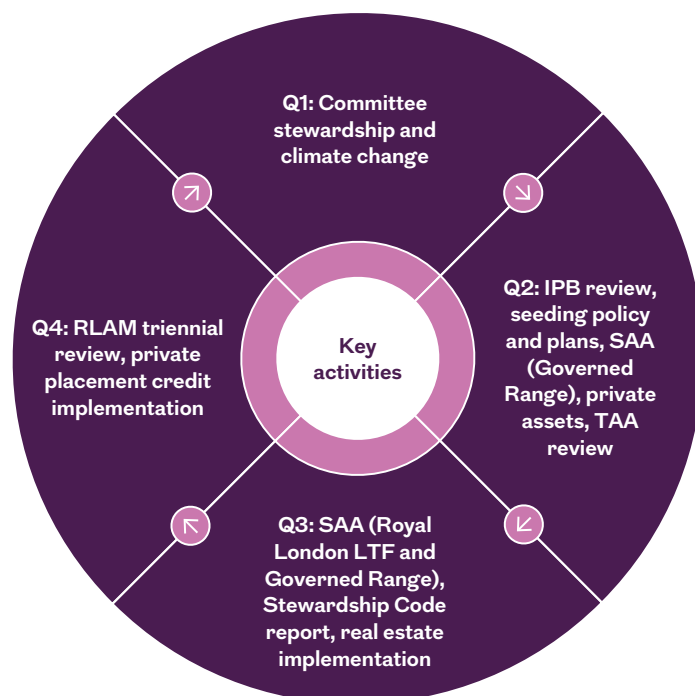
Given this turbulent backdrop, the Committee maintained closer oversight of both investment risks and performance across the Group's portfolios. A key risk that manifested across investment markets in the latter half of 2022 was interest rate volatility; the Investment Committee had by April 2022 approved early action to increase flexibility to manage this risk across Royal London's flagship Governed Range. The Committee took further action to mitigate the execution risk of proposed allocation changes during UK market volatility seen in the latter part of 2022.

In the normal course, the Committee reviewed strategic asset allocation for both the Royal London Long-Term Fund as well as the Governed Range of pensions savings products. It also reviewed the tactical asset allocation process deployed across the Group's propositions. Private asset investment was considered further, including progress made in implementing changes to Royal London's real estate investment strategy, in particular into healthcare assets.

The Committee also supported Royal London's continuing progress as a responsible investor, overseeing stewardship activity as well as work done towards delivering Royal London's sustainability and climate-related investment ambitions.

The Committee conducted its triennial review of Royal London Asset Management (RLAM) as RLMIS' principal Investment Manager. This involved assessing RLAM's capability, performance, fees and service. The review concluded that RLAM's performance across a range of asset classes and its close collaboration with RLMIS had brought significant benefits to policyholders and members. The review also looked to potential future developments and concluded that RLAM continued to be a highly valued partner and provider for RLMIS.

Committee activity cycle



Committee effectiveness

Following a review of the activities of the Committee against its terms of reference, the Committee and the Board are satisfied that the Committee has discharged its responsibilities appropriately during 2022. In addition, an externally facilitated review has considered the effectiveness of the Committee. The findings of this review and any actions arising will be considered by the Committee and acted upon as appropriate.

Looking forward

As we look to 2023, the investment environment continues to present challenges. Global growth has slowed meaningfully, and significant macroeconomic and geopolitical uncertainty remains. The Committee will continue to oversee the careful management of customer and member investments.

Remuneration Committee Chair's statement



“Royal London believes in building financial resilience for its members and customers; our approach to remuneration for our colleagues plays an integral part in achieving this ambition.”

Jane Guyett CBE

Chair of the Remuneration Committee

Dear member,

On behalf of the Remuneration Committee (the Committee) and the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022.

This is my first report since being appointed as Remuneration Committee Chair. I would like to take this opportunity to thank my predecessor, Tracey Graham, as well as fellow Committee members for their support.

Group Remuneration Philosophy

At Royal London, our customers are at the heart of our business and our people facilitate everything we do. We operate a Group Remuneration Philosophy that creates a sense of shared purpose throughout the organisation and applies to the majority of our people (c.95% of colleagues across the Group), including our executive directors. Any variations from the Group Remuneration Philosophy are only made to reflect market practice within particular sectors (e.g. within our asset management business, RLAM), and are subject to individual scrutiny to ensure that our shared purpose remains upheld. A summary of our Group Remuneration Philosophy, and how it applies to executive directors, is set out on page 97.

The impact of inflation has created financial challenges for both colleagues and members. Colleagues have been supported with financial planning/budgeting workshops and debt counselling services.

We have also taken targeted and measured actions to support our lowest-paid colleagues, including a one-off £1,000 salary increase in 2022 for those colleagues earning less than £40,000 in addition to our normal salary review process in April.

As a mutual, Royal London is proud to have been an early adopter of the Living Wage Foundation, and we continue to ensure all colleagues receive the Real Living Wage at a minimum. But, as a leading pension provider, it is important for us to go further. People not only need a Real Living Wage, but they also need a salary which allows them to save towards their future and retirement. It is for this reason that we have introduced a minimum full-time salary of £21,700 for all colleagues, locations and age groups. This is 9.4% higher than the rate set by the Living Wage Foundation.

Royal London published its 2022 gender pay gap report and, compared against our 2021 result, the mean pay gap has narrowed by 0.7% from 36.0% to 35.3%. Our gender pay gap is influenced by the structure of our workforce and we have made good progress in improving the representation of women in the highest-paid and lowest-paid quartiles.

The increase in female representation in the lowest-paid group is partly due to the acquisition of Police Mutual which had a larger proportion of women in lower-paid roles. The net impact of these changes is a marginal narrowing in our gender pay gap.

However, I remain confident that our diversity and inclusion initiatives will continue to make progress in this important area over time.

Committee membership

Member	Position	Year of appointment	Meeting attendance
Jane Guyett CBE ¹	Chair/Member	2021	7/7
Tracey Graham ²	Chair	2013	2/3
Baroness Ruth Davidson PC	Member	2021	7/7
Ian Dilks OBE	Member	2020	7/7

1. Jane Guyett CBE was appointed Chair of the Committee on 22 March 2022.

2. Tracey Graham retired on 22 March 2022.

How our Remuneration Policy was implemented in 2022

Link between pay and performance

The geopolitical events of late 2021 and 2022 have led to significant and rapid global economic changes. This has manifested in unstable markets, inflationary pressures and a cost-of-living challenge for customers and colleagues alike. However, against this backdrop Royal London's sound and resilient business model has enabled it to continue to deliver strong returns for the benefit of its members. The growth in operating profit generation in year, delivered through our continuing focus on cost control, growth in our annuity portfolio and benefits delivered through closed fund consolidation and simplification activity, alongside our robust capital position have enabled us to deliver a ProfitShare of £155m to eligible customers.

2022 Short-Term Incentive Plan (STIP) outcomes

The STIP scorecard generated a formulaic result of 102.2% of target (with the maximum being 200% of target) which is reflective of performance delivered in the year. In determining the final outcome for 2022, the Committee considered whether the scorecard out-turn accurately reflected both Group and individual performance, in combination with a range of additional factors including the economic climate, the Group's financial and investment performance, and progress on key strategic projects. Key non-financial highlights for the year include:

- Successfully migrated over 1 million in-force policies onto new technology and uplifted the policy values of certain long-standing customers.
- Launched a free online service for Workplace Pension members to assess their financial wellbeing.
- Enhanced support for Protection advisers through a new online dashboard providing proactive case management, while also improving Protection customers' experience.
- Increased value of member policies by £675m from fund consolidation.
- Completion of the migration of 4.3 million long-standing policies onto new technology, enhancing the quality of customers' servicing experience.
- RLAM launched two new sustainable fund offerings, a Sustainable Growth Fund and a Sustainable Short Duration Corporate Bond Fund.
- In addition, we also entered the individual pension market in Royal London Ireland.

The Committee also considered performance in relation to the Group's risk framework and determined there were no material risk factors which required an adjustment and the result was an accurate reflection of business performance and chose not to apply any discretionary adjustments to the outcome.

This resulted in an award under the 2022 STIP of 77% of salary (out of a possible maximum of 150%) for Barry O'Dwyer and 77% (out of a possible maximum of 150%) for Daniel Cazeaux.

2020 Long-Term Incentive Plan (LTIP) outcomes

The Long-Term Incentive Plan (LTIP) outcome is determined based on the achievement of specific performance gateways, followed by the Committee's assessment of performance against the Group's LTIP scorecard which includes three-year financial and strategic performance measures.

Both the capital gateway and minimum operating profit gateways were achieved for the 2020 LTIP. Outside the gateways, as detailed further on page 111, the profit metric did not achieve threshold.

Committee activity cycle



However, investment performance across the With-Profits and Governed Range outperformed plan across the three-year performance period, which resulted in full vesting of this element of the award (20% of the award). Good progress was also made against the market share metrics, particularly in Ireland, and the Group's cumulative ProfitShare was above threshold.

The Committee also considered annual statements from the Audit and Risk and Capital Committees on quality of earnings, and performance within risk appetite. Overall, this resulted in a scorecard outcome of 54.3%. In reviewing the result, the Committee considered whether the result accurately reflected key factors including Group and individual performance, the economic climate, the Group's financial and investment performance, and progress on key strategic projects; after which they determined that the result was an accurate reflection of business performance and therefore chose not to apply any discretionary adjustments to the outcome.

This resulted in overall vesting of 54.3% for both Barry O'Dwyer and Daniel Cazeaux.

Remuneration Policy review

The current Remuneration Policy was approved by members at the 2020 AGM. In line with the normal three-year cycle, we undertook a comprehensive review of our Remuneration Policy during 2022 to ensure it remains appropriate and continues to support the delivery of the Group's strategic priorities. Following the review, the Committee determined that the structure of the Remuneration Policy was broadly fit for purpose and did not require fundamental change. However, to ensure the policy continues to attract and retain executives of the calibre required to deliver our strategic objectives (in line with our competitors), and to reward outperformance, the following changes have been proposed:

- the maximum STIP opportunity is 200% of salary (previously 150%);
- the maximum LTIP opportunity is 300% of salary (previously 187.5%).

While the maximum opportunities have increased for executive directors, the Committee's intention is for the increased opportunities to apply to the Group Chief Executive Officer only. The opportunities for the Group Chief Financial Officer are the same as prior years (see page 99 for details on implementation for 2023). This approach provides the Committee flexibility to meet future competitive pressures.

Remuneration package for Group Chief Executive Officer

Barry O'Dwyer joined the Group on 23 September 2019 as Group Chief Executive Officer (CEO) and was formally appointed to the Board on 8 January 2020. At that time, reflecting his level of experience then, he was appointed with total fixed pay approximately 27% lower than the previous incumbent. Since appointment, Barry O'Dwyer has established himself in this role as an experienced CEO, having successfully navigated the challenging economic environment over the past few years, including leading Royal London through the Covid-19 pandemic.

Under his leadership, the Group has increased in size and scope, with key highlights including:

- The continued strategic development of the Group through the acquisitions of Police Mutual and Wealth Wizards, disposal of Ascentric and taking a strategic stake in Responsible Life.
- The introduction and embedding of a new Internal Model to calculate the capital requirements of the Group, maintenance of a robust capital position, the achievement of record flows into our asset management business and strong new business performance through significant economic turmoil.
- Growth of our Governed Range, investment in digital capabilities, continued recognition for our outstanding customer service, simplification of our legacy business, the launch of a new pension proposition to the Irish market, and strong customer and colleague engagement.

Aligned to our review of the Group Remuneration Policy the Committee reviewed the packages of the executive directors to ensure it continues to appropriately retain and incentivise them. Taking into account competitive market data, the Committee felt that it would be appropriate to increase the incentive opportunity for the CEO, with his STIP opportunity increasing from a maximum of 150% to 200% of salary, and his LTIP opportunity increasing from a maximum 187.5% to a maximum of 300% of salary. It is important to note that this relates to opportunity; any increased remuneration is only payable if the CEO were to deliver strong performance to members both over the short and long term. The Committee will ensure considerable scrutiny is applied to any such reward decisions.

2023 pay decisions

Base salary

To ensure salaries remain fair and competitive and in recognition of the acute cost of living pressures faced by more junior colleagues, the Committee approved a two-stage approach to salary increases over the course of the year. The budget for salary increases was 10% for junior colleagues (broadly, those earning less than £40,000) and this was paid in two tranches – a one-off £1,000 salary increase in October 2022 followed by a more conventional annual salary award with a budget of 5.75%, due to take place in April 2023. Colleagues with a base salary above £41,000 did not receive a salary increase in October but are eligible for an annual salary award in April 2023. The budget for this award is 5.75% of salaries. The overall budget for increases to the wider workforce is equivalent to 7% of total salaries.

Individual awards were based on personal performance and market benchmarking and individual increases ranged from 2% to 20%.

In line with this approach, the committee consider it appropriate to increase the CEO's salary by 5.75%, from £728,000 to £769,860.

Daniel Cazeaux joined Royal London as Group Chief Financial Officer (CFO) in September 2020 having previously been a Partner at KPMG.

As his first role as a Chief Financial Officer, he was appointed on a salary that was approximately 12% lower than the previous incumbent. Since his appointment, Daniel Cazeaux has increased his responsibilities which include management responsibility of Company Secretarial, oversight of corporate development activity, Board membership of Royal London Ireland and has been a strong support for the CEO. Reflecting the CFO's performance and additional responsibilities – maturing in his role and strength of contribution – together with the Group's approach to salary awards for achievement across the workforce, the Committee determined it was appropriate to increase the CFO's salary by 14.5%, from £436,800 to £500,000 effective from 1 April 2023. Post the increase, his overall remuneration opportunity will be positioned within the market competitive range, albeit slightly below market median relative to peers.

As per the Remuneration Policy, individuals may choose to receive a regular cash payment of 12% in lieu of pension contributions. The pension contributions for executive directors are consistent with this and are below the maximum 14% contribution available to the wider workforce.

Short-Term Incentive Plan (STIP)

The Group STIP scheme for 2023 will continue to be based on a scorecard of financial and non-financial measures as reported on page 98 of this report. The Committee will continue to assess performance against the scorecard and whether any positive or negative adjustment needs to be applied to account for material performance factors not considered in the scorecard. Further details on page 103.

Long-Term Incentive Plan (LTIP)

In line with the changes made last year, performance will be assessed against a scorecard based 40% on financial and 60% on non-financial metrics. Further details on the targets attached to the award can be found on page 99.

Remuneration Committee performance

In 2022, the Committee completed an annual review of its effectiveness, where an internal evaluation of the Committee's activity relative to its objectives and responsibilities was undertaken. The Committee was pleased to note the improvements made throughout the year and agreed it had been effective in its operation.

Conclusion

I would like to thank colleagues for their contributions last year and I also thank our members for their continued support. I encourage you to vote in favour of the resolution relating to the Directors' Remuneration Report for 2022 and the Remuneration Policy at the 2023 AGM.



Jane Guyett CBE

Chair of the Remuneration Committee

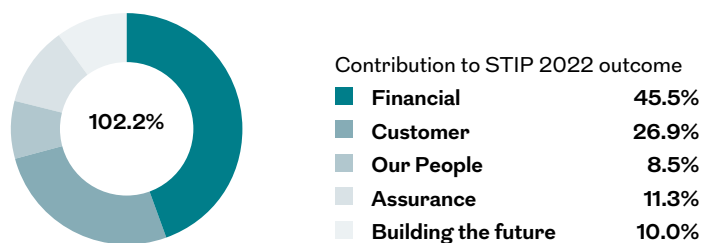
7 March 2023

Group Remuneration Philosophy

At Royal London, our people are at the heart of the organisation, and we aim to ensure all our colleagues are able to do their best with support from the right tools. We operate a Group Remuneration Philosophy which applies to the majority of colleagues across the Group, including our executive directors. The following table sets out our Group approach to remuneration and how this applies to both the wider workforce and our executive directors.

Element	Application to the Group
Base salary	Royal London takes a market informed approach for determining salaries. Individual salaries are appropriately positioned against their internal and external peers, and consider their relevant skills, knowledge, and sustained performance. Royal London has a pay for performance approach where increases are prioritised for those colleagues that are demonstrating exceptional performance and progressing well in their role.
Benefits	Royal London has a strong focus on supporting colleagues' health, wellbeing and providing financial security. Colleagues who meet the required service criteria are eligible to join the Private Medical Scheme which provides mental & physical care and medical treatment if needed. Financial support is provided to colleagues' dependants via the life insurance scheme which pays 8x salary in the event of a claim. Benefits may vary by individual, location and level and may also include medical screening or a discretionary living-away-from-home allowance.
Pension	Royal London considers itself to have a shared responsibility in helping colleagues to save towards their long-term futures and retirement. Colleagues are encouraged to save, with Royal London doubling all colleague pension contributions up to a maximum employer contribution of 14%. For colleagues who reach either the lifetime or annual pension allowance they have the option to take a cash allowance in lieu of pension. The default contribution rate across the workforce is 6% (employee) and 12% (employer) of salary.
Short-Term Incentive Plan (STIP)	<p>The Short-Term Incentive Plan provides an opportunity for colleagues to be rewarded for their contribution towards Royal London achieving its goals and results which benefit customers and members. Colleagues have a bonus opportunity which is appropriate for their role and comparable with their relevant, external peer group. Bonuses must be earned through colleagues working collectively to deliver against the measures in the balanced scorecard, which determines the overall level of bonus funding.</p> <p>The awards individuals receive will be differentiated based on their own personal contribution and performance, with no award for those not meeting the minimum expectation for their role. Performance is assessed using a scorecard of financial and strategic measures that are reviewed each year. The maximum opportunity for employees will not exceed 200% of salary, unless otherwise agreed by the Committee.</p> <p>For individuals in key roles, a portion of the STIP is deferred (40% for executive directors), subject to continued employment, with the deferred award paying out on the first, second and third anniversaries of the grant of the award.</p> <p>In line with market practice, and in order to increase alignment with underlying performance of the business units and/or functions, separate STIP scorecards apply for colleagues within RLI DAC and those within control functions. A separate STIP, including a standalone scorecard, applies for colleagues within RLAM, reflective of market practice and to provide direct alignment to underlying performance.</p>

2022 Group scorecard – STIP



Overall out-turn of 102.2% of target. See page 110 for the detailed out-turn.

Short-Term incentive plan (STIP) continued

Group scorecard in 2023 – STIP

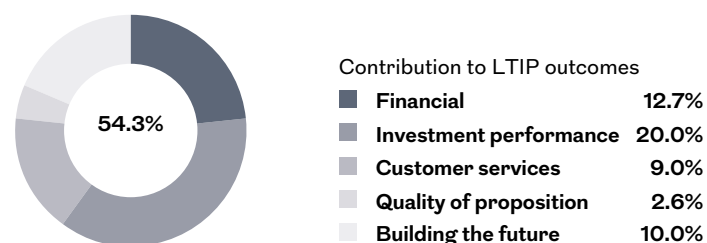
Scorecard segment	Group KPIs	%	How the scorecard aligns to our strategy		
			Helping build financial resilience	Moving fairly to a sustainable world	Strengthening the mutual choice for customers
Financial	An assessment of how financially secure and robust we are considering economic volatility – enabling us to be strong and stable in delivering the strategic outcomes we are targeting. This includes measures on operating profit, business as usual costs and the profitability of our new business.	45%	●	●	
Customer	The Group will consider the performance of our investments within our Governed Range and Long Term Funds. We also capture progress to increase customer engagement through our digital portals and online applications, and how our customers feel and identify with Royal London as a brand.	20%			●
Building the future	We measure the progress of our 'major projects' that would have a significant strategic impact for the Group. These include the FCA Consumer Duty regulatory requirement for delivery summer 2023, our progress against sustainability and stewardship ambitions and our work to improve cyber security.	15%	●	●	
People	The measure considers how we are delivering for our customers through our People Strategy, and our colleagues through our People Commitments.	10%	●	●	●
Assurance	Captures the degree to which risk is identified, self-assessed and managed, focusing on our ability to meet regulatory standards.	10%	●	●	●

Long-Term Incentive Plan (LTIP)

The Long-Term Incentive Plan aims to align our senior colleagues within the Group Executive Committee with the long-term interests of members and customers whilst incentivising the delivery of the Group's long-term strategy. Colleagues have an LTIP opportunity which is appropriate for their role and comparable with their relevant, external peer group. Awards received will be differentiated based on personal contribution and performance, with no award for those not meeting the minimum expectation for their role.

Performance is assessed using a scorecard of financial and strategic measures that are reviewed each year. Vesting of awards is based on performance over a three-year performance period, after which a two-year holding period may apply. Awards are generally deferred into fund units, providing alignment with fund performance.

2020-22 LTIP Group scorecard



See page 111 for the detailed vesting.

For 2023, our Long-Term Incentive Plan will align to a range of measures from our medium-term strategic outcomes. These outcomes support delivery of our purpose outcomes.

Long-Term Incentive Plan (LTIP) continued	2023-25 Group scorecard – LTIP		How the scorecard aligns to our strategy		
			Helping build financial resilience	Moving fairly to a sustainable world	Strengthening the mutual choice for customers
	Strategic outcomes	%			
	Our continued profitability and balance sheet management ensure we are financially secure	20%	●		
	Our investment performance and capabilities are recognised as best in class	20%	●	●	●
	We offer high-quality components, to deliver broader solutions which meet customers' needs	10%	●		●
	The breadth of our offering means our relationship with customers can last for the rest of their lives	10%	●		●
	We maximise operational efficiency without compromising on quality	10%	●		●
	We attract a strong inflow of new customers and clients	10%	●		●
	Our active engagement with external stakeholders benefits customers and wider society ¹	10%	●	●	●
	We operate with modern infrastructure, capabilities and ways of working to maximise value for customers	10%		●	●

1. This includes a measure that contributes to our climate targets.

How the Group philosophy applies to executive directors

How it applied in 2022



How it applies in 2023

	CEO	CFO
Base salary	£769,860	£500,000
Pension and benefits	12%	12%
STIP maximum opportunity	200%	150%
LTIP maximum opportunity	300%	150%

How the Committee has incorporated the UK Corporate Governance Code factors into remuneration decisions at Royal London

The table below demonstrates how Royal London has incorporated the principles from the UK Corporate Governance Code into our remuneration framework.

Principle	Examples of how the principles have been addressed
Clarity	<ul style="list-style-type: none"> · Voluntary application of the UK Corporate Governance Code · Comprehensive remuneration disclosures, in line with listed company market practice · Group Remuneration Philosophy (page 97)
Simplicity	<ul style="list-style-type: none"> · Remuneration strategy review conducted in 2021 to simplify the framework · Simple Remuneration Policy, which is well understood by participants (page 101)
Risk	<ul style="list-style-type: none"> · Committee discretion (page 105) · Malus and clawback (page 103) · Post-employment holding requirements (page 104)
Predictability	<ul style="list-style-type: none"> · Remuneration Policy scenario charts (page 108) · Committee discretion (page 105)
Proportionality	<ul style="list-style-type: none"> · Alignment to strategy (page 98) · Committee discretion (page 105)
Alignment to culture	<ul style="list-style-type: none"> · Group Remuneration Philosophy (page 97) · Key principles of the Remuneration Policy (page 101)

2023 Remuneration Policy

This section presents our updated Remuneration Policy. The Remuneration Policy is subject to a members' vote at the 2023 AGM and relates to remuneration arrangements from 1 January 2023.

In reviewing the Remuneration Policy, the Committee followed a detailed decision-making process that included discussions on the proposals at a number of Remuneration Committee meetings and focused on being able to engage rare skill sets needed to produce outstanding service and products for customers. The Committee considered multiple approaches and their possible impact and sought input from management as well as advice from its independent advisers on market practice and stakeholder expectations to inform the discussions. To avoid any conflicts of interest, no directors were involved in conversations relating to their own pay.

Key changes

The key changes made to the Remuneration Policy are as follows:




- Increase in the maximum STIP opportunity to 200% of salary (previously 150%).
- Increase to the maximum LTIP opportunity to 300% of salary (previously 187.5%).
- Removal of exceptional modifier on the LTIP that allowed awards to be increased by 25%.
- Other minor changes have been made to improve the operation of the Policy.


Key principles of the Remuneration Policy

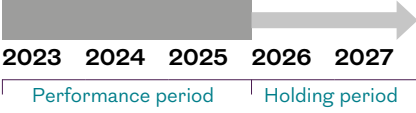
The Remuneration Policy has four key principles:

Align executives' interests with those of our members and customers	Performance-related incentive arrangements will be structured to align the interests of executives with those of members and customers.
Support delivery of the Group's strategy while ensuring adherence to the Group's risk appetite	<p>Performance-related incentive arrangements will be structured to reinforce the achievement of the Group's strategy.</p> <p>The Remuneration Policy will have regard to the remuneration codes of all relevant regulators, including the PRA and FCA, as well as institutional investor guidance on remuneration governance best practice.</p> <p>The Committee will ensure that there is a careful balance between providing competitive pay and motivational incentives to drive performance while also ensuring the appropriate management of risk. Risk-taking outside the Group's risk appetite is not rewarded, and the Committee will have discretion to reduce incentive amounts prior to payment to ensure they are appropriate.</p> <p>When assessing performance, the Committee will take into account not just the measures and targets in the balanced scorecard, but also wider views of Group performance, quality of earnings and the sustainability of performance before finalising awards.</p>
Ensure remuneration is competitive for our markets to help the Group attract and retain talent	Total remuneration will be appropriately competitive to support the recruitment, retention and motivation of talented people, and to help the Group compete effectively with other leading UK life insurers and financial services companies.
To ensure fair outcomes for our people, members and policyholders	<p>At Royal London, we operate a Group Remuneration philosophy which applies to the vast majority of our people, including executive directors.</p> <p>For executive directors, a significant portion of the overall remuneration package is variable based on the performance of the Group, which helps provide alignment between executive directors and our members.</p>

Remuneration Policy – executive directors

Element	Policy	Time horizon
Base salary	<p>Purpose and link to strategy The aim of base salary is to support recruitment and retention of talented people required to deliver the Group's strategy.</p> <p>Operation Salaries are normally reviewed annually, in the context of each executive director's skills and experience, role and responsibilities (including any temporary role changes), individual performance, business performance and the external market data.</p> <p>While there is no maximum salary, any increases will not exceed the range of increases awarded to the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances, for example change in role or responsibilities or where there is material market misalignment.</p> <p>Newly appointed executive directors may have their salaries set below the market/previous incumbent level while they become established in role, with the intention to implement a planned increase in subsequent years subject to performance.</p>	 2023 2024 2025 2026 2027
Benefits	<p>Purpose and link to strategy The aim of providing competitive benefits is to support the recruitment and retention of talented people required to deliver the Group's strategy.</p> <p>Operation Benefits may vary by individual, location and level. They are reviewed regularly to ensure they remain competitive and may vary from time to time. Executive directors may participate in the Group's flexible benefits scheme and may be eligible to receive relocation support based on the requirements of their role, as determined by the Group.</p> <p>Benefits typically include, but are not limited to, life insurance, private medical insurance, medical screening, a discretionary-living-away-from home allowance and either a company car or a cash allowance in lieu of a car. Tax amounts paid by the Group on behalf of executives in respect of benefits may also be provided where appropriate.</p>	 2023 2024 2025 2026 2027
Pension	<p>Purpose and link to strategy The aim of a market-competitive pension contribution is to provide appropriate contribution rates in line with the wider workforce to support saving for retirement.</p> <p>Operation Executive directors can receive a cash allowance in lieu of pension or they may elect to pay all or part of their allowance into a pension plan. Salary is the only element of remuneration that is pensionable.</p> <p>Maximum opportunity The maximum pension contribution is in line with the wider workforce default contribution rate (for 2023 this is 12% of salary).</p>	 2023 2024 2025 2026 2027

Element	Policy	Time horizon										
Short-Term Incentive Plan (STIP)	Purpose and link to strategy The aim of the STIP is to focus participants on the in-year results that need to be achieved to meet the Group’s annual objectives in the context of the agreed strategy. Deferral of a proportion of the bonus ensures alignment of the executive director interests with members.	 <table><tr><th>2023</th><th>2024</th><th>2025</th><th>2026</th><th>2027</th></tr><tr><td>60% cash</td><td colspan="4">40% deferred for 3 years</td></tr></table>	2023	2024	2025	2026	2027	60% cash	40% deferred for 3 years			
	2023		2024	2025	2026	2027						
	60% cash		40% deferred for 3 years									
	Operation Payment of 40% of any amount earned under the STIP is typically deferred, subject to continued employment. Deferred awards can be made in a combination of deferred cash/instruments (including deferral into fund units), as considered appropriate by the Remuneration Committee to ensure all regulatory requirements are adhered to. Deferred awards normally pay out in tranches over three years, subject to any holding requirement in place and regulatory retention periods as required.											
	Opportunity The maximum STIP opportunity in respect of a financial year will not exceed 200% of salary dependent on role, unless otherwise agreed by the Committee. Normally, there is no payment for threshold performance, with 50% of the maximum payable for on-target performance. For 2023, maximum opportunity for Barry O'Dwyer will be 200% of salary and the maximum opportunity for Daniel Cazeaux will be 150% of salary.											
Performance measures Performance measures and targets are, normally, determined annually by the Remuneration Committee. Performance is ordinarily measured against a scorecard of financial and strategic measures, with the out-turns adjusted based on individual performance. The weighting on any financial measures will typically be no less than 40%. The Committee reserves the right to apply a discretionary override in circumstances it considers appropriate, including to ensure that awards fairly reflect the underlying performance of the Group and individual performance.												
Recovery provisions Malus and clawback provisions apply to the full STIP award including any deferral which allows for subsequent reductions if events come to light that if known at the time of award would have decreased the award. Triggers are extensive and include, but are not limited to, material misstatement, material failure of risk management, material financial loss, material injury, corporate failure, misconduct or behaviour that could lead to significant reputational damage.												

Element	Policy	Time horizon
Long-Term Incentive Plan (LTIP)	<p>Purpose and link to strategy</p> <p>The aim of the LTIP is to align executives with the long-term interests of members and customers and incentivise the delivery of the Group's long-term strategy.</p> <p>Operation</p> <p>Performance is normally measured over a period of at least three years. Awards may then be subject to a holding period, which would normally be two years, taking the usual overall time horizons of awards to five years. Awards are made in the form of instruments (for example fund units) as considered appropriate by the Remuneration Committee and compliant with the applicable regulatory framework.</p> <p>Opportunity</p> <p>The maximum LTIP award in respect of a financial year is up to 300% of salary dependent on role. No more than 20% of the award will be payable for threshold performance, with 100% of the award payable for maximum performance, which is consistent with the intended approach under the 2020 Policy.</p> <p>For 2023, maximum opportunity for Barry O'Dwyer will be 300% of salary and the maximum opportunity for Daniel Cazeaux will be 150% of salary.</p> <p>Performance measures</p> <p>Performance measures and targets are, normally, determined annually by the Remuneration Committee, aligned to the Group's key long-term performance measures. Performance is ordinarily measured against a scorecard of financial and strategic measures.</p> <p>The Committee may make adjustments to the targets and/or measures in particular circumstances where the existing targets and/or measures are no longer appropriate.</p> <p>The Committee reserves the right to apply a discretionary override to out-turns in circumstances it considers appropriate, including to ensure that awards fairly reflect the underlying performance of the Group and individual performance.</p> <p>Recovery provisions</p> <p>Malus and clawback provisions apply to LTIP awards.</p> <p>Triggers are extensive and include, but are not limited to material misstatement, material failure of risk management, material financial loss, material injury, corporate failure, misconduct or behaviour that could lead to significant reputational damage.</p>	 <p>2023 2024 2025 2026 2027</p> <p>Performance period Holding period</p>
	<p>Minimum holding guideline</p> <p>The Committee believes that holding guidelines reinforce the principles underlying the Group's Remuneration Policy and further align the interests of executives with those of members.</p> <p>The executive directors are required to retain some/all of their fund units or notional fund units earned under the short-term and long-term incentive schemes, and build up a minimum holding. The minimum holding guideline is 200% of salary for executive directors. Executive directors are required to maintain their holding requirement, or actual holding if lower, for two years post cessation of employment.</p> <p>The Committee reviews progress against the holding guidelines periodically to ensure they remain appropriate for the Group, taking into account market practice and the Board's assessment of what is appropriate.</p>	

Discretions

The Committee operates the Group's incentive plans according to their respective rules. In line with common market practice, the Committee retains discretion as to the operation and administration of these incentive plans, including with respect to:

- who participates;
- the timing of grant and/or payment;
- the size of an award and/or payment (within the plan limits);
- the manner in which awards are settled;
- the choice of (and adjustment of) performance measures and targets in accordance with the plan rules;
- discretion to adjust the targets and/or set different measures and alter weightings for incentives if events occur (e.g. material divestment of a Group business or changes to accounting standards) which cause the Committee to determine that an adjustment or amendment is appropriate so that the conditions achieve their original purpose;
- discretion to adjust STIP or LTIP outcomes if they are considered to be inappropriate, taking into account any relevant factors;
- discretion relating to the measurement of performance in certain circumstances (e.g. change of control or any other corporate event which may affect the current or future value of an award);
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes, based on the plan rules and the appropriate treatment under the plan rules.

Approach to the recruitment of executive directors

The Nominations and Governance Committee of the Board appoints executive directors who it considers to be appropriate for each position. The Committee's approach to determining remuneration for new executive directors is to pay a sufficient level to attract the individual, giving careful consideration to each executive director's skills and experience, role and responsibilities, the external market pay data, as well as taking into account their existing remuneration. This is in line with our approach taken across the wider Group.

The remuneration package offered to new appointments may include any element of remuneration included in the Remuneration Policy set out in this report, or any other element which the Committee considers is appropriate given the particular circumstances but not exceeding the maximum level of variable remuneration set out in the Policy table. In considering which elements to include, and in determining the approach for all relevant elements, the Committee will take into account a number of different factors, including (but not limited to) typical market practice and existing arrangements for other executive directors and internal relativities.

The Remuneration Committee may make an award to buy out remuneration terms forfeited on resignation from the previous employer. In considering buy-out levels and conditions, the Committee will take into account the type of award, performance measures and likelihood of performance conditions being met in setting the quantum of the buy-out. Buy-out awards will match the terms of forfeited awards with the previous employer as closely as possible, subject to proof of forfeiture and other relevant documentation. Depending on the value of the award forfeited, the normal maximum plan limits may need to be exceeded on a one-off basis.

In the event of an internal promotion to the Board, any prior contractual obligations and incentive awards to the new executive director may be honoured.

Exit payment policy

Any payments in the event of termination of an executive director will take account of the individual circumstances, including the reason for termination, any contractual obligations and the rules of the applicable incentive plan, and pension scheme. Executive directors' contracts do not include any specific compensation for severance as a result of a change of control. Benefits may also be provided in connection with termination of employment and may include, but are not limited to, outplacement and legal fees and payments in respect of accrued holiday.

The Committee retains discretion to effect an alternative outcome than that imposed by the relevant plan rules on a case-by-case basis following a review of circumstances in order to ensure fairness for members and employees. Under certain circumstances, it may be in members' interests for the Group to enter into a legally binding agreement with an executive director when their employment is terminated. The Committee retains the discretion to make payments (including professional and outplacement fees) in connection with an executive director's cessation of office or employment. This may include payments that are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of that executive director's office or employment.

Summary of treatment of awards on termination

	Good leavers (includes circumstances such as a participant who ceases to be employed by or hold office with a Group company as a result of ill health, injury, disability, death, redundancy agreed by the Committee or any other reason (other than gross misconduct) at the Committee's discretion)	Bad leavers (a participant who ceases to be employed by or hold office with a Group company in circumstances other than being a good leaver)	Change of control
STIP	If a participant ceases to hold office or employment as a good leaver during the bonus year, the Board will determine whether any bonus is payable. To the extent that any bonus is payable, it will take into account time worked in the performance year.	If a participant ceases to hold office or employment as a bad leaver during the bonus year, no bonus will normally be payable.	If there is a change of control during the bonus year, the Board will determine whether any bonus will be payable. To the extent that any bonus is payable, the Board will also determine whether, and to what extent, any proportion of the bonus will be deferred.
Deferred awards	If a participant ceases to hold office or employment as a good leaver before the normal vesting date in respect of a deferred award, the award will usually continue, unless the Board exercises its discretion to accelerate vesting (such as where cessation is as a result of the participant's death). The award may be pro-rated for time.	If a participant ceases to hold office or employment as a bad leaver before the normal vesting date in respect of a deferred award, the award will usually lapse.	If there is a change of control prior to the normal vesting date, deferred awards will normally continue, unless the Board exercises its discretion to exchange awards or accelerate vesting.
LTIP – before the normal vesting date	If a participant ceases to hold office or employment as a good leaver before the normal vesting date in respect of an award, the award will usually continue, unless the Board exercises its discretion to accelerate vesting (such as where cessation is as a result of the participant's death). The award will be subject to performance conditions and, unless the Board determines otherwise, be pro-rated for time.	If a participant ceases to hold office or employment as a bad leaver before the normal vesting date in respect of an award, the unvested award will lapse.	If there is a change of control prior to the normal vesting date, outstanding awards will normally continue unless the Committee determines that awards will vest and be released early, subject to the satisfaction of performance conditions and taking into account the proportion of the vesting period that has elapsed. Alternatively, the Board may exercise its discretion to exchange awards.
LTIP – during the additional holding period	If a participant ceases to hold office or employment for any reason other than gross misconduct during the holding period, the award will usually continue, unless the Board exercises its discretion to accelerate release (such as where cessation is as a result of the participant's death).		If there is a change of control during the holding period, outstanding awards will normally continue unless the Committee determines that awards be released at the time of such event.

Service contracts

The service contract of any new executive director will require 12 months' notice to the Group, and will also require that the director mitigates any payment in lieu of notice. The main terms of executive directors' service contracts are provided in the table below.

Executive director terms	
Duration	Continuous term to retirement age.
Notice period	12 months by the Group. 12 months by the executive director.
Payment in lieu of notice	Payment in lieu of notice (salary only) if employment is terminated by the Group for reasons other than misconduct.
Other allowances	Group reimburses all work-related expenses.

The Chairman and non-executive directors have letters of appointment with Royal London. Letters of appointment do not contain provisions for loss of office payments, or any additional remuneration other than the fees set out in this policy. All non-executive directors have a notice period of three months, and the dates of their Board appointment are provided in the table below.

	Date of Board appointment
Kal Atwal	17 January 2020
Sally Bridgeland	14 January 2015
Baroness Ruth Davidson PC	8 June 2021
Ian Dilks OBE	14 November 2014
Shirley Garrood	10 December 2020
Jane Guyett CBE	4 August 2021
Kevin Parry OBE	19 March 2019
Mark Rennison	25 September 2020
Tim Tookey	6 April 2020

Remuneration Policy – non-executive directors

Non-executive director fees	<p>The fees for non-executive directors (NEDs) are set to be sufficient to attract and retain directors of the highest calibre, reflecting the responsibilities and time commitment required. These fees are typically reviewed annually against fee levels at financial services companies of a similar size, complexity, with particular reference to the external talent market.</p> <p>The remuneration of the Chairman is determined by the Committee, while the remuneration of other non-executive directors is determined by the Chairman and executive directors. All directors abstain on determination of their own remuneration.</p> <p>The Chairman will be paid a fixed annual fee for all Board responsibilities, together with such other benefits as the Remuneration Committee may in its absolute discretion determine. NEDs receive a base fee and additional fees may be paid to NEDs for chairing committees and subsidiary boards (including any committee set up during the lifetime of the Policy) to reflect the additional time commitment that is required. Additional fees may be paid in the exceptional event that NEDs are required to commit substantial additional time above that normally expected for the role. Fees are paid in cash.</p> <p>Remuneration for newly appointed NEDs will be aligned with the approach taken for the existing NEDs. The NEDs are not eligible to participate in incentive schemes and their service is not pensionable.</p> <p>Any taxable or other business expenses incurred in performing their role are reimbursed, as well as any related tax cost on such reimbursement.</p>
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Remuneration under existing awards

Any awards made prior to the approval of the Remuneration Policy detailed in this report will be honoured. These include the Group deferred STIP, LTIP and RLAM LTIP awards from prior years.

The 2023 Policy provides for up to 20% vesting for threshold performance, which is consistent with the intended approach under the 2020 Policy (whereby vesting in respect of the 2020, 2021 and 2022 awards will begin at 20% of maximum). The wording has been updated to ensure that references throughout the Directors' Report on Remuneration refer to 20% vesting at threshold.

In addition, the Committee reserves the right to make any remuneration payment where the terms were agreed at a time when the relevant individual was not a director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Group.

Alignment with Remuneration Policy for the wider workforce

At Royal London, we operate a Group Remuneration Philosophy which applies to the vast majority of our people, including executive directors, although the levels of remuneration differ. Executive directors, senior managers and other employees that have significant influence over business results will have a proportion of their bonus deferred and may be eligible to also participate in the LTIP or other long-term incentive arrangements and may be required to defer some/all of awards earned under the STIP and LTIP.

The Committee receives detailed information from management regarding the annual pay reviews for all employee groups and also reviews the Group Chief Executive's recommendations for salary and STIP for his direct reports. It also reviews all awards made under the LTIP and other long-term incentive plans. For all employees, remuneration is set with reference to the specific requirements of the individual role and pay levels in the relevant talent markets. The Committee does not consult directly with employees specifically on Remuneration Policy for directors, but is mindful of pay and employment conditions elsewhere in the Group when doing so, and when considering potential payments under the Policy.

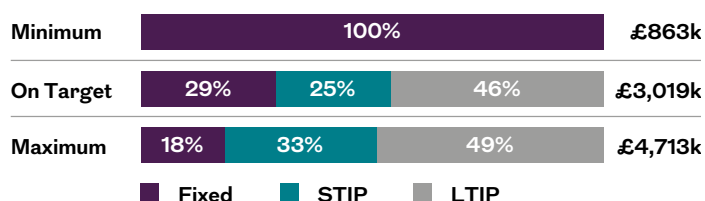
2023 pay scenario charts

The charts below illustrate the potential pay opportunities for the Group Chief Executive Officer and Group Chief Financial Officer for 2023, based on different performance scenarios.

Scenario	Salary, pension and benefits	STIP outcome (% of maximum)	LTIP outcome (% of maximum)
Minimum (fixed)	Received in line with contractual entitlement	—	—
On-plan performance (achieves targets)		50	60
Maximum performance (significantly exceeds targets)		100	100

Actual variable pay outcomes can vary between 0% and 100% of maximum, depending on actual performance delivered.

Group Chief Executive Officer, Barry O'Dwyer

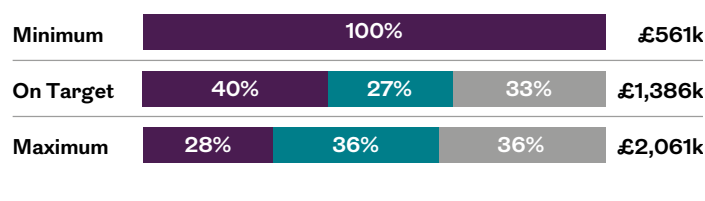


Minimum – fixed pay, consisting of salary and pension and benefits

On Target – fixed pay, 50% of the maximum STIP, 45% LTIP vesting

Maximum – fixed pay, 100% of maximum bonus award, 100% LTIP vesting

Group Chief Financial Officer, Daniel Cazeaux



2022 Annual report on remuneration

This section of the Directors' Remuneration Report sets out details of remuneration paid to executive and non-executive directors during the financial year ended 31 December 2022.

Single figure table – executive directors (audited)

Executive director		Fixed			Variable			
		Salary £'000	Benefits £'000	Pension £'000	Total Fixed £'000	Annual STIP	LTIP £'000	Total Variable £'000
Barry O'Dwyer	2022	721	1	87	809	558	486	1,044
Barry O'Dwyer	2021	700	143	84	927	537	420	957
Daniel Cazeaux	2022	433	1	52	486	335	175	510
Daniel Cazeaux	2021	420	1	50	471	354	–	354
								1,853
								1,884
								996
								825

Salary

Barry O'Dwyer's annual base salary from 1 April 2022 was £728,000. Daniel Cazeaux's annual base salary from 1 April 2022 was £436,800.

Benefits

Benefits include private medical insurance, health screening and any relocation costs. As disclosed in the 2021 Directors' Remuneration Report, in November 2021 Barry O'Dwyer was granted a one-off payment of £141,509 to support his relocation from Edinburgh to London.

Pension

Both executive directors receive a cash supplement in lieu of pension of 12% of base salary, which is in line with the wider workforce rate.

Annual STIP

STIP values are the value awarded for the performance year, including amounts due to be deferred, subject to continued service requirements. Payment of 40% of any amount earned under the STIP is deferred for up to three years. Deferred STIP awards are linked to the funds that our members are invested in, to further increase the alignment between remuneration outcomes and our customers and members.

LTIP

LTIP values for 2022 are the value of the 2020 LTIP vesting at the end of the performance period (31 December 2022).

2022 STIP outcome (audited)

The maximum opportunity under the 2022 STIP was 150% of salary for both the CEO and CFO, respectively, with 40% of any amount earned deferred for up to three years.

The STIP scorecard for 2022 was set at the start of the year and was grouped into five main categories, with corresponding threshold, target and maximum targets for each measure, as detailed below.

	Threshold	Target	Maximum	Actual	Outturn
Financials (45%)					45.5%
Adjusted UK GAAP operating profit ¹ £m (20.0%)	174.1	204.8	235.5	199.0	16.2%
Risk adjusted new business contribution £m (12.5%)	29.4	34.6	39.8	31.2	4.3%
Costs £m (12.5%)	615.2	590.4	575.6	562.8	25.0%
Non-financials (55%)	Performance achievement				
Customer (20%)	There was good investment performance during the year with the Long Term Funds ahead of target and the Governed Range close to target. Our Customer Brand Love score was ahead of target for 2022 and we have seen progress with our digital engagement of customers with 95% of customers having downloaded the Royal London app and 56% actively using it.				26.9%
Investment performance (Governed Range) (5%)					
Investment performance (Long Term Funds) (5%)					
Digitally active Customers (5%)					
Customer Brand Love (5%)					
People (10%)	Our end of year position was assessed as just below target, reflecting that although our Women in Finance data has improved, it remains just below our 2022 target. However, 2022 has seen positive colleague engagement, good progress on our Diversity and Inclusion plans and embedding of our approach to hybrid working.				8.5%
People dashboard assessment					
Assurance (10%)	The overall year end position was assessed as just above target. Our ‘All about Risk’ culture campaign has been completed and our risk education target exceeded. Our control assurance environment remains robust and the assessment of our Risk Culture was satisfactory as we continued to actively address actions identified.				11.3%
Risk & control management (5%)					
Assessment of risk culture (5%)					
Building the future (15%)	Good progress was made against our cyber security plans and re-platforming RLAM systems, whilst we also successfully migrated over 1 million in-force policies onto new technology. In addition, whilst behind planned timescales, some significant milestones were met in 2022 with UK customers/brokers able to utilise the additional digital functionality and we successfully launched our Irish Pension proposition to market.				10.0%
Priority initiatives					
Committee discretion:	No discretion has been applied in determining the STIP outcome				0%
Final 2022 STIP outcome					102.2%

1. Operating profit before tax as reflected in the financial statements adjusted for a number of small one off non-trading items, for example the closed fund consolidations where the actual impact was dependent on economic conditions at the time of the transfer.

In addition to the scorecard metrics, capital, profit and liquidity hurdles were achieved.

Performance during the year resulted in a formulaic scorecard result of 102.2%. This resulted in overall outcomes of 77% of salary for Barry O'Dwyer and 77% of salary for Daniel Cazeaux.

The Committee evaluated the formulaic outcomes of the 2022 STIP and considered a number of factors including the economic climate, the Group's financial and investment performance and progress on key strategic projects and determined that the results were an accurate reflection of business performance over the performance periods, and therefore chose not to apply any discretionary adjustments to the formulaic outcomes.

40% of the awards are deferred into fund units over a three-year period and are not subject to any further performance conditions but are subject to continued service.

2020 LTIP outcome (audited)

The opportunity under the 2020 LTIP was 125% of salary for the CEO and 73% of salary for the CFO, with a two-year post-vesting holding period. The LTIP scorecard for 2020 was grouped into five main categories, with corresponding threshold, target and maximum targets for each measure, as detailed below.

	Threshold (20%)	Target (45%)	Maximum (100%)	Actual	Vesting
Financials (40%)					12.7%
Risk adjusted profit £m (10.0%)	665.1	782.5	899.9	444.3	0.0%
UK GAAP adjusted operating profit £m (20.0%)	122.0	143.5	165.0	133.5	6.7%
ProfitShare £m (10.0%)	384.2	452.0	519.8	470.0	6.0%
Non-financials (60%)	Performance achievement				
Investment performance (20%)	Investment performance achieved maximum vesting with With-Profits and Governed Range funds outperforming plan.				20.0%
Performance vs benchmark on With-Profits					
Performance vs benchmark on Governed Portfolio					
Customer (10%)	Net Promoter Score and customer complaints per 1,000 policies (FCA reportable) were both ahead of plan for the performance period.				9.0%
Net Promoter Score					
Customer complaints per 1,000 policies (FCA reportable)					
Quality of propositions (10%)	Ireland Protection achieved maximum vesting and Pensions – UK Protection was above plan. Pensions – Individual and Group, Over 50s and New external assets under management (RLAM) were all below plan for the performance period.				2.6%
Market share intermediary – Pensions – Individual					
Market share intermediary – Pensions – Group					
Market share intermediary – Pensions – UK Protection					
Market share intermediary – Ireland Protection					
Market share – Over 50s					
Net new external assets under management (RLAM)					
Building the future (20%)	Priority initiative on simplification was ahead of plan and achieved maximum vesting whilst the technology initiative was below plan and did not contribute to the final outcome.				10.0%
Committee discretion:	No discretion has been applied in determining the LTIP outcome				0.0%
Final 2020 LTIP outcome					54.3%

The Committee has discretion to adjust the LTIP result (up to +25% or a reduction to zero). Awards are also subject to a minimum operating profit and internal capital cover gateway, which, if not met, would mean awards do not vest. Based on performance against the internal capital cover gateway and operating profit gateway over the three-year performance period, the Committee assessed that these gateways had been achieved.

Performance over the period resulted in a formulaic scorecard result of 54.3%. The Committee evaluated the formulaic outcomes of the 2020 LTIP and considered a number of factors including the economic climate, the Group's financial and investment performance and progress on key strategic projects and determined that the results were an accurate reflection of business performance over the performance periods, and therefore chose not to apply any discretionary adjustments to the formulaic outcomes.

This resulted in awards equivalent to 67.9% and 39.6% of salary (at the date awards were granted) vesting for Barry O'Dwyer and Daniel Cazeaux respectively.

LTIP awards granted in 2022 (audited)

In 2022, the Committee granted an LTIP award of 150% of salary to both the CEO and CFO. The vesting of these awards will be dependent on the following performance measures and may be subject to a discretionary upwards adjustment by the Committee of 25% or reduced down to zero. Awards will be subject to an additional two-year holding period following the performance period and payment will be subject to satisfying the unit holding requirement.

2022 LTIP performance measures

Measures	Weighting	Sub-measures
Financials	40%	UK GAAP operating profit (£m)
Customer outcomes	15%	Three-year performance vs benchmark on With-Profits
	15%	Three-year performance vs benchmark on Governed Portfolio
Building enterprise value	20%	Assessment against key long-term strategic priorities for the Group that will aid long-term value creation for members
Sustainability	10%	Reduction in portfolio CO ₂ e emissions
		Progress in securing a Just Transition plan from our top climate risk counterparties by end 2024
		Diversity and Inclusion strategy

		Scheme awards granted (% of salary)	Face value (£'000)	Minimum value at vesting (£)	End of performance period	End of additional holding period
Barry O'Dwyer	2022 LTIP	150	1,050	–	31 December 2024	31 December 2026
Daniel Cazeaux	2022 LTIP	150	630	–	31 December 2024	31 December 2026

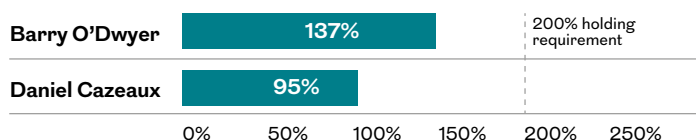
Outstanding awards under incentive schemes (audited)

The table below provides details of outstanding awards under incentive schemes, including deferred STIP and other deferred bonus awards as at 31 December 2022. In order to show a complete picture of remuneration that has been awarded to date, it includes estimated figures in respect of plans which have not reached their third anniversary or date of exercise.

	(Non exercisable)		Exercisable (£'000)	Total awards (£'000)
	Awards subject to time (£'000)	Awards subject to time and performance (£'000)		
Barry O'Dwyer	1,014	874	780	2,668
Daniel Cazeaux	419	523	79	1,021

Unit holding by executive directors

The chart below details their individual holding requirements (based on issuance value) of the non-exercisable awards subject to time only. Furthermore, effective from 1 January 2020, Royal London also requires executive directors to hold at least 200% salary (based on issuance value) for two years post-cessation of employment. Since their appointments the executive directors have continued to build up deferred remuneration in order to meet this holding requirement. 50% of any deferred remuneration due is held back until this requirement is met.



CEO pay ratio

The table below details the current Group Chief Executive Officer latest single total figure of remuneration and how it compares to the median (i.e. 50th percentile), 25th percentile and 75th percentile full-time equivalent (FTE) annualised remuneration of the Group's UK colleagues. Representative colleagues were identified at each of the percentiles based on the FTE total remuneration for UK colleagues as at 31 December 2022 (Method A). Method A has been selected as this is the more statistically robust methodology.

CEO to colleagues total remuneration ratio

	Year	Method	25th %ile	Median	75th %ile
Barry O'Dwyer	2022	A	61	37	23
Barry O'Dwyer	2021	A	60	36	23
Barry O'Dwyer	2020	A	42	26	17
Phil Loney/Barry O'Dwyer	2019	B	90	52	34
Phil Loney	2018	B	113	70	42
		CEO pay	25th %ile	Median	75th %ile
Salary		£721,000	£25,644	£39,772	£63,952
Total remuneration		£1,852,770	£30,618	£50,499	£81,679

From 2021 to 2022 the ratio between the total remuneration of the Group Chief Executive Officer and the total FTE remuneration of the employees at the median and the lower quartile increased. These increases are primarily driven by the long-term incentive awards which vested on 31 December 2022. The Committee is satisfied that the median pay ratio for 2022 is consistent with the pay and progression policies for Group colleagues as a whole and is reflective of the workforce demographic following recent acquisitions.

For 2022, as ratios could be unduly impacted by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the calculations exclude any colleagues not employed throughout the financial year. Data is based on FTE pay for UK colleagues as at 31 December 2022. For each colleague, total remuneration is calculated in line with the single figure methodology (i.e. fixed pay accrued during the financial year and the value of performance-based incentive awards vesting in relation to the performance year). Leavers and joiners are excluded. Colleagues on maternity or other extended leave are included pro-rata for their FTE salary, benefits and short-term incentives. No other calculation adjustments or assumptions have been made.

Payments to past executive director (audited)

There were no payments to past executive directors that vested in the year ended 31 December 2022.

Payments for loss of office (audited)

No payment of money or other assets were made to past executive directors for loss of office in the year ended 31 December 2022.

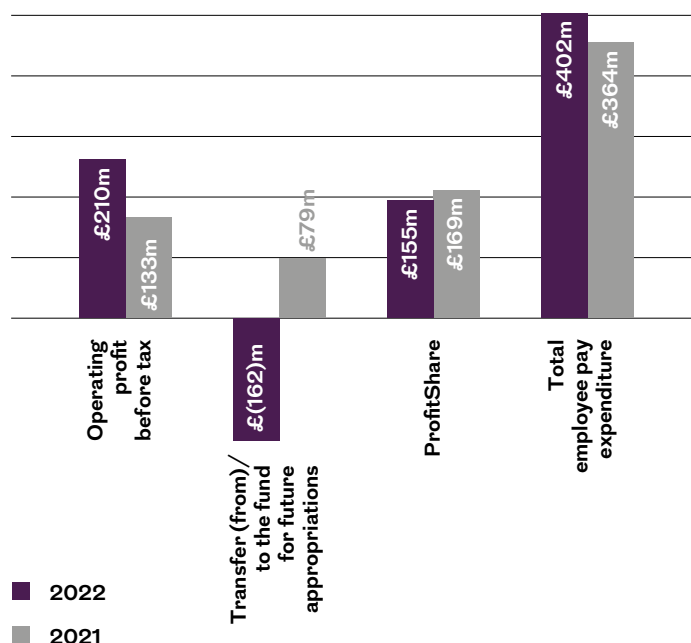
Group Chief Executive Officer – historic remuneration

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Group CEO single figure table £'000										
Barry O'Dwyer	-	-	-	-	-	-	1,761	1,304	1,884	1,853
Phil Loney	2,614	2,859	3,136	3,033	3,208	2,971	1,956	-	-	-
STIP paid (against maximum opportunity)										
Barry O'Dwyer	-	-	-	-	-	-	-	50%	51%	51%
Phil Loney	93%	95%	100%	98%	82%	76%	68%	-	-	-
LTIP vesting (against maximum opportunity)										
Barry O'Dwyer	-	-	-	-	-	-	-	-	33%	43%
Phil Loney	71%	39%	37%	55%	88%	62%	74%	-	-	-

Relative importance of spend on pay

The below illustration shows the relative importance of spend on employee pay expenditure compared to operating profit before tax, transfer (from)/to the fund for future appropriations and ProfitShare.

ProfitShare is dependent on a number of criteria including the capital position of the Group and future economic conditions, whereas our total employee pay expenditure is dependent on the current year's financial performance. Consequently, there is not a direct correlation between the ProfitShare changing value and the total employee pay expenditure changing value.



Non-executive directors

Single figure for total remuneration (audited)

	Annual fees (£'000)		Committee chairmanship fee (£'000)		Fees for additional responsibilities (£'000)		Total (£'000)	
	2022	2021	2022	2021	2022	2021	2022	2021
Kevin Parry OBE	361	350	—	—	—	—	361	350
Kal Atwal	77	75	—	—	20	10	97	85
Sally Bridgeland	77	75	26	25	10	10	113	110
Baroness Ruth Davidson PC	77	44	—	—	11	6	88	50
Ian Dilks OBE	77	75	26	25	41	32	144	132
Shirley Garrood	77	75	—	—	52	33	129	108
Tracey Graham	19	75	9	35	5	20	33	130
Jane Guyett CBE	77	31	30	—	3	4	110	35
Mark Rennison	77	75	36	21	11	14	124	110
Tim Tookey	77	75	36	35	11	10	124	120

Notes:

- Baroness Ruth Davidson PC was appointed to the Board on 8 June 2021.
- Jane Guyett CBE was appointed to the Board on 4 August 2021.
- Tracey Graham retired on 22 March 2022.
- The Senior Independent Director role was undertaken by David Weymouth until 2 June 2021. From 3 June 2021, Ian Dilks OBE performed the role of Senior Independent Director.
- In line with ensuring the appropriate governance and Board oversight of subsidiary companies, Shirley Garrood was appointed as Chairman of RLAM Limited on 24 June 2021, following regulatory approval on 25 May 2021, and received additional fees of £33,333 in 2021 for this additional responsibility. Prior to this appointment, Kevin Parry OBE fulfilled the role of Chairman of RLAM Limited but received no additional fees for this extra responsibility.

Non-executive director fees for 2023

During the year, fees for non-executive directors were reviewed. From 1 April 2023 it is expected the annual base fee for non-executive directors is £82,500 and membership of additional committees is £11,000. Additional fees are payable for Committee chairmanship are expected to be as follows:

- Risk and Capital Committee: £38,500
- Investment Committee: £27,500
- With-Profits Committee: £27,500
- Audit Committee: £38,500
- Remuneration Committee: £38,500
- Chair of RLAM: £52,000

The annual fee for the Chairman is £385,000 and the annual fee for the Senior Independent Director is £22,000.

Annual percentage change in remuneration for directors compared with other colleagues

The table below shows the year-on-year percentage change for salary, benefits and STIP for directors and all other colleagues (based on total full-time equivalent total remuneration for the relevant financial year) pursuant to UK reporting requirements. The percentage change in STIP varies depending on the year-on-year performance against the measures which drive the annual STIP.

For non-executive directors, the year-on-year percentage changes mainly reflect changes in Committee chair or memberships, and mid-year appointments of non-executive directors. Further details of the fee changes that occurred during the year are included on page 114.

Year and pay element		Executive directors		Non-executive directors	All other employees
		Barry O'Dwyer	Daniel Cazeaux	Aggregated figure	
2021 to 2022	Salary/Fees	4%	4%	2%	8%
	Benefits	(61%)	4%	—	(2%)
	Bonus	4%	(6%)	—	0%
2020 to 2021	Salary/Fees	1%	71%	15%	3%
	Benefits	168%	75%	—	6%
	Bonus	2%	115%	—	34%
2019 to 2020	Salary/Fees	3%	—	5%	5%
	Benefits	2%	—	—	5%
	Bonus	(5%)	—	—	(44%)

Advisers to the Committee

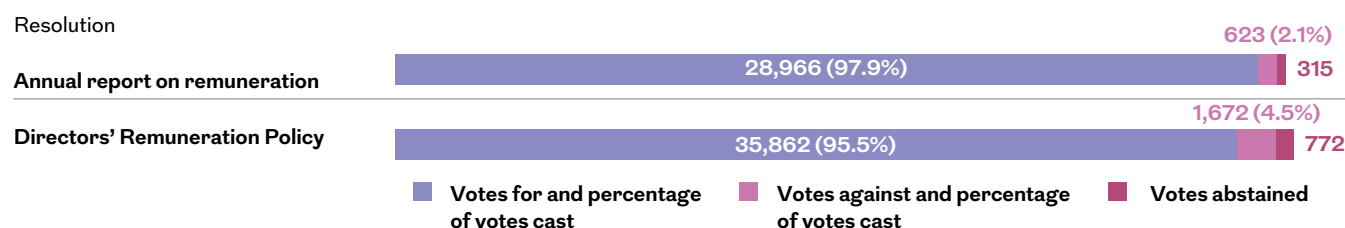
Following a review of remuneration advisers in 2017, which consisted of a full competitive tender process, Deloitte LLP (Deloitte) was appointed by the Committee as independent adviser to the Committee with effect from 1 February 2018.

During the year, the Committee received advice on specific matters in relation to executive and wider workforce remuneration. The Committee is satisfied that the advice provided was objective and independent through regular reviews.

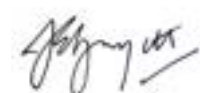
Deloitte's total fees (excluding VAT) for the provision of remuneration services to the Committee for the year ended 31 December 2022 were £66,400 (2021: £138,975) in line with agreed rates and fees for specific activities.

Members' views on remuneration matters

At the AGM on 7 June 2022, members passed the annual advisory vote on the annual report on remuneration. The Directors' Remuneration Policy vote took place at the 2020 AGM on 3 June 2020. The voting results were as follows:



The annual report on remuneration was approved by the Board and signed on its behalf.



Jane Guyett CBE
Chair of the Remuneration Committee

7 March 2023

Independent auditors' report to the members of The Royal London Mutual Insurance Society Limited

Report on the audit of the financial statements

Opinion

In our opinion, The Royal London Mutual Insurance Society Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company Balance sheets as at 31 December 2022; the Consolidated statement of comprehensive income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Context

The Group is based in the UK and Ireland and writes business across four product lines, being Individual Pensions, Workplace Pensions, Protection and Annuities. The Group has two regulated insurance companies, Royal London Mutual Insurance Society Limited (RLMIS) and Royal London Insurance Designated Activity Company (RLI DAC).

In planning our audit, we met with the Audit Committee and members of management across the Group to discuss and understand business developments during the year, and to understand their perspectives on associated business risks. We used this insight and our knowledge of the Group and our industry experience when forming our own views regarding the audit risks and as part of developing our planned audit approach to address those risks. Given the activities of the Group, we have built a team with the relevant industry experience and technical expertise.

As part of our audit we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Group's financial statements and the Group's preparedness for this. We have performed a risk assessment of how the impact of commitments made by the Group in respect of climate change may affect the financial statements and our audit. There was no impact of this on our key audit matters.

Overview

Audit scope

- Our audit scope has been determined to provide coverage of material financial statement line items. This allowed us to test 100% of the Deduction from the fund for future appropriations ("FFA") and 99% of the Total assets balance.
- Overall we concluded that this gave us the evidence we needed for our opinion on the financial statements as a whole.

Key audit matters

- Valuation of non-participating value of in-force business – persistency assumptions (Group and Company).
- Valuation of long-term business provision – expense assumptions (Group and Company)
- Valuation of directly and indirectly held investment property (Group and Company)

Materiality

- Overall Group materiality: £90m (2021: £90m) based on 2.4% (2021: 2.2%) of the FFA.
- Overall Company materiality: £85m (2021: £85m) based on 2.1% (2021: 2.0%) of the FFA.
- Performance materiality: £68m (2021: £68m) (Group) and £64m (2021: £64m) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year, with the exception of an additional focus this year on retirement assumptions (a subset of persistency assumptions) which are now having a more significant impact on the value of in-force business due to increasing policy volumes in Workplace and Individual Pensions. This is covered within the *Valuation of non-participating value of in-force business persistency assumptions* key audit matter below.

We have also refined our valuation of complex investments key audit matter to focus on investment property given the relative size of the portfolio.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of non-participating value of in-force business - persistency assumptions (Group and Company)</i></p> <p>Refer to page 80 of the Report of the Audit Committee and note 28 to the financial statements regarding this area. A sensitivity analysis is included in note 35. The Group has material non-participating value of in-force business totalling £2,474m (2021: £2,333m). This is the value of the projected future profits from servicing policies.</p> <p>When valuing the future cash flows of the value of in-force business, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. Persistency rates determine this and thus are a key assumption when valuing the non-participating value of in-force business.</p> <p>The persistency assumptions of most significance are the paid-up rates ("PUPs") for the Workplace Pensions business. In addition, retirement assumptions for Workplace and Individual Pensions business form part of the key audit matter for the first time this year, as noted above. These assumptions are estimated using past experience and PUP assumptions, in particular, consideration of the future changes to policyholder behaviour. These changes are difficult to predict, and therefore expert judgement is applied when setting an appropriate basis.</p>	<p>We focused our testing on the key areas of judgement, which are Group Pension PUPs and Workplace and Individual Pension retirement assumptions. We obtained evidence as follows:</p> <ul style="list-style-type: none"> • We examined past events in the data and whether these are representative of the likely future experience. In particular, we performed audit procedures to gain assurance that the decision to exclude 2020 and 2021 data from the experience analysis, due to the impacts of Covid-19, was appropriate. For example, reviewing the analysis completed by management over 2020 and 2021 data, which had been distorted by the pandemic. • We considered the impact of changes in long-term policyholder behaviour post-pandemic and amid wider concerns about the economy, with high inflation and expectations of a period of recession. This included examining industry data, internal data and considering the impact of hybrid working and the economic environment on job market movements. • We tested management's controls over the input of the persistency assumptions into the valuation models. • We checked for contrary evidence. We used the results of our independent annual benchmarking survey of assumptions to compare the methodology used by management to derive the persistency assumptions with those adopted by other insurers. <p>Based on the work performed and the evidence obtained, we concluded that the assumptions used were appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of long-term business provision – expense assumptions (Group and Company)</i></p> <p>Refer to page 80 of the Report of the Audit Committee and note 28 to the financial statements regarding this area. A sensitivity analysis is included in note 35.</p> <p>The technical provisions in the financial statements include a liability for the estimated future expenses that will be incurred to maintain the existing policies over their expected duration. This expense liability is included within the long-term business provision of £31,344m (2021: £40,802m).</p> <p>The expense assumptions are calculated using an activity-based costing (ABC) model. All costs are categorised as either one-off, acquisition or maintenance. Acquisition and maintenance costs are then allocated across the different products, with only the maintenance cost element considered in the expense reserve calculation as these represent the costs expected to be incurred in fulfilling the Group's existing long-term insurance contracts. The model creates a maintenance unit cost for each policy which, along with expense inflation assumptions, the number of policies and their expected duration, is used to calculate the liability for these expenses.</p> <p>The significant assumptions in this model relate to:</p> <ul style="list-style-type: none"> How costs are categorised between one-off, acquisition or maintenance costs. The categorisation can be judgemental, such as the removal of certain costs where they are considered to be one-off in nature and what methodology has been applied to split costs between the categories; The cost allocation between products. Where the costs are not directly attributable to a single product, judgements are made in deciding an appropriate method to allocate out costs. Products have different expected durations and therefore this allocation of costs impacts the total expense liability; and Whether overlays to the results from the model are required based on expected future costs. The derivation and application of these overlays is judgemental in nature. 	<p>We obtained evidence over key inputs and assumptions as follows:</p> <ul style="list-style-type: none"> We tested the completeness of the expenses used in the calculation of the expense liabilities, through reconciling the total expenses recorded within the accounting records of the Group and Company to the total expenses included in the ABC model. We tested the total number of policies used in setting expense assumptions, which are required for calculating the unit cost for each policy, by corroborating the total number of policies to data extracts from the policy systems. The data within the policy systems has also been tested. For a sample, we tested project costs and assessed management's methodology and judgements that were applied over the inclusion or exclusion of these costs from the maintenance expenses. We assessed the judgements made in the allocation of costs between acquisition and maintenance and the allocation of costs to different products. We assessed the appropriateness of the judgements made when setting overlays for certain products or costs. We tested the accuracy of the per-policy expense calculation for a sample of policies and products. We tested management's controls over the approval of assumptions and input of maintenance expense assumptions into the valuation models. We compared the resulting expense assumptions to the expenses incurred over the prior 12 months and budgeted maintenance costs for 2023 in order to satisfy ourselves that the assumptions were sufficient in aggregate based on this trend analysis. We have tested management's long-term expense inflation assumptions and manual adjustments made to reflect the Group's expectation of the impact of short-term inflation on the cost base. We assessed the overall level of prudence in the maintenance expense reserves. <p>Based on the work performed and the evidence obtained, we concluded that the expense assumptions used were appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of directly and indirectly held investment property (Group and Company)</i></p> <p>Refer to page 80 of the Report of the Audit Committee and notes 16 and 17 to the financial statements regarding this area. A sensitivity analysis is included in note 35.</p> <p>The assets held at fair value that were categorised as directly and indirectly held investment property formed part of the Group investments categorised as level 3 in the fair value hierarchy of £8,803m (2021: £9,627m). The valuation of directly and indirectly held investment property is complex and the value of investment property is based on limited or no observable market data. All investments are overseen by the Group's Valuation Oversight Forum.</p> <p>We have focused on these investments due to the significant judgement and estimation required in determining their fair value. They are also susceptible to macroeconomic factors and the turbulence of the current economic climate which increases the estimation uncertainty in valuing these assets.</p> <p>Investment property is held both directly on the balance sheet and indirectly through investments in units of real estate funds managed by the Group. The valuation of investment property is determined by third-party valuers engaged by the Group in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards. The valuers used have considerable experience of the types of properties held by the Group. The valuations take into account property-specific information (including the current tenants, rental income, and the condition and location of the properties), as well as prevailing market yields and market transactions.</p>	<p>We performed the following testing, which includes procedures performed by our Real Estate Valuation experts, over investment property:</p> <ul style="list-style-type: none"> • We obtained valuation reports from management's valuation experts as at 31 December 2022 and assessed their objectivity and competency. • We tested the inputs into the valuation, such as rental amount and term, for a sample of tenancy agreements. • We performed a review of the assumptions and methodology used by the property valuation experts to confirm that the valuation approach was in accordance with RICS standards. • We performed a property-by-property analysis comparing the investment yields and movement in capital value over 12 months to estimated ranges based on published market benchmarks. • We considered recent transactions (both acquisitions and disposals) to compare the purchase/sale price to the market value to assess the appropriateness of the valuation. • We discussed with management's experts to obtain explanations for any unexpected or unusual differences arising. <p>Based on the work performed and the evidence obtained, we concluded that the valuations were reasonable.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Decisions regarding scoping require a significant degree of professional judgement based on quantitative and qualitative considerations, including the size and nature of business activities in each operating entity.

For the one financially significant component identified, being the Company, a full scope audit was performed. In addition, we performed a limited scope audit covering specific financial statement line items for a further two components. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£90m (2021: £90m).	£85m (2021: £85m).
How we determined it	2.4% of the Fund for Future Appropriations	2.1% of the Fund for Future Appropriations
	The engagement team concluded that £90m is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £90m was determined by considering the various benchmarks available to us as auditors, and our experience of auditing the Group. Fund for future appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Company, since it represents the amount of surplus yet to be allocated to those members of the Company and to whom our opinion is addressed.	The engagement team concluded that £85m is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £85m was determined by considering the various benchmarks available to us as auditors, and our experience of auditing the Company. Fund for future appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by members of the Company, since it represents the amount of surplus yet to be allocated to those members of the Company and to whom our opinion is addressed.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.4m and £85m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £67.5m (2021: £67.5m) for the Group financial statements and £63.75m (2021: £63.75m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4.5 million (Group audit) (2021: £4.5 million) and £4.25 million (Company audit) (2021: £4.25 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the assessment of principal risks and uncertainty facing the Group and the Company and the scenarios included in the viability statement and compared it with our understanding of the risks and resources of the Group and the Company;
- Assessing the results of the Group's and Company's stress and scenarios testing and their impact on the Group and the Company, including challenging the rationale for the downside scenarios adopted and material assumptions using our knowledge of the business;
- Reviewing the current and forecast Group and Company solvency investor and regulatory ratios and the Own Risk and Solvency Assessment ("ORSA"), which include a number of severe but plausible scenarios;
- Reviewing regulatory correspondence;
- Confirmation of the existence of cash and cash equivalents and other financial investments to assess the availability of liquid assets;
- Assessment of the fair value of financial investments to determine the appropriateness of their valuation; and
- Independent challenge and assessment using our actuarial specialists over the methodology and assumptions used in the valuation of the technical provisions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the Corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet their liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Group and Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") and relevant tax laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate revenue and management bias in accounting estimates and judgemental areas of the financial statements, such as the valuation of technical provisions, the non-participating value of in-force business and directly held investment property. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with the Board, management, internal audit, senior management involved in risk and compliance functions and the Group's and Company's legal function including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of management's internal controls designed to prevent and detect irregularities, in particular controls around disclosure of related parties and associated transactions, and risk-based monitoring of customer processes;
- Reading key correspondence with the PRA and the FCA in relation to compliance with laws and regulations;
- Meeting with the PRA supervisory team to discuss matters in relation to compliance with laws and regulations;
- Attendance at all Audit Committee meetings as well as reviewing other relevant committee meeting minutes, including those of the Board, Risk and Capital Committee, Investment Committee, Remuneration committee and With-Profits Committee;

- Reviewing data regarding policyholder complaints, the Group's and Company's register of litigation and claims and internal audit reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of the technical provisions and non-participating value of in-force business described in the related key audit matters section above;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which meet our risk criteria; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of material and immaterial financial statement line items.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Group and Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 December 2000 to audit the financial statements for the year ended 31 December 2000 and subsequent financial periods. The period of total uninterrupted engagement is 23 years, covering the years ended 31 December 2000 to 31 December 2022.

Other voluntary reporting

Directors' remuneration

The Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Lee Clarke (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

7 March 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

		Group	
		2022	2021
	Notes	£m	£m
Technical account – long-term business			
Gross premiums written	3 (a)	1,176	1,156
Outwards reinsurance premiums		320	(82)
Earned premiums, net of reinsurance		1,496	1,074
Investment income	4	1,455	4,196
Unrealised gains on investments	4	—	4,875
Other income	5	640	659
Total income		3,591	10,804
Claims paid			
Gross claims paid	6	(2,863)	(2,806)
Reinsurers' share	6	540	531
Change in provision for claims			
Gross amount	6	(62)	(64)
Reinsurers' share	6	29	21
Claims incurred, net of reinsurance		(2,356)	(2,318)
Change in long-term business provision, net of reinsurance			
Gross amount	26 (a)	9,469	1,327
Reinsurers' share	26 (a)	(1,346)	(599)
		8,123	728
Change in technical provision for linked liabilities, net of reinsurance		5,758	(7,953)
Change in technical provisions, net of reinsurance		13,881	(7,225)
Change in non-participating value of in-force business		141	104
Net operating expenses	7	(581)	(623)
Investment expenses and charges	10	(301)	(275)
Unrealised losses on investments	4	(14,475)	—
Other charges	11	(289)	(275)
Total operating expenses		(15,646)	(1,173)
(Loss)/profit before tax and before (deduction from)/transfer to the fund for future appropriations		(389)	192
Tax attributable to long-term business	12	227	(113)
(Deduction from)/transfer to the fund for future appropriations	25	(162)	79
Balance on technical account - long term business		—	—
Other comprehensive income, net of tax:			
Remeasurement of defined benefit pension schemes	23 (b)	(106)	267
Foreign exchange rate movements on translation of Group entities		10	(10)
(Deduction from)/transfer to the fund for future appropriations	25	(96)	257
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		—	—

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a Company statement of comprehensive income. As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the fund for future appropriations. Accordingly, the total comprehensive income for the year is always £nil after the transfer to or deduction from the fund for future appropriations.

Balance sheets

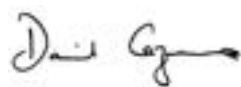
as at 31 December 2022

	Notes	Group		Company	
		2022	2021	2022	2021
		£m	£m	£m	£m
ASSETS					
Intangible assets					
Goodwill	13	21	25	21	25
Negative goodwill	13	(37)	(44)	(6)	(8)
		(16)	(19)	15	17
Other intangible assets	13	123	96	113	95
		107	77	128	112
Non-participating value of in-force business	27	2,474	2,333	2,476	2,333
Investments					
Land and buildings	14	122	149	122	149
Investments in Group undertakings	15	—	—	14,068	17,684
Other financial investments	16 (a)	33,462	45,293	19,945	28,160
		33,584	45,442	34,135	45,993
Assets held to cover linked liabilities	16 (c)	70,857	72,697	70,851	72,697
Reinsurers' share of technical provisions					
Long-term business provision	26 (a)	3,234	4,579	3,191	4,529
Claims outstanding		153	125	138	111
Technical provisions for linked liabilities	26 (b)	(51)	(53)	(51)	(53)
		3,336	4,651	3,278	4,587
Debtors					
Debtors arising out of direct insurance operations	19	50	46	48	45
Debtors arising out of reinsurance operations	19	62	56	46	48
Other debtors	20	2,231	499	2,099	381
		2,343	601	2,193	474
Other assets					
Deferred taxation	29	27	—	14	—
Tangible fixed assets	21	19	18	—	—
Cash at bank and in hand		677	622	430	392
		723	640	444	392
Prepayments and accrued income					
Deferred acquisition costs on investment contracts	22	87	113	87	113
Other prepayments and accrued income		37	36	—	—
		124	149	87	113
Pension scheme asset	23 (b)	207	357	207	357
Total assets		113,755	126,947	113,799	127,058

Balance sheets continued

	Notes	Group		Company	
		2022	2021	2022	2021
		£m	£m	£m	£m
LIABILITIES					
Subordinated liabilities	24	1,335	1,333	1,335	1,333
Fund for future appropriations	25	3,751	4,009	3,992	4,329
Technical provisions					
Long-term business provision	26 (a)	31,344	40,802	31,441	40,863
Claims outstanding		384	321	353	291
		31,728	41,123	31,794	41,154
Technical provisions for linked liabilities	26 (b)	70,622	72,499	70,617	72,499
Provisions for other risks					
Deferred taxation	29	—	228	—	241
Other provisions	30	187	250	181	241
		187	478	181	482
Creditors					
Creditors arising out of direct insurance operations	31 (a)	271	264	258	252
Creditors arising out of reinsurance operations	31 (b)	1,781	2,535	1,764	2,526
Amounts owed to credit institutions	31 (c)	52	42	52	42
Other creditors including taxation and social security	31 (d)	3,938	4,562	3,778	4,400
		6,042	7,403	5,852	7,220
Accruals and deferred income	32	90	102	28	41
Total liabilities		113,755	126,947	113,799	127,058

The financial statements on pages 124 to 202 were approved by the Board of Directors and signed on its behalf on 7 March 2023.



Daniel Cazeaux
Group Chief Financial Officer

Registered number: 99064 (England & Wales)
The Royal London Mutual Insurance Society Limited
55 Gracechurch Street, London, EC3V 0RL

Notes to the financial statements

for the year ended 31 December 2022

1. Accounting policies

This section describes the Group's significant accounting policies that relate to the financial statements and notes as a whole. If an accounting policy relates to a specific item, the applicable accounting policy is contained within the relevant note. These policies have been consistently applied to all years presented.

(a) Basis of preparation

The Royal London Mutual Insurance Society Limited (the 'Company' or 'RLMIS') is a private company limited by guarantee, incorporated and registered in England and Wales with its registered office being 55 Gracechurch Street, London, EC3V 0RL.

The financial statements of the Group and the Company ('the financial statements') have been prepared in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and FRS 103, 'Insurance contracts'. The financial statements are also prepared in compliance with the Companies Act 2006 and under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations') relating to insurance groups, except that a true and fair override has been applied to:

- measure subsidiaries in the consolidated financial statements at fair value through profit or loss ('FVTPL') when they are not consolidated because they are held as part of an investment portfolio – see note 1 (b); and
- measure investments in associates that are part of an investment portfolio at FVTPL in the consolidated financial statements instead of using equity accounting – see note 1 (b).

The financial statements have been prepared under the historical cost convention, as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by FRS 102.

The Group and Company are exempt from the requirements of Section 7 of FRS 102 to prepare a cash flow statement, as mutual life assurance companies are excluded from compliance with that section.

The functional currency of the Group and Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. Foreign operations are included in accordance with the policies set out in note 1(d). Unless otherwise stated, all figures in the financial statements are presented rounded to the nearest million pounds.

The Group has an estimated Group Regulatory View solvency surplus of £2.5bn and capital cover ratio of 206% at 31 December 2022, which is after the regulatory requirement to restrict the closed fund surpluses of £2.7bn. The Group's business plan forecasts that the Group Regulatory View solvency surplus and capital cover ratio will remain robust and within target range for at least the 12 months following approval of the financial statements.

The business plan is subject to stress and scenario testing. The most adverse scenario contains severe but plausible assumptions including adverse economic impacts, protracted slumps in consumer spending and business investment, high unemployment and prolonged high inflation. This severe but plausible scenario demonstrates that the capital position remains sufficient to cover capital requirements for at least the next 12 months. Further details on the stress and scenario testing on the business plan can be found on pages 60 and 61 in the Strategic report.

Sufficient liquidity is available to settle liabilities as they fall due. Ongoing monitoring is in place over liquidity coverage ratios, with additional forward-looking scenario and stress testing performed based on severe but plausible scenarios to ensure liquidity adequacy.

Having considered these matters and after making appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue to operate as a going concern for a period of at least 12 months from the date of approval of the financial statements. For this reason, they consider it appropriate to continue to adopt the going concern basis in preparing the financial statements. The directors have also concluded that there are no material uncertainties over the Group's ability to adopt the going concern basis of accounting.

(b) Basis of consolidation

The Group financial statements incorporate the assets, liabilities and results of the Company and its subsidiaries, and the Group's share of the results of associates, excluding investment fund subsidiaries and associates, held as part of an investment portfolio.

As required by Section 9 of FRS 102, subsidiaries that are held as part of an investment portfolio are not consolidated and are included within the consolidated financial statements as investments within 'Other financial investments', measured at FVTPL. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 30 of Schedule 3 to the Regulations, which has been applied so that the financial statements give a true and fair view.

Investments in associates that are part of an investment portfolio are also included in the consolidated financial statements as investments within 'Other financial investments', measured at FVTPL in accordance with Section 14 of FRS 102. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 21 of Schedule 6 to the Regulations, which has been applied so that the financial statements give a true and fair view.

The Group applies the purchase method in accounting for business combinations. The cost of business combinations comprises the fair value of the consideration paid and of the liabilities incurred or assumed and any directly attributable expenses. The value of deferred consideration payable on acquisition or receivable on disposal of a subsidiary is determined using discounted cash flow techniques.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group. Intra-group transactions, balances and unrealised gains and losses on intra-group transactions are eliminated on consolidation.

Notes to the financial statements continued

1. Accounting policies (continued)

Investments in associates that are not part of an investment portfolio are included in the consolidated financial statements using the equity method. Under this method, the cost of the investment in a given associate, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset within Other financial investments in the Group balance sheet. The Group's share of their post-acquisition profit or losses is recognised in the consolidated statement of comprehensive income within Investment income.

The accounting policies for Goodwill and for Investments in Group undertakings, including subsidiaries, associates and other significant investments are detailed in notes 13 and 15.

(c) Classification of contracts

The Group classifies its products for accounting purposes as insurance, investment, or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- that are likely to be a significant proportion of the total contractual payments; and
- whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
 - the performance of a specified pool of contracts, or a specified type of contract, or
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as 'with-profits' or as 'participating' contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with-profits (participating) investment mediums at the same time. Certain hybrid contracts that are classified as investment contracts are treated as if they were wholly non-participating investment contracts when accounting for premiums, claims and other revenue. Hybrid contracts that contain significant insurance risk are classified as insurance contracts.

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the classification requirements for insurance contracts set out above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

(d) Foreign currency translation

Revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at the rates of exchange ruling at the time of the respective transactions. Assets and liabilities denominated in foreign currencies are expressed in sterling at the exchange rate ruling on the balance sheet date. Exchange differences from the settlement of transactions and from the translation of assets and liabilities at period-end exchange rates are dealt with in the statement of comprehensive income under the same heading as the underlying transactions are reported.

The results of foreign operations are translated at average rates of exchange for the year. The assets and liabilities of foreign operations are translated into sterling at the rates of exchange ruling at the balance sheet date. All resulting exchange differences are recognised in other comprehensive income.

(e) Impairment of financial assets

Financial assets held at amortised cost are assessed for impairment using expected credit losses. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Group at the point of default.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses; referred to as stage 1). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses; referred to as stage 2). Financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to stage 3.

The loss allowance for lease receivables and trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9, as applied by the Group.

(f) Judgements

The preparation of financial statements requires management to make judgements in the process of selecting and applying appropriate accounting policies. In selecting accounting policies where FRS 102 and FRS 103 permit a choice of policy, the directors have applied judgement in determining the most appropriate policy. The judgements applied which have the most significant impact on amounts recognised in the financial statements are as follows:

Insurance contracts

The classification of contracts as insurance or investment on initial recognition, which requires an assessment of whether significant insurance risk has been transferred to the Group.

Consolidation

The determination of whether the Group has control over an entity requires the consideration of several factors, including judgement over the extent of control of the Group, as set out in note 15.

1. Accounting policies (continued)

Financial assets and liabilities

The measurement basis for financial assets under IFRS 9, as applied by the Group, depends on an assessment of the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. Further detail is given in note 16. For financial liabilities, other than derivative liabilities, the measurement basis is amortised cost unless the liability is designated at FVTPL. Further detail is given in note 31.

The Group has holdings in investment funds which are classified as subsidiaries, but which are not consolidated in the Group financial statements. Section 9 of FRS 102 requires that subsidiaries 'held with a view to subsequent resale' are not consolidated and are instead included as investments held at FVTPL. The definition of 'held with a view to subsequent resale' includes assets held as part of an investment portfolio. The funds are held within the unit-linked funds of the Group or are held to back non-linked liabilities and therefore are considered to form part of the Group's investment portfolio. As a result, these funds are not consolidated and are held as investments at FVTPL in the Group's balance sheet.

The financial liabilities for unit-linked non-participating investment contracts have been designated at FVTPL because the unit-linked liabilities are part of a group of financial assets and financial liabilities that are managed and whose performance is evaluated on a fair value basis.

The Group categorises assets and liabilities measured at fair value using a three-level hierarchy. Assets and liabilities categorised as Level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of assets and liabilities categorised as Level 2 and, in particular, Level 3 is determined using valuation techniques which are a source of estimation uncertainty and are described further in note 17c.

(g) Key sources of uncertainty

The preparation of financial statements also requires the use of certain critical accounting estimates and assumptions that affect the amounts reported in the balance sheet and statement of comprehensive income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and expectations of future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant to the following:

Financial assets and liabilities

The valuation of the Group's assets and liabilities held at FVTPL. The fair value measurement note (note 17) explains the techniques and assumptions used in the valuation, particularly in respect of Level 3 assets and liabilities. The valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the item and the availability of market observable information. The impact on the Group's result of changes in these assumptions to reasonably possible alternative assumptions is also illustrated.

Outstanding claims

The estimation of the valuation adjustment against the total gross outstanding insurance claims creditor is made to best reflect the value of claims that the Group expects to settle. The valuation adjustment is calculated based on an ageing analysis along with historic settlement data.

Uncertain tax positions

Uncertain tax positions relate to various uncertainties over tax treatments which are being decided by courts or negotiated with tax authorities. The Group assesses whether a tax asset should be recognised by considering the likelihood of an inflow of economic benefits. The amount is based on the Group's estimate of the value of the tax claim. Further information is shown in note 20.

Intangible assets

Intangible assets are recognised and where necessary tested for impairment using the present value of future cash flows expected to arise from the asset. Significant estimates, representing sources of estimation uncertainty, include forecast cash flows and discount rates. Further information is provided in note 13.

Insurance contracts

Insurance and investment contracts. The key assumptions used in calculating the year end insurance and investment contract liabilities are persistency assumptions regarding the proportion of existing policies that will remain in-force in future time periods, particularly paid-up rates; and expense assumptions relating to the estimated future expenses that will be incurred to maintain the existing policies over their expected duration. Further detail is included in note 28 and represent sources of estimation uncertainty.

Provisions, contingent liabilities and contingent assets

The Group evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimate of the expenditure required to settle the obligation. Further information is shown in notes 30 and 33. The Group assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits.

Pension schemes

Note 23 sets out the major assumptions used to calculate the pension scheme asset and the sensitivity of the schemes' liabilities to changes in key assumptions given that they are inherently uncertain.

Notes to the financial statements continued

2. Segment Information

Accounting for segmental reporting

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decisionmaker. The chief operating decisionmaker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board of Directors.

(a) Operating segments

The activities of each operating segment are described below:

UK

The UK segment includes the provision of pensions and other retirement products to individuals and to employer pension schemes and protection products to individuals in the UK.

Asset Management

The Asset Management segment comprises Royal London Asset Management Holdings Limited (RLAM) and its subsidiaries. RLAM provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities, and charities, as well as individuals.

Ireland

The Ireland segment comprises the Group's Irish subsidiary, Royal London Insurance DAC (RLI DAC). It provides intermediated protection products and unit-linked pensions to individuals in the Republic of Ireland.

(b) Operating profit

A key measure used by the Company's Board of Directors to monitor performance is operating profit, which is classed as an Alternative Performance Measure (note 39). The Company's Board of Directors consider that this facilitates comparison of the Group's performance over reporting periods as it provides a measure of the underlying trading of the Group.

Operating profit before tax is the transfer to the Fund for Future Appropriations before Other Comprehensive Income excluding: short-term investment return variances and economic assumption changes; amortisation 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 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).

Revenues, assets, and liabilities by segment are not given as this information is not provided to the Company's Board of Directors and consequently there is no reconciliation of reportable segments' revenues, assets, or liabilities to the Group totals.

2. Segment Information (continued)

The operating profit by segment is shown in the following table.

	Group – 2022				Group – 2021			
	UK	Asset Management	Ireland	Total	UK	Asset Management	Ireland	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Long-term business								
New business contribution	146	—	17	163	147	—	17	164
Existing business contribution	186	—	(5)	181	118	—	7	125
Contribution from AUM and other businesses	45	56	—	101	29	95	—	124
Business development and other costs	(20)	(11)	(1)	(32)	(20)	(17)	—	(37)
Strategic development costs	(52)	(13)	(6)	(71)	(47)	(7)	(8)	(62)
Result from operating segments	305	32	5	342	227	71	16	314
Corporate costs				(57)				(106)
Financing costs				(75)				(75)
Group operating profit before tax				210				133
Economic movements				(446)				225
Amortisation of goodwill arising from mergers and acquisitions				2				3
ProfitShare				(155)				(169)
(Loss)/profit before tax and before transfer (from)/to the fund for future appropriations				(389)				192
Tax attributable to long-term business				227				(113)
Transfer (from)/to the fund for future appropriations				(162)				79

(c) Geographical analysis

The table below presents income split by geographic region in which the underlying business was written.

	Group – 2022			Group – 2021		
	UK	Ireland and other	Total	UK	Ireland and other	Total
	£m	£m	£m	£m	£m	£m
Revenues						
Earned premiums, net of reinsurance	1,449	47	1,496	1,032	42	1,074
Investment income	1,455	—	1,455	4,196	—	4,196
Unrealised gains on investments	—	—	—	4,875	—	4,875
Other income	631	9	640	655	4	659
Total income	3,535	56	3,591	10,758	46	10,804

The directors consider the Group and Company's external customers to be individual policyholders and investment clients. As such, the Group and the Company are not reliant on any individual customer.

Notes to the financial statements continued

3. Premiums

Accounting for premiums

Gross premiums written and outward reinsurance premiums relate to insurance and non-hybrid participating investment contracts. They are accounted for when due for payment except for recurring single premiums and premiums in respect of unit-linked business, which are accounted for when the related liabilities are established.

For non-participating (unit-linked) investment and certain hybrid participating investment contracts the amounts received as premiums are not included in the statement of comprehensive income but are accounted for as deposits received and are added to the value of investment contract liabilities in the balance sheet.

(a) Gross premiums written

	Group	
	2022	2021
	£m	£m
Direct insurance		
Individual premiums	1,165	1,144
Premiums under group contracts	11	12
	1,176	1,156
Direct Insurance		
Regular premiums	945	931
Single premiums	231	225
	1,176	1,156
Direct insurance		
Non-profit insurance contracts	909	846
Participating insurance contracts	152	200
Participating investment contracts	16	17
Unit-linked insurance contracts	99	93
	1,176	1,156

(b) Premiums received on investment contracts

The amounts received in relation to non-participating (unit-linked) and certain hybrid participating investment contracts by the Group during the year were £9,542m (2021: £10,669m) in respect of non-participating contracts and £7m (2021: £8m) in respect of hybrid participating contracts.

4. Investment return

Accounting for investment return

Investment return comprises all investment income, including property rental income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Investment income derived from assets held at FVTPL includes dividends and interest income. Dividends are recorded on the date on which the shares are declared ex-dividend. Dividends are recorded gross, with the related withholding tax included within the tax expense as foreign tax. Interest income is recognised on an accruals basis. Rental income from investment property, net of any lease incentives received or paid, is recognised on a straight-line basis over the term of the lease. Realised gains and losses on investments held at FVTPL are calculated as the difference between net sales proceeds and purchase price.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or their purchase price for those acquired during the period, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

	Group	
	2022 £m	2021 £m
Investment income		
Income from financial investments held at FVTPL	2,009	1,508
Income from investment property	263	240
Net realised gains on investment property	4	20
Net realised (losses)/gains on other investments held at FVTPL	(853)	2,422
Interest income from cash at bank	10	—
Net foreign exchange gain	24	7
Group's share of the results of associates accounted for using the equity method	(2)	(1)
Total investment income	1,455	4,196
Net unrealised (losses)/gains on investment property	(660)	591
Net unrealised (losses)/gains on financial investments held at FVTPL	(13,815)	4,284
Net unrealised (losses)/gains on investments	(14,475)	4,875
Investment expenses and charges (note 10)	(301)	(275)
Total investment return	(13,321)	8,796

Investment return includes a loss of £671m (2021: loss of £256m) in respect of an unquoted debt security held under a reinsurance arrangement (see note 31(b)).

Notes to the financial statements continued

5. Other income

Accounting for other income

Other income principally comprises fee income from managing investment funds and commission income where the Group acts as an introducer for certain third-party insurers.

Management fees arising from investment and fund management contracts are recorded in the statement of comprehensive income in the period in which the services are provided. Initial fees relating to the provision of future services, are deferred and recognised in the statement of comprehensive income over the anticipated period in which the services will be provided. Such deferred fee income is shown as a liability within accruals and deferred income in the balance sheet.

Commission income and profit commission received on the underwriting results of third-party insurers is recognised in the statement of comprehensive income as the related services are provided.

The negative goodwill is recognised in profit or loss as set out in note 13.

	Group	
	2022	2021
	£m	£m
Fee income from investment contracts	337	321
Fund management fee income	228	227
Change in deferred fee income	13	34
Commission income	10	14
Subscription income	12	13
Amortisation of negative goodwill	7	8
Other	33	42
	640	659

6. Claims

Accounting for claims

Gross claims paid and the reinsurers' share of claims paid, relate to insurance and non-hybrid participating investment contracts. For non-linked policies, maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the related contract liabilities. Death claims and all other non-linked claims are accounted for when accepted. For linked policies, claims are accounted for on cancellation of the associated units.

Claims payable include related claims handling costs. The reinsurers' share of claims paid is accounted for in the same period as the related claim.

Amounts repaid as claims on non-participating (unit-linked) investment and certain hybrid participating investment contracts are not included in the statement of comprehensive income but are accounted for as deposits repaid and are deducted from investment contract liabilities.

(a) Claims incurred

	Group					
	2022			2021		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims paid						
Insurance contracts	2,490	(540)	1,950	2,617	(531)	2,086
Participating investment contracts	373	—	373	189	—	189
	2,863	(540)	2,323	2,806	(531)	2,275
Change in provisions for claims						
Insurance contracts	55	(27)	28	64	(21)	43
Participating investment contracts	7	(2)	5	—	—	—
	62	(29)	33	64	(21)	43
Claims incurred						
Insurance contracts	2,545	(567)	1,978	2,681	(552)	2,129
Participating investment contracts	380	(2)	378	189	—	189
	2,925	(569)	2,356	2,870	(552)	2,318

(b) Deposits repaid on investment contracts

The deposits repaid by the Group during the year totalled £5,323m (2021: £5,862m) in respect of non-participating investment contracts and £73m (2021: £61m) in respect of hybrid participating investment contracts.

Notes to the financial statements continued

7. Net operating expenses

	Group	
	2022	2021
	£m	£m
Staff costs (note 9)	225	203
Movement in deferred acquisition costs on investment contracts (note 22)	26	50
Acquisition commission	127	155
Renewal commission	34	33
Depreciation of tangible fixed assets (note 21)	6	11
Information systems, maintenance and rent	85	74
Property costs	17	19
Regulatory, professional and administration fees	76	73
Credit to provision for future commission (note 30)	(27)	(10)
Amortisation of intangibles (note 13)	3	5
Other expenses	9	10
	581	623

8. Auditors' remuneration, net of VAT

	Group	
	2022	2021
	£000	£000
Fees payable to PwC for the audit of the Company and consolidated financial statements	2,862	2,906
Fees payable to PwC for other services:		
Audit of the Company's subsidiaries	1,373	1,170
Audit-related assurance services	1,028	1,065
Other assurance services	374	392
Other non-audit services	85	56
	5,722	5,589

The appointment of auditors to the Group's pension schemes and the fees paid in respect of those audits are agreed by the Trustee of the schemes who acts independently from the management of the Group.

	Group	
	2022	2021
	£000	£000
Audit fees in respect of the Royal London Group Pension Scheme	80	70
Audit fees in respect of the Royal Liver Assurance Superannuation Fund	20	18
Audit fees in respect of the Royal Liver Assurance Limited Superannuation Fund (ROI)	16	15
Audit fees in respect of Royal London Ireland Pension Plan	8	5
	124	108

Additional information on the non-audit services provided by the auditor to the Group is provided in the Report of the Audit Committee on pages 82 and 83, including how objectivity and independence is safeguarded. In accordance with The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 the Company has not disclosed the fees payable to the Company's auditors for 'other services' as this information is included in the Group disclosure above.

9. Staff costs

(a) Analysis of staff costs

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Wages and salaries	303	296	289	283
Social security contributions	30	29	27	28
Other pension costs – defined contribution arrangements	26	26	25	25
Other pension costs – defined benefit schemes (note 23)	38	6	38	6
Termination benefits	5	7	5	7
	402	364	384	349

The Company pays its employees via a subsidiary company. The total staff costs of the Group of £402m (2021: £364m) are included within the consolidated statement of comprehensive income within the following lines:

	Group	
	2022	2021
	£m	£m
Net operating expenses (note 7)	225	203
Investment expenses and charges (note 10)	129	89
Other charges (note 11)	48	72
	402	364

	Group		Company	
	2022	2021	2022	2021
	Number	Number	Number	Number
The average number of persons (including executive directors) employed during the year was:				
Sales and sales support	308	338	236	143
Administration	4,022	4,051	3,246	3,154
	4,330	4,389	3,482	3,297

The average number of persons employed during the year disclosed for 2021 has been adjusted so it is prepared on a consistent basis with 2022.

(b) Directors' emoluments

	Group and Company	
	2022	2021
	£m	£m
Total emoluments	4	4

Full details of the directors' emoluments are included in the Directors' Report on Remuneration report on pages 94 to 115. The information included therein, together with the table above, encompasses the disclosures required by the Companies Act 2006.

Notes to the financial statements continued

9. Staff costs (continued)

(c) Key management compensation payable

Compensation payable to key management, including executive directors, is shown in the table below.

	Group and Company	
	2022	2021
	£m	£m
Salaries, short-term incentive plans and other benefits	9	12
Change in amounts payable under long-term incentive plans	1	2
	10	14

The Group figures disclosed for 2021 have been adjusted so it is prepared on a consistent basis with 2022.

The total amount receivable by key management, including executive directors, under long-term incentive plans was £5m as at 31 December 2022 (2021: £5m). The amount of long-term incentive plans earned by key management during the year was £2m (2021: £2m).

10. Investment expenses and charges

	Group	
	2022	2021
	£m	£m
Property expenses	64	66
Other transaction costs	10	9
Costs of in-house investment management operations – staff costs (note 9)	129	89
Costs of in-house investment management operations – other	86	103
Other	12	8
	301	275

11. Other charges

Accounting for other charges

Interest payable on subordinated liabilities is calculated using the effective interest method and includes the amortisation of any discount and attributable transaction costs (see note 24).

Other project staff costs and other project costs relate to non-recurring spend and are charged to the statement of comprehensive income as they are incurred.

	Group	
	2022	2021
	£m	£m
Interest payable on subordinated liabilities	77	77
Other project staff costs (note 9)	48	72
Other project costs	164	126
	289	275

12. Tax attributable to long-term business

Accounting for tax

Tax expense comprises current and deferred tax and is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is also recognised directly in other comprehensive income. Both current and deferred tax are calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

(a) Tax attributable to long-term business in the statement of comprehensive income

	Group	
	2022	2021
	£m	£m
Tax has been provided as follows:		
UK corporation tax charge		
Current year	14	26
Adjustments in respect of prior periods	(5)	7
ROI corporation tax charge		
Current year	2	1
	11	34
Foreign tax partially relieved against UK corporation tax	7	6
Deferred tax (credit)/charge (note 29)	(245)	73
	(227)	113

(b) Reconciliation of the effective tax rate

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the Group as follows:

	Group	
	2022	2021
	£m	£m
(Loss)/profit before tax and before (deduction from)/transfer to the fund for future appropriations	(389)	192
Tax calculated at the applicable tax rate ¹	(78)	38
Factors affecting tax charge:		
Accounting loss/(profit) not subject to corporation tax	94	(26)
Items taxed on a different basis for life assurance companies	(247)	89
Items disallowed in tax computation	(3)	(3)
Group consolidation adjustments	—	9
Foreign tax partially relieved against UK corporation tax	7	6
Tax (credit)/charge for the year	(227)	113

1. Corporation tax in the consolidated statement of comprehensive income has been calculated at a rate of 20% (2021: 20%) on the taxable profits in respect of insurance business of the Company, at 12.5% (2021: 12.5%) on the taxable profits of the Irish subsidiaries of the Company, 12.5% (2021: 12.5%) on the taxable profits of the Irish Branch of the Group's UK management services company and at 19% (2021: 19%) on the taxable profits of the UK subsidiaries of the Company.

The UK corporation tax rate will increase to 25% from 1 April 2023; this change was substantively enacted on 24 May 2021 and, therefore, is recognised in the measurement of relevant deferred tax balances in these financial statements.

Notes to the financial statements continued

13. Intangible assets

Accounting for intangible assets

Goodwill

Goodwill is the excess of the fair value of the consideration paid for a business combination plus directly attributable costs, over the fair value of the identifiable net assets acquired. It is capitalised at cost and amortised through the statement of comprehensive income on a straight-line basis over its useful economic life (the period over which the benefits of the business combination are expected to be realised). The amortisation charge is recognised within 'Net operating expenses'.

Negative goodwill is the excess of the fair value of identifiable net assets acquired in a business combination over the fair value of the consideration and directly attributable costs. It is capitalised at cost and shown as a negative asset. Subsequently, the value of negative goodwill up to the fair value of non-monetary assets acquired is recognised in 'Other income' in the periods in which those non-monetary assets are realised. Non-monetary assets are those that are not realised as cash but rather by utilisation of the asset. Any remaining value of negative goodwill in excess of the value of non-monetary assets acquired is recognised in 'Other income' in the periods expected to benefit.

The gain or loss on any subsequent disposal of a subsidiary would include any attributable remaining balance of positive or negative goodwill.

Other intangible assets

Other intangible assets include computer software. Directly attributable costs necessary to create, produce and prepare the software asset to be capable of operating in the manner intended are included in the cost of the intangible asset. Intangible assets are carried at cost less accumulated amortisation and impairment losses and are amortised on a straight-line basis over their useful lives, which range from three to ten years. The useful lives are determined by considering relevant factors such as the remaining term of agreements and the normal lives of related products. Amortisation begins when the intangible asset is available for use i.e. when it is in the location and condition necessary for it to be useable in the manner intended by management.

Impairment of intangible assets

The carrying amounts of intangible assets, including goodwill, are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable, in which case an impairment test is performed. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Impairment losses are recognised in the statement of comprehensive income. With the exception of goodwill, an impairment loss is reversed if the reasons for the impairment loss have ceased to apply. An impairment loss is reversed only to the extent that after the reversal, the asset's carrying amount is no greater than the amount that would have been determined, net of amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is never reversed.

The following tables show the movements in the intangible assets of the Group and the Company.

	Group – 2022			
	Goodwill	Negative goodwill	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 January	31	(206)	413	238
Additions	—	—	27	27
At 31 December	31	(206)	440	265
Accumulated amortisation, impairment losses and disposals				
At 1 January	(6)	162	(317)	(161)
Amortisation	(4)	7	—	3
At 31 December	(10)	169	(317)	(158)
Net book value				
At 1 January	25	(44)	96	77
At 31 December	21	(37)	123	107

13. Intangible assets (continued)

	Company – 2022			
	Goodwill £m	Negative goodwill £m	Other intangible assets £m	Total £m
Cost				
At 1 January	29	(87)	333	275
Additions	—	—	18	18
At 31 December	29	(87)	351	293
Accumulated amortisation, impairment losses and disposals				
At 1 January	(4)	79	(238)	(163)
Amortisation	(4)	2	—	(2)
At 31 December	(8)	81	(238)	(165)
Net book value				
At 1 January	25	(8)	95	112
At 31 December	21	(6)	113	128

The balance of goodwill at the balance sheet date predominantly relates to the acquisition of Police Mutual. The value is being amortised on a straight-line basis over 10 years.

The balance of negative goodwill at the balance sheet date relates to the acquisitions of Royal Liver Assurance Limited (Royal Liver) in 2011 and Royal London (CIS) Limited (RL (CIS)) in 2013. For these acquisitions the value of negative goodwill is being amortised on a straight-line basis over 15 and 20 years respectively, which are the periods over which the benefits are expected to be realised.

Other intangible assets are predominantly software assets of £115m (2021: £96m) for the Group and £113m (2021: £95m) for the Company. The software assets are not in use at the year end date; hence no amortisation has been charged. An impairment review has been performed in the year due to the existence of impairment indicators, resulting in there being no impairment charged (2021: £nil). The software is in the process of being developed and the recoverable amount has been estimated using the following key assumptions for the value in use calculation:

- expected profits from future new business over the ten-year useful life of the software licence are included. A ten-year useful life is considered to be appropriate as the Group expects to use the software throughout the licence period. The cash flows are based on the business plan approved by the Board of Directors, which covers a five-year period, and cash flows beyond that period have been assumed to grow at a steady rate of 4.6% (2021: 4.8%) per annum;
- projected cash flows to bring the software asset into use, as well as system maintenance costs, taking into account expected cost savings;
- existing business cash flows are based on the run-off profile of the value of in-force (VIF) business; and
- cash flows have been discounted using a risk-adjusted discount rate of 11.2% (2021: 11.6%). The discount rate comprises an appropriate risk-free rate of 3.6% (2021: 0.9%) and risk adjustments of 7.6% (2021: 10.7%). The discount rate is a post-tax rate which is derived from the weighted average cost of capital plus risk adjustments that are specific to the software asset.

There are two major sources of estimation uncertainty. Firstly, the discount rate is a source of estimation uncertainty as it is affected by external market forces and internal factors, such as stage of completion of the asset; such changes could have a material impact on the discount rate applied to the cash flows. The discount rate would need to be increased to 15.8% (2021: 29.1%) in order for the recoverable amount to be equal to the carrying value. The projected cash flows are also a source of estimation uncertainty as they are impacted by market changes and new business growth. The discounted cash flows would need to decrease by 35.1% (2021: 76.2%) in order for the recoverable amount to be equal to the carrying value.

Notes to the financial statements continued

14. Land and buildings

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Investment property	78	96	122	149
Owner occupied property	44	53	—	—
Total Land and buildings	122	149	122	149

All land and buildings are held on a freehold basis (2021: one leasehold property valued at £300k).

(a) Investment property

Accounting for investment property

Investment property is property held for rental, capital growth or both, excluding that occupied by the Group or the Company.

FRS 102 allows a choice between a cost or fair value measurement model for owner-occupied land and buildings, investment property rented to another Group entity and certain investment in Group entities. The Group and Company have applied a fair value model to these assets. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities.

Investment property is initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. All investment property is subsequently measured at fair value in the balance sheet. Fair value is determined by independent professional valuers, who are members of the Royal Institute of Chartered Surveyors, based on market evidence. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

When the Group or the Company has given a lease incentive, the carrying value of the investment property is reduced by the value of the debtor arising from the lease incentive, which is shown separately within 'Other debtors'.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Investment property				
Fair value				
At 1 January	96	96	149	168
Additions	7	6	7	8
Disposals	(13)	(32)	(13)	(35)
Transfers from owner occupied land and buildings	—	18	—	—
Net (loss)/gain from fair value adjustments	(12)	8	(21)	8
At 31 December	78	96	122	149

The cost of investment property above was £62m (2021: £65m) for the Group and £128m (2021: £131m) for the Company.

Investment property is revalued to fair value annually with an effective date of 31 December. The principal valuers used were CBRE Limited and Cushman & Wakefield. Fair value is determined using market comparison and income capitalisation approaches (see note 17 (a)). There has been no change to the valuation methodology during the year. The net (loss)/gain from fair value adjustments shown above represents the net fair value (loss)/gain on the revaluation of properties held at the balance sheet date and does not include gains or losses realised on properties disposed of during the year.

Investment properties are leased to third parties under operating leases. Under the terms of certain leases, the Group is required to repair and maintain the related properties. At the balance sheet date, the future minimum lease payments receivable under non-cancellable leases are shown in the following table. For the purposes of this table, the minimum lease period has been taken as the period to the first possible date that the lease can be terminated by the lessee.

14. Land and buildings (continued)

These total future minimum lease payments receivable can be analysed as follows:

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Not later than one year	3	3	3	3
Later than one year and not later than five years	9	8	9	8
Later than five years	4	5	4	5
	16	16	16	16

(b) Owner-occupied land and buildings

Accounting for owner occupied land and buildings

Owner-occupied land and buildings are initially measured at cost, which comprises the fair value of the consideration paid plus the associated transaction costs. Costs incurred after initial recognition are included in an asset's carrying value only to the extent that it is probable that there will be future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

All owner-occupied land and buildings are subsequently carried at fair value in the balance sheet. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors, and is based on market evidence. An increase in fair value is recognised in other comprehensive income, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in profit or loss. A decrease in fair value is recognised immediately in profit or loss, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income.

Owner-occupied land and buildings are not depreciated.

Gains and losses on disposals are included in the statement of comprehensive income and are determined by comparing proceeds with carrying amounts.

	Group	
	2022	2021
	£m	£m
Owner-occupied land and buildings		
Fair value		
At 1 January	53	72
Additions	—	2
Disposals	—	(3)
Transfers to investment property	—	(18)
Net loss from fair value adjustments	(9)	—
At 31 December	44	53

Owner-occupied land and buildings are held on a fair value basis. If the owner-occupied land and buildings were stated on a historical cost basis, the amounts would be as follows.

	Group	
	2022	2021
	£m	£m
Cost	66	84
Accumulated depreciation and impairment losses	(13)	(13)
Additions	—	2
Disposals	—	(3)
Transfers to investment property	—	(17)
Net book value	53	53

Notes to the financial statements continued

15. Investments in Group undertakings

Accounting for investment in Group undertakings

Subsidiaries

The Company has elected to present investments in subsidiaries in the Company balance sheet measured at FVTPL, as permitted by FRS 102 Section 9. The fair value of investments in Group undertakings which are unit trusts, OEICs and other pooled funds is the bid price quoted on the last day of the accounting period on which investments in such funds could be redeemed. Fair value for those entities which are not unit trusts, OEICs and other pooled funds is determined using the same valuation techniques as are used for unquoted investments, as described in note 17(a).

Subsidiaries are those entities (including OEICs and other investment funds) over which the Group has control. The Group controls an entity when it has power to govern its financial and operating policies. The Group considers all relevant facts and circumstances when determining whether control exists and makes a re-assessment whenever those facts and circumstances change. Profits or losses of subsidiaries sold or acquired during the period are included in the consolidated results up to the date that control ceases or from the date of gaining control.

The Group invests in investment funds, which themselves invest mainly in equities, bonds, property and cash. Some of these funds are managed by Group companies. For these funds, where the Group's holding is greater than 50% it is presumed that it has the power to govern the fund's financial and operating policies; in such cases the fund is classified as a subsidiary. Where the Group's holding of internal investment funds is less than 50% it is classified as an associate, unless the Group's interest is less than 20% in which case the Group is not considered to have significant influence over the fund and the fund is accounted for within 'Other financial investments' at fair value.

The Group also invests in certain private equity funds and property unit trusts, which are managed by external third-party administrators. The structure of each fund, the terms of the relevant agreements and the Group's ownership percentage are all taken into consideration in determining whether the Group has control and therefore whether the unit trust/ fund should be classified as a subsidiary.

In accordance with Section 9 of FRS 102, subsidiaries that are held as part of an investment portfolio are not consolidated and are held on the Group balance sheet as 'Other financial investments' measured at FVTPL. The inclusion of these subsidiaries at FVTPL is a departure from the requirements of paragraph 30 to Schedule 3 of the Regulations as set out in note 1(b).

Special purpose entities (SPE)

An SPE is an entity established to achieve a specific, narrow objective. An SPE is consolidated into the Group financial statements when the Group is deemed to control the SPE. Circumstances that may indicate that the Group controls an SPE include:

- the activities of the SPE are being conducted on behalf of the Group according to its specific business needs;
- the Group has the ultimate decision-making powers over the SPE even if the day-to-day decisions have been delegated;
- the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; and
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets.

Associates

Associates are entities over which the Group has significant influence but not control or joint control, generally accompanying an ownership interest of between 20% and 50%. The Company has elected to present investments in associates in the Company balance sheet measured at FVTPL, as permitted by FRS 102 Section 9.

The Group's investments in associates which are investment funds are held as part of an investment portfolio and are measured at FVTPL, in accordance with Section 14 of FRS 102. The inclusion of these assets at FVTPL is a departure from the requirements of paragraph 21 of Schedule 6 to the Regulations, as set out in note 1(b). The Group's investments in associates which are not held as part of an investment portfolio are accounted for using the equity method as set out in note 1 (b).

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities. The Group's interests in joint ventures are all jointly controlled entities that are held as part of an investment portfolio, hence under FRS 102 Section 15 they are measured at FVTPL in both the Company and Group balance sheets.

15. Investments in Group undertakings (continued)

The Company's investments in Group undertakings comprises:

	Company	
	2022	2021
	£m	£m
Shares in subsidiaries	804	802
Loans to subsidiaries	29	22
Shares in associates	19	20
OEICs and other investment funds – subsidiaries	11,265	14,798
OEICs and other investment funds – associates	1,951	2,042
	14,068	17,684

The OEICs and other investment funds represent the Company's investment in funds which are managed by subsidiaries of the Group. The funds classified as subsidiaries are those over which the Group has control. The funds classified as associates are those over which the Group has significant influence but not control.

The investments in Group undertakings includes £nil in respect of directly held listed investments (2021: £nil).

(a) Subsidiaries

The Company has the following subsidiaries, including OEICs and other investment funds classified as subsidiaries and held within unit-linked funds. All subsidiaries have a registered office of 55 Gracechurch Street, London EC3V 0RL, United Kingdom except where noted by a letter which corresponds to the addresses listed in the table on page 148. All operational, nominee, trustee and non-trading subsidiary undertakings are consolidated in the Group financial statements and have a financial reporting date of 31 December, unless otherwise stated.

Subsidiaries consolidated within the Group financial statements	% holding		Nature of business	Registered Office
Name	2022	2021		
Operational subsidiaries:				
Cambridge Research Park Management Company Limited ¹	69.0	69.0	Property services company	A
Hornby Road Investments Limited ²	100.0	100.0	Property company	-
Mortgage Excellence Limited	100.0	100.0	Mortgage intermediary	-
PMGI Limited	100.0	100.0	General insurance intermediary	-
PMHC Limited ²	100.0	100.0	Discretionary healthcare products	-
PM Holdings Limited ²	100.0	100.0	Holding company	-
Police Housing Fund Limited ²	100.0	100.0	Holding company	-
RL Finance Bonds No.2 plc	100.0	100.0	Finance company	-
RL Finance Bonds No.3 plc	100.0	100.0	Finance company	-
RL Finance Bonds No.4 plc	100.0	100.0	Finance company	-
RL Wizard Holdings Limited ²	100.0	100.0	Holding company	-
RLUM Limited	100.0	100.0	Unit trust management	-
Royal London (UK) Holdings Limited ²	100.0	100.0	Holding company	-
Royal London Asset Management Holdings Limited	100.0	100.0	Holding company	-
Royal London Asset Management Limited	100.0	100.0	Investment management	-
Royal London Cambridge Limited ²	100.0	100.0	Holding company	-
Royal London Insurance Designated Activity Company	100.0	100.0	Regulated insurance company	B
Royal London Management Services Limited	100.0	100.0	Service company	-
Royal London Marketing Limited	100.0	100.0	Financial services intermediary	-
Royal London Savings Limited	100.0	100.0	ISA management	-
Royal London Unit Trust Managers Limited	100.0	100.0	Fund management	-
Vision Park Management Limited ³	86.0	86.0	Property services company	C
Wealth Wizards Benefits Limited ²	100.0	100.0	Financial intermediary/adviser	D
Wealth Wizards Limited	100.0	100.0	Fintech company	D

Notes to the financial statements continued

15. Investments in Group undertakings (continued)

Subsidiaries consolidated within the Group financial statements (continued)		% holding		Nature of business	Registered Office
Name		2022	2021		
Other companies:					
RL Marketing ISA Nominees Limited		100.0	100.0	Nominee company	-
RLAM (Nominees) Limited		100.0	100.0	Nominee company	-
RLS Nominees Limited		100.0	100.0	Nominee company	-
R.L. Pensions Trustees Limited		100.0	100.0	Trustee company	-
R.L. Pensions Trustees (R.O.I.) Company Limited by Guarantee		100.0	100.0	Trustee company	B
RLGPS Trustee Limited		100.0	100.0	Trustee company	-
Royal Liver Pension Trustee Services Limited		100.0	100.0	Trustee company	-
Royal Liver Trustee Services Ireland Limited		100.0	100.0	Trustee company	B
Royal Liver Trustees Limited		100.0	100.0	Trustee company	-
Royal London Trustee Services Limited		100.0	100.0	Trustee company	-
Abacus Limited		100.0	100.0	Non-trading	-
Brightgrey Limited		100.0	100.0	Non-trading	-
Canterbury Life Assurance Company Limited		100.0	100.0	Non-trading	-
Capitol Way Commercial No 1 Limited		100.0	100.0	Non-trading	-
Capitol Way Commercial No 2 Limited		100.0	100.0	Non-trading	-
Capitol Way Estate Management Limited		100.0	100.0	Non-trading	-
Capitol Way Estate No 1 Limited		100.0	100.0	Non-trading	-
Capitol Way Estate No 2 Limited		100.0	100.0	Non-trading	-
Leyburn Developments Limited		100.0	100.0	Non-trading	-
PM Advisory Limited ²		100.0	100.0	Non-trading	-
PM Central Services Limited ²		100.0	100.0	Non-trading	-
RL Schedule 2C Holdings Limited		100.0	100.0	Non-trading	-
R.A.Securities Limited		100.0	100.0	Non-trading	-
Refuge Assurance Limited		100.0	100.0	Non-trading	-
Refuge Investments Limited		100.0	100.0	Non-trading	-
Refuge Life Assurance Consultants Limited		100.0	100.0	Non-trading	-
Refuge Portfolio Managers Limited		100.0	100.0	Non-trading	-
RL Finance Bonds plc		100.0	100.0	Non-trading	-
RL Finance Bonds No.6 plc ⁴		100.0	N/A	Non-trading	-
RL LA Limited		100.0	100.0	Non-trading	E
RL Marketing (CIS) Limited		100.0	100.0	Non-trading	-
RL NPB Services Limited		100.0	100.0	Non-trading	-
RLM Finance Plc ²		100.0	100.0	Non-trading	-
RLPPF Abingdon Limited		100.0	100.0	Non-trading	F
Royal Liver (IFA Holdings) Plc		100.0	100.0	Non-trading	-
Royal London (CIS) Limited		100.0	100.0	Non-trading	-
Royal London Homebuy Limited		100.0	100.0	Non-trading	-
Royal London Pooled Pensions Company Limited		100.0	100.0	Non-trading	E
S.L. (Davenport Green) Limited		100.0	100.0	Non-trading	E
Scottish Life (Coventry) Property Limited		100.0	100.0	Non-trading	E
The Scottish Life Assurance Company		100.0	100.0	Non-trading	E
United Assurance Group Limited		100.0	100.0	Non-trading	-
United Friendly Group Limited		100.0	100.0	Non-trading	-
United Friendly Insurance Limited		100.0	100.0	Non-trading	-
United Friendly Life Assurance Limited		100.0	100.0	Non-trading	-
United Friendly Staff Pension Fund Limited		100.0	100.0	Non-trading	-
Wealth Wizards Advisers Limited		100.0	100.0	Non-trading	D

1. Denotes company has a financial reporting date of 30 June.

2. Denotes UK subsidiaries that will take advantage of the audit exemption by virtue of section 479A of the Companies Act 2006 for the year ended 31 December 2022.

3. Denotes company has a financial reporting date of 24 December.

4. Denotes company incorporated during the year.

15. Investments in Group undertakings (continued)

Unit trusts, OEICs, other investment funds and other legal entities held as part of an investment portfolio reported as subsidiaries under FRS 102 but not consolidated within the Group financial statements

	% holding ⁵		Nature of business	Latest financial reporting date	Aggregate of capital and reserves £m	Profit/(loss) for the period £m	Registered Office
	2022	2021					
Elli Healthcare Properties Limited ⁶	100.0	100.0	Property company	31 Dec 22	(2)	(2)	G
RHR Aldershot Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Basildon Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Burnley Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Derby Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Newark Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Norwich Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Swindon Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
RHR Wesham Limited ⁷	100.0	N/A	Property company	N/A	N/A	N/A	-
Royal London Asset Management Funds plc ⁸	99.9	99.9	Investment manager	30 Jun 22	N/A	N/A	H
Royal London Asset Management Investment Funds ICAV ⁸	100.0	100.0	Investment manager	30 Jun 22	N/A	N/A	H
The Royal London UK Mid Cap Growth Fund	90.1	92.2	OEIC	31 Aug 22	400	(138)	-
The Royal London UK Opportunities Fund	99.9	99.9	OEIC	31 Aug 22	757	(216)	-
The Royal London UK Broad Equity Tilt Fund ⁹	N/A	51.3	OEIC	31 Aug 22	664	(8)	-
The Royal London Index Linked Fund	58.4	56.7	OEIC	31 Oct 22	368	(164)	-
The Royal London European Growth Fund	99.6	99.6	OEIC	31 Aug 22	1,862	(291)	-
The Royal London GMAP Growth Fund	80.5	88.2	OEIC	30 Jun 22	614	(77)	-
The Royal London UK Equity Fund	96.2	96.3	OEIC	31 Aug 22	693	(10)	-
The Royal London Asia Pacific ex Japan Equity Tilt Fund	96.5	97.1	OEIC	31 Aug 22	1,229	(64)	-
The Royal London UK Smaller Companies Fund	96.8	97.9	OEIC	31 Aug 22	313	(149)	-
Royal London Short Term Fixed Income Fund (formerly Royal London Cash Plus Fund)	69.4	64.2	OEIC	31 Oct 22	5,399	(50)	-
The Royal London Europe ex UK Equity Tilt Fund	92.0	92.6	OEIC	31 Aug 22	793	(126)	-
The Royal London International Government Bond Fund ⁹	N/A	64.7	OEIC	31 Oct 22	717	(68)	-
The Royal London Global High Yield Bond Fund	97.6	96.8	OEIC	30 Jun 22	2,418	(452)	H
The Royal London Short-Term Money Market Fund ⁹	N/A	55.5	OEIC	31 Oct 22	5,109	(2)	-
The Royal London Absolute Return Government Bond Fund	95.7	88.9	OEIC	30 Jun 22	1,912	12	H
The Royal London GMAP Conservative Fund	99.4	99.0	OEIC	30 Jun 22	395	(78)	-
The Royal London GMAP Adventurous Fund	78.8	86.5	OEIC	30 Jun 22	328	(39)	-
The Royal London GMAP Dynamic Fund	91.6	92.9	OEIC	30 Jun 22	109	(17)	-
The Royal London Emerging Markets ESG Leaders Equity Tracker Fund	94.9	94.7	OEIC	31 Aug 22	4,077	(606)	-
The Royal London Global Equity Diversified Fund	96.6	97.4	OEIC	31 Aug 22	3,369	6	-
The Royal London Global Equity Select Fund ⁹	N/A	80.9	OEIC	31 Aug 22	750	42	-
The Royal London UK Real Estate Fund	100.0	100.0	ACS ¹⁰	30 Jun 22	3,909	709	-
The Royal London Multi Asset Credit Fund ⁹	N/A	52.6	OEIC	30 Jun 22	909	(95)	H
The Royal London Sterling Liquidity Money Market Fund	97.8	100.0	OEIC	30 Jun 22	5,599	-	H
The Royal London Monthly Income Bond Fund ¹¹	N/A	81.2	OEIC	30 Jun 22	-	-	-
The Royal London Multi Asset Strategies Fund ⁹	N/A	50.6	OEIC	30 Jun 22	208	(24)	-
The Royal London Short Duration Plus Fund	100.0	100.0	OEIC	30 Jun 22	61	(23)	H
The Royal London Global Equity Income Fund	87.1	99.6	OEIC	31 Aug 22	28	1	-
The Royal London Global Sustainable Equity Fund	53.3	51.9	OEIC	31 Aug 22	261	(29)	-
The Royal London UK Dividend Growth Fund	94.9	97.6	OEIC	31 Aug 22	995	(127)	-

Notes to the financial statements continued

15. Investments in Group undertakings (continued)

Unit trusts, OEICs, other investment funds and other legal entities held as part of an investment portfolio reported as subsidiaries under FRS 102 but not consolidated within the Group financial statements (continued)

	% holding ⁵		Nature of business	Latest financial reporting date	Aggregate of capital and reserves £m	Profit/(loss) for the period £m	Registered Office
	2022	2021					
The Royal London GMAP Balanced Fund	70.9	77.0	OEIC	30 Jun 22	340	(29)	–
The Royal London US Growth Trust	55.3	60.9	Unit trust	30 Jun 22	254	(78)	–
Royal London Sustainable Growth Fund ¹²	100.0	N/A	OEIC	31 Aug 22	103	2	–
Royal London Sustainable Short Duration Corporate Bond Fund ¹²	100.0	N/A	OEIC	N/A	N/A	N/A	–
Royal London Global Equity Enhanced Fund ¹²	100.0	N/A	OEIC	N/A	N/A	N/A	H
Royal London Global Equity Transitions Fund ¹²	100.0	N/A	OEIC	N/A	N/A	N/A	H
Royal London Global Sustainable Credit Fund	91.2	85.1	OEIC	30 Jun 22	120	(38)	H
Royal London Global Sustainable Equity Fund (Irl)	84.8	86.2	OEIC	30 Jun 22	35	(11)	H
Royal London Global Equity Diversified Fund (Irl)	73.6	73.6	OEIC	30 Jun 22	64	(10)	H
Royal London European Sustainable Credit Fund	92.5	94.0	OEIC	30 Jun 22	90	(15)	H
Royal London Global Equity Select Fund (Irl)	62.9	100.0	OEIC	30 Jun 22	44	(6)	H
Royal London Multi Asset Adventurous Fund (Irl)	100.0	100.0	OEIC	30 Jun 22	24	(2)	H
Royal London Multi Asset Balanced Fund (Irl)	100.0	100.0	OEIC	30 Jun 22	23	(2)	H
Royal London Multi Asset Defensive Fund (Irl)	100.0	100.0	OEIC	30 Jun 22	23	(2)	H
Royal London Multi Asset Growth Fund (Irl)	100.0	100.0	OEIC	30 Jun 22	24	(2)	H
The Royal London Property Fund	66.2	63.0	Property Fund	31 Dec 22	384	(36)	H
The Royal London Property Trust	100.0	100.0	Property Trust	31 Dec 22	254	(25)	H

5. The percentage holdings shown include the holding of the Group's unit linked funds which are included within assets held to cover linked liabilities.

6. This company changed its name in June 2022, the company was previously named No1 Farringdon (London) Unitholder Limited.

7. Denotes company incorporated during the year.

8. These entities are collective asset management vehicles. The results for the period are not presented on the basis that the results of the individual funds are separately disclosed.

9. The Group's holdings in these funds have fallen in the year. The funds are now reported as associates as shown in note 15(c).

10. The Royal London UK Real Estate Fund is an Authorised Contractual Scheme (ACS).

11. The Royal London Monthly Income Bond Fund closed during the year.

12. The Royal London Sustainable Growth Fund, The Royal London Sustainable Short Duration Corporate Bond Fund, The Royal London Global Equity Enhanced Fund, and The Royal London Global Equity Transitions Fund were launched during the year.

The addresses of the registered office of those Company subsidiaries, associates and other significant holdings which have a registered office other than 55 Gracechurch Street, London EC3V 0RL, United Kingdom, are noted below by letter.

Reference	Registered address
A	107 Cheapside, London, England, EC2V 6DN, United Kingdom
B	47-49 St Stephen's Green, Dublin 2, Ireland
C	50/60 Station Road, Cambridge, England, CB1 2JH, United Kingdom
D	Wizards House, 8 Athena Court, Tachbrook Park, Leamington Spa, England, CV34 6RT, United Kingdom
E	22 Haymarket Yards, Edinburgh, EH12 5BH, United Kingdom
F	27 Esplanade, St Helier, JE1 1SG, Jersey
G	Aztec Group House, 11-15 Seaton Place, St. Helier, JE4 0QH, Jersey
H	70 Sir John Rogerson's Quay, Dublin 2, Ireland
I	155 North Wacker Drive, Suite 4400, Chicago, IL60606, United States
J	Oak House, Hirzel Street, St Peter Port, Guernsey, GY1 2NP
K	Enterprise Ventures (General Partner Rising Stars II Limited), Preston Technology Management Centre, Preston, PR1 8UQ, United Kingdom
L	9 West 57th Street, Suite 4200, New York, 10019, United States
M	120 New Cavendish Street, London, W1W 6XX, United Kingdom
N	PO Box 650, 1st Floor Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey, GY1 3JX

15. Investments in Group undertakings (continued)

(b) Interest in special purpose entity

The Group owns 100% of the issued preference shares in the Pinkerton segregated account (within Artex SAC Limited), a reinsurance transformer platform incorporated in Bermuda. Its principal activity is reinsurance of general insurance policies that are arranged by another Group company. In accordance with FRS 102 Section 9 Pinkerton meets the definition of a 'special purpose entity' and in accordance with the requirements of that section, Pinkerton is consolidated within the Group financial statements.

(c) Interests in associates

(i) Investment funds

Those of the Group's associates that are investment funds are accounted for as financial assets held at FVTPL and are all incorporated in England with a registered address of 55 Gracechurch Street, London EC3V 0RL, United Kingdom. At 31 December 2022, the following funds have been recognised as associates:

	Group's % holding	
	2022	2021
The Royal London UK Growth Trust	24.4	24.2
The Royal London Corporate Bond Monthly Fund	25.4	24.1
The Royal London Investment Grade Short Dated Credit Fund ¹	N/A	32.4
The Royal London Sustainable Managed Income Trust	33.8	28.1
The Royal London Global Index Linked Fund	25.5	24.9
The Royal London Short Duration Gilts Fund	28.4	32.1
The Royal London Short Duration Global High Yield Bond Fund	34.7	32.4
The Royal London European Growth Trust	28.4	28.2
The Royal London UK Government Bond Fund	44.5	49.6
The Royal London Sterling Extra Yield Bond Fund	30.2	27.2
The Royal London Global Bond Opportunities Fund	28.6	37.4
The Royal London GMAP Defensive Fund	34.1	41.8
Royal London Short Term Fixed Income Enhanced Fund (formerly Royal London Enhanced Cash Plus Fund)	33.4	42.4
Royal London UK Equity Income Fund Total	32.4	24.2
The Royal London UK Broad Equity Tilt Fund ²	41.6	51.3
The Royal London Global Equity Select Fund ²	37.2	80.9
The Royal London International Government Bond Fund ²	39.8	64.7
The Royal London Short-Term Money Market Fund ²	44.7	55.5
The Royal London Multi Asset Credit Fund ²	48.5	52.6
The Royal London Multi Asset Strategies Fund ²	48.5	50.6
Royal London Sustainable Diversified Trust Fund ³	21.1	19.1

1. The Group's holdings in the fund have fallen below 20% in the year. The fund is now reported as an investment fund.

2. The Group's holdings in these funds have fallen in the year. The funds were previously reported as subsidiaries as shown in note 15(a).

3. The Group's holdings in the fund have increased in the year. The fund was previously reported as an investment fund.

During the year the Company received dividends from investments in associates amounting to £149m (2021: £87m).

(ii) Other associates

In addition, the Group has shareholdings in other associates not held as part of an investment portfolio:

The Group holds 30% of the shareholding in each of Responsible Life Limited and Responsible Lending Limited, both of which are incorporated in England. The registered address of Responsible Life Limited is Mills Bakery, Royal William Yard, Plymouth PL1 3GE and the registered address of Responsible Lending Limited is Princess Court, 23 Princess Street, Plymouth PL1 2EX.

The Group has a 25% interest in The Ashford Investor Limited Partnership, which owns the Ashford Designer Outlet Centre in Kent. The arrangement entitles the Group to 25% (2021: 25%) of the net rental income from the property. The Group directly holds 25% of the shareholding in Ashford Investor (General Partner) Limited and 25% indirectly of its 100% owned subsidiary Ashford Investor (Partnership Trustco) Limited, both of which are incorporated in England. The registered address of both companies is Nations House, 3rd Floor, 103 Wigmore Street, London, W1U 1QS.

The Group's share of the results of these associates is reported in note 4.

Notes to the financial statements continued

15. Investments in Group undertakings (continued)

(d) Interests in other significant holdings

The Group also invests in the following private equity funds, which represent an ownership interest of greater than 20%. These are all managed by external administrators and the Group has no involvement in the management, operation or decision making of the funds. As such, the presumption that significant influence exists is overcome and these investments have not been recognised as associates but have been treated as investment funds within 'other financial investments'. The registered addresses of the private equity funds are included in the table on page 148.

	% holding		Latest financial reporting date	Aggregate of capital and reserves	Profit/(loss) for the period	Registered Office
	2022	2021				
Core Alpha Private Equity Partners	29.9	29.9	31 Dec 21	\$26.7m	(\$4.3m)	I
Cubera RL Nordic PE LP	100.0	100.0	31 Dec 21	€30.1m	€4.0m	J
Enterprise Ventures Growth Ltd	45.2	45.2	31 Mar 22	£2.4m	(£2.2m)	K
KKR CIS Global Investor L.P.	100.0	100.0	31 Dec 21	\$109.4m	\$39.1m	L
Rising Star Growth Fund II	21.8	21.8	31 Mar 22	£0.3m	£3.1m	K
RJD Private Equity Fund III 'A' L.P.	31.9	31.9	31 Dec 21	£25.1m	£8.3m	M
SPL ARL Private Finance	99.4	99.4	31 Mar 22	£0.4m	(£0.2m)	N
WP Global Mezzanine Private Equity	100.0	100.0	31 Dec 21	\$31.7m	\$7.0m	I

(e) Interests in joint ventures

The Group has an interest in a jointly controlled entity giving rise to a 7.5% (2021: 7.5%) beneficial interest in a property, the Bluewater Shopping Centre, Kent. The arrangement entitles the Group to 7.5% (2021: 7.5%) of the net rental income of the property.

RLMIS has a joint venture with RLW Estates Limited (50% holding) in relation to land at Waterbeach. RLMIS also has a joint venture in relation to land at Waterbeach with Waterbeach Development Company LLP (41.25% holding) via its wholly owned subsidiary, Royal London Cambridge Limited. A convertible funding arrangement for £3.2m has been provided by Royal London Cambridge Limited to Waterbeach Development Company LLP.

The Group, via a unit trust, has a 50% interest in No1 Farringdon (London) Limited Partnership giving rise to a 50% interest in a property at 1 St John's Lane, London, EC1. As part of that investment, the Group also holds a 50% shareholding in No1 Farringdon (London) General Partner Limited and its subsidiaries.

16. Financial investments

Accounting for financial investments

All investment transactions are recognised at trade date i.e. the date the Group commits to purchase the asset from, or deliver the asset to, the counterparty.

Financial investments are classified on the basis of an assessment of the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. Financial assets are classified at FVTPL where they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or they do not meet the criteria to be measured at amortised cost.

With the exception of associates accounted for using the equity method in the Group balance sheet, all of the financial assets of the Group's non-linked funds, included on the balance sheet within 'Other financial investments', are part of a group of financial assets that are managed on a fair value basis and are classified upon initial recognition as held at FVTPL. All of the financial assets within the Group's unit-linked funds, included on the balance sheet within 'Assets held to cover linked liabilities', are also a group of financial assets that are managed on a fair value basis and are classified upon initial recognition as held at FVTPL.

Financial assets classified as FVTPL are initially recognised at the fair value of the consideration paid. They are subsequently measured at fair value with any resultant gain or loss recognised in the statement of comprehensive income.

Fair value for quoted investments in an active market is the bid price, which management believe is representative of fair value. For investments in unit trusts, OEICs and other pooled funds (including those classified as investments in Group undertakings) it is the bid price quoted on the last day of the accounting period in which investments in such funds could be redeemed. If the market for a quoted financial investment is not active or the investment is unquoted the fair value is determined using valuation techniques. For these investments, the fair value is established using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. Valuation techniques include the use of recent arm's length transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs from independent sources and relying as little as possible on entity specific inputs.

Derecognition and offset of financial assets and financial liabilities

A financial asset is derecognised when the contractual rights to receive the cash flows from the asset have expired or where they have been transferred and the Group has also transferred substantially all the risks and rewards of ownership.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. All derivatives are accounted for on a contract-by-contract basis and are not offset in the balance sheet.

Collateral received and pledged

For non-cash collateral received and pledged the risks and rewards of ownership are not transferred by the transaction (unless there is a default by the counterparty). Therefore, non-cash collateral received by the Group is not recognised as an asset on the balance sheet and non-cash collateral pledged by the Group remains on the balance sheet and is not derecognised. For cash collateral received and pledged the risks and rewards of ownership are transferred. Therefore, cash collateral received is recognised as an asset with a corresponding liability to repay the collateral. For cash collateral pledged the cash asset is derecognised and an equivalent debtor for the repayment of the collateral is recognised.

Notes to the financial statements continued

16. Financial investments (continued)

(a) Other financial investments

The carrying values of the Group and Company's other financial investments and their original cost are summarised by category below:

	Group			
	Fair value		Cost	
	2022 £m	2021 £m	2022 £m	2021 £m
Derivative assets (note 18)	1,835	4,316	1,201	4,323
Equity securities				
Quoted	6,034	6,937	4,322	4,496
Unquoted	394	378	354	361
	6,428	7,315	4,676	4,857
Debt and fixed income securities				
Government bonds	3,401	5,217	3,811	5,246
Other quoted	4,888	5,126	5,573	4,964
Loans secured by policies	2	3	2	3
Deposits with credit institutions	645	2,353	635	2,322
Other unquoted	1,762	2,528	1,705	2,527
	10,698	15,227	11,726	15,062
Unit trusts and other pooled investments	14,449	18,395	14,073	16,792
Commercial real estate loans	52	40	61	40
Total other financial investments	33,462	45,293	31,737	41,074

Included in the figure for Government bonds above are corporate bonds issued by companies and guaranteed by their respective governments of £74m (2021: £41m). The figure for other unquoted debt securities above includes £1,713m (2021: £2,477m) for a loan note held in respect of a reinsurance arrangement (see note 31). The figure for deposits with credit institutions above includes £37m (2021: £1,673m) of reverse repurchase agreements. Included in the figure for unit trusts and other pooled investments above is £13,470m (2021: £17,084m) of OEICs and other investment funds that are not consolidated within the Group financial statements, as well as investments in joint ventures.

	Company			
	Fair value		Cost	
	2022 £m	2021 £m	2022 £m	2021 £m
Derivative assets (note 18)	1,835	4,316	1,201	4,323
Equity securities				
Quoted	6,034	6,937	4,322	4,496
Unquoted	378	359	336	341
	6,412	7,296	4,658	4,837
Debt and fixed income securities				
Government bonds	3,401	5,217	3,811	5,245
Other quoted	4,888	5,125	5,573	4,964
Loans secured by policies	2	3	2	3
Deposits with credit institutions	645	2,353	635	2,322
Other unquoted	1,762	2,528	1,705	2,527
	10,698	15,226	11,726	15,061
Unit trusts and other pooled investments	948	1,282	996	1,191
Commercial real estate loans	52	40	61	40
Total other financial investments	19,945	28,160	18,642	25,452

Included in the figure for Government bonds above are corporate bonds issued by companies and guaranteed by their respective governments of £74m (2021: £41m). The figure for unquoted debt securities above includes £1,713m (2021: £2,477m) in respect of a loan note held in respect of a reinsurance arrangement (see note 31). The figure for deposits with credit institutions above includes £37m (2021: £1,673m) of reverse repurchase agreements.

16. Financial investments (continued)

(b) Other financial investments – quoted investments

Included in the carrying value of other financial investments are amounts in respect of quoted investments as follows:

	Group and Company	
	2022	2021
	£m	£m
Equity securities	6,034	6,935
Debt and fixed income securities	6,450	10,892
Unit trusts and other pooled investments	253	121
	12,737	17,948

(c) Assets held to cover linked liabilities

The carrying values of the Group and Company's assets held to cover linked liabilities are summarised by category below:

	Group			
	Fair value		Cost	
	2022	2021	2022	2021
	£m	£m	£m	£m
Investment property	4,431	4,981	4,575	4,492
Derivative assets (note 18)	136	70	—	—
Derivative liabilities (note 18)	(140)	(87)	—	—
Equity securities	710	994	643	733
Debt and fixed income securities	15,490	16,520	17,241	16,175
Unit trusts and other pooled investments	6,356	7,645	5,720	6,072
OEICs and other investment funds - subsidiaries	38,285	39,985	32,591	30,755
OEICs and other investment funds - associates	4,924	2,093	4,765	1,747
Cash at bank	323	257	323	257
Net current assets	342	239	342	238
	70,857	72,697	66,200	60,469

The OEICs and other investment funds represent the Company's investment in funds which are managed by subsidiaries of the Group. The funds classified as subsidiaries are those over which the Group has control. The funds classified as associates are those over which the Group has a significant influence but not control.

The total assets held to cover linked liabilities for the Group of £70,857m (2021: £72,697m) are greater than the technical provisions for linked liabilities of £70,622m (2021: £72,499m). This difference comprises £185m relating to the value of future profits included within the technical provisions for linked liabilities (2021: £166m) and the inclusion within the assets held to cover linked liabilities of £50m of surplus units held for box management purposes (2021: £32m).

Notes to the financial statements continued

16. Financial investments (continued)

	Company			
	Fair value		Cost	
	2022	2021	2022	2021
	£m	£m	£m	£m
Investment property	4,431	4,981	4,575	4,492
Derivative assets (note 18)	136	70	—	—
Derivative liabilities (note 18)	(140)	(87)	—	—
Equity securities	710	994	643	733
Debt and fixed income securities	15,490	16,520	17,241	16,175
Unit trusts and other pooled investments	6,353	7,645	5,718	6,072
OEICs and other investment funds - subsidiaries	38,282	39,985	32,587	30,755
OEICs and other investment funds - associates	4,924	2,093	4,765	1,747
Cash at bank	323	257	323	257
Net current assets	342	239	342	238
	70,851	72,697	66,194	60,469

The total assets held to cover linked liabilities for the Company of £70,851m (2021: £72,697m) are greater than the technical provisions for linked liabilities of £70,617m (2021: £72,499m). This difference comprises £185m relating to the value of future profits included within the technical provisions for linked liabilities (2021: £166m) and the inclusion within the assets held to cover linked liabilities of £49m of surplus units held for box management purposes (2021: £32m).

(d) Collateral and other arrangements

(i) Stock loan agreements

The Group and Company have entered into a number of stock lending transactions that transfer legal title to third parties, but not the exposure to the income and market value movements arising from those assets. As a result, the Group and Company retain the risks and rewards of ownership and the assets continue to be recognised in full on the Group and Company balance sheets. There are no restrictions arising from the transfers.

The assets transferred under these agreements are secured by the receipt of collateral. The level of collateral held is monitored regularly and adjusted as necessary to manage exposure to credit risk.

The collateral received was primarily in the form of UK, US, Japanese and European Government bonds and quoted equities. There were no borrower defaults in the year (2021: none).

The following table shows the assets within the Group and Company balance sheets that have been transferred under stock loan agreements and the related collateral received.

16. Financial investments (continued)

	Group and Company	
	2022	2021
	£m	£m
Stock loan agreements		
Listed equities	260	638
Derivatives	32	—
Corporate bonds	233	175
Government bonds	1,996	1,295
	2,521	2,108
Collateral received	2,673	2,373

(ii) Other collateral received

Collateral was also received in respect of derivatives. Non-cash collateral was £3m for both the Group and the Company (2021: £5m). The collateral received was in the form of UK Gilts that may be sold or re-pledged in the absence of default. No collateral was sold or re-pledged in the year (2021: £nil) and there were no defaults in the year (2021: none).

Cash margin received was £561m (2021: £2,484m) for both the Group and the Company. Cash margin received is included within 'other financial investments', with an offsetting liability included within 'other creditors including tax and social security'. Of the cash margin received, £5m (2021: £46m) is included within 'Assets held to cover linked liabilities'.

The market value of derivatives in respect of which collateral and cash margin were received was £583m for both the Group and the Company (2021: £2,551m).

Collateral of £1,723m was received for both the Group and the Company (2021: £2,497m) in respect of an unlisted debt security. The collateral received was in the form of UK and European bonds, other fixed income debt securities and floating rate notes.

The market value of the debt security in respect of which the collateral was received was £1,713m (2021: £2,477m).

The Group and the Company have entered into reverse repurchase agreements with no agreements being collateralised at 31 December 2022 (2021: £350m). The value of the securities associated with these deposits at 31 December 2022 was £nil (2021: £337m comprised of UK gilts). No collateral (2021: £14m in the form of UK gilts) was received in respect of those transactions.

(iii) Assets pledged as collateral

Collateral was also pledged in respect of derivatives. Non-cash collateral was £15m for both the Group and the Company (2021: £38m). The collateral pledged was in the form of US Gilts that may be sold or re-pledged in the absence of default.

Cash margin pledged in respect of derivatives was £1,858m (2021: £65m) for both the Group and Company. A corresponding asset is included within 'Other debtors'.

The market value of derivatives in respect of which collateral and cash margin were pledged was £1,790m for both the Group and the Company (2021: £34m). In addition, the Group and Company pledged £1,573m of initial stock margin (2021: £1,734m) in respect of derivatives. This was pledged primarily in the form of UK gilts.

The Group and Company have entered into reverse repurchase agreements with no agreements being collateralised at 31 December 2022 (2021: £1,305m). The value of the securities associated with these deposits at 31 December 2022 was £nil (2021: £1,314m comprised of UK gilts). No collateral (2021: £3m in the form of UK gilts) was pledged in respect of those transactions.

The Company has also pledged government and corporate bonds of £659m (2021: £918m) to its wholly owned subsidiary, Royal London Insurance DAC (RLI DAC), in respect of the internal reinsurance arrangement between the Company and RLI DAC.

Notes to the financial statements continued

17. Fair value measurement

(a) Fair value measurement techniques and inputs

The following table gives information about the valuation techniques and inputs used to develop the Group and the Company's fair value measurements.

Asset / liability	Valuation techniques and key inputs	Fair value hierarchy level
Derivative assets and liabilities	Mark to model technique using market inputs to pricing models. Market inputs vary by derivative type and include (i) market swap rates (interest rate swaps, total return swaps and inflation swaps); (ii) forward swap rates and interest rate volatility (interest rate swaptions); and (iii) foreign exchange rates (currency forwards). Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions, and market calibrated discount rates and assumptions.	Level 2
Equity securities – quoted	Quoted prices in active markets	Level 1
Equity securities – unquoted	Unquoted Private equity and Property funds are valued at net asset value (NAV)	Level 3
Debt and fixed income securities – UK Government bonds	FTSE Russell Trade Web	Level 1
Debt and fixed income securities – Other Government bonds	Third-party quoted prices	Level 2
Debt and fixed income securities – other quoted	Third-party quoted prices Quoted prices for similar assets in an active market Mark to model	Level 2 Level 2 Level 3
Debt and fixed income securities – loans secured by policy	Carrying value	Level 3
Debt and fixed income securities – other unquoted	Third-party prices using broker quotes Mark to model	Level 2 Level 3
Unit trusts and other pooled investments – quoted	Quoted prices in active market Quoted prices (insufficient activity to confirm active market)	Level 1 Level 2
Unit trusts and other pooled investments – unquoted	Third party price using broker quotes NAV	Level 2 Level 3
Commercial real estate loans	Net present value of future cash flows, adjusted for credit risk of underlying loans	Level 3
Owner-occupied land and buildings (Group only)	Income capitalisation & market comparison	Level 3
Investment property	Income capitalisation & market comparison	Level 3
Investment in Group undertakings – shares (Company only)	Net present value of future projected cash flows, EBITDA, PE multiple and NAV/Carrying value	Level 3
Investment in Group undertakings – investment funds and joint ventures (Company only)	Quoted prices in an active market Quoted prices (insufficient activity to confirm active market) NAV provided by external fund manager	Level 1 Level 2 Level 3
Investment in Group undertakings – associates (Company only)	Present value of projected future cash flows	Level 3
Assets held to cover linked liabilities	Individual assets within this category are valued using the applicable technique and key inputs for the asset type as shown above Net current assets are held at their carrying value	Level 1, 2 and 3 Level 3
Unit-linked investment contract liability	Determined by the fair value of the net assets of the underlying unitised investment fund	Level 2
Reinsurance liability	Present value of projected future cash flows	Level 3
Provision for future commission	Present value of projected future cash flows	Level 3

17. Fair value measurement (continued)

Asset and liability fair values implicitly take into account current expectations of the short-term effects of climate change. For example a property considered at higher risk of flooding or fire risk (as a result of current or expected changes to climate, or other relevant factors) will have those specific factors taken into consideration in surveyor valuations used to determine the market value.

(b) Fair value hierarchy

Assets and liabilities held at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The position assigned to the asset or liability in the fair value hierarchy must be determined by the lowest level of any input to its valuation that is considered to be significant to the valuation of the asset or liability in its entirety. The hierarchy only reflects the methodology used to derive the asset's or liability's fair value. The three levels of the hierarchy are as follows:

Level 1 – Quoted prices in active markets

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions occur with sufficient frequency and at sufficient volumes to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable

Inputs to Level 2 fair values are those other than quoted prices included within Level 1, which are observable for the asset or liability, either directly as prices or indirectly, i.e. derived from prices. Level 2 inputs include:

- quoted prices for identical assets in markets that are not active;
- quoted prices for similar assets in active markets; and
- inputs to valuation models that are observable for the asset. For example, interest rates and yield curves observable at commonly quoted intervals, volatilities, and swap rates.

Level 3 – Inputs not based on observable data

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs are typically used where observable inputs are not available.

The Group and Company's assets and liabilities classified into the three levels of the fair value hierarchy are shown in the following tables. The majority of the assets and liabilities measured at fair value are based on quoted prices in active markets or observable market data. Of the total Group assets and liabilities measured at fair value, 9.1% (2021: 8.6%) of assets and 0.2% (2021: 0.2%) of liabilities are recorded as Level 3. At the Company level, 9.8% (2021: 9.2%) of assets and 0.2% (2021: 0.2%) of liabilities are recorded as Level 3.

Notes to the financial statements continued

17. Fair value measurement (continued)

Deposits with credit institutions and £665m (2021: £495m) of net current assets within Assets held to cover linked liabilities are not held at fair value but are included in the tables in order for the overall asset position to agree to Financial Investments in the balance sheet. Group unquoted equities includes a £16m (2021: £19m) equity investment in associates (Responsible Life Limited and Responsible Lending Limited), which are equity accounted at Group level and not held at fair value. These are included in the table in order for the overall asset position to agree to other financial investments on the balance sheet.

	Group – 2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Derivative assets	—	1,835	—	1,835
Equity securities				
Quoted	6,034	—	—	6,034
Unquoted	—	—	378	394
Debt and fixed income securities				
Government bonds	3,040	361	—	3,401
Other quoted	—	4,868	20	4,888
Loans secured by policies	—	—	2	2
Deposits with credit institutions	—	—	—	645
Other unquoted	—	1,732	30	1,762
Other investments				
Unit trusts and other pooled investments	10,918	286	3,245	14,449
Commercial real estate loans	—	—	52	52
Total other financial investments held at fair value	19,992	9,082	3,727	33,462
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	—	—	44	44
Investment property (note 14)	—	—	78	78
Assets held to cover linked liabilities (note 16 (c))	56,711	8,527	4,954	70,857
Total assets at fair value	76,703	17,609	8,803	104,441
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 26 (b))	—	(69,486)	—	(69,486)
Reinsurance liability (note 31 (b))	—	—	(1,713)	(1,713)
Derivative liabilities (note 31 (d))	—	(3,049)	—	(3,049)
Provision for future commission (note 30)	—	—	(118)	(118)
Total liabilities at fair value	—	(72,535)	(1,831)	(74,366)

17. Fair value measurement (continued)

	Group – 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Derivative assets	–	4,316	–	4,316
Equity securities				
Quoted	6,937	–	–	6,937
Unquoted	–	–	359	378
Debt and fixed income securities				
Government bonds	5,062	155	–	5,217
Other quoted	–	5,103	23	5,126
Loans secured by policies	–	–	3	3
Deposits with credit institutions	–	–	–	2,353
Other unquoted	–	2,497	31	2,528
Other investments				
Unit trusts and other pooled investments	13,102	1,767	3,526	18,395
Commercial real estate loans	–	–	40	40
Total other financial investments held at fair value	25,101	13,838	3,982	45,293
Other assets held at fair value				
Owner-occupied land and buildings (note 14)	–	–	53	53
Investment property (note 14)	–	–	96	96
Assets held to cover linked liabilities (note 16 (c))	55,477	11,229	5,496	72,697
Total assets at fair value	80,578	25,067	9,627	118,139
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 26 (b))	–	(71,185)	–	(71,185)
Reinsurance liability (note 31 (b))	–	(2,477)	–	(2,477)
Derivative liabilities (note 31 (d))	–	(1,844)	–	(1,844)
Provision for future commission (note 30)	–	–	(145)	(145)
Total liabilities at fair value	–	(75,506)	(145)	(75,651)

Notes to the financial statements continued

17. Fair value measurement (continued)

	Company – 2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Derivative assets	—	1,835	—	1,835
Equity securities				
Quoted	6,034	—	—	6,034
Unquoted	—	—	378	378
Debt and fixed income securities				
Government bonds	3,039	361	—	3,400
Other quoted	—	4,868	20	4,888
Loans secured by policies	—	—	2	2
Deposits with credit institutions	—	—	—	646
Other unquoted	—	1,732	30	1,762
Other investments				
Unit trusts and other pooled investments	815	3	130	948
Commercial real estate loans	—	—	52	52
Total other financial investments held at fair value	9,888	8,799	612	19,945
Other assets held at fair value				
Investment property (note 14)	—	—	122	122
Investment in Group undertakings (note 15)	9,828	286	3,954	14,068
Assets held to cover linked liabilities (note 16 (c))	56,705	8,527	4,954	70,851
Total assets at fair value	76,421	17,612	9,642	104,986
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 26 (b))	—	(69,481)	—	(69,481)
Reinsurance liability (note 31 (b))	—	—	(1,713)	(1,713)
Derivative liabilities (note 31 (d))	—	(3,049)	—	(3,049)
Provision for future commission (note 30)	—	—	(118)	(118)
Total liabilities at fair value	—	(72,530)	(1,831)	(74,361)

17. Fair value measurement (continued)

	Company – 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets held at fair value				
Derivative assets	–	4,316	–	4,316
Equity securities				
Quoted	6,937	–	–	6,937
Unquoted	–	–	359	359
Debt and fixed income securities				
Government bonds	5,062	155	–	5,217
Other quoted	–	5,102	23	5,125
Loans secured by policies	–	–	3	3
Deposits with credit institutions	–	–	–	2,353
Other unquoted	–	2,497	31	2,528
Unit trusts and other pooled investments	1,113	3	166	1,282
Commercial real estate loans	–	–	40	40
Total other financial investments held at fair value	13,112	12,073	622	28,160
Other assets held at fair value				
Investment property (note 14)	–	–	149	149
Investment in Group undertakings (note 15)	11,733	1,757	4,194	17,684
Assets held to cover linked liabilities (note 16 (c))	55,488	11,226	5,488	72,697
Total assets at fair value	80,333	25,056	10,453	118,690
Liabilities held at fair value				
Unit-linked investment contract liabilities (note 26 (b))	–	(71,185)	–	(71,185)
Reinsurance liability (note 31 (b))	–	–	–	(2,477)
Derivative liabilities (note 31 (d))	–	(1,844)	–	(1,844)
Provision for future commission (note 30)	–	–	(145)	(145)
Total liabilities at fair value	–	(75,506)	(145)	(75,651)

(c) Level 3 assets and liabilities

For the majority of Level 3 investments, the Group and the Company do not use internal models to value the investments but rather obtain valuations from external parties. The Group and the Company review the appropriateness of these valuations on the following basis:

- for investment and owner-occupied property, the valuations are obtained from external valuers and are assessed on an individual property basis. The principal assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market;
- private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market;
- corporate bonds are predominantly valued using single broker indicative quotes obtained from third-party pricing sources. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements; and
- commercial real estate loans are valued using a discounted cash flow model which includes contractual cash flows, a discount rate derived using swap rates and a credit spread based on the underlying asset quality.

Notes to the financial statements continued

17. Fair value measurement (continued)

(c) Level 3 assets and liabilities (continued)

Changes in the assumptions used to calculate the Level 3 valuations to reasonably possible alternative assumptions would have the following impact on the Royal London Group result before tax for the year. Only changes in assets held by the Royal London Main Fund would impact the Group's result for the year, as changes in the closed funds are offset by an opposite movement in investment and insurance contract liabilities and therefore are not included below:

- for Level 3 investment property and owner-occupied land and buildings a 10% increase or decrease in the value of the properties at 31 December 2022 would result in a £12.2m increase or decrease in result before tax or total assets or liabilities;
- for Level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2022 would result in a £48.7m increase or decrease in result before tax or total assets or liabilities; and
- for Level 3 corporate bonds, increasing assumed yields at 31 December 2022 by 100bps would result in a decrease in profit before tax and the fair value of the corporate bonds of £2.2m. Decreasing assumed yields at 31 December 2022 by 100bps would result in an increase in result after tax and the fair value of the corporate bonds of £2.2m.

The following table shows information about fair value measurements for Level 3 assets and liabilities using significant unobservable inputs.

17. Fair value measurement (continued)

Asset/liability	Valuation technique	Unobservable input	Range (weighted average)
Owner-occupied property and investment property	Income capitalisation	Equivalent yield	5.98% - 11.97% (8.5%)
		Estimated rental value per square foot	£6.59 - £30.12 (£18)
	Market comparison	Price per acre	£2.22m
Equity securities – unquoted	Adjusted net asset value	Adjustment to net asset value	n/a
Debt and fixed income securities	Single broker quotes	Unadjusted single broker quotes	n/a
Loans secured by policies	Carrying value	Adjustment to carrying value	n/a
Unit trusts and other pooled Investments – unquoted	Adjusted net asset value	Adjustments to net asset value, for example recent sales of the underlying investments in the fund.	n/a
Commercial real estate loans	Present value of future projected cash flows	Underlying loan quality and credit rating risk	n/a
Investments in Group entities – shares (Company only)	Royal London (UK) Holdings Limited, holding company of RLUM, based on net present value of future projected cash flows	Royal London (UK) Holdings Limited:	
		Per policy annual expenses:	
		Premium paying	£57.00
		Non-premium paying	£53.73
		Expense inflation	RPI +2.8%
		Rate card expenses:	
		Premium paying	£27.23
		Non-premium paying	£24.57
		Rate card expense inflation	RPI +0.9%
		Rate card fund expenses (%) pa	0.236%
		Tax	tax
	RL Wizard Holdings Limited, holding company of Wealth Wizards Limited, held at adjusted net asset value	Adjustment to net asset value	n/a
	Royal London Asset Management Holdings Ltd, holding company of RLAM and Royal London Unit Trust Managers, based on PE multiple	Royal London Asset Management Holdings Ltd:	
		PE multiple	12.5
	PMGI Limited based on net asset value	Net asset value	n/a
	PMHC Limited	PE multiple	3.5
Investments in Group entities – associates (Company only)	Responsible Life Limited and Responsible Lending Limited based on present value of future projected cash flows	Present value of future projected cash flows	n/a
Provision for future commission	Present value of future projected cash flows	Future based renewal commission rated (%) p.a.	0.05%- 1.00% (0.53%)
		Investment return (%) p.a.	SII risk-free discount rate
		Surrender rate (%) p.a.	0.00% - 53.77% (2.09%)
		Value of underlying funds at 31 December 2022 (£m)	2,870

Notes to the financial statements continued

18. Derivative financial instruments

Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host contract, and they meet the definition of a derivative.

The Group and the Company utilise derivative instruments to hedge market risk (see note 35 (b)) for efficient portfolio management and for the matching of liabilities to policyholders. Derivatives are either 'exchange-traded' (regulated by an exchange), which have a quoted market price, or 'over-the-counter' (individually negotiated between the parties to the contract), which are unquoted.

The Group is exposed to credit risk on the carrying value of derivatives in the same way as it is exposed to credit risk on other financial investments. To mitigate this risk, a portion of the fair value of the derivatives held by the Group at any point in time is matched by collateral and cash margin received from the counterparty to the transaction. Cash margin is collateral in the form of cash. Initial cash margin is exchanged at the outset of the contract. Variation margin is exchanged during the life of the contract in response to changes in the value of the derivative. The remaining credit risk is managed within the Group's risk management framework, which is discussed further in note 35.

The Group and Company utilise the following derivatives:

Options and warrants

Options are contracts under which the seller grants the buyer the right, but not the obligation, to buy or to sell a specific amount of a financial instrument at a pre-determined price, at or by a set date, or during a set period. The Group uses equity options to manage its exposure to fluctuations in equity markets and to back certain products which include a guaranteed investment return based on equity values. Warrants give the holder the right to purchase a particular equity at a specified price.

Futures

A futures contract is an agreement to buy or sell a given quantity of a financial instrument, at a specified future date at a pre-determined price. The Group uses futures to manage its exposure to fluctuations in equity markets.

Interest rate swaps

An interest rate swap is a contract under which interest payments at a fixed interest rate are exchanged for interest payments at a variable interest rate (or vice versa) based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

Swaptions

Swaptions are options to enter into an interest rate swap at a future date and are used to limit exposure to fluctuations in interest rates over the long term.

Total return swaps

A total return swap is a contract under which one party makes payments based on a set rate, fixed or variable, whilst the other party makes payments based on the return of an underlying item.

Swaptions, interest rate swaps and total return swaps are principally used to mitigate the interest rate risk inherent in guaranteed annuity rates granted by the Group.

Currency forwards

A currency forward is a contract to exchange an agreed amount of currency at a specified exchange rate and on a specified date. The Group uses currency forwards to reduce exposure to movements in exchange rates.

Inflation swaps

An inflation swap is a contract under which there is an exchange of cash flows in order to transfer inflation risk. One party pays a fixed rate while the other party pays a floating rate that is linked to an inflation index.

18. Derivative financial instruments (continued)

Fair value of derivative instruments held

	Group and Company					
	2022			2021		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Interest rate swaps	19,132	1,083	(3,035)	18,405	3,905	(1,557)
Interest rate swaptions	4,808	478	—	5,180	113	—
Total return swaps	3,457	91	(11)	5,213	191	(274)
Inflation swaps	994	183	—	994	147	(10)
Currency forwards	11,769	136	(143)	8,240	30	(90)
Total derivative assets/(liabilities)	40,160	1,971	(3,189)	38,032	4,386	(1,931)
Included in the balance sheet within:						
Other financial investments/ (Other creditors)		1,835	(3,049)		4,316	(1,844)
Assets held to cover linked liabilities		136	(140)		70	(87)
		1,971	(3,189)		4,386	(1,931)

In addition to the above, the Group and Company make use of futures contracts. At 31 December 2022, the Group and the Company had entered into equity futures trades giving exposure to equities with a notional value of £6,327m (2021: £6,991m). The equity futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

The Group and the Company paid initial cash margin of £327m (2021: £374m) in respect of these futures trades, £61m is of which is included within 'Other debtors' (2021: £65m) and £266m in 'Assets held to cover linked liabilities' (2021: £309m).

The net variation margin receivable by the Group and the Company was £35m at 31 December 2022 (2021: payable £76m), being the amount due for the movement on the last business day of 2022, which was settled on the first business day of 2023.

19. Debtors arising out of direct insurance operations and reinsurance operations

Accounting for debtors arising out of direct insurance operations and reinsurance operations

Debtors arising out of direct insurance operations and debtors arising out of reinsurance operations are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Debtors arising from direct insurance operations at amortised cost				
Amounts due from policyholders	46	43	45	43
Amounts due from intermediaries	4	3	3	2
	50	46	48	45
Debtors arising from reinsurance operations at amortised cost				
Reinsurance receivable from external insurers	62	56	46	48
	62	56	46	48

None of the above debtors arising out of direct insurance operations or debtors arising out of reinsurance operations are expected to be recovered more than one year after the balance sheet date (2021: £nil).

Notes to the financial statements continued

20. Other debtors

Accounting for other debtors

Investment income receivable, amounts due from other Group entities, and all other receivables excluding current tax assets, are measured at amortised cost as they are financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Accounting for current tax assets

Current tax assets are measured at the amount of tax expected to be recovered using tax rates substantively enacted at the balance sheet date.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Investment income receivable	36	41	36	41
Cash collateral pledged	1,858	65	1,858	65
Amounts due from brokers	6	13	6	13
Amounts due from other Group entities	—	—	9	9
Management fees receivable	61	62	54	55
Other receivables	201	229	65	108
Current tax asset	69	89	71	90
	2,231	499	2,099	381

21. Tangible fixed assets

Accounting for tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost comprises the original purchase price and expenditure directly attributable to bringing the asset to its working condition for its intended use.

Depreciation on tangible fixed assets is charged to the statement of comprehensive income and is calculated so as to reduce the value of the assets to their estimated residual values on a straight-line basis over the estimated useful lives of the assets concerned, which range from three to ten years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying amounts of tangible fixed assets are reviewed at each balance sheet date for any indication of impairment or whenever events or circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are recognised in the statement of comprehensive income.

Gains and losses on disposals included in the statement of comprehensive income are determined by comparing proceeds with carrying amounts.

	Group	
	2022	2021
	Computers, office equipment and vehicles £m	Computers, office equipment and vehicles £m
Cost		
At 1 January	71	67
Additions	8	5
Disposals	(6)	(1)
At 31 December	73	71
Accumulated depreciation		
At 1 January	(53)	(42)
Depreciation charge	(6)	(11)
Disposals	5	—
At 31 December	(54)	(53)
Net book value		
At 1 January	18	25
At 31 December	19	18

The Company did not hold any tangible fixed assets at the balance sheet date or at the previous balance sheet date.

22. Deferred Acquisition Costs on investment contracts

Accounting for deferred acquisition costs (DAC)

Incremental costs that are directly attributable to the acquisition of new non-participating investment and hybrid participating investment contracts are recognised as a DAC asset, provided those costs are considered to be recoverable. Incremental costs comprise both initial commission and an amount representing the present value of future commission payable to third parties. All other acquisition costs are expensed as incurred. The asset is amortised over the period in which we expect to receive the related investment management services fees.

All acquisition costs on insurance and non-hybrid participating investment contracts are recognised as an expense in the statement of comprehensive income when incurred.

	Group and Company	
	2022	2021
	£m	£m
Carrying amount at 1 January	113	163
Amortisation	(26)	(50)
Carrying amount at 31 December	87	113

23. Pension scheme asset

Accounting for pensions

The Group operates three defined benefit schemes and two defined contribution arrangements.

(i) Defined benefit schemes

The defined benefit schemes provide benefits based on pensionable pay. The assets of the schemes are held in separate Trustee-administered funds. The position of each scheme is assessed annually by an independent qualified actuary using the projected unit credit method.

The pension scheme asset recognised in the balance sheet is the excess that is recoverable of the fair value of the plan assets in a scheme over the present value of that scheme's liabilities. The 'Administration costs' and 'Net interest (income)/cost' are included within 'Net operating expenses' on an incurred basis. 'Past service costs' arising on a plan amendment or curtailment are included immediately within 'Net operating expenses'. Remeasurements are recognised in other comprehensive income in the period in which they arise.

(ii) Defined contribution arrangements

The Group operates two defined contribution arrangements for employees. The Group pays contractual contributions in respect of these arrangements, which are recognised as an expense when they fall due.

Defined contribution arrangements

The Group provides pension benefits for its employees in order to support recruitment, retention, and motivation of talented people.

All employees are eligible to join either the Royal London Group Personal Pension (RLGPP) or the Royal London Ireland Pension Plan (RLIPP) according to their employment. The RLGPP and the RLIPP are both defined contribution arrangements.

These defined contribution arrangements are benchmarked to ensure that the reward package overall is competitive. Where possible under local regulation, employees are auto-enrolled and the Group sees a correspondingly high take-up across employees. The Group pays contributions in respect of these arrangements and these contributions are recognised as an expense as the related employee services are provided. The Group's expense recognised in 2022 is £26m (2021: £26m) and is reported within staff costs (note 9).

Defined benefit schemes

In addition to the above arrangements, the Group operates three legacy funded defined benefit schemes, which are established under separate trusts.

The ability of the defined benefit pension schemes to meet the projected pension payments is maintained through investments and, where applicable, contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions.

The largest defined benefit scheme is the Royal London Group Pension Scheme ('RLGPS'). RLGPS was closed to new entrants on 1 September 2005 and to future accrual of benefits on 31 March 2016.

As a result of the Royal Liver acquisition on 1 July 2011, the Group took responsibility for two further defined benefit pension schemes: the Royal Liver Assurance Limited Superannuation Fund ('Royal Liver UK') and the Royal Liver Assurance Limited (ROI) Superannuation Fund ('Royal Liver ROI'). Royal Liver employees in these schemes stopped earning additional defined benefit pensions on 30 June 2011.

Notes to the financial statements continued

23. Pension scheme asset (continued)

In addition, the Group also operates a small, legacy unfunded unapproved arrangement for certain executives who joined before 1 September 2005, which provides mirroring of the RLGPS accrual benefits, provided by RLGPS above. The liability for this arrangement is £10m (2021: £15m) and is recorded within other provisions (see note 30).

The Group has agreed a funding framework with the RLGPS Trustee, which includes an agreement on the approach to be taken in the event of a funding deficit. As at the most recent completed triennial valuation dated 31 December 2019, RLGPS had a funding level of 100% and no contributions were required to be paid.

Consequently, as the Scheme is closed to future accrual, the only contributions payable are, if RLGPS has insufficient surplus, in respect of costs of any augmentations including the award of discretionary pension increases.

The Royal Liver schemes are supported via a guarantee from the Company to the schemes' Trustees. Both the Royal Liver schemes were in surplus at the most recent triennial valuation dated 31 December 2021. As these schemes are closed to future accrual, no contributions are currently payable.

The obligation figures below include an allowance for the impact of allowing for Guaranteed Minimum Pension (GMP) equalisation, following the Lloyds Banking Group High Court ruling in October 2018. The allowance reflects the costs to cover higher future payments for affected members plus interest and arrears. Following the further judgement on 20 November 2020, an additional allowance has been included for the estimated cost of equalising GMPs for pension scheme members who have previously transferred out.

(a) Key assumptions and sensitivity analysis

The major assumptions used to calculate the pension scheme assets for both the Group and the Company are shown below.

	2022		2021	
	UK	ROI	UK	ROI
	%	%	%	%
Discount rate	4.8	3.7	1.8	1.1
Price inflation (RPI)	3.3	N/A	3.4	N/A
Price inflation (CPI) ¹	2.8	2.4	2.9	2.0

1. Figures shown for ROI are Irish CPI used for increasing deferred pensions between leaving and retirement. Pension increases for ROI pensions in payment are based on UK CPI.

The most significant non-financial assumption is the assumed rate of mortality. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a scheme pensioner aged 60 and a non-pensioner aged 45.

	Group and Company					
	2022			2021		
	RLGPS	Royal Liver UK	Royal Liver ROI	RLGPS	Royal Liver UK	Royal Liver ROI
Pensioner						
Male	26	27	27	26	27	27
Female	29	29	29	29	28	29
Non-pensioner						
Male	27	28	28	27	27	28
Female	30	30	30	30	30	31

The sensitivity of the defined benefit obligations to changes in the principal assumptions is shown in the table below.

	Increase in defined benefit obligation	
	2022	2021
	£m	£m
100 basis point decrease in discount rates	323	635
5% proportionate decrease in mortality	39	61
100 basis point increase in price inflation (RPI & CPI)	200	399

This sensitivity analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation recognised within the balance sheet.

23. Pension scheme asset (continued)

(a) Key assumptions and sensitivity analysis (continued)

The information provided above shows the sensitivity of the schemes' liabilities to changes in the key assumptions. Due to the asset-liability matching strategies, the impact of changes in discount rates and inflation will also impact the schemes' asset values, thereby mitigating the effect of such changes on the Group.

(b) Amounts recognised in the financial statements

The amounts recognised in profit and loss and other comprehensive income in respect of these defined benefit schemes are as follows:

	2022 £m	2021 £m
Costs recognised in profit and loss:		
Administration costs	(5)	(4)
Net interest income	6	1
Past service costs	(39)	(3)
Total costs recognised in profit and loss	(38)	(6)
Remeasurements recognised in other comprehensive income:		
Return on plan assets excluding amounts included in interest income	(1,229)	222
Actuarial gains and (losses):		
Changes in demographic assumptions	12	(11)
Changes in financial assumptions	1,147	127
Experience (losses)	(46)	(56)
Total remeasurement (loss)/gain recognised in other comprehensive income	(116)	282
Deferred tax on remeasurements of defined benefit pension schemes (note 29 (a))	10	(15)
Total remeasurement (loss)/gain recognised in other comprehensive income	(106)	267

The past service cost recognised in 2021 is in respect of discretionary pension increases that were granted to all three schemes during 2021. Due to the surpluses within the Liver schemes at the most recent valuation date, 31 December 2021, we expect that discretionary increases will continue to be paid each year whilst the Liver schemes remain in surplus. The past service cost for 2022 includes the value of the discretionary increases that were granted to all three schemes during 2022 plus the value of all future expected discretionary pension increases to be provided to the Liver schemes.

The amounts recognised in the balance sheet for the Group and Company are shown below:

	Total		RLGPS		Royal Liver UK		Royal Liver ROI	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Fair value of plan assets	2,435	3,728	1,965	3,079	285	411	185	238
Pension scheme obligation	(2,228)	(3,371)	(1,853)	(2,863)	(223)	(324)	(152)	(184)
Net Pension scheme asset	207	357	112	216	62	87	33	54

No contributions were required to be paid to RLGPS in the year to 31 December 2022 in relation to discretionary pension increases (2021: £nil). In accordance with the requirements of FRS 102, the value of the net pension scheme asset that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. The Group believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised in full in all three schemes.

(c) Reconciliation of net pension scheme asset

Movements in the present value of defined benefit obligations were as follows:

	2022 £m	2021 £m
At 1 January	(3,371)	(3,548)
Interest cost	(60)	(44)
Past service cost	(39)	(3)
Net actuarial gains	1,113	60
Benefits paid	138	149
Exchange differences	(9)	15
31 December	(2,228)	(3,371)

Notes to the financial statements continued

23. Pension scheme asset (continued)

(c) Reconciliation of pension scheme asset (continued)

Movements in the fair value of scheme assets were as follows:

	2022 £m	2021 £m
At 1 January	3,728	3,632
Interest income	66	45
Return on plan assets (excluding amounts included in interest income)	(1,229)	222
Administration costs	(5)	(4)
Benefits paid	(138)	(149)
Exchange differences	13	(18)
31 December	2,435	3,728

(d) Analysis of plan assets

	Total					
	2022			2021		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Bonds	2,276	9	2,285	3,339	10	3,349
Equities	108	—	108	367	—	367
Pooled Investment Vehicles	106	390	496	138	376	514
Derivatives	—	—	—	1	54	55
Repos/Reverse Repos	—	(519)	(519)	—	(686)	(686)
Insurance Policies	—	2	2	—	1	1
Cash	—	59	59	—	112	112
Current assets	—	1	1	—	1	1
Other investment receivables	—	25	25	—	85	85
Other investment liabilities	—	(18)	(18)	—	(67)	(67)
Current liabilities	—	(4)	(4)	—	(3)	(3)
Fair value of plan assets	2,490	(55)	2,435	3,845	(117)	3,728

The RLGPS FRS 102 Section 28 plan assets include a total of £461m (2021: £487m) investment in Group managed funds.

(e) Risks

All three schemes are exposed to differing levels of interest rate, inflation, credit, and market risk. The Group has agreed with the Trustee Boards of each pension scheme that, where appropriate, each scheme's risks will be managed in line with the Group's risk appetite. In particular, the schemes' investment strategies are designed to minimise interest rate, inflation, and market risk exposure where this is cost and capital effective.

The schemes have active liability-driven investment strategies using a combination of corporate and sovereign debt and derivative instruments, such as interest rate and inflation swaps. Whilst this caused significant issues for many UK pension schemes following the mini-budget, the Group's pension schemes were able to meet all collateral calls during this period of significant volatility. As a management action to increase the amount of collateral available to sustain further rate rises during this period, RLGPS agreed a temporary 5% reduction to its equity allocation. The Liver schemes did not have to take any specific additional actions during this period to manage their collateral. Approximately 65% of RLGPS assets and 95% of Royal Liver assets are invested in instruments that provide a match to the schemes' projected cash flows thereby reducing the Group's exposure to interest rate and inflation risk. During the year, the Trustees of the RLGPS maintained the hedge ratio at around 100% of interest rate and inflation exposure on the technical provisions through the use of various derivative instruments.

The schemes' exposure to market risk is reduced by a combination of restricting the allocation to growth assets such as equities and by diversification both within the asset classes (e.g. geographically and across industry sectors) and across asset classes (e.g. within RLGPS by allocations to property and to multi-asset credit). Credit risk is managed via a strategy of diversification across industry, issuer, credit rating and stock selection. The schemes, and therefore the Group, are also exposed to longevity risk.

Further information on the schemes' risk management strategies can be found in the schemes' most recent annual reports and accounts which are available on the Group's website at: www.royallondon.com/about-us/our-performance/annual-reports.

(f) Maturity profile

The weighted average duration of the defined benefit obligation is 14 years (2021: 17 years).

24. Subordinated liabilities

Accounting for subordinated liabilities

Subordinated liabilities are recognised initially at the fair value of the proceeds received, net of any discount and less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost. The transaction costs and discount are amortised over the period to the earliest possible redemption date on an effective interest rate basis.

The amortisation charge is included in the statement of comprehensive income within 'Interest payable on subordinated liabilities' within 'Other charges'. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value. Interest costs are expensed as they are incurred.

	Group and Company			
	2022	2021	Effective interest rate	
			2022	2021
	£m	£m	%	%
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043	400	399	6.20	6.20
Guaranteed Subordinated Notes due 2028	349	348	6.20	6.20
Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049	586	586	5.04	5.04
	1,335	1,333		

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043

On 29 November 2013, RL Finance Bonds No. 2 plc, a wholly owned subsidiary of the Company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the 2043 Notes). The issue price of the 2043 Notes was 99.316% of the principal amount of £400m. The discount of £3m and the directly related costs incurred to issue the 2043 Notes of £3m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2043 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment, and subordination terms as those applicable to the 2043 Notes.

The 2043 Notes mature on 30 November 2043. The issuer has the option to redeem all the 2043 Notes at their principal amount on 30 November 2023 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 6.125% per annum for the period to 30 November 2023, payable annually in arrears on 30 November each year. If the 2043 Notes are not redeemed on 30 November 2023, the interest rate will be re-set on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 4.321%.

Guaranteed Subordinated Notes due 2028

On 13 November 2015, RL Finance Bonds No. 3 plc, a wholly-owned subsidiary of the Company, issued the Guaranteed Subordinated Notes due 2028 (the 2028 Notes). The 2028 Notes were issued at par (£350m). The costs directly related to the issue of the 2028 Notes of £2m have been capitalised as part of the carrying amount and are being amortised on an effective interest basis over the period to the fixed redemption date of 13 November 2028.

The 2028 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment, and subordination terms as those applicable to the 2028 Notes.

The 2028 Notes mature on 13 November 2028, on which date the issuer will redeem the Notes at their principal amount. Interest is payable on the Notes at a fixed rate of 6.125% per annum payable annually in arrears on each interest payment date.

Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049

On 7 October 2019, RL Finance Bonds No. 4 plc, a wholly-owned subsidiary of the Company, issued the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 (the 2049 Notes). The issue price of the 2049 Notes was 97.976% of the principal amount of £600m. The discount of £12m and the directly related costs incurred to issue the 2049 Notes of £4m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date.

The 2049 Notes are guaranteed by the Company. The proceeds of the issue were loaned to the Company on the same interest, repayment, and subordination terms as those applicable to the 2049 Notes.

The 2049 Notes mature on 7 October 2049. The issuer has the option to redeem all the 2049 Notes at their principal amount on any day falling in the period commencing on 7 April 2039 and ending on 7 October 2039 and on each interest payment date thereafter. Interest is payable on the Notes at a fixed rate of 4.875% per annum for the period to 7 October 2039, payable annually in arrears on 7 October each year. If the 2049 Notes are not redeemed on 7 October 2039, the interest rate will be reset on that date and on the fifth anniversary of that date thereafter, at a rate equal to the five-year gilt rate plus 5.10%.

Notes to the financial statements continued

25. Fund for future appropriations

Accounting for the fund for future appropriations

The nature of benefits for participating contracts is such that the allocation of surplus between participating policyholders is uncertain. The amount not allocated at the balance sheet date is classified within liabilities as the fund for future appropriations (FFA).

The movement in the FFA during the year is shown in the table below.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
At 1 January	4,009	3,673	4,329	3,993
(Transfer to)/deduction from the technical account	(162)	79	(231)	68
(Transfer to)/deduction from other comprehensive income	(96)	257	(106)	268
At 31 December	3,751	4,009	3,992	4,329

The closing balance of FFA for both the Group and Company represents amounts attributable to the Royal London Main Fund only. The surpluses in the closed funds are included within the participating contract liabilities because they are not available for distribution to other policyholders or for other business purposes.

The PLAL With-Profits Fund and the Royal Liver Assurance Fund were merged into the Royal London Main Fund during the year and are no longer accounted for as separate closed funds at 31 December 2022. The Group's remaining closed funds as at 31 December 2022 are the RL(CIS) With-Profits Fund, the Royal Liver Ireland With-Profits Fund and the German Bond With-Profits Fund.

26. Technical provisions

Accounting for insurance contracts and participating investment contracts

Insurance and participating investment contracts are valued under FRS 103 using accounting policies consistent with those adopted prior to the application of FRS 103. A change to those accounting policies is permitted if it makes the financial statements more relevant and no less reliable, or more reliable and no less relevant. Non-participating investment contracts are financial liabilities, measured in accordance with IFRS 9 as permitted by FRS 102 section 12, at amortised cost (non-linked business) or at FVTPL (unit-linked business).

The estimation techniques and assumptions used are periodically reviewed, with any changes in estimates reflected in the consolidated statement of comprehensive income as they occur.

Long-term business provision - participating insurance, non-participating insurance, and participating investment contracts

Participating insurance, non-participating insurance and participating investment contracts are measured using the requirements of the Solvency II (SII) regulatory regime, with the following adjustments:

- Remove the volatility adjustment (VA) from the discount rate so that a SII risk-free rate is used, other than for certain non-profit insurance business, for which the discount rate is the SII risk-free rate plus an illiquidity premium.
- Exclude the SII risk margin and instead include margins of prudence within demographic assumptions in a consistent way to the approach applied before the adoption of SII.
- Remove the SII transitional measure on technical provisions (TMTP).
- Include all excluded future premium payments restricted within the SII balance sheet.
- Closed fund surpluses. For the closed funds, any excess of the UK GAAP value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes.
- Increase participating liabilities by the excess of the UK GAAP FRS 102 surplus less any deferred tax liability arising on the Royal Liver UK and Royal Liver ROI defined benefit pension schemes. This surplus is only available for distribution to Royal Liver policyholders.

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Company's Principles and Practices of Financial Management.

Present value of future profits on non-participating investment contracts and With-profits fund transfers

The present value of future profits on non-participating investment contracts are accounted for as part of the calculation of the participating contract liabilities. However, these values cannot be allocated to particular participating liabilities and so, in accordance with FRS 103, they are shown as a separate asset on the face of the balance sheet, the 'Non-participating value of in-force business'.

26. Technical provisions (continued)

Non-profit insurance contracts

For non-linked, non-participating insurance contracts, the liability is calculated as the discounted value of all the cash flows expected to arise on those contracts. The discount rate is the SII risk-free rate, other than for annuity contracts within the SII Matching Adjustment fund, for which the discount rate is the SII risk-free rate plus an illiquidity premium. The illiquidity premium is determined from the yield on the assets in a ring-fenced portfolio, allowing for deductions for downgrade and default risk.

Long-term business provision – non-participating investment contracts

The financial liabilities for non-linked, non-participating investment contracts are measured at amortised cost. The liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate.

Technical provisions for linked liabilities

The technical provisions for linked liabilities include liabilities for unit-linked insurance contracts and unit-linked investment contracts.

Unit-linked insurance contracts are measured using the requirements of the SII regulatory regime, adjusted for the items shown above for participating contracts, where applicable. The liability is calculated as the discounted value of all the cash flows expected to arise on those contracts, using the SII risk-free discount rate. The cash flows are determined on a best estimate basis plus an allowance for risk, which is made by including margins within the assumptions used, determined on a basis consistent with that applied prior to the adoption of SII.

The financial liabilities for unit-linked investment contracts are designated at inception as at FVTPL. This classification has been used because the unit-linked liabilities are part of a group of financial assets and financial liabilities that are managed and whose performance is evaluated on a fair value basis. The fair value is determined using the current unit prices, which reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units held by the contract holder at the balance sheet date. If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

Liability adequacy test

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

Claims outstanding

The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date. The gross outstanding claims balance is subject to a valuation adjustment, based on an ageing analysis and historic settlement data, in order to calculate the claims outstanding provision.

Reinsurers' share of technical provisions

The reinsurers' share of technical provisions is dependent on the expected claims and benefits arising under the related reinsured insurance contracts. They are measured on a consistent basis to the underlying insurance contracts.

Notes to the financial statements continued

26. Technical provisions (continued)

(a) Long-term business provision

(i) Summary

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Gross				
Participating insurance contract liabilities	25,876	33,374	25,880	33,373
Participating investment contract liabilities	1,903	2,296	1,903	2,295
Non-profit insurance contract liabilities	3,565	5,132	3,658	5,195
Total long-term business provision	31,344	40,802	31,441	40,863
Reinsurers' share				
Participating insurance contract liabilities	(648)	(1,099)	(648)	(1,099)
Non-profit insurance contract liabilities	(2,586)	(3,480)	(2,543)	(3,430)
Total reinsurers' share of long-term business provision	(3,234)	(4,579)	(3,191)	(4,529)
Net of reinsurance				
Participating insurance contract liabilities	25,228	32,275	25,232	32,274
Participating investment contract liabilities	1,903	2,296	1,903	2,295
Non-profit insurance contract liabilities	979	1,652	1,115	1,765
Total long-term business provision, net of reinsurance	28,110	36,223	28,250	36,334

(ii) Movement analysis

The movement in the long-term business provision in the year is shown in the following tables.

	Group – 2022							
	Long-term business provision, gross of reinsurance			Reinsurers' share		Long-term business provision, net of reinsurance		
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m
At 1 January	33,374	2,296	5,132	(1,099)	(3,480)	32,275	2,296	1,652
Expected changes during the year	(2,481)	(193)	(42)	153	204	(2,328)	(193)	162
Expected closing position	30,893	2,103	5,090	(946)	(3,276)	29,947	2,103	1,814
New business	(1)	10	72	—	(98)	(1)	10	(26)
Experience variations	(1,542)	(324)	29	(66)	11	(1,608)	(324)	40
Changes in assumptions	(3,557)	88	(1,598)	364	773	(3,193)	88	(825)
Fund consolidation	30	22	10	—	—	30	22	10
ProfitShare	62	4	—	—	—	62	4	—
Other	(9)	—	(38)	—	4	(9)	—	(34)
At 31 December	25,876	1,903	3,565	(648)	(2,586)	25,228	1,903	979

26. Technical provisions (continued)

(a) Long-term business provision (continued)

(ii) Movement analysis (continued)

	Group – 2021									
	Long-term business provision, gross of reinsurance				Reinsurers' share		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	34,277	2,248	5,648	8	(1,307)	(3,874)	32,970	2,248	1,774	8
Expected changes during the year	(2,537)	(195)	(79)	(8)	171	231	(2,366)	(195)	152	(8)
Expected closing position	31,740	2,053	5,569	—	(1,136)	(3,643)	30,604	2,053	1,926	—
New business	34	5	25	—	—	(100)	34	5	(75)	—
Experience variations	2,887	206	(53)	—	(71)	21	2,816	206	(32)	—
Changes in assumptions	(1,188)	11	(420)	—	108	242	(1,080)	11	(178)	—
Fund consolidation	(162)	24	—	—	—	—	(162)	24	—	—
ProfitShare	74	5	—	—	—	—	74	5	—	—
Other	(11)	(8)	11	—	—	—	(11)	(8)	11	—
At 31 December	33,374	2,296	5,132	—	(1,099)	(3,480)	32,275	2,296	1,652	—

	Company – 2022								
	Long-term business provision, gross of reinsurance			Reinsurers' share		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	
At 1 January	33,373	2,295	5,195	(1,099)	(3,430)	32,274	2,295	1,765	
Expected changes during the year	(2,481)	(193)	(73)	153	205	(2,328)	(193)	132	
Expected closing position	30,892	2,102	5,122	(946)	(3,225)	29,946	2,102	1,897	
New business	(1)	10	122	—	(91)	(1)	10	31	
Experience variations	(1,534)	(321)	30	(66)	9	(1,600)	(321)	39	
Changes in assumptions	(3,562)	88	(1,589)	364	759	(3,198)	88	(830)	
Fund consolidation	26	22	12	—	—	26	22	12	
ProfitShare	62	4	—	—	—	62	4	—	
Other	(3)	(2)	(39)	—	5	(3)	(2)	(34)	
At 31 December	25,880	1,903	3,658	(648)	(2,543)	25,232	1,903	1,115	

Notes to the financial statements continued

26. Technical provisions (continued)

(a) Long-term business provision (continued)

(ii) Movement analysis (continued)

	Company – 2021									
	Long-term business provision, gross of reinsurance				Reinsurers' share		Long-term business provision, net of reinsurance			
	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m	Participating insurance £m	Non-profit insurance £m	Participating insurance £m	Participating investment £m	Non-profit insurance £m	Non-profit investment £m
At 1 January	34,276	2,247	5,714	8	(1,307)	(3,831)	32,969	2,247	1,883	8
Expected changes during the year	(2,537)	(195)	(106)	(8)	171	223	(2,366)	(195)	117	(8)
Expected closing position	31,739	2,052	5,608	—	(1,136)	(3,608)	30,603	2,052	2,000	—
New business	34	5	64	—	—	(97)	34	5	(33)	—
Experience variations	2,884	206	(52)	—	(71)	23	2,813	206	(29)	—
Changes in assumptions	(1,186)	11	(436)	—	108	252	(1,078)	11	(184)	—
Fund consolidation	(162)	24	—	—	—	—	(162)	24	—	—
ProfitShare	74	5	—	—	—	—	74	5	—	—
Other	(10)	(8)	11	—	—	—	(10)	(8)	11	—
At 31 December	33,373	2,295	5,195	—	(1,099)	(3,430)	32,274	2,295	1,765	—

(b) Technical provisions for linked liabilities

(i) Summary

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Gross				
Unit linked insurance contract liabilities	1,136	1,314	1,136	1,314
Unit linked investment contract liabilities	69,486	71,185	69,481	71,185
Total technical provisions for linked liabilities	70,622	72,499	70,617	72,499
Reinsurers' share				
Unit linked insurance contract liabilities	51	53	51	53
Total reinsurers' share of technical provisions for linked liabilities	51	53	51	53
Net of reinsurance				
Unit linked insurance contract liabilities	1,187	1,367	1,187	1,367
Unit linked investment contract liabilities	69,486	71,185	69,481	71,185
Total technical provisions for linked liabilities, net of reinsurance	70,673	72,552	70,668	72,552

26. Technical provisions (continued)

(b) Technical provisions for linked liabilities (continued)

(ii) Movement analysis

The movement in the technical provisions for linked liabilities in the year is shown in the following tables.

	Group – 2022				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,314	71,185	53	1,367	71,185
Allocation of 2021 ProfitShare to policies	—	90	—	—	90
Expected changes during the year	(154)	(3,486)	(4)	(158)	(3,486)
Expected closing position	1,160	67,789	49	1,209	67,789
New business	122	5,781	—	122	5,781
Experience variations	(108)	(4,083)	6	(102)	(4,083)
Changes in assumptions	(38)	(1)	—	(38)	(1)
Other movements	—	—	(4)	(4)	—
At 31 December	1,136	69,486	51	1,187	69,486

	Group – 2021				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,272	58,787	50	1,322	58,787
Allocation of 2020 ProfitShare to policies	—	75	—	—	75
Expected changes during the year	(188)	(3,078)	(3)	(191)	(3,078)
Expected closing position	1,084	55,784	47	1,131	55,784
New business	(22)	8,133	—	(22)	8,133
Experience variations	228	7,323	10	238	7,323
Changes in assumptions	11	(4)	—	11	(4)
Other movements	13	(51)	(4)	9	(51)
At 31 December	1,314	71,185	53	1,367	71,185

Notes to the financial statements continued

26. Technical provisions (continued)

(b) Technical provisions for linked liabilities (continued)

(ii) Movement analysis (continued)

	Company – 2022				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,314	71,185	53	1,367	71,185
Allocation of 2021 ProfitShare to policies	—	90	—	—	90
Expected changes during the year	(154)	(3,486)	(4)	(158)	(3,486)
Expected closing position	1,160	67,789	49	1,209	67,789
New business	122	5,776	—	122	5,776
Experience variations	(108)	(4,083)	6	(102)	(4,083)
Changes in assumptions	(38)	(1)	—	(38)	(1)
Other movements	—	—	(4)	(4)	—
At 31 December	1,136	69,481	51	1,187	69,481

	Company – 2021				
	Technical provisions for linked liabilities, gross of reinsurance		Reinsurers' share	Technical provisions for linked liabilities, net of reinsurance	
	Unit linked insurance £m	Unit linked investment £m	Unit linked insurance £m	Unit linked insurance £m	Unit linked investment £m
At 1 January	1,272	58,787	50	1,322	58,787
Allocation of 2020 ProfitShare to policies	—	75	—	—	75
Expected changes during the year	(188)	(3,078)	(3)	(191)	(3,078)
Expected closing position	1,084	55,784	47	1,131	55,784
New business	(22)	8,133	—	(22)	8,133
Experience variations	228	7,323	10	238	7,323
Changes in assumptions	11	(4)	—	11	(4)
Other movements	13	(51)	(4)	9	(51)
At 31 December	1,314	71,185	53	1,367	71,185

(c) ProfitShare

The Group and Company have allocated ProfitShare of £155m (2021: £169m) in the year. This is shown in the movement analysis in the following notes.

	Group and Company	
	2022 £m	2021 £m
Participating contracts (note 26 (a) (ii))	66	79
Unit linked contracts (note 27)	89	90
	155	169

27. Non-participating value of in-force business

The movement in the non-participating value of in-force business in the year is shown in the table below.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
At 1 January				
Non-participating value of in-force business	2,333	2,229	2,333	2,229
Deferred acquisition costs arising on investment contracts (note 22)	113	163	113	163
Provision for future commission (note 30)	(145)	(155)	(145)	(155)
Deferred fee income on investment contracts (note 32)	(41)	(75)	(41)	(75)
Total value of in-force business at 1 January	2,260	2,162	2,260	2,162
Allocation of ProfitShare	90	75	90	75
Expected changes during the year	(189)	(171)	(189)	(171)
Expected closing position	2,161	2,066	2,161	2,066
New business	156	200	156	200
Experience variations	(177)	358	(177)	358
Changes in assumptions	351	(60)	353	(60)
Fund consolidation	—	(206)	—	(206)
ProfitShare	(89)	(90)	(89)	(90)
Other movements	14	(8)	14	(8)
At 31 December	2,416	2,260	2,418	2,260
At 31 December				
Non-participating value of in-force business	2,474	2,333	2,476	2,333
Deferred acquisition costs arising on investment contracts (note 22)	87	113	87	113
Provision for future commission (note 30)	(118)	(145)	(118)	(145)
Deferred fee income on investment contracts (note 32)	(27)	(41)	(27)	(41)
Total value of in-force business at 31 December	2,416	2,260	2,418	2,260

2022 ProfitShare of £89m will be allocated to eligible policies on 1 April 2023. The £90m included in the table above relates to the allocation of the 2021 ProfitShare on 1 April 2022.

28. Technical provisions and reinsurance assets - valuation assumptions

(a) Assumptions

The assumptions used to determine insurance and investment contract liabilities are approved by the Audit Committee based on advice given by the Group Chief Actuary. These assumptions are updated at least at each reporting date to reflect latest estimates. The potential impact of climate change on the valuation assumptions has been considered including the effects of both physical risks and transition risks. In particular, the possible impact on longevity and mortality assumptions has been taken into consideration although the starting data available is limited. Based on the range of likely scenarios, the impact of climate risk is not expected to affect the best estimate demographic assumptions materially and as such no specific allowance has been made as at 31 December 2022.

The assumptions used can be summarised as follows:

(i) Demographic

Mortality and morbidity

Mortality and morbidity risks are inherent in most lines of business. For protection business an increase in mortality and morbidity rates leads to increased claim levels and hence an increase in liabilities. For annuity business the risk is that policyholders live longer than expected. Reinsurance arrangements have been put in place to mitigate mortality and morbidity risks.

The rates of mortality and morbidity are set in line with recent Group experience, where it is available in sufficient volume to provide reliable results. Where Group experience is not considered sufficient, bases have been set by reference to either industry experience or the terms on which the business is reinsured.

A margin is included to provide for potential adverse variations in experience. The margins are typically 2% for mortality risks, 4.8% for morbidity risks with reviewable premiums and 8.9% for morbidity business with guaranteed premiums.

Notes to the financial statements continued

28. Technical provisions and reinsurance assets - valuation assumptions (continued)

The principal mortality assumptions are shown in the following table.

Class of business	2022 mortality	2021 mortality
Ordinary long-term assurances		
RL Legacy (Royal London Mutual (RLM) and Ex-United Assurance Group (UAG)) non-linked	AMC00/AFC00 adjusted	AMC00/AFC00 adjusted
RL Intermediary Pensions	AMC00/AFC00 adjusted	AMC00/AFC00 adjusted
RL Legacy (Ex-Royal Liver UK) and RLI DAC	AMC00/AFC00 adjusted	AMC00/AFC00 adjusted
RL Legacy (Ex-RL (CIS))	AMC00 adjusted	AMC00 adjusted
RL Legacy non-linked term assurances (level benefits)	TM08/TF08 adjusted	TM08/TF08 adjusted
RL Intermediary UK Protection term assurances (level benefits)	TM08/TF08 adjusted	TM08/TF08 adjusted
RL Intermediary UK Protection critical illness (guaranteed premiums)	ACM08/ACF08 adjusted	ACM08/ACF08 adjusted
RL Intermediary UK Protection unit linked term	TM08/TF08 adjusted	TM08/TF08 adjusted
Pensions – in deferment	AM00/AF00 or PPMD00/PPFD00 adjusted	AM00/AF00 or PPMD00/PPFD00 adjusted
Pensions – immediate annuities and deferred annuities in payment		
RL Legacy (Royal London Mutual and Ex-UAG) non-linked	PML08/PFL08 adjusted Improvements based on CMI (2019) ¹ S _k =7, A= -0.25% 1.5% p.a.	PML08/PFL08 adjusted Improvements based on CMI (2019) ¹ S _k =7, A= 0% 1.5% p.a.
RL Intermediary Pensions	PML08/PFL08 adjusted Improvements based on CMI (2019) ¹ S _k =7, A= 0.1% 1.5% p.a.	PML08/PFL08 adjusted Improvements based on CMI (2019) ¹ S _k =7, A= 0.35% 1.5% p.a.
RL Legacy (Ex-RL (CIS)) immediate annuities in payment	Bespoke mortality tables for immediate annuities in payment Improvements based on CMI (2019) ¹ S _k =7, A= -0.25% 1.5% p.a.	Bespoke mortality tables for immediate annuities in payment Improvements based on CMI (2019) ¹ S _k =7, A= 0% 1.5% p.a.
RL Legacy (Ex-RL (CIS)) deferred annuities in payment	Bespoke mortality tables for deferred annuities in payment Improvements based on CMI (2019) ¹ S _k =7, A= -0.25% 1.5% p.a.	Bespoke mortality tables for deferred annuities in payment Improvements based on CMI (2019) ¹ S _k =7, A= 0% 1.5% p.a.
Industrial assurance	ELT17 (males) adjusted	ELT17 (males) adjusted

1. The model parameters used within CMI (2019) allow for a bespoke in-house calibration.

Persistence

Persistence 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 persistence are set in line with recent Company experience. Where appropriate these rates are adjusted to allow for expected future experience being different from past experience, including consideration of the expected short-term impact of the Covid-19 pandemic and recent economic conditions. The rates vary by product line, sales channel, duration in force and, for some products, by fund size. A margin is included to provide for potential adverse variations in experience. The margin is typically 5%.

For individual pensions business the rate at which relevant policyholders take drawdown is assessed using the same high level approach as for the other persistence assumptions.

28. Technical provisions and reinsurance assets - valuation assumptions (continued)

(ii) Expenses

For the main classes of business, maintenance expenses are set in accordance with management service agreements and, for business transferred to the Company, in accordance with the appropriate scheme of transfer. Expenses for those classes of business not covered by either a management service agreement or a scheme of transfer are based on the actual expenses incurred.

A check is carried out that the projected valuation expenses sufficiently cover the projected business plan expenses.

A margin is included to provide for potential adverse variations in experience. The margin is typically 2%. For RL (CIS) a margin of 0.7% is applied during the guaranteed period of the rate card.

Expense inflation assumptions are generally set relative to the domestic measure of inflation for the country in which the business is derived unless the business is subject to a rate card agreement that specifies the inflation assumption to apply. UK inflation is based on the UK Retail Price Index (UK RPI) and Republic of Ireland (ROI) inflation is based on the ROI Consumer Price Index (ROI CPI). These inflation assumptions, which vary by duration, are set by fitting a curve to market implied inflation based on sterling-denominated inflation linked swaps for UK RPI and Euro-denominated inflation linked swaps for ROI CPI.

Expenses for open books of business are assumed to inflate in line with the change in UK RPI plus 0.5% (2021: UK RPI +0.5%) for UK business and ROI CPI plus 1.05% (2021: ROI CPI +1.07%) for Irish business.

Higher rates of expense inflation are assumed for closed books of business:

- For RL (CIS) business, the costs arising under the rate card are assumed to increase in line with the change in the UK RPI +0.9% (2021: UK RPI +0.8%) except for post-vesting Guaranteed Annuity Option (GAO) expenses which are assumed to increase at UK RPI +0.5% (2021: UK RPI +0.5%). The actual expenses incurred from servicing this business are assumed to increase in line with the change in the UK RPI +0.5% (2021: UK RPI +0.5%) for post vesting GAO business and UK RPI +2.8% (2021: UK RPI +2.5%) for other business.
- For Liver fund business, the costs are assumed to increase at UK RPI +4% (2021: UK RPI +4%) for UK business and ROI CPI +5.66% (2021: ROI CPI +5.58%) for Irish business.
- For other closed books, the assumptions are UK RPI +2% for PLAL business (2021: UK RPI +2%), UK RPI +2% for Scottish Provident business (2021: UK RPI +2%), and UK RPI +4% for legacy business within the Royal London Long-Term Fund (2021: UK RPI +4%).

The per policy expense assumptions for core pension and non-profit protection products open to new business range from £19.96 p.a. to £84.64 p.a. (2021: £18.21 p.a. to £83.34 p.a.).

(b) Economic

- **Non-participating liabilities:** The non-participating liabilities have been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to a risk-free rate from the forward swap curve adjusted for risk of default. A reduction in interest rates will increase the liabilities.
- For annuity business within the SII Matching Adjustment fund, an illiquidity premium is applied as a flat increase to the above discount rate. The illiquidity premium is determined by calculating how much of the credit spread above the risk-free rate is attributed to the cost of downgrade and default risk with the remainder being attributed to other risks such as illiquidity.
- **Participating liabilities:** The majority of the participating liabilities are calculated as the aggregate asset share for the business in force. This is a retrospective calculation based on actual experience. The values of financial options (including premium rate guarantees and guaranteed annuity options) and future deductions from asset shares are calculated using market-consistent techniques. Market consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market consistency by:
 - deriving the underlying risk-free rate from the forward swap curve adjusted for risk of default; and
 - calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation/extrapolation where traded security prices do not exist.
- **Non-participating value of in-force business:** The non-participating value of in-force business has been calculated on a market-consistent basis. Future investment returns and discount rates are set by reference to risk-free yields.

Notes to the financial statements continued

29. Deferred tax

Accounting for deferred tax

Deferred tax is provided based on timing differences that arise from the inclusion of income and expenses in tax assessments in different periods from those in which they are recognised in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The following timing differences are not provided for:

- the initial recognition of goodwill not deductible for tax purposes; and
- timing differences arising on investments in subsidiaries where the Group controls the timing of the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(a) Net deferred tax balance

The tables below show the movement in the net deferred tax balance in the year. The deferred tax assets and liabilities are considered to be non current.

	Group – 2022			
	At 1 January 2022 £m	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	At 31 December 2022 £m
Deferred acquisition expenses	(7)	4	—	(3)
Excess management expenses carried forward	—	(152)	—	(152)
Revaluation of investments	234	(98)	—	136
Defined benefit pension schemes	20	—	(10)	10
Other short-term timing differences	(19)	1	—	(18)
Net deferred tax (asset)/liability	228	(245)	(10)	(27)

	Group – 2021			
	At 1 January 2021 £m	Recognised in the technical account – long-term business £m	Recognised in other comprehensive income £m	At 31 December 2021 £m
Deferred acquisition expenses	(10)	3	—	(7)
Revaluation of investments	158	76	—	234
Defined benefit pension schemes	5	—	15	20
Other short-term timing differences	(13)	(6)	—	(19)
Net deferred tax liability	140	73	15	228

29. Deferred tax (continued)

	Company – 2022			
	At 1 January 2022 £m	Recognised in the technical account – long- term business £m	Recognised in other comprehensive income £m	At 31 December 2022 £m
Deferred acquisition expenses	(7)	4	—	(3)
Excess management expenses carried forward	—	(152)	—	(152)
Revaluation of investments	235	(98)	—	137
Defined benefit pension schemes	20	—	(10)	10
Other short-term timing differences	(7)	1	—	(6)
Net deferred tax (asset)/liability	241	(245)	(10)	(14)

	Company – 2021			
	At 1 January 2021 £m	Recognised in the technical account – long- term business £m	Recognised in other comprehensive income £m	At 31 December 2021 £m
Deferred acquisition expenses	(10)	3	—	(7)
Revaluation of investments	153	82	—	235
Defined benefit pension schemes	5	—	15	20
Other short-term timing differences	(4)	(3)	—	(7)
Net deferred tax liability	144	82	15	241

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. The overall deferred tax asset has been recognised to the extent that forecast future taxable profits are expected to arise, within a reasonable period of time, against which the asset can be utilised.

In the next 12 months it is expected there will be a reversal in net deferred tax assets and deferred tax liabilities of £7m (2021: £18m) for the Group of which £10m (2021: £19m) relates to the Company. The £10m (2021: £19m) for the Company is due to the spreading over seven years of specific gains and deferred expenses.

(b) Unrecognised deferred tax balances

(i) Unrecognised deferred tax assets

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £38m (2021: £25m), of which £nil (2021: £nil) related to the Company. These unused losses and allowances can be carried forward and utilised as long as the company in which they arose is active or trading.

(ii) Unrecognised deferred tax liabilities

Deferred tax liabilities arising from gains on subsidiary holdings have not been recognised by the Company as it controls the timing of any sale of a subsidiary. It is the Group's intention that these investments will be held to provide long-term returns and any recognition of deferred tax will be accounted for accordingly. The potential tax liability arising is less than £1m (2021: less than £1m).

Notes to the financial statements continued

30. Other provisions

Accounting for provisions

The provision for future commission relates to payments that the Group is contractually committed to make in future periods for investment contracts sold as at the balance sheet date. These payments are contingent on the related policies remaining in force. They are classified as financial liabilities and recognised at fair value through profit and loss.

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future losses. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Provision for future commission	118	145	118	145
Other provisions	69	105	63	96
	187	250	181	241

Other provisions include:

- Property remediation costs of £4m (2021: £20m) which relate to remediation required to an investment property development in London. The provision represents estimated labour and materials costs to complete the work. The majority of the work was completed, as expected, in 2022 with the remaining work expected to be completed in 2023;
- Rectifications of £36m (2021: £41m) which are the expected cost of addressing past sales practices and other servicing issues. The provision is estimated by multiplying the population of issues by the forecast costs to resolve each issue. The provision is expected to be utilised across 2023 and 2024;
- Long-term incentive schemes of £9m (2021: £10m). The Group provides certain executives with cash-settled long-term incentive schemes. Amounts payable are dependent on a basket of individual performance measures, with performance assessed using a balanced scorecard of three-year performance measures. The amount provided is expected to be paid between 2023 and 2026;
- A provision of £10m (2021: £15m) relating to the unfunded unapproved retirement benefits schemes for certain executives who joined before 1 September 2005. Further information is disclosed in note 23; and
- Other provisions of £10m (2021: £19m).

The movement in provisions during the year is shown in the following table.

	Group		Company	
	Provision for future commission	Other provisions	Provision for future commission	Other provisions
	£m	£m	£m	£m
At 1 January	145	105	145	96
Additions in the year	—	26	—	24
Releases for the year	—	(20)	—	(17)
Experience variations	(10)	—	(10)	—
Utilised during the year	(17)	(42)	(17)	(40)
At 31 December	118	69	118	63

31. Creditors

Accounting for creditors

Creditors are measured at amortised cost with the exception of derivative liabilities, finance lease liabilities and a reinsurance liability designated at FVTPL.

The creditors measured at amortised cost are initially measured at fair value, being consideration received plus any directly attributable transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Derivative liabilities are classified at FVTPL in accordance with IFRS 9 as permitted by FRS 102 section 12. Movements in the fair value of the liabilities are recognised within unrealised gains/losses on investments.

The Group has a financial creditor in respect of a reinsurance arrangement and holds an unquoted debt security which has cash flows exactly matching those of the reinsurance liability. Consequently, the reinsurance liability is designated at FVTPL in order to avoid a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'). Movements in the fair value of the liability are recognised in the statement of comprehensive income within outwards reinsurance premiums. The matching movement in the fair value of the debt security is shown in the statement of comprehensive income within unrealised gains/losses on investments.

(a) Creditors arising out of direct insurance operations at amortised cost

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Amounts due to customers	271	264	258	252

(b) Creditors arising out of reinsurance operations

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Creditors arising out of reinsurance operations with external insurers at FVTPL	1,713	2,477	1,713	2,477
Creditors arising out of reinsurance operations with external insurers at amortised cost	68	58	50	46
Creditors arising out of reinsurance operations with other Group entities at amortised cost	—	—	1	3
	1,781	2,535	1,764	2,526

The creditors arising out of reinsurance operations which are valued at FVTPL relates to a liability that is owed to a major reinsurer under a reinsurance agreement to reinsure a proportion of the Group's obligations in respect of deferred annuities and annuities in payment of the RL (CIS) with-profits fund. Under the reinsurance agreement, the RL (CIS) with-profits fund is contracted to pay premiums in accordance with a schedule of payments covering a period up to 2066. At inception of the contract, which was before RL (CIS) was acquired by the Group, it recognised its premium obligation in full within the statement of comprehensive income by a charge representing the net present value of the contracted payments. The Group and Company continue to recognise a financial liability to the extent that the premium has yet to fall due for payment. At inception of the contract, RL (CIS) also purchased a debt security, cash flows from which will fund the discharge of the financial liability as amounts fall due for payment. The movement in the fair value of the liability in the year was a reduction of £671m (2021: £256m decrease) which is included in outwards reinsurance premiums.

Notes to the financial statements continued

31. Creditors (continued)

(c) Amounts owed to credit institutions at amortised cost

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Bank overdrafts	52	42	52	42

The bank overdrafts are repayable on demand.

(d) Other creditors including taxation and social security

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Cash collateral received	556	2,438	556	2,438
Derivative liabilities	3,049	1,844	3,049	1,844
Amounts due to brokers	46	23	9	5
Amounts due to other Group entities	—	—	64	50
Current tax liability	—	1	—	—
Other	287	256	100	63
	3,938	4,562	3,778	4,400

32. Accruals and deferred income

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Accrued expenses	63	61	1	—
Deferred fee income on investment contracts (note 27)	27	41	27	41
	90	102	28	41

Deferred fee income refers to front-end fees received from investment contract holders as a prepayment for investment management and related services. These amounts are non-refundable and are released to income as the services are rendered.

33. Contingent liabilities

Accounting for contingent liabilities

Contingent liabilities are disclosed if:

- there is a possible obligation as a result of a past event; or
- there is a present obligation as a result of a past event, but a liability is not recognised either because a payment is not probable or the amount cannot be reliably estimated.

Contingent assets are disclosed when an inflow of economic benefit is considered probable.

During the year, the Group and the Company continued to address issues from past selling practices, taxation, and other regulatory matters. Potential liabilities are influenced by several factors including the actions and requirements of the external bodies including regulators and tax authorities as well as Financial Ombudsman Service rulings, industry compensation schemes and court judgements. The directors consider that they have made provision for known liabilities arising across the Group and, as and when the circumstances calling for such provision arise, that the Group and the Company have adequate reserves to meet all reasonably foreseeable eventualities.

In the course of conducting business, the Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material losses will arise in this respect.

In addition, in line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with the disposal of entities previously owned by the Group. In the opinion of the directors, no material unprovisioned loss will arise in respect of these guarantees, indemnities, and warranties.

34. Commitments

(a) Capital expenditure

The Group and Company have the following commitments to make capital purchases as at the balance sheet date.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Investment property	44	71	44	71

(b) Investments in private equity funds

The Group and Company have a portfolio of investments in private equity funds. The structure of these funds is such that the commitment is drawn down during the life of the fund to make investments and to pay approved costs of the fund. The total amount committed but undrawn at the balance sheet date for the Group and Company is £349m (2021: £278m).

(c) Operating lease commitments

Accounting for operating lease payments

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments under operating leases, net of lease incentives received, are recognised as an expense in the statement of comprehensive income on a straight-line basis over the term of the lease.

Operating lease payments represent rentals payable by the Group for land and buildings. The total lease payments recognised as an expense in the year were £5m (2021: £6m). The total future minimum lease payments due under these arrangements, net of any related sub-lease receipts, are shown in the following table.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Total future minimum lease payments under non-cancellable leases:				
Not later than one year	4	6	4	5
Later than one year and not later than five years	16	14	2	4
Later than five years	23	22	—	—
	43	42	6	9

Notes to the financial statements continued

35. Risk management

As a financial services provider, the Group's business is the managed acceptance of risk. The Group has a set of risk preferences for the types of risk the Group is exposed to. These preferences are classified as seek, manage, minimise, or avoid and form a core part of the Group's risk management system and control techniques. The Group aims to manage its risk exposures within acceptable tolerances agreed by the Board. This is carried out through its risk management system. The risk management system established within the Group is designed to manage, rather than eliminate, the risk of failure to meet business objectives as well as to ensure that the Group is well capitalised. The Strategic report section of this Annual Report and Accounts includes a summary of the Group's risk management and internal controls approach, seen on pages 53 to 55. The key control techniques for the major categories of risk exposure are summarised in the following sections.

(a) Insurance risk

Insurance risk arises within the Group from the inherent uncertainties as to the occurrence, amount and timing of its insurance liabilities. The Group has a preference for several insurance risks in order to deliver value for our customers: mortality risk, morbidity risk, longevity risk, persistency risk (as a part of writing new business) and expense risk. The exposure of the Group depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future experience, in particular mortality or (if applicable) morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates.

The main insurance risks can be summarised as follows:

- **mortality** – the risk that policyholders die sooner than expected. Mortality risk only applies to liabilities which increase under these circumstances;
- **morbidity** – the risk that policyholders make morbidity related claims more frequently or for a longer period of time than expected;
- **persistency** – the risk that the rate of policy lapses, terminations, renewals, partial withdrawals and surrenders, or the number of policies converting to paid-up status, is different from that expected, resulting in an increase in liabilities;
- **longevity** – the risk that policyholders live longer than expected resulting in higher payments under annuity or similar obligations and so an increase in liabilities;
- **expense** – the risk that the expense associated with investing in assets, or of administering pensions, insurance or reinsurance contracts held within the Group is higher than expected. The impact of long-term inflation on expenses is part of this risk; and
- **option take-up** – the risk that the take-up rate of options, in particular guaranteed annuity options, provided to policyholders is different from expected, resulting in an increase in benefit payments and therefore liabilities.

Insurance risk is largely mitigated, monitored, and managed by the various business units/divisions within the Group. Risk relating to the Group's final salary pension schemes is managed separately by a specialist area in the Group, supported by external advisers.

Insurance risks are managed through the following mechanisms:

- the use of the Group's Insurance Risk Policy to provide Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks;
- regular monitoring of actual exposures compared to agreed limits to ensure that the insurance risk accepted remains within risk appetite;
- members of the Group's Insurance Risk Committee are responsible for considering matters arising concerning all aspects of the identification, assessment, management and reporting of insurance risk;
- members of the Group's Technical Review Committee are responsible for reviewing and approving all key demographic and expense assumption changes;
- the use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Group's exposure to large single claims and catastrophes and to alleviate the impact of new business strain;
- the diversification of business over several classes of insurance and over large numbers of individual risks to reduce variability in loss experience; and
- control over product development and pricing: members of the Product Pricing Approval Committee are responsible for assessing the pricing of new products and the repricing of existing products manufactured by the Group.

These techniques are supported using actuarial models to calculate premiums, monitor claims patterns and calculate liabilities. The derivation of the assumptions uses industry-standard actuarial and statistical methods based on up-to-date and credible information. The impact of Covid-19 has been considered when updating these assumptions for 2022 reporting.

35. Risk management (continued)

The primary responsibility for ongoing oversight and effectiveness of the management of insurance risk falls to the Insurance Risk Committee. The Committee also considers the Group's reinsurance coverage.

Another process for monitoring the continued effectiveness of these risk-mitigation techniques is the requirement within the Group's Insurance Risk Policy for an annual review of the policy by the policy content owner. The policy provides Group-wide guidelines around the identification, assessment, mitigation, monitoring, reporting and control of insurance risks. The policy content owner makes sure that the policy is implemented appropriately within the Group. The Insurance Risk Committee is also responsible for reviewing the policy on an annual basis.

Concentration risk

The Group and Company write a diverse mix of business across a broad customer base. The most material concentration of insurance risk relates to persistency risk in respect of unit-linked pension business. As the Group has written substantially all of its business in the UK, results are also sensitive to demographic and economic changes arising in the UK. The Group seeks to mitigate the risk of excessive concentrations of risk through the use of reinsurance, portfolio analysis and risk limits (including limits on individual lives).

The Group's diverse portfolio of business helps mitigate concentration risk across sectors (pensions, protection, intermediated, direct), but there is some concentration risk within sectors. In particular, there is a risk associated with legislative changes affecting pension business, which could result in a marked worsening in persistency. However, although the Group's portfolio of employer-sponsored pension schemes includes some large schemes, there are no schemes that represent an excessive percentage of the relevant portfolio. Due to the nature of the UK market, another potential area of concentration is the reliance of the Group on new business from key IFA networks but exposure to any single IFA is not considered to be material.

Sensitivity analysis

The following table shows the impact on the Group fund for future appropriations from changes in key demographic assumptions. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows:

- **Mortality and morbidity**

5% proportionate decrease and increase in base mortality and morbidity rates. This sensitivity demonstrates the effect of a decrease and increase in the rate of deaths and serious illness. The impact of such a change on the fund for future appropriations varies depending on the type of business written. In the case of a reduction in mortality rates:

- for life assurance business, a decrease in mortality rates will typically increase the fund for future appropriations as there will be fewer payouts for early death resulting in lower liabilities;
- for annuities in payment, the defined benefit pension schemes or policies which contain a guaranteed annuity option, the fund for future appropriations decreases as the length of time over which the annuity will be paid is longer, increasing liabilities.

An increase in mortality rates will have the opposite effect.

- **Persistency**

10% proportionate decrease and increase in rates of lapse, conversion to paid-up and, for pensions business, retirement, partial withdrawal and income drawdown. In the case of the proportionate decrease, the sensitivity reflects a single, downward movement in these lapse rates resulting in fewer policies being surrendered or terminated early, with the result that more policies are assumed to remain in force. An increase in rates of lapse will have the opposite effect.

- **Expenses**

10% decrease and increase in maintenance expenses – the ongoing cost of administering contracts. This sensitivity is applied to the projected level of expenses. There is no change to the assumed rate of future expense inflation. A reduction in expenses will increase the fund for future appropriations for most classes of business. For some unit-linked contracts where future charges cover expenses, however, the liability may be unaffected. An increase in expenses will have the opposite effect.

Notes to the financial statements continued

35. Risk management (continued)

	Group	
	2022	2021
Impact before tax on the FFA	£m	£m
Mortality/morbidity rates +5%	28	82
Mortality/morbidity rates -5%	(35)	(93)
Lapse/paid-up/retirement rates +10%	(219)	(159)
Lapse/paid-up/retirement rates -10%	261	193
Expenses +10%	(212)	(222)
Expenses -10%	212	221

The table has been restated in order to align the sensitivities with the equity/property capital values disclosure. The table shows the impact on fund for future appropriations of the decreasing direction stresses and to provide impacts in the increasing direction.

Limitations of sensitivity analysis

The above table demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks. It should be noted that the impact on the fund for future appropriations from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

(b) Market risk

Market risk arises from the possibility that the fair value or cash flows of the Group's assets and liabilities change as a result of movements in interest rates, foreign currency exchange rates and other market prices. Market risk arises for the Group in particular where the impact of a market change impacts differently on the value of assets from the effect on liabilities.

The Group manages market risk within the risk management system outlined above and in accordance with the relevant regulatory requirements. The principal techniques employed are the establishment of asset allocation and performance benchmarks consistent with the Group's risk appetite and asset-liability matching. This balances the risks relating to the liabilities under the Group's insurance and investment contracts against the risks inherent in its assets and the capital available. The Group has established approaches for matching assets and liabilities, including hedging customer options and, where cost effective, unrewarded risks. Where appropriate matching cannot be achieved, management actions are in place to manage the market risk resulting from the mismatch. The Group's Investment Strategy Committee and Capital Management Committee provide regular monitoring of these processes.

The Group is not materially exposed to market risk in respect of assets held to cover unit-linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund-based management charges levied on these contracts varies directly with the value of the underlying assets. Such assets are, however, prudently managed in order to meet customers' risk and reward expectations. In addition, regulatory requirements constrain the type and quality of assets that can be held to support these liabilities.

The Group's exposure to market risk arises principally from equity risk and property risk, interest rate risk, inflation risk, credit spread risk and currency risk.

(i) Equity risk and property risk

Equity risk and property risk are the risks that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices of equities or investment properties, other than those arising from interest rate or currency risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is principally given to the Group's asset management subsidiary, RLAM, as the main asset manager for the Group, as well as third parties and external asset managers involved in delivering the investment strategy with monitoring procedures in place.

The investment management agreement in place between the Company and RLAM specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular asset category or specific investment. The Investment Strategy Committee and Capital Management Committee along with the Group's Investment Committee monitor the actual asset allocation and performance against benchmark. The Group hedges some of its equity risk arising from investment guarantees and unit-linked charges using equity derivatives.

A sensitivity analysis to changes in the market prices of equities and property is included in section (vi). Note 16 provides an analysis of assets by class.

35. Risk management (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Group, interest rate risk arises from holding assets and liabilities with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Group's investments in debt and fixed income securities, which are exposed to changes in interest rates. It also arises in certain products sold by the Group, which include guarantees as they can lead to claim values being higher than the value of the backing assets where interest rates change.

Exposure to interest rate risk is monitored using scenario testing, stress testing, Value-at-Risk analysis and asset and liability duration control.

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match. The Company uses interest rate swaps to provide interest rate sensitivity matching.

Interest rate benchmark reform resulted in the 31 December 2021 cessation of EUR, GBP, CHF, and JPY LIBORs and EONIA and use of USD LIBOR in new contracts. The Group has transitioned all financial instruments subject to the changes to alternative benchmarks, specifically SONIA. There are no material exposures to the ceased interest rate benchmarks as at 31 December 2022 and the Group's exposure remains primarily GBP. The remainder of USD LIBOR settings cease after 30 June 2023, for which the Group is well placed to complete transitions to alternative benchmarks in advance of cessation.

A sensitivity analysis to interest rate risk is included in section (vi).

(iii) Inflation risk

Inflation risk is the risk that inflation results in the value of the Group's liabilities increasing by more than the value of its assets. It arises principally in the Group's defined benefit pension schemes, where higher inflation would result in higher increases in deferred pensions and would be expected to be associated with higher increases in pensions in payment. The risk associated with expense inflation is treated as an insurance risk.

The Group mitigates some inflation risk by the use of inflation swap derivatives. Inflation exposures are monitored monthly and reported to the Group's Capital Management Committee. The Group's Capital Management Framework, Capital Plans and regular capital reporting also assist in the Group's management of inflation risk.

(iv) Credit spread risk

Credit spread risk is the risk that the difference between the yields on non-sovereign investment bonds and the yields on interest rate swaps increase from current levels, causing the value of the Group's holdings of non-sovereign bonds to reduce by more than the value of the associated liabilities. The Group manages its exposures to spread risks through its hedging strategy and regular review of its hedging arrangements.

(v) Currency risk

Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change as a result of a change in foreign exchange rates. As the Group operates principally in the UK its assets and liabilities are mainly denominated in sterling. For investment assets, the Group's investment management policies and procedures allow for a small exposure to overseas markets, via both equities and fixed interest securities. The resulting currency risk is managed by the use of exposure limits and authorisation controls operated within the Group's risk management system.

The following tables demonstrate the extent to which the assets and liabilities of the Group and the Company are exposed to currency risk. Linked assets are not subject to currency risk as this risk is borne by the customers concerned. A sensitivity analysis of the Group and Company's exposure to currency risk is included in section (vi).

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Non-linked assets denominated in GBP	38,941	49,893	39,024	50,044
Non-linked assets denominated in non-GBP	3,957	4,357	3,924	4,317
	42,898	54,250	42,948	54,361
Assets held to cover linked liabilities, not subject to currency risk	70,857	72,697	70,851	72,697
	113,755	126,947	113,799	127,058
Non-linked liabilities denominated in GBP	42,576	53,788	42,528	53,838
Non-linked liabilities denominated in non-GBP	557	660	654	721
	43,133	54,448	43,182	54,559
Technical provisions for linked liabilities, not subject to currency risk	70,622	72,499	70,617	72,499
	113,755	126,947	113,799	127,058

Notes to the financial statements continued

35. Risk management (continued)

At 31 December 2022, the Group and Company held currency forwards with a sterling notional value of £407m (2021: Group and Company £60m) in respect of the non-linked assets denominated in currencies other than sterling. These are included in the table above.

The Group monitors its foreign currency exposure arising from its investment in operations in Ireland. This exposure does not currently have a material impact on the Group and so is not actively hedged.

(vi) Market risk sensitivity analysis

The following table shows the impact, on the Group fund for future appropriations (before tax), from changes in key market variables. Each sensitivity is performed with all other variables held constant. The sensitivity scenarios used are as follows.

Interest rates

100 basis point per annum reduction and increase in market interest rates. For example, if current market rates are 4%, the impact of an immediate change to 3% and 5%. A reduction in interest rates increases the current market value of fixed interest assets but reduces future reinvestment rates. The value of liabilities increases when interest rates fall as the discount rate used in their calculation will be reduced. An increase in rates will have the opposite effect.

Currency rates

10% increase and decrease in the rates of exchange between sterling and the overseas currencies to which the Group is exposed. An increase in the value of sterling relative to another currency will reduce the sterling value of assets and liabilities denominated in that currency. The value of liabilities will decrease when asset values fall, but other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. As the Group holds relatively few liabilities in overseas currencies, an increase in the value of sterling will reduce the fund for future appropriations.

Equity/property capital values

10% increase and decrease in equity and property capital values at the valuation date, without a corresponding fall or rise in dividend or rental yield. This sensitivity shows the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall but, other than for unit-linked business, the decrease will be less than the fall in asset values because of the presence of financial guarantees and options in the underlying contracts. For unit-linked business, the decrease in liabilities will be less than the fall in asset values due to a reduction in the value of future charge income. Consequently, the fund for future appropriations will be reduced by a fall in asset values.

	Group	
	2022	2021
	£m	£m
Impact before tax on the FFA		
Interest rates +100bp	(73)	(109)
Interest rates -100bp	65	98
10% increase in non-GBP exchange rate	(79)	(131)
10% decrease in non-GBP exchange rate	82	126
Equity/property prices +10%	163	227
Equity/property prices -10%	(189)	(247)

Limitations of sensitivity analysis

The table above demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. In practice, there may be dependencies between the underlying risks.

The Group's assets and liabilities are actively managed. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment market conditions change, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to with-profits policyholders and taking other protective action.

It should also be noted that the impact on the fund for future appropriations from changes in these assumptions may not be linear as implied by these results. Larger or smaller impacts should not be interpolated or extrapolated from these results.

35. Risk management (continued)

(c) Credit risk

Credit risk is defined as the risk of loss if a counterparty fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Group's exposure to credit risk arises principally from its investment portfolio, from its holdings in bonds, commercial real estate loans, derivatives, from cash and from reinsurance arrangements. The credit risk policy sets out various high-level requirements relating to the identification, measurement, modelling, management, monitoring, reporting and documentation of credit risk. A separate derivatives risk management policy sets out other specific requirements relating to legal, collateral, and valuation arrangements. Where possible, significant counterparty exposures, particularly in respect of stock lending and derivatives, are mitigated by the use of collateral.

A comprehensive system of limits is in place in order to control exposure to credit risk. While ratings provided by external agencies such as Standard & Poor's and Moody's and expert investment advice are taken into account when setting limits to individual counterparties, there are separate limits for exposures in respect of cash and deposits and for corporate bond and sovereign debt exposures, expressed as percentages of the fund's total assets. The one exception is exposure to the UK government – investment in government debt is a key part of the Group's investment and asset liability management strategies and it has been decided that no limit should be set. If the UK's credit standing were to deteriorate significantly, however, this decision would be reviewed.

Exposures to individual counterparties are monitored against the agreed limits set in the Concentration Risk Framework, which is reviewed by the Group's Investment Strategy Committee. For bond holdings, exposures are also monitored by industry sector and by credit rating.

The Group is also exposed to credit risk in respect of its reinsurance arrangements. The credit exposures for reinsurance contracts are monitored by the Group's Capital Management and Insurance Risk Committees as part of the overall credit risk policy.

The Group's Matching Adjustment Committee, reporting to the Group's Capital Management Committee, provides oversight of the operation of the Matching Adjustment portfolio and compliance with the Matching Adjustment requirements. It also acts as a forum in reviewing and approving or rejecting Commercial Real Estate Loan investment opportunities as and when they arise.

The following tables show an analysis of the credit quality of those assets of the Group that are subject to credit risk, using credit ratings issued by companies such as Standard & Poor's, where these are available. The credit risk in respect of linked assets is borne by the holders of the contracts concerned, except where investment is made in the funds of other life companies via reinsurance contracts and the linked assets are therefore excluded from the table. The Company has a similar credit risk profile to that shown for the Group and therefore it has not been analysed separately.

AAA is the highest rating possible for assets exposed to credit risk. The credit ratings in respect of derivative financial investments are those of the counterparties to the derivative contracts. The debt and fixed income securities which have not been rated by an external agency are subject to internal analysis to provide an internal rating, which at 31 December 2022 was predominantly AA or A (2021: either AA or A).

The internal rating process used by the Group is to assess credit risk within the context of the bond issuer's financial position, the bond's covenants and structure and the likely recovery should default occur. Three major sectors that are significant issuers of sterling denominated unrated bonds, namely social housing, investment trusts and property, are each asset rich. For these sectors, documented specific credit analysis is undertaken, which assesses the individual risks of bonds in the sector and relates the risk of loss to that implied by the rating bands of the rating agencies. The internal ratings produced are compared for consistency with formally rated, broadly equivalent stocks in the same sector and for consistency with the market pricing of the underlying bond. For stocks in other sectors, the background of the issuer and the bond characteristics are assessed within a framework similar, where possible, to credit rating agency methodology. The Company's credit risk profile is aligned to the Group. In order to minimise its exposure to credit risk, the Group and Company invest primarily in higher graded assets, rated BBB or above. The Group and Company also make use of collateral arrangements in respect of their derivative exposures and stock lending activity, wherever possible. Further details of the collateral held are shown in note 16.

Notes to the financial statements continued

35. Risk management (continued)

	Group – 2022						Total £m
	AAA £m	AA £m	A £m	BBB £m	BB or lower £m	Not rated £m	
Stage 1 assets at amortised cost							
Cash at bank	443	204	30	—	—	—	677
Loss allowance	—	—	—	—	—	—	—
Exposure to credit risk	443	204	30	—	—	—	677
Simplified approach assets held at amortised cost							
Debtors arising out of direct insurance operations	—	—	—	—	—	53	53
Debtors arising out of reinsurance operations	—	—	—	—	—	62	62
Other debtors	—	—	—	—	—	2,232	2,232
Loss allowance	—	—	—	—	—	(4)	(4)
Exposure to credit risk	—	—	—	—	—	2,343	2,343
Assets at FVTPL							
Other financial investments:							
Derivative assets	—	1,423	412	—	—	—	1,835
Debt and fixed income securities	2,920	3,805	1,818	1,736	151	268	10,698
Commercial real estate loans	—	—	—	—	—	52	52
Other							
Reinsurers' share of insurance liabilities	—	3,180	54	—	—	—	3,234
	3,363	8,612	2,314	1,736	151	2,663	18,839

	Group – 2021						Total £m
	AAA £m	AA £m	A £m	BBB £m	BB or lower £m	Not rated £m	
Stage 1 assets at amortised cost							
Cash at bank	—	405	217	—	—	—	622
Loss allowance	—	—	—	—	—	—	—
Exposure to credit risk	—	405	217	—	—	—	622
Simplified approach assets held at amortised cost							
Debtors arising out of direct insurance operations	—	—	—	—	—	48	48
Debtors arising out of reinsurance operations	—	—	—	—	—	56	56
Other debtors	—	—	—	—	—	501	501
Loss allowance	—	—	—	—	—	(4)	(4)
Exposure to credit risk	—	—	—	—	—	601	601
Assets at FVTPL							
Other financial investments:							
Derivative assets	—	567	3,749	—	—	—	4,316
Debt and fixed income securities	1,549	8,786	2,581	1,841	103	367	15,227
Commercial real estate loans	—	—	—	—	—	40	40
Other							
Reinsurers' share of insurance liabilities	—	4,561	18	—	—	—	4,579
	1,549	14,319	6,565	1,841	103	1,008	25,385

35. Risk management (continued)

Cash at bank, included within Stage 1 assets, is considered to have low credit risk. Allowance is made for expected credit losses for Stage 1 assets based on default events that are possible within the next 12 months. Expected credit losses are calculated using three key input parameters: the probability of default, the expected loss given default and the exposure at default. The probability of default is estimated using quoted credit default swap spreads and the loss given default is taken to be 100%.

Debtor balances are assessed using the simplified method, which means that the not rated assets default to Stage 2 and a lifetime expected credit loss is calculated. Expected credit losses are measured for these assets based on the ageing of the balances and historical payment experience or by the use of discounted cash flow techniques.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

(d) Liquidity risk

The Group defines liquidity risk as the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost.

The Group recognises that extreme liquidity issues could have a severe impact on the Group. The Group manages its liquidity risk through ensuring sufficient availability of liquid assets ('liquidity buffer').

The Group's liquidity management process includes:

- monitoring of liquidity risk limits, primarily through liquidity coverage ratios (LCRs). The metric is the ratio of the sources of liquidity (the liquidity buffer) over the uses of liquidity. The Group's use of liquidity arises principally from its insurance, reinsurance, derivative and investment contracts. A maturity analysis of the Group's liabilities is regularly undertaken and is incorporated into the LCR, considering several plausible stressed conditions;
- holding an appropriate liquidity buffer. The composition includes highly liquid assets that are able to meet very short-term liquidity requirements and assets in investments that are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- setting minimum amounts of cash balances in each of its long-term funds. These are set by reference to recent and expected cash outflows and include a margin above reasonably expected amounts in order to reduce risk;
- maintaining a contingency funding plan that includes a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios;
- maintaining a recovery plan that identifies triggers for action, a clear management action plan providing an analysis of available financing options, regular and alternative sources of liquidity and an evaluation of a range of possible adverse scenarios; and
- appropriate matching of the maturities of assets and liabilities. The Group's market risk policy covers asset liability management to ensure the duration of liabilities is matched by assets.

These processes are regularly reviewed and updated to ensure their continued effectiveness.

The Group's exposure to liquidity risk principally arises from insurance and investment contracts and the use of derivatives. The following tables show a maturity analysis for the Group's insurance and investment contract liabilities. As permitted by FRS 103, for insurance and participating investment contracts, this has been presented as the expected future cash outflows arising from the liabilities. The analysis for the unit-linked investment contracts has been shown on the same basis for consistency. Had the analysis for these liabilities been presented on the basis of the earliest contractual maturity date (as required by FRS 102 Section 34) then the whole balance would have been included in the '0-5 years' column, as customers can exercise surrender options at their discretion. In such a scenario the liability may be reduced by the application of surrender penalties (if applicable). The tables also show a maturity analysis for the Group's derivative liabilities and the reinsurance liability held at fair value through profit or loss (FVTPL) presented on a contractual cash flow basis. The maturity analysis for cash collateral has not been disclosed as it is due on demand because it is dependent on fluctuations in the value of the collateralised derivatives.

The longer-term matching of assets and liabilities is covered within market risk, note 35 (b). As a result of the policies and procedures in place for managing its exposure to liquidity risk, the Group considers the residual liquidity risk arising from its activities to be immaterial. Therefore, an analysis of the Group's asset cash flows by contractual maturity is not considered necessary to evaluate the nature and extent of the Group's liquidity risk. The Company has a similar liquidity risk profile to that of the Group and therefore it has not been analysed separately.

Notes to the financial statements continued

35. Risk management (continued)

	Group 2022						
	Balance sheet carrying value £m	Cash flows (undiscounted)					
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	20+ years £m	Total £m
Participating insurance contract liabilities	(25,876)	(11,601)	(10,635)	(7,757)	(2,879)	(2,645)	(35,517)
Participating investment contract liabilities	(1,903)	(762)	(626)	(456)	(584)	(385)	(2,813)
Non-profit insurance contract liabilities	(3,565)	(799)	(1,141)	(1,139)	(970)	(1,682)	(5,731)
Unit linked insurance contract liabilities	(1,136)	(557)	(516)	(230)	(116)	(98)	(1,517)
Unit linked investment contract liabilities	(69,486)	(23,577)	(22,813)	(18,351)	(14,430)	(27,086)	(106,257)
Derivative liabilities	(3,049)	(1,006)	(938)	(840)	(714)	(1,496)	(4,994)
Reinsurance liability	(1,713)	(546)	(568)	(508)	(413)	(728)	(2,763)

	Group 2021						
	Balance sheet carrying value £m	Cash flows (undiscounted)					
		0–5 years £m	5–10 years £m	10–15 years £m	15–20 years £m	20+ years £m	Total £m
Participating insurance contract liabilities	(33,374)	(13,094)	(10,770)	(7,288)	(3,285)	(1,746)	(36,183)
Participating investment contract liabilities	(2,296)	(784)	(664)	(484)	(253)	(361)	(2,546)
Non-profit insurance contract liabilities	(5,132)	(830)	(1,117)	(1,112)	(952)	(1,728)	(5,739)
Unit linked insurance contract liabilities	(1,314)	(634)	(456)	(191)	(73)	(56)	(1,410)
Unit linked investment contract liabilities	(71,185)	(22,560)	(19,076)	(13,469)	(9,408)	(13,794)	(78,307)
Derivative liabilities	(1,844)	(702)	(399)	(366)	(291)	(136)	(1,894)
Reinsurance liability	(2,477)	(537)	(579)	(532)	(440)	(827)	(2,915)

(e) Pension schemes

The Group maintains three defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and, when required, regular contributions from the Group. Risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required to make additional contributions. Management of the assets of the pension schemes is the responsibility of each scheme's Trustees, who also appoint the Scheme Actuaries to perform triennial valuations to assess the level of funding required to meet the scheme's liabilities. The schemes' main exposures are to equity, interest rate, inflation, and longevity risk. For further information on pension scheme assets and liabilities, see note 23. The Group monitors its pension schemes' exposure using a variety of metrics which are regularly reviewed by the Group's Capital Management Committee and are used in discussions with the Trustees, through whom any risk management activity must be conducted.

(f) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Operational risks include, but are not limited to, information technology, information security, people, change management, legal and regulatory, financial crime, and processing. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the different products, activities, processes, and systems under their control.

Details of risks on inherent (before controls) and residual (after controls) bases are maintained on risk registers, with each part of the business being responsible for identifying, assessing, managing, and reporting on its operational risks and for implementing and maintaining controls in accordance with the Group's risk management system. In performing these assessments, account is taken of the Group's risk appetite with greater significance being placed on those risks that fall outside these parameters. This is used as a basis for review and challenge by senior management, risk committees, and the Board of Directors. Management attention is focused upon those controls identified as not working as effectively as

35. Risk management (continued)

desired and upon action plans which are put in place when any weakness is identified. In addition, the Group conducts a series of operational risk scenarios. These scenarios allow the Group to consider how effective controls would be should an extreme event occur and to make improvements where necessary. The scenarios also provide data that is used to calculate the capital held by the Group for operational risk. Within the Group's management of operational risks significant consideration is given to conduct risk and the risk of unfair outcomes to our customers and members.

(g) Climate Change Risks

To support the embedding of climate risk management across the business and to allow for evolving best practice, the Climate Risk Appetite Framework has been broadened to better recognise the breadth of risks faced by the Group that arise from climate change. As part of this, the Climate Risk Appetite Statement was also broadened and now explicitly references the embedding of these risks into risk management disciplines across the Group.

(h) Emerging risk

All insurers may be impacted by risks that are potentially significant but are currently only just beginning to emerge. The Group has defined emerging risks as a threat or opportunity that could emerge from the external environment where the potential impact is not fully known. They can create new or increased exposure to existing principal risks and uncertainties. Typically, the drivers for these risks include technological, economic, environmental, or geopolitical. The Group's Emerging and Strategic risk forum comprises members from across the Group who identify and assess emerging risks and possible mitigating actions. Information about emerging risks is provided to senior management and the Board and is used to inform decision making.

(i) Risk governance

An independent Risk and Compliance function provides challenge to the business on the effectiveness of the risk management practices being followed, on the risks identified, the strength of the controls in place, and any actions being progressed. The independent function provides advice and guidance on the impact of regulatory change and undertakes risk-based compliance monitoring reviews to assess the quality of business processes and controls, reporting the results of its findings to management and to the Board monthly.

(j) Stress and scenario testing

The Group conducts a range of sensitivity analysis and stress and scenario testing activity in order to help it understand its risk profile and assess and manage its risks. This is a key element of the Group's risk management system, as well as being a regulatory requirement.

Stress and scenario testing in various forms is carried out on a regular basis as part of business as usual and in response to specific regulatory initiatives and can involve either:

- straightforward stress tests/sensitivity analysis: analyses of the sensitivity of financial and operational metrics and the risk profile to discrete changes in market values or demographic experience; or
- scenarios that involve a combination of changes in economic parameters or that concentrate on specific operational, non-market and/or market risks.

The following regular outputs are produced and include results from one or both of the tests described above:

- Capital Monitoring Reports, produced monthly for the Capital Management Committee;
- Reports on the capital requirements of the Company, produced annually;
- Own Risk and Solvency Assessment (ORSA) analysis, produced annually;
- Recovery and Resolution Plans, produced annually;
- Internal Capital and Risk Assessment (ICARA) results for regulated non-insurance firms (where applicable), produced annually; and
- Business Plans, produced annually.

The stress testing performed includes changes in market risk, credit risk, insurance risks and operational risks, as well as combinations of these risk types. Key assumptions are varied from their best estimate assumption and the outcome provides detail of the sensitivity of these assumptions and the resultant impact on various financial metrics. This informs the business of the key risks that need to be managed and monitored.

Operational risk stresses and scenarios are completed to calculate the capital required for this risk. The stresses allow an assessment of the extreme impacts arising from a given risk by way of assessment of the frequency of occurrence and the distribution of the value of impacts. A top-down approach is used for determining the Company's capital requirements which involves the analysis of single, but potentially catastrophic, events/risks which cover all risks used for modelling the capital requirement.

Notes to the financial statements continued

35. Risk management (continued)

Various broad-based scenarios and reverse stress tests have been considered in the Group over the year, as well as business model analysis activity. These scenarios provide a top-down analysis of events that would affect the Group in a significant way. These events could be in relation to issues such as the markets in which the Group operates, financial strength, long-term strategy, and liquidity. The outcome of these scenarios informs the Group of any areas of potential weakness, so appropriate controls and mitigating actions can be put in place. Reverse stress tests are specifically used to identify the high impact stress events which may cause a firm's business model to fail.

Business continuity planning workshops take place to consider where the Group's ability to carry out its business activities would be severely impacted. Participants include senior managers and key contacts from relevant business areas. The lessons learned in these workshops lead to improved business continuity plans and ensure the Group is better equipped to handle possible future events.

36. Related party transactions

The Company is the ultimate parent undertaking of the Group. The Group and Company have taken advantage of the exemption in FRS 102 Section 33 not to disclose related party transactions between two or more members of the Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member. The Group and Company have carried out the following transactions with related parties not covered by this exemption.

(a) Related party transactions of the Group and Company

Transactions between Group entities are eliminated on consolidation. The following are those transactions carried out by Group entities with those related parties that are outside the Group.

(i) Transactions with OEICs and other investment funds

The Group markets a portfolio of OEICs and other investment funds. A number of these funds are classified as subsidiaries and associates for the purposes of financial reporting. However, as set out in note 15 the funds that are subsidiaries and associates are not consolidated in the Group financial statements as the funds are held as part of an investment portfolio. These funds are therefore all related parties of the Group and Company.

For those funds which are subsidiaries (excluding wholly owned) or associates and are not consolidated within the Group, the transactions during the year were as follows:

	2022	2021
	£m	£m
Management fees earned during the year	114	80

There were no amounts outstanding between the Group or Company and the funds at the year end (2021: £nil). The total value of units held by the Company at 31 December 2022 in the funds that are subsidiaries (excluding wholly owned) or associates was £52,495m (2021: £49,505m). The acquisition and sale of units in the funds during the year were as follows:

	2022	2021
	£m	£m
Acquisition of funds	21,602	6,971
Proceeds from sale of funds	11,398	5,074

(ii) Other income received from subsidiaries that are not wholly owned

	Group and Company	
	2022	2021
	£m	£m
OEIC distributions	954	742

OEIC distributions are those received from all OEIC investment holdings which are subsidiaries (excluding wholly owned) and associates for financial reporting purposes.

36. Related party transactions (continued)

(b) Related party transactions of the Company

The subsidiaries of the Company are shown in note 15. As set out above, the Company has taken advantage of the exemption in FRS 102 Section 33 not to disclose transactions with its wholly owned subsidiaries. Transactions between the Company and its other subsidiaries and the other related party transactions of the Company are shown below:

(i) Outstanding balances with Group entities at the year end

At the year end, the following balances were outstanding with Group entities (excluding wholly owned subsidiaries) in relation to the transactions above:

	Company	
	2022	2021
	£m	£m
Loans to Group entities	2	2

The amounts due to and from Group entities are due on demand and are not secured.

(ii) Transactions with key management personnel

No director or key management personnel had transactions or arrangements with the Group that require disclosure, other than those given in the Directors' Report on Remuneration or for key management remuneration disclosed in note 9(c).

37. Capital management

(a) Capital management policies and objectives

The Group's capital management objectives are:

- to protect the Group's financial strength, providing security to policyholders;
- to ensure that the Group's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its stated core strategic objectives as determined by the Board; and
- to comply with SII's capital requirements.

The Group's capital position is monitored on a regular basis and reviewed formally by the Board. The Group's capital requirements are forecast on a regular basis and those forecasts are compared against the available capital.

(b) Regulatory Capital

(i) Regulatory capital framework

Royal London is an insurance Group under the SII rules and consequently regulatory capital is reported at a Group and Company level to the PRA and, for RLI DAC, to the CBI.

Under SII, the Group and Company are required to hold sufficient capital to withstand adverse outcomes from their key risks, e.g. that equity markets fall. This 'Solvency Capital Requirement' (SCR) is calibrated so that it is broadly equal to the adverse experience likely to occur once in every 200 years.

The PRA has approved the use of a Partial Internal Model (hereafter referred to as Internal Model) to calculate the capital requirements of the Group and the Company. The capital assessment of RLI DAC is on a Standard Formula basis.

Notes to the financial statements continued

37. Capital management (continued)

(ii) Regulatory capital position

The table below sets out the Group and Company's eligible own funds, SCR, solvency surplus and capital cover ratio on an Investor View basis and a Regulatory View basis¹.

	Group		Company	
	2022 ²	2021	2022 ²	2021
Investor View (£m)¹				
Eligible own funds (A)	4,683	5,243	4,717	5,271
Solvency capital requirement (SCR) (B)	2,200	2,426	2,024	2,258
Solvency surplus	2,483	2,817	2,693	3,013
Capital cover ratio (A/B) ³	213%	216%	233%	233%
Regulatory View (£m)¹				
Eligible own funds (A)	4,828	6,696	4,853	6,715
Solvency capital requirement (SCR) (B)	2,345	3,879	2,160	3,702
Solvency surplus	2,483	2,817	2,693	3,013
Capital cover ratio (A/B) ³	206%	173%	225%	181%

1. In common with others in the industry, we present two views of our capital position: an Investor View for analysts and investors in our subordinated debt, and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.
2. The 2022 figures are estimated. The final figures will be presented in the 2022 Single Group SFCR, which will be published on the Group's website in April 2023. This SFCR meets the SII disclosure requirements of the Group and the Company and mitigates the requirement to produce a separate SFCR for the Company.
3. Figures presented in this table are rounded and the capital cover ratio is calculated based on exact figures.

The Group Investor View capital ratio has remained stable over 2022, despite movements in yields and asset values, with our hedging programmes operating as intended.

The Group Regulatory View capital ratio has increased during the year as a result of higher yields which result in a lower capital requirement in the closed funds, particularly in relation to guaranteed annuity options.

37. Capital management (continued)

(iii) Reconciliation of Group UK GAAP fund for future appropriations to regulatory capital eligible own funds

The SII eligible own funds are determined by aggregating assets and liabilities recognised and measured on a SII basis. A reconciliation of the UK GAAP fund for future appropriations (FFA) attributable to members on a UK GAAP basis to estimated SII eligible own funds is set out in the table below.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
UK GAAP Fund for future appropriations	3,751	4,009	3,992	4,329
Adjustments to a SII basis:				
Adjustment to the value of technical provisions and reinsurance assets ¹	316	1,006	303	1,006
Goodwill, other intangible assets and deferred acquisition costs ²	(184)	(190)	(215)	(225)
Other valuation differences ³	199	(60)	33	(324)
Inclusion of closed funds surplus classified as a UK GAAP liability ⁴	2,419	3,305	2,419	3,292
Excess of assets over liabilities in SII balance sheet	6,501	8,070	6,532	8,078
Subordinated liabilities ⁵	1,210	1,535	1,210	1,535
Subordinated liabilities adjustment ⁶	(107)	—	(130)	—
Deferred tax adjustment ⁷	(36)	(11)	(22)	—
Ring-fenced fund adjustment ⁸	(2,740)	(2,898)	(2,737)	(2,898)
SII eligible own funds (Regulatory View) - estimate	4,828	6,696	4,853	6,715
Remove closed fund restricted own funds	(145)	(1,453)	(136)	(1,444)
SII eligible own funds (Investor View) – estimate	4,683	5,243	4,717	5,271

- The adjustment to the value of technical provisions and reinsurance assets results from the recalculation of these balances using SII requirements. This includes the removal of the margins of prudence included in the UK GAAP values (so that assumptions are all best estimates), the inclusion of the SII risk margin, the use of the SII yield curve including the volatility adjustment for appropriate lines of business, the adoption of SII contract boundary definitions (mainly affecting unit-linked business), any benefit from the SII transitional provisions and also the removal of a UK GAAP only liability to offset the surplus arising in the two Liver pension schemes.
- Goodwill, other intangible assets and deferred acquisition costs are recognised in the UK GAAP balance sheet. Under the SII valuation rules, these assets are valued at £nil.
- Other valuation differences relate principally to the value of participations, renewal commission liabilities and subordinated liabilities. In the UK GAAP balance sheet participations are valued at fair value, and for SII the valuation equates to the value of net assets on a SII basis. A renewal commission liability is recognised in the UK GAAP balance sheet but not on a SII basis. Subordinated liabilities are held at amortised cost for UK GAAP and at fair value for SII.
- For UK GAAP any excess of assets over liabilities within the closed funds is included within liabilities, so the FFA includes amounts relating to the Royal London Main Fund only. For SII, the excess within the closed funds is included within total eligible own funds, but only up to the value of the solvency capital requirement (SCR) of the closed funds.
- Subordinated liabilities in the form of the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043, the Guaranteed Subordinated Notes due 2028 and the Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 are included within eligible own funds on a SII basis, whereas UK GAAP treats subordinated debt as a liability.
- In accordance with SII requirements, a restriction is applied so that the value of subordinated liabilities does not exceed 50% SCR.
- The Group and Company has deferred tax assets which are restricted under the SII rules and therefore do not form part of SII eligible own funds.
- The ring-fenced fund adjustment is where the closed funds' surplus in excess of the SCR is excluded from total eligible own funds and treated as a liability.

38. Subsequent events

There are no subsequent events which require disclosure.

Notes to the financial statements continued

39. Alternative performance measures

The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with relevant financial reporting frameworks such as UK GAAP or Solvency II. These measures are known as alternative performance measures (APMs).

APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

Operating profit before tax

Operating profit excludes short-term investment return variances and economic assumption changes; amortisation 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 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). A reconciliation to the UK GAAP transfer (from)/to the fund for future appropriations is included on page 48.

ProfitShare

ProfitShare is an allocation of part of the group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies. Further detail on how the ProfitShare allocation is presented within the UK GAAP results is provided in note 26(c).

Assets under management

The total of assets actively managed by, or on behalf of, the Group, including funds managed on behalf of third parties. This includes assets where the beneficial ownership interest resides with third parties (and which are therefore not recognised in the UK GAAP balance sheet) but on which the Group earns fee revenue.

Group Solvency II capital cover ratio (Investor View)

The capital cover ratio is a good indicator of our ability to withstand tough economic conditions, with higher numbers indicating more capital over and above our requirements. Further details of the capital position and its calculation are included in the Financial review on page 50.

New business

New business sales are expressed on the present value of new business premiums (PVNBP) basis. PVNBP is calculated as a total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year. The discounted value of regular premiums is calculated using the same methodology as on a Solvency II basis.

Other Information

2023 Financial calendar

Date	Event
8 March 2023	Financial Results for 2022 and conference call
6 June 2023	Annual General Meeting
4 August 2023	Interim Financial Results for 2023 and conference call
6 October 2023	RL Finance Bonds No. 4 plc subordinated debt interest payment date
13 November 2023	RL Finance Bonds No. 3 plc subordinated debt interest payment date
29 November 2023	RL Finance Bonds No. 2 plc subordinated debt interest payment date

Registered office

The Royal London Mutual Insurance Society Limited
55 Gracechurch Street
London EC3V 0RL

Registered in England and Wales Private company limited
by guarantee Registered Number: 99064

royallondon.com

The Group is expected to complete the transfer of its registered office from 55 Gracechurch Street to 80 Fenchurch Street, London, during 2023. 80 Fenchurch Street will also become the London contact office for the Group.

Contact offices

Alderley Park

Royal London House
Alderley Park Congleton Road
Nether Alderley Macclesfield
SK10 4EL

Edinburgh

22 Haymarket Yards
Edinburgh WH12 5BH

Glasgow

Lower Ground Floor
241 West George Street
Glasgow G2 4QE

London

55 Gracechurch Street
London EC3V 0RL

Dublin, Ireland

47-49 St Stephen's Green
Dublin 2
Ireland

4 Earlsfort Terrace
Saint Kevin's
Dublin 2
Ireland

Police Mutual, Lichfield

Building 3
Lichfield South
Birmingham Road
Lichfield
WS14 0QP

Police Mutual, Liverpool

5th Floor
20 Chapel Street
Liverpool
L3 9AG

Wealth Wizards

8 Athena Court
Tachbrook Park Royal
Leamington Spa
Warwick CV34 6RT

Forward-looking statements

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

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, some of which will be beyond Royal London's control. Royal London believes certain factors could cause actual financial condition, performance or other indicated results to differ materially from those indicated in forward-looking statements in the report. Potential factors include but are not limited to: the war in Ukraine; UK and Ireland economic and business conditions; future market-related risks such as rising interest rates; increasing levels of inflation and the performance of financial markets generally; the policies and actions of governmental and regulatory authorities (for example new government initiatives); the impact of competition; the effect on Royal London's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; and the timing, impact and other uncertainties of future mergers or combinations within relevant industries. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits.

As a result, Royal London's future financial condition, performance and results may differ materially from the plans, estimates and projections set forth in Royal London's forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements in this document or any other forward-looking statements Royal London may make. Forward-looking statements in this document are current only at the date on which such statements are made. This report has been prepared for the members of Royal London and no one else. None of Royal London, its advisers or its employees accept or assume responsibility to any other person and any such responsibility or liability is expressly disclaimed to the extent not prohibited by law.

Glossary

A

Association of British Insurers (ABI)

The ABI represents the collective interests of the UK's insurance industry.

Acquisition costs

The costs of acquiring and processing new business, including a share of overheads.

Alternative performance measure (APM)

A financial measure of performance not defined or specified by accounting standards.

Annual General Meeting (AGM)

The AGM provides an important opportunity to give members a brief overview of Royal London's financial and business performance, and includes the reappointment of auditors and re-election of directors.

Annuity

An insurance policy that provides a regular income in exchange for a lump-sum payment.

Asset Management segment

The Asset Management segment comprises Royal London Asset Management Holdings Limited and its subsidiaries. RLAM provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities, and charities, as well as individuals.

Asset manager

A financial institution that is responsible for managing financial investments on behalf of Asset owners.

Asset owner

An institution (or individual) that owns assets but entrusts day to day investment decisions to Asset managers typically supported by detailed mandates and policies.

Asset share

A policy's asset share is calculated by accumulating the premiums paid, deducting all applicable expenses and tax, and adding its share of the investment returns achieved by the with-profits fund over the policy's lifetime.

Assets under management (AUM)

The total of assets actively managed by the Group, including funds managed on behalf of third parties.

B

Board

The Royal London Mutual Insurance Society Limited Board.

Business Plan

The Business Plan is an internal forecast, which is approved by the Board annually. This sets out Royal London's forecast and targets over a planning horizon.

Business Unit

A sub-division of the Group that focusses on a specific product offering, market or function. A business unit may be a statutory entity or part of one or more separate statutory entities.

C

Capital add-on

The PRA can apply judgement to determine additional capital requirements (add-ons) to individual firms, which are included when calculating the Solvency Capital Requirement. Their judgement takes into account a variety of considerations including capital projections, the maturity of the risk management framework and peer group comparisons.

Capital Cover Ratio

Own Funds divided by Solvency Capital Requirement.

Capital markets

Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

CIS

The Co-operative Insurance Society Limited that was purchased by the Group on 31 July 2013. On 1 August 2013 it was renamed Royal London (CIS) Limited.

Closed funds

Our funds that are now closed to new business. Following the consolidation of a further two closed with-profits funds during the year, the Group has three closed funds remaining as at 31 December 2022.

Company

The Royal London Mutual Insurance Society Limited

Consumer Price Index (CPI)

A measure of changes in the price level of a basket of consumer goods and services purchased by households.

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.

Critical illness cover

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

D

Deferred acquisition costs (DAC)

The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

Deferred fee income

The method of accounting whereby up-front policy charges are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

Defined benefit scheme

A type of occupational pension scheme, where the benefits are based on the employee's salary and service.

Discounting

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

Drawdown

Drawdown is a flexible way of using your savings. With a defined contribution scheme, once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

E

Economic assumptions

Assumptions of future amounts of various economic parameters, such as interest rates, investment returns, inflation and tax rates. The impact of variances in these assumptions is treated as non-operating profit or loss.

Employee Engagement Index

A widely used measure of employee satisfaction.

Environmental, social and governance (ESG)

Financially material environmental, social and governance risks and opportunities being embedded into investment and operational decisions.

Experience variances

The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

F**Fair value**

The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction.

Fair value through profit or loss (FVTPL)

Where for assets and liabilities measured at fair value, a movement in that fair value is taken directly to the income statement.

Final salary

A defined benefit scheme that provides a pension based on salary at retirement.

Financial Conduct Authority (FCA)

An independent conduct of business regulator, which ensures that business is conducted in such a way that advances the interests of all users of, and participants in, the UK financial sector.

Financial options and guarantees

For Royal London business, 'financial options' refers principally to guaranteed annuity options. 'Guarantees' refers to with-profits business where there are guarantees that parts of the benefits will not reduce in value, or are subject to a minimum value.

Financial Reporting Council (FRC)

The FRC is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

Financial Reporting Data and Control Framework (FRDCF)

The framework of internal control established by Royal London to ensure that it is able to effectively mitigate the risk of material misstatement in its internal and external financial reporting.

Funds for Future Appropriation (FFA)

The amount of surplus that has not been allocated to policyholders at the balance sheet date.

G**Governed Range**

Ready-made investment options designed to suit customer needs, in which investments are automatically balanced dependent on the customer's risk appetite and length of time to retirement.

Group

The Royal London Mutual Insurance Society Limited and its subsidiaries.

Guaranteed Annuity Option (GAO) or Guaranteed Annuity Rate (GAR)

These primarily arise in connection with pension business as either:

- a guaranteed income rate specified in the policy; or
- guaranteed terms (option) for converting the pension fund of a policy into an income for life at the policy's pension date.

Gross inflows

Gross inflows incorporate flows into Royal London Asset Management Limited (RLAM) from external clients (external flows) and those generated from RLMIS (internal flows). External client gross inflows include cash mandates. Internal gross inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance). Given its nature, non-linked Protection business is not included.

I**Independent financial adviser (IFA)**

Someone authorised by the FCA, qualified by experience and examination to provide financial advice, who is not working for any single product provider company.

Individual pension

A pension plan for an individual policyholder.

International Financial Reporting Standards (IFRS)

Financial reporting standards issued by the International Accounting Standards Board (IASB).

Investor View

In common with the rest of the industry, we present two views of our Solvency II capital position: an Investor View for analysts and investors in our subordinated debt (which equals the RL Main Fund and excludes the capital position of the ring-fenced closed funds), and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

Ireland segment

The Ireland business comprises the Group's Irish subsidiary, Royal London Insurance Designated Authority Company (RLI DAC). It provides intermediated protection and pension products to individuals in the Republic of Ireland.

J**Just Transition**

The concept of the Just Transition is to ensure that social issues are considered in the move to net zero and climate action supports an inclusive economy avoiding exacerbating existing injustices or creating new ones.

K**Key performance indicator (KPI)**

An indicator used by a business to measure its development, performance or position.

L**Life and pensions new business sales**

Life and pensions new business sales measured using the Present Value of New Business Premiums (PVNBP) for life and pensions business only. It excludes Asset Management and other lines of business.

Long-standing customers

Customers from our legacy businesses, including those who have long-standing protection, life and pension policies, along with annuities and tax-efficient savings plans including ISAs.

M**Maintenance expenses**

Expenses related to the servicing of the in-force book of business, including investment and termination expenses and a share of overheads.

Market-consistent basis

A basis of valuation in which assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.

Matching Adjustment

An adjustment made to the risk-free interest rate for Solvency II purposes when the insurer sets aside a portfolio of assets to back a predictable portion of their liabilities.

Mutual

A company owned by its member customers rather than shareholders. A member of a mutual company can vote at its Annual General Meeting.

N**Net Asset Value (NAV)**

This is equal to a company's total assets less its total liabilities.

Net inflows

Net inflows represent the net position of gross inflows and outflows in the period. This comprises net flows from external clients into RLAM (external net flows) and those generated from RLMIS (internal net flows). Internal outflows include claims and redemptions paid (net of reinsurance). Given its nature, non-linked Protection business is not included.

Net zero

Net zero is achieved when an organisation reduces the majority of their Greenhouse Gas (GHG) emissions in line with latest climate science, and offsets the remaining hard-to-abate residual emissions using carbon removal credits. In practice, 'Net zero' is often used interchangeably with 'Carbon neutral'.

New business contribution

The expected present value on the UK GAAP basis of reporting of all cash flows arising from new business.

New business margin

The new business contribution as a percentage of the Present Value of New Business Premiums.

Non-profit policy

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

O

Open-ended investment company (OEIC)

Investment funds that pool together investors' money and invest this in a broad range of shares and other assets. They are similar to unit trusts.

Operating profit

The profit on a UK GAAP basis resulting from our primary business operations, defined as the transfer to Fund for Future Appropriations before Other Comprehensive Income, excluding the following: short-term investment return variances and economic assumption changes; amortisation 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.

Operational emissions

Our direct Scope 1 and Scope 2 operational greenhouse gas (GHG) emissions.

Own Funds

Regulatory capital under Solvency II. Broadly it is the excess of assets over liabilities (plus subordinated debt and less the ring-fenced fund restriction), as measured by the PRA's regulatory reporting requirements under Solvency II.

Own Risk and Solvency Assessment (ORSA)

The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period, and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

P

Partial Internal Model

The processes, systems and calculations that together allow the Group to control the risks that it faces and quantify the capital needed to support those risks under the Solvency II regime. It includes a calculation engine to quantify capital requirements, the Group's risk management framework and its system of governance. Our Partial Internal Model, approved by the PRA with effect from 1 October 2019, for reporting purposes, is also used for internal capital management purposes. Also referred to in the document as the Internal Model.

Participating

Contracts that are with-profits in type.

Pension

A means of providing income in retirement for an individual and possibly their dependants. Our pension products include Individual and Workplace Pensions, Stakeholder Pensions and Income Drawdown.

Pension date

The date at which income can be taken from a pension either through a cash lump sum or investment in an annuity.

Personal pension

A pension plan for an individual policyholder.

Physical risks

Risks directly or indirectly related to the physical impacts of climate change.

PLAL

The business formerly written by Phoenix Life Assurance Limited. PLAL's assets and liabilities were transferred into the Company with effect from 29 December 2008.

Police Mutual

The Police Mutual Assurance Society Limited (PMAS) and its subsidiaries, which includes Police Mutual and Forces Mutual. The business was transferred into Royal London on 1 October 2020.

Portfolio emissions

Emissions from the companies in which we invest. That is, Scope 1, Scope 2 and Scope 3 emissions of the investee companies represented within our asset portfolio. We share influence over these companies through equity and corporate debt instruments and are therefore accountable for a portion of their total emissions.

Present value of new business premiums (PVNBP)

The PVNBP is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year.

Principles and Practices of Financial Management (PPFM)

A document detailing how we manage our with-profits funds. We have a separate PPFM for each with-profits fund.

Principles for Responsible Investment (PRI)

An independent body and a leading proponent of responsible investment.

ProfitShare

ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

Protection

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

Prudential Regulation Authority (PRA)

Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

R

Rating agencies

A rating agency (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and indicate the likelihood of default.

Regular premium

A series of payments for an insurance contract, typically monthly or annually.

Regular Supervisory Report (RSR)

A report required under Solvency II requirements. It is a private report to the PRA and is not disclosed publicly. Life insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. It includes both qualitative and quantitative information.

Regulatory View

In common with the rest of the industry, we present two views of our capital position: an Investor View for analysts and investors in our subordinated debt (which equals the RL Main Fund and excludes the capital position of the ring-fenced closed funds), and a Regulatory View where the closed funds' surplus is excluded as a restriction to Own Funds.

Responsible investment

To continuously embed advanced environmental, social and governance capabilities into our investment activities and support RLAM to influence positive corporate changes.

Retail Price Index (RPI)

A measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

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)

As of 31 December 2022, RLMIS contains one ring-fenced fund (RL (CIS)). RLI DAC also contains two ring-fenced funds (Liver Ireland Fund and German Bond Fund). The ring-fenced funds are closed to new business and were established when business from various acquisitions was transferred to Royal London. They are in run-off, with surplus to be distributed to policyholders in line with the PPFM for each fund.

Risk management system

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.

Risk margin

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

Risk-free rate

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

Royal London

The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Asset Management (RLAM)

Royal London Asset Management Holdings Limited and its subsidiaries. It is responsible for managing the Group's financial assets as well as funds for external clients, including multi-managers, pension funds, local authorities, universities, charities and individuals.

Royal London Group

The Royal London Mutual Insurance Society Limited and its subsidiaries.

Royal London Insurance Designated Activity Company (RLI DAC)

Royal London's regulated Irish insurance subsidiary. The company was incorporated on 11 July 2018 with regulatory permissions effective from 1 January 2019. It is 100% owned by RLMIS.

Royal London Long-Term Fund

The long-term business fund of Royal London, comprising the Royal London Main Fund and a number of closed sub-funds from businesses acquired in the past.

Royal London Main Fund

The part of the Royal London Long-Term Fund into which all of the Group's new pensions and insurance business is written. Also referred to in the document as the RL Main Fund or the Main Fund.

S

Section 172

Section 172 of the Companies Act 2006. This sets out the matters that a director of a company must consider when fulfilling their duty to promote the success of the company for the benefit of its members.

Senior Managers and Certification Regime (SMCR)

A regime introduced by the FCA and PRA which is designed to make individuals at financial firms more accountable.

Single premium

A single payment for an insurance contract.

Scope 1 emissions

Greenhouse Gas (GHG) emissions directly resulting from our business activities, e.g. from company cars and direct emissions from air conditioning units.

Scope 2 emissions

Indirect Greenhouse Gas (GHG) emissions through our energy consumption, e.g. resulting from fossil fuels burned to produce the electricity used to provide heat, light and power technology within our offices.

Scope 3 emissions

All other Greenhouse Gas (GHG) emissions indirectly produced as a result of our business activities. This category includes GHG emissions from our value chain and the entirety of our portfolio emissions.

Solvency II (SII)

A European Union directive that became fully applicable to European and UK insurers and reinsurers on 1 January 2016. It covers three main areas, related to capital requirements, risk management and supervisory rules.

Solvency and Financial Condition Report (SFCR)

A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report it to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Solvency Capital Requirement (SCR)

The amount of capital that the PRA requires a UK life insurer to hold. It is calculated using Solvency II requirements. It can be calculated using the Standard Formula or Internal Model methods.

Solvency surplus

The excess of Own Funds over the Solvency Capital Requirement.

Standard Formula

A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a life insurer is exposed to. If the Standard Formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

Stewardship

The PRI defines stewardship as “the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients’ and beneficiaries’ interests depend.”

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 Group 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.

The Royal London Mutual Insurance Society Limited (RLMIS)

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 117672. The company is registered in England and Wales as company number 99064.

Three lines of defence model

The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision-making, risk and control to achieve effective governance, risk management and assurance.

Tier (of capital)

There are three tiers of capital defined by SII. The higher the 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.

Tilt fund

An adjusted tracker fund that allows fund managers to deviate from the underlying index, by giving greater weight to securities according to a chosen measure (for example, ESG and climate practices).

Tracker fund

A passive fund that seeks to closely track the performance of a particular index.

Transition risks

Risks related to market adjustments resulting from the transition to a low carbon economy.

Transfer (from)/to the fund for future appropriations

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.

Transitional Measure on Technical Provisions (TMTP)

The transitional measure smooths the transition from the previous Solvency I regime to the Solvency II regime, and spreads the capital impact over 16 years. Once approved by the PRA, this is included within the valuation of technical provisions.

U

UK Corporate Governance Code (the Code)

This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

UK Generally Accepted Accounting Practice (UK GAAP)

The body of accounting standards published by the UK’s Financial Reporting Council (FRC). Royal London’s financial statements are prepared in accordance with these standards.

UK Stewardship Code

The Financial Reporting Council’s UK Stewardship Code focuses on sustainable and responsible investment and stewardship, and sets standards for asset owners and asset managers.

Unit-linked policy

A policy for which the premiums buy units in a chosen investment fund.

UK segment

The UK business provides pensions and other retirement products to individuals and to employer pension schemes and protection products to individuals in the UK.

Unit trust

A collective investment which invests in a range of assets such as equities, fixed interest investments and cash. A unit trust might be a general fund or specialise in a particular type of asset or in a particular geographical area.

Unitised with-profits policy

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

V

Value chain emissions

Our non-investment related Scope 3 value chain greenhouse gas (GHG) emissions.

Value of in-force business (VIF)

The present value of the projected future profits after tax arising from the business in-force at the valuation date.

ValueShare

ValueShare is a discretionary enhancement applied to unit fund values of eligible RLI DAC policies, by means of an allocation of part of RLI DAC’s operating profits.

Volatility Adjustment (VA)

An adjustment made to the risk-free interest rate for Solvency II purposes. It is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers’ solvency position.

W

With-profits fund

A fund that may invest in companies, both in the UK and overseas, government stocks, property, and other types of assets. Instead of receiving direct investment returns, for example dividends, rents, interest and capital appreciation, policyholders of the fund receive bonuses.

With-profits policy

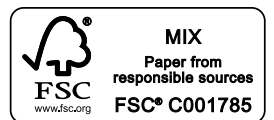
A policy that participates in the profits of a with-profits fund. This participation may be in the form of one or more of a cash bonus, an annual bonus or a bonus paid on the exit of the policy.

Women in Finance Charter

This is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter reflects the Government’s aspiration to see gender balance at all levels across financial services firms.

Workplace pension

A pension plan that is arranged by an individual’s employer.



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