

Interim Results Announcement 2022

5 August 2022

19% increase in new business sales driven by the strength of investment offering

Barry O'Dwyer, Group Chief Executive, commented:

"Recent market turmoil means that investors look to their independent financial advisers for reassurance and these advisers, in turn, look to providers they can rely on. The trust advisers have in Royal London comes from a consistent track record of transparent investment governance, excellent returns, market-leading service and a mutual mindset focused on delivering for customers, not shareholders.

"As a result, we have seen strong growth in new business sales, helping to deliver a 36% increase in operating profit over the first half of the year.

"As the increased cost of living continues to create uncertainty, building customers' financial resilience remains at the forefront of our priorities. In partnership with Wealth Wizards, we have delivered a free online tool which helps Workplace pension members to assess and build their financial wellbeing. We are committed to supporting our members and customers to make the right, informed choices to protect their standard of living now and over the long term."

Highlights

- 140,000 new pension policies taken out by customers to save for their retirement with Royal London during the first half of 2022, increasing the total number of UK pension policies to over 3.1 million.
- Paid out £304m in protection claims, supporting approximately 40,000 customers and their families at a time when they needed it most.
- Our flagship Governed Range saw net inflows of £1.5bn, with AUM stable at £51bn. While absolute fund values have been impacted by market declines in 2022, all of our core pension propositions continue to outperform their benchmarks over three years.
- Enhanced digital capabilities through the launch of a new financial wellbeing tool via Wealth Wizards and the introduction of a new Adviser Dashboard for UK protection advisers, giving them the ability to manage their client applications online.
- Migrated 4.1 million long-standing policies onto new technology since 2020, including c.1 million in the first half of 2022, improving customers' overall servicing experience.
- Continued focus on responsible investment through active engagement with the largest contributors to the carbon footprint of our investment portfolios, with a particular focus on investees' climate strategies and plans to lower emissions.
- Investment performance of actively managed funds³ over three years remains strong in difficult market conditions.

Financials

		Six months ended 30 June 2022	Six months ended 30 June 2021
UK GAAP	Operating profit before tax ⁴	£109m	£80m
	(Loss)/profit before tax ⁵	£(228)m	£228m
New business	Life and pensions new business sales ⁶	£5,494m	£4,620m
Inflows	Gross inflows ⁷	£18,180m	£11,987m
	Net inflows ⁷	£2,578m	£405m
		30 June 2022	31 December 2021
Funds	Assets under management ⁸	£150bn	£164bn
	Regulatory View solvency surplus ⁹	£3.0bn	£2.8bn
Capital (Solvency II)	Regulatory View capital cover ratio ⁹	202%	173%
	Investor View solvency surplus ⁹	£3.0bn	£2.8bn
	Investor View capital cover ratio ⁹	227%	216%

- Operating profit before tax⁴ increased to £109m (H1 2021: £80m) driven by a higher contribution from new business sales and lower corporate costs.
- Loss before tax⁵ was £228m (H1 2021: £228m profit) as falls in equity and bond markets led to negative economic variances compared to our longer term expected return assumptions for assets supporting the life funds.
- Life and pensions new business sales⁶ were up 19% at £5,494m (H1 2021: £4,620m), driven by a 24% rise in Individual and Workplace pensions sales. UK Protection sales slowed as the market has returned to pre-pandemic levels.
- Net inflows⁷ increased to £2,578m (H1 2021: £405m) reflecting increased pensions market activity and the attraction of our long-term savings and investment offerings.
- Assets under management⁸ decreased to £150bn (31 December 2021: £164bn) with net inflows offset by negative market movements.
- Capital position remains robust with the Investor View capital cover ratio⁹ increasing to 227% (31 December 2021: 216%) and the Regulatory View capital cover ratio⁹ increasing to 202% (31 December 2021: 173%) following the significant increases in yields and credit spreads.

Investor Conference call

Royal London will hold an investor conference call to present its 2022 Interim Financial Results on Friday, 5 August 2022 at 09:00. Interested parties can [register here](#). A copy of the presentation to investors is available on the [Group's website](#).

For further information please contact:

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About Royal London

Royal London is the UK's largest mutual life, pensions and investment company. We provide long-term savings, protection and asset management products and services in the UK, and protection products in Ireland. We work with advisers and customers to protect the standard of living of this and future generations.

Financial calendar:

- 5 August 2022 – Interim Financial Results for 2022 and Investor Conference Call
- 7 October 2022 – RL Finance Bonds No 4 plc subordinated debt interest payment date
- 14 November 2022 – RL Finance Bonds No 3 plc subordinated debt interest payment date
- 30 November 2022 – RL Finance Bonds No 2 plc subordinated debt interest payment date

Editor's notes

1. The information in this announcement relates to The Royal London Mutual Insurance Society Limited ('RLMIS' or 'the Company'), and its subsidiary undertakings, together referred to as 'Royal London' or 'the Group'.
2. The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with relevant financial reporting frameworks such as UK GAAP or Solvency II. These measures are known as alternative performance measures (APMs) and include Operating profit before tax. APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.
3. 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, while they have a place as part of a balanced portfolio, Royal London believes in the long-term value added by active management.
4. Operating profit before tax represents (loss)/profit (transfer (from)/to fund for future appropriations before other comprehensive income) excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers and acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits/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).
5. (Loss)/profit before tax represents the statutory '(Loss)/profit before tax and before transfer (from)/to the fund for future appropriations' in the consolidated statement of comprehensive income.
6. Life and pensions new business sales represent life and pensions business only and excludes Asset Management and other lines of business. Sales are presented as the Present Value of New Business Premiums (PVNBP), which is the total of new single premium sales received in the period plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the period. The rate used to discount the cash flows in the reported results has been derived from the swap curve at 31 December 2021 for all new business except annuities, where instead the swap rate at the end of each prior month is used to discount the next month's new business cashflows.
7. Gross and net inflows incorporate flows into RLAM from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions paid (net of reinsurance). Given its nature, non-linked Protection business is not included.
8. Assets under management (AUM) represent the total of assets managed by the Group, including funds managed on behalf of third parties.
9. The capital cover ratio is calculated as the Group's Own Funds, being the regulatory capital under Solvency II, divided by the Solvency Capital Requirement (SCR). The 'Regulatory View' solvency surplus and capital cover ratio restricts each closed funds' surplus to the value of the SCR of that fund. The 'Investor View' equals the RL Main Fund capital position (excluding ring-fenced funds, which are run on a standalone basis). All capital figures are stated on a Group Partial Internal Model basis.
10. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.

Business Review

The first half of 2022 saw continuing geopolitical and economic uncertainty, stemming from the war in Ukraine, the emergence of stagnation fears and the increased cost of living. These factors have led to turbulent market conditions, with a compression in fixed income prices, volatile equity valuations and pressure on customers' disposable income.

Throughout this uncertainty, we have continued to focus on supporting our customers' needs. At times like these the value of impartial financial advice in ensuring appropriate protection cover is in place and savings and investments are being managed well becomes ever more apparent.

We remain strong advocates for impartial financial advice and the benefits it provides. We continue to work in partnership with thousands of independent financial advisers to support them and their customers, increasingly using technology to scale the provision of advice and guidance to make it more accessible. However, the cost of impartial advice can be prohibitive for some. We are therefore also committed to ensuring our customers have access to relevant information and guidance through our communications, mobile app and our website to help them make informed and confident financial decisions. Through our charitable partnerships like Turn2us and our Changemakers programme, we also support the wider community and people who are struggling to navigate difficult times.

As well as financial health, our customers also need assistance with their mental and physical health, particularly at the time of a claim. Our Helping Hand service is included at no extra cost with all advised Protection plans and provides access to a dedicated nurse and personalised support, when it is needed. Earlier this year we enhanced the offering by introducing a wellbeing service to help customers maintain a healthy lifestyle, giving them online access to a range of hand-picked early medical care services.

We remain committed to our target of reducing the carbon equivalent emissions of our investment portfolio by 50% by 2030 and to Net Zero by 2050^a. Our ambitions are reliant on the actions of governments and a supportive policy environment. While the war in Ukraine has increased focus on energy security, which is likely to lead to a short-term increase in the use of fossil fuels, it is imperative that government policies promote immediate investment in a low carbon economy to ensure that the goals of the Paris agreement remain achievable.

Through the first six months of the year, we have continued to leverage our position as one of the UK's largest asset managers engaging with companies to influence the transition to a sustainable world, using our votes at Annual General Meetings to express our views.

We are proud of our mutual status and our position of being able to focus on driving change solely on behalf of our members and customers. We will continue to use our position to focus on, and champion, the key issues which will improve their standard of living now and for future generations.

^a The term Net Zero means achieving a balance between the amount of greenhouse gases emitted into the atmosphere and the amount removed from it. The commitment is based on the expectation that governments and policymakers will deliver on the commitments to achieve the 1.5°C temperature goal of the Paris Agreement and this action does not contravene Royal London's fiduciary duty to external investors. The commitment is based on our emissions profile of 2020. It 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.

Our trading performance

UK

We invested further in our technology capability, with the launch of our new financial wellbeing offering through Wealth Wizards to Workplace pension customers. This service is free and includes several tools to help build customers' understanding of what their future may look like, alongside material to help educate and build engagement. We were also delighted to launch a new Adviser Dashboard in early June for protection advisers, giving full digital visibility of their pipeline and case management status of policies. We made improvements to our mobile app, introducing the capability for Workplace pension customers to request a transfer using a digital signature, improving the efficiency of the administrative process and the transfer journey for customers.

Our pension new business sales increased to £4,750m (H1 2021: £3,819m) with strong flows into both Workplace and Individual pensions. Growth in new business sales was driven by increased confidence within the employment market in the post lockdown period with Workplace new business sales increasing to £2,025m (H1 2021: £1,459m), as well as an increase in face-to-face adviser appointments leading to Individual pensions new business sales increasing to £2,725m (H1 2021: £2,360m). Our flagship investment solution, the Governed Range, continued to outperform its three year benchmarks as we adjusted asset allocations to take account of the market uncertainty; this has further supported the growth in Pensions new business. With net inflows of £1.5bn, Governed Range assets under management were stable at £51bn following falls in investment markets.

Protection new business sales reduced to £569m (H1 2021: £676m) driven by a return to pre-pandemic levels of demand, along with pressure on disposable income caused by higher inflation. Following the launch of the 'Underwrite Later' option last year, 94% of all Life Cover on Business and Relevant Life Plans can be put in force without waiting for medical evidence. We have also made a series of other improvements to our underwriting processes, increasing the speed at which we can offer cover to customers, while reducing the burden on the NHS. Enhancements have also been made to our critical illness cover to increase the range of definitions under which we will make payment, helping to pay more claims when customers have suffered a life shock.

Through our Legacy Simplification programme, we are continuing to migrate legacy books of business from older mainframe systems onto a single more modern IT system to reduce risk and improve services to customers. We have successfully migrated c.1 million in-force policies onto new technology since the beginning of the year and we plan to migrate a further 130,000 policies in the second half of 2022. This work builds on the migrations completed in 2020 and 2021, and brings the total number of migrated policies to over 4 million. We are also on track to complete further with-profits fund consolidations, planned for the second half of 2022.

Asset Management

RLAM, which manages funds for our customers and external clients, has been operating in volatile investment markets as a result of the war in Ukraine, rising inflation and the cost-of-living crisis. Investment performance of actively managed funds remains strong, with 80% of funds outperforming their benchmark over the three years to 30 June 2022, which is lower than the 97% reported in respect of the three years to 30 June 2021. Assets under management fell by 9% to £150bn (31 December 2021: £164bn), following the falls we have seen in global equity and fixed income markets. Equity markets have reacted to the uncertain macro environment and we expect this volatility to continue for the foreseeable future. Fixed income returns also continue to be adversely impacted by high inflation and consequent tightening of monetary policy by central banks worldwide.

Sales have remained strong despite these challenges with net inflows in the first half of £2.6bn, including £1.5bn external flows. In these uncertain times we are seeing the benefit of the investment we have made to diversify our asset management capabilities with net inflows from institutional clients in global equities, one of our newer strategies, and sterling credit, a traditional strength for RLAM. In wholesale, we have continued to see net inflows into Sustainable funds, albeit at lower levels than in recent years. This is despite their relative performance when compared to non-sustainably managed peers, demonstrating the ongoing demand for responsible investment solutions. In addition, we have also had strong flows into government bond funds as a result of the sharp increase in bond yields and our track record.

In recognition of its performance success, RLAM recently received multiple awards including MoneyAge Asset Manager of the Year – over €100bn AUM, as well as Professional Adviser Best Multi-Asset Fund (Sustainable) for its Royal London Sustainable Diversified Trust. We were also awarded the Insurance Asset Risk Investment Team of the Year (Sustainable Team) and Equity Manager of the Year, as well as ESG Clarity's Best Global ESG Fixed Income Fund – Active for our Global Sustainable Credit fund, as well as Morningstar's Best GBP Bond Fund for our Corporate Bond Fund.

In April, RLAM published its Stewardship and Responsible Investment report, together with a dedicated webpage and video to promote awareness amongst clients. The report focuses on how RLAM has engaged with companies and voted at AGMs to drive positive change as well as how ESG has been integrated across asset classes.

Ireland

The Irish business continues to perform well with Protection sales momentum maintained from 2021, with new business sales of £88m (H1 2021: £88m). Building on our heritage in Ireland and enhanced brand visibility, 'Royal London Ireland' was introduced as the new trading name earlier this year. We have continued to improve our market-leading products this year, most recently making significant enhancements to our Income Protection proposition. Recent awards include Life Assurance Product Innovation at the 2022 Association of Irish Mortgage Advisors Awards and Best Mortgage Protection at the bonkers.ie National Consumer Awards 2022.

Capitalising on our established position, we plan to replicate the successful formula which we are known for in protection, when we enter the Individual pensions market in Ireland in H2 2022.

Looking ahead

Our mutual status and robust capital position continue to enable a long-term approach to decision making. The current economic uncertainty is expected to continue over the short-term. We remain committed to working in partnership with independent financial advisers to deliver better outcomes to customers through this period and beyond. The need for high quality, technology enabled solutions to assist with the efficiency of the provision of advice has never been clearer in protecting the standard of living of our customers.

Despite the turbulent market conditions during the first half of 2022, we have delivered strong new business sales, higher net flows and significantly higher operating profit. While the trading environment remains challenging, our strategy to be an insight-led, modern mutual growing sustainably by deepening customer relationships continues to deliver for our members, customers and financial adviser partners.

Financial Review

Group operating profit before tax for the six months ended 30 June 2022 increased to £109m (H1 2021: £80m) supported by higher new business sales and lower corporate costs. Statutory loss before tax was £228m (H1 2021: profit before tax £228m), impacted by adverse economic experience due to equity market volatility and negative bond market returns resulting in falls in asset values.

Our UK business has benefited from improved sales in both Individual and Workplace pensions, as well as in annuity products, partially offset by a reduction in Protection sales as the UK market has contracted towards pre-pandemic levels. Contribution from AUM and other businesses has reduced marginally as the impact of recent market volatility has not yet had a significant impact on revenues. We have continued to invest in our business as our position as a mutual allows us to take a longer term view of the investments we make.

Our capital position remains robust despite market volatility in the first half of the year with the Solvency II Investor View capital cover ratio increasing to 227% (31 December 2021: 216%) following the significant increases in credit spreads. This has allowed us to continue to invest in developing our propositions both in the UK and in Ireland.

At 30 June 2022, the Solvency II Regulatory View capital cover ratio was 202% (31 December 2021: 173%). This increase was driven by the significant increases in yields reducing the capital requirements of the closed funds, in particular in relation to guaranteed annuity options.

Group operating profit before tax

The following table shows the Group operating profit for the six months ended 30 June 2022.

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Change £m
Long-term business			
New business contribution	89	81	8
Existing business contribution	87	82	5
Contribution from AUM and other businesses	55	59	(4)
Business development and other costs	(19)	(16)	(3)
Strategic development costs	(35)	(39)	4
Result from operating segments	177	167	10
Corporate costs	(31)	(50)	19
Financing costs	(37)	(37)	-
Group operating profit before tax	109	80	29

New business contribution

New business contribution increased to £89m (H1 2021: £81m), driven by continued growth in sales of pension and annuity products, offset by a reduction in protection business compared to the first half of 2021 which experienced heightened demand during the pandemic.

The Present Value of New Business Premiums increased 19% to £5,494m (H1 2021: £4,620m). Whilst new business sales increased across the majority of product lines, new business margin decreased to 1.6%. The overall margin impact in the first half of 2022 reflects the reduction in protection volumes and actions are underway to reduce costs in the second half of the year.

	New business contribution		PVNBP		New business margin	
	Six months ended 30 June 2022	Six months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021
	£m	£m	£m	£m	%	%
Individual pensions	48	43	2,725	2,360	1.8	1.8
Workplace pensions	18	15	2,025	1,459	0.9	1.0
Protection	12	21	569	676	2.2	3.1
Other ^b	3	(4)	87	37	3.9	n/a
UK	81	75	5,406	4,532	1.5	1.7
Ireland (Protection)	8	6	88	88	8.5	6.8
	89	81	5,494	4,620	1.6	1.8

UK

Individual pensions new business sales increased to £2,725m (H1 2021: £2,360m). Sales have continued to recover as face-to-face appointments increased following the lifting of pandemic restrictions. The number of advised sales has increased as our Governed Range performed relatively well as asset allocations were adjusted to take account of market uncertainty. New business margin was consistent at 1.8%.

Workplace pensions new business sales grew by 39% to £2,025m (H1 2021: £1,459m) reflecting the recovery in the employment market compared to the first half of 2021 which was impacted by lockdown restrictions. The increased confidence in the employment market has led to an increase in new entrants to existing schemes. Despite the increase in new business sales, new business margin fell from 1.0% to 0.9% reflecting a change in business mix, with a higher proportion of new schemes written in the period.

Sales of our Protection products fell to £569m (H1 2021: £676m) reflecting an overall market contraction as customer demand has reduced post the pandemic. New business margin decreased from 3.1% to 2.2% as a result of the fall in sales volumes.

Other business sales increased to £87m (H1 2021: £37m) driven by growth in our annuity product that was launched in early 2021.

Ireland

New business sales in Ireland were £88m (H1 2021: £88m) as strong sales momentum from 2021 continued across protection products. New business margin has increased from 6.8% to 8.5% due to changes in product mix.

^b Other includes annuities as well as other savings products. As the annuity product was launched part way through H1 2021, new business margin for the comparative period has not been presented.

Existing business contribution

Existing business contribution increased to £87m (H1 2021: £82m), the components of which are shown in the table below.

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Change £m
Expected return	54	58	(4)
Experience variances and assumption changes	6	25	(19)
Modelling and other changes	27	(1)	28
	87	82	5

Experience variances were £6m (H1 2021: £25m). In H1 2021, we saw positive Workplace pensions persistency experience as fewer people changed employers during the lockdown period. There were no changes to long-term assumptions in H1 2022.

The benefit in modelling and other changes largely results from the transfer in April of £100m of deferred annuities into our ring-fenced annuity portfolio. A one-off benefit of £18m arose 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.

Contribution from AUM and other businesses

Contribution from AUM and other businesses decreased marginally to £55m (H1 2021: £59m). In spite of the recent market volatility impacting AUM, profitability levels have not been significantly impacted in the short-term.

Business development and other costs

Business development and other costs of £19m (H1 2021: £16m) include costs of investment in our products and propositions, as well as implementing product-related regulatory change. We have continued to focus on the delivery of proposition enhancements including the Wealth Wizards financial wellbeing proposition and the Adviser Dashboard.

Strategic development costs

Strategic development costs of £35m (H1 2021: £39m) represent the ongoing investment we are continuing to make in our pensions business. Other costs relate to further policy migration activity completed as part of our Legacy Simplification programme, investing in the core infrastructure and systems of our Asset Management business as well as developments towards the launch of our new pensions proposition in Ireland later this year.

Corporate and Financing costs

Corporate costs of £31m (H1 2021: £50m) have decreased following the completion of the integration of the Police Mutual business. Financing costs of £37m (H1 2021: £37m) represent the interest payable on the Group's subordinated debt, which has not changed during the period.

Reconciliation of operating profit before tax to statutory (loss)/profit before tax

Statutory loss before tax was £228m (H1 2021: profit before tax £228m), driven primarily by adverse economic movements for the period.

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Change £m
Group operating profit before tax	109	80	29
Economic movements	(338)	148	(486)
Amortisation of goodwill arising from mergers and acquisitions	1	-	1
Statutory (loss) / profit before tax	(228)	228	(456)

Economic movements were a charge of £338m (H1 2021: credit of £148m), reflecting adverse economic experience as falls in equity and bond markets led to investment portfolio returns below the longer term expected return assumptions we apply to assets backing the life funds.

Assets under management

Assets under management decreased to £150bn (31 December 2021: £164bn), with net inflows offset by negative market movements as a result of the war in Ukraine, increasing inflation impacted by interruptions to global supply chains and heightened expectations of a further economic slowdown.

	Gross inflows		Net inflows	
	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
External flows	7,898	7,822	1,468	(1)
Internal flows	10,282	4,165	1,110	406
Total	18,180	11,987	2,578	405

External net inflows increased to £1,468m (H1 2021: net outflow of £1m) driven by institutional inflows as well as ongoing demand for sustainable products in both equity and fixed income, despite their underperformance against their benchmarks. H1 2021 included a large institutional outflow, which was replaced by a linked and larger reinvestment of £2.1bn in early July 2021.

Internal net inflows increased to £1,110m (H1 2021: £406m) due to higher inflows in our Pensions business.

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.

The table below sets out the capital position and key Solvency II metrics on a Partial Internal Model basis for the Group.

Key metrics	30 June 2022	31 December 2021
Regulatory View solvency surplus	£3,002m	£2,817m
Regulatory View capital cover ratio	202%	173%
Investor View solvency surplus	£3,002m	£2,817m
Investor View capital cover ratio	227%	216%

Our capital ratios have improved following the significant increases in yields and credit spreads in the first half of 2022, with the Regulatory View ratio increasing in particular due to the increase in yields reducing the capital requirements of the closed funds, in particular in relation to guaranteed annuity options.

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

Balance sheet

Our balance sheet position remains robust. Our total investment portfolio reduced in value to £106.3bn (31 December 2021: £118.1bn), primarily driven by fair value reductions across equities and bonds and interest rate increases reducing the value of derivatives. At 30 June 2022, £499m of assets were ring-fenced (31 December 2021: £452m) to back annuitant liabilities of £462m (31 December 2021: £427m). The ring-fenced portfolio of assets includes a mix of corporate bonds and commercial real estate loans.

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

A significant portion of our debt securities portfolio is in high-quality assets with a credit rating of 'A' or above. In our non-linked portfolio, 82% (31 December 2021: 85%) of our non-linked debt securities and 70% (31 December 2021: 71%) of our non-linked corporate bonds had a credit rating of A or better at 30 June 2022. There have been no significant defaults in our corporate bond portfolio.

The Group had no significant exposure to securities issued by Russian, Belarusian or Ukrainian companies or governments at 30 June 2022.

Statement of directors' responsibilities

The Interim Results Announcement, including the Interim Financial Statements, is the responsibility of, and has been approved by the directors.

In preparing the Interim Financial Statements, the directors:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP) has been followed, subject to any material departures disclosed and explained in the Interim Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Interim Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

They are responsible for such internal controls as they determine are necessary to enable the preparation of Interim Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group were reviewed by the Board in March 2022 when the 2021 Annual Report and Accounts (ARA) was published and took account of the evolving conflict in Ukraine and the economic environment. The Board considers that they have not changed significantly from those set out in the 'Principal risks and uncertainties' section of the Strategic Report within the 2021 ARA (royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/).

The risks and uncertainties continue to be monitored and managed through our risk management system, including those related to geopolitics and the UK political and economic environment.

Forward-looking statements

Royal London may make verbal or written ‘forward-looking statements’ within this announcement, with respect to certain plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about Royal London’s beliefs and expectations and including, without limitation, statements containing the words ‘may’, ‘will’, ‘should’, ‘continue’, ‘aims’, ‘estimates’, ‘projects’, ‘believes’, ‘intends’, ‘expects’, ‘plans’, ‘seeks’ and ‘anticipates’, and words of similar meaning, are forward-looking statements. The statements are based on plans, estimates and projections as at the time they are made and involve unknown risks and uncertainties. These forward-looking statements are therefore not guarantees of future performance and undue reliance should not be placed on them.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, some of which will be beyond Royal London’s control. Royal London believes factors could cause actual financial condition, performance or other indicated results to differ materially from those indicated in forward-looking statements in the announcement. Potential factors include but are not limited to: the ongoing effects of the Covid-19 pandemic; the war in Ukraine; UK and Ireland economic and business conditions; future market-related risks such as 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 announcement or any other forward-looking statements Royal London may make. Forward-looking statements in this announcement 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.

The Royal London Mutual Insurance Society Limited is registered in England and Wales (99064) at 55 Gracechurch Street, London, EC3V 0RL. www.royallondon.com

Interim Financial Statements

Consolidated Statement of comprehensive income (unaudited)

For the period ended 30 June 2022

Technical account – long-term business	Group		
	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)	Year ended 31 December 2021
	£m	£m	£m
Gross premiums written	580	575	1,156
Outwards reinsurance premiums	287	62	(82)
Earned premiums, net of reinsurance	867	637	1,074
Investment income	951	1,905	4,196
Unrealised gains on investments	-	1,918	4,875
Other income	328	297	659
Total income	2,146	4,757	10,804
Claims paid			
• Gross claims paid	(1,395)	(1,430)	(2,806)
• Reinsurers' share	273	271	531
Change in provision for claims			
• Gross amount	(20)	(19)	(64)
• Reinsurers' share	3	(3)	21
Claims incurred, net of reinsurance	(1,139)	(1,181)	(2,318)
Change in long-term business provision, net of reinsurance			
• Gross amount	6,205	1,711	1,327
• Reinsurers' share	(774)	(466)	(599)
	5,431	1,245	728
Change in technical provision for linked liabilities, net of reinsurance	5,288	(4,317)	(7,953)
Change in technical provisions, net of reinsurance	10,719	(3,072)	(7,225)
Change in non-participating value of in-force business	72	308	104
Net operating expenses	(264)	(330)	(623)
Investment expenses and charges	(145)	(112)	(275)
Unrealised losses on investments	(11,481)	-	-
Other charges	(136)	(142)	(275)
Total operating expenses	(12,026)	(584)	(1,173)
(Loss)/profit before tax and before transfer to the fund for future appropriations	(228)	228	192
Tax attributable to long-term business	179	(51)	(113)
Transfer (from)/to the fund for future appropriations	(49)	177	79
Balance on technical account – long-term business	-	-	-
Other comprehensive income, net of tax:			
Remeasurement of defined benefit pension schemes	14	171	267
Foreign exchange rate movements on translation of Group entities	4	27	(10)
Transfer to the fund for future appropriations	18	198	257
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	-	-

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 period is always £nil after the transfer to or deduction from the fund for future appropriations.

Consolidated Balance sheet (unaudited)

As at 30 June 2022

	Group		
	30 June 2022 (unaudited) £m	30 June 2021 (unaudited) £m	31 December 2021 £m
ASSETS			
Intangible assets			
Goodwill	24	27	25
Negative goodwill	(42)	(49)	(44)
	(18)	(22)	(19)
Other intangible assets	107	70	96
	89	48	77
Non participating value of in-force business	2,405	2,537	2,333
Investments			
Land and buildings	152	160	149
Other financial investments	36,816	44,490	45,293
	36,968	44,650	45,442
Assets held to cover linked liabilities	69,352	65,608	72,697
Reinsurers' share of technical provisions			
Long-term business provision	3,807	4,712	4,579
Claims outstanding	128	93	125
Technical provisions for linked liabilities	(48)	(46)	(53)
	3,887	4,759	4,651
Debtors			
Debtors arising out of direct insurance operations	53	43	46
Debtors arising out of reinsurance operations	68	52	56
Other debtors	1,157	808	499
	1,278	903	601
Other assets			
Tangible assets	16	22	18
Cash at bank and in hand	623	767	622
	639	789	640
Prepayments and accrued income			
Deferred acquisition costs on investment contracts	100	149	113
Other prepayments and accrued income	47	46	36
	147	195	149
Pension scheme asset	362	258	357
Total assets	115,127	119,747	126,947

Consolidated Balance sheet (unaudited, continued)

	Group		
	30 June 2022 (unaudited) £m	30 June 2021 (unaudited) £m	31 December 2021 £m
LIABILITIES			
Subordinated liabilities	1,334	1,333	1,333
Fund for future appropriations	3,978	4,048	4,009
Technical provisions			
Long-term business provision	34,588	40,412	40,802
Claims outstanding	342	276	321
	34,930	40,688	41,123
Technical provisions for linked liabilities	69,183	65,410	72,499
Provisions for other risks			
Deferred taxation	46	200	228
Other provisions	199	277	250
	245	477	478
Creditors			
Creditors arising out of direct insurance operations	280	255	264
Creditors arising out of reinsurance operations	2,045	2,612	2,535
Amounts owed to credit institutions	97	72	42
Other creditors including taxation and social security	2,970	4,756	4,562
	5,392	7,695	7,403
Accruals and deferred income	65	96	102
Total liabilities	115,127	119,747	126,947

Notes to the Interim Financial Statements

1. Basis of preparation

The Group has prepared the Interim Financial Statements 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 accounting policies applied in the Interim Financial Statements are the same as those applied in the Group's 2021 ARA. The full UK GAAP accounting policies can be found in the Group's 2021 ARA on the Royal London website at (royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/).

The Interim Financial Statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The comparative results for the full year 2021 have been taken from the Group's 2021 ARA. The Group's 2021 ARA has been filed with the Registrar of Companies.

The Interim Financial Statements have been prepared on a going concern basis 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 regularly performs sensitivities and stress testing on a range of severe but plausible scenarios and stress testing has been performed on the capital position for severe adverse economic and demographic impacts arising over the short to medium term. There are a range of actions available to the Directors in stress scenarios which could also be considered if there were a deterioration in the capital position of the Group. The capital position remains sufficient to cover capital requirements in these scenarios. Ongoing monitoring is in place over the liquidity coverage ratios and matching of asset and liability maturity profiles, and cash flow forecasts are also stressed under severe but plausible scenarios to ensure adequate levels of liquid assets are available to fund claims and other expenses. Having considered these matters, the Directors have concluded that no material uncertainty exists over the going concern assumption.

2. Segmental information

Operating segments

The operating segments reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board of Directors.

The activities of each operating segment are described below:

UK

The UK business provides pensions and other retirement products to individuals and to employer pension schemes and protection products to individuals in the UK.

Asset Management

The Asset Management segment comprises Royal London Asset Management Holdings Limited and its subsidiaries. RLAM provides investment management services to the other entities within the Group and to external clients, including pension funds, local authorities, universities, and charities, as well as individuals.

Ireland

The Ireland business comprises the Group's Irish subsidiary, Royal London Insurance DAC (RLI DAC). It provides intermediated protection products to individuals in the Republic of Ireland.

Operating profit

A key measure used by the Company's Board of Directors to monitor performance is operating profit, which is classed as an Alternative Performance Measure. The Company's Board of Directors considers this measure provides a more meaningful indication of the underlying trading of the Group than statutory profit.

The operating profit by operating segment is shown in the following table.

	Six months ended 30 June 2022 (unaudited)				Six months ended 30 June 2021 (unaudited)			
	UK £m	Asset Management £m	Ireland £m	Total £m	UK £m	Asset Management £m	Ireland £m	Total £m
Long-term business								
New business contribution	81	-	8	89	75	-	6	81
Existing business contribution	86	-	1	87	81	-	1	82
Contribution from AUM and other businesses	21	34	-	55	21	38	-	59
Business development and other costs	(12)	(7)	-	(19)	(9)	(7)	-	(16)
Strategic development costs	(26)	(6)	(3)	(35)	(34)	(2)	(3)	(39)
Result from operating segments	150	21	6	177	134	29	4	167
Corporate costs				(31)				(50)
Financing costs				(37)				(37)
Group operating profit before tax				109				80

Year ended 31 December 2021				
	UK £m	Asset Management £m	Ireland £m	Total £m
Long-term business				
New business contribution	147	-	17	164
Existing business contribution	118	-	7	125
Contribution from AUM and other businesses	29	95	-	124
Business development and other costs	(20)	(17)	-	(37)
Strategic development costs	(47)	(7)	(8)	(62)
Result from operating segments	227	71	16	314
Corporate costs				(106)
Financing costs				(75)
Group operating profit before tax				133