Financial results 2023

A growing modern mutual

8 March 2024

Daniel Cazeaux, Group Chief Financial Officer

ROYAL LONDON

Financial results 2023

Agenda

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

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Financial results 2023

Overview

Operating profit	Capital Cover Ratio[1]	ProfitShare[2]
£249m	**218%**	**£163m**
(FY2022: £210m)	(FY2022: 213%)	(FY2022: £155m)

Net inflows	Governed Range AUM	Group AUM
£4.2bn	**£60bn**	**£162bn**
(FY2022: £3.7bn)	(FY2022: £53bn)	(FY2022: £147bn)

1. Investor view basis
2. ProfitShare is a discretionary enhancement to eligible RLMIS customers with unit-linked or with-profits policies.

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Financial results 2023

Business unit highlights

UK

- Attracted over 240,000 new workplace pension customers
- Governed Range net inflows of £3.0bn, with AUM reaching £60bn
- New business margin increased by a third, supported by active management of our cost base
- Agreed to acquire Aegon UK's closed individual protection book and acquired Responsible Group
- Continued to expand annuity capability following buy-in transactions with Royal London pension schemes

Asset Management

- Group AUM increased to £162bn
- Net inflows of £4.2bn, driven by Global Equity strategies
- 96% of actively managed funds outperformed their three-year benchmark
- International growth winning first mandate in Japan and flows into Scandinavian funds
- Engaged with companies representing 52% of RLAM's financed emissions[1]
- Completed implementation of BlackRock's Aladdin investment management technology platform

Ireland

- Delivered new business sales of £230m
- Steady growth of Pensions proposition following launch in September 2022
- Protection sales increased to £179m
- Retained our position as the market leader in the Irish broker Protection market

1. Percentage of total RLAM corporate fixed income and listed equity scope 1, 2 and 3 financed emissions from companies subject to RLAM's net zero engagement programme.

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Financial highlights

		FY 2023	FY 2022	Change
UK GAAP	Operating profit before tax	**£249m**	£210m	+£39m
	Transfer to/(from) FFA	**£382m**	(£162)m	+£544m
NEW BUSINESS	Life and pensions new business sales	**£9,253m**	£10,776m	-£1,523m
INFLOWS	Gross inflows	**£29,904m**	£26,647m	+£3,257m
	Net inflows	**£4,203m**	£3,718m	+£485m

		FY 2023	FY 2022	Change
FUNDS	Assets under management	**£162bn**	£147bn	+£15bn
CAPITAL	Regulatory View solvency surplus	**£2.9bn**	£2.5bn	+£0.4bn
	Regulatory View capital cover ratio	**206%**	206%	+0%pts
	Investor View solvency surplus	**£2.9bn**	£2.5bn	+£0.4bn
	Investor View capital cover ratio	**218%**	213%	+5%pts

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Metrics are defined on page 22

Life and pensions new business

	New business sales	YoY change	New business margin
Individual pensions	£4,346m (FY2022: £5,219m)		1.5% (FY2022: 1.6%)
Workplace pensions	£3,753m (FY2022: £4,114m)		1.9% (FY2022: 1.0%)
Protection	£760m (FY2022: £1,037m)		3.0% (FY2022: 1.1%)
Annuities and Other	£164m (FY2022: £203m)		8.5% (FY2022: 4.5%)
UK	**£9,023m** (FY2022: £10,573m)	**-15%**	**1.9%** (FY2022: 1.4%)
Ireland	**£230m** (FY2022: £203m)	**+13%**	**4.8%** (FY2022: 8.5%)
Life and pensions new business	**£9,253m** (FY2022: £10,776m)	**-14%**	**2.0%** (FY2022: 1.5%)

- Individual Pensions volumes impacted by lower defined benefit transfers, despite boost from changes to lifetime allowance
- Workplace Pensions benefited from higher risk-free rates[1] and new functionality to support pension consolidations
- Protection sales decreased, impacted by cost of living pressures and rising interest rates. 2022 included a one- off transfer of a funeral investment plan of c.£100m
- Ireland new business boosted by launch of pensions proposition, with changing mix impacting margin

1. Life and pensions new business is reported using economic assumptions set at the start of the reporting period. The increase in the risk-free rate over 2022 therefore significantly impacts the comparability of new business metrics between 2022 and 2023.

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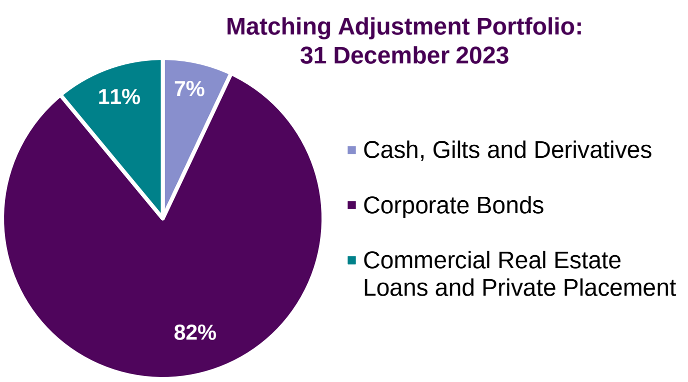
Annuities and Matching Adjustment Portfolio

Matching Adjustment Portfolio

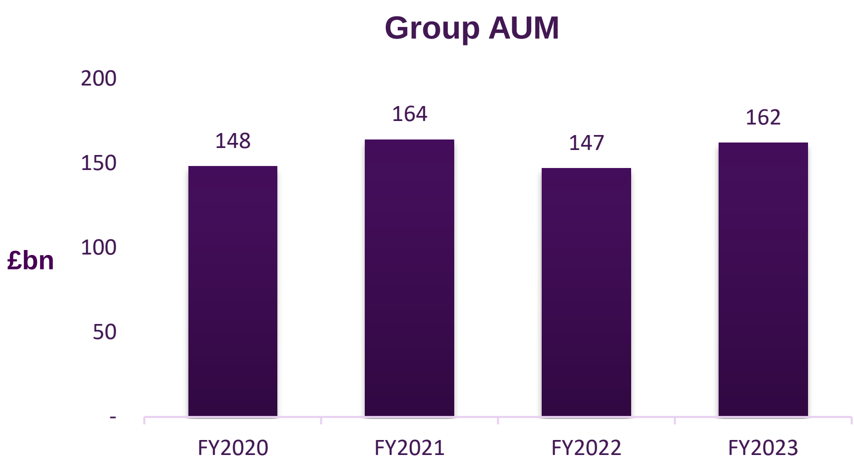
- Asset capability expanded to cover new illiquid assets
- Matching Adjustment Portfolio increased to £1.3bn (2022: £0.7bn), from:
  - New business (£0.16bn)
  - Internal annuity transfers (£0.20bn)
  - Liver UK pension scheme buy-in (£0.25bn)

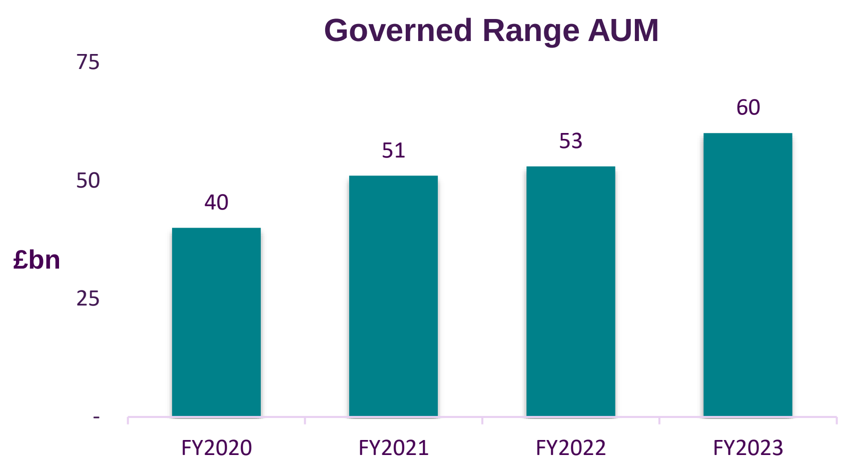


New bulk annuity proposition

- Completed two internal transactions:
  - November 2023: £246m Liver UK pension scheme buy-in with c3,000 pensioner and deferred members
  - January 2024: £348m RLGPS partial pensioner-only buy-in
- Building a competitive solution for the trustees of defined benefit pension schemes

Assets under management





Flows

	Gross inflows		Net inflows	
£m	**FY23 £m**	**FY22 £m**	**FY23 £m**	**FY22 £m**
Internal flows*	9,717	9,543	895	2,009
External flows	20,187	17,104	3,308	1,709
Total	**29,904**	**26,647**	**4,203**	**3,718**

* Includes Governed Range

- Net inflows and positive market movements support Group AUM growth
- Net inflows of £2.7bn into Global Equity strategies, including first Japanese mandate
- Flagship Governed Range attracted net inflows of £3.0bn
- Internal net inflows decreased following increases in regular withdrawals on policies in drawdown

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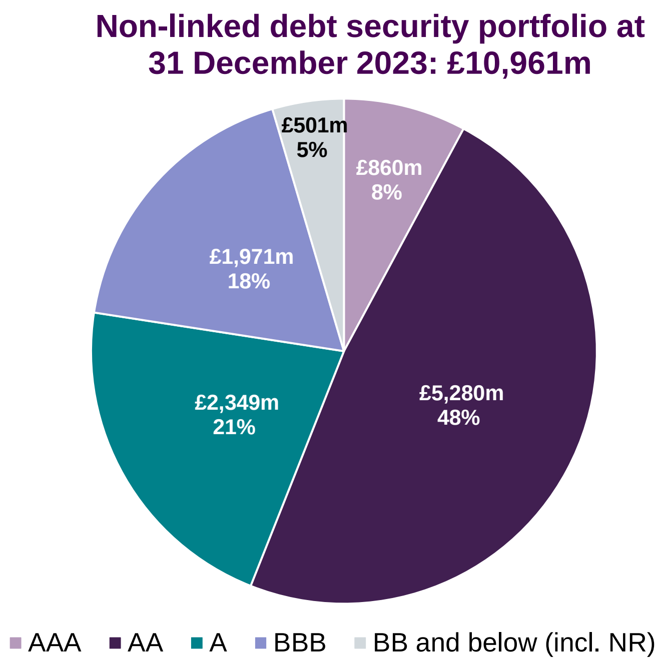
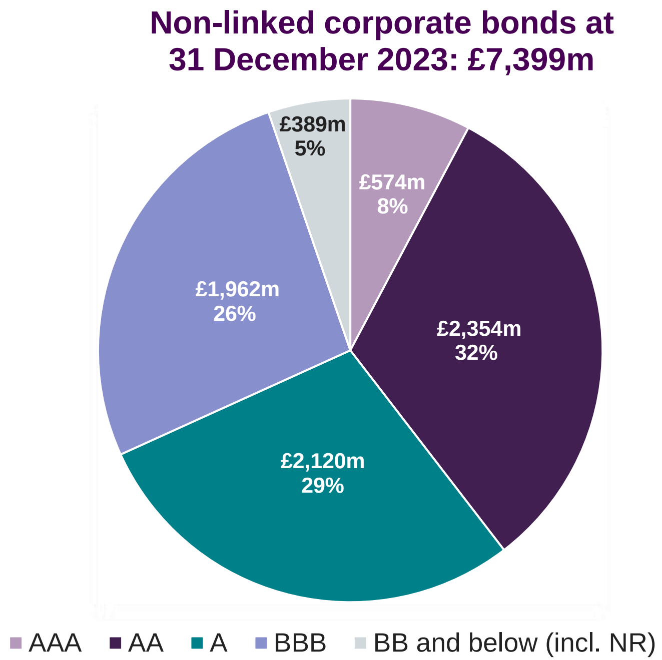
Balance sheet – investment portfolio

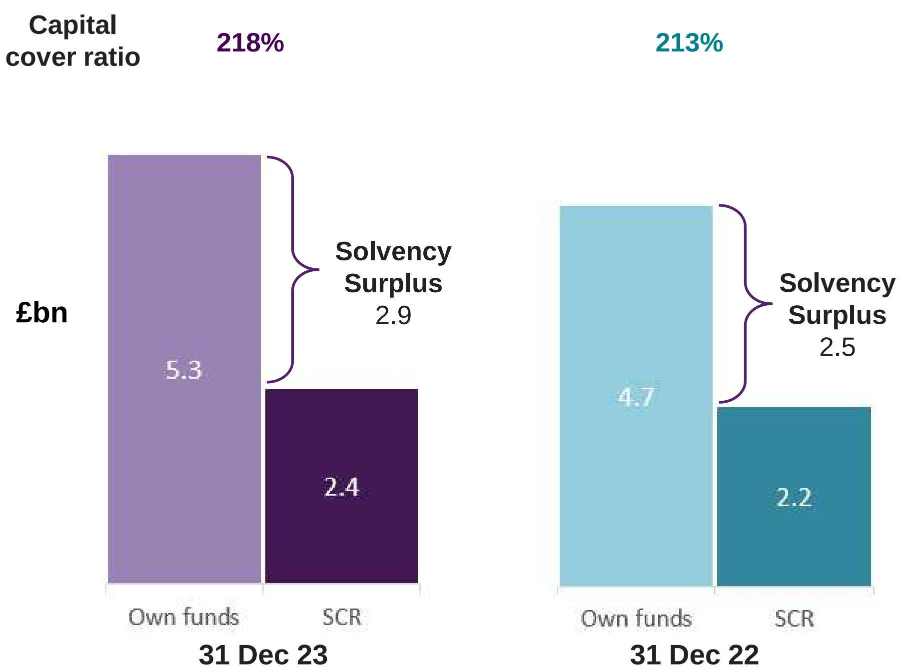




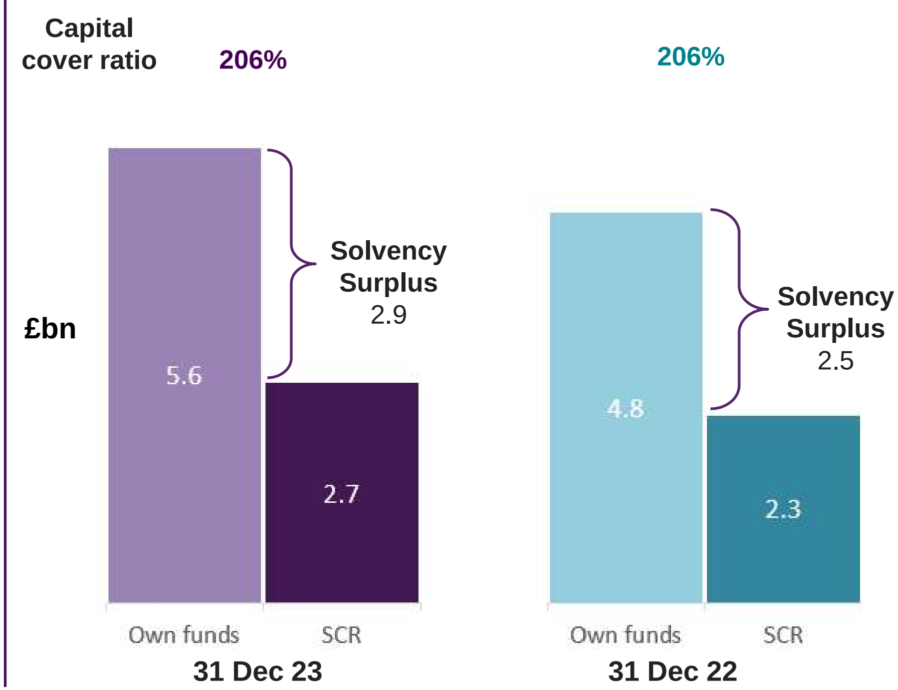
- Investment portfolio increased to **£113.7bn** (FY22: £104.4bn)
- Continued to maintain a highly-rated, well diversified investment portfolio
- No significant defaults in our corporate bond portfolio

Capital

Investor View



Regulatory View



- Robust capital position maintained despite market volatility
- Investor View capital ratio reflects the benefits of the Risk Margin reduction (net of TMTP recalculation) under Solvency II reforms
- Regulatory View capital ratio stable

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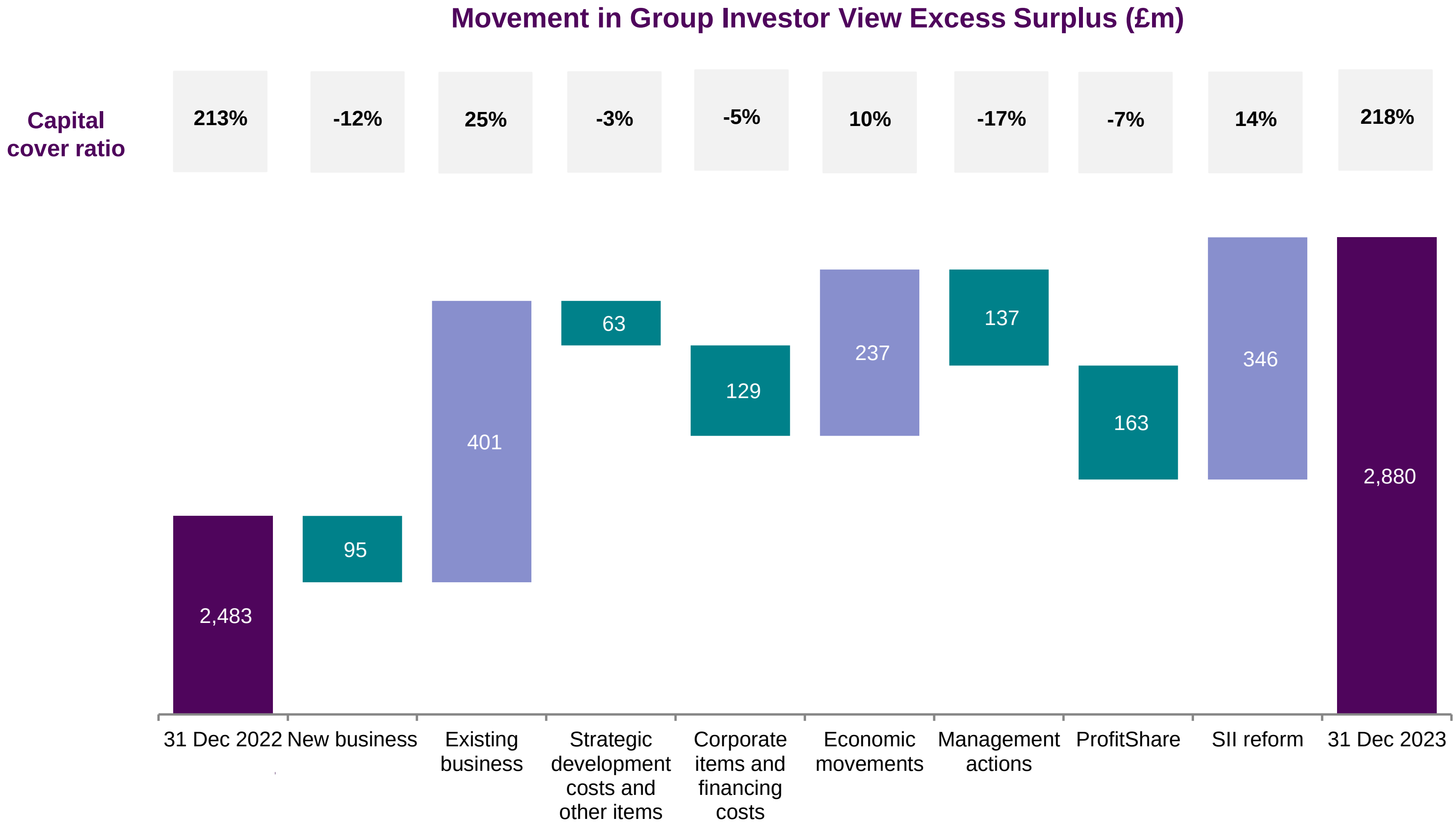
Metrics are defined on page 22

Capital – Group Investor view



- Management Actions reflect impact of purchase of Aegon protection book, RT1 issuance and rebalancing of equity hedging

Financial results
Summary

- **Increase in operating profit** driven by growth in Workplace Pensions supported by active management of our cost base
- **Flagship Governed Range reached £60bn AUM,** with £3.0bn of net inflows
- **RLAM continued to deliver strong investment performance,** attracting flows from UK and international investors
- **Significant increase in Royal London Ireland new business sales,** supported by new pension products
- **Further strengthened our position in the UK protection market** through agreement to acquire Aegon UK’s closed individual protection book
- **Extended our annuity capabilities** in advance of an intended participation in the bulk purchase annuities market
- **Robust capital position** enables long-term approach to decision making

Q&A

Appendix 1 – operating profit before tax

	FY 2023	FY 2022	Change	
Long-term business				
New business contribution	**£184m**	£163m	+£21m	+13%
Existing business contribution	**£236m**	£181m	+£55m	+30%
Contribution from AUM and other businesses	**£84m**	£101m	-£17m	-17%
Business development and other costs	**(£40m)**	(£32m)	-£8m	+25%
Strategic development costs	**(£61m)**	(£71m)	+£10m	+14%
Amortisation of intangibles	**(£6m)**	-	-£6m	-
Result from operating segments	**£397m**	**£342m**	**+£55m**	**+16%**
Corporate items	**(£63m)**	(£57m)	-£6m	+11%
Financing costs	**(£85m)**	(£75m)	-£10m	-13%
Group operating profit before tax	**£249m**	**£210m**	**+£39m**	**+19%**

Metrics are defined on page 22

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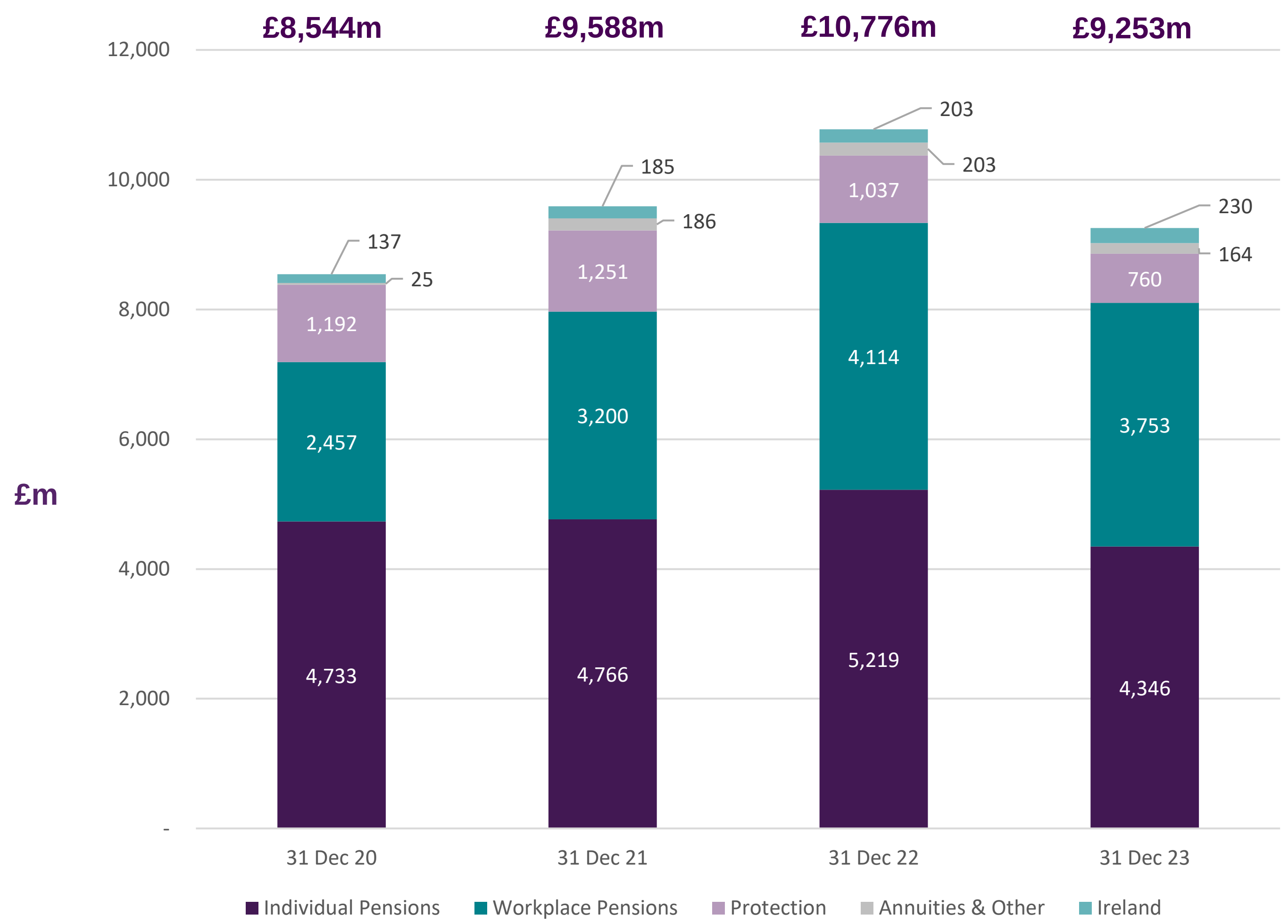
Appendix 2 – life and pensions new business



Life and pensions new business is reported using economic assumptions set at the start of the reporting period. The increase in the risk-free rate over 2022 therefore significantly impacts the comparability of new business metrics between 2022 and 2023.

Metrics are defined on page 22

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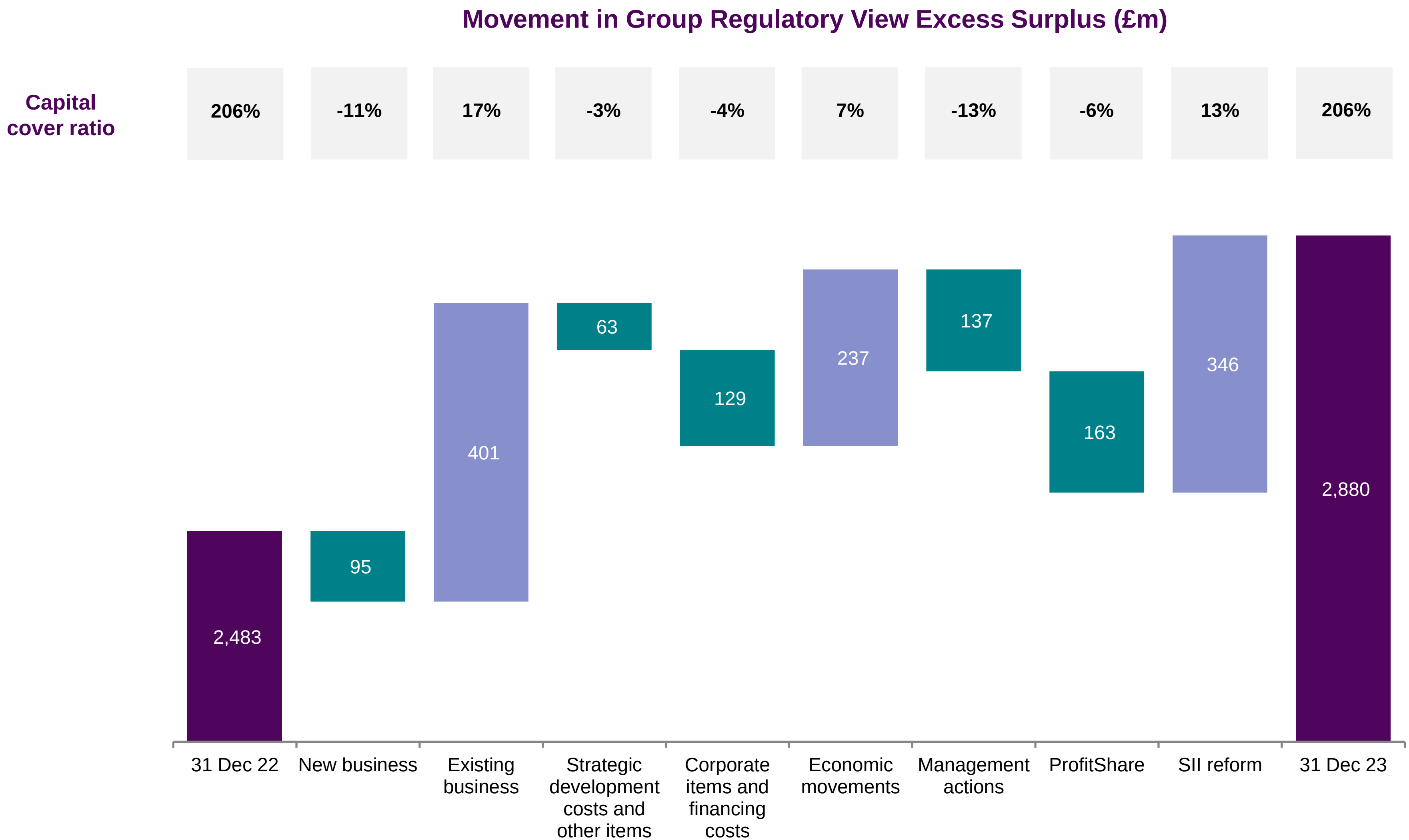
Appendix 3 – Capital Group Regulatory view



Appendix 4 – Capital sensitivities

Scenario	Solvency II Investor View Sensitivities: Capital cover ratio %	Solvency II Investor View Sensitivities: Impact on solvency surplus £bn	Solvency II Regulatory View Sensitivities: Capital cover ratio %	Solvency II Regulatory View Sensitivities: Impact on solvency surplus £bn
Base: FY23	**218%**	**2.9**	**206%**	**2.9**
25% decrease in equity investments	+5%	-0.1	+4%	-0.1
15% decrease in property prices	-2%	-0.1	-2%	-0.1
100bps rise in interest rates	+2%	0.0	+5%	0.0
100bps fall in interest rates	-6%	0.0	-11%	0.0
25bps increase in government bond yields	-1%	0.0	-1%	0.0
200bps widening in credit spreads	+6%	0.0	+7%	0.0
15% fall in GBP exchange rates	-1%	0.1	-1%	0.1

Sensitivities are estimated. Scenarios are explained on page 22

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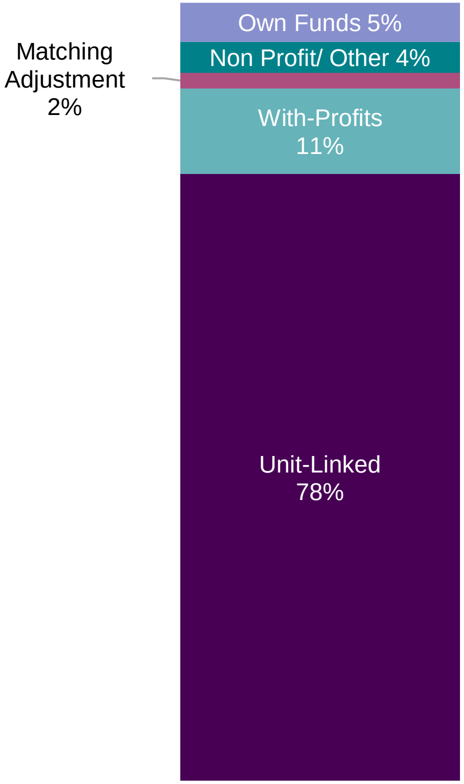
Appendix 5 – Fund structure

The RL Main Fund is the fund into which all of the Group's new long-term savings and protection business is written.

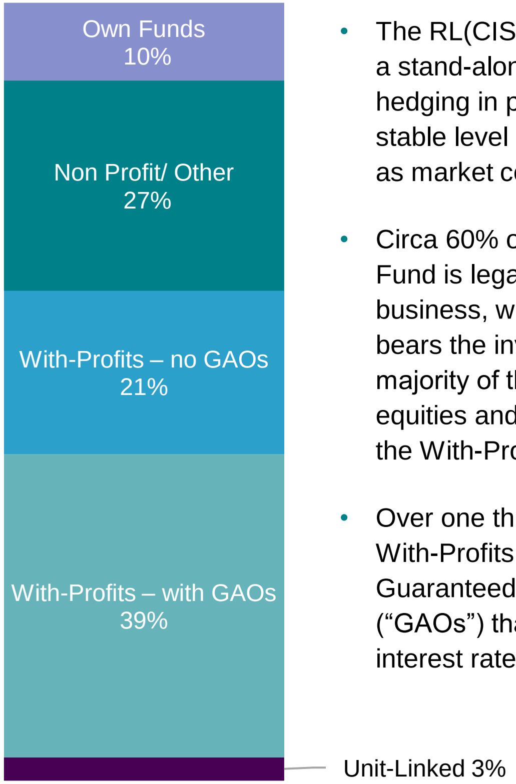
- Total assets: £97.3bn
- Adjusted own funds*: £5.3bn

RL(CIS) is Royal London's closed fund, formed following the purchase of the Co-operative Insurance Society Ltd.

- Total assets: £22.7bn
- Adjusted own funds**: £2.4bn



- Circa 90% of the RL Main Fund is Unit-Linked and With-Profits portfolios, where the policyholder bears the investment risk.
- The majority of the RL Main Fund's exposure to higher risk assets, such as equities and property, is held in the Unit-Linked and With-Profits portfolios.
- The RL Main Fund contains the Group's Matching Adjustment portfolio.



- The RL(CIS) fund is managed on a stand-alone basis, with hedging in place to maintain a stable level of solvency surplus as market conditions change.
- Circa 60% of the RL(CIS) Closed Fund is legacy With-Profits business, where the policyholder bears the investment risk. The majority of the fund's exposure to equities and property is held in the With-Profits portfolios.
- Over one third of the fund is With-Profits business with Guaranteed Annuity Options ("GAOs") that is sensitive to interest rates, prior to hedging.

Solvency II data at 31 December 2023
* Own Funds includes £0.2bn for RLI DAC
** Pre closed fund restriction

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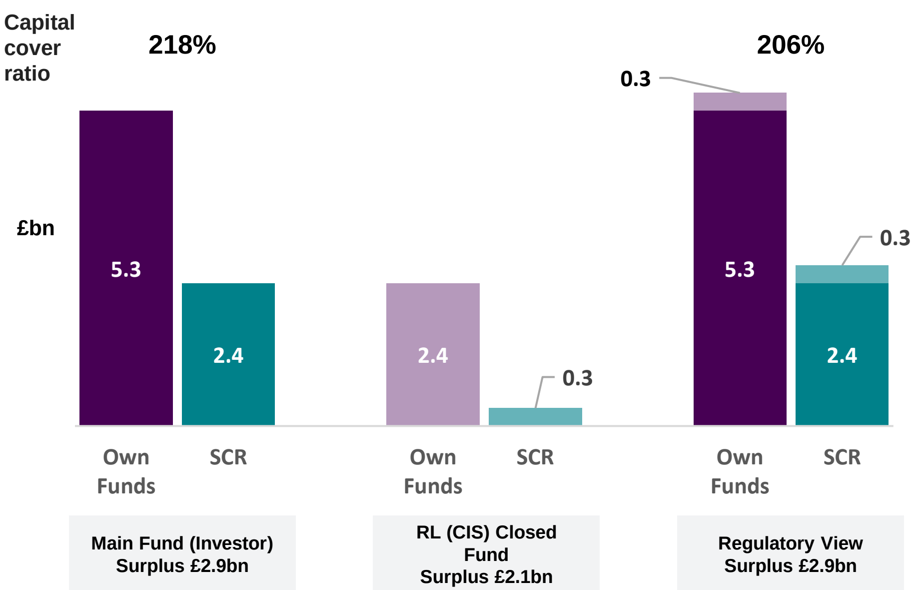
Appendix 6 – Basis of Regulatory Ratio

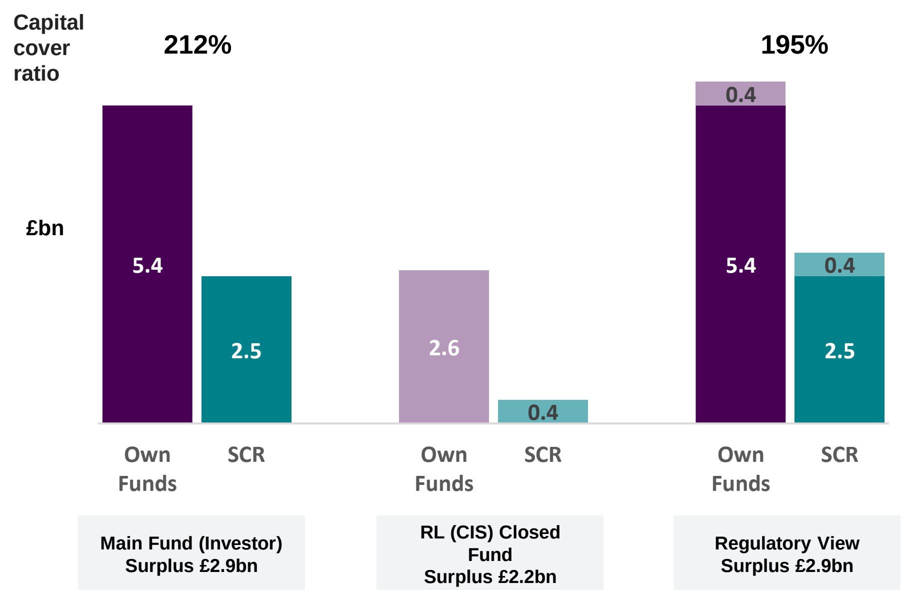
- At FY23, RL(CIS) has a solvency surplus of £2.1bn. As a closed fund, the RL(CIS) solvency surplus is ring-fenced and therefore the surplus is restricted to the value of the RL(CIS) SCR within the Regulatory View Surplus calculation (£0.3bn).
- Our approach to managing the RL(CIS) solvency surplus ensures the 'burn through' risk to the RL Main Fund is minimal.

- Under a yield fall, the RL(CIS) SCR rises as the value of Guaranteed Annuity Options in the fund increase.
- Hedging ensures that the solvency surplus in the RL(CIS) fund remains stable. However, the increase in the RL(CIS) SCR dilutes the Regulatory View Ratio.

31 December 2023



Yields fall 100bps



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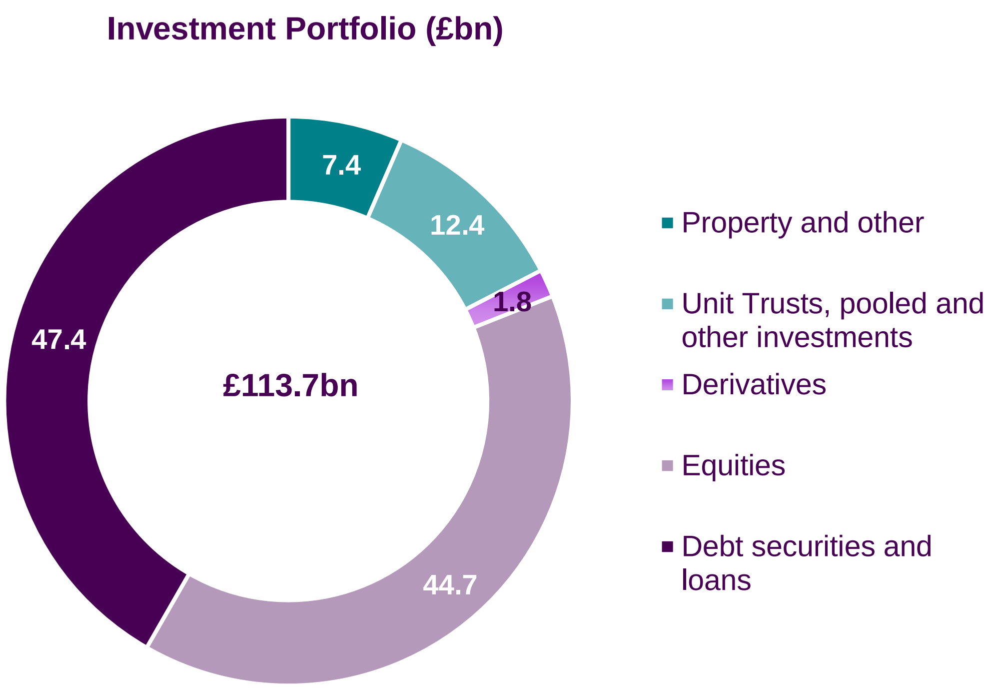
Appendix 7 – Investment portfolio



- **77%** (A rated or better non-linked debt securities)
- **69%** (A rated or better non-linked corporate bonds)
- Diversified investment portfolio

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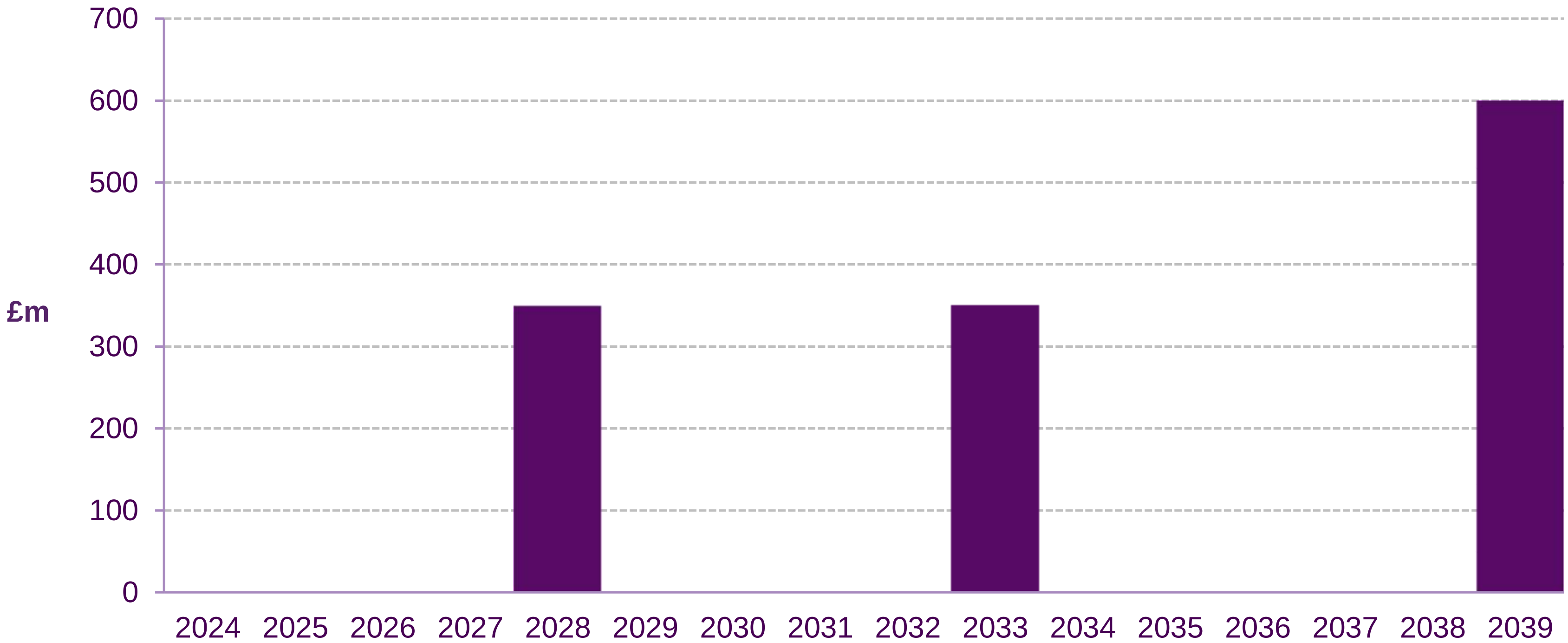
Appendix 8 – Debt maturity profile



Issue Date	Size	SII Classification	Coupon	First Call** / Maturity*	Rating (Moody's / S&P)
Nov 2015	£350m	Tier 2	6.125%	Nov 2028*	Baa1 / BBB+
Oct 2019	£600m	Tier 2	4.875%	Apr 2039**	Baa1 / BBB+
May 2023	£350m	RT1	10.125%	May 2033**	Baa3 / BBB

Footnotes

1. The information in this announcement relates to The Royal London Mutual Insurance Society Limited ('RLMIS' or 'the Company'), and its subsidiary undertakings, together referred to as 'Royal London' or 'the Group'.
2. The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with relevant financial reporting frameworks such as UK GAAP or Solvency II. These measures are known as alternative performance measures (APMs). APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.
3. ProfitShare is a discretionary enhancement to eligible RLMIS customers with unit-linked or with-profits policies. The allocation is considered annually and depends on a number of factors including financial performance, capital position, the risks and volatility of financial markets and the Group's outlook.
4. Investment performance has been calculated using a weighted average of active assets under management for funds with a defined external benchmark. Benchmarks differ by fund and reflect their mix of assets to ensure direct comparison. Passive funds are excluded from this calculation as, whilst they have a place as part of a balanced portfolio, Royal London believes in the long-term value added by active management.
5. Operating profit before tax represents profit/(loss) before transfer to/(from) the fund for future appropriations excluding: short-term investment return variances and economic assumption changes; goodwill (charge)/credit 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 before tax represents the result of the Royal London Main Fund (RL Main Fund).
6. Transfer to/(from) the fund for future appropriations represents the statutory UK GAAP measure 'Transfer to/(deduction from) the fund for future appropriations' in the technical account within the consolidated statement of comprehensive income.
7. Life and pensions new business sales represent life and pensions business only and excludes Asset Management, other lines of business and the bulk annuity buy-in transacted with the Royal Liver UK pension scheme. New business sales are presented as the Present Value of New Business Premiums (PVNBP), which is the total of new single premium sales received in the period plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the period. The rate used to discount the cash flows in the reported results has been derived from the opening swap curve at the start of the financial period for all new business except annuities where the rate used is the future yield (less an allowance for downgrade and default risk) on assets expected to back these annuitant liabilities over the lifetime of the contracts.
8. Gross and net inflows incorporate flows into Royal London Asset Management (RLAM) from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions paid (net of reinsurance). Given its nature, non-linked Protection business is not included.
9. Assets under Management (AUM) represent the total of assets managed by the Group, including funds managed on behalf of third parties.
10. The capital cover ratio is calculated as the Group's Own Funds, being the regulatory capital under Solvency II, divided by the Solvency Capital Requirement (SCR). The 'Investor View' equals the RL Main Fund capital position (excluding ring-fenced funds). The 'Regulatory View' solvency surplus and capital cover ratio 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 2023 figure is estimated and unaudited.
11. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.
12. Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was last formally recalculated at 31 December 2023. The sensitivities do not include any subsequent rebalancing of the asset portfolio.
13. Interest rate sensitivities assume that government and other bond yields and risk-free rates all move by the same amount. Interest rates are allowed to be negative.
14. The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Matching Adjustment and Volatility Adjustment rate have been reassessed in the stressed scenario.
15. The widening in credit spreads stress assumes a widening in all ratings and an associated increase in the discount rate for the Royal London Group Pension Scheme and Royal Liver pension schemes at 25% of the asset spread stress. The Matching Adjustment and Volatility Adjustment rate have been reassessed in the stressed scenario.
16. The fall in GBP exchange rates stress assumes a 15% fall in exchange rates which, in GBP terms, leads to an increase to the value of assets held in other currencies other than GBP.

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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: geopolitical conditions; UK and Ireland economic and business conditions; future market-related risks such as high interest rates; sustained high 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 announcement 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.

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