

MEMBERSHIP GROWS AS ROYAL LONDON CONTINUES TO CHAMPION MUTUALITY

Barry O'Dwyer, Group Chief Executive, commented:

"In the first half of 2023 we delivered good growth in Workplace Pensions new business and our net inflows increased 25% to over £3.2 billion. This growth, alongside our continued cost discipline, has helped to deliver a 16% increase in operating profit.

"As many of our customers continue to come to terms with the increased cost of living and higher interest rates, our priority has been to help them navigate these challenges, while building their long-term financial resilience. In April, we shared £155 million in ProfitShare with over 2 million members, and the 120,000 new Workplace Pensions customers we have welcomed since the start of the year all became members and are eligible for future ProfitShare allocations.

"Our success in Workplace Pensions is driven by employers increasingly valuing the benefit as a key way of supporting their employees' financial wellbeing. As a result, they are choosing to partner with digital first providers with a strong sense of purpose. As more and more employers adopt this view, mutuals, like Royal London, will be a natural choice. Our mutual mindset of continually focusing on delivering positive enduring change for our customers and wider society ensures they, and employers and advisers, continue to place their trust in us."

Highlights

- Welcomed 479 new workplace pension scheme employers and over 120,000 new workplace pension customers, supporting them in planning and saving for the future.
- Our financial wellbeing health check was launched at the end of 2022, and we introduced a new state benefits calculator to the service this year, enabling customers to identify potential eligibility for c.£3.75m per annum in benefits, entitlements and grants.
- Our flagship Governed Range attracted net inflows of £1.7bn (H1 2022: £1.5bn), with assets under management (AUM) reaching £56bn.
- Paid 99.1% (FY22: 99.4%) of protection claims in the first half of year, paying £343m (H1 2022: £304m) supporting over 39,000 customers and their families through life shocks.
- Reached an agreement with Aegon UK to acquire its closed individual protection book of over 400,000 policies, increasing the number of protection policies we will look after to over 1.5 million, further strengthening our position in the UK protection market.
- Supported financial advisers in meeting their Consumer Duty requirements through a dedicated online hub, interactive webinars and account support.
- Royal London Asset Management continued to focus on diversifying investment strategies and driving international growth, successfully securing its first client mandates in Japan.
- Investment performance of actively managed funds over three years remains strong despite difficult market conditions, with 95% of funds outperforming their three-year benchmark (H1 2022: 80%)³.
- Through our social impact strategy, announced a new £1.2m partnership with Cancer Research UK focused on tackling cancer inequalities.

Financials

		Six months ended 30 June 2023	Six months ended 30 June 2022
UK GAAP	Operating profit before tax ⁴	£127m	£109m
	Transfer to/(from) the fund for future appropriations ⁵	£161m	£(49)m
New business	Life and pensions new business sales ⁶	£4,865m	£5,494m
Inflows	Gross inflows ⁷	£14,977m	£12,772m
	Net inflows ⁷	£3,214m	£2,578m
		30 June 2023	31 December 2022
Funds	Assets under management ⁸	£153bn	£147bn
Capital⁹ (Solvency II)	Regulatory View solvency surplus	£2.6bn	£2.5bn
	Regulatory View capital cover ratio	200%	206%
	Investor View solvency surplus	£2.6bn	£2.5bn
	Investor View capital cover ratio	212%	213%

- Operating profit before tax⁴ increased by 16% to £127m (H1 2022: £109m) driven by growth in Workplace Pensions new business contribution and higher risk free rates which increased the expected returns on our assets.
- Transfer to the fund for future appropriations (FFA)⁵ of £161m (H1 2022: transfer from FFA (£49m)) reflects the improvement in operating profit and overall investment returns in line with our long-term expectations.
- Life and pensions new business sales⁶ of £4,865m (H1 2022: £5,494m) reduced in value as higher interest rates decreased the present value of new business premiums. Workplace Pensions new business sales grew 7% after adjusting for the increase in the discount rate whilst Individual Pensions sales fell as higher interest rates impacted defined benefit transfer volumes.
- Net inflows⁷ increased to £3,214m (H1 2022: £2,578m) driven by higher external net flows into our Global Equity strategies.
- Assets under management⁸ increased to £153bn (31 December 2022: £147bn).
- Capital position remains robust with the Investor View and Regulatory View capital cover ratios⁹ stable at 212% (31 December 2022: 213%) and 200% (31 December 2022: 206%), both after taking into account the impact of the acquisition of the Aegon UK protection book.
- Successfully issued a £350m Restricted Tier 1 contingent convertible debt instrument in May, the first of its kind for a UK insurance mutual, diversifying our overall subordinated debt profile and increasing the Group's financial flexibility.

Investor Conference call

Royal London will hold an investor conference call to present its 2023 Interim Financial Results on Friday, 4 August 2023 at 08:30. 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 Ireland. We work with advisers and customers to protect the standard of living of this and future generations.

Financial calendar:

- 4 August 2023 – 2023 Interim Financial Results and Investor 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
- 25 November 2023 – RL Finance Bonds No 6 plc subordinated debt interest payment date
- 29 November 2023 – 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). 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, whilst 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 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).
5. 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.
6. Life and pensions new business sales represent life and pensions business only and excludes Asset Management and other lines of business. New business sales are presented as the Present Value of New Business Premiums (PVNBP), which is the total of new single premium sales received in the period plus the discounted value, at the point of sale, of the regular premiums the Group expects to receive over the term of the new contracts sold in the period. The rate used to discount the cash flows in the reported results has been derived from the opening swap curve at the start of the financial period 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 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.
8. Assets under management (AUM) represent the total of assets actively 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 fund's 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 2023 saw continued economic uncertainty, with ongoing geopolitical tensions and persistent cost of living challenges, along with ongoing recessionary fears. This increased pressure on customers' household income reinforces the importance of working closely with independent financial advisers, while also providing customers with guidance, education and support to help them navigate the challenges they face.

The value of impartial financial advice in ensuring appropriate protection cover is in place, and savings and investments are being managed well, is becoming ever more apparent. We remain strong advocates for the benefits it provides and continue to innovate with new technology to support financial advisers in scaling the provision of advice and guidance to make it more accessible.

The FCA's new Consumer Duty was introduced at the end of July and aims to raise standards across the industry through an enhanced focus on customer outcomes across financial services. Our commitment to delivering good customer outcomes is deeply embedded in our Purpose and we welcome these changes. Our existing alignment with the principles means we have been able to adapt to meet the new obligations while taking steps to help financial advisers embed the Consumer Duty in their business practises.

In April we announced we had reached an agreement to acquire Aegon UK's closed book of individual protection business with over 400,000 policies. Combined with over 1.1m existing protection customers who already trust Royal London to protect their families against life shocks, this transaction strengthens our position in this market. The advised nature of the book makes it a good strategic fit and reinforces our commitment to supporting and championing the benefits of impartial advice. Customers' policies are expected to transfer to Royal London in 2024, subject to the completion of a court-approved Part VII transfer.

We remain committed to playing our part in moving fairly to a sustainable world and continue to develop our climate transition plans to cover in detail how we intend to achieve our climate ambitions, while also recognising that delivering our ambitions is dependent on governments and policymakers fulfilling on the commitments of the Paris Agreement. We have continued to leverage our position as one of the UK's largest asset managers by engaging with companies to influence a Just Transition to a sustainable world and in the last six months we engaged with 19 companies to improve their plans on the climate transition. We also used our active voting position and other escalation techniques to progress our net zero objectives and in the first half of the year voted on 153 climate-related resolutions at Annual General Meetings to express our views. In June, we published Task Force on Climate-related Financial Disclosures Reports for all the required entities of the Group, demonstrating the actions we are taking to manage climate-related risks and opportunities in our business.

In May, we announced a new £1.2m charity partnership with Cancer Research UK focused on tackling cancer inequalities, broadening our social impact and charitable giving activities to include the prevention of life shocks. The partnership will fund research into hard-to-treat cancers and initiatives to improve the pathway to early diagnosis, as well as support programmes that increase cancer awareness in communities.

We co-sponsored a Social Market Foundation report, launched in June, which raises awareness of the role and benefits mutuals provide. 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.

Our trading performance

UK

We continued to invest in our technology capabilities, further enhancing our ability to engage customers and support them with their financial needs. This included a series of enhancements to our mobile app and financial wellbeing service, including a new state benefits entitlement calculator. We launched a new Retirement and Lifestyle Planner: a new digital, financial adviser-branded tool that helps financial advisers reach new clients and grow their business.

Our pensions new business sales were £4,308m. Workplace Pensions new business sales grew by 7%, after adjusting the prior period for the increase in the discount rate that has reduced the present value of new business premiums, as we welcomed 479 new workplace pension scheme employers and over 120,000 new scheme members in a buoyant employment market. We also launched our new online Transfer Hub, which makes pension consolidation easier for our customers, boosting the number of execution-only transfers by 169% compared to the same period last year. Individual Pensions non-defined benefit new business sales grew by 2% following an increase in tax year-end activity. However, overall, as a result of higher interest rates significantly impacting defined benefit transfer business volumes and values, new business sales fell by 12%.

Our flagship investment solution, the Governed Range, attracted net inflows of £1.7bn (H1 2022: £1.5bn), with AUM increasing to £56bn (31 December 2022: £53bn). The Governed Range is our range of multi asset funds which supports our pensions proposition and is where the majority of our Workplace Pensions customers' funds are invested.

On 10 July 2023 the Government announced an initiative to encourage workplace pension providers to invest 5% of their assets in unlisted equities by 2030 to support the growth of companies in sectors such as life sciences. While we are supportive of the overall objectives, Royal London has taken a different approach as we already hold over 10% in unlisted, illiquid assets in our Governed Range. Much of this is our property portfolio, some of which is targeted at helping the same early-stage UK companies in sectors such as life sciences to thrive, by providing the bespoke infrastructure required.

Protection new business sales reduced to £368m as volumes were in part impacted by cost of living pressures. As a result of the Consumer Duty, we are seeing increasing interest from some advisers who traditionally have not focussed on protection, with many now seeking to write business themselves or refer to a protection specialist.

Asset Management

Royal London Asset Management ('RLAM'), which manages funds for our customers and external clients, continues to operate against a backdrop of considerable economic uncertainty in investment markets. The impact of persistent inflation has driven volatility over the first half of the year as markets respond to actions taken by central banks and governments and the global economy moves away from a sustained period of low interest rates. This has particularly impacted fixed income valuations which have fallen further in the first half of the year.

Despite the market turbulence, our three-year performance track record remains strong, with 95% of actively managed funds outperforming their benchmark over the three years to 30 June 2023 (80% over the three years to 30 June 2022). Net inflows also remained strong over the first half of the year at £3.2bn (H1 2022: £2.6bn), including £2.8bn external flows (H1 2022: £1.5bn). We continue to benefit from our diversified capabilities and commitment to international client growth, with RLAM successfully winning its first Japanese client mandate in the period. Overall assets under management increased to £152.9bn (31 December 2022: £147.2bn).

RLAM continued to win a range of awards in recognition of its performance success. Key achievements included winning Fixed Income Manager of the Year – up to €100bn AUM (MoneyAge Wealth and Asset Management Awards), Best Sustainable Fund Manager 2023 – UK (Ethical Finance Awards) and a range of awards at the Refinitiv Lipper Fund Awards 2023. We were also awarded Best Asset Management Company UK 2023 at the Global Business Magazine Awards and Best Asset Manager UK 2023 at the Global Business and Finance Magazine Awards, a recognition of our international expansion strategy.

Ireland

Royal London Ireland has continued its strong performance into 2023, with new business sales increasing to £110m (H1 2022: £88m) reflecting our continuing market leading status in the Irish broker protection market and the successful pensions proposition launch in September 2022. The Irish business announced its first ValueShare award, Royal London Ireland's equivalent to ProfitShare, in April 2023, resulting in a policy value uplift of 0.13% for eligible pensions customers. Recent awards included Best Mortgage Protection Product at the 2023 Association of Irish Mortgage Advisors Awards and Best Mortgage Protection at the bonkers.ie National Consumer Awards 2023.

We continue to improve and adapt our protection products and services, with enhancing customer choice at the forefront of our decisions. We expect further growth in our pensions proposition as we embed our new offering, and we will continue to develop it throughout the remainder of 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.

Looking ahead

The level of volatility and uncertainty we have seen in recent periods is expected to continue in the short term as markets and policymakers respond to persistent levels of high inflation. Customers will have to continue to navigate the day-to-day impact of these macroeconomic changes, with further pressure on disposable income levels as living costs and mortgage repayment and rental costs continue to increase.

Our support for the impartial adviser community and consistent strategy ensures we continue to be well positioned to support an increasing number of customers in the UK and Ireland who are facing into these challenges, scaling the support we offer through technology. We will continue to champion a Just Transition to a sustainable world, whilst broadening the range of assets we invest in, for example via infrastructure projects which support early-stage UK companies in sectors including life sciences.

Financial Review

Group operating profit before tax for the six months ended 30 June 2023 increased to £127m (H1 2022: £109m) reflecting strong trading in Workplace Pensions and the positive impact of higher risk free rates on both new and existing business. This was despite lower asset management revenues as average AUM levels remain lower than in the first half of 2022.

The transfer to the fund for future appropriations (FFA) improved to £161m (H1 2022: transfer from FFA (£49m)) as a result of the increased operating profits combined with overall investment returns that were in line with our long-term expectations compared to the negative economic experience in the first half of 2022.

In April 2023 we announced the acquisition of Aegon UK's closed individual protection business comprising over 400,000 customers across life insurance, critical illness and income protection. Customers' policies are expected to transfer to Royal London in 2024, subject to the completion of a court-approved Part VII transfer. In the interim period, Aegon UK will reinsure the portfolio to Royal London. This acquisition has reduced the Solvency II Investor View capital cover ratio by 4 percentage points and in the future will allow us to deliver synergies in our Protection business.

As part of our active management of the Group's capital structure, in May 2023 the Group successfully issued a new £350m Restricted Tier 1 ('RT1') contingent convertible debt instrument, with a concurrent tender offer on the Group's £400m Fixed Rate Reset Callable Guaranteed Subordinated Tier 2 debt due 2043, resulting in the repurchase and cancellation of £302m of the outstanding notes. The transaction has increased the Group's financial flexibility by establishing access to the RT1 capital markets and creating additional Tier 2 capital headroom.

Our capital position remains robust with the Solvency II Investor View capital cover ratio remaining stable over the period. The Investor View capital cover ratio was 212% at 30 June 2023 (31 December 2022: 213%) and the Solvency II Regulatory View capital cover ratio decreased to 200% (31 December 2022: 206%). Our hedging programme continues to operate as intended.

Group operating profit before tax

The following table shows the Group operating profit for the six months ended 30 June 2023. Further detail on the Group's segmental reporting is included on pages 17-18.

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Change £m
Long-term business			
New business contribution	99	89	10
Existing business contribution	98	87	11
Contribution from AUM and other businesses	45	55	(10)
Business development and other costs	(18)	(19)	1
Strategic development costs	(29)	(35)	6
Result from operating segments	195	177	18
Corporate costs	(29)	(31)	2
Financing costs	(39)	(37)	(2)
Group operating profit before tax	127	109	18

New business contribution

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. The higher discount rate used in the calculation of PVNBP reduces the present value of the same premium amount. This impact is most significant on longer duration businesses which have regular cash flows, in particular Workplace Pensions and regular premium Protection business. Conversely, the higher risk free rate improves Workplace Pensions new business contribution, primarily from the level of assumed fund growth over the life of the policies.

Overall, new business contribution increased to £99m (H1 2022: £89m) driven by strong growth in Workplace Pensions sales and our continued focus on cost control, with acquisition costs being held at similar levels to the first half of 2022 despite inflationary cost pressures. New business margin has improved to 2.0% (H1 2022: 1.6%), reflecting the higher proportion of contribution from Workplace Pensions, which includes the impact of the discount rate effect.

	New business contribution		PVNBP	New business margin	
	Six months ended 30 June 2023	Six months ended 30 June 2022	Six months ended 30 June 2023	Six months ended 30 June 2022	Six months ended 30 June 2023
	£m	£m	£m	£m	%
Individual Pensions	40	48	2,402	2,725	1.7
Workplace Pensions	38	18	1,906	2,025	2.0
Protection	11	12	368	569	2.9
Annuities and other	5	3	79	87	6.8
UK	94	81	4,755	5,406	2.0
Ireland	5	8	110	88	4.8
Total	99	89	4,865	5,494	1.6

On a comparable basis^a, sales decreased by 5% with strong trading in Workplace Pensions and Individual Pensions regular premium business offset by reductions in defined benefit transfers as interest rates continued to rise and lower Protection sales that were partly impacted by cost of living pressures and a single one-off transfer in H1 2022.

UK

Individual Pensions non-defined benefit business grew by 2% as we saw increased new business sales around the tax year-end period following the changes announced to lifetime allowances, whilst defined benefit transfers reduced by £360m compared to H1 2022 as both transfer values and volumes reduced significantly following the rise in interest rates. As a result, overall new business sales declined by 12%, but margin was retained at a similar level to H1 2022.

Workplace Pensions new business sales increased by 7% on a comparable basis^a as new entrants into existing schemes remained strong and we saw an increase in new customers joining us from new schemes. We are also seeing more customers transfer their pots to their Royal London pension, improving transfer flows. This increase in new business sales, along with the impact of higher risk free rates, has more than doubled new business contribution and improved margins from 0.9% to 2.0%.

Protection new business sales were lower, in part due to the discount rate change, with H1 2022 boosted by a one-off transfer of c.£100m. New business contribution was maintained following the actions taken at the end of 2022 to exit the Over 50s life insurance market and to manage the cost base. These actions have resulted in an increase in new business margin to 2.9%.

Annuities and other business sales decreased slightly with higher market interest rates contributing to lower average policy sizes.

Ireland

New business sales increased, primarily due to new pensions sales following the successful launch of the product in September 2022. New business margin reduced to 4.8% (H1 2022: 8.5%) reflecting the higher relative cost of the pensions product whilst we grow its scale.

^a H1 2022 present value of new business premiums discounted using the same rate used in the H1 2023 calculation

Existing business contribution

Existing business contribution increased to £98m (H1 2022: £87m), the components of which are shown in the table below.

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Change £m
Expected return	96	54	42
Experience variances and assumption changes	6	6	-
Modelling and other changes	(4)	27	(31)
Total	98	87	11

Expected return increased to £96m (H1 2021: £54m) primarily as a result of the increase in risk free rates at the start of the year.

Experience variances and assumption changes were a credit of £6m (H1 2022: £6m). There have been no significant experience variances in H1 2023 versus our long-term assumptions.

The impact of modelling and other changes in the period was a charge of £4m. We continue to expand our ring-fenced Matching Adjustment portfolio, which now totals £0.8bn, to support our annuity proposition. A gain of £3m was recognised in H1 2023 (H1 2022: gain of £18m) following the transfer of a further block of existing annuity business 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 to £45m (H1 2022: £55m) as average levels of AUM, whilst higher than in the second half of 2022, remained lower than in the comparative period, combined with a planned increase in costs as we continue to build new capabilities in RLAM.

Business development and other costs

Business development costs were £18m (H1 2022: £19m) as we continue to improve the customer experience in the UK, in particular through automating claims processes, increasing mobile app functionality and integrating our financial wellbeing service.

Strategic development costs

Strategic development costs of £29m (H1 2022: £35m) represent the ongoing investment we are making across our businesses. It comprises £20m of continued investment in our UK pensions business, £6m in Asset Management as our enhancement of RLAM's core infrastructure and systems moves towards implementation, and £3m in Ireland related to the ongoing development of the pension proposition launched in 2022.

Corporate and financing costs

Corporate costs of £29m (H1 2022: £31m) include the costs of Group-wide regulatory change development, strengthening of IT security and restructuring. Financing costs represent the interest payable on the Group's subordinated debt which increased to £39m (H1 2022: £37m), following the issuance of a new RT1 instrument in 2023.

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

The transfer to the FFA was £161m (H1 2022: transfer from FFA (£49m)) reflecting increased operating profit and positive economic movements compared to the prior period.

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Change £m
Group operating profit before tax	127	109	18
Economic movements	57	(338)	395
Amortisation of goodwill arising from mergers and acquisitions	1	1	-
Profit/(loss) before tax and before transfer to/(from) the fund for future appropriations	185	(228)	413
Tax attributable to long-term business	(24)	179	(203)
Transfer to/(from) the fund for future appropriations	161	(49)	210

Economic movements

Economic movements were a credit of £57m (H1 2022: charge of £338m), as investment portfolio returns were in line with our longer-term expected return assumptions.

Assets under management

Assets under management increased to £153bn (31 December 2022: £147bn) boosted by positive net inflows of £3bn as well as market gains of £3bn.

	Gross inflows		Net inflows	
	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m
External flows	10,203	7,898	2,771	1,468
Internal flows	4,774	4,874	443	1,110
Total	14,977	12,772	3,214	2,578

External net inflows were £2.8bn (H1 2022: £1.5bn), primarily driven by net inflows of £2.3bn across our Global Equity strategies as well as £0.7bn net inflows to cash and government bonds strategies. This was partially offset by net outflows of £0.4bn in our Sustainable fund range (H1 2022: £0.3bn net inflow) despite strong relative performance during the period following the relatively lower investment returns sustainable funds experienced in 2022.

Internal net inflows decreased to £0.4bn (H1 2022: £1.1bn) following an increase in regular withdrawals on policies in drawdown, with more customers accessing their pensions and an overall increase in average drawdown value.

Strength of our capital base

We continue to prioritise active management of our capital base, as maintaining the strength of our capital position is vital to ensuring that 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.

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 2023	31 December 2022
Regulatory View solvency surplus	£2,624m	£2,483m
Regulatory View capital cover ratio	200%	206%
Investor View solvency surplus	£2,624m	£2,483m
Investor View capital cover ratio	212%	213%

Our hedging strategy continues to ensure the stability of our capital position through periods of market volatility.

In May, we issued £350m 10.125 per cent. Fixed Rate Reset Perpetual Restricted Tier 1 ('RT1') Contingent Convertible Notes, the first time the Group has accessed the RT1 capital market. This issuance improved the Group's funding flexibility and created additional Tier 2 capital headroom. At the same time, we completed a tender offer of our £400m Tier 2 2043 Notes, with £302m having been successfully redeemed. The net impact of the RT1 issuance and the tender results in a 2 percentage point increase in both ratios.

Both the Investor View and Regulatory View ratios have remained relatively stable over H1 2023, with the movement in the period reflecting the acquisition of Aegon's protection book and the impact of the RT1 issuance and Tier 2 tender.

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 and providing simplification to processes for insurers in key areas such as Internal Model change and reporting. Exact details of the new regime are subject to PRA consultation. The risk margin reform is expected to be implemented in 2023 with other reforms coming in 2024. Overall, we expect an increase in the capital cover ratio from the proposed reduction in risk margin in HMT's draft Statutory Instrument, although some of the benefit will be offset by a reduction in the Solvency II transitional measures. On the basis that the changes are implemented as proposed in Consultation Paper 12/23 issued by the PRA, a 60-65% reduction in the risk margin alongside a recalculation of the TMTP is expected to result in an increase in Investor View cover ratio of 10-15 percentage points, dependent on economic conditions at the point of implementation.

The broadening of the eligibility requirements for the Matching Adjustment ('MA') portfolio to allow the inclusion of assets with 'highly predictable' cash flows should help widen the potential range of investments used to back annuities. We do not expect any significant impact on our current MA portfolio or capital ratios from the MA changes given the size of our portfolio.

Balance sheet

Royal London's balance sheet position is robust. Our total investment portfolio increased in value to £107.3bn (31 December 2022: £104.4bn), as a result of increases in fair value primarily in equity and bond asset classes. At 30 June 2023, £787m of assets were ring-fenced (31 December 2022: £733m) to back annuitant liabilities of £742m (31 December 2022: £691m). 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 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, 78% (31 December 2022: 80%) of our non-linked debt securities and 67% (31 December 2022: 68%) of our non-linked corporate bonds had a credit rating of 'A' or better at 30 June 2023. There have been no significant defaults in our corporate bond portfolio.

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 Board reviewed the principal risks and uncertainties facing the Group in March 2023 when the 2022 Annual Report and Accounts (ARA) was published. This review took account of the challenging economic conditions and the evolving geopolitical and regulatory 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 2022 ARA (royallondon.com/about-us/our-performance/investor-relations/).

The risks and uncertainties continue to be monitored and managed through our risk management system, including those related to the economy and Royal London's key markets, which are impacted by cost of living pressures, and the political and regulatory 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 war in Ukraine; UK and Ireland economic and business conditions; future market-related risks such as higher 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.

The Royal London Mutual Insurance Society Limited is registered in England and Wales (99064) at 80 Fenchurch Street, London, EC3M 4BY. www.royallondon.com

Interim Financial Statements

Consolidated statement of comprehensive income (unaudited)

for the period ended 30 June 2023

	Group		
	Six months ended 30 June 2023 (unaudited) £m	Six months ended 30 June 2022 (unaudited) £m	Year ended 31 December 2022 £m
Technical account – long-term business			
Gross premiums written	602	580	1,176
Outwards reinsurance premiums	(126)	287	320
Earned premiums, net of reinsurance	476	867	1,496
Investment income	4,629	951	1,455
Other income	296	328	640
Total income	5,401	2,146	3,591
Claims paid			
Gross claims paid	(1,488)	(1,395)	(2,863)
Reinsurers' share	303	273	540
Change in provisions for claims			
Gross amount	(17)	(20)	(62)
Reinsurers' share	7	3	29
Claims incurred, net of reinsurance	(1,195)	(1,139)	(2,356)
Change in long-term business provision, net of reinsurance			
Gross amount	930	6,205	9,469
Reinsurers' share	(186)	(774)	(1,346)
	744	5,431	8,123
Change in technical provision for linked liabilities, net of reinsurance	(1,997)	5,288	5,758
Change in technical provisions, net of reinsurance	(1,253)	10,719	13,881
Change in non-participating value of in-force business	261	72	141
Net operating expenses	(426)	(264)	(581)
Investment expenses and charges	(157)	(145)	(301)
Unrealised losses on investments	(2,342)	(11,481)	(14,475)
Other charges	(104)	(136)	(289)
Total operating expenses	(3,029)	(12,026)	(15,646)
Profit/(loss) before tax and before transfer to/(deduction from) the fund for future appropriations	185	(228)	(389)
Tax attributable to long-term business	(24)	179	227
Transfer to/(deduction from) the fund for future appropriations	161	(49)	(162)
Balance on technical account – long-term business	-	-	-
Other comprehensive income, net of tax:			
Remeasurement of defined benefit pension schemes	18	14	(106)
Foreign exchange rate movements on translation of Group entities	(6)	4	10
Transfer to/(deduction from) the fund for future appropriations	12	18	(96)
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	-	-

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 2023

	Group		
	30 June 2023 (unaudited) £m	30 June 2022 (unaudited) £m	31 December 2022 £m
ASSETS			
Intangible assets			
Goodwill	21	24	21
Negative goodwill	(35)	(42)	(37)
	(14)	(18)	(16)
Other intangible assets	136	107	123
	122	89	107
Non-participating value of in-force business	2,736	2,405	2,474
Investments			
Land and buildings	115	152	122
Other financial investments	32,702	36,816	33,462
	32,817	36,968	33,584
Assets held to cover linked liabilities	74,516	69,352	70,857
Reinsurers' share of technical provisions			
Long-term business provision	3,047	3,807	3,234
Claims outstanding	160	128	153
Technical provisions for linked liabilities	(49)	(48)	(51)
	3,158	3,887	3,336
Debtors			
Debtors arising out of direct insurance operations	56	53	50
Debtors arising out of reinsurance operations	89	68	62
Other debtors	2,670	1,157	2,231
	2,815	1,278	2,343
Other assets			
Deferred taxation	13	-	27
Tangible fixed assets	27	16	19
Cash at bank and in hand	639	623	677
	679	639	723
Prepayments and accrued income			
Deferred acquisition costs on investment contracts	77	100	87
Other prepayments and accrued income	55	47	37
	132	147	124
Pension scheme asset	222	362	207
Total assets	117,197	115,127	113,755

Consolidated balance sheet (unaudited) continued

	30 June 2023 (unaudited) £m	30 June 2022 (unaudited) £m	31 December 2022 £m
LIABILITIES			
Subordinated liabilities	1,382	1,334	1,335
Fund for future appropriations	3,924	3,978	3,751
Technical provisions			
Long-term business provision	30,383	34,588	31,344
Claims outstanding	400	342	384
	30,783	34,930	31,728
Technical provisions for linked liabilities	74,341	69,183	70,622
Provisions for other risks			
Deferred taxation	-	46	-
Other provisions	172	199	187
	172	245	187
Creditors			
Creditors arising out of direct insurance operations	271	280	271
Creditors arising out of reinsurance operations	1,675	2,045	1,781
Amounts owed to credit institutions	83	97	52
Other creditors including taxation and social security	4,509	2,970	3,938
	6,538	5,392	6,042
Accruals and deferred income	57	65	90
Total liabilities	117,197	115,127	113,755

Notes to the Interim Financial Statements

1. Basis of preparation

The Interim Financial Statements of the Group have been prepared in accordance with the recognition and measurement requirements of 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 2022 ARA. The full UK GAAP accounting policies can be found in the Group's 2022 ARA on the Royal London website at (royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/).

The reporting rules applicable for the Group do not require compliance with the requirements of FRS 104 'Interim Financial Reporting' and these Interim Financial Statements have not been prepared in compliance with the disclosure requirements of that standard. The Interim Results Announcement for the period ended 30 June 2023 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The comparative results for the full year 2022 have been taken from the Group's 2022 ARA. The Group's 2022 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. Stress testing has been performed on the capital position for severe adverse economic and demographic impacts arising over the short to medium term, and on the liquidity position for severe adverse economic impacts over the short term. There are a range of management actions, both in the RL Main fund and RL (CIS) closed fund, available to the Directors in stress scenarios which could be considered if there were a deterioration in the capital and/or liquidity position of the Group, to restore the position back within risk appetite. The capital and liquidity positions remain sufficient to cover capital requirements and liquidity requirements respectively in all scenarios tested. Having considered these matters, the Directors have concluded that no material uncertainty exists over the going concern assumption.

Issuance of Restricted Tier 1 Contingent Convertible Notes

The £350m Restricted Tier 1 Contingent Convertible Notes issued by the Group in May 2023 have been classified as a debt instrument and presented within Subordinated liabilities in the consolidated balance sheet as the Group does not have an unconditional right to avoid delivering payments to noteholders in the event that the Notes were to no longer qualify as a Restricted Tier 1 instrument. In accordance with our existing accounting policies, 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.

Acquisition of Aegon UK protection portfolio

On 4 April 2023, Royal London entered into a Framework Agreement and Transitional Services Agreement with Aegon UK to acquire a portfolio of protection contracts, related reinsurance contracts and net current liabilities via a Scheme of transfer under Part VII of the Financial Services and Markets Act ('Part VII transfer'). In the period up to the effective date of the Part VII transfer, Royal London has entered into a Reinsurance Agreement with Aegon UK to 100% reinsure the element of the book not already reinsured with third parties. A charge has been recognised within 'Net operating expenses' in the Consolidated statement of comprehensive income for the consideration paid and the initial recognition of associated current liabilities, with a corresponding credit to 'Change in long-term business provision, net of reinsurance'. The transaction resulted in no gain or loss at the date of the transaction. All subsequent amounts received under the reinsurance agreement will be recognised within 'Gross premiums written' and 'Claims paid', with changes in our reinsurance liabilities recognised in 'Change in long-term business provision, net of reinsurance' accordingly.

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. Royal London Asset Management 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 and unit-linked pensions 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 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.

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

Group – Six months ended 30 June 2023 (unaudited)				
	UK £m	Asset Management £m	Ireland £m	Total £m
Long-term business				
New business contribution	93	-	6	99
Existing business contribution	97	-	1	98
Contribution from AUM and other businesses	20	25	-	45
Business development and other costs	(13)	(4)	(1)	(18)
Strategic development costs	(20)	(6)	(3)	(29)
Result from operating segments	177	15	3	195
Corporate costs				(29)
Financing costs				(39)
Group operating profit before tax				127
Group – Six months ended 30 June 2022 (unaudited)				
	UK £m	Asset Management £m	Ireland £m	Total £m
Long-term business				
New business contribution	81	-	8	89
Existing business contribution	86	-	1	87
Contribution from AUM and other businesses	21	34	-	55
Business development and other costs	(12)	(7)	-	(19)
Strategic development costs	(26)	(6)	(3)	(35)
Result from operating segments	150	21	6	177
Corporate costs				(31)
Financing costs				(37)
Group operating profit before tax				109
Group – Year ended 31 December 2022				
	UK £m	Asset Management £m	Ireland £m	Total £m
Long-term business				
New business contribution	146	-	17	163
Existing business contribution	186	-	(5)	181
Contribution from AUM and other businesses	45	56	-	101
Business development and other costs	(20)	(11)	(1)	(32)
Strategic development costs	(52)	(13)	(6)	(71)
Result from operating segments	305	32	5	342
Corporate costs				(57)
Financing costs				(75)
Group operating profit before tax				210