# Interim financial results 2024

## A growing modern mutual

2 August 2024

**Daniel Cazeaux, Group Chief Financial Officer**

ROYAL LONDON

# Interim financial results 2024

## Agenda

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

# Interim financial results 2024

## Overview

| Operating profit | Capital cover ratio[1] | New business sales |
|---|---|---|
| **£144m** | **211%** | **£5,048m** |
| (HY2023: £127m) | (FY2023: 218%) | (HY2023: £4,865m) |

| Net inflows | Governed Range AUM | Group AUM |
|---|---|---|
| **£77m** | **£66bn** | **£169bn** |
| (HY2023: £3.2bn) | (FY2023: £60bn) | (FY2023: £162bn) |

1. Investor view basis



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Metrics are defined on page 22

# Interim financial results 2024

## Business unit highlights

### UK

- Attracted over 113,000 new workplace pension customers
- Governed Range net inflows of £1.5bn, with AUM reaching £66bn
- New business sales up 3% to £4.9bn
- New online transfer hub supported 52% increase in completed Workplace Pensions transfers
- Concluded the Part VII transfer of Aegon UK's closed individual protection book

### Asset Management

- Group AUM increased to £169bn
- Positive net flows, despite external outflows in Global Equities
- 94% of actively managed funds outperformed their three-year benchmark
- Continued to diversify our investment portfolio including through real estate infrastructure to support UK life sciences
- Progressing the build of our private markets capabilities

### Ireland

- New business sales up 17% to £129m
- Continued growth in Pensions proposition with sales of £39m
- Protection sales of £90m, maintaining leading position in the Irish broker protection market



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# Financial highlights

| | | HY 2024 | HY 2023 | Change |
|---|---|---|---|---|
| **UK GAAP** | Operating profit before tax | **£144m** | £127m | +£17m |
| | Transfer to FFA | **£312m** | £161m | +£151m |
| **NEW BUSINESS** | Life and pensions new business sales | **£5,048m** | £4,865m | +£183m |
| **INFLOWS** | Gross inflows | **£16,317m** | £14,977m | +£1,340m |
| | Net inflows | **£77m** | £3,214m | £(3,137)m |

| | | HY 2024 | FY 2023 | Change |
|---|---|---|---|---|
| **FUNDS** | Assets under management | **£169bn** | £162bn | +£7bn |
| **CAPITAL** | Regulatory View solvency surplus | **£2.9bn** | £2.9bn | - |
| | Regulatory View capital cover ratio | **201%** | 206% | -5%pts |
| | Investor View solvency surplus | **£2.9bn** | £2.9bn | - |
| | Investor View capital cover ratio | **211%** | 218% | -7%pts |



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# Life and pensions new business

| | New business sales | YoY change | New business margin |
|---|---|---|---|
| Individual pensions | £2,322m (HY2023: £2,402m) | | 1.6% (HY2023: 1.7%) |
| Workplace pensions | £2,112m (HY2023: £1,906m) | | 2.0% (HY2023: 2.0%) |
| Protection | £399m (HY2023: £368m) | | 2.9% (HY2023: 2.9%) |
| Annuities and Other | £86m (HY2023: £79m) | | 6.9% (HY2023: 6.8%) |
| **UK** | **£4,919m** (HY2023: £4,755m) | **+3%** | **2.0%** (HY2023: 2.0%) |
| **Ireland** | **£129m** (HY2023: £110m) | **+17%** | **4.3%** (HY2023: 4.8%) |
| **Life and pensions new business** | **£5,048m** (HY2023: £4,865m) | **+4%** | **2.0%** (HY2023: 2.0%) |

- Individual Pensions single premium sales up 7%, but continued reduction in defined benefit transfers
- Workplace Pensions sales increased by 11% driven by higher transfer volumes
- Protection new business sales increased by 8%, primarily driven by sales of whole of life policies
- Ireland new business boosted by continued growth of pensions proposition, following launch in H2 2022



Metrics are defined on page 22

# Annuities

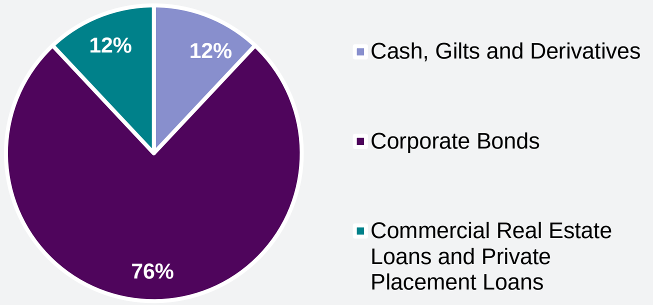
## Bulk Annuity Proposition

- Continued to build our bulk annuity proposition, leveraging our capabilities to deliver an attractive solution for trustees and their members
- Second bulk annuity buy-in transacted in H1, covering a subset of the Royal London Group pension scheme
- First external transaction completed in July: a £30m full scheme buy-in confirming operational capabilities
- On track for full market participation in H2

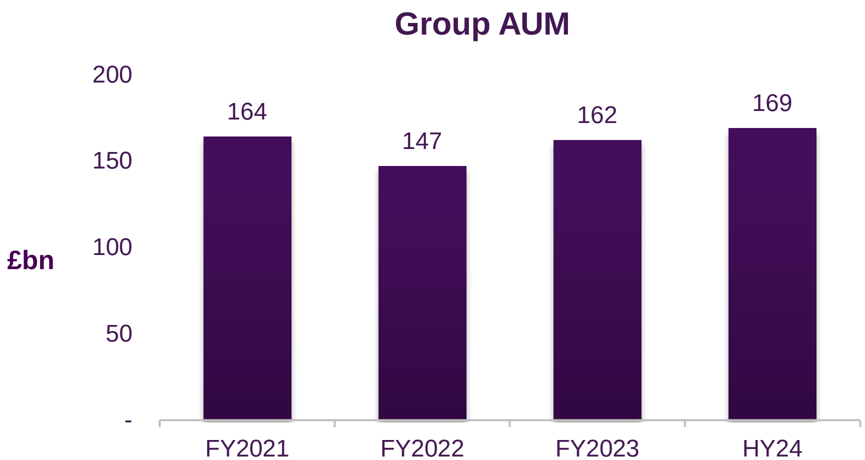
## Matching Adjustment Portfolio

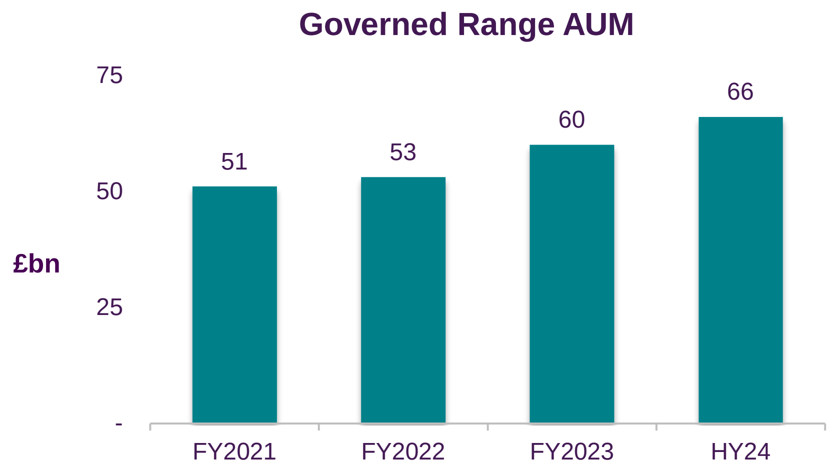
- Growing Matching Adjustment Portfolio, diversifying asset classes alongside RLAM capability build
- Matching Adjustment Portfolio increased to over £1.6bn (FY23: £1.3bn), from:
  - New business (£0.06bn)
  - Royal London Group pension scheme buy-in (£0.35bn)

**Matching Adjustment Portfolio: 30 June 2024**



# Assets under management




## Flows

| | Gross inflows | | Net inflows | |
|---|---|---|---|---|
| £m | HY24 £m | HY23 £m | HY24 £m | HY23 £m |
| Internal flows* | 5,614 | 4,774 | 764 | 443 |
| External flows | 10,703 | 10,203 | (687) | 2,771 |
| **Total** | **16,317** | **14,977** | **77** | **3,214** |

* Includes Governed Range

- Group AUM increased to £169bn
- Flagship Governed Range attracted net inflows of £1.5bn
- Net external outflows in Global Equities of £1.7bn
- Other external net inflows of £1.0bn, reflecting the benefits of our diversified capabilities



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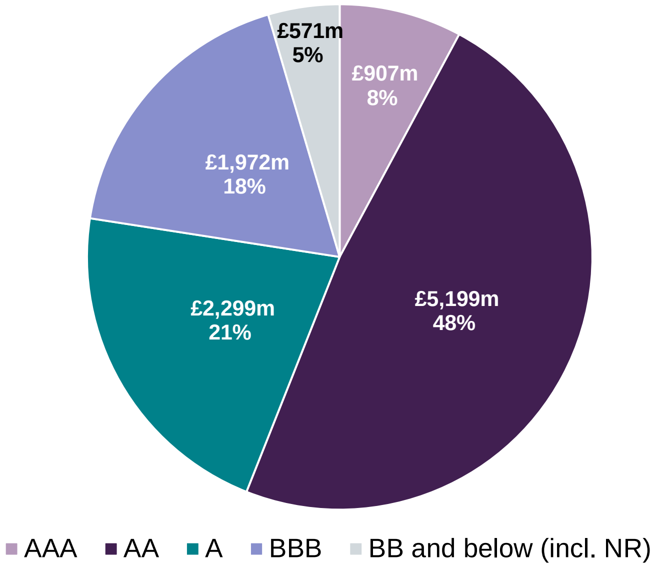
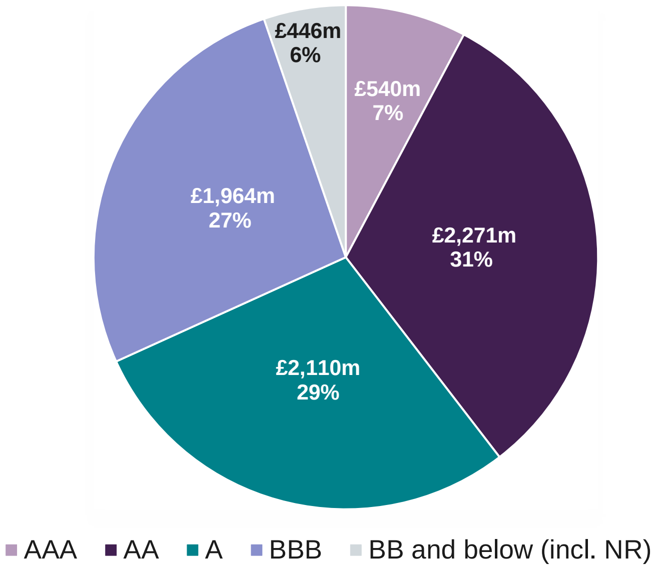
Metrics are defined on page 22

# Balance sheet – investment portfolio

**Non-linked debt security portfolio at 30 June 2024: £10,948m**



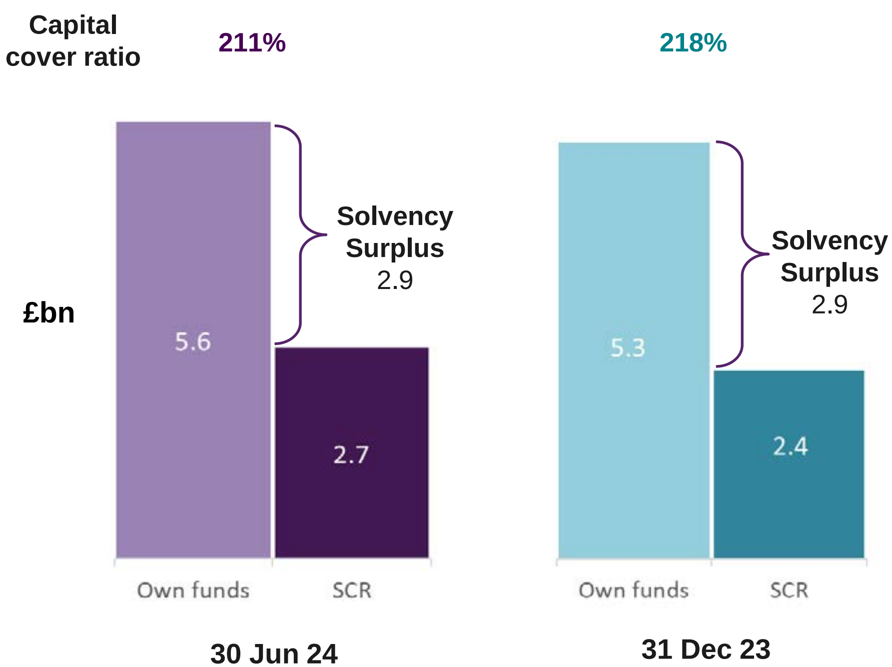

**Non-linked corporate bonds at 30 June 2024: £7,331m**



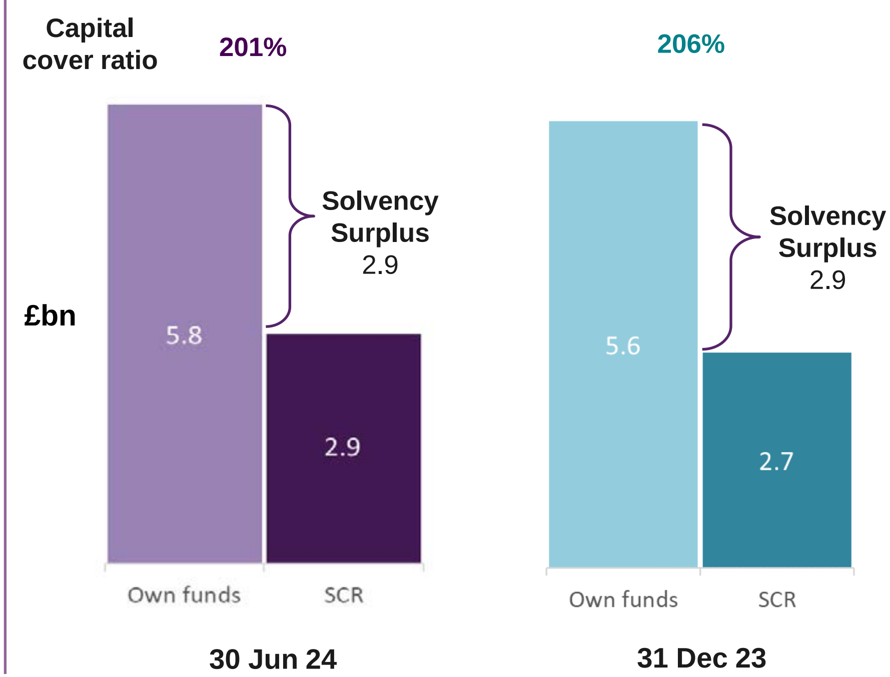

- Investment portfolio increased to **£120.9bn** (FY23: £113.7bn)
- Continued to maintain a highly-rated, well diversified investment portfolio
- No significant defaults in our corporate bond portfolio

# Capital

## Investor View




## Regulatory View



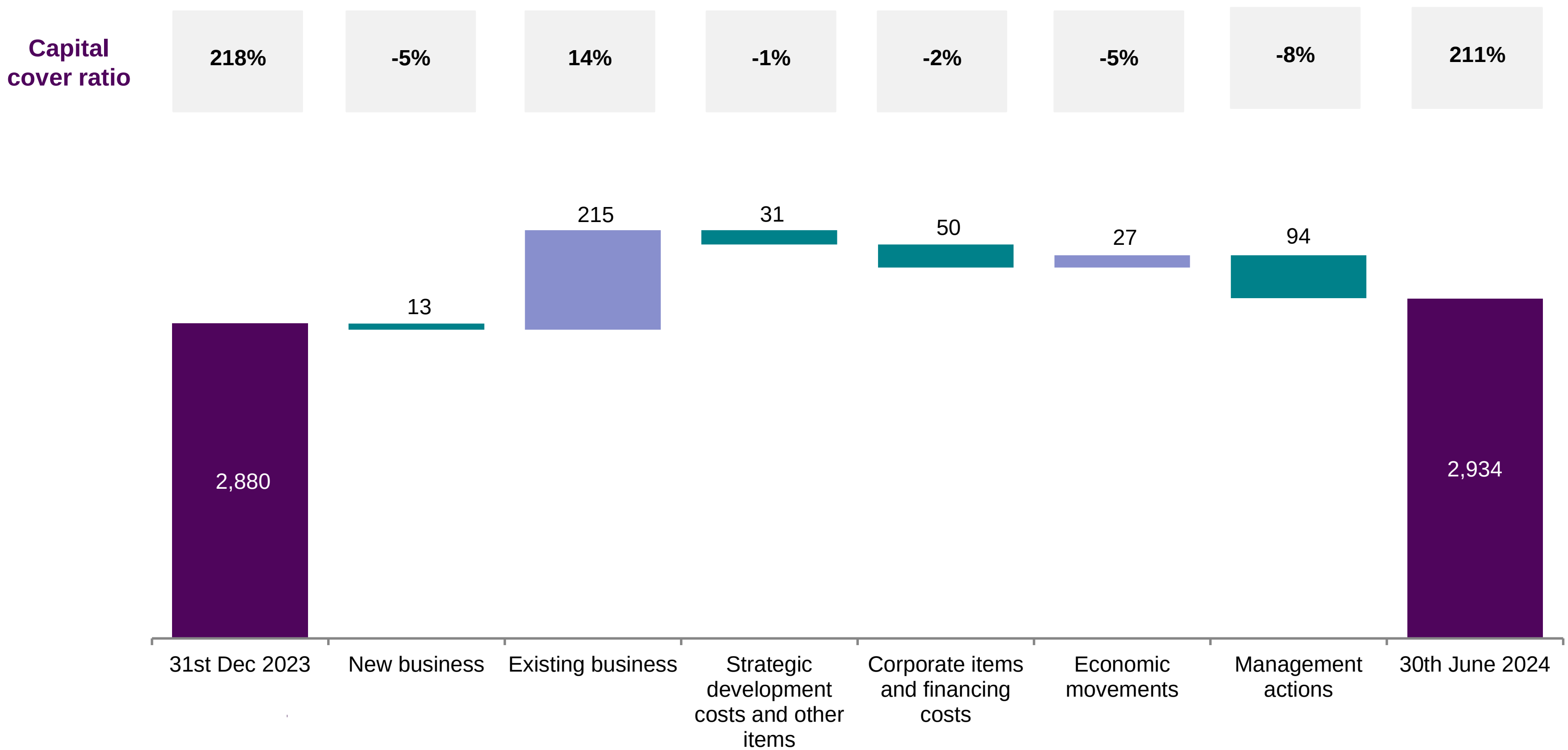

- Robust capital position maintained
- The reduction in both regulatory and investor view cover ratios mainly reflects changes to the level of equity hedging as we manage the capital position within our capital management framework



Metrics are defined on page 22

# Capital – Group Investor view

**Movement in Group Investor View Solvency Surplus (£m)**




- Release from Existing Business covers the strain from New Business as well as development and corporate costs
- Management Actions mainly reflects changes to the level of equity hedging

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# Interim financial results
## Summary

- **Operating profit increased to £144m** supported by a growing book of in force business and higher Workplace Pensions new business contribution
- **Flagship Governed Range reached £66bn AUM,** with £1.5bn of net inflows
- **RLAM continued to deliver strong investment performance,** with 94% of actively managed funds outperforming their three-year benchmark
- **Continued increase in Royal London Ireland new business sales,** driven by new pension products
- **Extended our annuity capabilities** in advance of an intended participation in the bulk purchase annuities market later this year
- **Robust capital position** enables long-term approach to decision making

# Q&A

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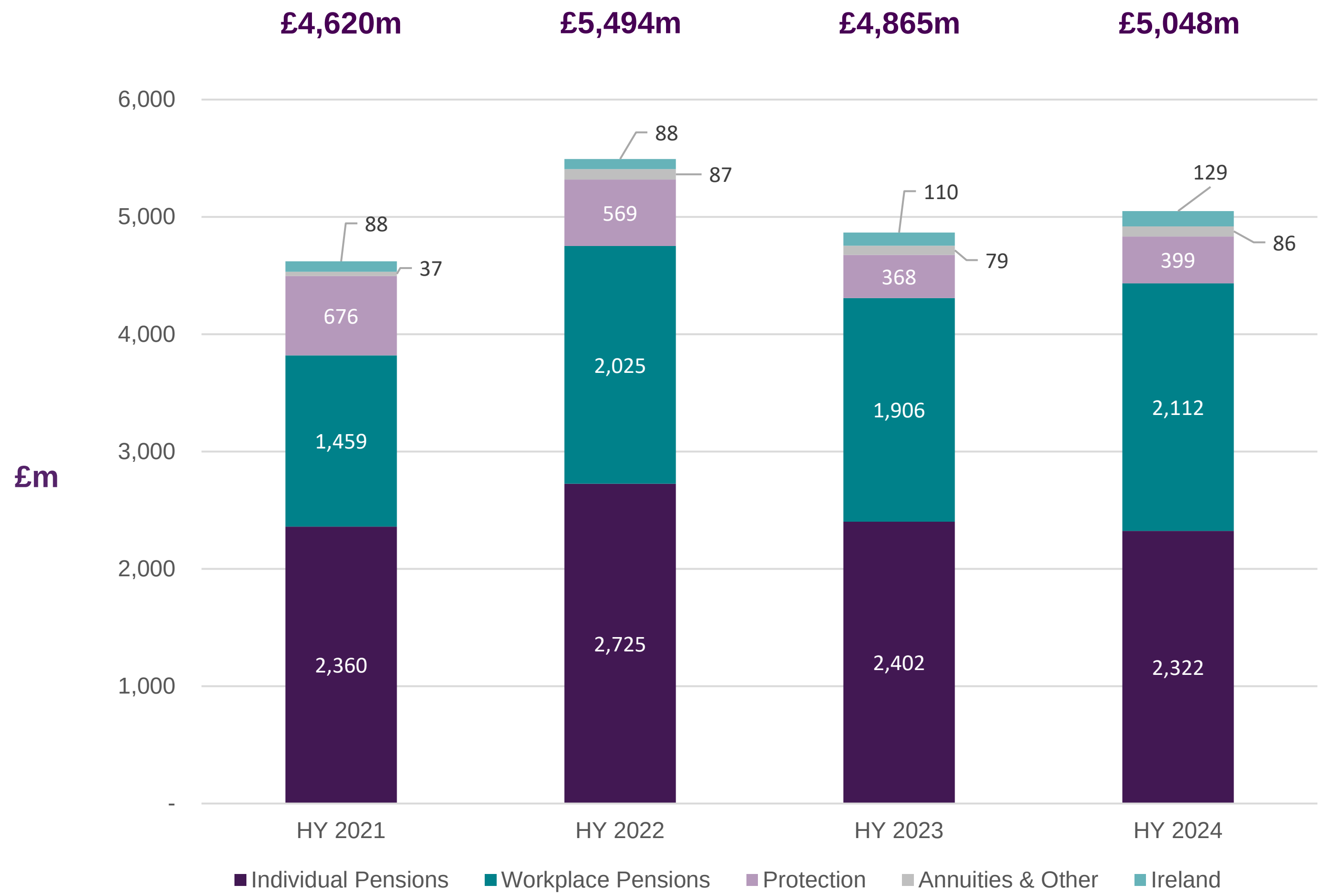
# Appendix 1 – Operating profit before tax

| | HY 2024 | HY 2023 | Change | |
|---|---|---|---|---|
| **Long-term business** | | | | |
| New business contribution | £103m | £99m | +£4m | +5% |
| Existing business contribution | £141m | £98m | +£43m | +43% |
| Contribution from AUM and other businesses | £49m | £45m | +£4m | +7% |
| Business development costs | £(22)m | £(18)m | -£4m | +23% |
| Strategic development costs | £(39)m | £(29)m | -£10m | +34% |
| Amortisation of intangibles | £(8)m | - | -£8m | - |
| **Result from operating segments** | **£224m** | **£195m** | **+£29m** | **+15%** |
| Corporate items | £(37)m | £(29)m | -£8m | +26% |
| Financing costs | £(43)m | £(39)m | -£4m | +11% |
| **Group operating profit before tax** | **£144m** | **£127m** | **+£17m** | **+13%** |



Metrics are defined on page 22

# Appendix 2 – Life and pensions new business

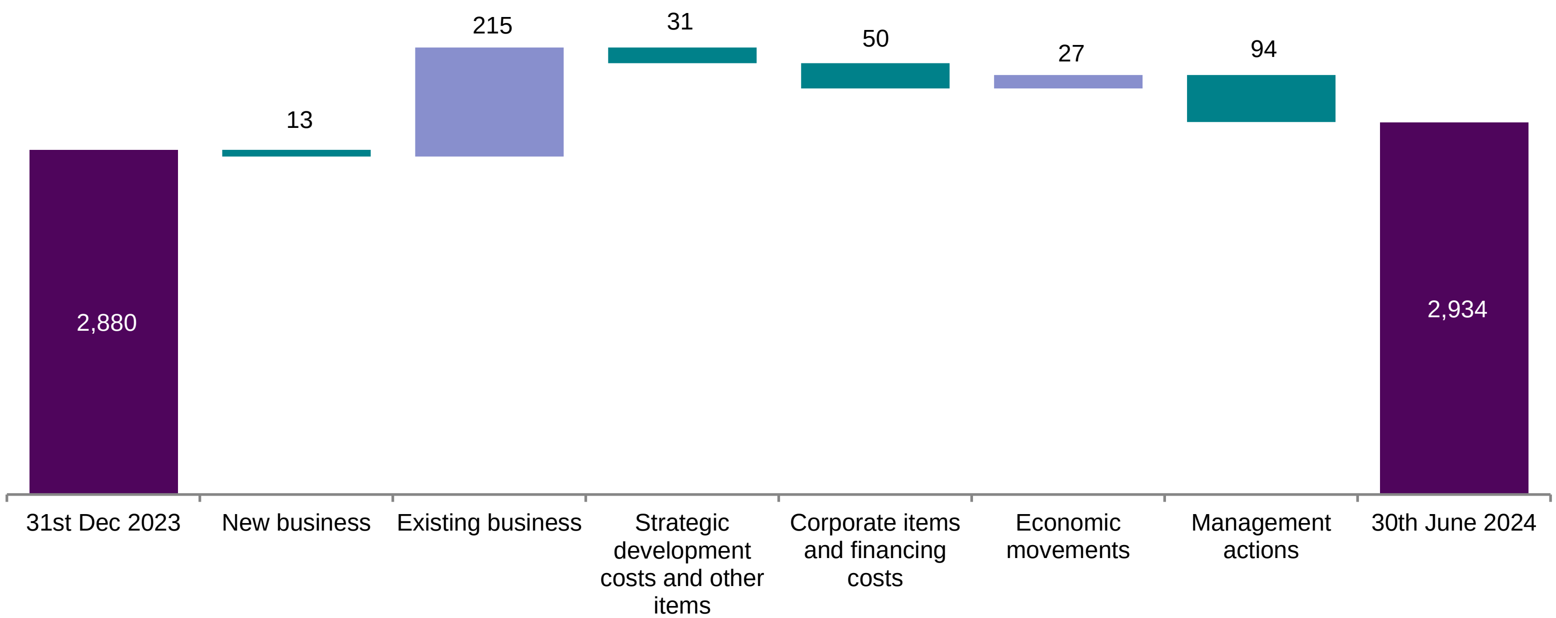



Metrics are defined on page 22

# Appendix 3 – Capital Group Regulatory view

**Movement in Group Regulatory View Solvency Surplus (£m)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Capital cover ratio** | **206%** | **-4%** | **10%** | **-1%** | **-2%** | **-1%** | **-7%** | **201%** |



# 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: HY24** | **211%** | **2.9** | **201%** | **2.9** |
| 25% decrease in equity investments | +6% | -0.1 | +5% | -0.1 |
| 15% decrease in property prices | -2% | -0.1 | -2% | -0.1 |
| 100bps rise in interest rates | +2% | - | +4% | - |
| 100bps fall in interest rates | -3% | - | -8% | - |
| 25bps increase in government bond yields | -1% | - | -1% | - |
| 200bps widening in credit spreads | +3% | - | +4% | - |
| 15% fall in GBP exchange rates | -2% | +0.1 | -2% | +0.1 |

Sensitivities are estimated. Scenarios are explained on page 22.

A scenario where bonds are downgraded by one notch has been tested, but would not have any significant impact on the cover ratio.



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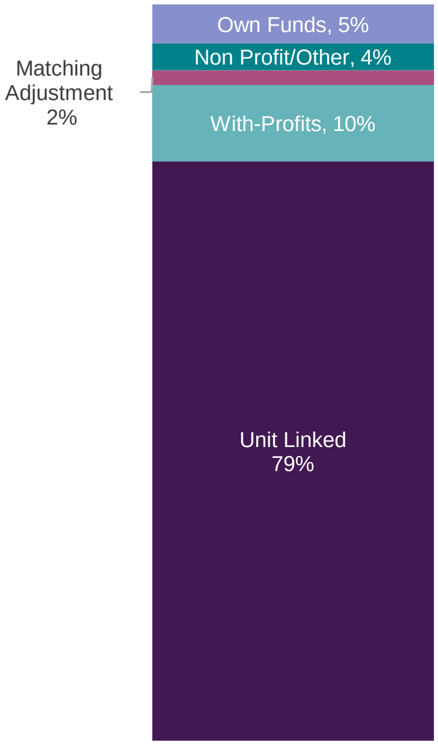
# Appendix 5 – Fund structure

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

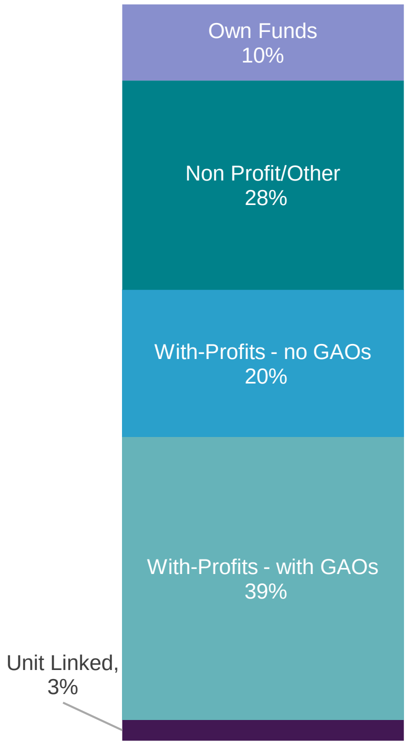
- Total assets*: £104.7bn
- Adjusted own funds*: £5.6bn




- 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.

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

- Total assets: £22.9bn
- Adjusted own funds**: £2.3bn




- 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 30 June 2024
* Own Funds includes £0.1bn for RLI DAC
** Pre closed fund restriction



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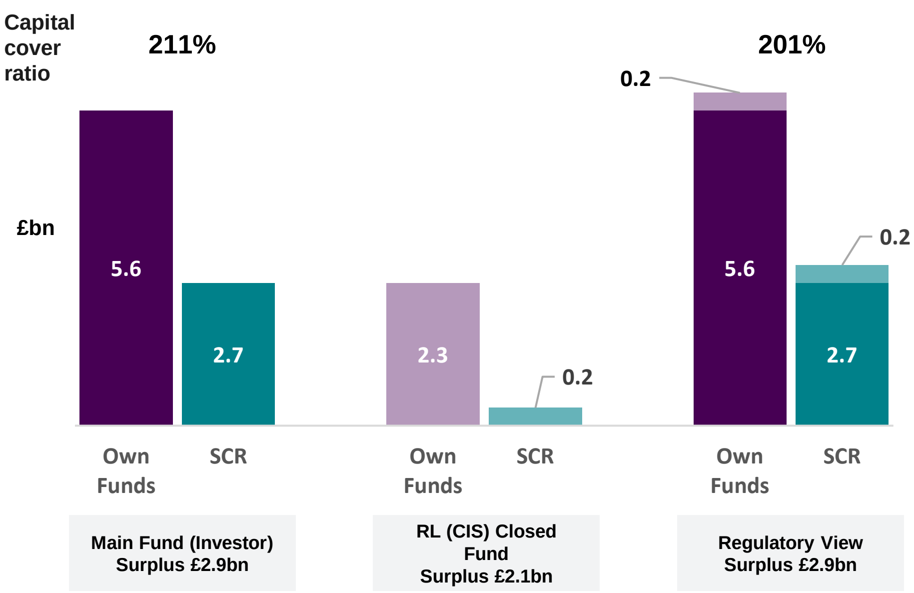
# Appendix 6 – Basis of Regulatory Ratio

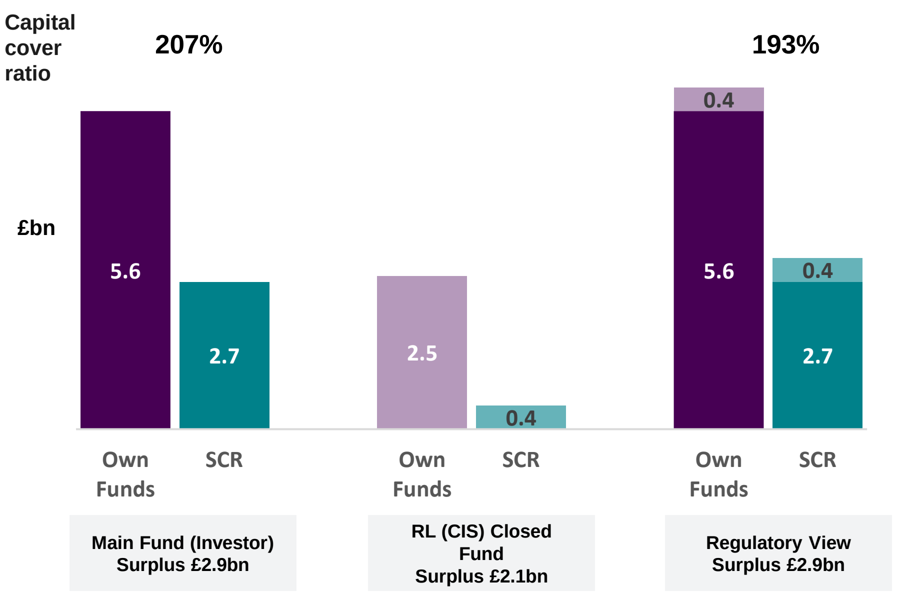
- At HY24, RL(CIS) has a solvency surplus of £2.1bn. As a closed fund, the RL(CIS) solvency surplus is ring-fenced and therefore the surplus is restricted to the value of the RL(CIS) SCR within the Regulatory View Surplus calculation (£0.2bn).
- Our approach to managing the RL(CIS) solvency surplus ensures 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.

## 30 June 2024




## Yields fall 100bps



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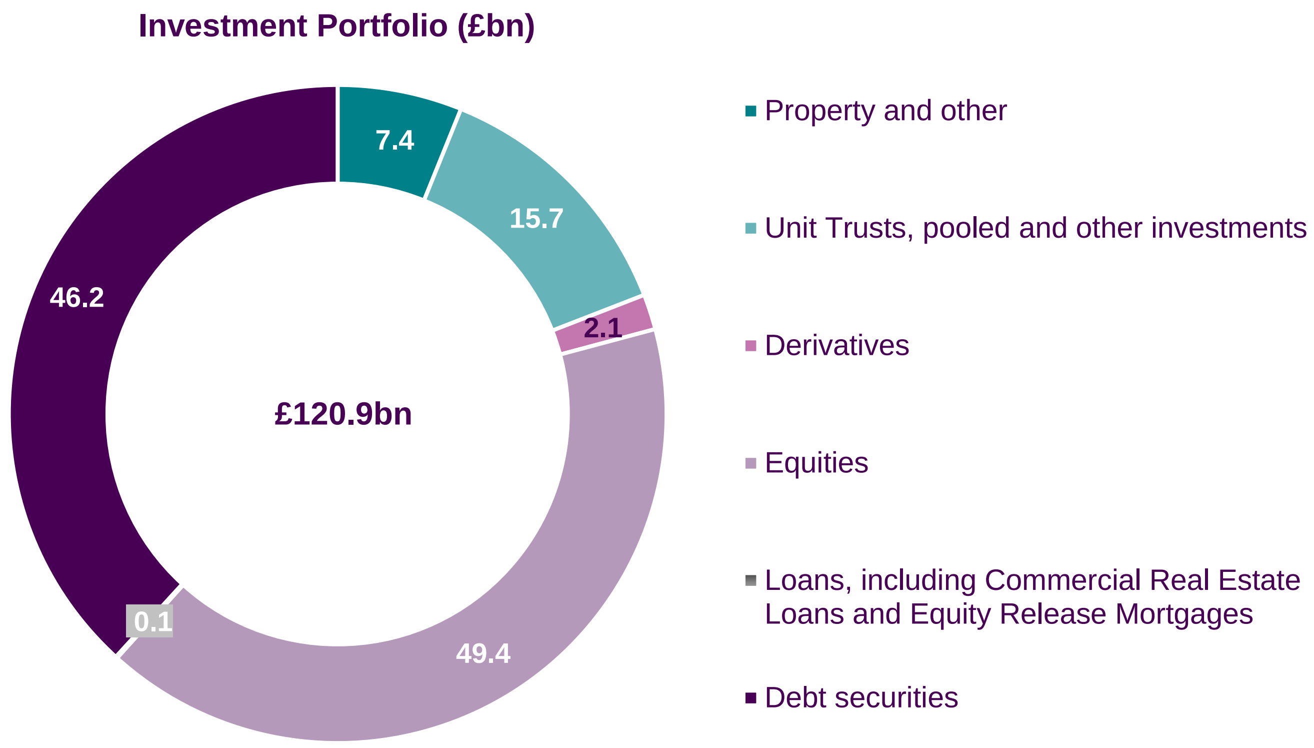
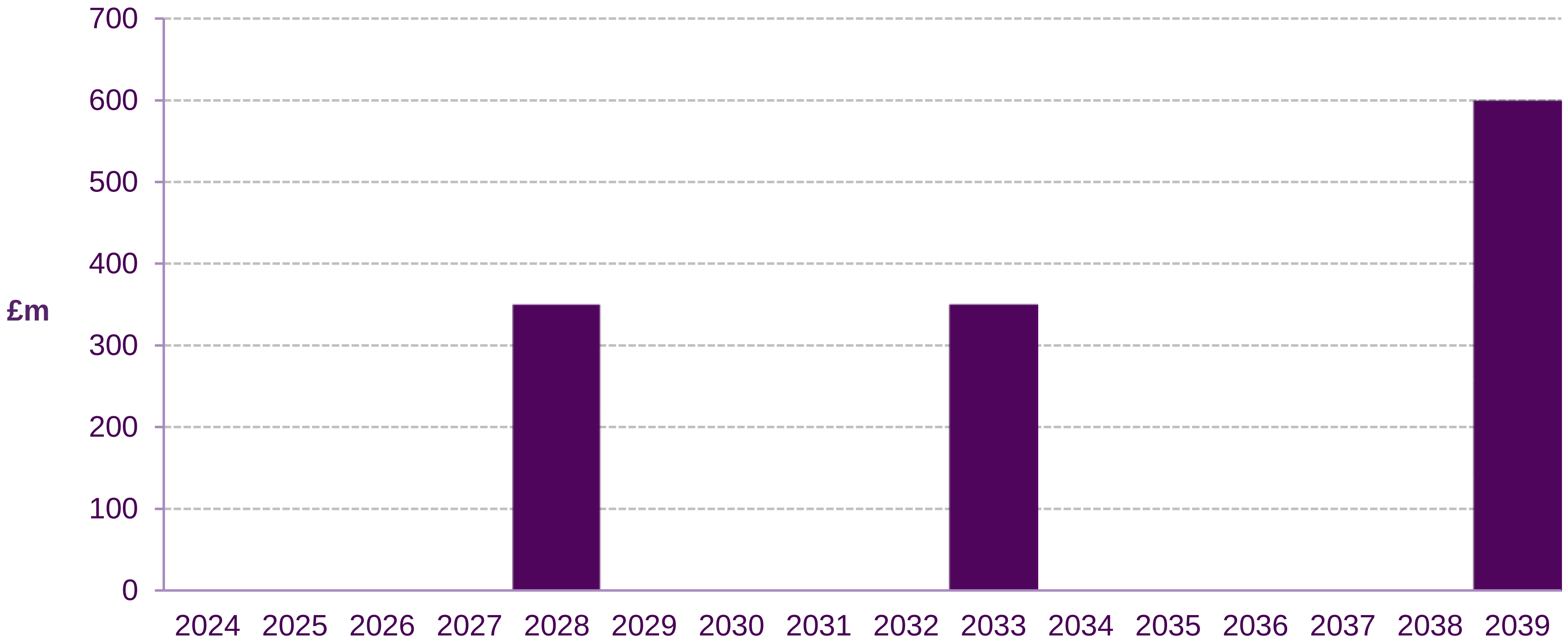
# Appendix 7 – Investment portfolio




- **77%** (A rated or better non-linked debt securities)
- **67%** (A rated or better non-linked corporate bonds)
- Diversified investment portfolio

# 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. 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 before transfer to 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).
5. Transfer to the fund for future appropriations represents the statutory UK GAAP measure 'Transfer to 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, other lines of business and bulk annuity buy-ins transacted with the Group's defined benefit pension schemes. 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.
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 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 '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.
10. Figures presented throughout are rounded. The capital cover ratios, new business margins and period on period percentage changes are calculated based on exact figures.
11. 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.
12. 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.
13. 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.
14. 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.
15. The fall in GBP exchange rates stress assumes an increase to the value of assets held in currencies other than GBP by 15% in GBP terms.

# Forward-looking statements

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 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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