# Interim financial results 2023

## Using mutuality for good

4 August 2023

**Daniel Cazeaux, Group Chief Financial Officer**

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# Interim financial results 2023

## Agenda


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

# Interim financial results 2023

## Overview

| New business sales | Operating profit | Capital Cover Ratio[1] |
|---|---|---|
| **£4,865m** | **£127m** | **212%** |
| (HY2022: £5,494m) | (HY2022: £109m) | (FY2022: 213%) |

| Net inflows | Governed Range AUM | AUM |
|---|---|---|
| **£3.2bn** | **£56bn** | **£153bn** |
| (HY2022: £2.6bn) | (FY2022: £53bn) | (FY2022: £147bn) |

1. Investor view basis



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# Interim financial results 2023

## Business unit highlights

### UK

- Workplace Pensions new business sales up 7%[1]
- Governed Range net inflows of £1.7bn
- Workplace Pensions execution-only transfers increased 169%[2], boosted by new online Transfer Hub
- Supported financial advisers in meeting their Consumer Duty requirements
- Agreed to acquire Aegon UK's closed individual protection book

### Asset Management

- AUM increased to £153bn
- External net inflows of £2.8bn, supported by Global Equity strategies
- Strong performance of actively managed funds over three years
- Continued to drive international growth, securing first client mandates in Japan
- Ongoing investment in enhancing operational capabilities

### Ireland

- 25% increase in new business sales, supported by new pensions proposition
- Inaugural ValueShare[3] payment made to eligible pensions customers
- Continued focus on developing customer proposition, including broadening pension offering

1. After adjusting HY22 for the higher discount rate used in HY23 sales calculation, which reduces the present value of new business premiums
2. Calculated based on number of transfers in H122 vs H123
3. ValueShare is a feature similar to ProfitShare in the UK, exclusive to Royal London Ireland pension customers



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# Financial highlights

| | | HY 2023 | HY 2022 | Change |
|---|---|---|---|---|
| UK GAAP | Operating profit before tax | **£127m** | £109m | +£18m |
| | Transfer to/(from) FFA | **£161m** | (£49)m | +£210m |
| NEW BUSINESS | Life and pensions new business sales | **£4,865m** | £5,494m | -£629m |
| INFLOWS | Gross inflows | **£14,977m** | £12,772m | +£2,205m |
| | Net inflows | **£3,214m** | £2,578m | +£636m |

| | | HY 2023 | FY 2022 | Change |
|---|---|---|---|---|
| FUNDS | Assets under management | **£153bn** | £147bn | +£6bn |
| CAPITAL | Regulatory View solvency surplus | **£2.6bn** | £2.5bn | £0.1bn |
| | Regulatory View capital cover ratio | **200%** | 206% | -6%pts |
| | Investor View solvency surplus | **£2.6bn** | £2.5bn | £0.1bn |
| | Investor View capital cover ratio | **212%** | 213% | -1%pts |

- The financial results of the Group are prepared under UK GAAP and are therefore not subject to the implementation of IFRS 17



Metrics are defined on page 21

# Life and pensions new business

| | New Business Sales | YoY change | New business margin |
|---|---|---|---|
| Individual pensions | £2,402m (HY22: £2,725m) | | 1.7% (HY22: 1.8%) |
| Workplace pensions | £1,906m (HY22: £2,025m) | | 2.0% (HY22: 0.9%) |
| Protection | £368m (HY22: £569m) | | 2.9% (HY22: 2.2%) |
| Annuities and Other | £79m (HY22: £87m) | | 6.8% (HY22: 3.9%) |
| **UK** | **£4,755m** (HY22: £5,406m) | **-12%** | **2.0%** (HY22: 1.5%) |
| **Ireland** | **£110m** (HY22: £88m) | **+25%** | **4.8%** (HY22: 8.5%) |
| **Life and pensions new business** | **£4,865m** (HY22: £5,494m) | **-11%** | **2.0%** (HY22: 1.6%) |

- Underlying growth in Workplace Pensions[1], with higher execution only transfer activity following investment in customer journey.
- Reduction in Individual Pensions reflects lower DB transfers with non DB business growing by 2%.
- Protection new business sales impacted by higher discount rate and £100m one-off transfer in 2022.
- Ireland new business sales increased, primarily due to new pensions sales following the successful launch of the product in September 2022.

1. After adjusting H1 22 for the higher discount rate used in H1 23 sales calculation, which reduces the present value of new business premiums



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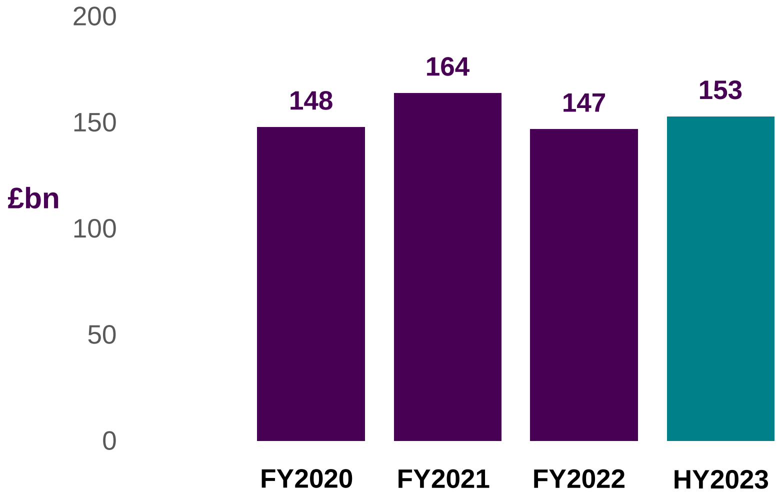
Metrics are defined on page 21

# Assets under management

AUM




Flows

| | Gross inflows | | Net inflows | |
|---|---|---|---|---|
| £m | HY23 £m | HY22 £m | HY23 £m | HY22 £m |
| Internal flows | 4,774 | 4,874 | 443 | 1,110 |
| External flows | 10,203 | 7,898 | 2,771 | 1,468 |
| Total | 14,977 | 12,772 | 3,214 | 2,578 |

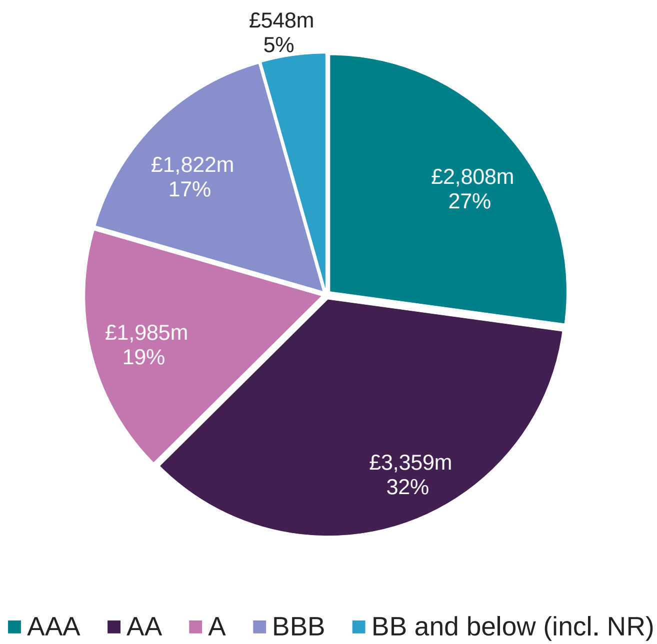
- AUM increased to £153bn, boosted by positive net inflows and market gains
- External net inflows of £2.8bn, of which £2.3bn was across our Global Equity strategies



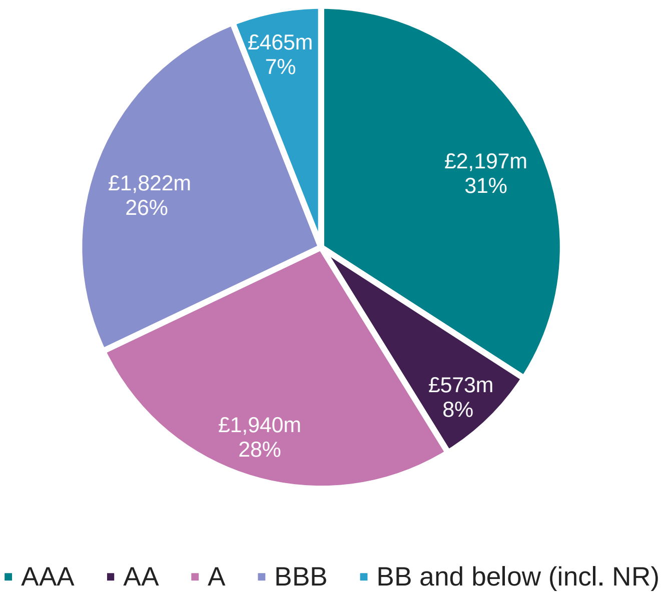
Metrics are defined on page 21

# Balance sheet – investment portfolio

**Non-linked debt security portfolio at 30 June 2023: £10,522m**



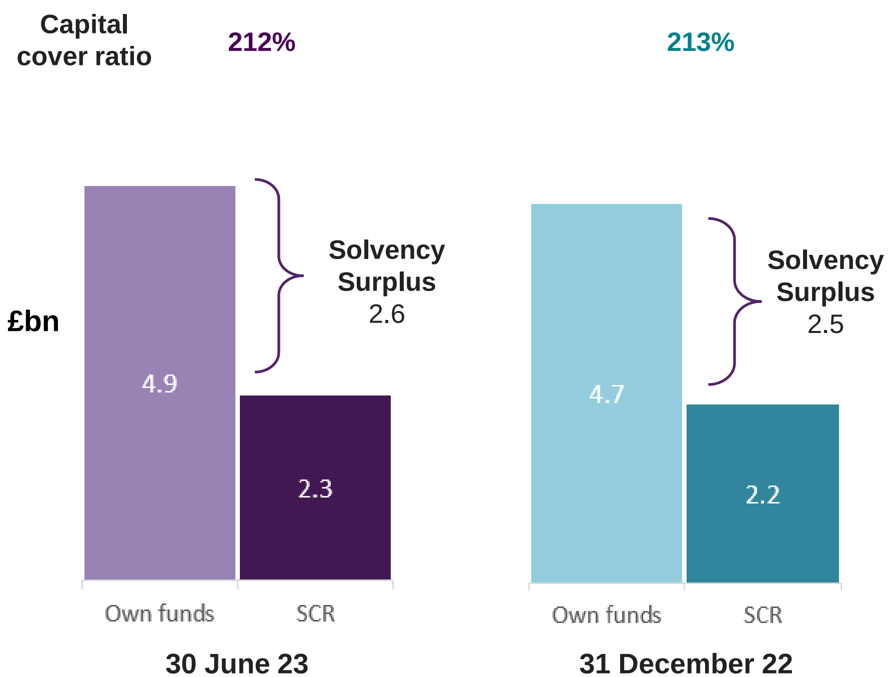

**Non-linked corporate bonds at 30 June 2023: £6,997m**



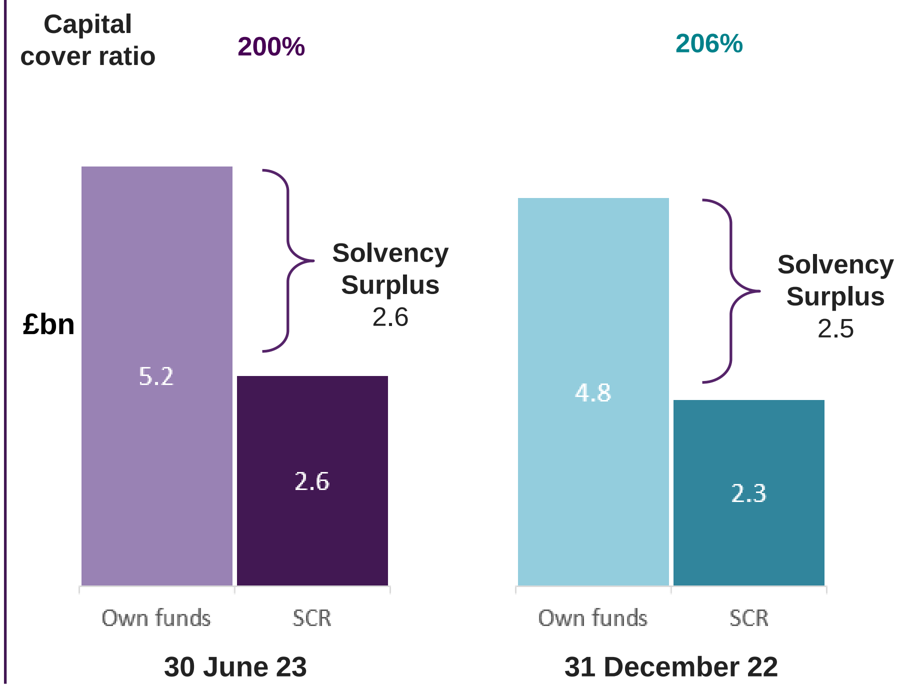

- Investment portfolio increased to **£107.3bn** (FY22: £104.4bn)
- Continued to maintain a highly-rated, well diversified investment portfolio
- No significant defaults in our corporate bond portfolio

# Capital

## Investor View




## Regulatory View




- Robust capital position maintained despite market volatility
- Investor View capital ratio stable with our hedging programmes operating as intended
- Decrease in Regulatory View capital ratio reflects change in shape of yield curve, resulting in higher closed fund capital requirements



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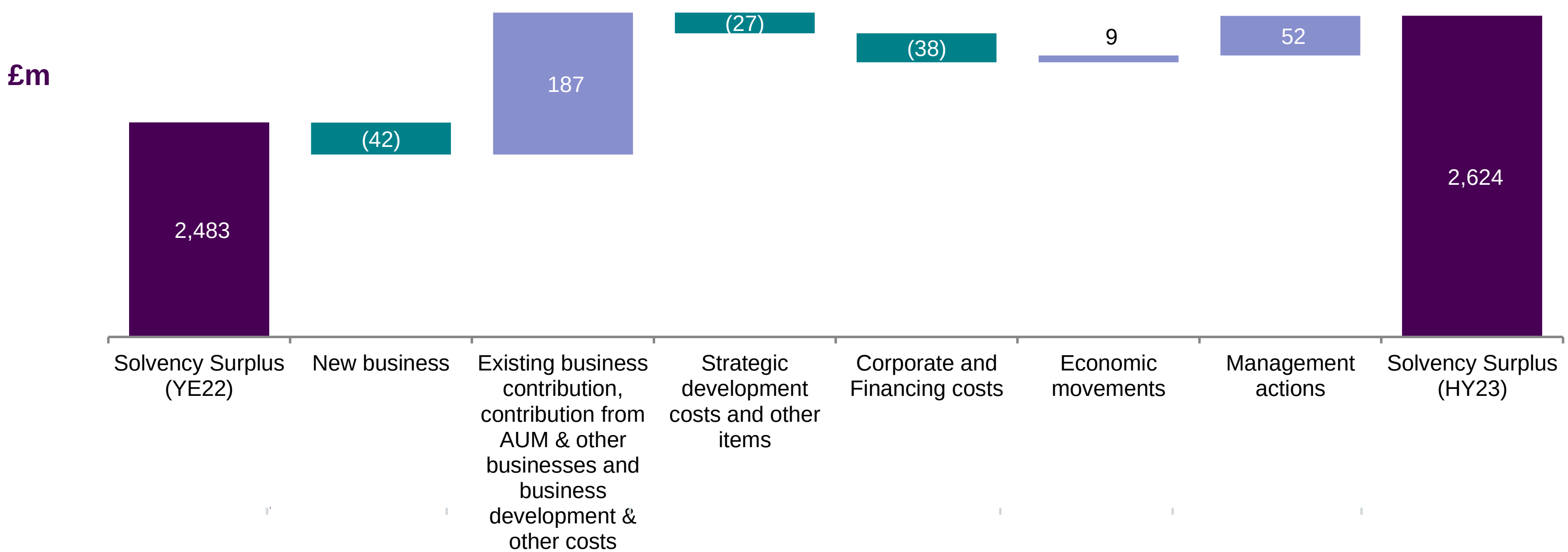
Metrics are defined on page 21

# Capital – Group Investor view

## Movement in Group Investor View Solvency Surplus

| Capital cover ratio | 213% | -6% | 10% | -1% | -2% | 1% | -3% | 212% |
|---|---|---|---|---|---|---|---|---|




- Management actions include the acquisition of the Aegon UK individual protection book and the net impact of the RT1 issuance and T2 tender



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# Interim financial results
## Summary

- **Increase in operating profit** driven by growth in Workplace Pensions and positive impact of higher risk free rates
- Flagship **Governed Range reached £56bn AUM**
- **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
- **Active management of capital base** enables long-term approach to decision making

# Q&A

# Appendix 1 – operating profit before tax

| | HY 2023 | HY 2022 | Change | |
|---|---|---|---|---|
| **Long-term business** | | | | |
| New business contribution | **£99m** | £89m | +£10m | +11% |
| Existing business contribution | **£98m** | £87m | +£11m | +13% |
| Contribution from AUM and other businesses | **£45m** | £55m | -£10m | -18% |
| Business development and other costs | **(£18m)** | (£19m) | +£1m | +5% |
| Strategic development costs | **(£29m)** | (£35m) | +£6m | +17% |
| **Result from operating segments** | **£195m** | **£177m** | **+£18m** | **+10%** |
| Corporate costs | **(£29m)** | (£31m) | +£2m | +6% |
| Financing costs | **(£39m)** | (£37m) | -£2m | -5% |
| **Group operating profit before tax** | **£127m** | **£109m** | **+£18m** | **+16%** |

Metrics are defined on page 21



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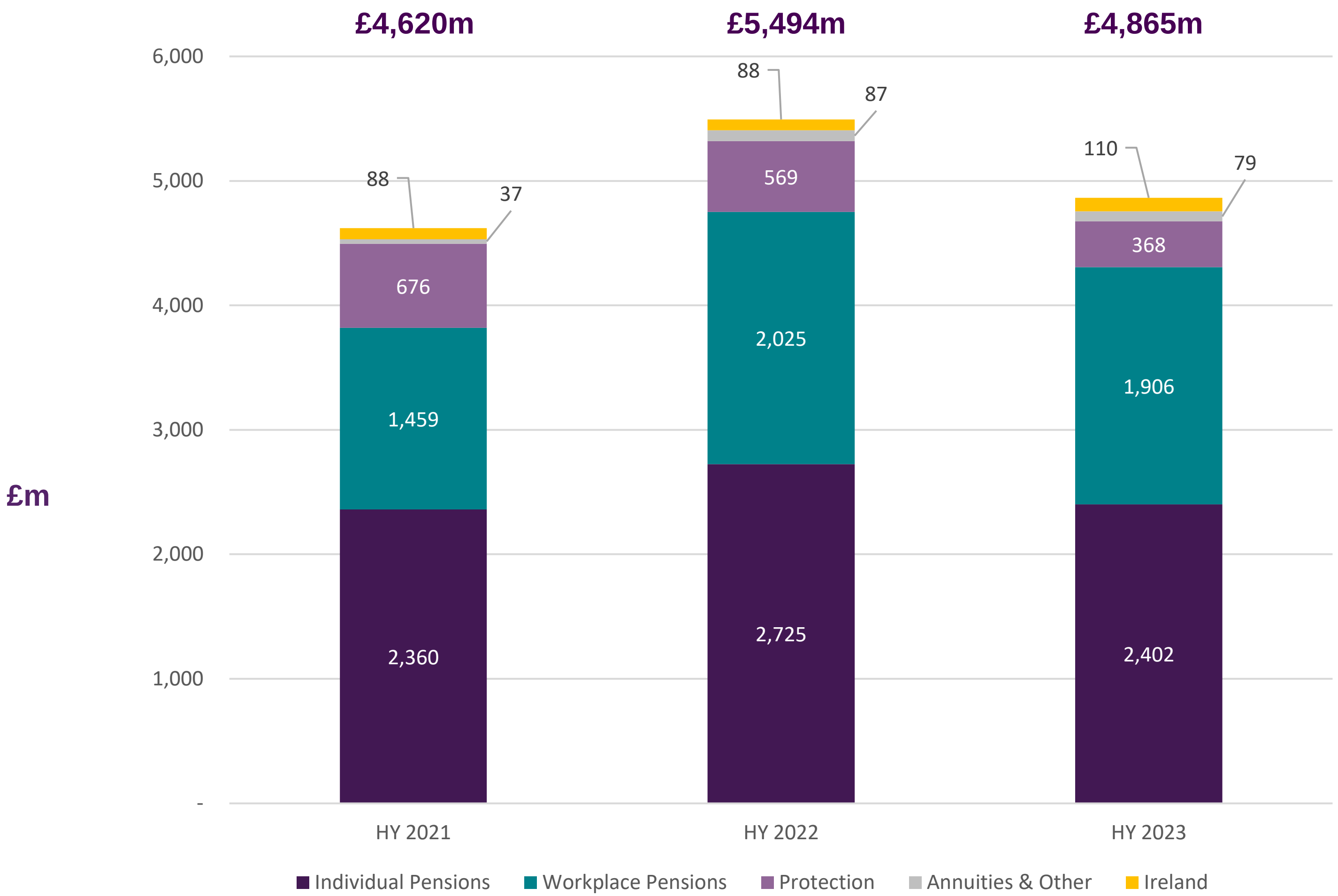
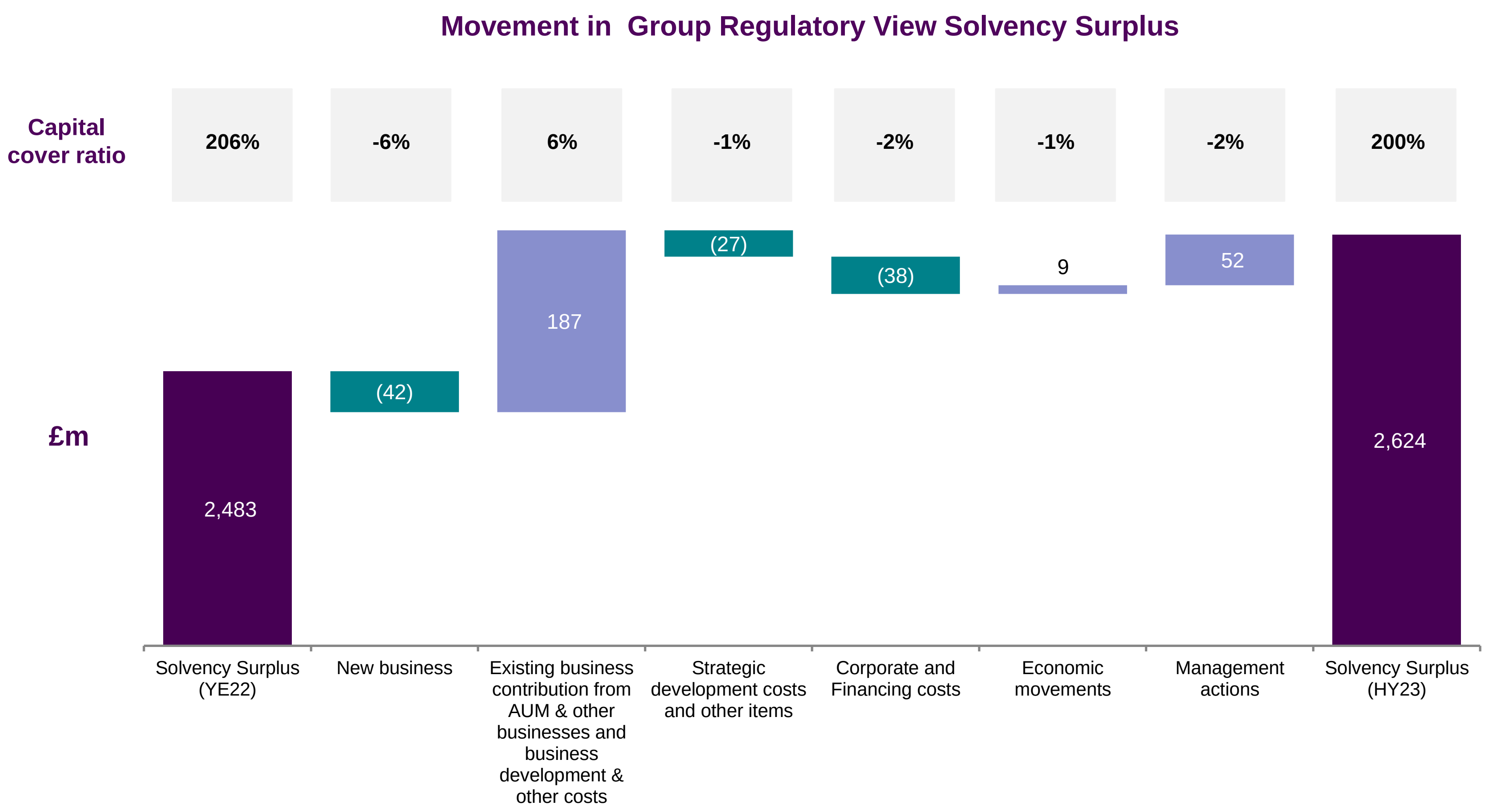
# Appendix 2 – life and pensions new business




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, in particular for Workplace Pensions and regular premium Protection business.

Metrics are defined on page 21

# Appendix 3 – Capital Group Regulatory view



# Appendix 4 – Capital sensitivities

| | Solvency II Investor View Sensitivities | | Solvency II Regulatory View Sensitivities | |
|---|---|---|---|---|
| **Scenario** | **Capital cover ratio %** | **Impact on solvency surplus £bn** | **Capital cover ratio %** | **Impact on solvency surplus £bn** |
| **Base: HY23** | **212%** | **2.6** | **200%** | **2.6** |
| 25% decrease in equity investments | +5% | -0.1 | +3% | -0.1 |
| 15% decrease in property prices | -3% | -0.1 | -3% | -0.1 |
| 100bps rise in interest rates | +1% | -0.1 | +4% | -0.1 |
| 100bps fall in interest rates | -3% | 0.0 | -11% | 0.0 |
| 25bps increase in government bond yields | -1% | 0.0 | -1% | 0.0 |
| 200bps widening in credit spreads | +1% | -0.1 | +6% | -0.1 |
| 15% fall in GBP exchange rates | -3% | 0.0 | -2% | 0.0 |

Sensitivities are estimated. Scenarios are explained on page 21



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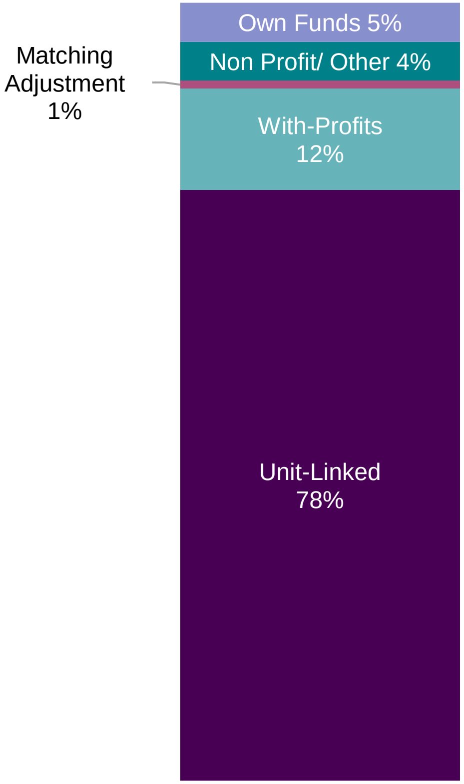
# Appendix 5 – Fund structure

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

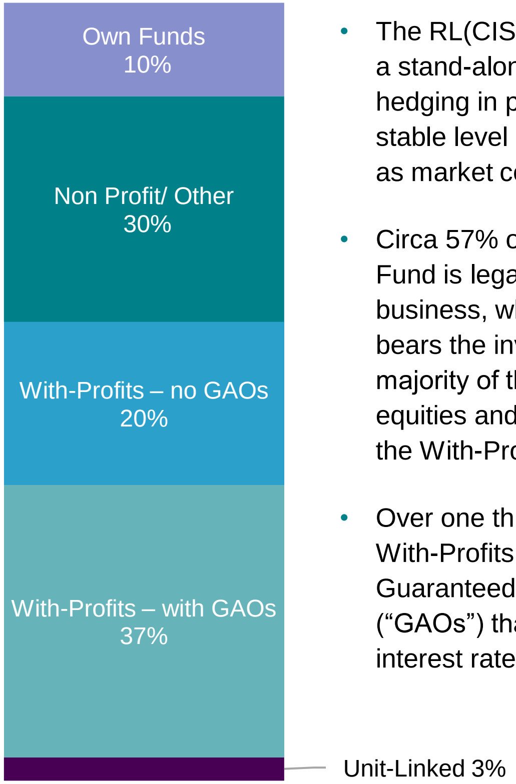
- Total assets: £90.8bn
- Adjusted own funds*: £5.0bn

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

- Total assets: £23.2bn
- Adjusted own funds: £2.3bn




- 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 57% 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.

Data at 30 June 2023.
* Own Funds includes £0.1bn for RLI DAC.



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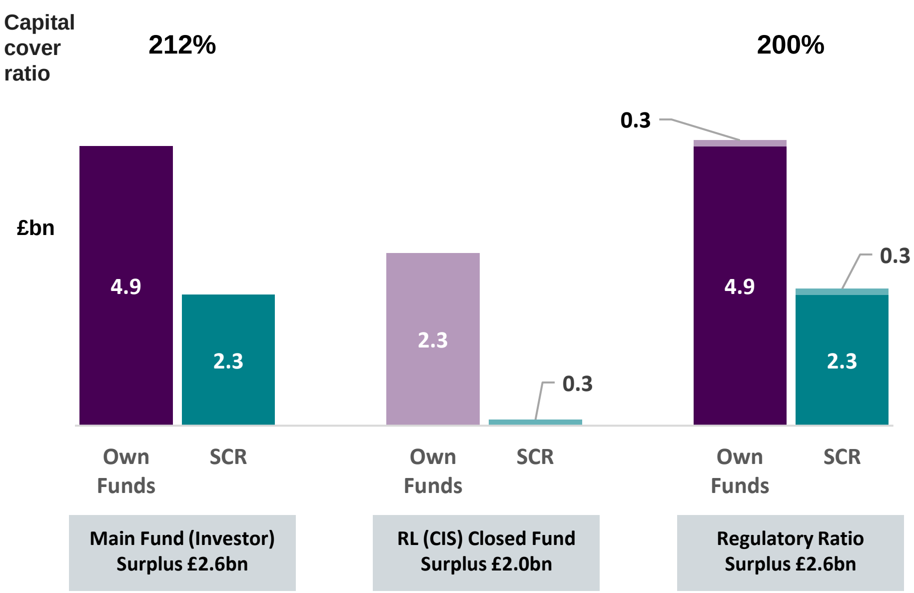
# Appendix 6 – Basis of Regulatory Ratio

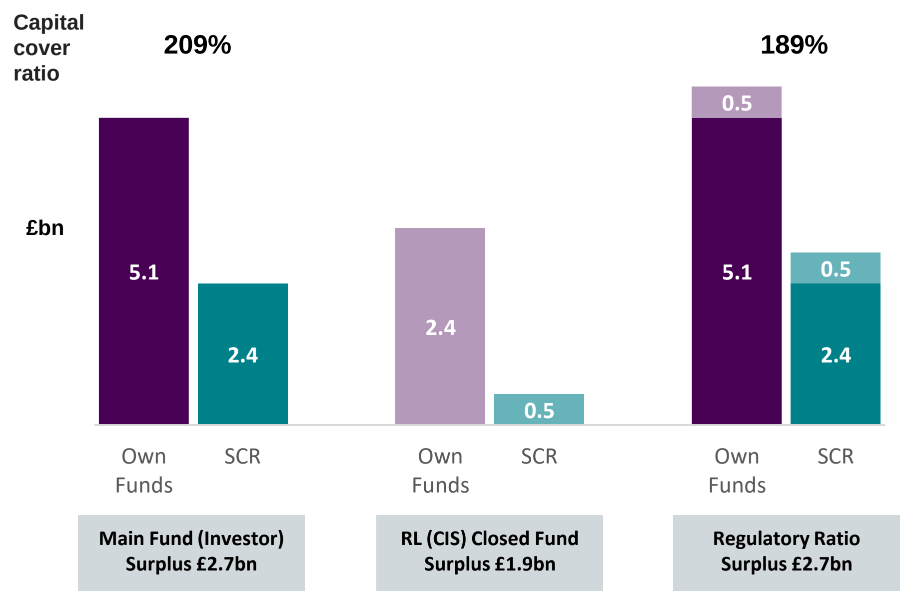
- At HY23, RL(CIS) had a solvency surplus of £2.0bn. As a closed fund, the RL(CIS) solvency surplus is ring-fenced and therefore the surplus is restricted to the value of the RL(CIS) SCR within the Regulatory Ratio calculation (£0.3bn).
- Our approach to managing the RL(CIS) solvency surplus ensures the 'burn through' risk to the RL Main Fund is minimal.

### 30 June 2023

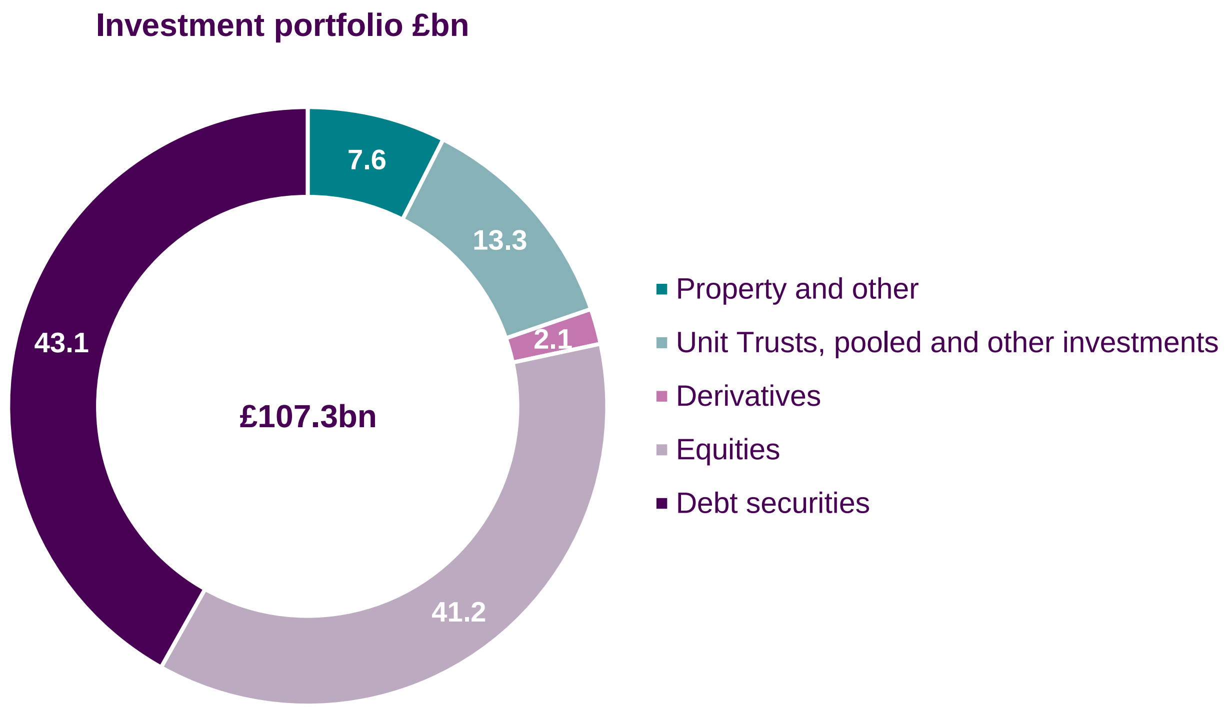



- Under a yield fall, the RL(CIS) SCR rises as the value of Guaranteed Annuity Options in the fund increase.
- Hedging ensures that the solvency surplus in the RL(CIS) fund remains stable. However, the increase in the RL(CIS) SCR dilutes the Regulatory Ratio.

### Yields fall 100bps

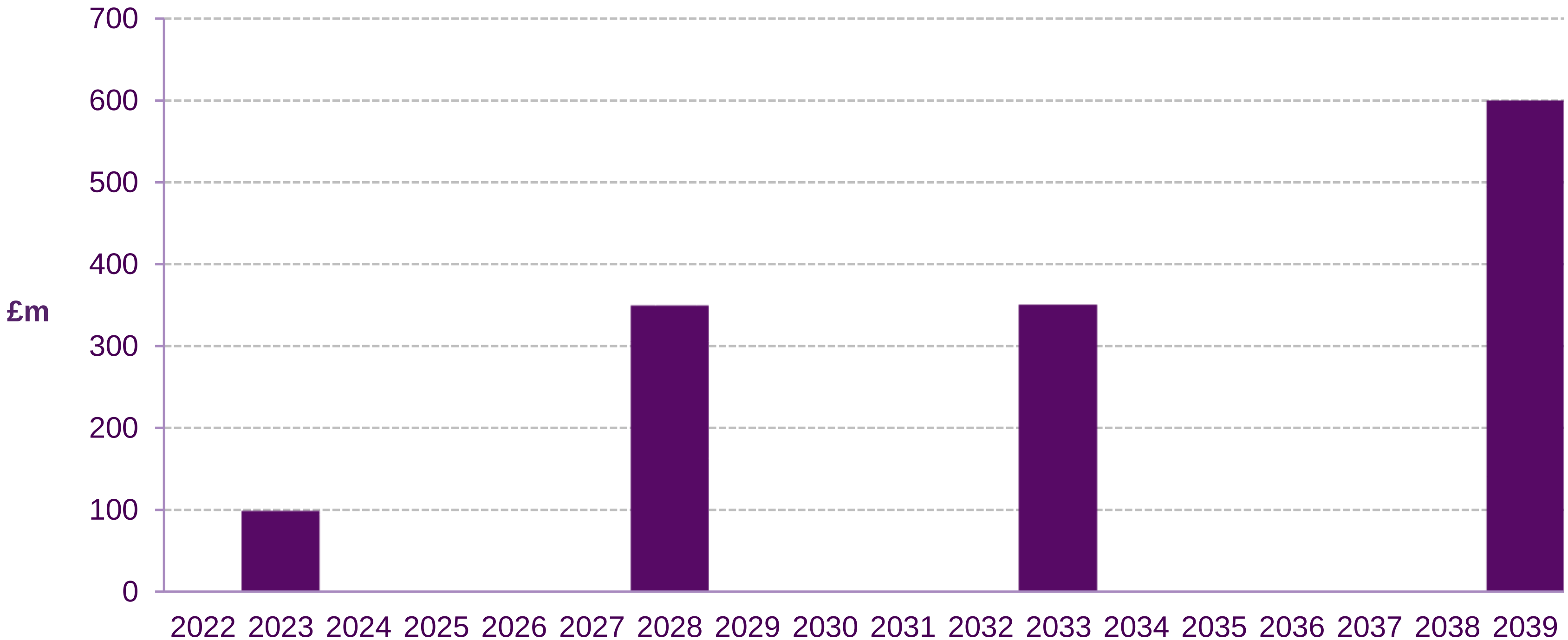


# Appendix 7 – Investment portfolio




- **78%** (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 2013 | £98m** | Tier 2 | 6.125% | Nov 2023 | Baa1 / BBB+ |
| 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 |

**  Callable bonds shown to first call date*
*** Previously £400m, tendered in May 2023 resulting in the repurchase and cancellation of £302m of the outstanding notes*



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# 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) and include Operating profit before tax. APMs are disclosed to provide further information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to UK GAAP and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.
3. Investment performance has been calculated using a weighted average of active assets under management for funds with a defined external benchmark. Benchmarks differ by fund and reflect their mix of assets to ensure direct comparison. Passive funds are excluded from this calculation as, 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 and impairment 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 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 managed by the Group, including funds managed on behalf of third parties.
9. The capital cover ratio is calculated as the Group's Own Funds, being the regulatory capital under Solvency II, divided by the Solvency Capital Requirement (SCR). The 'Regulatory View' solvency surplus and capital cover ratio restricts each closed funds' surplus to the value of the SCR of that fund. The 'Investor View' equals the RL Main Fund capital position (excluding ring-fenced funds, which are run on a standalone basis). All capital figures are stated on a Group Partial Internal Model basis.
10. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.
11. Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was last formally recalculated at 31 December 2022. 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 Volatility Adjustment has 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 Volatility Adjustment has been reassessed in the stressed scenario.
15. 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.

# 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.

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