

2020 FINANCIAL RESULTS

5 March 2021

Daniel Cazeaux
Group Chief Financial Officer

AGENDA

- 1 Overview and financial highlights**
- 2 Life and Pensions New Business**
- 3 Assets under management and Balance Sheet**
- 4 Capital**
- 5 Q & A**

2020 OVERVIEW

- No disruption to customer service throughout the pandemic
- Volatile financial markets and economic uncertainty has impacted trading and short-term profitability
- Strong asset management performance and flows into sustainable funds
- Robust capital position enabled continued strategic investment in our business
- No significant impacts experienced following the UK's exit from the EU

FINANCIAL HIGHLIGHTS

		2020	2019	Change
UK GAAP	Operating profit before tax	£41m	£165m	−£124m
	Profit before tax	£131m	£414m	−£283m
	ProfitShare	£146m	£140m	+£6m
NEW BUSINESS	Life and pensions new business sales	£8,544m	£10,699m	−£2,155m
INFLOWS	Gross inflows	£26,407m	£25,131m	+£1,276m
	Net inflows	£3,870m	£9,892m	−£6,022m

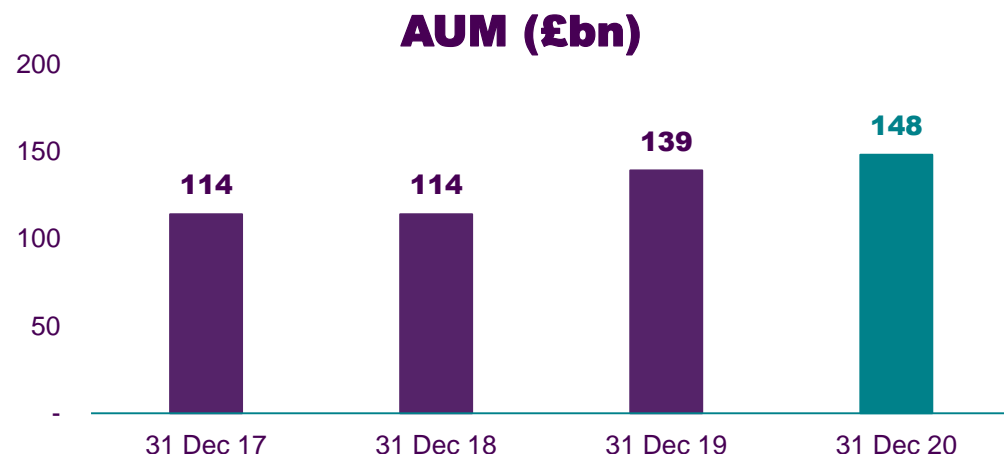
		31 Dec 20	31 Dec 19	Change
FUNDS	Assets under management	£148bn	£139bn	+£9bn
CAPITAL	Regulatory View solvency surplus	£2.3bn	£2.6bn	−£0.3bn
	Regulatory View capital cover ratio	147%	159%	−12% points
	Investor View solvency surplus	£2.3bn	£2.6bn	−£0.3bn
	Investor View capital cover ratio	190%	219%	−29% points

LIFE AND PENSIONS NEW BUSINESS

- 2020 impacted by Covid-19 and economic uncertainty
- Strong Protection performance during the pandemic

	New business sales	New business margin
Pensions	£7,206m (2019: £9,461m)	1.5% (2019: 1.8%)
Intermediated Protection	£825m (2019: £678m)	3.8% (2019: 4.9%)
Ireland Protection	£137m (2019: £137m)	8.8% (2019: 9.5%)
Consumer	£376m (2019: £423m)	-1.3% (2019: 1.2%)
	£8,544m (2019: £10,699m)	1.7% (2019: 2.0%)

ASSETS UNDER MANAGEMENT



	Gross inflows		Net inflows	
	2020 (£m)	2019 (£m)	2020 (£m)	2019 (£m)
Internal flows	8,089	9,371	2,205	3,196
External flows	18,318	15,760	1,665	6,696
Total	26,407	25,131	3,870	9,892

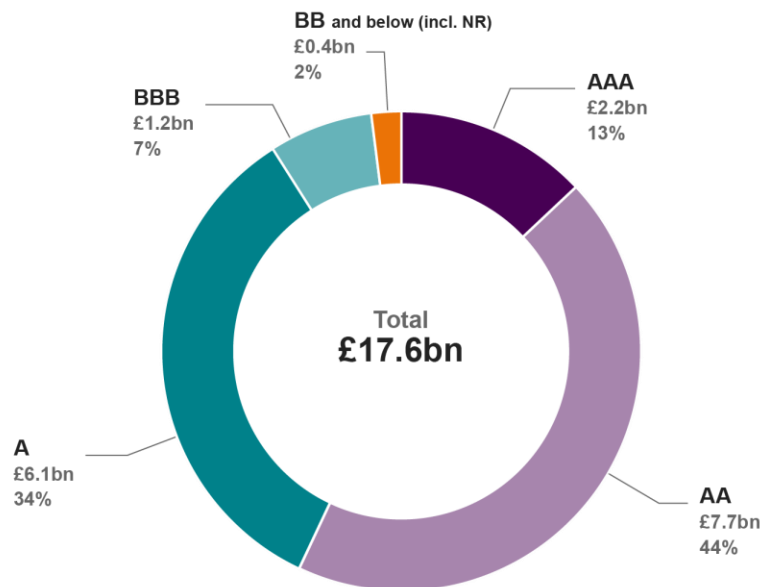
- Growth in AUM driven by positive market movements and net inflows
- Wholesale inflows driven by success of sustainable funds, mitigating net outflows from institutional investors
- 95% of actively managed funds outperformed their benchmark over 3 years

BALANCE SHEET – INVESTMENT PORTFOLIO

- Investment portfolio increased to **£107.9bn** (2019: £99.4bn)
- Diversified investment portfolio
- No significant defaults in our corporate bond portfolio

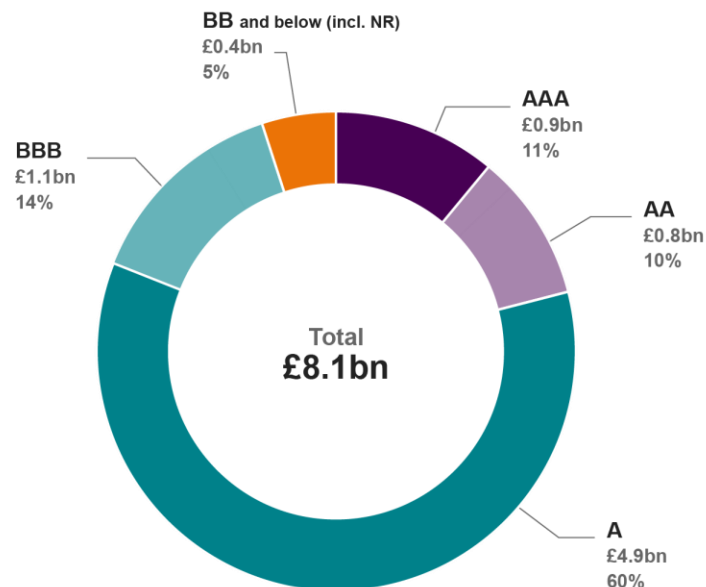
Non-linked debt security portfolio:

31 December 2020



Non-linked corporate bonds:

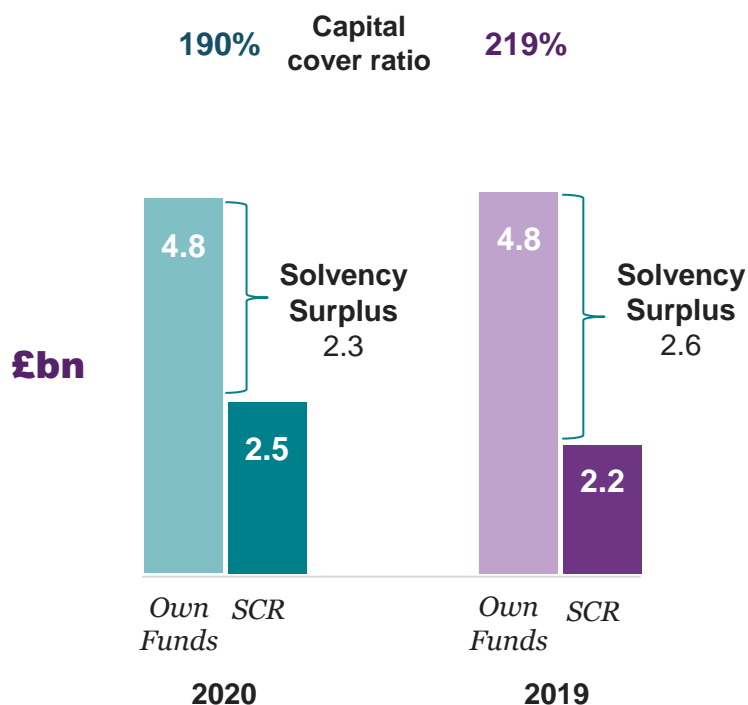
31 December 2020



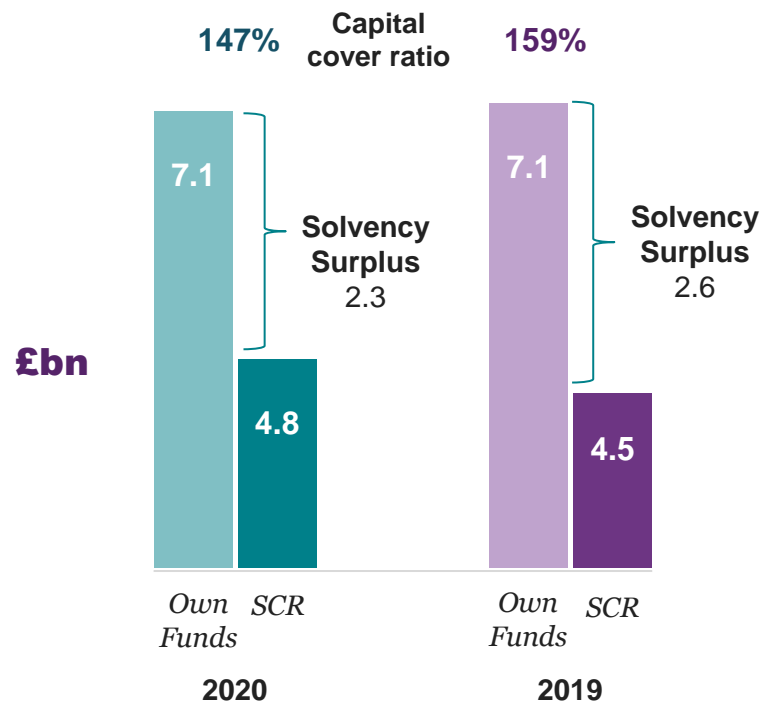
CAPITAL

- Capital position remains robust and has allowed continued investment in the business
- Hedging activity operated as intended

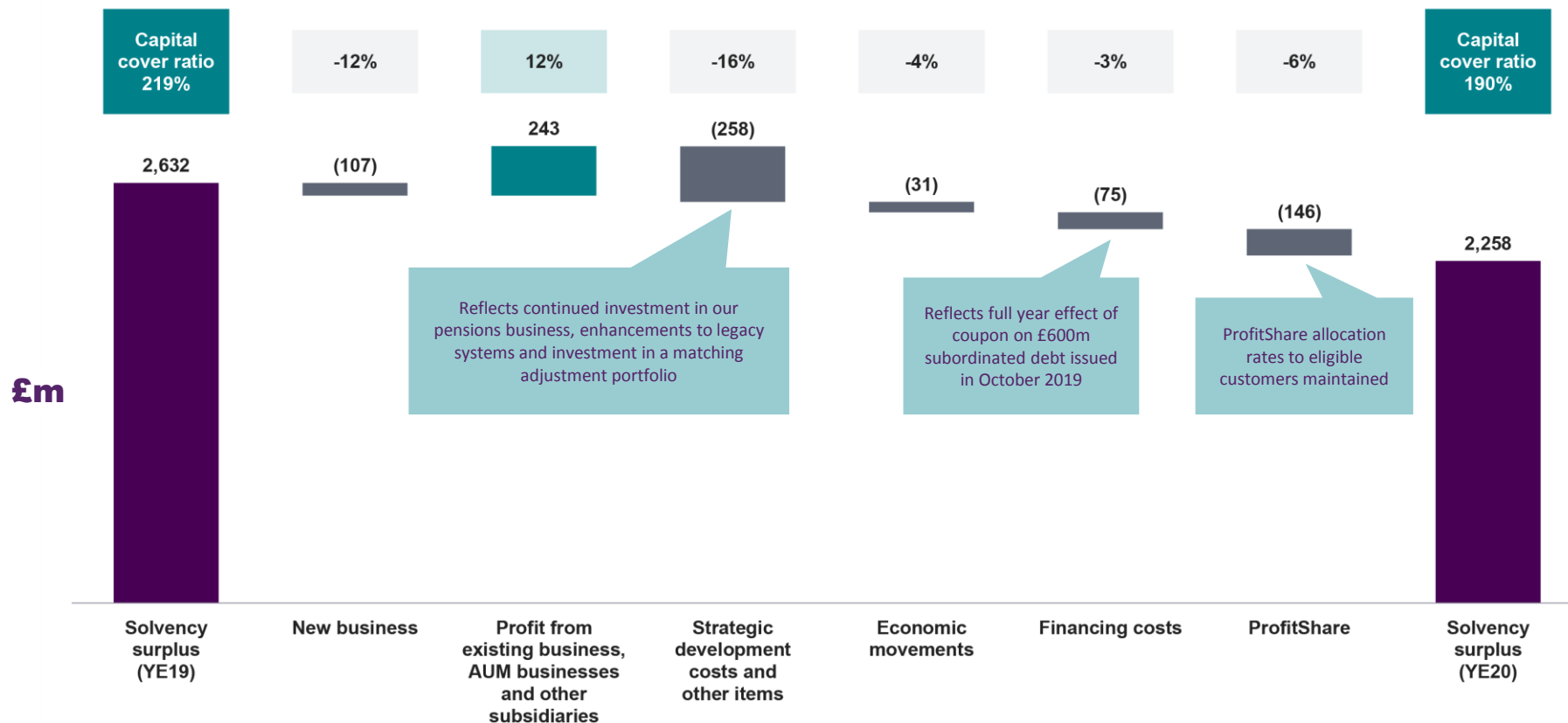
Investor View



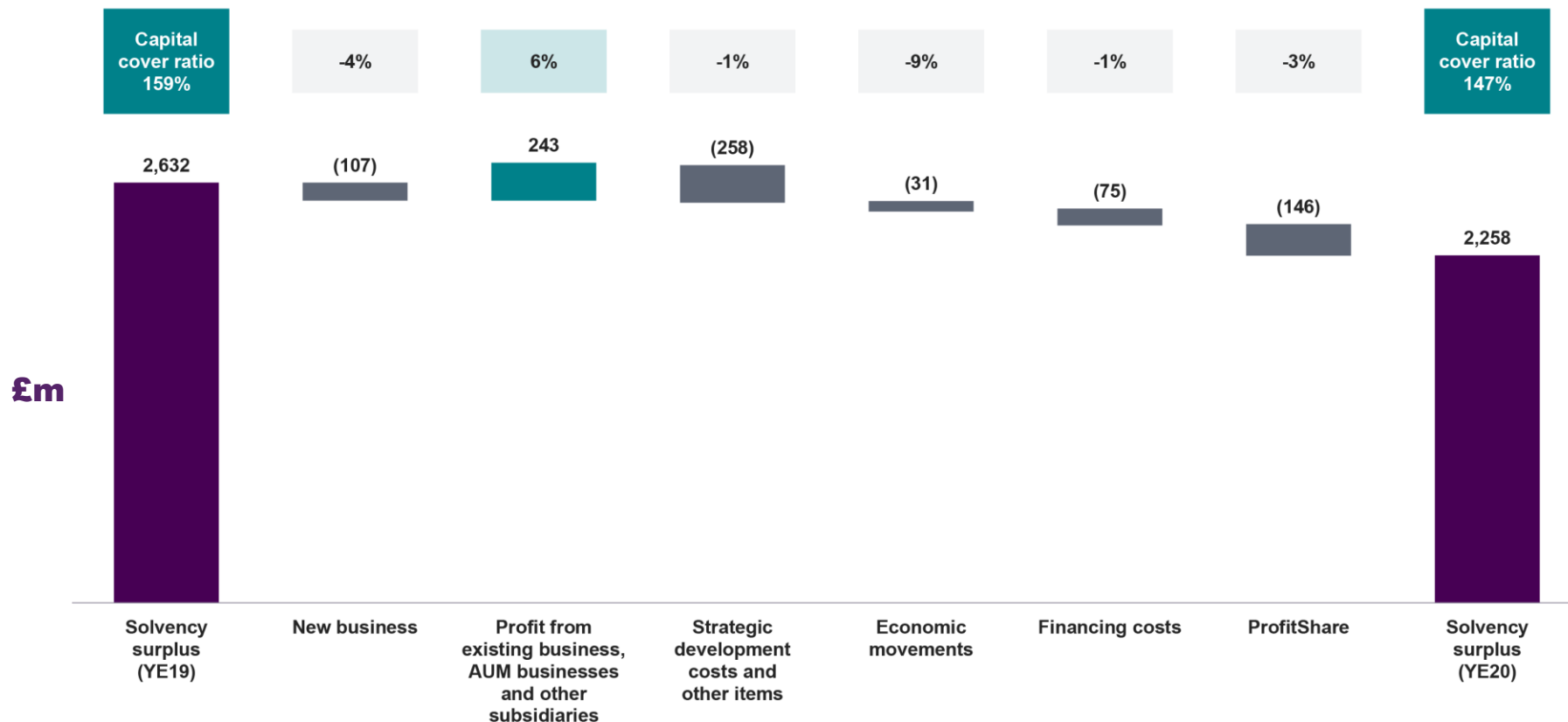
Regulatory View



CAPITAL - GROUP INVESTOR VIEW



CAPITAL - GROUP REGULATORY VIEW



SUMMARY

- Customer service maintained throughout the pandemic
- Continued growth in Assets under Management
- Robust capital position
- Invested for future growth









Q&A

APPENDIX 1 – OPERATING PROFIT BEFORE TAX









	31 Dec 20	31 Dec 19	Change
Contribution from new business	£149m	£217m	-£68m
Profits from existing business	£117m	£194m	-£77m
- <i>Expected return</i>	£116m	£102m	+£14m
- <i>Experience variances and assumption changes</i>	£22m	£92m	-£70m
- <i>Modelling and other changes</i>	-£21m	-	-£21m
Operating profit on AUM businesses	£80m	£66m	+£14m
Operating loss on other businesses	-£6m	-£24m	+£18m
Strategic development costs and other items	-£224m	-£232m	+£8m
Financing costs	-£75m	-£56m	-£19m
Operating profit before tax	£41m	£165m	-£124m

APPENDIX 2 – CAPITAL SENSITIVITIES

Solvency II Investor View Sensitivities

Scenario	Capital cover ratio (%)	Impact on solvency surplus (£bn)
Base: 31 December 2020	 190%	2.3
25% decrease in equity investments	(8)% 	(0.4)
15% decrease in property prices	(3)% 	(0.1)
100bps rise in interest rates	3% 	0.1
100bps fall in interest rates	(7)% 	(0.1)
25bps increase in government bond yields	(3)% 	0.0
200bps widening in credit spreads	1% 	(0.1)
15% fall in GBP exchange rates	4% 	0.2

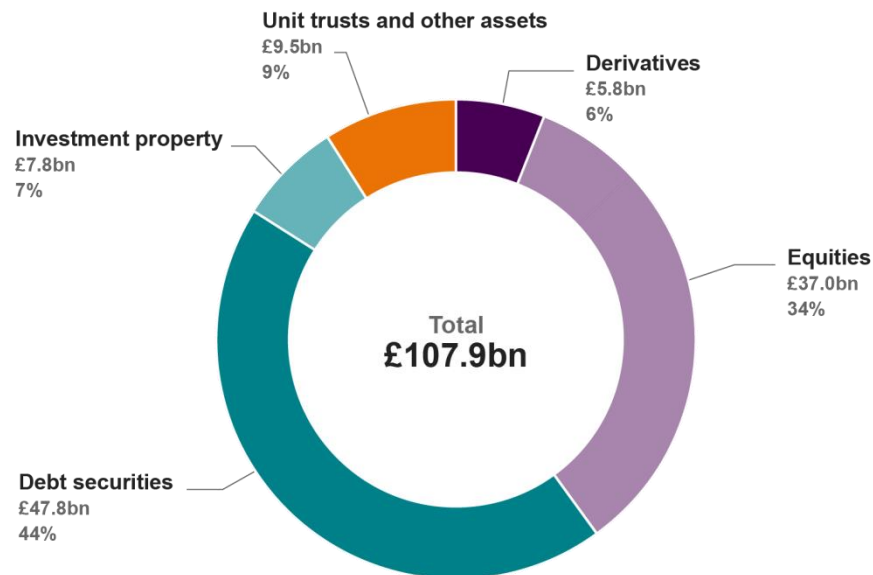
Solvency II Regulatory View Sensitivities

Capital cover ratio (%)	Impact on solvency surplus (£bn)
 147%	2.3
(6)% 	(0.4)
(2)% 	(0.1)
13% 	0.1
(14)% 	(0.1)
(1)% 	0.0
5% 	(0.1)
3% 	0.2

APPENDIX 3 - INVESTMENT PORTFOLIO

- Maintained a significant proportion of highly-rated assets:
 - **91%** (A rated or better non-linked debt securities).
 - **81%** (A rated or better non-linked corporate bonds).
 - Diversified investment portfolio.

Investment portfolio:



FOOTNOTES

1. Operating profit before tax is represented as profit (transfer to fund for future appropriations before other comprehensive income) excluding: short-term investment return variances and economic assumption changes; amortisation and impairment of goodwill and other intangibles arising from mergers & acquisitions; ProfitShare; tax; and one-off items of an unusual nature that are not related to the underlying trading of the Group. Profits arising within the closed funds are held within the respective closed fund surplus; therefore UK operating profit represents the result of the RL Main Fund (including transfers to RL Main Fund from the closed funds).
2. Profit before tax represents the statutory 'Profit before tax and before transfer to the fund for future appropriations' in the statement of comprehensive income.
3. ProfitShare is a discretionary enhancement to eligible customers with unit-linked or with-profits policies. The allocation is considered annually and depends on a number of factors including financial performance, capital position, the risks and volatility of financial markets and the Group's outlook.
4. Life and pensions 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 year 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 year. The rate used to discount the cash flows in the reported results has been derived from the 31 December 2020 swap curve provided by the Prudential Regulation Authority (PRA). New business contribution and margin for 2019 have been restated to reflect the removal of the tax gross up of 19% on transition to UK GAAP, which was applied in EEV reporting.
5. Gross and net inflows incorporate flows into RLAM from external clients (external flows) and those generated from RLMIS (internal flows). External client net inflows represent external inflows less external outflows, including cash mandates. Internal net inflows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, non-linked Protection business is not included.
6. Assets under management represent the total of assets actively managed by the Group, including funds managed on behalf of third parties. Figures are stated as at 31 December.
7. The 'Regulatory View' capital cover ratio restricts each closed fund's surplus to the value of the Solvency Capital Requirement (SCR) of that fund. 2020 capital figures are estimated.
8. The Group has changed the 'Investor View' capital cover ratio metric in 2020 to equal the Royal London Main Fund (RL Main Fund) capital position (excluding ring-fenced funds). The definition is considered to be more appropriate given the RL Main Fund is the primary source of capital for the group, and that the closed funds are ring-fenced and run on a standalone basis. The 31 December 2019 Group Investor View comparatives have been restated, and exclude the capital surpluses of the closed funds of £3.2bn reported in 2019. The 31 December 2019 Group Investor view comparatives have been restated from £5,810m solvency surplus to £2,632m and the capital cover ratio from 231% to 219%. All Group capital figures are stated on a Partial Internal Model basis. 2020 capital figures are estimated.
9. Sensitivities include movements in the Transitional Measure on Technical Provisions (TMTP), which was last formally recalculated at 31 December 2019. The economic sensitivities presented reflect 1-in-20-year events. For equity and interest rate sensitivities, these stresses are consistent with the PRA's SS7/17: Solvency II: Data collection of market risk sensitivities, which is available at bankofengland.co.uk/pradocuments/publications/ss/2017/ss717.pdf.
10. 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.
11. The government bond yield sensitivity assumes risk-free rates and other yields remain constant. The Volatility Adjustment has been reassessed in the stressed scenario.
12. 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 Liver pension schemes at 25% of the asset spread stress. The Volatility Adjustment has been reassessed in the stressed scenario.
13. The fall in GBP exchange rates stress assumes an increase to the value of assets held in currencies other than GBP by 17.5% in GBP terms.
14. Figures presented throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.

FORWARD LOOKING STATEMENT

This document should be read in conjunction with Royal London's 2020 Results Announcement, which can be found at:

<http://www.royallondon.com/about/media/news/>

Royal London may make verbal or written, 'forward-looking statements', including 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. These statements are based on plans, estimates and projections as at the time they are made, and therefore 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 which are beyond Royal London's control. Royal London believes factors that could cause actual financial condition, performance or other indicated results to differ materially from those indicated in forward-looking statements in the announcement include, among others, the ongoing effects of the Covid-19 pandemic; UK and Ireland economic and business conditions; future market-related risks such as fluctuations in interest rates, the continuance of a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of governmental and regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's withdrawal from the European Union; 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 actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Royal London's forward-looking statements. Royal London undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements Royal London may make. Forward-looking statements in this announcement are current only at the date on which such statements are made. This report has been prepared for the members and bondholders of Royal London and no one else. Royal London, its employees, or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.