Half Year Results 2019 — 12 August 2019

ROBUST PERFORMANCE

- Net inflows 31% higher at £5.5bn (H1 2018: £4.2bn).
- New business sales (PVNBP[4] basis) 4% lower at £5,824m (H1 2018: £6,077m).
- European Embedded Value (EEV) operating profit before tax of £187m (H1 2018: also £187m).
- IFRS profit before tax 116% higher at £411m (H1 2018: £190m) due to strong market performance for equities and debt securities.
- IFRS post tax transfer to eligible policyholders increased to £247m (H1 2018: £196m).
- Assets Under Management[7] (AUM) at a record level of £130bn (31 December 2018: £114bn) due to market growth of £10.5bn and net inflows of £5.5bn.
- Outstanding investment performance with 97%[8] (H1 2018: 58%) of active funds outperforming their benchmark over a three year period.
- On a Standard Formula basis, estimated Group Investor View solvency surplus of £4.7bn and a Group Investor View capital cover ratio of 202% (1 January 2019: £4.4bn and 197% respectively).

		30 June 2019[1]	30 June 2018	Change[2]
Flows	Gross inflows[3]	£12,618m	£9,589m	+£3,029m
	Net inflows[3]	£5,473m	£4,177m	+£1,296m
EEV	Life and pension sales PVNBP[4]	£5,824m	£6,077m	£(253)m
	EEV operating profit[5] before tax	£187m	£187m	-
IFRS	IFRS profit before tax[6]	£411m	£190m	+£221m
	IFRS post tax transfer to eligible policyholders[6]	£247m	£196m	+£51m
		30 June 2019	**31 December 2018**	**Change[2]**
Funds	Assets Under Management[7]	£130bn	£114bn	+£16bn
		30 June 2019[10]	**1 January 2019[9]**	**Change[2]**
Capital (Solvency II)	Group solvency surplus (Investor view)[9]	£4.7bn	£4.4bn	+£0.3bn
	Group capital cover ratio (Investor view)[9, 12]	202%	197%	+5% points

Kevin Parry (Chairman) commented:

"First half trading was robust. RLAM won new mandates on the back of strong investment performance across asset classes. New business in Pensions was marginally lower reflecting the industry-wide reduction in defined benefit transfers, offset by higher Workplace sales. Consumer and Protection traded in line with expectations, making excellent progress in the Irish market.

"Royal London is well prepared for Brexit and will continue to monitor carefully any developments that might affect our business and customers. We will keep customers informed of significant developments relevant to their policies.

"We continue to maintain a robust capital foundation to allow us to invest in our future core products and propositions whilst also innovating to deliver better outcomes for customers in underserved markets.

"The Board looks forward to welcoming Barry O'Dwyer as Group Chief Executive on 23 September 2019."

Financial Review

Gross inflows increased to £12.6bn (H1 2018: £9.6bn) driven by external institutional business wins and strong flows into Royal London Asset Management's (RLAM) wholesale range of credit and sustainable funds. Net inflows increased to £5.5bn (H1 2018: £4.2bn).

EEV operating profit before tax was £187m in line with the prior period (H1 2018: £187m). The result includes strong growth in RLAM external business, offset by the expected reduction in Individual pensions. Life and pension sales (PVNBP) decreased 4% in H1 2019 to £5,824m (H1 2018: £6,077m) primarily due to a reduced level of defined benefit transfers, partially offset by higher Workplace pension sales from new entrants to existing schemes and new scheme wins.

IFRS profit before tax increased to £411m (H1 2018: £190m) and IFRS post tax transfer to eligible policyholders increased to £247m in H1 2019 (H1 2018: £196m). The IFRS results reflect positive investment returns of £8.1bn (H1 2018: £0.5bn) following strong performance in the global and UK equity markets. This was offset by an increase in the value of policyholder benefits and claims of £7.4bn (H1 2018: £0.6bn) driven by a fall in yields used to discount liabilities.

RLAM achieved record AUM of £130bn as at 30 June 2019 (31 December 2018: £114bn) through positive investment returns and net inflows.

Capital

	Group		Parent	
Key metrics £m	**30 June 2019**[10]	1 January 2019[9]	**30 June 2019**[10]	31 December 2018[11]
Solvency surplus (Investor View)	**£4,692m**	£4,411m	**£4,801m**	£4,542m
Capital cover ratio (Investor View)[12]	**202%**	197%	**206%**	201%
Solvency surplus (Regulatory View)	**£1,839m**	£1,761m	**£1,948m**	£1,891m
Capital cover ratio (Regulatory View)[12]	**140%**	139%	**143%**	142%

On a Standard Formula basis, the Group had an estimated Investor View solvency surplus of £4,692m (1 January 2019: £4,411m) and an estimated Investor view capital cover ratio of 202% at 30 June 2019 (1 January 2019: 197%). The Parent company had an Investor View solvency surplus of £4,801m (31 December 2018: £4,542m) and an Investor view capital cover ratio of 206% at 30 June 2019 (31 December 2018: 201%). Our solvency surplus and capital cover ratios have improved largely due to positive movements in bond and equity markets in the first half of 2019.

We use an internal capital model for the purposes of managing our capital. We have submitted an application to the Prudential Regulation Authority (PRA) to use an Internal Model, compliant with Solvency II requirements, to calculate our capital requirements for regulatory purposes from Q4 2019. We expect to hear whether our application has been approved by the end of Q3 2019.

Business Review

New life and pension business sales on a PVNBP basis decreased 4% in the first half of 2019 to £5,824m (H1 2018: £6,077m), driven primarily by lower defined benefit pension transfers. Life and pension new business margins improved to 2.8% (H1 2018: 2.3%). RLAM gross and net inflows were up 32% and 31% respectively on the same period in 2018 following new institutional scheme wins and strong demand for RLAM's credit and sustainable funds.

	New business contribution[13]		PVNBP[4]		New business margin[12]	
	30 June 2019	30 June 2018	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
	£m	£m	**£m**	£m	**%**	%
Pensions	**127**	120	**5,162**	5,398	**2.4**	2.2
Protection (UK & Ireland)	**30**	25	**421**	431	**7.2**	5.8
Consumer	**7**	(5)	**241**	248	**2.8**	(1.8)
Life and pension business	**164**	140	**5,824**	6,077	**2.8**	2.3
RLAM[14]	**54**	22	**5,144**	3,002	**1.1**	0.7
Total	**218**	162	**10,968**	9,079	**2.0**	1.8

Pensions

- New business contribution increased 6% to £127m (H1 2018: £120m) as revenue margins improved due to reduced acquisition expenses.
- Workplace pension new business sales increased by 6% to £1,930m (H1 2018: £1,821m), due to new entrants into existing schemes and new scheme wins. The market remains competitive; the quality of service demonstrated through auto-enrolment has underpinned our ability to win scheme tenders.
- Individual pensions new business sales decreased by 10% to £3,232m (H1 2018: £3,577m). This was primarily due to the reduction in defined benefit transfer activity. We continue to grow the Individual pensions business as customers reach retirement and seek greater flexibility in the provision of pension benefits.
- The reputation of our Pensions business was recognised by the receipt of an award for Best Pension Provider 2019 by Money Marketing. We have continued to invest in our Pension business, for example we launched our mobile app for pension customers in 2019. The new app helps customers check their contributions and monitor the performance of their investments, providing an indicative view of the value of their pension at retirement.

Protection

- UK protection new business sales fell 8% to £354m PVNBP (H1 2018: £383m). In the first half of the year we focused on improving the quality of service to advisers and customers, and improving the profitability of new business. New business contribution in the UK was unchanged at £21m (H1 2018: £21m).
- Improvements to our online service allow advisers to check the status of applications and access their decision documents. The UK protection division was awarded Best Online Service at the COVER Customer Care Awards 2019. The division continued to develop this service to make applying for protection quicker and simpler for customers. We launched a new claims system in June 2019 which will improve the customer experience and reduce the time taken to pay claims.
- Protection new business sales in Ireland achieved growth of 40% to £67m (H1 2018: £48m) leading to an increase in market share to 21% in Q1 2019 (Q4 2018: 19%). There was stronger trading performance across all products, especially in our Mortgage Protection and Term Assurance offerings. Ireland Protection new business contribution increased in H1 2019 to £9m (H1 2018: £4m).
- During H1 2019 Royal London in Ireland won awards at both the 2019 National Consumer Awards and 2019 Association of Irish Mortgage Advisors Awards, including Best Value Mortgage Protection and Best Value Term Insurance.

Consumer

- New business sales for Consumer totalled £241m in H1 2019, remaining broadly in line with the same period in 2018. Consumer achieved a new business margin of 2.8%, up from (1.8)% in H1 2018, due to significant increases in volumes of Over 50s life insurance and the launch of our new unit-linked funeral plan product.
- The division is one of the fastest growing providers of Over 50s life insurance in the UK and achieved a record market share at Q1 2019 of 36% (Q4 2018: 23%), driven through digital and telephony channels. This growth combined with the continuing support of our partner brands has given the Consumer division a 20% share of the non-adviser market (31 December 2018: 14%).
- Partnerships also continued to grow. Our life insurance partnership with Co-op Insurance Services was launched in February 2019, and our Over 50s life cover partnership with Cover Direct in March 2019. Both enable the division to reach a wider range of customers. Our Consumer division remains the only 5* provider of Over 50s life insurance in the UK, according to Fairer Finance.

Royal London Asset Management (RLAM) – Flows

	Gross inflows[3]		Net inflows[3]	
	30 June 2019	30 June 2018	**30 June 2019**	30 June 2018
	£m	£m	**£m**	£m
Internal flow	**4,478**	4,597	**1,540**	1,952
External flow	**8,140**	4,992	**3,933**	2,225
RLAM Total	**12,618**	9,589	**5,473**	4,177

- RLAM is one of the UK's leading asset management companies, managing investments for a wide range of clients. Our funds meet a broad range of investor needs across different asset classes, and we also provide bespoke investment solutions to meet specific client objectives.
- Internal net inflows reduced to £1.5bn (H1 2018: £2.0bn) due to a reduction in gross inflows from reduced pension sales and higher outflows on workplace pension schemes than the same period in 2018.
- The increase in net inflows of external business to £3.9bn (H1 2018: £2.2bn) was due to large institutional scheme wins and strong demand in the wholesale sector for RLAM's range of credit and sustainable funds, partially offset by higher outflows primarily from cash funds.
- RLAM AUM increased to £130bn at 30 June 2019 (31 December 2018: £114bn), through positive investment returns of £10.5bn and net inflows of £5.5bn.
- Investment performance in H1 2019 was outstanding, with 97%[8] (H1 2018: 58%) of active funds outperforming their benchmark over a three year period.
- RLAM continues to work with clients to deliver strategies that meet their needs, demonstrated most recently with the launch of the Multi Asset Strategies Fund, which aims to deliver growth while taking a more market neutral stance when volatility is higher.

Royal London Platform Services (RLPS)

- RLPS supports a range of platforms including Ascentric and wrap offerings for Royal London Group companies.
- Assets Under Administration increased 9% to £15.8bn (31 December 2018: £14.5bn) primarily due to positive investment returns.

Outlook

Brexit will inevitably dominate politics in the second half of the year resulting in a wide range of potential economic outcomes. We are well prepared for Brexit and remain alert for any development that could cause customer uncertainty. Against that backdrop and the low interest rate environment, we remain focussed on delivering excellent service and value for our customers and members. We continue to maintain a robust capital foundation to allow us to invest in our future core products and propositions, whilst also innovating to deliver better outcomes for customers in underserved markets. We remain committed to focusing on operational efficiencies and maintaining profitability whilst investing in the business, so we can continue to share our success with our members.

Editor's notes

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The results prepared under IFRS form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the amended European Embedded Value Principles dated April 2016 prepared by the European Insurance CFO Forum. Royal London adopted IFRS 16 'Leases', replacing IAS 17 from 1 January 2019, which recognises more leases on the balance sheet.
2. Change is increase or decrease of H1 2019 compared to H1 2018, unless otherwise stated. Figures as at 30 June 2019 are compared to 31 December 2018. All balances presented are for the six months ended 30 June, or as at 30 June unless otherwise stated.
3. Gross and net inflows incorporate RLMIS and RLAM. 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. RLAM net inflows represent external inflows less external outflows, including cash mandates.
4. Present Value of New Business Premiums (PVNBP) 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 H1 2019 swap curve calculated in accordance with specification provided by the European Insurance and Occupational Pensions Authority (EIOPA).
5. The definition of EEV operating profit follows the same principles as IFRS operating profit with the exception of those items which are recognised under IFRS but are excluded from EEV as they cannot be recognised for regulatory purposes, and certain items which are included in EEV but not recognised in IFRS. Most notably, EEV operating profit includes the revaluation of the Value of In-Force business (VIF) arising on the asset management and service subsidiaries, and IFRS operating profit includes accounting amounts such as amortisation of intangible assets which are excluded under EEV as they are not permitted to be recognised for regulatory purposes.
6. IFRS profit before tax is 'Result before tax and before transfer to the unallocated divisible surplus' (UDS) in the statement of comprehensive income. IFRS post tax transfer to eligible policyholders is 'Transfer to the unallocated divisible surplus' in the statement of comprehensive income, and represents the IFRS result after tax for the period before taking into account other comprehensive income (OCI). OCI comprises actuarial gains and losses from changes to actuarial assumptions in the valuation of the Group pension schemes. As a mutual, the transfer to the UDS is a key measure of accumulation of funds available for us to share, at our discretion, with eligible customers and members.
7. Assets Under Management represent the total of assets actively managed by, or on behalf of, the Group, including funds managed on behalf of third parties. It excludes assets administered through Ascentric, our platform business.
8. Investment performance has been calculated using a weighted average of our active assets under management. Benchmarks differ by fund and reflect their mix of assets to ensure we are comparing like with like. Passive funds are excluded from this calculation as, whilst they have a place as part of a balanced portfolio, we are believers in the long-term value that active management can add.
9. The 'Investor View' does not restrict the surplus in the closed funds. The 'Regulatory View' includes the restriction on closed funds' surplus in excess of the SCR, which is treated as a liability and is excluded from total available own funds. Comparative figures for 2018 are not available for the Group capital position as Royal London became an insurance Group for Solvency II purposes with effect from 1 January 2019.
10. 30 June 2019 Parent capital figures are based on Q2 2019 regulatory returns and Group capital figures are based on an estimated Q2 2019 position.
11. The 31 December 2018 figures have been restated in line with the final regulatory returns which were presented in the 2018 Solvency and Financial Condition Report published in April 2019.
12. Figures presented in tables throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.
13. The new business contribution has been grossed up for tax at 19% (H1 2018: 19%). We have done this to help compare our results with the results of shareholder-owned life insurance companies which typically pay tax at 19% (H1 2018: 19%).
14. PVNBP for RLAM relates to gross sales inflows in the period, excluding external cash mandates which are treated as uncovered business and not valued on an EEV basis.

About us:

Royal London is the UK's largest mutual life insurance, pensions and investment company. We're committed to delivering the best value for our customers and members.

Group Chief Executive:

As previously announced, Barry O'Dwyer has been appointed Group Chief Executive subject to regulatory approval. He will take up his appointment on 23 September 2019.

Financial calendar:

- 13 November 2019 - RL Finance Bonds No 3 plc subordinated debt interest payment date
- 30 November 2019 - RL Finance Bonds No 2 plc subordinated debt interest payment date

Forward-looking statements:

This document may contain forward-looking statements with respect to certain Royal London's plans, its current goals and expectations relating to its future financial position. 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. These include, among others, UK and Ireland economic and business conditions; market-related risks such as fluctuations in interest rates; the policies and actions of governmental and regulatory authorities; the impact of competition; and the timing, impact and other uncertainties of future mergers or combinations within relevant industries. 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.

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