Year End Results 2019 — 17 March 2020

ROBUST TRADING IN AN UNCERTAIN ENVIRONMENT

Financial Highlights

		2019	2018
EEV[1]	Life and pension sales[2]	**£10,699m**	£11,308m
	Operating profit before tax[3]	**£416m**	£396m
IFRS	Profit/(loss) before tax[4]	**£436m**	£(111)m
	IFRS post tax transfer to eligible policyholders[4]	**£185m**	£5m
Flows	Gross inflows[5]	**£25,131m**	£21,196m
	Net inflows[5]	**£9,892m**	£7,652m
Funds	Assets under management[6]	**£139bn**	£114bn
Capital (Solvency II)	Group capital cover ratio (Regulatory View)[7, 8, 9, 10]	**159%**	154%
	Group capital cover ratio (Investor View)[7, 8, 9, 10]	**231%**	228%

- EEV operating profit before tax[3] 5% higher driven by new business profit of £319m (2018: £301m)
- IFRS profit before tax increased to £436m (2018: £111m loss) due to strong investment returns
- ProfitShare of £140m post-tax (2018: £150m), 7% lower than last year reflecting the continued outlook for low interest rates
- Life and pensions new business sales[2] 5% lower reflecting an industry-wide decline in the level of defined benefit to defined contribution pension transfers
- Assets under management[6] up 22% to a new high of £139bn (2018: £114bn)
- Strong net asset management inflows, up 29% to £9,892m (2018: £7,652m)
- Outstanding investment performance with 98%[11] (2018: 54%) of active funds outperforming their three-year benchmark
- Market leader in sales of sustainable funds in 2019, with £1.4bn in gross flows
- Group Regulatory View solvency capital cover ratio[7] of 159% (2018: 154%) and an Investor View solvency capital cover ratio of 231% (2018: 228%). The Investor View includes the solvency surpluses of the closed funds.
- Successful issuance of £600m of subordinated debt with a coupon rate of 4.875% to support continued investment

Barry O'Dwyer, Group Chief Executive, commented:

"Royal London had a successful 2019 despite last year's political and economic uncertainty. Our investment performance has been outstanding with 98% of active funds outperforming their three-year benchmark. Together with our reputation for excellent customer service, this has helped to attract more new business and we have seen another year of extremely strong net inflows.

Life and pension sales are lower than the record highs seen in recent years but our operating profit remains robust. Our mutual status means we share these profits with our customers and, since the introduction of ProfitShare in 2007, we have added more than £1bn to the value of eligible customers' savings.

Coronavirus represents a new risk for the world economy and therefore for our business. Our current priority is the health and wellbeing of our colleagues so that we can continue to deliver for customers and clients. Our robust capital position means we do not expect the virus to have any material long-term impact on our business."

Kevin Parry, Chairman, commented:

"In these challenging times for public health, insurance has never been more important. We continue to meet society's needs for high quality life insurance, investment and pension products.

As a mutual, we are member-owned. Our ProfitShare is 7% lower than last year due to the economic outlook indicating that the low interest rate environment will continue for some time yet. Our strong financial performance has helped to limit the economic impact on this year's award, allowing us to add an aggregate £140m to eligible customers' savings."

Financial Review

Flows

Gross flows of £25,131m (2018: £21,196m) included record high external gross flows of £15,760m (2018: £12,317m). Net flows of £9,892m (2018: £7,652m) also included record high external net flows of £6,696m (2018: £4,100m). Institutional clients such as local authorities, pension schemes and other insurers generated net inflows of £3,393m and wholesale net inflows were £3,303m. Inflows of £1,364m in the sustainable funds were particularly strong. We were the fourth[13] highest UK asset manager for retail gross flows and third[13] for net flows in the year.

Performance

High levels of uncertainty continued to drive volatility in investment returns throughout 2019. Global factors such as US-China trade disputes as well as UK-specific issues such as Brexit and the general election late in the year were contributory factors. Despite the resultant volatility in markets, 98% (2018: 54%) of active funds outperformed their benchmark over the three year period.

Outlook

We welcome the increased certainty that comes with the EU withdrawal agreement having been enacted, and look forward to the Government facilitating the advancement of the economically important insurance and asset management industries in the UK in a well-regulated environment. The last five years have been characterised by unprecedented growth in our markets, helped by legislative and regulatory change. We are now at a more mature stage post the introduction of auto-enrolment and pension freedoms. Consequently, growth in our markets is likely to return to long-term trend levels.

In the short term, the uncertainty surrounding the impact of coronavirus is expected to prolong market volatility and impact consumer confidence. As a result, trading conditions in 2020 are likely to be difficult.

Capital

	Group	
Key metrics £m	**31 December 2019[9]**	**1 January 2019[10] Restated**
Solvency surplus (Regulatory View)[7]	**£2,632m**	£2,094m
Capital cover ratio (Regulatory View)[7, 8]	**159%**	154%
Solvency surplus (Investor View)[7]	**£5,810m**	£4,926m
Capital cover ratio (Investor View)[7, 8]	**231%**	228%

In September 2019, the PRA approved the use of our Internal Model to calculate the capital requirements of the Group with effect from 1 October 2019. Our Irish business remains on a Standard Formula basis.

The Group had an estimated Regulatory View solvency surplus of £2,632m (1 January 2019 restated: £2,094m) and an estimated Regulatory View capital cover ratio of 159% at 31 December 2019 (1 January 2019 restated: 154%). Our capital position remains strong with a Solvency II Group Investor View capital cover ratio of 231% (2018: 228%).

Our solvency surplus has improved due to a subordinated debt issuance of £600m, positive economic conditions and assumption changes, offset by the capital used to write new business in the year, the allocation to ProfitShare and our continued strategic investment in the Group.

Financial Reporting

UK GAAP reporting will replace IFRS and EEV reporting for the Group with effect from 1 January 2020. We consider UK GAAP to be a more suitable financial reporting basis for a UK mutual than IFRS, allowing transparency of our financial performance and being widely recognised and understood by readers of accounts. Our 2020 interim results announcement will provide further information about the transitional changes, including restatement of comparatives.

Life and Pensions

Life and Pension new business sales on a PVNBP basis decreased 5% to £10,699m in 2019 (2018: £11,308m), reflecting reduced individual pension sales as defined benefit transfer volumes declined across the industry.

Life and Pension new business margins were stable at 2.5% (2018: 2.5%). Reduced pension margins due to a change in the business mix between individual and workplace pensions were offset by increases in UK and Ireland Protection margins due to improved management of the quality of new business.

	New business contribution[12]		PVNBP[2]		New business margin[8]	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**%**	%
Pensions	**206**	239	**9,461**	10,042	**2.2**	2.4
UK Protection	**40**	32	**678**	735	**5.9**	4.4
Ireland Protection	**17**	13	**137**	112	**12.4**	11.6
Consumer	**6**	(3)	**423**	419	**1.4**	(0.8)
Life and pension business	**269**	281	**10,699**	11,308	**2.5**	2.5

Pensions

- Workplace pension new business sales were robust with PVNBP down 1% to £3,096m (2018: £3,131m). The market remains competitive and the quality of service demonstrated through auto-enrolment has underpinned our ability to win new scheme tenders. Despite intense competition, we won 873 new employer schemes in 2019.
- Individual pension new business sales decreased by 7% to £6,334m (2018: £6,818m), primarily due to reduced defined benefit transfer activity across the market.
- The reputation of our Pensions business was recognised by the award of "Best Pension Provider 2019" by *Money Marketing*, and "Best Decumulation Proposition" category by *Corporate Adviser*. This is alongside 11 years of 5 star service awards and "Company of the Year" recognition by *FT Adviser* for the second year in a row.

UK Protection

- Our UK protection new business sales were 8% lower at £678m (2018: £735m). In 2019, we focused on improving profitability through improved management of the quality of business written. This resulted in the new business margin increasing from 4.4% to 5.9%. The UK new business contribution increased to £40m (2018: £32m).
- We were awarded "Best Online Service" at the *COVER Customer Care Awards 2019*, reflecting the improvements to our online service for advisers. We are the only company to have won five-star awards for service six years in a row.

Ireland Protection

- Protection new business sales in Ireland grew strongly by 22% to £137m (2018: £112m). New business contribution increased to £17m (2018: £13m) and performance was strong across all products, particularly Mortgage Protection and Term Assurance.
- Royal London in Ireland won the "2019 Service Excellence Award" at the *Brokers Ireland Excellence Awards*, as well as "Best Value Mortgage Protection" and "Best Value Term Insurance" awards at both the *National Consumer Awards 2019* and the *Association of Irish Mortgage Advisors Awards 2019*.

Consumer

- New business sales (PVNBP) increased 1% to £423m. New business margin was 1.4%, up from (0.8)% in 2018, driven by sales of our unit-linked funeral plan product launched in 2018.
- Ours is the only Over-50s life product to have consistently maintained a five-star Fairer Finance rating since its inception, demonstrating the value for money and quality of the product.

Royal London Asset Management (RLAM)

	Gross inflows[5]		Net inflows[5]	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Internal flows	**9,371**	8,879	**3,196**	3,552
External flows	**15,760**	12,317	**6,696**	4,100
Total	**25,131**	21,196	**9,892**	7,652

- Assets under management increased to £139bn at 31 December 2019 (31 December 2018: £114bn), due to a combination of market growth and total net inflows of £9,892m (2018: £7,652m).
- Total net inflows increased due to external inflows of £6,696m (2018: £4,100m) from large institutional scheme wins and strong performance in the wholesale channel. RLAM won its first major global equity mandate during the year, a key milestone in delivering the long term business strategy.
- Net internal inflows were lower at £3,196m (2018: £3,552m) following reduced gross inflows from individual pension sales and higher outflows on workplace pension schemes than the same period in 2018.
- Investment performance in 2019 was outstanding, with 98%[11] (2018: 54%) of active funds outperforming their benchmark over a three year period.
- RLAM won a number of major industry awards during the year, including *Lipper* "Overall Group of the Year (Large Company)".
- RLAM continues to work with clients to deliver strategies that meet their needs, demonstrated through the broad range of products offered such as our established strategies of sustainable equities, sterling credit and the cash fund range, and selectively adding to existing capabilities in areas such as high yield bonds, multi-asset credit, and global equities.
- We were the market leader in sales of sustainable funds in 2019, with £1.4bn in new business.

Investment Funds Direct Limited (IFDL)

- IFDL is the Group's wrap platform, supporting c. 1,500 financial advisers in managing c. 90,000 customers' pensions and savings in tax-efficient wrappers.
- Assets Under Administration increased 12% to £16.2bn (31 December 2018: £14.5bn) primarily due to market growth.
- We are exploring a number of options to help inform our future strategy.

Non-adjusting events after the balance sheet date

2020 has begun with the spread of a new strain of coronavirus, with confirmed cases in more than 50 countries. The virus has caused disruption to businesses and economic activity which has precipitated substantial daily fluctuations in interest rates and global stock markets. This has reduced the Group Regulatory View capital cover ratio from 159% to an estimated 150%[14] as at 13 March 2020, and the Group Investor View capital cover ratio from 231% to an estimated 223%[14]. The Group Regulatory View solvency surplus has reduced from £2.6bn to an estimated £2.4bn[14] as at 13 March 2020, and the Group Investor View solvency surplus has increased from £5.8bn to an estimated £5.9bn[14]. Our capital management approach ensures that our solvency surplus remains stable in times of markets falling. Whilst the decreases in cover ratios are significant, the relatively small reduction of £0.2bn in the Group Regulatory View solvency surplus and £0.1bn increase in Group Investor View solvency surplus illustrates the effectiveness of our equity and interest rate hedging strategies. The Group remains very well capitalised and we will continue to take action to protect our capital position as appropriate.

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Editor's notes

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV) and are prepared in accordance with the Accounting Policies as set out in the 2019 Annual Report and Accounts. 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.
2. 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 31 December 2019 swap curve calculated in accordance with specification provided by the European Insurance and Occupational Pensions Authority (EIOPA).
3. 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.
4. 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 policyholders.
5. Gross and net inflows incorporate flows into RLAM from external clients and internal flows from The Royal London Mutual Insurance Society Ltd (RLMIS). 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, or on behalf of, the Group, including funds managed on behalf of third parties. Figures are stated as at 31 December, and exclude assets administered through IFDL, our platform business.
7. The 'Investor View' includes the surplus in the closed funds. The 'Regulatory View' restricts the closed funds' surplus to the value of the Solvency Capital Requirement (SCR). Group capital figures are stated on an Internal Model basis, and prior year comparatives have been restated on an Internal Model basis to allow better comparison. Comparative figures are stated as at 1 January 2019 as Royal London became an insurance Group for Solvency II purposes with effect from 1 January 2019.
8. Figures presented in tables throughout are rounded. The capital cover ratios and new business margins are calculated based on exact figures.
9. 31 December 2019 Group capital figures are based on an estimated 2019 position. The Single Group SFCR will be available on our website by 19 May 2020.
10. The Group capital position at 1 January 2019 has been restated on an Internal Model basis to provide a more meaningful comparison. At 1 January 2019, the Standard Formula Group Regulatory View solvency surplus was £1,761m and capital cover ratio was 139%. The 1 January 2019 Standard Formula position would have been restated for a revised capital add-on during 2019, increasing the Group Regulatory View solvency surplus to £1,817m and capital cover ratio to 144%. The increase from the Group Regulatory View solvency surplus and capital cover ratio amounts of £1,817m and 144% to £2,094m and 154% respectively is the impact of the move to the Internal Model.
11. 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.
12. The new business contribution has been grossed up for tax at 19% (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% (2018: 19%).
13. Source: Q4 2019 Pridham Report
14. The estimated capital cover ratios and solvency surplus on both the Group Regulatory and Group Investor View basis as at 13 March 2020 assume the recalculation of the Transitional Measure on Technical Provisions for material changes in risk free rates arising in Q1 2020, which is subject to regulatory approval.

About us:

Royal London is the UK's largest mutual life insurance, pensions and investment company. We're committed to meeting the needs of all our customers.

Financial calendar:

- 17 March 2020 – Financial Results for 2019 and conference call*
- 3 June 2020 – Annual General Meeting *(1pm at One Whitehall Place, Westminster, London SW1A 2HE)*
- 10 August 2020 – Interim Financial Results for 2020 and conference call
- 7 October 2020 – RL Finance Bonds No 4 plc subordinated debt interest payment date
- 13 November 2020 – RL Finance Bonds No 3 plc subordinated debt interest payment date
- 30 November 2020 – RL Finance Bonds No 2 plc subordinated debt interest payment date

*Royal London will hold an investor conference call to present its 2019 Financial Results on Tuesday 17 March 2020 at 09:00. Interested parties can register at: https://cossprereg.btci.com/prereg/key.process?key=PA4MCVKLC

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.

The Royal London Mutual Insurance Society Limited is registered in England and Wales (99064) at 55 Gracechurch Street, London, EC3V 0RL

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