Press Release

17 August 2017

ROYAL LONDON REPORTS STRONG PROFIT AND NEW BUSINESS GROWTH IN THE FIRST HALF OF 2017

Trading highlights

- New life and pensions business (PVNBP basis)[1] up by 45% to £6,078m (30 June 2016: £4,201m);
- Funds under management[2] up by 6% to £106bn (31 December 2016: £100bn);
- European Embedded Value (EEV) operating profit before tax up by 34% to £185m (30 June 2016: £138m);
- IFRS transfer to the unallocated divisible surplus (before other comprehensive income) increase of £274m to £192m (30 June 2016: deduction from the unallocated divisible surplus of £82m); and
- Overall new business margins remained broadly in line with the prior period at 1.8% (30 June 2016: 1.7%).

New business review

Intermediary business

- Individual Pensions and Drawdown new business sales[1] were up by 64% to £2,916m (30 June 2016: £1,783m). The strong new business performance in the first half of the year reflects growth in the overall market size and significant success in our proposition, particularly the Drawdown Governance service. In addition to these factors, we have also experienced a net increase in individual pensions business from the Financial Conduct Authority's (FCA) introduction of the early exit charge cap, primarily through our focus on offering products which are good value for money.
- Group Pensions new business sales[1] were up by 32% to £2,527m (30 June 2016: £1,921m). The strong performance in the first half of the year is a result of more members moving into existing schemes, increased transfer values driven by positive stock market performance, and

higher quality schemes being won with larger average member numbers and contributions. We have indicated for some time that we expect a slowdown in workplace pensions, and the pipeline of schemes from auto-enrolment has indeed shown signs of reducing primarily as a result of reaching the final stages of auto-enrolment in 2017 where new schemes, which did not exist before 2012, are not taking adviser-led decisions. As a result Group Pensions new business is expected to be lower in the second half of the year. The secondary market, where advisers recommend schemes move to take advantage of better quality scheme administration or investment options, has slowly started to emerge and we will increasingly focus on this market going forward.

- Intermediary Protection new business sales[1] increased by 34% to £384m (30 June 2016: £287m) following continued growth in the market. Despite increased competition, we have maintained our market position through our focus on adviser relationships and customer service. We are also working on solutions to extend our products to meet a wider range of customer needs, including piloting a new Diabetes Life Cover product and using technology to enhance the services to customers and advisers. Our Irish Protection business has developed a well-received critical illness proposition (known in Ireland as Specified Serious Illness) and has seen increasing volumes of Whole of Life business launched last year.

Consumer business

- Our direct to consumer business was set up only three years ago with the aim of bringing fairer and better value for money products to customers. The business has initially focused on selling pre-paid funeral plans, over 50s life cover and simple life cover products through direct marketing and strategic distribution partnerships.
- Consumer new business sales[1] were up by 43% to £229m (30 June 2016: £160m), reflecting the continued success of the direct-to-consumer propositions and in particular our Over 50s Life Cover and Life Insurance products. In the first half of the year the Over 50s proposition achieved one of the top positions in the direct-to-consumer market. We have broadened our Term product to give customers higher levels of cover and improved pricing. We have a strong pipeline of new proposition developments underway.
- A key part of our strategy is to expand distribution via strategic partnerships, and alongside existing partnerships with Co-operative Funeralcare and Ecclesiastical Insurance, our partnership with Post Office Money launched in January 2017 is performing well. We continue to seek opportunities to expand the reach of our propositions through further distribution partnerships.

Wealth

- **Royal London Asset Management (RLAM)** continued to perform well, attracting gross inflows of £5.1bn (30 June 2016: £2.3bn) arising from both Institutional and Wholesale markets. Institutional gross inflows were £3.1bn (30 June 2016: £1bn) with some large investment mandate wins during the first half of 2017. Gross and net flows in Wholesale continued to be strong as we broadened our coverage of wealth managers and financial advisers. Funds under management[2] increased to £106bn (31 December 2016: £100bn), with market conditions more stable in the first half of 2017 compared with the same period in 2016. Our funds have performed well (particularly short duration bond funds, UK equity and sustainable fund ranges – all of which have won awards), and two new funds have also recently launched: the Emerging Markets Equity Tracker fund on 5 June 2017 and the Multi Asset Credit (MAC) fund on 17 July 2017.

- **Royal London Platform Services (RLPS)** gross inflows were up 27% to £1.4bn (30 June 2016: £1.1bn), which maintained its market share. Royal London's wrap platform saw assets under administration[3] increase by 9% to £13.4bn (31 December 2016: £12.3bn). The business trades under the Ascentric brand and also provides white label platform services for larger advisory firms and other Royal London businesses. In the first half of 2017 Ascentric launched a simplified pricing structure with a single charge across all wrappers and investment offerings, which makes it easier for advisers and their clients to understand total costs. Since the new pricing structure was introduced in May, Ascentric has seen a significant increase in Self-Invested Personal Pension (SIPP) accounts set up on the platform.

Review of financial performance

EEV operating profit

Our EEV operating profit before tax increased by 34% to £185m (30 June 2016: £138m), assisted by strong new business profit of £149m (an increase of 71%) particularly in Pensions, Consumer and RLAM.

EEV profit before tax increased to £327m (30 June 2016: loss before tax £145m) as a result of the new business profit mentioned above, benefits from economic conditions and yield assumptions, and the Royal London Group Pension Scheme (RLGPS) moving from a deficit to a small surplus. The 2016 interim results included a charge for a change in basis for Solvency II of £182m, reflecting a one-off accounting charge arising from the alignment of EEV with the requirements of Solvency II.

The overall new business margins remained broadly in line with the prior period at 1.8% (30 June 2016: 1.7%), driven by the margins for new pensions business increasing to 2.3% (30 June 2016: 1.8%) from very strong pensions new business performance (both Individual Pensions and Drawdown and Group Pensions), offset by a decrease in margins on Protection business.

IFRS transfer to unallocated divisible surplus

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus. The IFRS transfer to the unallocated divisible surplus (before other comprehensive income) for the six months ended 30 June 2017 was £192m (30 June 2016: deduction from the unallocated divisible surplus of £82m).

Our IFRS result for the first six months of 2017 benefited from the strong trading performance of the Group and rising stock markets increasing investment returns, however the results remained impacted by the low interest rate environment. The 2016 interim results included a charge for a change in basis for Solvency II of £165m.

Capital

Our capital position is robust and our Solvency II Standard Formula basis Investor View[4] surplus was £4.0bn at 30 June 2017 (31 December 2016: £4.5bn) with a capital cover ratio of 203% (31 December 2016: 232%). The Regulatory View surplus was £1.9bn at 30 June 2017 (31 December 2016: £1.9bn) with a capital cover ratio of 149% (31 December 2016: 155%).

The 31 December 2016 Solvency II[5] surplus and capital cover ratios are as presented in Royal London's 2016 Annual Report and Accounts. These figures were estimates and final figures were disclosed in the Solvency and Financial Condition Report (SFCR) in May 2017; being a capital cover ratio of 227% and £4.4bn surplus (Investor View), and capital cover ratio of 153% and £1.8bn surplus (Regulatory View). The decrease in surplus and the reduction in the capital cover ratio on an Investor View and Regulatory View in the first half of 2017 were predominantly as a result of the expected run off of the Transitional Measure on Technical Provisions (TMTP) from 1 January 2017, and a revised capital add-on agreed with the Prudential Regulation Authority (PRA) on 7 March 2017 which was mainly as a result of a fall in the risk-free rate during 2016.

Phil Loney, Group Chief Executive of Royal London, said:

Our strategy remains to deliver excellent value for money by focusing on creating the best customer outcomes and best customer experiences at really competitive prices. This philosophy is rooted in our status as a mutual. The growth in profit and new business sales we announce today underlines the continued success of our strategy.

During 2017 we have consolidated our position as one of the new business leaders in the retail protection, pension and drawdown markets, and as one of the main providers of new workplace pension schemes entering auto-enrolment. Our Consumer business continues to grow successfully, in particular through the Over 50s Life Cover and Life Insurance products whilst securing strategic distribution partnerships.

Our market position reflects our strategy of delivering high-quality products and service. We continue to invest in our capabilities to increase value for money for customers and to make it easier for their advisers to do business with us. For example the new Royal London Review Service launched in July 2017 automatically collates all Royal London pensions information for advisers into individual tailored client reports; advisers are then able to focus their time on providing important advice and recommendations for their clients based on this insight.

As part of our strategy we are working continually to improve our proposition and enter new consumer markets to offer better value where we see that the market is delivering a poor deal for consumers. We have recently launched pilots for two new innovative products. In April 2017 we introduced the Diabetes Life Cover plan to improve outcomes for a group of consumers who are not currently well served by the life insurance industry; reducing the time taken to accept an application from weeks to less than an hour. Further, in June 2017 a new life insurance application service moved into pilot called 'Streamlined Mortgage Protection', which uses advanced 'machine learning' to simplify the underwriting journey and provide an online, immediate decision to mortgage customers without additional underwriting questions and medical evidence being required.

Recent FCA data confirmed a significant rise in Income Drawdown business across the market since the introduction of 'Pension Freedoms' in 2015. The data revealed a particular surge in non-advised Drawdown sales; we think this is concerning as the best outcome for customers when choosing an income drawdown strategy generally occurs when they take financial advice, as the decisions are complex and can form a significant part of an individual's retirement income. We are pleased that the FCA is looking at this area more closely, and our view is that they should do more to encourage individuals to take impartial financial advice when contemplating Income Drawdown. We are also concerned that some providers may be "sleep-walking" their existing non-advised pension customers into their own in-house drawdown offerings, repeating some of the poor practice seen in the historic annuity market. Royal London intends to develop a better value for money drawdown offering and tools for those clients who insist on the non-advised route, but such competition will only be a viable solution if the FCA takes action to open this part of the market up to competition.

We also believe that the Pensions Dashboard has the potential to boost competition in the UK pensions market. It is an important project designed to help customers by allowing savers and their advisers to have a comprehensive view of their pension savings and entitlements in one place to determine their retirement income. The dashboard could also provide a useful starting point for those advisers and customers seeking to obtain better value for money by consolidating numerous small pension pots. There is currently no legislation to ensure that all pension providers make their data available to the dashboard, which may create gaps in the data available causing the project to fail. We believe it is imperative that the Government legislates to mandate participation in the Pensions Dashboard as a key step to underpin greater competitive rivalry in the UK pensions sector which will in turn drive better value for money for consumers.

During the first half of 2017 Article 50 was triggered and the process commenced for the UK to leave the European Union (EU). We are in the process of domiciling a subsidiary in Ireland to enable our business in the Republic of Ireland to continue to trade and to mitigate any uncertainty. We expect to maintain strong capitalisation and profitability as the UK leaves the EU.

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Editor's notes:

Royal London is the largest mutual life, pensions and investment company in the UK, with funds under management of £106 billion, around 9.0 million policies in force and 3,449 employees. Figures quoted are as at 30 June 2017.

1) 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 swap curve.

2) Funds under management represent the total of assets managed or administered by the Group on behalf of institutional and wholesale clients, and on behalf of the Group.

3) Assets under administration represent the total assets administered on behalf of individual customers and institutional clients. It includes those assets for which the Group provides investment management services, as well as those that the Group administers when the customer has selected an external third-party investment manager.

4) We have presented a Total Company ('Investor View'), which comprises the Royal London Open Fund, into which all new business is written, and seven closed ring-fenced funds from previous acquisition activity. The Investor View includes the surplus from the closed funds. Total Company ('Regulatory View') includes a restriction of £2.1bn (31 December 2016: £2.6bn) as a deduction from total Own Funds of £7.9bn (31 December 2016: £7.9bn), because excess capital in the closed funds is ultimately for the benefit of those closed fund policyholders. Therefore closed funds report a zero surplus, with Total Company surplus equal to the Open Fund surplus. After the £2.1bn restriction, the Total Company ('Regulatory View') reported a capital cover ratio of 149% at 30 June 2017 (31 December 2016: 155%).

5) Solvency II basis of preparation
The Solvency II position has been prepared in accordance with the Solvency II Directive which came into effect on 1 January 2016 for all insurance entities operating in Europe. Initially we are using the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. However, we are preparing an Internal Model that we plan to seek approval to adopt in 2019. We already use an internal capital model for the purposes of monitoring our capital and decision making across the Group. Royal London received approval for the use of both the Transitional Measure on Technical Provisions (TMTP) and the Volatility Adjustment. The Solvency II results at 30 June 2017 are estimated and are not subject to an external audit opinion.

6) Financial calendar

13 November 2017	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2017	RL Finance Bonds No 2 plc subordinated debt interest payment date

Royal London will hold an investor conference call to present its 2017 interim financial results on Thursday 17 August 2017 at 09:00. Interested parties can register at: https://cossprereg.btci.com/prereg/key.process?key=PL4BNL3HV

7) Forward-looking statements
This document may contain forward-looking statements with respect to certain of 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 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, 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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New business review
Intermediary

	PVNBP		New business contribution[1]		New business margin	
	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016	**30 June 2017**	30 June 2016
	£m	£m	**£m**	£m	**%**	%
Intermediary						
Pensions	**5,465**	3,754	**126.5**	67.0	**2.3**	1.8
Protection	**384**	287	**20.7**	25.8	**5.4**	9.0

Consumer

	PVNBP		New business contribution[1]		New business margin	
	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016	**30 June 2017**	30 June 2016
	£m	£m	**£m**	£m	**%**	%
Consumer	**229**	160	**0.9**	(5.2)	**0.4**	(3.3)

Wealth

	PVNBP[2]		New business contribution[1]		New business margin	
	30 June 2017	30 June 2016	**30 June 2017**	30 June 2016	**30 June 2017**	30 June 2016
	£m	£m	**£m**	£m	**%**	%
RLAM	**3,220**	2,018	**21.6**	14.7	**0.7**	0.7

	30 June 2017 £m	30 June 2016 £m	Change %
RLAM Gross and net flows (including cash mandates)			
Inflows	**5,122**	2,319	121%
Outflows	**(2,988)**	(1,852)	(61%)
Net	**2,134**	467	357%

Ascentric	**30 June 2017 £m**	30 June 2016 £m	Change %
Gross inflows	**1,366**	1,070	28%

Notes on the new business review

1 The new business contribution in the tables above has been grossed up for tax at 19% (2016: 20%). We have done this to help compare our results with the results of shareholder-owned life insurance companies which typically pay tax at 19% (2016: 20%). The EEV Consolidated income statement has been grossed up at the applicable tax rates. Overall new business margin of 1.8% (2016: 1.7%) combines Intermediary, Consumer and Wealth and is based on exact figures.

2 PVNBP for Wealth 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. The 2016 comparative has been updated to exclude cash mandates.

2. Review of financial performance
Consolidated income statement – EEV basis for the six months ended 30 June 2017

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 December 2016 £m
Operating activities			
Contribution from new business	**149**	87	223
Profit from existing business			
– Expected return	**52**	45	90
– Operating experience variances	**16**	13	4
– Operating assumption changes	**-**	-	50
Expected return on opening net worth	**13**	21	41
(Loss)/profit on uncovered business	**(4)**	4	(44)
Strategic development costs and other items	**(41)**	(32)	(82)
Total operating profit before tax	**185**	138	282
Economic experience variances	**34**	201	395
Economic assumption changes	**104**	(177)	(192)
Movement in Royal London Group Pension Scheme surplus / (deficit)	**27**	(102)	(118)
Financing costs	**(23)**	(23)	(46)
ProfitShare	**-**	-	(120)
Change in basis for Solvency II	**-**	(182)	(182)
EEV profit/(loss) before tax	**327**	(145)	19
Attributed tax charge	**(11)**	(12)	(40)
Total EEV profit/(loss) after tax	**316**	(157)	(21)

Consolidated balance sheet - EEV basis as at 30 June 2017

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Assets			
Assets held in closed funds	**36,161**	38,684	37,033
Assets backing non-participating liabilities	**35,676**	26,173	29,882
Reinsurance assets	**5,789**	8,490	8,442
Assets backing participating liabilities and net worth	**9,061**	8,600	8,759
Value of in-force business	**2,312**	1,705	2,065
Royal London Group Pension Scheme surplus	**1**	-	-
Total	**89,000**	83,652	86,181
Liabilities			
Liabilities in closed funds	**36,161**	38,684	37,033
Non-participating liabilities	**35,676**	26,173	29,882
Reinsured liabilities	**5,789**	8,490	8,442
Participating liabilities	**6,273**	5,883	6,129
Current liabilities	**1,639**	1,402	1,523
Royal London Group Pension Scheme deficit	**-**	10	26
Total	**85,538**	80,642	83,035
Embedded Value			
Net worth	**1,149**	1,315	1,107
Value of in-force business	**2,312**	1,705	2,065
Royal London Group Pension Scheme surplus/(deficit)	**1**	(10)	(26)
Total	**3,462**	3,010	3,146

EEV operating profit

The Group achieved an EEV operating profit before tax of £185m, an increase of 34% (30 June 2016: £138m) which was driven by new business sales, and included a £30m benefit arising from release of a counterparty default reserve following a change to the agreement with BlackRock. This was partially offset by higher strategic development costs and other items.

Profit contribution from new business was £149m, up 71% from the previous year (30 June 2016: £87m). New business contribution continues to be discounted using a rate derived from the swap curve. The overall new business margins[1] remained broadly in line with the prior period at 1.8% (30 June 2016: 1.7%), driven by the margins for new pensions business increasing to 2.3% (30 June 2016: 1.8%) from very strong pensions new business performance (both Individual Pensions and Drawdown and Group Pensions), offset by a decrease in margins on Protection business.

1 New business margins have been grossed up for tax at 19% (2016: 20%). The EEV Consolidated income statement has been grossed up at the applicable tax rates.

Strategic development costs and other items increased to £41m (30 June 2016: £32m), which related primarily to the cost of servicing historic remediation and costs we expect to incur meeting the requirements of regulatory developments.

EEV profit before tax

EEV profit before tax was £327m (30 June 2016: loss of £145m). The increase on the previous year is due to our strong operating performance, benefits from economic conditions and yield assumptions, and the RLGPS moving from a deficit to a small surplus. The 2016 loss of £145m includes an accounting charge of £182m arising on the alignment of our EEV methodology to Solvency II requirements.

Change in basis for Solvency II

The introduction of Solvency II during 2016 resulted in a change to the basis used to produce the EEV balance sheet to more closely align with the methodology used for Solvency II. The main changes were to use a swap curve to discount cash flows compared to a gilt curve used previously, a change in the methodology to reserve for reinsurer default, and consequential changes to the methodology for calculating the value of in-force business (VIF). The effect of these adjustments was recognised in 2016 with no restatement of prior periods as the adjustments were treated as a change in estimate. The total impact on 2016 was a reduction in the VIF of £346m and an increase in the net worth of £164m, resulting in a net reduction in the Group's embedded value of £182m.

EEV balance sheet

During the first half of 2017 the reinsurance agreement with BlackRock was changed to move our investment with BlackRock Life Limited to investments in other BlackRock funds. This change resulted in a £2.6bn reclassification on the EEV balance sheet; a reduction in 'Reinsurance assets' with a corresponding increase in 'Assets backing non-participating liabilities'.

IFRS consolidated statement of comprehensive income for the six months ended 30 June 2017

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 December 2016 £m
Revenues			
Gross earned premiums	**630**	662	1,291
Premiums ceded to reinsurers	**(91)**	(678)	(730)
Net earned premiums	**539**	(16)	561
Fee income from investment and fund management contracts	**145**	123	254
Investment return	**2,159**	7,113	10,864
Other operating income	**36**	38	76
Total revenues	**2,879**	7,258	11,755
Policyholder benefits and claims			
Claims paid, before reinsurance	**1,316**	1,350	2,703
Reinsurance recoveries	**(251)**	(248)	(507)
Claims paid, after reinsurance	**1,065**	1,102	2,196
(Decrease)/increase in insurance contract liabilities, before reinsurance	**(555)**	4,852	4,545
Reinsurance ceded	**185**	(804)	(548)
(Decrease)/increase in insurance contract liabilities, after reinsurance	**(370)**	4,048	3,997
(Increase) in non-participating value of in-force business	**(171)**	-	(317)
Increase in investment contract liabilities	**1,455**	1,315	3,974
Total policyholder benefits and claims before change in basis for Solvency II	**1,979**	6,465	9,850
Change in basis for Solvency II	**-**	165	165
Total policyholder benefits and claims	**1,979**	6,630	10,015
Operating expenses			
Administrative expenses	**277**	247	561
Investment management expenses	**128**	110	266
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	**38**	36	120
Investment return attributable to external unit holders	**138**	98	308
Other operating expenses	**64**	46	113
Total operating expenses	**645**	537	1,368
Finance costs	**23**	25	47
Result before tax and before transfer to unallocated divisible surplus	**232**	66	325
Tax charge	**40**	148	249
Transfer to/(deduction from) the unallocated divisible surplus	**192**	(82)	76
Result for the period	**-**	-	-

IFRS consolidated statement of comprehensive income for the six months ended 30 June 2017 (continued)

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 December 2016 £m
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	**32**	(93)	(98)
Transfer to/(deduction from) the unallocated divisible surplus	**32**	(93)	(98)
Other comprehensive income for the period net of tax	**-**	-	-
Total comprehensive income for the period	**-**	-	-

As a mutual company, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus. Accordingly, there is no profit or loss for the period shown in the statement of total comprehensive income.

IFRS consolidated balance sheet as at 30 June 2017

ASSETS	**30 June 2017 £m**	30 June 2016 £m	31 December 2016 £m
Property, plant and equipment	**67**	44	51
Investment property	**5,413**	5,306	5,297
Intangible assets	**639**	778	683
Reinsurers' share of insurance contract liabilities	**5,722**	6,162	5,907
Pension scheme surplus	**137**	116	131
Current tax asset	**-**	-	3
Financial investments	**77,733**	68,997	74,479
Trade and other receivables	**1,112**	953	788
Cash and cash equivalents	**3,512**	3,819	3,292
Total assets	**94,335**	86,175	90,631
LIABILITIES			
Participating insurance contract liabilities	**32,291**	32,938	32,709
Participating investment contract liabilities	**2,149**	2,080	2,154
Unallocated divisible surplus	**3,516**	3,139	3,292
Non-participating value of in-force business	**(1,388)**	(909)	(1,217)
	36,568	37,248	36,938
Non-participating insurance contract liabilities	**7,723**	7,940	7,860
Non-participating investment contract liabilities	**34,668**	27,414	31,329
	42,391	35,354	39,189
Subordinated liabilities	**744**	744	744
Payables and other financial liabilities	**7,341**	8,156	7,448
Provisions	**272**	226	279
Other liabilities	**285**	286	279
Liability to external unit holders	**6,498**	3,937	5,502
Pension scheme liability	**-**	10	26
Deferred tax liability	**226**	159	226
Current tax liability	**10**	55	-
Total liabilities	**94,335**	86,175	90,631

IFRS results

The IFRS transfer to the unallocated divisible surplus for the six months ended 30 June 2017, before other comprehensive income, was £192m (30 June 2016: deduction from the unallocated divisible surplus of £82m). Similar to EEV, our IFRS result benefits from the strong trading performance of the Group and rising stock markets increasing investment returns, however the results remain impacted by the low interest rate environment. Other comprehensive income included the positive movement in the Group's pension schemes of £32m (30 June 2016: a charge of £93m), moving from a deficit to a surplus. The 2016 result included the impact of the change in basis for Solvency II of £165m. Including other comprehensive income, the total transfer to the unallocated divisible surplus for the 6 months to 30 June 2017 was £224m (30 June 2016: deduction from unallocated divisible surplus of £175m).

Consistent with previous periods and as set out in Appendix 3, there are some differences between the EEV and IFRS results which include the value of our asset management and service company subsidiaries (30 June 2017: IFRS result lower by £67m) and an increase in the fair value of our subordinated debt (30 June 2017: IFRS result higher by £18m). These items were offset slightly by the amortisation of certain intangibles recognised in IFRS and not EEV (30 June 2017: IFRS result lower by £5m).

IFRS balance sheet

Our balance sheet remains strong. Our total investment portfolio, including investment property, was £79.8bn at 31 December 2016 and grew by 4.1% to £83.1bn at 30 June 2017. Our financial investment portfolio continues to be well balanced across a number of financial instruments, with the majority (85% at 30 June 2017) in equity securities and fixed income assets.

Investment performance

We measure our investment returns against benchmarks that we have constructed from market indices weighted to reflect the asset mix of each sub-fund. In the six months to 30 June 2017 the investments backing the asset shares of the Open Fund achieved a return of 3.3%, (30 June 2016: 7.5%). In the first half of 2017 our investments achieved positive returns through equities and corporate bonds in particular. Investment return is lower than the same period in 2016 due to yields reaching historic lows following the vote to exit the EU, which resulted in a significant increase in both asset and liability valuations as at 30 June 2016.

Solvency II capital position on a Standard Formula basis

Our capital position remains robust, reflecting the strength of our underlying business and effective capital management strategies. The Investor View capital cover ratio for Royal London is 203% including surplus in the closed funds (31 December 2016: 232%). The decrease in the surplus and capital cover ratios between 31 December 2016 and 30 June 2017 is driven by the expected run-off of the TMTP from 1 January 2017, and a revised capital add-on agreed with the PRA on 7 March 2017 which was mainly as a result of a fall in the risk-free rate during 2016.

The Open Fund had an excess surplus of £1.9bn on 30 June 2017 (31 December 2016: £1.9bn) and a capital cover ratio of 203% at 30 June 2017 (31 December 2016: 209%). The closed funds are also well capitalised with a surplus of £2.1bn on 30 June 2017 (31 December 2016: £2.6bn) and a capital cover ratio of 203% (31 December 2016: 254%). The Regulatory View capital cover ratio, which does not recognise surplus in the closed funds, was 149% at 30 June 2017 (31 December 2016: 155%).

The majority (78%) of total Own Funds within the Royal London Open Fund is made up of Tier 1 capital, with subordinated debt valued at £0.8bn classified as Tier 2 capital. Own Funds within the closed funds are entirely Tier 1 capital.

In common with many in the industry, we present two cover ratios. An 'Investor View' for analysts and investors in our subordinated debt, which does not restrict the surplus in the closed funds, and a 'Regulatory View' where the closed funds' surplus is treated as a liability.

30 June 2017 **£bn**	**Royal London Open Fund**	**Royal London Closed Funds**	**Total Company (Investor View)**	**Closed Fund Restriction**	**Total Company (Regulatory View)**
Own Funds:					
Tier 1	3.0	4.1	7.1	-	7.1
Tier 2	0.8	-	0.8	-	0.8
Total Own Funds	3.8	4.1	7.9	-	7.9
Closed funds restriction	-	-	-	(2.1)	(2.1)
Adjusted Own Funds (A)	3.8	4.1	7.9	(2.1)	5.8
Solvency Capital Requirement (B)	1.9	2.0	3.9	-	3.9
Surplus	1.9	2.1	4.0	(2.1)	1.9
Capital cover ratio[2] (A/B) – 30 June 2017	203%	203%	203%	n/a	149%
Capital cover ratio (A/B)[3] – 31 December 2016	209%	254%	232%	n/a	155%

Notes
1. Figures presented in the table are rounded, and the capital cover ratio is calculated based on exact figures.
2. As disclosed in the Solvency and Financial Condition Report (SFCR), the decrease in the Solvency II capital position between 31 December 2016 and 30 June 2017 is primarily a result of:
    - the reduction in the TMTP from 1 January 2017; and
    - a new capital add-on agreed with the PRA on 7 March 2017.
3. The 31 December 2016 Solvency II surplus and capital cover ratios are as presented in Royal London's 2016 Annual Report and Accounts. These figures were estimates and final figures were disclosed in the SFCR in May 2017; being a capital cover ratio of 227% and £4.4bn surplus (Investor View), and capital cover ratio of 153% and £1.8bn surplus (Regulatory View).

At 30 June 2017, the use of the approved TMTP contributed 31% towards the Investor View capital cover ratio (9% on the Regulatory View).

We use the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. Royal London received approval for the use of both the TMTP and the Volatility Adjustment. We are developing an Internal Model that we plan to seek approval to adopt in 2019. We already use an internal capital model for the purposes of monitoring our capital and decision making across the Group.

3. Other matters

UK referendum on EU membership

We have considered the impact of the UK's decision to leave the EU and are confident that there is no significant impact to the operations or the capital of the Group. The Group maintains a very strong capital position.

We are in the process of domiciling a subsidiary in Ireland to enable our business in the Republic of Ireland to continue to trade and to mitigate any uncertainty for Royal London from the UK leaving the EU. We will continue to monitor the implications of the UK leaving the EU, but expect to continue to trade as normal. We continue to work on behalf of our customers to provide them with stability and the best possible long-term returns.

Ratings agencies

In June 2017 Moody's affirmed our existing A2 insurance financial strength rating and revised its outlook for Royal London from negative to stable. Moody's announcement stated their expectation that the impact on Royal London of the UK's decision to leave the EU will be moderate over the next 12 to 18 months, and for Royal London to maintain strong capitalisation and profitability.

In July 2017, Standard and Poor's reaffirmed Royal London's counterparty credit rating of A, with a stable outlook.

Appendix 1 - EEV basis of preparation

The EEV results presented in this document have been prepared in accordance with the European Embedded Value Principles (the EEV Principles) and the EEV Basis for Conclusions issued in April 2016 by the CFO Forum. They provide supplementary information for the six months ended 30 June 2017 and should be read in conjunction with the Group's IFRS results. These contain information regarding the Group's financial statements prepared in accordance with IFRS issued by the International Accounting Standards Board and adopted for use in the European Union.

The EEV methodology applied is consistent with the methodology set out in the Group's Annual Report and Accounts for the year ended 31 December 2016.

The EEV Principles were designed for use by proprietary companies to assess the value of the firm to its shareholders. As a mutual, Royal London has no shareholders. Instead we regard our members as the nearest equivalent to shareholders and have interpreted the EEV Principles accordingly. The reported embedded value provides an estimate of Royal London's value to its members.

EEV operating profit

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. Most notably, IFRS operating profit includes amortisation and impairment of intangibles whereas in EEV reporting, goodwill and other intangible assets (other than VIF) are excluded because they are not permitted to be recognised for regulatory purposes.

Appendix 2 - IFRS basis of preparation

The IFRS financial information for the six months ended 30 June 2017 has been prepared on the basis of the accounting policies that The Royal London Mutual Insurance Society Limited and its subsidiaries ('the Group') expects to adopt for the 2017 year end. These accounting policies are in accordance with IFRS issued by the International Accounting Standards Board as adopted for use in the European Union. In preparing the results for the six months ended 30 June 2017, the Group has not applied IAS 34, 'Interim Financial Reporting', because this accounting standard is not mandatory for the Group.

The accounting policies applied are consistent with those set out in the Group's Annual Report and Accounts for the year ended 31 December 2016.

The results for the six months ended 30 June 2017 and 30 June 2016 are unaudited. These results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results for the year ended 31 December 2016 have been taken from the Group's 2016 Annual Report and Accounts as delivered to the Registrar of Companies. The auditors have reported on the 2016 financial statements and their report was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

After making enquiries, the directors are satisfied that the Group has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the IFRS financial information on that basis. There are no material uncertainties to our ability to adopt the going concern basis of accounting.

Appendix 3 Reconciliation of the IFRS unallocated divisible surplus to EEV

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 December 2016 £m
IFRS unallocated divisible surplus	**3,516**	3,139	3,292
Valuation differences between IFRS and EEV			
- Goodwill and intangible assets	**(245)**	(274)	(250)
- Deferred tax valuation differences	**(5)**	(2)	(2)
- Subordinated debt at market value	**(70)**	(38)	(52)
- Subsidiaries valuation differences	**(1)**	(12)	(8)
Add items only included on an embedded value basis			
- Valuation of asset management and service subsidiaries	**197**	195	137
Other valuation differences	**70**	2	29
EEV	**3,462**	3,010	3,146

Reconciliation of the IFRS transfer to/(deduction from) unallocated divisible surplus to EEV profit/(loss) for the period

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 December 2016 £m
IFRS transfer to/(deduction from) unallocated divisible surplus	**224**	(175)	(22)
Amortisation of intangible assets	**5**	6	30
Differences in valuation of subsidiaries	**67**	43	(12)
Change in fair value of subordinated debt	**(18)**	(13)	(27)
Movement in valuation differences for deferred tax assets	**(3)**	(1)	(1)
Other movements in valuation bases	**41**	(17)	11
EEV profit/(loss) for the period	**316**	(157)	(21)