Press Release

18 August 2016

Royal London reports strong growth in new business sales and operating profit despite market uncertainty and low interest rates

Financial highlights

- New life and pensions business (PVNBP basis)[1] up by 39% to £4,201m (30 June 2015: £3,032m) which represents a new record for Royal London;
- Funds under management[2] up by 11% to £93.8bn (31 December 2015: £84.5bn);
- European Embedded Value (EEV) operating profit up by 20% to £138m (30 June 2015: £115m);
- IFRS transfer to the unallocated divisible surplus before change in basis for Solvency II[3] up by 419% to £83m (30 June 2015: £16m);
- Margin for new insurance business is 2.1% (30 June 2015: 2.0%) reflecting changes in mix of business;
- Solvency II Standard Formula Basis Total Company[4] surplus of £2.1bn and a capital cover ratio of 169% at 1 January 2016. Estimated capital cover ratio of 166% at 30 June 2016.

New Business Review

Intermediary new life and pensions business

- Intermediary Protection business up by 24% to £287m (30 June 2015: £231m);
- Group Pensions up by 66% to £1,921m (30 June 2015: £1,155m);
- Individual Pensions and Drawdown up by 17% to £1,783m (30 June 2015: £1,524m).

The new business momentum we achieved in the second half of last year in our UK intermediary protection business has continued in 2016 and Royal London has again posted record sales results. The Group demonstrated its strong commitment to a high level of service offered to customers and their advisers with our new online quotation and underwriting systems. These innovations have been particularly well received by advisers who have appreciated the improvements to the speed of the processes for their clients.

The intermediary protection business in the Republic of Ireland continues to go from strength to strength, supported by the extension of our product range to include a new innovative whole of life proposition, and the ongoing service improvements generated by new digital capability leading to faster customer service.

The same commitment to excellent customer service and market-leading propositions contributed to the continued financial success of our intermediary pensions business. Recent innovations include enhancements to the flexibility of the Drawdown proposition and a unique Drawdown Governance service. Enhancements to the Governed Portfolios ensure that our investment solutions continue to be at the forefront of the market.

An approach to setting up automatic enrolment schemes based on personal contact rather than employer self-service means that Royal London continues to attract good quality business. Increasingly schemes set up with other providers earlier in the automatic enrolment process are switching to Royal London attracted by the quality of our service. Our pensions business continues to grow because of auto-enrolment which we expect to continue throughout 2016, although we anticipate this will reduce once smaller schemes have enrolled and the initial auto-enrolment staging process comes to an end.

Consumer new life and pensions business

- Consumer up by 93% to £160m (30 June 2015: £83m)

The Consumer division experienced strong growth for its range of direct-to-consumer protection products in the first half of 2016. Our Consumer division is still a relatively new market entrant and the Over 50s plan in particular has taken market share from established market participants. It is an innovative and value for money product which is proving popular with its target market. Strong sales growth has been seen from our distribution partnerships with Cooperative Funeral Services and Ecclesiastical Insurance in the pre-paid funeral plan market. We continue to seek further strategic distribution partnerships with consumer orientated organisations who share our objective of delivering better value for customers.

Wealth

- **Royal London Asset Management (RLAM)** continued to perform well, attracting gross inflows of £2.3bn (30 June 2015: £1.9bn) arising from both Institutional and Wholesale markets. This is a particularly strong result in a period of market uncertainty around the UK referendum on European Union (EU) membership.
- The **Ascentric** wrap platform saw assets under administration[5] increase by 7% to £10.8bn (31 December 2015: £10.1bn). In common with the wrap sector as a whole, Ascentric saw lower gross sales against the background of market volatility in the first half of 2016. The business recorded gross sales of £1.07bn (30 June 2015: £1.19bn).

Review of financial performance

EEV operating profit

Group EEV operating profit increased by 20% to £138m (30 June 2015: £115m), despite the reduction in market interest rates, assisted by strong new business profit growth of £22m (34%) particularly in Pensions, Intermediary Protection and RLAM.

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 for the six months ended 30 June 2016, before change in basis for Solvency II and Other Comprehensive Income, was £83m (30 June 2015: £16m). Our IFRS result also benefits from the strong trading performance of the Group but is impacted by the low interest rate environment in the first six months of 2016.

Capital

Our capital position is robust and under a Solvency II Standard Formula basis Total Company[3] surplus was £2.1bn with a capital cover ratio of 169% at 1 January 2016. The estimated capital cover ratio at 30 June 2016 is 166%.

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

Our strategy of differentiating Royal London from the competition by concentrating on quality, value for money products and the delivery of service excellence is driving the success of our business. Today we are announcing a strong set of results delivered against the uncertain backdrop of the UK referendum on EU membership and continuing low interest rates. Despite the reduction in interest rates, profit margins have held up well, allowing continued investment in the business to support the development of our product and servicing capabilities.

For example, we have made a substantial investment in our protection proposition for customers introduced by intermediaries, making improvements to the customer journey with enhancements to the online application and underwriting processes and keener pricing. These improvements have resulted in wider adviser and customer engagement and an improvement in first half new business.

We have indicated that we expect a slowing of the rate of growth in workplace pensions for some time and this indeed is beginning to come through in the new business figures. As smaller employers are now starting to auto-enrol the revenue from these schemes is lower than in earlier phases which were dominated by larger schemes. Nonetheless the number of schemes continues to grow and new business growth in Group Pensions was ahead by 66% on the same half-year period in 2015.

As the auto-enrolled market matures we are beginning to see a new trend; the growth of a secondary market as advisers recommend schemes move to take advantage of better quality scheme administration or investment options. Royal London has benefited from this trend, taking on schemes that have already auto-enrolled with other providers. This "flight to quality" introduces competition to the market and will result in better outcomes for scheme members.

Our direct to consumer business is now an established franchise in its chosen markets of Over 50s plans, term assurance and pre-paid funeral plans. All of these products offer customers good value for money and we will continue our strategy of targeting markets where we believe consumers are not currently well served. Sales of funeral plans through established distribution partners have been particularly strong and we will continue to seek out distribution opportunities for other products with like-minded partners.

RLAM recorded a strong performance in the first half of 2016 with good gross and net inflows in sharp contrast to others in the asset management sector. Institutional business was particularly strong, with a number of new clients investing in the credit and government bond portfolios in particular.

In difficult market conditions the Ascentric wrap platform saw assets under administration increase by 7% to £10.8bn (£10.1bn at 31 December 2015).

Royal London continues to build its scale in the UK and Irish markets by offering a differentiated proposition rooted in our customer owned business model. Strong trading performance enables us to support record levels of investment in our business, with a strong capital position and growing operating profits for the benefit of our members. 2016 sees the extension of our innovative profit sharing arrangements to eligible pension customers and members. By offering a vibrant mutual alternative Royal London creates value directly for its own customers but also indirectly for all consumers through its competitive influence.

Notes on the financial and new business highlights

1. New life and pensions business is on a present value of new business premiums (PVNBP). See Editor's note 2 for further explanation.
2. Funds under management represent the total of assets managed or administered by the Group, on behalf of institutional clients and on behalf of the Group.
3. 2016 result consists of IFRS transfer from unallocated divisible surplus from the Income Statement of £(82)m plus the Change in Basis for Solvency II of £165m. The change in basis for Solvency II reflects a one-off charge on the adoption of Solvency II which is explained on page 20.
4. Total Company is The Royal London Mutual Insurance Society Limited, which comprises the Royal London Open Fund, into which all new business is written, and seven closed ring-fenced funds from previous acquisition activity. A restriction of £1.7bn is included as a deduction to total Own Funds of £6.8bn, 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 Royal London Open Fund surplus. Before the £1.7bn, restriction, the closed funds have a capital cover ratio of 213% at 1 January 2016.
5. 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.

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1. New business review

Intermediary

	PVNBP		New business contribution[1]		New business margin	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
	£m	£m	**£m**	£m	**%**	%
Intermediary						
Pensions	**3,754**	2,718	**67.0**	43.8	**1.8**	1.6
Protection	**287**	231	**25.8**	22.5	**9.0**	9.7

Consumer

	PVNBP		New business contribution[1]		New business margin	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
	£m	£m	**£m**	£m	**%**	%
Consumer	**160**	83	**(5.2)**	(6.1)	**(3.3)**	(7.3)

Wealth

	PVNBP[2]		New business contribution[1]		New business margin	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
	£m	£m	**£m**	£m	**%**	%
RLAM	**2,319**	1,870	**14.7**	13.8	**0.6**	0.7

	30 June 2016 £m	30 June 2015 £m	Change %
RLAM Net new business, excluding external cash mandates:			
Inflows	**2,319**	1,870	24%
Outflows	**(1,852)**	(1,359)	36%
Net	**467**	511	(9)%

Ascentric	**30 June 2016 £m**	30 June 2015 £m	Change %
Gross sales	**1.07bn**	1.19bn	(10.1)%

Notes on the new business review

1 The new business contribution in the tables above represents the new business contribution grossed up for tax at 20% (2015: 20%). This is to aid comparability with proprietary companies which typically pay tax at the main corporate tax rate of 20% (2015: 20%).
2 PVNBP for Wealth relates to gross sale inflows in the period.

2. Review of financial performance

Consolidated income statement – EEV basis for the six months ended 30 June 2016

	6 months to 30 June 2016 £m	6 months to 30 June 2015 £m	12 months to 31 December 2015 £m
Operating activities			
Contribution from new business	**87**	65	137
Profit from existing business			
– Expected return	**45**	38	76
– Operating experience variances	**13**	(2)	3
– Operating assumption changes	**-**	(1)	74
Expected return on opening net worth	**21**	14	27
Profit on uncovered business	**4**	5	7
Strategic development costs and other items	**(32)**	(4)	(80)
Total operating profit before tax	**138**	115	244
Economic experience variances	**201**	(17)	21
Economic assumption changes	**(177)**	11	32
Movement in Royal London Group Pension Scheme surplus	**(102)**	(8)	23
Financing costs	**(23)**	(20)	(43)
ProfitShare	**-**	-	(74)
Change in basis for Solvency II	**(182)**	-	-
EEV (loss)/profit before tax	**(145)**	81	203
Attributed tax charge	**(12)**	(10)	(22)
Total EEV (loss)/profit after tax	**(157)**	71	181

Consolidated Balance Sheet - EEV basis as at 30 June 2016

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Assets			
Assets held in closed funds	**38,684**	31,882	31,631
Assets backing non-participating liabilities	**26,173**	22,998	24,084
Reinsurance assets	**8,490**	7,553	7,528
Assets backing participating liabilities and net worth	**8,600**	7,596	7,666
Value of in-force business	**1,705**	1,880	2,034
Royal London Group Pension Scheme surplus	**-**	40	71
Total	**83,652**	71,949	73,014
Liabilities			
Liabilities in closed funds	**38,684**	31,882	31,631
Non-participating liabilities	**26,173**	22,998	24,084
Reinsured liabilities	**8,490**	7,553	7,528
Participating liabilities	**5,883**	5,377	5,363
Current liabilities	**1,402**	1,082	1,241
Royal London Group Pension Scheme deficit	**10**	-	-
Total	**80,642**	68,892	69,847
Embedded Value			
Net worth	**1,315**	1,137	1,062
Value of in-force business	**1,705**	1,880	2,034
Royal London Group Pension Scheme (deficit)/surplus	**(10)**	40	71
Total	**3,010**	3,057	3,167

Value of in-force business - EEV basis

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Value of in-force business before allowance for burn-through and capital costs	**1,730**	1,922	2,066
Burn-through cost	**(4)**	(9)	(3)
Cost of capital	**(21)**	(33)	(29)
Value of in-force business	**1,705**	1,880	2,034

EEV operating profit

We delivered a strong operating performance in the six months to 30 June 2016 despite the challenges and uncertainty in the market leading up to and following the UK referendum on EU membership. The Group achieved an EEV operating profit of £138m (30 June 2015: £115m) which was driven by strong new business performance and a stable performance from our book of existing business.

It also includes a one-off gain of £21m relating to the decision to close the Royal London Group Pension Scheme ("RLGPS") to future accrual of benefits from 31 March 2016. This was an important step in managing our costs and capital requirements. Whilst we have closed the RLGPS all employees are now encouraged to join the Royal London Group Personal Pension or the Ascentric Group Personal Pension which are consistent with the products that we offer to our customers through our Group pensions business.

Contribution from new business increased by 34% to £87m at 30 June 2016 (30 June 2015: £65m). This reflects strong growth in Pensions, Intermediary Protection and RLAM. Margins have held up well despite the challenging economic environment pre and post the EU referendum. New business contribution in 2016 is discounted using a rate derived from the swap curve whereas the 2015 result is discounted using a gilt yield derived discount rate.

Profit from existing business has increased by 54% to £83m (30 June 2015: £54m) as a result of favourable operating variances of £13m (30 June 2015: £(2)m) for morbidity and mortality experience and persistency experience. Expected return has increased 27% to £66m as a result of changes to the risk premia applied to the risk free rate.

EEV Operating Profit includes Contribution from new business of £87m (30 June 2015: £65m), Profits from existing business of £83m (30 June 2015: £54m) and Strategic Development costs and other items of £32m (30 June 2015: £4m). Strategic Development costs include £14m (30 June 2015: £4m) to support initiatives that we believe are important for our future competitiveness and we expect will deliver good returns in the future. It also includes an increase in provisions of £33m which mostly relates to the cost of servicing historic remediation. These negative items are offset by a £21m one off gain on the closure of the RLGPS to future accrual as explained above.

EEV profit before tax

After reflecting the impact of economic variances, our EEV profit before tax and before the change in basis for Solvency II was £37m (30 June 2015: £81m). The decrease on the comparative period in 2015 is mainly due to an £80m adverse movement in the surplus within the RLGPS during the 6 months ended 30 June 2016, which is net of the £21m gain on the closure of the RLGPS to future accrual. A significant decrease in corporate bond yields used to discount the scheme liabilities partially offset by higher than assumed investment performance and by lower than expected inflationary increases, resulted in the scheme ending the period in a deficit.

As a result of the introduction of Solvency II we have chosen to make a number of changes to the basis used to produce EEV results. The purpose of these changes is to better align our EEV reporting to the approach taken to prepare our capital position under the new Solvency II regulations. The adjustments are treated as a change in estimate which is recognised in the current period with no restatement of prior periods. The main changes are to use a swap curve to discount cash flows compared to a gilt curve used previously and a change in methodology to reserve for reinsurer default. The total impact is a one off charge of £182m on the Group's Embedded Value. This change has led to our EEV result before tax to be a loss of £145m (30 June 2015: profit of £81m).

IFRS Consolidated Statement of Comprehensive Income for the six months ended 30 June 2016

	6 months to 30 June 2016 £m	Restated 6 months to 30 June 2015 £m	Restated 12 months to 31 December 2015 £m
Revenue			
Gross earned premiums	**662**	563	1,194
Amounts paid to reinsurers	**(678)**	(132)	(400)
Net earned premiums	**(16)**	431	794
Fee income from investment and fund management contracts	**123**	124	255
Investment return	**7,113**	812	2,122
Other operating income	**38**	24	44
Total revenue	**7,258**	1,391	3,215
Policyholder benefits and claims			
Claims paid, before reinsurance	**1,350**	1,247	2,725
Reinsurance recoveries	**(248)**	(210)	(470)
Claims paid, after reinsurance	**1,102**	1,037	2,255
Increase/(decrease) in insurance contract liabilities, before reinsurance	**4,852**	(841)	(1,020)
Reinsurance ceded	**(804)**	189	122
Increase/(decrease) in insurance contract liabilities, after reinsurance	**4,048**	(652)	(898)
Increase in non-participating value of in-force business	**-**	(31)	(92)
Increase in investment contract liabilities	**1,315**	554	911
Change in basis for Solvency II	**165**	-	-
Total policyholder benefits and claims	**6,630**	908	2,176
Operating expenses			
Administrative expenses	**247**	211	477
Investment management expenses	**110**	109	238
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	**36**	13	40
Investment return attributable to external unit holders	**98**	45	22
Other operating expenses	**46**	54	75
Total operating expenses	**537**	432	852
Finance costs	**25**	21	44
Result before tax and before transfer to unallocated divisible surplus	**66**	30	143
Tax charge	**148**	14	18
Transfer (from)/to the unallocated divisible surplus	**(82)**	16	125
Result for the period	**-**	-	-

IFRS Consolidated Statement of Comprehensive Income for the six months ended 30 June 2016 (continued)

	6 months to 30 June 2016 £m	Restated 6 months to 30 June 2015 £m	Restated 6 months to 31 December 2015 £m
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	**(93)**	(10)	50
Transfer (from)/to the unallocated divisible surplus	**(93)**	(10)	50
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 2016

	30 June 2016	Restated 30 June 2015	Restated 31 December 2015
ASSETS	**£m**	£m	£m
Property, plant and equipment	**44**	54	42
Investment property	**5,306**	4,990	5,036
Intangible assets	**778**	898	832
Reinsurers' share of insurance contract liabilities	**6,162**	4,985	5,052
Pension scheme asset	**116**	112	177
Current tax asset	**-**	4	19
Financial investments	**68,997**	59,124	60,129
Trade and other receivables	**953**	782	546
Cash and cash equivalents	**3,819**	3,102	2,823
Total assets	**86,175**	74,051	74,656
LIABILITIES			
Participating insurance contract liabilities	**32,938**	28,746	28,708
Participating investment contract liabilities	**2,080**	2,178	2,232
Unallocated divisible surplus	**3,139**	3,145	3,314
Non-participating value of in-force business	**(909)**	(849)	(910)
	37,248	33,220	33,344
Non-participating insurance contract liabilities	**7,940**	6,824	6,683
Non-participating investment contract liabilities	**27,414**	23,917	24,984
	35,354	30,741	31,667
Subordinated liabilities	**744**	641	743
Payables and other financial liabilities	**8,156**	5,634	5,156
Pension scheme liability	**10**	-	-
Provisions	**226**	215	224
Other liabilities	**286**	268	286
Liability to external unit holders	**3,937**	3,245	3,145
Deferred tax liability	**159**	87	91
Current tax liability	**55**	-	-
Total liabilities	**86,175**	74,051	74,656

IFRS results

The IFRS transfer to the unallocated divisible surplus for the six months ended 30 June 2016, before change in basis for Solvency II and Other Comprehensive Income, was £83m (30 June 2015: £16m). Our IFRS result benefits from the strong trading performance of the Group and is also impacted by the low interest rate environment in the first six months of 2016. However, there are some differences including the amortisation of certain intangibles recognised in IFRS and not EEV and a difference in the value of our asset management and service company subsidiaries which increased significantly under the EEV basis. These items were offset slightly by an increase in the value of our subordinated debt in the EEV results with no increase in the IFRS value. The IFRS result is also impacted by the change in basis for Solvency II of £165m and the adverse movement in the RLGPS, the majority of which is recognised in Other Comprehensive Income. Including the impact of changing basis to Solvency II and Other Comprehensive Income, the total result was a transfer from unallocated divisible surplus of £175m (30 June 2015: transfer to unallocated divisible surplus of £6m).

IFRS balance sheet

As a result of our performance in the year, the unallocated divisible surplus has decreased from £3,314m at 31 December 2015 to £3,139m at 30 June 2016.

Our balance sheet remains robust and we experienced no significant asset impairments in the period. Our total investment portfolio (including investment property) was £74.3bn at 30 June 2016, an increase on 31 December 2015 of 14%. Our financial investments portfolio remains high quality and 52% (31 December 2015: 51%) of our asset portfolio is in fixed income investments and deposits with credit institutions.

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. At 30 June 2016 the investments backing the asset shares of the Royal London Open Fund achieved a return of 7.5%, (actual 6 months to 30 June 2015: 2.1%) which was behind our benchmark of 8.7% (6 months to 30 June 2015: 1.6%). This was because the weighting of the fund compared to benchmark was lower in gilts, the value of which increased significantly as yields decreased following the UK referendum on EU membership.

Despite investment performance being behind benchmark it is up on the same period in 2015. In particular, within the IFRS results a significant increase in financial investments was attributable to unrealised gains on gilts, interest rate swaps and overseas equities.

The total Royal London Open Fund annualised investment performance over 5 years to the 30 June 2016 was 9.3% against a benchmark of 9.0%.

The Royal London with-profits investment performance for the six month period ended 30 June 2016 for UK equities was 3.6% (benchmark 4.3%), overseas equities returned 8.7% (benchmark 10.6%), returns from UK corporate bonds were 7.1% (benchmark 7.6%), government bonds achieved a return of 20.2% (benchmark 20.9%) and our property portfolio returned 3.0% (benchmark 2.7%).

Solvency II capital position on a Standard Formula basis

Our capital position is robust, reflecting the strength of our underlying business and effective capital management strategies. Royal London, on a Total Company[1] basis after closed fund restrictions of £1.7bn, had a surplus of £2.1bn and a capital cover ratio of 169% at 1 January 2016. This surplus arises wholly in the Royal London Open Fund, which considered in isolation has a capital cover ratio of 239% at 1 January 2016. The capital cover ratio on a Total Company basis at 30 June 2016 is estimated to be 166%. The surplus and capital cover ratios include capital add-ons agreed with the Prudential Regulatory Authority (PRA).

At 1 January 2016, the use of the approved Transitional Measure on Technical Provisions contributed 11% to the Total Company capital cover ratio.

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

The Royal London Open Fund capital cover ratio is sensitive to changes in economic and demographic assumptions. As an indication, at 1 January 2016 a change in equities of 20% would impact the cover ratio by an estimated +/- 4% and a change in interest rates of 100bps would impact the cover ratio by an estimated +/- 7%.

1. Total Company is The Royal London Mutual Insurance Society Limited, which comprises the Royal London Open Fund, into which all new business is written, and seven closed ring-fenced funds from previous acquisition activity. A restriction of £1.7bn is included as a deduction to total Own Funds of £6.8bn, 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 Royal London Open Fund surplus. Before the £1.7bn, restriction, the closed funds have a capital cover ratio of 213% at 1 January 2016.

1 January 2016	**Royal London Open Fund £bn**	**Royal London Closed Funds £bn**	**Closed Fund Restriction £bn**	**Total Company £bn**
Own Funds:				
Tier 1	2.8	3.2	-	6.0
Tier 2	0.8	-	-	0.8
Total Own Funds	3.6	3.2	-	6.8
Closed Funds restriction	-	-	(1.7)	(1.7)
Adjusted Own Funds (A)	3.6	3.2	(1.7)	5.1
Solvency Capital Requirement (B)	1.5	1.5	-	3.0
Surplus	2.1	1.7	(1.7)	2.1
Capital cover ratio (A/B)	239%	213%	n/a	169%

The above figures are taken from Royal London's opening Solvency II Balance Sheet submission to the Regulator in May 2016. The Solvency Capital Requirement includes capital add-ons agreed with the PRA.

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. We have adopted the Standard Formula approach for the purposes of measuring regulatory capital under Solvency II. Royal London received approval for the use of both the Transitional Measure on Technical Provisions and the Volatility Adjustment. The results have not been subject to a full external independent audit opinion.

3. Other matters

UK Referendum on EU membership

We have considered the impact of the UK's decision to leave the European Union 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 will continue to monitor the implications of the vote to leave, but expect to continue to trade as normal.

Since the vote outcome, we have seen a period of market and currency volatility for the UK. We continue to work on behalf of our customers to provide them with the best possible long-term returns.

Ratings agencies

Whilst the Group's credit rating remains unchanged in 2016, Moody's changed the Group's outlook from stable to negative on the 29 June 2016 following the UK referendum result. Moody's downgraded the UK country rating on the expectation of lower future UK economic growth and at the same time Moody's also changed the outlook for a number of Insurance companies. This is not reflective of a change in Group strategy or current performance and the Group maintains a strong capital position and a resilient Balance Sheet.

Appendix 1 - EEV Basis of preparation

The EEV results provide supplementary information for the six months ended 30 June 2016 and should be read in conjunction with the Group's IFRS results included on pages 11 to 16. The EEV results have been prepared in accordance with the EEV Principles and Guidance issued in April 2016 by the CFO Forum. Following the introduction of Solvency II on 1 January 2016, the EEV Principles and Guidance have been revised to permit, but not require the use of projection methods and assumptions consistent with Solvency II. The Group has made a number of changes to its EEV methodology as a result of Solvency II, as set out below.

The EEV Principles and Guidance were designed for use by shareholder-owned 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 the EEV Principles and Guidance have been interpreted accordingly. The reported embedded value provides an estimate of Royal London's value to its members.

EEV methodology - impact of Solvency II

The Group's EEV results were previously prepared using the PRA's realistic balance sheet regime. Although that regime was replaced by Solvency II with effect from 1 January 2016, the Group is continuing to apply a basis for preparing its EEV results which is consistent with the former realistic regime. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic regime.

As a result of the introduction of Solvency II, a number of changes have been made to the basis which is used to produce the EEV balance sheet to more closely align with the methodology used for Solvency II. The main changes are 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 has been recognised in the current period with no restatement of prior periods. The total impact is 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. This net impact has been included within the EEV income statement as a separate line item.

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 the EEV reporting, goodwill or other intangible assets (other than VIF) are excluded because these items 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 2016 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 2016 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 2016, 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 financial statements for the year ended 31 December 2015, with the following exception. The Group has made a change to the presentation of its insurance and participating investment contracts which qualifies as a change in accounting policy under IFRS. Further detail is set out below.

In addition to the change in accounting policy noted above, the Group has made changes to the methodology used to calculate the insurance and participating investment contract liabilities. These adjustments are treated under IFRS as a change in estimate which is recognised in the current period with no restatement of prior periods. The main changes are to use a swap curve to discount cash flows compared to a gilt curve used previously and a change in the methodology to reserve for reinsurer default. The total impact is a reduction in the Group's Unallocated Divisible Surplus of £165m. This net impact has been included as a separate line item within the consolidated statement of comprehensive income.

The results for the six months ended 30 June 2016 and 30 June 2015 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 2015 have been taken from the Group's 2015 Annual Report and Accounts as delivered to the Registrar of Companies, with the exception of the restatement for the change in accounting policy for insurance and participating investment contracts set out below. The auditors have reported on the 2015 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.

Accounting policy change – change in presentation of insurance and participating investment contracts

i. Overview of the change in presentation

The Group has changed the presentation of its insurance and participating investment contracts to more closely align with the way that they are presented under Solvency II. This has resulted in items previously included in the negative liability, the ‘non-participating value of in-force business’, now being deducted from the related liabilities. There is no change to the unallocated divisible surplus.

The items that have been re-presented are the present value of future profits on non-participating insurance contracts and the value of the administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds. The future profits on non-participating insurance contracts are now deducted from the non-participating insurance contract liabilities. The value of the administration and asset management arrangements is deducted from the participating insurance and participating investment contract liabilities.

The presentation of the present value of future profits on non-participating investment contracts and the value of future transfers from the Group’s 90:10 funds has not changed. These items are still shown within the ‘non-participating value of in-force business’.

The presentational change constitutes a change in accounting policy. As required by IFRS the Group has applied the change retrospectively and has restated the figures previously presented as set out in iii below.

ii. Revised accounting policy

The presentation change set out above has been reflected in a revised accounting policy for insurance and participating investment contracts. The amended policy is as follows:

Insurance contracts and participating investment contracts

Under IFRS 4, ‘Insurance Contracts’, insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS.

The estimation techniques and assumptions used are periodically reviewed, with any changes in estimates reflected in the consolidated statement of comprehensive income as they occur.

Participating insurance and participating investment contracts

For participating insurance and participating investment contracts, the liabilities are determined on a realistic basis in accordance with the measurement requirements of the former UK GAAP standard FRS 27, ‘Life Assurance’, which was adopted on transition to IFRS. Under FRS 27, the participating liabilities are measured using the PRA’s realistic balance sheet regime. That regime was replaced by Solvency II with effect from 1 January 2016. However the Group is continuing to apply the realistic basis, including any waivers or guidance from the PRA that were in force on transition to Solvency II, because it is the measurement basis established on transition to IFRS. In particular, the Group has continued to apply the margins of prudence within assumptions and the definition of contract boundaries in a consistent way to the previous realistic basis.

The participating contract liabilities include an assessment of the cost of any future options and guarantees granted to policyholders measured on a market consistent basis. The calculations also take into account bonus decisions which are consistent with the Parent company's Principles and Practices of Financial Management.

For the closed funds, any excess of the IFRS value of assets over liabilities is included in the participating contract liabilities because it is not available for distribution to other policyholders or for other business purposes. The closed funds are the Refuge Assurance IB Sub-fund, the United Friendly IB Sub-Fund, the United Friendly OB Sub-Fund, the Scottish Life Fund, the PLAL With-Profits Fund, the Royal Liver Assurance fund and the RL (CIS) With-Profits Fund.

The present value of future profits on non-participating investment contracts, the value of future transfers from the Group's 90:10 funds and the value of administration and asset management arrangements in place between the Royal London Open Fund and certain closed funds are accounted for as part of the calculation of the realistic value of participating contract liabilities. The value of the administration and asset management arrangements can be allocated to participating policies and so the participating liabilities are shown net of this item. The future profits on non-participating investment contracts and the value of future transfers cannot be allocated to particular participating liabilities and so are shown as a separate negative liability on the face of the balance sheet, the 'non-participating value of in-force business'.

Non-participating insurance contracts

For non-participating insurance contracts, the liability is calculated as the discounted value of the cash flows expected to arise on those contracts. In determining the cash flows an allowance for risk is made by including margins within the assumptions used.

Liability adequacy test

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the statement of comprehensive income.

Claims outstanding

The claims outstanding provision represents the estimated cost of settling claims reported by the balance sheet date.

iii. Restatement for the presentation of the non-participating value of in-force business

As set out above, the Group has made a change to the presentation of the non-participating value of in-force business. The Group has applied this presentational change retrospectively and has restated the figures previously presented as set out in the tables below.

IFRS Consolidated Balance Sheet

	30 June 2015		
	As previously reported £m	Impact of change in presentation £m	Restated £m
Assets			
Reinsurers' share of insurance contract liabilities	5,237	(252)[1]	4,985
Other assets not impacted by the change	69,066	-	69,066
Total assets	**74,303**	**(252)**	**74,051**
Liabilities			
Participating insurance contract liabilities	28,890	(144)[2]	28,746
Participating investment contract liabilities	2,275	(97)[2]	2,178
Unallocated divisible surplus	3,145	-	3,145
Non-participating VIF	(1,383)	534[1,2]	(849)
Non-participating insurance contract liabilities	7,372	(548)[1]	6,824
Non-participating investment contract liabilities	23,914	3	23,917
Other liabilities not impacted by the change	10,090	-	10,090
Total liabilities	**74,303**	**(252)**	**74,051**

IFRS consolidated statement of comprehensive income

	30 June 2015		
	As previously reported £m	Impact of change in presentation[3] £m	Restated £m
Total revenues	**1,391**	**-**	**1,391**
Policyholder benefits and claims			
Claims paid, after reinsurance	1,037	-	1,037
Decrease in insurance contract liabilities, before reinsurance	(851)	10	(841)
Reinsurance ceded	225	(36)	189
Decrease in insurance contract liabilities, after reinsurance	(626)	(26)	(652)
Decrease in non-participating VIF	(51)	20	(31)
Increase in investment contracts	548	6	554
Total policyholder benefits and claims	**908**	**-**	**908**
Total operating expenses	**432**	**-**	**432**
Finance costs	**21**	**-**	**21**
Result before tax and transfer to UDS	**30**	**-**	**30**
Tax	14	-	14
Transfer to Unallocated divisible surplus	16	-	16
Result for the period	**-**	**-**	**-**

IFRS Consolidated Balance Sheet

	31 December 2015		
	As previously reported £m	**Impact of change in presentation £m**	**Restated £m**
Assets			
Reinsurers' share of insurance contract liabilities	5,302	(250)[1]	5,052
Other assets not impacted by the change	69,604	-	69,604
Total assets	**74,906**	**(250)**	**74,656**
Liabilities			
Participating insurance contract liabilities	28,874	(166)[2]	28,708
Participating investment contract liabilities	2,326	(94)[2]	2,232
Unallocated divisible surplus	3,314	-	3,314
Non-participating VIF	(1,526)	616[1,2]	(910)
Non-participating insurance contract liabilities	7,291	(608)[1]	6,683
Non-participating investment contract liabilities	24,982	2	24,984
Other liabilities not impacted by the change	9,645	-	9,645
Total liabilities	**74,906**	**(250)**	**74,656**

IFRS Consolidated Statement of Comprehensive Income

	31 December 2015		
	As previously reported £m	**Impact of change in presentation[3] £m**	**Restated £m**
Total revenues	**3,215**	**-**	**3,215**
Policyholder benefits and claims			
Claims paid, after reinsurance	2,255	-	2,255
Decrease in insurance contract liabilities, before reinsurance	(948)	(72)	(1,020)
Reinsurance ceded	160	(38)	122
Decrease in insurance contract liabilities, after reinsurance	(788)	(110)	(898)
Increase in non-participating VIF	(194)	102	(92)
Increase in investment contracts	903	8	911
Total policyholder benefits and claims	**2,176**	**-**	**2,176**
Total operating expenses	**852**	**-**	**852**
Finance costs	**44**	**-**	**44**
Result before tax and transfer to UDS	**143**	**-**	**143**
Tax	18	-	18
Transfer to Unallocated divisible surplus	125	-	125
Result for the year	**-**	**-**	**-**

Notes on the IFRS restatement:

1. Balances re-presented on a realistic basis and shown net of the present value of future profits which was previously included in the Non-participating VIF.
2. Value of inter-fund administration and asset management arrangements previously included in the Non-participating VIF and now deducted from the participating contract liabilities.
3. Movement in the above adjustments in the period.

Appendix 3 Reconciliation of the IFRS unallocated divisible surplus to the European Embedded Value

	30 June 2016 £m	30 June 2015 £m	Restated 31 December 2015 £m
IFRS unallocated divisible surplus	**3,139**	3,145	3,314
Valuation differences between IFRS and EEV			
- Goodwill and intangible assets	**(274)**	(286)	(280)
- Deferred tax valuation differences	**(2)**	4	(1)
- Subordinated debt at market value	**(38)**	(28)	(25)
- Subsidiaries valuation differences	**(12)**	(31)	(16)
Add items only included on an embedded value basis			
- Valuation of asset management and service subsidiaries	**195**	199	156
Other valuation differences	**2**	54	19
European embedded value	**3,010**	3,057	3,167

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

	30 June 2016 £m	30 June 2015 £m	Restated 31 December 2015 £m
IFRS transfer (from)/to unallocated divisible surplus	**(175)**	6	175
Amortisation of intangible assets	**6**	(13)	(7)
Differences in valuation of subsidiaries	**43**	27	(1)
Change in realistic value of subordinated debt	**(13)**	14	17
Movement in valuation differences for deferred tax assets	**(1)**	1	(4)
Change in basis for Solvency II	**(19)**	-	-
Other movements in valuation bases	**2**	36	1
EEV (loss)/profit for the period	**(157)**	71	181

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Editor's notes:

1) Royal London is the largest mutual life, pensions and investment company in the UK, with Group funds under management of £93.8 billion, around 9.1 million policies in force and 3,080 employees. (Figures quoted are as at 30 June 2016).

2) Present value of new business premiums 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 2016 results have been derived from the swap curve, whereas the rate used in the 2015 reported results was derived from the gilt curve.

3) 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. We have adopted the standard formula approach for the purposes of measuring regulatory capital under Solvency II. Royal London received approval for the use of both the Transitional Measure on Technical Provisions and the Volatility Adjustment. The Solvency II results have not been subject to a full external independent audit opinion.

4) Financial Calendar

4 November 2016	Interim management statement and third quarter new business results
13 November 2016	RL Finance Bonds No 3 plc subordinated debt interest payment date
30 November 2016	RL Finance Bonds No 2 plc Subordinated debt interest payment date

Royal London will hold an investor conference call to present its 2016 interim financial results on Thursday 18 August 2016 at 09:30. Interested parties can register at:
https://cossprereg.btci.com/prereg/key.process?key=PNTEWLGYM

5) 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.