2018 Interim Results Announcement

16 August 2018

ROYAL LONDON MAINTAINS STRONG TRADING RESULTS. CEO URGES GOVERNMENT TO 'PUT CONSUMER FIRST' BY SAVING THE PENSIONS DASHBOARD.

Commenting on the results, Royal London CEO Phil Loney said:

"Sluggish economic growth and the ending of the auto enrolment roll out provided a challenging backdrop for pensions and investment companies in the first half of 2018. I'm pleased to report that Royal London has consolidated its record 2017 trading position with EEV pre-tax profit up 9% to £358m, reflecting an operating profit of £187m in the first six months of the year."

Phil Loney also urged the Government to save the proposed 'pensions dashboard' project:

"The UK pensions system is highly fragmented and auto enrolment will add further to the number of people with pensions scattered across multiple schemes and providers. In many other countries citizens can see all of their pensions – state, workplace and private – all in one place, and there is no reason why UK citizens should not be able to do so. The industry has already shown its commitment by spending time and money preparing a prototype dashboard. We need Government to take a lead, both in ensuring that state and public sector pension data is available and also in requiring all pension schemes and providers to supply data. Only the Government can do this. It is time to put the consumer first and press ahead with the dashboard project, and we stand ready to work with the Government to drive this project forward."

Key numbers

		30 June 2018	30 June 2017	Change[2]
EEV	Life and pensions sales PVNBP[1]	**£6,077m**	£6,078m	(£1m)
	New business margin	**1.8%**	1.8%	-
	EEV operating profit *before tax*	**£187m**	£185m	£2m
	EEV profit before tax	**£358m**	£327m	£31m
Flows	Gross inflows[3]	**£9,589m**	£9,095m	£494m
	Net flows[3]	**£4,177m**	£3,657m	£520m
IFRS	IFRS transfer to the UDS *before other comprehensive income*	**£196m**	£192m	£4m

		30 June 2018	31 Dec 2017	Change[2]
Funds	Funds under management[4]	**£117bn**	£114bn	£3bn
Capital (Solvency)	Solvency surplus *(Investor View)*[5]	**£5.4bn**	£5.5bn	(£0.1bn)
	Capital cover ratio *(Investor View)*[5]	**225%**	235%	(10pp)

Trading, financial and capital highlights

Royal London announces increased half year EEV operating profits of £187m (+1%) and EEV pre-tax profit of £358m (+9%).

- Consistent EEV operating profit achieved in difficult trading conditions;
- Increases in Personal Pension and Life Assurance new business sales[1] largely offset reduced Group Pension sales resulting from the end of the auto enrolment roll out;
- Increased net flows across the Group;
- Our capital position remains strong with a Solvency II Investor View[5] solvency surplus of £5.4bn and a capital cover ratio of 225%; and
- The business is well placed to deliver its future financial goals.

Our businesses

Intermediary

- Overall Pensions new business sales[1] remained strong at £5,399m (HY 2017: £5,465m), achieved against a challenging market background. The strong performance demonstrates our ability to provide compelling propositions to support customers continuing to accumulate pension savings, and also simultaneously provide solutions for those closer to retirement with ambitions to prepare effectively for the next phase of their life.
- We welcomed over 86,000 new entrants to our Group Pension schemes and have an attractive offering for new savers and those wishing to make incremental contributions alike. Our drawdown offering maintains one of the leading market positions and the performance of our governed investment portfolios has made our pension products popular with customers and advisers in the pension transfer market. We continue to focus on offering value for money products underpinned by a great service and our unique profit sharing approach which helps to boost investment returns for our pension members.
- Individual Pensions and Drawdown new business sales[1] were up by 23% to £3,577m (HY 2017: £2,916m) as greater numbers of customers and advisers selected Royal London as the pension provider of choice.
- The ability to remain competitive across all these market sectors is down to our underlying business agility and foresight to position our propositions appropriately in the market place. As an example, we have recently launched our scheme health check tool which shows employers how their scheme is performing against their expectations and will assist advisers in attracting new business and offering an ongoing service to existing clients.
- Intermediary UK Protection new business sales[1] increased by 14% to £383m (HY 2017: £337m) fuelled by increased adviser confidence in our propositions as a result of improved new business processes, strong and effective underwriting and a commitment to innovation. Despite strong competition, we have increased market share[6] to 11.2% at Q1 2018 (31 December 2017: 11.1%) through our continued focus on adviser relationships and customer service. We continue to work on solutions that make our products more flexible and attractive to a wider range of customers. In January 2018 we introduced Enhanced Children's Critical Illness cover and in June 2018 we launched our new Diabetes Life Cover product, following the success of the pilot launched in April 2017. Diabetes Life Cover is most suitable for people with Type 1 and less well controlled Type 2 diabetes who find it more difficult to access protection.
- Our Irish Protection business continues to grow; new business sales[1] increased by 4% to £48m (HY 2017: £46m) driven by our continued service transformation and regular proposition enhancements. Broker market share[7] increased to 17.3% at Q2 2018, up from 16.9% at 31 December 2017. Our new mortgage protection offering, launched in late 2017, has been positively received and we were the first provider in Ireland to offer funeral prepayments to policyholders impacted by delays in the Irish probate system.

Consumer

- Consumer new business sales[1] were up by 8% to £248m (HY 2017: £229m). This was as a result of continued organic growth in our core Royal London branded Over 50s product line. In addition, we have seen an increase in sales through our partnership with Post Office Money Services following expansion of our Over 50s marketing activity with a successful TV campaign in the first quarter of the year, as well as the launch of a new simplified Life Insurance proposition, Easy Life, which streamlines the customer sales process. In January we launched our new partnership with CYBG Plc, owner of Clydesdale Bank and Yorkshire Bank, who now offer our Over 50s life cover to their customers.

- We enhanced our Consumer protection portfolio with the launch of an innovative Serious Illness rider on our Term proposition, with the response from consumers exceeding our expectations. We also expanded our later life offering and in April 2018 introduced a Royal London Funeral Plan which has also secured a five star rating from Fairer Finance.

Royal London Asset Management (RLAM)

- RLAM has continued to perform well in 2018 attracting external net inflows of £2.2bn (HY 2017: £2.1bn) from Institutional and Wholesale markets, with Wholesale net flows increasing 33% to £1.2bn (HY 2017: £0.9bn). RLAM achieved some large investment mandate wins during the first half of 2018, gross and net flows for our wholesale business continued to be strong, as we broadened our coverage of wealth managers and financial advisers.

- Funds under management[4] increased to £117bn (31 December 2017: £114bn) driven by strong net flows.

Royal London Platform Services (RLPS)

- RLPS supports a range of platform offerings including Ascentric, Succession Investment Platform and wrap offerings for Royal London Group companies. RLPS gross inflows remained stable at £1.4bn (HY 2017: £1.4bn), as did net flows at £612m (HY 2017: £612m). Assets under administration[8] increased by 5% to £15.1bn (31 December 2017: £14.4bn). In the first half of 2018 RLPS migrated the first phase of Ascentric advisers to its new platform solution, Sonata.

Review of financial performance

EEV operating profit

Royal London has performed well in difficult markets, increasing EEV operating profit before tax by 1% to £187m (HY 2017: £185m) and consolidating the record performance achieved in 2017. The prior year comparative included a one-off £30m benefit arising from the restructuring of a reinsurance agreement. Excluding this item from the comparative, the operating profit growth would be 21%, reflecting the strong operating performance of the business and lower strategic development costs.

Profit contribution from new business reduced by 5% to £142m in the six months to 30 June 2018 (HY 2017: £149m) as increased sales from Personal Pension and Insurance products largely offset the inevitable reduction in new Group Pension sales following the culmination of the auto enrolment roll out.

The overall new business margin remained in line with the prior period at 1.8% (HY 2017: 1.8%). The new business margin on Pensions business remained robust at 2.2% (HY 2017: 2.3%) despite the large level of change experienced within the pensions market. The Protection margin increased to 5.8% (HY 2017: 4.4%), with one of the attributable factors being an increase in new business volumes with a focus on maintaining a stable cost base. The margin for the Consumer business was (1.8)%, a reduction from the previous period (HY 2017: 0.4%). The reduction has been driven by very low interest rates and changes to assumed investment returns. We are actively redesigning our products where necessary in response to current trading headwinds. Our Consumer business was launched four years ago and is making good progress towards achieving the critical scale needed for profitable trading.

Profits from managing existing business of £78m (including expected return on opening net worth) have reduced by 4% from £81m. This mainly consists of a higher expected return of £61m (HY 2017: £52m) driven by a higher value of in-force business, as a result of strong fund performance and prior year new business sales. In addition, positive experience variances of £8m (HY 2017: £16m) arose due to a higher rate of retention of business within RLAM.

Strategic development costs and other items reduced to £33m (HY 2017: £41m) with the prior year comparative including a £30m benefit arising from the restructuring of a reinsurance agreement. Excluding this item from the comparative, strategic development costs and other items reduced by £38m. Current year costs primarily relate to expenses incurred in the development of various new IT systems across the Group which we believe will enable us to deliver a market leading digital proposition and deliver better outcomes and experiences for customers.

IFRS transfer to unallocated divisible surplus
The IFRS transfer to the unallocated divisible surplus for the six months ended 30 June 2018, before other comprehensive income, was £196m (HY 2017: £192m). Consistent with EEV, our IFRS result benefits from the strong trading performance of the Group. Investment returns have reduced to £500m (HY 2017: £2,159m) through lower unrealised fair value gains, as a result of lower equity market returns.

The credit of £10m (HY 2017: charge of £91m) within premiums ceded to reinsurers arose through the downward revaluation of a reinsurance agreement of £160m (HY 2017: £56m), with a corresponding charge included within investment returns.

Other comprehensive income included the positive movement in the surplus in the Group's pension schemes of £45m (HY 2017: £32m), with the RLGPS surplus increasing by £38m. Including other comprehensive income, the total transfer to the unallocated divisible surplus for the six months to 30 June 2018 was £241m (HY 2017: transfer to the unallocated divisible surplus of £224m).

IFRS balance sheet
Our balance sheet remains robust. Our total investment portfolio, including investment property, was £89.4bn at 31 December 2017 and increased by 1.5% to £90.7bn at 30 June 2018. Our financial investment portfolio continues to be well balanced across a number of financial instruments, with the majority in equities, debt and fixed income securities.

The accounting policies applied are consistent with those set out in the Group's Annual Report and Accounts for the year ended 31 December 2017, with the exception of the adoption of IFRS 15, 'Revenue from contracts with customers', which is applicable for the first time in 2018. Further detail is set out in Appendix 2.

Net flows[3]
Net flows of £4,177m (HY 2017: £3,657m) comprise internal net flows of £1,952m (HY 2017: £1,523m) and external net inflows of £2,225m (HY 2017: £2,134m). Higher internal net flows have been driven by increased Individual Pension product sales and a greater retention of our closed book products. External net inflows have been driven by a number of large investment mandate wins in RLAM.

Investment performance
Global equity markets have experienced an increased level of volatility in 2018, driven by continued political and economic uncertainty as well as talk of trade wars. Despite this uncertainty, the investments backing the asset shares of the Open Fund achieved a return of 1.20% in the six months to 30 June 2018 (HY 2017: 3.30%). This is against a benchmark of 1.23% (HY 2017: 2.84%), which is constructed from market indices weighted to reflect the asset mix of each sub fund.

Capital
Our capital position remains strong with additional detail set out in section 3.

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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 £117 billion, 8.8 million policies in-force and 3,745 employees. Figures quoted are as at 30 June 2018.

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) Change is increase or decrease compared to 30 June 2017 or 31 December 2017.

3) Gross and net flows incorporate The Royal London Mutual Insurance Society (RLMIS) and Royal London Asset Management (RLAM). Net flows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, Protection business is not included. RLAM net flows represent external inflows less external outflows, including cash mandates but excluding Channel Islands cash mandates.

4) 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. It excludes assets administered through RLPS our platform business.

5) 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 £3.0bn (31 December 2017: £3.1bn) as a deduction from total Own Funds of £9.7bn (31 December 2017: £9.6bn), 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 £3.0bn restriction, the Total Company ('Regulatory View') reported a capital cover ratio of 156% at 30 June 2018 (31 December 2017: 159%).

6) Market share based on Q1 2018, Royal London and Association of British Insurers figures.

7) Market share based on Q2 2018, Royal London Ireland analysis of Milliman Temperature Gauge results.

8) Assets under administration represent the total assets administered on behalf of individual customers and Institutional clients through our platform business. 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.

9) Financial calendar:

- 13 November 2018 - RL Finance Bonds No 3 plc subordinated debt interest payment date
- 30 November 2018 - RL Finance Bonds No 2 plc subordinated debt interest payment date

Royal London will hold an investor conference call to present its 2018 interim financial results on Thursday 16 August 2018 at 09:00. Interested parties can register at: **https://cossprereg.btci.com/prereg/key.process?key=PH8K43FP8**

10) 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.

Contents

1. New business review

Intermediary	PVNBP		New business contribution[1]		New business margin[1]	
	30 June 2018	30 June 2017	**30 June 2018**	30 June 2017	**30 June 2018**	30 June 2017
	£m	£m	**£m**	£m	**%**	%
Pensions	**5,399**	5,465	**119.5**	126.5	**2.2**	2.3
Protection	**431**	384	**24.9**	16.8	**5.8**	4.4

Consumer	PVNBP		New business contribution[1]		New business margin[1]	
	30 June 2018	30 June 2017	**30 June 2018**	30 June 2017	**30 June 2018**	30 June 2017
	£m	£m	**£m**	£m	**%**	%
Consumer	**248**	229	**(4.5)**	0.9	**(1.8)**	0.4

RLAM	PVNBP[2]		New business contribution[1]		New business margin[1]	
	30 June 2018	30 June 2017	**30 June 2018**	30 June 2017	**30 June 2018**	30 June 2017
	£m	£m	**£m**	£m	**%**	%
RLAM	**3,002**	3,220	**22.3**	21.6	**0.7**	0.7

Net flows[3]

	30 June 2018	30 June 2017	Change
	£m	£m	%
Internal flows	**1,952**	1,523	28.2
External flows	**2,225**	2,134	4.3
Net flows	**4,177**	3,657	14.2

RLPS net inflows

	30 June 2018	30 June 2017	Change
	£m	£m	%
Net inflows	**612**	612	-

Notes on the new business review

1 The new business contribution in the tables above has been grossed up for tax at 19% (2017: 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% (2017: 19%). The EEV Consolidated income statement has been grossed up at the applicable tax rates. The 2017 new business contribution and new business margin for UK Protection have been updated to reflect revised cost allocation. Overall new business margin of 1.8% (2017: 1.8%) combines Intermediary, Consumer and RLAM and is based on exact figures.

2 PVNBP for RLAM relates to gross sales inflows in the period, excluding external cash mandates which are treated as uncovered business and not valued on an EEV basis.

3 Net flows incorporate RLMIS ('Internal') and RLAM ('External'). Net flows from RLMIS represent the combined premiums and deposits received (net of reinsurance) less claims and redemptions (net of reinsurance). Given its nature, Protection business is not included. RLAM net flows represent external inflows less external outflows, including cash mandates but excluding Channel Islands cash mandates.

2. Interim Financial Statements

Consolidated income statement – EEV basis for the six months ended 30 June 2018

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	12 months to 31 December 2017 £m
Operating activities Contribution from new business	**142**	149	292
Profit from existing business			
– Expected return	**61**	52	104
– Operating experience variances	**8**	16	37
– Operating assumption changes	**-**	-	111
Expected return on opening net worth	**9**	13	26
Loss on uncovered business	**-**	(4)	(33)
Strategic development costs and other items	**(33)**	(41)	(208)
Total operating profit before tax	**187**	185	329
Economic experience variances	**41**	34	159
Economic assumption changes	**115**	104	79
Movement in Royal London Group Pension Scheme	**38**	27	73
Financing costs	**(23)**	(23)	(46)
EEV profit before tax and ProfitShare	**358**	327	594
ProfitShare	**-**	-	(150)
EEV profit before tax	**358**	327	444
Attributed tax charge	**(22)**	(11)	(30)
Total EEV profit after tax	**336**	316	414

2. Interim Financial Statements continued

Consolidated balance sheet – EEV basis as at 30 June 2018

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Assets			
Assets held in closed funds	**35,322**	36,161	37,056
Assets backing non-participating liabilities	**43,337**	35,676	39,726
Reinsurance assets	**5,126**	5,789	5,384
Assets backing participating liabilities and net worth	**9,254**	9,061	9,090
Value of in-force business	**2,622**	2,312	2,544
Royal London Group Pension Scheme surplus	**85**	1	47
Total	**95,746**	89,000	93,847
Liabilities			
Liabilities in closed funds	**35,322**	36,161	37,056
Non-participating liabilities	**43,337**	35,676	39,726
Reinsured liabilities	**5,126**	5,789	5,384
Participating liabilities	**6,449**	6,273	6,526
Current liabilities	**1,616**	1,639	1,595
Total	**91,850**	85,538	90,287
Embedded Value			
Net worth	**1,189**	1,149	969
Value of in-force business	**2,622**	2,312	2,544
Royal London Group Pension Scheme surplus	**85**	1	47
Total	**3,896**	3,462	3,560

2. Interim Financial Statements continued

IFRS consolidated statement of comprehensive income for the six months ended 30 June 2018

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	12 months to 31 December 2017 £m
Revenues			
Gross earned premiums	**607**	630	1,239
Premiums ceded to reinsurers	**10**	(91)	(265)
Net earned premiums	**617**	539	974
Fee income from investment and fund management contracts	**154**	145	297
Investment return	**500**	2,159	6,031
Other operating income	**33**	36	64
Total revenues	**1,304**	2,879	7,366
Policyholder benefits and claims			
Claims paid, before reinsurance	**1,337**	1,316	2,665
Reinsurance recoveries	**(264)**	(251)	(519)
Claims paid, after reinsurance	**1,073**	1,065	2,146
(Decrease) in insurance contract liabilities, before reinsurance	**(1,327)**	(555)	(114)
Reinsurance ceded	**217**	185	581
(Decrease) / increase in insurance contract liabilities, after reinsurance	**(1,110)**	(370)	467
(Increase) in non-participating value of in-force business	**(143)**	(171)	(271)
Increase in investment contract liabilities	**759**	1,455	3,215
Total policyholder benefits and claims	**579**	1,979	5,557
Operating expenses			
Administrative expenses	**277**	277	561
Investment management expenses	**156**	128	321
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	**12**	38	92
Investment return attributable to external unit holders	**6**	138	192
Other operating expenses	**61**	64	141
Total operating expenses	**512**	645	1,307
Finance costs	**23**	23	47
Result before tax and before transfer to unallocated divisible surplus	**190**	232	455
Tax (credit) / charge	**(6)**	40	103
Transfer to the unallocated divisible surplus	**196**	192	352
Result for the period	**-**	-	-

2. Interim Financial Statements continued

IFRS consolidated statement of comprehensive income for the six months ended 30 June 2018 (continued)

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	12 months to 31 December 2017 £m
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit pension schemes	**45**	32	82
Transfer to the unallocated divisible surplus	**45**	32	82
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.

2. Interim Financial Statements continued

IFRS consolidated balance sheet as at 30 June 2018

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Assets			
Property, plant and equipment	**72**	67	53
Investment property	**6,414**	5,413	6,103
Goodwill and other intangible assets	**375**	358	344
Deferred acquisition costs on investment contracts	**322**	281	262
Reinsurers' share of insurance contract liabilities	**5,109**	5,722	5,326
Pension scheme asset	**224**	137	186
Current tax asset	**36**	-	5
Financial investments	**84,325**	77,733	83,328
Trade and other receivables	**1,140**	1,112	651
Cash and cash equivalents	**4,225**	3,512	3,061
Total assets	**102,242**	94,335	99,319
Liabilities			
Participating insurance contract liabilities	**32,065**	32,291	33,154
Participating investment contract liabilities	**2,128**	2,149	2,214
Unallocated divisible surplus	**4,050**	3,516	3,726
Non-participating value of in-force business	**(1,632)**	(1,388)	(1,488)
	36,611	36,568	37,606
Non-participating insurance contract liabilities	**7,063**	7,723	7,301
Non-participating investment contract liabilities	**42,616**	34,668	38,847
	49,679	42,391	46,148
Subordinated liabilities	**745**	744	745
Payables and other financial liabilities	**7,014**	7,341	7,225
Provisions	**252**	272	282
Other liabilities	**227**	285	271
Liability to external unit holders	**7,500**	6,498	6,785
Deferred tax liability	**214**	226	222
Current tax liability	**-**	10	35
Total liabilities	**102,242**	94,335	99,319

3. Capital Position

Solvency II capital position on a Standard Formula basis

Our capital position remains strong, reflecting the strength of our underlying business and effective capital management strategies. The Investor View capital cover ratio for Royal London is 225% including surplus in the closed funds (31 December 2017: 235%[2]), and Investor View solvency surplus is £5.4bn (31 December 2017: £5.5bn[2]). The small decrease in the surplus and capital cover ratios between 31 December 2017 and 30 June 2018 is predominantly due to an increase in the Solvency Capital Requirement (SCR), primarily due to strong new business sales in 2018. The capital cover ratio is more sensitive to changes in SCR than Own Funds, so where both Own Funds and SCR increase by the same amounts the capital cover ratio decreases.

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 Transitional Measure on Technical Provisions 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.

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.

3. Capital Position continued

30 June 2018 £bn	Royal London Open Fund	Royal London Closed Funds	Total Company (Investor View)	Closed Fund Restriction	Total Company (Regulatory View)
Own Funds:					
Tier 1	3.6	5.2	8.8	-	8.8
Tier 2	0.9	-	0.9	-	0.9
Total Own Funds	4.5	5.2	9.7	-	9.7
Closed funds restriction	-	-	-	(3.0)	(3.0)
Adjusted Own Funds (A)	4.5	5.2	9.7	(3.0)	6.7
Solvency Capital Requirement (B)	2.1	2.2	4.3	-	4.3
Surplus	2.4	3.0	5.4	(3.0)	2.4
Capital cover ratio (A/B) – 30 June 2018	214%	235%	225%	n/a	156%
Capital cover ratio[2] (A/B) – 31 December 2017	226%	243%	235%	n/a	159%

Notes
1. Figures presented in the table are rounded, and the capital cover ratio is calculated based on exact figures.
2. The 31 December 2017 Solvency II surplus and capital cover ratios are as presented in Royal London's 2017 Annual Report and Accounts. These figures were estimates and final figures were disclosed in the Solvency Financial Condition Report (SFCR) in May 2018; being a capital cover ratio of 228% and £5.4bn surplus (Investor View), and capital cover ratio of 156% and £2.4bn surplus (Regulatory View) before post balance sheet events.

The Open Fund had an excess surplus of £2.4bn at 30 June 2018 (31 December 2017: £2.4bn) and a capital cover ratio of 214% at 30 June 2018 (31 December 2017: 226%). The closed funds are also well capitalised with a surplus of £3.0bn at 30 June 2018 (31 December 2017: £3.1bn) and a capital cover ratio of 235% (31 December 2017: 243%). The Regulatory View capital cover ratio, which does not recognise surplus in the closed funds, was 156% at 30 June 2018 (31 December 2017: 159%).

The majority (80% (31 December 2017: 79%)) of total Own Funds within the Royal London Open Fund is made up of Tier 1 capital, with subordinated debt valued at £0.9bn (31 December 2017: £0.9bn) classified as Tier 2 capital. Own Funds within the closed funds are entirely Tier 1 capital.

3. Capital Position continued

Movement analysis of capital position

The following table sets out an analysis of the movement in the Investor View solvency surplus and capital cover ratio between 31 December 2017 and 30 June 2018:

	Solvency Surplus (Investor View) £bn	Capital Cover Ratio (Investor View) %
31 December 2017 (published in the 2017 Annual Report and Accounts (ARA))	5.5	235
Estimation difference between 2017 ARA and 2017 SFCR[1]	(0.1)	(7)
31 December 2017 (published in the 2017 SFCR)	5.4	228
Operating assumption changes and experience variances	(0.1)	(7)
Economic assumption changes and experience variances	0.1	3
Other variances	-	1
30 June 2018 (estimated)	**5.4**	**225**

1 The Solvency II figures disclosed in the 2017 ARA were estimates and the final 31 December 2017 position was disclosed in the SFCR in May 2018.

4. Other matters

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

We are in the process of establishing a subsidiary in the Republic of Ireland to enable our existing business there to continue to trade after the UK leaves the EU. This mitigates 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 we will 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 July 2018 Moody's reaffirmed our existing A2 Insurance Financial Strength rating and maintained its outlook for Royal London at Stable. Standard and Poor's also reaffirmed Royal London's counterparty credit rating of A in June 2018, 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 2018 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 2017.

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.

Appendix 2 – IFRS basis of preparation

The IFRS financial information for the six months ended 30 June 2018 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 2018 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 2018, 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 2017, with the exception of the adoption of IFRS 15, 'Revenue from Contracts with Customers', which is applicable for the first time in 2018. On adopting this standard the Group has changed the way that it measures the 'Deferred acquisition costs on investment contracts' asset recognised in respect of future commission payable on relevant non-participating investment contracts. The Group has adopted this change using the modified retrospective approach set out in IFRS 15, whereby the cumulative effect as at 1 January 2018, which is an increase to the 'Deferred acquisition costs on investment contracts' asset of £82m, has been reflected by an increase of £82m in the unallocated divisible surplus. As permitted by the modified retrospective approach, the comparatives for the year ended 31 December 2017 and for the six months ended 30 June 2017 have not been restated. Although effective from 2018, the Group has opted to defer implementation of IFRS 9 'Financial Instruments' in accordance with the amendment to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'.

The results for the six months ended 30 June 2018 and 30 June 2017 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 2017 have been taken from the Group's 2017 Annual Report and Accounts as delivered to the Registrar of Companies. The auditors have reported on the 2017 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 has 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 2018 £m	6 months to 30 June 2017 £m	12 months to 31 December 2017 £m
IFRS unallocated divisible surplus	**4,050**	3,516	3,726
Valuation differences between IFRS and EEV			
- Goodwill and intangible assets	**(234)**	(245)	(239)
- Deferred tax valuation differences	**(5)**	(5)	(6)
- Subordinated debt at market value	**(88)**	(70)	(134)
- Subsidiaries valuation differences	**(2)**	(1)	(2)
Add items only included on an embedded value basis			
- Valuation of asset management and service subsidiaries	**168**	197	126
Other valuation differences	**7**	70	89
EEV	**3,896**	3,462	3,560

Reconciliation of the IFRS transfer to unallocated divisible surplus to EEV profit for the period

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	12 months to 31 December 2017 £m
IFRS transfer to unallocated divisible surplus	**241**	224	434
Amortisation of intangible assets	**5**	5	11
Differences in valuation of subsidiaries	**42**	67	(5)
Change in value of subordinated debt	**46**	(18)	(82)
Movement in valuation differences for deferred tax assets	**1**	(3)	(4)
Other movements in valuation bases	**1**	41	60
EEV profit for the period	**336**	316	414