

Further Information

Business update

Scottish Life has performed very well with the level of new business in the period exceeding targets and achieving an increase in PVNBP of 62% over the same period last year. This increase in volume has been a key driver of the improvement in margin to 1.6%, compared to 1.1% at 2009 year end. The level of sales of individual 'at retirement' products was boosted by the change in the minimum pension age that became effective on 6 April 2010. However individual pension new business continued to grow strongly after the first quarter 'peak', with second quarter figures 53% up on the equivalent period in 2009.

In contrast, the protection market continues to be very challenging in the current difficult economic environment. Both of our protection businesses have reported reduced sales volumes as compared to the equivalent period in 2009, putting new business margins under pressure. However, despite this, Scottish Provident has improved its new business margin, this being delivered primarily through operating and reinsurance synergies driven out in the period.

Royal London Administration Services new business predominately relates to incremental business received from the DWP. These premiums are typically received between the months of May to August, and are subject to timing differences between each half year period. The increase in margin reflects the reassessment of servicing income on this business at the end of 2009.

Royal London (Retail) distributes products through Santander's retail network, and has continued to generate a healthy level of sales with improving margins. This distribution arrangement has a contractual break clause in June 2011, which Santander has exercised. Our proposals for a contract extension reflected our requirements for a reasonable rate of return on the anticipated future business. Over the past two years, Royal London has shown it has the capability to deliver successful retail propositions. The intention is now to identify other opportunities to profitably grow the retail arm of the Group's business.

Royal London 360° operates in the UK and selected international markets, and delivered an increase in new business volumes of 20% compared with the equivalent period in 2009. This is particularly pleasing as a number of the markets it operates in, such as Germany and the UK, continue to be very difficult in the current climate. On the back of the stronger new business, margins achieved by Royal London 360° showed a welcome improvement.

Summary new business table

Value of new business grossed up at the current rate of corporation tax	H1 2010 VNB £m	H1 2009 VNB £m	H1 2010 PVNBP £m	H1 2009 PVNBP £m	H1 2010 New Business Margin %	H1 2009 New Business Margin %
UK life and pensions	30.3	20.1	1,242	805	2.4	2.5
UK Protection	12.1	17.0	170	210	7.1	8.1
UK Retail	6.1	2.9	50	53	12.2	5.4
International	2.7	0.9	153	127	1.8	0.7
Total life and pensions	51.2	40.9	1,615	1,195	3.2	3.4

Capital and ratings

The Group has maintained its healthy capital position over the period with the regulatory surplus increasing by 13% to £1,164m from £1,026m at the end of 2009, improving the IGD cover ratio to 163% (end 2009: 160%).

Excess realistic working capital, under which our subordinated debt is treated as capital, increased by 4% to £1,929m. The introduction of the new investment strategy for the Royal London With-Profits Fund at the end of 2009 provides greater capital resilience against volatility in investment markets.

Throughout the period the Group has maintained a substantial excess over regulatory capital requirements. This stability has been supported in the improvement in the financial rating assigned to us from Standard & Poor's, which recently improved its rating for Royal London from 'A- stable outlook' to 'A- positive outlook'. Moody's rating for Royal London has been 'A2 stable' throughout the period.

Financial performance

The financial results have been presented on both an International Financial Reporting Standards (IFRS) basis and European Embedded Value (EEV) basis of reporting.

The EEV operating profit for the period was £111m, marginally up on the comparative period of £108m. The EEV result after tax was a loss of £47m, which is broadly equivalent to the reduction in the pension scheme surplus. Similarly the IFRS post-tax result for the period was a loss of £31m.

These results reflect an improved operating profit; increased contribution from new business; and an underlying fund performance that was ahead of benchmark.

Being a mutual, Royal London's results are, to a considerable degree, the results of a large with-profits fund. For this reason, the overall results are not directly comparable to those reported by proprietary insurance companies.

Proprietary insurers typically recognise one ninth of the bonuses allocated to with-profits policies, rather than a proportion of the investment return achieved in those funds. This proportion of policyholder bonus can be very different to the fund return in any given period.

In addition, the majority of proprietary companies back their shareholder reserves, with Government and high quality corporate bonds (which have recorded investment gains in the period) rather than equities (which have generally fallen in value over the same period). The assets backing the Royal London Fund contain a significant proportion of equities.

The IFRS results have been prepared for the consolidated Group. The investment return included within the income statement reflects assets backing both insurance and investment business for linked and non-linked contracts. Accordingly a significant proportion of this investment return is reflected within policyholder benefits and claims and it is for this reason that there has been a significant increase in the value of these policyholder benefits.

Investment performance

The Royal London With-Profits Fund, which (as noted above) is a principal driver of the Group's financial results, generated an investment return of 3.8%, which was 0.8% ahead of benchmark. This reflected positive performance from Government bonds, corporate bonds and, in particular, property, which achieved a 10.4% return in the six month period. This was partially offset by relatively poor returns from equity markets, both in the UK and overseas, with the fund recording negative returns of -5.7% and -2.9% respectively.

All of these asset classes outperformed their respective benchmarks.

Consolidated statement of comprehensive income for the six months ended 30 June 2010 – IFRS basis

	Notes	Six months ended 30 June		Year ended 31 Dec
		2010 £m	2009 £m	2009 £m
Revenues				
Gross earned premiums		563	586	1,099
Amounts paid to reinsurers		(163)	(162)	(317)
Net earned premiums		400	424	782
Fee income from investment and fund management contracts		78	62	142
Investment return		623	(623)	3,071
Other operating income		14	24	47
Total revenues		1,115	(113)	4,042
Policyholder benefits and claims				
Claims paid, before reinsurance		822	804	1,646
Reinsurance recoveries		(87)	(87)	(178)
Claims paid, after reinsurance		735	717	1,468
Decrease in insurance contract liabilities, before reinsurance		(85)	(1,195)	(334)
Reinsurance ceded		(101)	(59)	(84)
Decrease in insurance contract liabilities, after reinsurance		(186)	(1,254)	(418)
Decrease/(increase) in non-participating value of in-force business		2	115	(187)
Increase/(decrease) in investment contract liabilities		187	(145)	1,816
Total policyholder benefits and claims		738	(567)	2,679
Operating expenses				
Administrative expenses		205	182	411
Investment management expenses		54	87	142
Amortisation charges and impairment losses on acquired PVIF		75	52	166
Investment return attributable to external unit holders		(20)	(7)	97
Other operating expenses		49	100	42
Total operating expenses		363	414	858
Finance costs		16	22	44
Result before tax		(2)	18	461
Tax charge	3	29	16	51
Transfer (from)/to the unallocated divisible surplus		(31)	2	410
Profit for the period		-	-	-
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 for the period shown in the income statement.

Consolidated balance sheet as at 30 June 2010 – IFRS basis

	Notes	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
ASSETS				
Property, plant and equipment		43	32	38
Investment property		1,911	1,593	1,791
Intangible assets		1,128	1,248	1,161
Reinsurers' share of insurance contract liabilities		759	633	658
Pension scheme asset	4	15	6	60
Deferred tax asset		60	102	77
Current tax asset		-	10	-
Financial assets				
Financial investments		24,494	21,722	24,137
Loans and receivables, including insurance receivables		395	617	323
Cash and cash equivalents		2,716	2,434	3,132
Total financial assets		27,605	24,773	27,592
Total assets		31,521	28,397	31,377
LIABILITIES				
Participating insurance contract liabilities		9,637	9,020	9,685
Participating investment contract liabilities		1,502	1,373	1,520
Unallocated divisible surplus		2,080	1,703	2,111
Non-participating value of in-force business		(623)	(323)	(625)
Participating contract liabilities		12,596	11,773	12,691
Non-participating insurance contract liabilities		3,890	3,731	3,927
Non-participating investment contract liabilities		12,606	10,075	12,089
Non-participating contract liabilities		16,496	13,806	16,016
Subordinated liabilities	5	397	397	397
Payables and other financial liabilities		577	1,509	1,036
Provisions		102	60	83
Other liabilities		217	180	208
Liability to external unit holders		1,126	672	943
Current tax liability		10	-	3
Total liabilities		31,521	28,397	31,377

Consolidated statement of cash flows for the six months ended 30 June 2010 – IFRS basis

	Notes	Six months ended 30 June 2010 £m	2009 £m	Year ended 31 Dec 2009 £m
Cash flows from operating activities				
Transfer (from) / to the unallocated divisible surplus		(31)	2	410
Adjustments for non-cash items		361	1,071	(178)
Adjustments for non-operating items		16	19	44
Acquisition of investment property		(9)	(20)	(130)
Net (acquisition of) / proceeds from disposal of financial investments		(410)	(860)	661
Proceeds from disposal of investment property		24	66	125
Changes in operating receivables		(72)	(6)	236
Changes in operating payables		(463)	181	(226)
Change in liability to external unit holders		183	337	608
Net cash from operating activities before tax		(401)	790	1,550
Tax paid		(7)	(42)	(37)
Net cash flows from operating activities		(408)	748	1,513
Cash flows from investing activities				
Acquisition of property, plant and equipment		(5)	(2)	(9)
Net cash flows from investing activities		(5)	(2)	(9)
Cash flows from financing activities				
Repayments of other debt and finance lease liabilities		(11)	(3)	(3)
Interest paid		(16)	(19)	(44)
Net cash flows from financing activities		(27)	(22)	(47)
Net (decrease) / increase in cash and cash equivalents		(440)	724	1,457
Cash and cash equivalents at beginning of period		3,124	1,667	1,667
Cash and cash equivalents at end of period	6	2,684	2,391	3,124

An integral part of the operations of the Group is the management of a portfolio of investment assets. Cash flows relating to the purchase and sale of these assets have been treated as operating cash flows for the purposes of the statement of cash flows.

1. Basis of preparation

The IFRS financial information for the period ended 30 June 2010 has been prepared on the basis of the accounting policies that the Group expects to adopt for the 2010 year end. Those accounting policies are consistent with the accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 December 2009, except as set out below.

The following new and amended standards and interpretations have been applied for the first time in preparing the IFRS financial information for the period. None of these changes have had a material impact on the IFRS financial information:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements',
- Amendments to IAS 39 and IFRIC 9, 'Reassessment of Embedded Derivatives'.
- Amendment to IFRS 2, 'Group cash-settled share-based payment transactions'.
- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009.
- 'Additional exemptions for first-time adopters' (Amendment to IFRS 1), issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010.
- Improvements to International Financial Reporting Standards 2009, issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

The accounting policies adopted are consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union. The Group has not applied International Accounting Standard 34, 'Interim Financial Reporting' in preparing the 2009 IFRS financial information, as this standard is not mandatory for the Group.

The IFRS financial information for the six months to 30 June 2010 and 2009 is unaudited, but has been reviewed by the auditors, PricewaterhouseCoopers LLP. The IFRS financial information for the full year 2009 has been taken from the Group's 2009 Annual Report and Accounts, which have been delivered to the Registrar of Companies. The auditors have reported on the 2009 Annual Report and Accounts and their report was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. Segmental information

The Group Board of Directors makes strategic and resource decisions concerning the Group's businesses at the level of the Group as a whole. At an operational level, the Group maintains two distinct pools of resources and capital – one for its UK business and the other for its offshore business. Consequently, the Group has reported two segments – UK and International. These segments comprise life insurance, long-term health and accident insurance, savings and pensions business written in territories within the UK and outside the UK respectively.

The Group operates within the UK financial services market through a number of brands, as set out in the Business Review. The resources and capital that support these brands are managed for the UK business as a whole. The brands do not themselves have distinct resources or capital allocated to them. Key strategic and resource allocation decisions are therefore made at the level of the UK business as a whole and not at the level of the individual brand and therefore the brands have not been reported as separate segments.

The segmental income statement and segmental assets and liabilities are reconciled to the Group's income statement and balance sheet in the tables below. 'Other Group Activities' includes consolidation adjustments and those subsidiaries not considered to be operating segments.

(a) Segmental statement of comprehensive income

	Six months ended 30 June 2010		
	UK £m	International £m	Total £m
Revenues			
Net earned premiums	380	20	400
Fee income	73	5	78
Investment income	604	19	623
Other income	14	-	14
Total revenues	1,071	44	1,115
Claims paid, after reinsurance	711	24	735
Change in insurance contract liabilities, after reinsurance	(185)	(1)	(186)
Change in non-participating value of in-force business	2	-	2
Change in investment contract liabilities	183	4	187
Depreciation of property, plant and equipment	2	-	2
Amortisation charges and impairment losses on intangible assets	78	(3)	75
Other operating expenses	273	13	286
Finance costs	16	-	16
Total expenses	1,080	37	1,117
Result before tax	(9)	7	(2)
Tax	29	-	29
Transfer (from) / to the unallocated divisible surplus	(38)	7	(31)
Profit for the period	-	-	-
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	-	-

	Six months ended 30 June 2009		
	UK £m	International £m	Total £m
Revenues			
Net earned premiums	407	17	424
Fee income	59	3	62
Investment income	(593)	(30)	(623)
Other income	23	1	24
Total revenues	(104)	(9)	(113)
Claims paid, after reinsurance	702	15	717
Change in insurance contract liabilities, after reinsurance	(1,246)	(8)	(1,254)
Change in non-participating value of in-force business	115	-	115
Change in investment contract liabilities	(113)	(32)	(145)
Depreciation of property, plant and equipment	1	-	1
Amortisation charges and impairment losses on intangible assets	52	-	52
Other operating expenses	346	15	361
Finance costs	22	-	22
Total expenses	(121)	(10)	(131)
Result before tax	17	1	18
Tax	16	-	16
Transfer to the unallocated divisible surplus	1	1	2
Profit for the period	-	-	-
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	-	-

	Year ended 31 December 2009		
	UK £m	International £m	Total £m
Revenues			
Net earned premiums	741	41	782
Fee income	134	8	142
Investment income	2,929	142	3,071
Other income	45	2	47
Total revenues	3,849	193	4,042
Claims paid, after reinsurance	1,429	39	1,468
Change in insurance contract liabilities, after reinsurance	(478)	60	(418)
Change in non-participating value of in- force business	(179)	(8)	(187)
Change in investment contract liabilities	1,766	50	1,816
Depreciation of property, plant and equipment	4	-	4
Amortisation charges and impairment losses on intangible assets	154	12	166
Other operating expenses	653	35	688
Finance costs	44	-	44
Total expenses	3,393	188	3,581
Result before tax	456	5	461
Tax	51	-	51
Transfer to the unallocated divisible surplus	405	5	410
Profit for the period	-	-	-
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	-	-

(b) Segmental assets and liabilities

	30 June 2010		Total
	UK £m	International £m	£m
Total assets	29,495	2,026	31,521
Total liabilities	29,495	2,026	31,521
	30 June 2009		Total
	UK £m	International £m	£m
Total assets	26,563	1,834	28,397
Total liabilities	26,563	1,834	28,397
	31 December 2009		Total
	UK £m	International £m	£m
Total assets	29,361	2,016	31,377
Total liabilities	29,361	2,016	31,377

3. Tax charge

	Six months ended 30 June		Year ended 31 Dec
	2010	2009	2009
	£m	£m	£m
Taxation has been provided as follows:			
UK corporation tax charge			
- Current period	6	1	3
- Adjustments in respect of prior periods	-	2	9
	6	3	12
Foreign tax partially relieved against UK corporation tax	6	7	8
Deferred tax	17	6	31
	29	16	51

4. Pension scheme

The Group operates one main funded defined benefit scheme, Royal London Group Pension Scheme ('RLGPS'). On 1 September 2005, this scheme was closed to new entrants. The Group has established a contributory, defined contribution arrangement for new employees joining the Group after that date.

(a) Amounts recognised in the balance sheet.

	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
Fair value of plan assets	1,743	1,532	1,725
Pension scheme obligations	(1,728)	(1,526)	(1,665)
Net pension scheme asset	15	6	60

(b) Amounts recognised in the statement of comprehensive income

	Six months ended 30 June 2010 £m	30 June 2009 £m	Year ended 31 Dec 2009 £m
Current service cost	7	5	10
Interest cost on pension scheme liabilities	48	47	95
Expected return on plan assets	(48)	(42)	(85)
Actuarial losses	28	74	128
Past service cost / (credit)	10	-	(106)
Net expense recognised in the statement of comprehensive income	45	84	42

The net expense recognised is included within other operating expenses.

5. Subordinated liabilities

	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
Perpetual Cumulative Step-up Subordinated Guaranteed Notes	397	397	397

Perpetual Cumulative Step-up Subordinated Guaranteed Notes

On 14 December 2005 RL Finance Bonds plc, a wholly owned subsidiary of the Parent company, issued the Perpetual Cumulative Step-up Subordinated Guaranteed Notes. The issue price of the Notes was 99.676% of the principal amount of £400m. The discount and the directly related costs incurred to issue the Notes of £4m have been capitalised as part of the carrying value and are being amortised on an effective interest basis over the period to the first possible redemption date. The Notes are guaranteed by the Parent company. The proceeds of the issue were loaned to the Parent company on the same interest, repayment and subordination terms as those applicable to the Notes.

The Notes have no maturity date but the issuer has the option to redeem all of them at their principal amount on 15 December 2015 and at three monthly intervals thereafter. Interest is payable at a fixed rate of 6.125% per annum for the period to 15 December 2015, payable annually in arrears on 15 December each year. If the Bonds are not redeemed on 15 December 2015 the interest rate will be re-set on that date and at three monthly intervals thereafter, at a rate equal to the offered three month sterling deposit rate quoted on the interest re-set date, plus 2.45%. Following the first interest re-set date, interest becomes payable three monthly in arrears on 15 March, 15 June, 15 September and 15 December in each year.

6. Cash and cash equivalents

The cash and cash equivalents for the purposes of the cash flow statement are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

7. Contingent liabilities

Regulatory reviews

During the period, the Group continued to address issues from past inappropriate selling practices and other regulatory matters. The directors consider that they have made prudent provision for any liabilities arising and, as and when the circumstances calling for such provision arise, that the Group has adequate reserves to meet all reasonably foreseeable eventualities.

8. Reconciliation of the IFRS unallocated divisible surplus to the EEV

	30 June 2010 £m	30 June 2009 £m	31 Dec 2009 £m
IFRS unallocated divisible surplus	2,080	1,703	2,111
Less items only included on an IFRS basis			
- Goodwill and intangible assets	(333)	(358)	(342)
Add items only included on an embedded value basis			
- Valuation of subsidiaries	31	10	(2)
Other valuation differences	16	121	73
EEV	1,794	1,476	1,840

9. Reconciliation of the IFRS transfer (from) / to the unallocated divisible surplus to the EEV (loss) / profit for the six months to 30 June 2010

	Six months ended 30 June	
	2010 £m	2009 £m
IFRS transfer (from) / to the unallocated divisible surplus	(31)	2
Less items only included on an IFRS basis		
- Movement in deferred tax asset	17	7
Add items only included on an embedded value basis		
- Movement in the value of future profits within non-insurance subsidiaries	(9)	(23)
Movement in other valuation differences	(24)	54
EEV (loss) / profit after tax	(47)	40

Consolidated Income Statement – EEV Basis
(for the six months to 30 June 2010)

	Six months ended		
	30 June 2010 £m	30 June 2009 £m	Full year 2009 £m
Contribution from new business	40	39	63
Profit from existing business			
– expected return	45	42	114
– experience variances	13	2	(34)
– operating assumption changes	2	(28)	(66)
Expected return on opening net worth	13	2	4
Profit on uncovered business	5	7	15
Other items	(7)	44	75
Operating profit before tax	111	108	171
Economic experience variances	(28)	(125)	234
Economic assumption changes	(64)	258	183
Pension scheme	(53)	(84)	(30)
Financing costs	(13)	(21)	(35)
Mutual dividend	-	-	(26)
Impact of acquisition of Resolution businesses	-	(57)	(62)
Other items	-	(30)	-
EEV (loss) / profit before tax	(47)	49	435
Attributed tax charge	-	(9)	(31)
EEV (loss) / profit after tax	(47)	40	404

Consolidated Balance Sheet – EEV Basis
(as at 30 June 2010)

	30 Jun 10 £m	30 Jun 09 £m	31 Dec 09 £m
Assets			
Assets held in closed funds	7,090	6,774	7,064
Assets backing non-participating liabilities	14,779	11,479	14,472
Reinsured liabilities	749	611	646
Assets backing participating liabilities and net worth:			
UK equities	1,410	1,267	1,489
Overseas equities	294	247	315
Land & buildings	842	689	825
Approved fixed interest securities	1,600	1,550	1,524
Other fixed interest securities	1,183	1,133	1,145
Other assets	482	1,211	1,026
Value of in-force business	1,238	1,094	1,283
Pension scheme surplus	15	6	60
Total	29,682	26,061	29,849
Liabilities			
Liabilities in closed funds	7,090	6,774	7,064
Non-participating liabilities	14,779	11,479	14,472
Reinsured liabilities	749	611	646
Participating liabilities	4,650	4,413	4,679
Current liabilities	620	1,308	1,148
Total	27,888	24,585	28,009
Embedded Value			
Net worth	541	376	497
Value of in-force business	1,238	1,094	1,283
Pension scheme asset	15	6	60
Total	1,794	1,476	1,840

EEV profit commentary for the half year ended 30 June 2010

Life and pensions policies are long-term products where the profit margins emerge over many years. In order to provide readers of accounts with a better understanding of the financial dynamics of transacting such business, proprietary companies have in recent years provided supplementary “Embedded Value” disclosure. The embedded value of a company is defined as its net assets plus the present value of future profits expected to emerge over the lifetime of the business in-force. The change in the embedded value over the year is a company’s EEV result.

We have used a market consistent approach, which is becoming the industry standard, with a discount rate equal to the risk-free return available at 30 June 2010 of 3.95% (31 December 2009 4.45%). We have also taken credit for the expected future profits from our administrative service company arrangements on in-force business and the additional franchise value in our asset management business from managing our in-force life and pensions assets.

The embedded value at 30 June 2010 was £1,794 million (31 December 2009 £1,840 million). The majority of the embedded value comprises the Realistic Balance Sheet surplus, which was £1,688 million at 30 June 2010 (31 December 2009 also £1,688 million).

Contribution from new business

The contribution from or value of new business (VNB) is the present value of the projected stream of profits from that business. The VNB of £40m (H1 2009 £39m) shown in the EEV Income Statement is the value before tax at Royal London’s tax rate of 6%. It is common for proprietary companies to present the value of new business grossed up for tax at the current rate of corporation tax (28%). For comparability with results published by proprietary companies, the analysis of our VNB in the following table has been similarly grossed up at the appropriate rate of corporation tax. The new business margin represents the ratio of the new business contribution to present value of new business premiums (PVNBP).

The VNB can be split between our businesses as follows:

Value of new business grossed up at the current rate of corporation tax	H1 2010 VNB £m	H1 2009 VNB £m	H1 2010 PVNBP £m	H1 2009 PVNBP £m	H1 2010 New Business Margin %	H1 2009 New Business Margin %
Scottish Life	17.7	10.8	1,127	694	1.6	1.6
Bright Grey	3.2	7.4	75	96	4.3	7.7
Scottish Provident	8.9	9.6	95	114	9.4	8.4
Royal London 360 ⁰	2.7	0.9	153	127	1.8	0.7
Royal London Administration Services	12.6	9.3	115	111	11.0	8.4
Royal London (Retail)	6.1	2.9	50	53	12.2	5.4
Total life and pensions	51.2	40.9	1,615	1,195	3.2	3.4
Royal London Asset Management	1.1	7.5	1,325	813	0.1	0.9
Total	52.3	48.4	2,940	2,008	1.8	2.4

Scottish Life results in H1 2010 are up 62% in volume terms compared to H1 2009 with margins steady. Individual pensions and Income Release were particularly strong with group pensions remaining challenging.

The Bright Grey and Scottish Provident results reflect the continued difficult economic conditions for protection business with volumes a little down on H1 2009.

The H1 2010 result for RL 360⁰ is an improvement on H1 2009 reflecting better investment sentiment and elimination of the acquisition expense overrun due to higher new business volumes.

The Royal London Administration Services business is mainly incremental income to the legacy book with low attaching expenses of acquisition, making it relatively profitable business.

Royal London (Retail) business is sold via Santander's retail network and the contribution from new business is significantly up on H1 2009. Certain investment products sold in the first half of 2009 were only appropriate to the tax position prior to acquisition by Royal London and these have now been withdrawn. In addition, the newly launched guaranteed lifetime plan is helping to improve margins.

The volume of new asset management mandates acquired by RLAM was significantly up on H1 2009 although at the cost of lower margins reflecting the competitive market. The margin was particularly depressed by a small number of very large, low margin cases which will require minimal ongoing management.

Profit from existing business

Profit from existing business comprises:

- The expected return on the value of in-force business (VIF) at the start of the period, plus
- Profits and losses caused by differences between actual experience for the period and the assumptions used to calculate the embedded value at the start of the period, plus
- The impact of any changes in the assumptions regarding future operating experience.

Expected return on opening net worth

The expected return on opening net worth represents the expected investment return on the net worth over the period.

Profit on uncovered business

Profit on uncovered business has been valued on an IFRS basis, as used in the primary financial statements. A breakdown of the profit reported on uncovered business is shown in the table below:

	H1 2010	H1 2009	Full Year 2009
	£m	£m	£m
General insurance	5	8	15
Annuity commissions	1	1	4
Fundsdirect/Ascentric	(2)	(3)	(5)
Cash management	1	1	1
Total	5	7	15

Other items

Other items represent a combination of:

- Exceptional development costs, which are typically investments in systems made to improve future EEV profits (for example by reducing on-going expense levels or increasing new business volumes)
- Corporate costs
- Other exceptional items, for example, modelling changes.

A breakdown of these items is shown in the table below:

	H1 2010	H1 2009	Full Year 2009
	£m	£m	£m
Exceptional development costs	(6)	(8)	(16)
Corporate costs	(5)	(6)	(25)
Other	4	58	116
Total	(7)	44	75

The 'Other' figure for the full year 2009 included a number of one-off items, principally the benefit of implementing the new investment strategy in the with-profit funds, a reattribution of assets between the open fund and the closed Scottish Life fund and a number of other changes to improve the modelling of policy-related liabilities.

Economic experience variances

This shows the impact of actual investment returns relative to those assumed. Economic experience variances have an impact on both the VIF and the net worth.

The economic experience variance on the VIF arises from the decrease in policy values in which Royal London has an interest by way of charges. The economic experience variance on the net worth represents the impact that investment returns being different to those anticipated has on:

- The value of the opening net worth
- The value of financial options and guarantees (*)
- The value of the assets backing the financial options and guarantees (*)

(*) Excluding those movements due solely to changes in the yield curve, which have been offset against the movement in the value of assets caused by the shift in the yield curve.

The value of the second and third items above is far more significant for Royal London, as a mutual insurance company, than would be the case for an equivalent proprietary company, whose interest in the surplus in its with-profit funds is restricted, typically to 10% of the distributable surplus.

Overall, the returns achieved on the underlying assets in H1 2010 were slightly less than those assumed. Equities performed poorly although this was offset by reductions in yields which caused the market value of our fixed interest assets to rise. Economic experience variance was therefore a negative contribution to the overall EEV result reported for the period.

Economic assumption changes

Long-term economic assumptions were revised to take into account the financial conditions at the end of the period. The changes included a decrease in the discount rate used to reflect the decrease in risk-free rates and updated assumptions to value the cost of guarantees and options.

Pension scheme

This represents the movement in the surplus of the defined benefit Royal London Group Pension Scheme less the cost of paying discretionary benefits in the period. On an IFRS basis the scheme had a surplus of £15m at 30 June 2010 (31 December 2009: £60m).

Financing costs

In December 2005 Royal London raised £395m (after expenses) of subordinated debt, which carries a coupon of 6.125% per annum. The cost of servicing the debt over the six month period is £12m and is included as a financing cost.

The Royal London Retail business includes a block of guaranteed investment bonds which is backed by structured products. Cash collateral is held against these structured products. The interest of £1m payable on this cash collateral during the year is included as a financing cost. This cost is offset by interest income earned on the related cash deposits which is included within the investment return.

Impact of acquisition of Resolution businesses

The amounts for 2009 included various amendments to the methodology and models previously used by Resolution before Royal London acquired the business, in order to bring them in line with Royal London's practices.

Other items

	H1 2010 £m	H1 2009 £m	Full Year 2009 £m
Acquisition related modelling changes	-	(38)	-
DWP treated as one contract	-	8	-
Total	-	(30)	-

Notes to the EEV financial information for the six months ended 30 June 2010

1. Basis of preparation

The EEV results in this document have been prepared in accordance with the EEV Principles and the Additional Guidance issued in 2005 by the CFO Forum. They provide supplementary information for the 6 months to 30 June 2010 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 Principles and Guidance 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 and Guidance accordingly. With-profits policies held by members do not generally contribute to the value of in-force business. However, the liabilities associated with these contracts are deducted from total assets to arrive at net worth. Hence, any movement in liabilities not matched by a corresponding movement in assets will change the net worth and flow through the income statement. The reported embedded value provides an estimate of Royal London's value to its members.

2. EEV methodology

The EEV basis of reporting is designed to recognise profit as it is earned over the term of the policy. The total profit recognised over the lifetime of the policy is the same as that recognised under the IFRS basis of reporting, but the timing of recognition is different.

For the purposes of EEV reporting, the Group has adopted a market-consistent methodology. Within a market-consistent embedded value (MCEV) framework, assets and liabilities are valued in line with market prices and consistently with each other. In principle, each cash flow is valued using a discount rate consistent with that applied to such a cash flow in the capital markets.

3. EEV assumptions

i) Principal economic assumptions – deterministic.

Economic assumptions are actively reviewed and are based on the prevailing market yields on risk-free assets at the valuation date.

	H1 2010	H1 2009
	%	%
Risk-free rate	3.95	4.10
Retail Price inflation	3.25	3.00
Expense inflation	4.25	4.00

ii) Principal economic assumptions – stochastic.

The value of financial options (including premium rate guarantees and guaranteed annuity options, smoothing costs and future deductions from asset shares) are calculated using market-consistent techniques. Market-consistency is achieved by running a large number of economically credible scenarios through a stochastic valuation model. Each scenario is discounted at a rate consistent with the individual simulation. The economic scenarios achieve market-consistency by:

- Deriving the underlying risk-free rate from the forward gilt curve, with a margin of 10 basis points to reflect empirical evidence that gilt yields may understate the true risk-free rate;
- Calibrating equity and interest rate volatility to observed market data by duration and price, subject to interpolation / extrapolation where traded security prices do not exist. We attempt to achieve the best possible fit, though modelling restrictions prevent this from being perfect.

The tables below show the implied volatilities used in the modelling by asset class:

H1 2010					
	Term (years)				
	5	10	15	20	30
15-year risk-free zero coupon bonds	11.0%	7.1%	4.7%	4.3%	6.5%
15-year AA-rated corporate bonds	12.2%	8.5%	6.3%	5.8%	7.4%
Equities	28.3%	28.9%	29.2%	29.6%	30.1%

H1 2009					
	Term (years)				
	5	10	15	20	30
15-year risk-free zero coupon bonds	11.1%	9.0%	6.9%	6.6%	5.1%
15-year AA-rated corporate bonds	12.5%	10.1%	8.3%	7.8%	6.3%
Equities	26.9%	28.3%	28.2%	27.6%	27.1%

iii) Expected returns in reporting period

For the purposes of calculating the expected returns over the period, allowance is made for risk premiums as set out in the following table:

	H1 2010	H1 2009
	%	%
Risk premium - equities	2.50	2.50
Risk premium – property	2.00	2.00

All other assets are assumed to earn the risk-free rate.

iv) Other assumptions

Demographic assumptions are regularly reviewed having regard to past, current and expected future experience, and any other relevant data. These are generally set as best estimate with an appropriate margin for adverse deviations.