

**Royal London Savings
Pillar 3 Disclosure**

2010 Report for the period ending
30th June 2010, based on
unaudited figures

Table of Contents

1 Introduction	3
2 Governance	5
3 Disclosure	6
4 Risk management objectives and policies	7
5 Capital resources	8
6 Notices	11

1. Introduction

Background

The Capital Requirements Directive (CRD) introduced the need for investment firms under this new legislative framework to publish certain information relating to their risk management and capital adequacy. Their aim is to promote market discipline by providing key data on risk exposures and risk management processes.

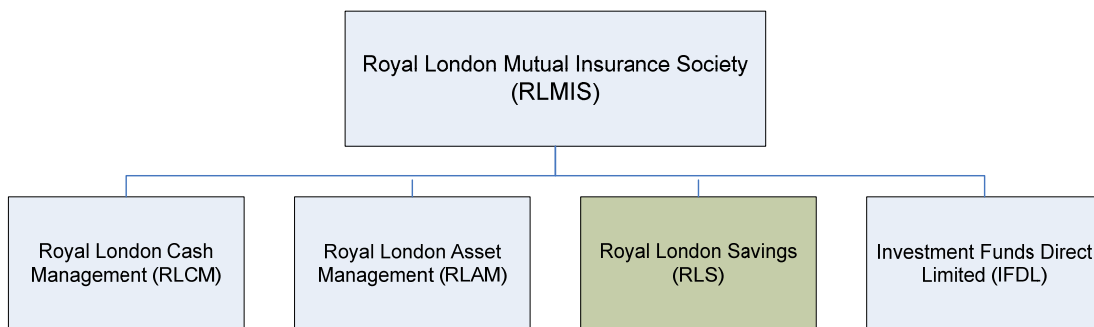
The disclosure of this information is known as Pillar 3 and is designed to complement the two other pillars of the CRD, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The disclosure has been prepared in accordance with the rules laid out in BIPRU 11 of the FSA Handbook.

The CRD three Pillars:

- Pillar 1 The minimum capital requirements, through the application of measurement rules, of firms to cover credit, market and operational risk;
- Pillar 2 Designed to compliment the existing Pillar 1 requirements by assessing the need to hold additional capital in relation to the actual risk profile of the business, which is achieved through the Internal Capital Adequacy Assessment Process (ICAAP), as reviewed by the Financial Services Authority (FSA);
- Pillar 3 A set of disclosure requirements which enable external parties to assess information on firm's risks, capital and risk management procedures and capital adequacy.

Scope

Royal London Savings (RLS) was established in November 1998 and is a subsidiary of the Royal London Mutual Insurance Society Limited (RLMIS). The Board is supported in its duties by the operation of staff within Royal London Asset Management (RLAM) and RLMIS to provide an appropriate level of oversight and governance. The structure below shows the subsidiaries of RLMIS which fall under the remit of the CRD:



The principal activities of the company were, initially, to act as the marketing associate for the sale of Individual Savings Account (ISA) products and to act as the ISA manager for those products. During 2004 the company ceased to sell ISA business and it now acts purely as an ISA manager for those products previously sold.

RLS manages the legacy book of ISA business previously sold by the direct sales force of RLMIS from 1999 to 2004. No new business is taken on and the only premium income received is commission on an on-going basis comprising increments to existing products.

ISA's originally had three components, namely Cash, Insurance and Stocks & Shares. In April 2005, the Insurance ISA component was amalgamated into the Stock and Shares component for HMRC purposes.

Whilst the administration of this book of business was originally undertaken internally within the Royal London Group, this activity has, in recent years, been outsourced. The administration of this book of business has been undertaken by Capita since 30th November 2005. RLS has been managed by RLAM since November 2003.

Summary

The Board concludes that RLS has sufficient financial resources in terms of both capital and liquidity, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

RLS firmly believes that capital charges do not represent an effective substitute for adequate and effective risk management processes. In this context, senior management have reviewed and enhanced the existing business control environment to make sure risks are managed in a more comprehensive and robust manner.

2. Governance

The RLS Board of Directors has responsibility for the overall risk governance and management of RLS. The RLMIS Board has ultimate responsibility to define the Royal London Group's risk appetite, benchmarks, tolerances and underlying limit controls.

As a wholly owned subsidiary of RLMIS, RLS will adhere to the risk management objectives and policies set out for companies within the Royal London Group. The Financial Statements to the Report and Accounts for RLMIS detail the governance structure in place for the Royal London Group companies and the approach taken to risk management generally. This specifically covers the Royal London Group's management of the various categories of risk faced by the Group.

This information can be found in the Report and Accounts for the Royal London Group and on the Corporate Governance section of the Royal London website at www.royallondongroup.co.uk.

The RLS Board of Directors will determine whether actual performance was above, below or in line with RLS's tolerance level. They determine whether any adjustments need to be made, either to the statement of risk appetite, budget or forthcoming business plan. The Royal London Group maintains a Risk Appetite statement which is applicable to all Royal London Group entities, including RLS.

The RLS Board is responsible for setting the RLS strategy and ensuring that all key risks are effectively and efficiently controlled. Systems of internal control are designed to ensure effective and efficient operations, including financial reporting, and compliance with laws and regulations. The RLS Board delegates responsibility for the implementation of the RLS strategy and the day to day management of risk to senior management working on its behalf.

It is the responsibility of RLAM's Risk & Compliance Department to provide appropriate advice and guidance, not restricted to operational matters. Further specialist or technical knowledge may be obtained from the Royal London Group Risk & Compliance Team or externally as circumstances dictate.

RLS is integral to the overall Royal London Group structure. Controls are reviewed by a number of independent governance committees within the Group and by a dedicated Risk & Compliance department within RLAM, Group Internal Audit as well as the firm's external auditors, who review the control environment within RLS.

3. Disclosure

This information has been prepared purely for the purpose of explaining the basis on which RLS has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements, and for no other purpose. It therefore does not constitute any form of financial statement on RLS nor does it constitute any form of contemporary or forward looking record or opinion of the RLS business.

These disclosures have been taken from historical and projected information and will be updated to reflect interim unaudited accounts for 2010 in the 2010 Internal Capital Adequacy Assessment Process (ICAAP).

RLS regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If RLS deems a certain disclosure to be immaterial, it may be omitted from this Statement.

RLS regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the firm's investments therein less valuable. Further, RLS must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

This information has been subject to internal review but has not been audited by the Group's external auditors.

Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis, the information contained in this document may not be directly comparable with other companies of a similar nature.

This Pillar 3 Disclosure Statement is available on RLMIS's website at www.royallondongroup.co.uk.

This disclosure document has been provided by RLS in accordance with the requirements of Pillar 3 and the BIPRU Chapter of the Financial Services Authority Handbook. Unless otherwise stated, all figures are as at 30th June 2010. Further disclosures will be issued on at least an annual basis, or more frequently in the light of relevant activity in the business.

4. Risk management objectives and policies

RLS, as a separate subsidiary of Royal London Mutual Insurance Society (RLMIS), follows the Governance principles and practices proscribed by the Group. The Group's approach to risk management can be found within the notes to the Annual Report and Accounts.

The ICAAP is an intrinsic component of the overall governance framework within RLS, involving significant integration between the risk and finance functions. The approach taken to completing the RLS ICAAP is closely aligned to that conducted for RLCM and RLAM using the knowledge and experience of key personnel involved in that work.

All functions supporting the RLS operation have participated and self assessed their own risks and these assessments are subject to challenge from the Risk & Compliance team. Senior management have acted proactively in identifying the material risks and assessing the capital requirements taking into account the future business and risk profile. The Board receives regular information to help it determine whether effective risk mitigation is being achieved. The ICAAP has historically been reviewed annually as part of the RLAM Risk & Compliance overall approach to planning risk management activities.

The ICAAP is formally reviewed by the Board and is further considered as part of the annual business planning cycle. Should business plans / significant re-positioning dictate, interim reviews will be undertaken. Management information will allow the Board to regularly monitor RLS's business against the ICAAP framework and use it to make adjustments throughout the year and when ever else this may prove necessary.

To support this process the following management information is provided to the executive members:

- Accounting reports to RLS Board

- Risk papers to RLS Board and Group Committees

- Meetings between Head of Risk & Compliance and Executive Directors

- Engagement of executive through scenario workshops

- Annual Strategic plan preparation and challenge.

5. Capital adequacy

In addition to the capital adequacy reporting requirements of the Financial Services Authority, RLS has prepared an ICAAP. The ICAAP, which sets out RLS's approach to assessing the adequacy of its internal capital combined with a range of stress testing scenarios, is subject to at least annual review by the RLS Board and any material events that may impact the ICAAP are subsequently raised at the appropriate Board Meeting.

RLS has adopted the basic approach in its measurement of operational risk; this is commonly referred to as the Basic Indicator Approach. Senior management intend to manage the RLS capital base so that the majority of assessed risks have sufficient capital provided to allow RLS to maintain its business without further capital injection. The Board meet regularly and receive financial reports on Pillar 1 and Pillar 2 capital availability.

The paragraphs below show RLS's defined risk categories and provides a statement of the level of risk exposure assessment, together with a summary of the risk mitigants in place where applicable.

5.1 Credit Risk

Credit risk is defined as the loss resulting from a counterparty's failure to repay amounts in full when due. The only counterparties that RLS has, which could potentially lead to credit risk, are the financial institutions with which RLS holds cash on deposit. However, significant amounts are not held with any individual institution.

5.2 Market risk

RLS does not hold investments in its own name and as a Limited Licence Investment Firm, it does not typically hold the necessary permissions to trade on its own behalf. Therefore the exposure to market risk is small.

No capital is set aside for Market Risk in either Pillar 1 or 2.

5.3 Operational Risk

Operational risk is the risk of loss / negative impact to RLS resulting from inadequate or failed internal processes, people and systems or from external events (such as regulation, sector environment). This includes legal and financial crime risks.

These operational risks have been identified through assessments and scenario analysis. Due to the nature of RLS' operations, the key operational risks for RLS are in relation to the outsourcing of key activities to:

- Royal London Group Functions, for the provision of Financial returns and compliance with regulatory requirements
- RLAM, with regard to the management of investments
- Capita, for administrative handling of the ISA book of business

A strong control environment, supported by skilled staff are designed to mitigate the possibility of these risks materialising. This ensures that regulatory returns and statutory accounts are promptly and accurately completed, SLAs setting out the quality of service to be provide to RLS are in place and monitoring of service standards are regularly undertaken.

5.4 Liquidity Risk

This represents the risk that adequate liquid funds are not available to settle liabilities or when the firm experiences sudden unexpected cash outflows. For the purposes of the ICAAP, the approach adopted by RLS has been incorporated into the projection of cash flows and the adaptation of these to stressed environments. The majority of RLS assets are held as cash on deposit and there is limited liquidity risk exposure. At a minimum, RLS holds sufficient Tier 1 capital in cash which provides assurance that enough liquid funds are available if this type of risk was to crystallise.

5.5 Concentration risk

Concentration risk is any single exposure or groups of exposures with the potential to produce losses large enough to threaten an institution's health or its ability to maintain its core business. It arises from 1) large (connected) individual exposures; 2) significant exposures to groups of counterparts, whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location and instrument type. As mentioned above no amounts held are significant enough to threaten the ability of RLS to continue business and there is no concentration in an individual counterparty.

5.6 Business Risk

The risk arises from changes in the firm's business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. In a narrow sense, business risk is the risk to a firm that it suffers loss because its income falls or is volatile relative to its fixed cost base. Other than a significant change in business strategy, probably leading to a wind down, RLS as a closed book of business does not deem it necessary to carry capital for business risk as volumes are expected to decrease over the next few years. The average monthly drop-off rate in 2009 has been calculated at -1.42% a month.

5.7 Interest Rate Risk arising from non trading activities

RLS is exposed to risks to earnings and capital arising from adverse movements in interest rates. RLS holds cash deposits; the interest income from which is affected by interest rates. Whilst the risk is acknowledged, it is considered that any movements in interest rates are unlikely to have a material impact on RLS.

5.8 Pension Obligation Risk

RLMIS has set aside capital for pension risk. RLS staff are employed by Royal London Management Services for the purposes of pay and benefits and the risks associated with their pension entitlements are reviewed as part of that assessment.

5.9 Contagion risk

The impact of contagion across businesses through the crystallisation of a risk event in one business entity giving rise to a cost or loss in another, through, for example, financial links or investor sentiment is common in Groups than share brands.

Royal London Group carry a disparate number of brands, products, market sectors and legal entities that do

not reflect a uniform front that would be materially impacted by contagion.

In addition all of the BIPRU Companies within the Group conduct and operate different business models, under separate brands and each carries appropriate risk capital within their individual ICAAP.

Consequently it is not felt necessary to provide additional capital in this ICAAP.

5.10 Counterparty failure or exposure

The exposure within RLS is considered to be quite small, due to the small period of time between trading and settlement, and, as mentioned above, no amounts held are significant enough to threaten the ability of RLS to continue business and there is no concentration in an individual counterparty

5.11 Capital resources

Tier 1 capital after deductions is £3.5m which consists of paid up share capital of £2m following addition of £1.5m disclosed reserves and retained profits. The aggregate assessment of Pillar 2 capital required from the ICAAP prepared in June 2010 leaves an excess capital of £2.7m.

6. Notices

This Disclosure is based on RLS's ICAAP review dated 30th June 2010 and is subject to periodic review and update. The next formal review is scheduled for March 2011. The information contained in this disclosure has not been audited by RLAM's external auditors.

RLS is a subsidiary of the RLMIS and is authorised and regulated by the Financial Services Authority (reference number 191237). The registered office address of RLAM is, 55 Gracechurch Street, London EC3V 0UF.