

Financial
Sense
draws us
together

Members' Review 2010

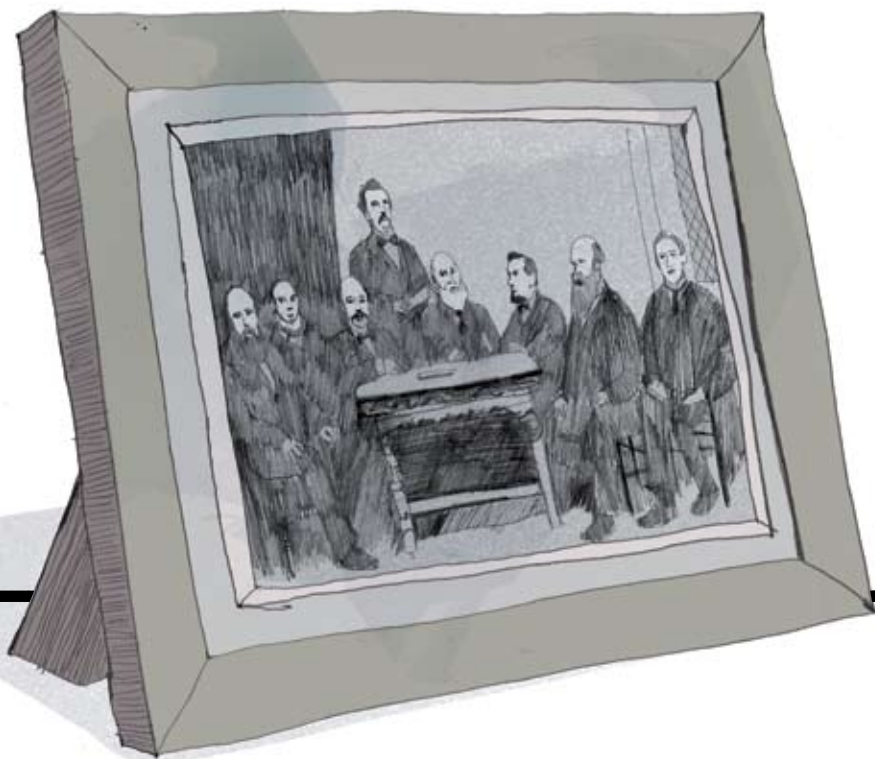
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Welcome to the [Members' Review 2010](#).

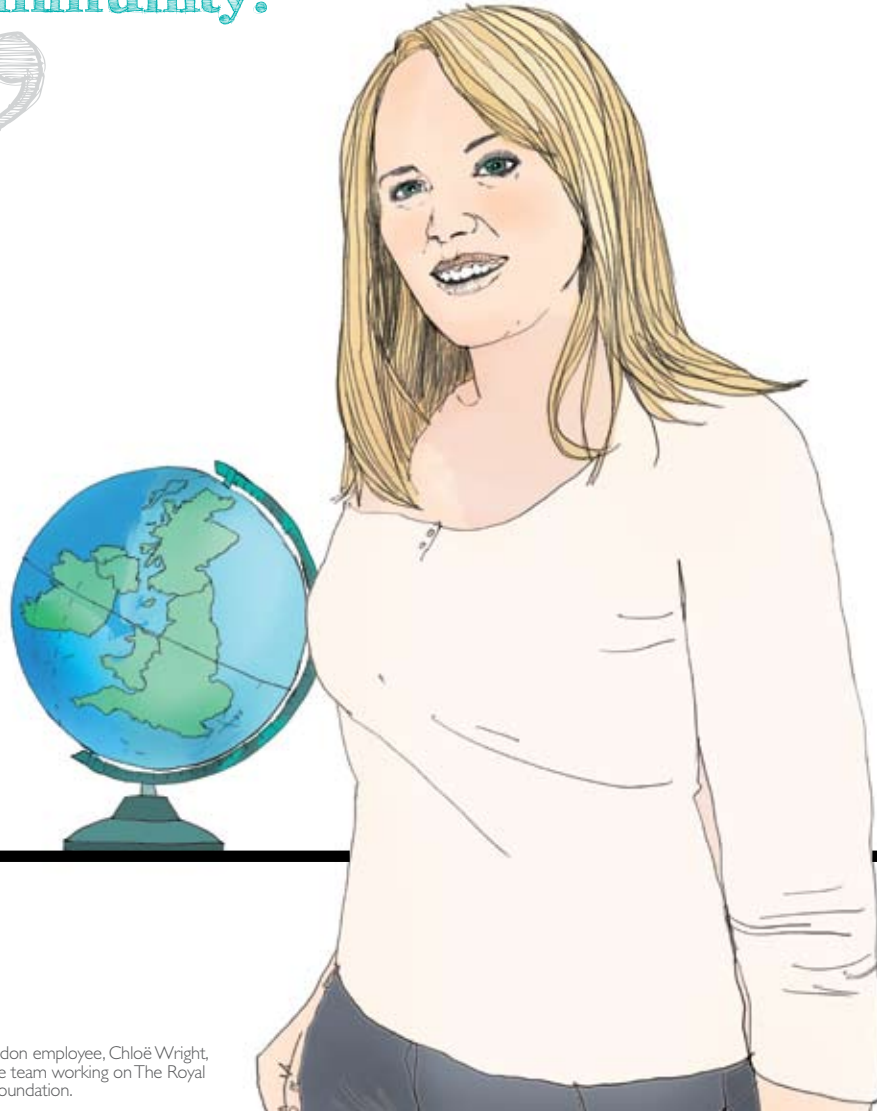
On 2 February 1861, Henry Ridge and Joseph Degge met in a London coffee shop. They decided to set up a company dedicated to helping people provide for their future.

Since then, Royal London has grown to become the UK's largest mutual life and pensions company. Our 150-year anniversary is a significant milestone and an opportunity to recognise the remarkable history of Royal London and the Group we are today.





The Foundation could help people in your community.



Royal London employee, Chloë Wright, part of the team working on The Royal London Foundation.

The Royal London Foundation

We're using the milestone of our 150th anniversary as an opportunity to honour our founders and the principles on which they launched Royal London.

We are delighted to announce the launch of 'The Royal London Foundation'.

The aim of the Foundation is to help people in your communities by supporting causes which you care about. As a member of Royal London, if you support a UK based local charity or project, you can nominate them to receive a grant.

The Foundation will focus on three core themes:

- **Education**
Causes which support the education of people of all ages, including skills to help those seeking employment
- **Elderly**
Causes which help older generations in their daily lives
- **Health**
Causes which provide health and fitness resources which people may not otherwise have access to.

Grants will be available to causes which meet the rules of eligibility. These can be found on the website below along with further details about the application process. To make a nomination you will need your customer reference number and email details for a contact at the cause. You can find your customer number on the front of the letter sent with this booklet.

Degge and Ridge Grant

Each year the Foundation will award a £25,000 grant to one extremely deserving cause. Called the 'Degge and Ridge Grant' in honour of our founders, each year it will focus on one of our core themes. For 2011 it will be awarded to a cause which works to help the elderly.

Do you have a special project you are trying to get off the ground? Do you need new facilities or equipment for your group? Please visit the Foundation website for more information.

royallondonfoundation.co.uk



Sound financial decisions have meant we now consist of a diverse range of businesses.



Review of the year

Royal London today, looks very different from the business in 1861. We started with two men in a coffee shop in 1861, issued the first with-profits policy almost 100 years ago and are now the UK's largest mutual life and pensions company. Growth through acquisition, investment and sound financial decisions have meant we now consist of a diverse range of businesses.

We established Royal London Asset Management (RLAM) as our dedicated fund management business in 1987. In 2000 we acquired United Assurance Group, formed from United Friendly and Refuge Assurance. Our pensions business, Scottish Life, was acquired in 2001. In 2003 we launched Bright Grey, a business specialising in protection insurance.

Ascentric and Fundsdirect were acquired in 2007, bringing new ways to provide customers with a clearer picture of how their entire portfolio is performing. Most recently, in 2008, we acquired new businesses including Scottish Provident, Scottish Provident International and Phoenix Life Assurance Limited. We merged Scottish Life International and Scottish Provident International in 2009 to form Royal London 360°.

We believe our mutuality continues to make financial sense and is just as relevant today as it was 150 years ago.

2010 saw the UK emerge, tentatively, from recession. The global markets performed well which enabled many of our funds to outperform expectations during the year. Although the UK economy remains fragile, we are pleased to say that during the year we have added value for the benefit of members and policyholders.

There have been many changes in our industry throughout the year; however we remain the UK's largest mutual life and pensions company. Now in our 150th year, we are certain it's our commitment to 'financial sense' which has seen us continue to be successful on behalf of our members and all our policyholders.

Mutual dividend

As a result of good performance in the year, we are pleased to announce the allocation of a mutual dividend of £85m for 2010 (2009 £25m). The mutual dividend is a discretionary mechanism that allows our with-profits policyholders to directly benefit from the performance of our business. This year the mutual dividend has been allocated as a permanent 2% enhancement of the asset shares of relevant policies.

Business performance and results

2010 has been a good year for Royal London. Even after the allocation of a mutual dividend, we have improved our capital strength on all measures.

Our profits for the year, although down on last year, reflect the positive investment returns across all major asset classes, the improvement in sales volumes – particularly in our pensions business Scottish Life – and the benefits of a cost and efficiency review completed during the year.

Capital Strength

	2010 £m	2009 £m
Available working capital	2,087	1,928
Available regulatory capital	3,890	2,734

Profitability

EEV result after tax	228	404
IFRS result after tax	189	410

Business highlights

Scottish Life individual pension new business was 48% higher than in 2009 at £1,550m. Considering market conditions, Scottish Life's growth in new group pension business of 26% in 2010 to £429m represents a satisfactory performance.

Protection new business of £457m continues to be adversely affected by the slow mortgage market. In the meantime, we are achieving considerable success in individual protection not related to mortgages, and our business protection sales have enjoyed a significant increase in volume.



RLAM attracted net new assets of £1.1bn, an increase of over 92% on 2009.



Royal London 360° delivered a substantial increase in new business volumes of 39% in 2010.

RLAM attracted net new assets of £1.1bn, an increase of over 92% on 2009. Royal London Cash Management's (RLCM) net new business of £34m (2009 £120m) was disappointing, but understandable given the return to favour of 'risk' assets in the improved economic climate. Ascentric generated £1,217m of new business (2009 £421m), a considerable increase of 189%. Assets under administration at Ascentric increased by 119% during 2010, exceeding the £2bn mark.

Customer Impact

For the fifth year running we have taken part in the Customer Impact Survey with the Association of British Insurers (ABI) to find out what our customers think about us. Four of our businesses took part in the survey this year; Bright Grey, Scottish Life, Royal London Plus and Scottish Provident.

Awards

The dedication of each of our businesses to provide the best products and services is recognised externally throughout the year. During 2010 our businesses won over 20 awards, something which reflects the hard work of our people and the success of our propositions.

Total available working capital

£2,087m

For example, Scottish Life was voted 'Best in Service' in the life and pension's category in this year's Financial Adviser Awards and also retained the 5-star Award it gained for 'Excellent Service' in 2009. RLAM, our asset management business, won numerous awards including 'Best Pooled Fund Manager' at the UK Pensions Awards and 'Winner of Insurance Company Life Funds (above £1bn)' at the IPD/IPF UK Property Investment Awards. Our protection businesses, Bright Grey and Scottish

Provident, both attained awards with Investors in People as well as '5-Star ratings for critical illness products' from Defaqto.

Royal Liver update

As highlighted in last year's AGM mailing, we have been in discussions with Royal Liver regarding a transfer of their business to Royal London. Royal Liver is an incorporated friendly society and a

mutual company. If the proposed transfer goes ahead, it would bring an additional £3bn in assets to Royal London.

For the proposed transfer to go ahead it must first be approved by a number of regulatory bodies, including the UK Financial Services Authority and the Central Bank of Ireland. We also need Irish competition clearance and confirmation from the Royal Courts of Jersey and Guernsey that the local schemes have been sanctioned. It must also be approved by Royal Liver's delegates.

The Royal London Board believes the proposed transfer is a good opportunity to develop the Group further and that the two businesses fit well together.

Our discussions are continuing and we will make further announcements as soon as we can.



**We look forward to 2011
with confidence.**



Board changes

In August 2010 our Group Chief Executive, Mike Yardley, announced he will be stepping down from the Board and leaving Royal London. Mike has held this role for 13 years and we wish him all the very best for his future. We are very pleased to advise that we have appointed Phil Loney as our new Group Chief Executive. Phil will join us from Lloyds Banking Group where he is currently Managing Director; Life, Pensions and Investments. Phil's appointment is subject to approval by the Financial Services Authority. He will join us by October at the latest and Mike will step down as Group Chief Executive at the appropriate time. Andrew Palmer has been appointed a non-executive director with effect from 1 April 2011. Andrew was previously the finance director of Legal and General plc and brings with him a wealth of experience in insurance management.

2011

The economy looks set to remain tough for some time and there are plenty of regulatory changes ahead.

We are confident the changes to the Group's management team will continue to see Royal London delivering further growth and good performance for the benefit of our members and customers.

We look forward to the next year with confidence that our guiding principle of financial sense will ensure we continue to add value for our members, policyholders and all our stakeholders for the foreseeable future.

We remain the UK's largest mutual life and pensions company

Overall we achieved a return before tax and charges on the investments backing the asset shares of Royal London with-profits policies of

13.1%

The new investment strategy which we implemented on 1 January 2010 increased our working capital which was further improved by the good investment markets in the second half of 2010. Overall we achieved a return before tax and charges of 13.1% on the investments backing the asset shares of policies in the Royal London Open Fund.

Impact of lifestyling

By lifestyling we mean that the proportion of a policy's investments in company shares and

property reduces each year within the final 10 years to the policy's maturity or standard retirement date.

This means that the investment return added to the asset shares of Royal London policies for 2010 varies according to the number of years until the policy's maturity or pension date.

The table below shows example investment returns (before tax and charges) allocated to asset shares for 2010 for policies invested in the Royal London Open Fund.

Number of years to maturity or standard retirement date

Investment return added to asset share

15	13.9%
10	13.7%
5	12.6%
1	12.2%

Final bonuses

During 2010 we continued to review final bonuses quarterly and have narrowed the gap between maturity payouts and underlying policy values ('asset shares'). We now expect to review final bonuses less frequently in future unless investment or economic conditions are more volatile than we have currently assumed.

Maturity payouts

We expect maturity payouts on most policies maturing in 2011 to be higher than on similar policies maturing in 2010. Although payouts on some longer-term regular premium life policies

may be lower than on similar policies maturing in 2010, maturity payouts will still provide good and fair long-term returns.

Although longer-term regular premium life policies are now better aligned with asset share, we expect to continue to reduce maturity payouts because the asset shares of policies maturing in 2012 and beyond are likely to be lower than those of policies maturing now. However, if investment returns are good in 2011 we expect that payouts on shorter-term regular premium life policies may increase.

Total bonuses declared for all with-profits funds is

£164m



Our corporate responsibility programme works to support communities and the environment.



Royal London volunteer, Michele De-Mestres, who took part in the reading to children 'stepforward' project.

Corporate responsibility

Our corporate responsibility programme focuses on adding value in the community, looking after our environment, ensuring quality and excellence for our customers and investing in our people.

We ask our people to choose the charities and causes they want to support, whether they are national or local.

Macmillan Cancer Support has been our national charity partner since March 2009. We have worked hard to build a strong relationship with them and have raised £110,000 in the last two years. For 2011, Alzheimer's Research UK has been nominated to be our new national charity partner (alzheimersresearchuk.org).

You too can be a part of our fundraising efforts for Alzheimer's Research UK by completing your AGM proxy voting form online. You'll find information on the resolutions and the AGM itself on the letter sent with this booklet. For every proxy vote received, postal or online, we will donate 25p to Alzheimer's Research UK.

A great deal was achieved in our local communities in 2010 through our volunteering programme, 'stepforward'. 458 people took part in projects, totalling 3,650 hours. The Number and Reading Partners programme is a great example, where 15 volunteers from around the Group are helping to boost the learning skills of children in Edinburgh's Dalry Primary School. The volunteers

spend an hour a week playing numbers-based board games or reading with the children.

Our matched donation scheme supports individuals and teams in their own personal efforts, where up to £1,000 of sponsorship or fundraising will be matched by us. Over £33,000 has been donated in this way during 2010, recognising the part people have played in events such as the pub treasure hunt, 'Movember', sponsored zip slides, indoor putting, runs, walks and cycle rides, all to raise money for causes close to their hearts.

Our commitments go far beyond fundraising. As a Group we have worked to reduce our greenhouse gas emissions and energy consumption in 2010, we reduced our CO₂ usage in travel by 7.3%. More information can be found in the full Annual Report and Accounts or online at www.royallondongroup.co.uk

All our achievements would not be possible without the commitment and drive of our employees. Their hard work and dedication is our greatest asset and we thank them all.

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3,650
hours



FSC certified products are in compliance with high environmental and social standards for responsible forest management.