



ROYAL LONDON SAVINGS LIMITED

CAPITAL REQUIREMENTS DIRECTIVE

Pillar 3 Disclosure

Period ending 31 December 2017

Royal London Group consists of The Royal London Mutual Insurance Society Limited and its subsidiaries. All of the following companies are authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA). The Royal London Mutual Insurance Society Limited (registration number 117672) provides life assurance and pensions and is a member of the Association of British Insurers and the Association of Financial Mutuals. Royal London Savings Limited (registration number 191237) provides the Individual Savings Account. Royal London Unit Trust Managers Limited (registration number 144037) provides unit trusts. The Royal London Mutual Insurance Society Limited is registered in England and Wales number 99064. Registered office: 55 Gracechurch Street, London, EC3V 0RL, United Kingdom.

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1. Introduction

Background

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) are usually referred to together as CRD IV. They formalised the regulations for investment firms to disclose additional information relating to their risk management approach and capital adequacy. The aim is to promote market discipline by providing key data on risk exposures and risk management processes.

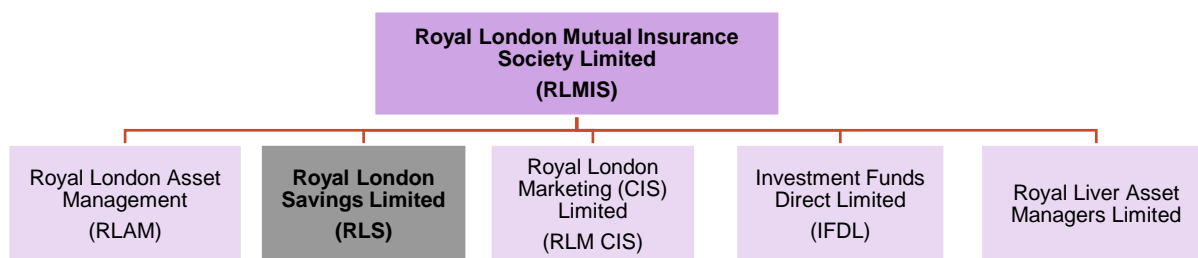
The disclosure of this information is known as Pillar 3 and is designed to complement the two other pillars of the CRD, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The disclosure has been prepared in accordance with the Capital Requirements Directive (CRD IV), Part Eight of the Regulations (Articles 431-455).

The CRD three Pillars:

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| 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 complement 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 Prudential Regulation Authority (PRA); |
| Pillar 3 | A set of disclosure requirements which enable external parties to assess information on firms' risks, capital and risk management procedures and capital adequacy. |

This statement is for the financial year ended 31 December 2016 and is produced on annual basis using the last audited financial results.

Royal London Savings Limited (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. RLS is subject to the prudential requirements of the EU's Capital Requirement Directive IV (CRD IV) and the Capital Requirements Regulation (CRR), the IFPRU sourcebook of the FCA and any relevant technical standards issued by the European Banking Authority (EBA). RLS is authorised and regulated by the Financial Conduct Authority (FCA) and is categorised as a non-significant investment firm under IFPRU 1.2.3. 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 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 since been outsourced. The administration of this book of business has been undertaken by Capita since 30th November 2005 and moved to Link Asset Services during 2017.

2. Governance

The FCA's Principle for Business No. 3 requires the Directors to take reasonable care to organise and control the affairs of the company responsibly and effectively, with adequate risk management systems.

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 on the Royal London website at www.royallondongroup.com.

The RLS Board of Directors will determine whether actual performance was above, below or in line with RLS' 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 the Royal London Group Risk & Compliance department to provide appropriate advice and guidance, not restricted to operational matters. RLS is integral to the overall Royal London Group structure. Controls are reviewed by a number of independent governance committees within the Group, Internal Audit as well as the firm's external auditors, who review the control environment within RLS.

The remuneration policy of RLS is under the overall control of Royal London Group, with local oversight of a Remuneration Committee. Information on the remuneration policy, the link between pay and performance, and quantitative information can be found on the Royal London website at:

<http://www.royallondon.com/about/corporategovernance/remuneration/>

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 based on the year end statutory accounts as at 31 December 2017.

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 disclosure document has been provided by RLS in accordance with the requirements of Pillar 3 and Part Eight of the Capital Requirements Regulations (CRD IV) (Articles 431-455). Unless otherwise stated, all figures are as at 31st December 2017. 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 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, which may be accessed at <https://www.royallondon.com/about/annual-reports/2017-annual-reports/>

The ICAAP is an intrinsic component of the overall governance framework within RLS, involving significant integration between the risk and finance functions.

All functions supporting the RLS operation have participated and self assessed their own risks and these assessments are subject to challenge from Group Risk. 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 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' business against the ICAAP framework and use it to make adjustments throughout the year and whenever 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's of Risk & Compliance and Executive Directors
- Annual Strategic plan preparation and challenge

5. Capital Adequacy

In addition to the capital adequacy reporting requirements of the Financial Conduct Authority, RLS has prepared an ICAAP. The ICAAP, which sets out RLS' 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 capital availability.

The paragraphs below show RLS' defined risk categories and provide 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. All of RLS' investment holdings are in an open-ended investment company (OIEC); the investments are all short dated, highly liquid and high quality.

Credit risk relates to the possibility of one of the counterparties defaulting. This risk is deemed low as the OEIC invests in Asset/Mortgage Backed Securities with a minimum credit rating of AA-, as well as certificates of deposits, treasury bills, gilts/supranational and covered bonds (issued by banks and building societies) and corporate bonds (all investment grade).

Fees and other balances due from clients are regularly reviewed and the potential impact on the profit and loss account is evaluated on a monthly basis. All amounts that have been recognised to be at risk or overdue for more than 90 days, are monitored regularly, but, as the majority of fees are deducted from funds under management, there is no history of RLS being unable to recover debts.

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 no amounts held are significant enough to threaten the ability of RLS to continue in business and there is no concentration in an individual counterparty. In addition, the Counterparty Credit and Liquidity Risk Committee (CCLRC) meet on a frequent basis and one of its major focuses is the review of counterparty exposure to ensure that ratings and exposures are appropriate in the current market conditions. Close and continuous monitoring of counterparties continues on a local level, and procedures for immediate escalation to CCLRC members are in operation.

Concentration risk

Concentration risk is any single or group of exposures that may have the potential to produce losses large enough to threaten an institutions' health or ability to maintain its core business. This includes large (connected) individual exposures or 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. No amounts held are significant enough to threaten the ability of RLS to continue business and there is no concentration in an individual counterparty. As a result the nature of RLS' business gives rise to low exposure to this risk.

5.2. Market Risk

Market risk is the risk of loss arising from fluctuations in the value of assets or income. RLS does not hold investments in its own name and as a Limited License Investment Firm does not hold the necessary permissions to trade on its own behalf. Therefore the exposure to market risk is small. Where RLS is exposed to the impact of market changes is through its funds under management which are managed on its behalf by RLAM via OEICS and With Profit Funds. The impact of these market movements on RLS' fee income is considered within the stress tests. 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 or 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 as well as operational oversight
- RLAM/Consumer, with regard to the management of investments and operational oversight
- Third Party outsourcers for administrative handling of the ISA book of business

A strong control environment, supported by skilled staff is 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 provided 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 in high quality, highly liquid, short-dated cash instruments 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 were to crystallise.

5.5. Business Risk (earnings and costs)

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.

5.6. 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.

5.7. Pension obligation risk

This type of risk is caused by the firm's contractual or other liabilities to, or with respect to, a pension scheme. RLS does not have direct employees and is not directly impacted by this risk.

5.8. 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 that share brands. During 2013 and 2014 significant work was undertaken within the Royal London Group in developing a common brand which increases the exposure to contagion risk. However, RLS is a company in run-off maintaining its own policies and procedures and is supported by RLAM with a discrete investment management business and is therefore unlikely to be affected by contagion risk. In addition, all of the IFPRU/BIPRU companies within the Group operate different business models and each carries appropriate risk capital within its individual ICAAP.

5.9. Capital requirement

As at the end of 2017, RLS' Pillar 1 capital requirement was £0.8m being the higher of its fixed overhead requirement, the total of its credit risk and market risk requirements and the wind-down scenario.

The fixed overhead requirement is calculated at 25% of relevant expenditure. Credit risk is calculated using the Risk Weighted Assets Approach as per the relevant CRR articles. The credit risk exposure values are calculated according to the table below: -

	Risk weighting	Value (£m)
Current assets	20% - 75%	
Total at 8% capital requirement		0.1

The wind-down scenario is determined as £0.8m and is the biting value for the Pillar 1 capital requirement.

5.10. Capital resources

Tier 1 capital after deductions is £4.0m which consists of paid up share capital of £2m following addition of £2.0m disclosed reserves and retained profits.

Tier	Element	£000's
Tier 1	Paid up share capital	2,000
	Disclosed reserves & current year's retained profits (verified by external audit)	2,007
	Total Tier 1 Capital	4,007
Tier 2	Total Tier 2 Capital	-
	Total deductions	-
	Total capital base	4,007

Summary

The Board has concluded 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.

6. Notices

This Disclosure is based on RLS' ICAAP review dated June 2018 and is subject to periodic review and update. The next formal review is scheduled for June 2019. The information contained in this disclosure has not been audited by RLS's external auditors.

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

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