



ROYAL LIVER ASSET MANAGERS LIMITED



CAPITAL REQUIREMENTS DIRECTIVE

PILLAR 3 DISCLOSURES

PERIOD ENDING 31ST DECEMBER 2017

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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 rules laid out in the Prudential Sourcebook for Investment Firms (“IFPRU”) of the FCA Handbook.

- **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 Financial Conduct Authority “FCA”;
- **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.

Royal Liver Asset Managers Limited (R Liver A M or “the company”) has been a separate subsidiary of Royal London Mutual Insurance Society “RLMIS” since July 2011.

The R Liver A M business was transferred to Royal London Asset Management (RLAM) in **(July 2011)** and since that date the company is effectively dormant. The company holds residual client money for ‘gone away’ customers only.

To support the proper management of its clients’ assets, the company is managed as part of RLAM’s organisational structure. R Liver A M is a limited licence IFPRU firm.

Summary

The Board concludes that Royal Liver Asset Managers Limited 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. The company 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 comprehensive and robust manner.

2 GOVERNANCE

The FCA’s third Principle for Business requires the firm to take reasonable care to organise and control the affairs of the company responsibly and effectively, with adequate risk management systems. The R Liver A M Board of Directors has responsibility for the overall risk governance and management of the company. 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, the company 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.

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

The Royal London Group implemented a new Risk Management System (Archer) and this was adopted within R Liver A M in 2016. Archer sets the standards and requirements for risk management, control and assurance. This standardises the approach taken across the firm and has facilitated the implementation of a robust bottom up RCSA sign off framework. The Royal London Group maintains a Risk Appetite Framework (RAF) which is applicable to all Royal London Group entities, including R Liver A M. To support the embedding of risk appetite in the company, a more granular framework has been designed to provide context for the business for day to day monitoring of risk exposure. The approach consists of lower level risk appetite statements, metrics, targets and tolerances which align to the overarching Group Risk Strategy & Preferences and Risk Appetite Statements.

The R Liver A M Board is responsible for setting the 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 Board has summarised the risk appetite as holding client money for gone away clients until such time as the monies can be repatriated. The business is subject to a common risk management framework to RLAM and is monitored within the RLAM organisational structure.

Adherence to the metrics, targets and tolerances is monitored monthly via the Archer risk system and Risk Appetite Schedule (consolidates available risk data per risk category) and are reviewed and discussed by the RLAM Business Risk Committee on a monthly basis.

The Risk & Compliance Departments provide appropriate advice and guidance, not restricted to operational matters. Further specialist or technical knowledge may be drawn from the Royal London Group Risk & Compliance Team or externally as circumstances dictate.

The company is integrated within the overall Royal London Group structure. Controls are reviewed by a number of independent governance committees within the Group and by dedicated Risk & Compliance departments, Group Internal Audit as well as the firm's external auditors, who review the control environment within R Liver A M.

The company is subject to the Group remuneration policy and comes under the governance of the Group Remuneration Committee which approves all R Liver A M specific remuneration plans and awards.

3 DISCLOSURE

This information has been prepared purely for the purpose of explaining the basis on which R Liver A M 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 R Liver A M nor does it constitute any form of contemporary or forward looking record or opinion of the R Liver A M business.

These disclosures have been taken from historical and projected information updated to reflect final audited accounts for 2016 in the 2017 ICAAP.

The company 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 R Liver A M deems a certain disclosure to be immaterial, it may be omitted from this Statement.

R Liver A M 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, the company 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 Royal London's website at <http://www.rlam.co.uk/Footer1/Pillar-3-/>

This disclosure document has been provided by R Liver A M in accordance with the requirements of Pillar 3 and the IFPRU Chapter of the Financial Conduct Authority handbook. Unless otherwise stated, all figures are as at 31/12/2016. 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

R Liver A M, 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 <http://www.royallondon.com/about/annual-reports/2016-annual-reports/>

Our risk appetite is influenced by market/economic conditions and is regularly reviewed taking into account market volatility and strategic developments within the business.

The capture, evaluation and reporting of operational risk is based upon the underlying data within Archer, the Group wide risk software. The overall process of capturing, assessing, modelling and stressing risks in the firm starts with key risks being evaluated with business owners for impacts at extreme probabilities. All functions supporting the operations have participated and assessed their own key risks and adequacy of key controls. Each assessment is subject to review and challenge from the Risk & Compliance teams. Outcomes which appear out of line with current risk experience are discussed before inclusion in the process. 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.

This profile of the risk enables information to be incorporated into scenarios. The use of scenario analyses and stress tests are intended to enable R Liver A M to gain a better understanding of the significant risks that it potentially faces under extreme conditions and to provide input to the determination of regulatory and economic capital required.

The company has also incorporated this in the methods applied to stress tests, where both a top down and bottom up approach can be evidenced. Whatever the approach used the nature and role of Board oversight is no different.

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 allows the Board to regularly monitor the business against the ICAAP framework and use it to make adjustments throughout the year and whenever else this may prove necessary.

5 CAPITAL ADEQUACY

In addition to the capital adequacy reporting requirements of the Financial Conduct Authority, R Liver A M has prepared an ICAAP. The ICAAP, which sets out the company'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 R Liver A M Board and any material events that may impact the ICAAP are subsequently raised at the appropriate Board Meeting. The senior management manage the capital base so that the assessed risks have sufficient capital provided to allow the company to maintain its business without further capital injection. The Board meet quarterly and receive financial reports including information specifically in relation to the capital strength of the business.

The paragraphs below outline the company's defined risk categories, both business and operational, 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 the loss resulting from a counterparty's failure to repay amounts in full when due. R Liver A M holds surplus cash on demand with HSBC. Credit risk relates to the possibility of the bank defaulting.

5.2 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. Management have determined that the company has adequate capital to cover the concentration risk it is exposed to.

5.3 Market Risk

R Liver A M does not hold investments in its own name and as a Limited License Investment Firm does not typically hold the necessary permissions to trade on their own behalf. Therefore the company does not consider it necessary to hold capital against market risks.

5.4 Operational Risk

Operational risk is the risk of loss or negative impact to the company resulting from inadequate or failed internal process, people and systems or from external factors such as regulation and key suppliers. It includes legal and financial crime risk but excludes business risk. R Liver A M is effectively dormant except for the administration costs it pays to administer its client money.

The following have been identified as the main sources of operational risk:

Outsourcers and suppliers

Failure to control the activities of the outsourced supplier DST (formerly IFDS) may lead to financial loss (including potential regulatory fines) as well as reputational and performance damage.

This could include any of the following events;

- Failure of the firm DST(formerly IFDS)
- Failure to correctly administer the 'gone away' customer balances

The company has considered the costs of an orderly wind down of business from DST (formerly IFDS) and determined that it has sufficient capital to manage the scenario.

Regulatory Risk

The company may be disadvantaged due to failure to manage the impact of changing regulation; or exposed to regulatory action / censure due to breach of financial services regulation.

Further, the failure to maintain a positive relationship with the regulator could lead to a threat in meeting the company's business objectives.

An embedded compliance culture exists to the extent that it is an integral component in the R Liver A M management culture and serves to reduce the adverse impact.

Ongoing risk based monitoring is utilised to identify breaches and their escalation to appropriate board/committee exists.

A high level of staff awareness is maintained at all times by the provision of communication on regulatory matters supported by appropriate internal training/procedures

Furthermore, Risk Management is embedded in every aspect of the business.

5.5 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. The company holds surplus funds in a demand account at HSBC. The £1.8m of funds is sufficient to pay the administration fees for many years.

5.6 Operational Liquidity planning

In line with the FCA Policy Statement 09/16 on Liquidity the company has satisfied itself with the capital requirements set aside in the liquidity test projection and has considered the costs in winding down its business in the context of a liquidity problem.

5.7 Interest rate risk arising from non-trading activities

If interest rates increased the company would earn more on its demand deposit.

5.8 Pension obligation risk

The company has no exposure to pension obligations.

5.9 Contagion risk

The impact of contagion across businesses within the Group through the crystallisation of a risk event in one business entity giving rise to a cost or loss in another, though for example, financial links or investor sentiment is more common in groups that share brands. Given that the company does not trade contagion risk is not considered to be material.

5.10 Capital resources

Tier 1 capital after deductions is £1,810,000 which consists of £1.5m of issued ordinary shares of £1 each, and £310,000 of retained reserves at 31 December 2016, less 9,000 of costs incurred to date. R Liver A M's consolidated capital resources forecast to 31/12/2017 are shown in the table below:

Tier	Element	£000's
Tier 1	Paid up share capital	1,500
	Disclosed reserves & current year's retained profits	301
	Total Tier 1 Capital	1,801
Tier 2	Total Tier 2 Capital	0
	Total Capital Resources	1,801

The assessment of capital required from the ICAAP prepared in June 2017 is £106,700 leaving a capital excess of £1,694,300.

6 NOTICES

This Disclosure is based on Royal Liver Asset Managers Limited's ICAAP review dated 19/10/2017 and is subject to review and update at least annually. The next formal review is scheduled for June 2018. The information contained in this disclosure has not been audited by the company's external auditors.

R Liver A M is a subsidiary of the Royal London Mutual Insurance Society Limited and is authorised and regulated by the Financial Conduct Authority (reference number 197410). The registered office address is, 55 Gracechurch Street, London EC3V 0RL.

Source: Royal Liver Asset Managers Limited as at 31/12/2016 unless otherwise stated.

Royal Liver Asset Managers Limited registered in England & Wales number 4130317; Financial Conduct Authority (FCA) register number 197410.

RLAM is a marketing brand including the following companies: Royal London Asset Management Limited registered in England & Wales number 2244297; Financial Conduct Authority (FCA) Register number 141665. Royal London Pooled Pensions Company Limited registered in Scotland number SC048729; FCA Register number 110456. Royal London Unit Trust Managers Limited registered in England & Wales number 2372439; FCA Register number 144037. All of the above are authorised and regulated by the Financial Conduct Authority. It also includes Royal London Asset Management Bond Funds Plc registered in Ireland number 364259 and authorised by the Central Bank of Ireland; Collective Investment Scheme Register C29355.

All these companies are subsidiaries of The Royal London Mutual Insurance Society Limited registered in England and Wales number 0099064. Head office: 55 Gracechurch Street, London EC3V 0RL.