ROYAL LONDON ASSET MANAGEMENT LIMITED

CAPITAL REQUIREMENTS DIRECTIVE

PILLAR 3 DISCLOSURES

PERIOD ENDING 31ST DECEMBER 2017

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List of Acronyms used in the document

CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
FCA	Financial Conduct Authority
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	Prudential Sourcebook for Investment Firms
IMA	Investment Management Agreement
NAV	Net Asset Value
RAF	Risk Appetite Framework
RCSA	Risk Control Self-Assessment
RLAM	Royal London Asset Management Limited
RLMIS	Royal London Mutual Insurance Society
RLMS	Royal London Management Services Limited
RLUTM	Royal London Unit Trust Managers Limited
SREP	Supervisory Review and Evaluation Process
TAA	Tactical asset allocation
UCITS	Undertakings for Collective Investments in Transferable Securities

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 –** Sets out 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. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP"), and the Supervisory Review and Evaluation Process ("SREP") 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.

This statement relates to Royal London Asset Management Limited and is for the financial year ended 31 December 2017 using the audited financial results.

2 RLAM BUSINESS SUMMARY

Royal London Asset Management Limited ("RLAM") has been a separate subsidiary of Royal London Mutual Insurance Society ("RLMIS") since 1988, with a particular focus on providing asset management services to the UK pension fund market.

RLAM is a limited licence IFPRU firm authorised and regulated by the FCA.

RLAM is a key firm within the Royal London Group, managing most of the Group's assets, in addition to providing active investment management solutions to a wide range of third party institutional and wholesale clients. Within the institutional market, the firm has a diverse range of third party clients including company pension funds, universities and other educational establishments, insurance companies, local authorities, medical organisations, religious bodies and charities. The wholesale clients include; wealth managers, multi-managers and discretionary fund managers, with an increasing amount of intermediary business transacted through platforms. RLAM manages around £117bn* of assets across fixed income, equity, derivative, property and cash asset classes.

In addition to acting as discretionary investment manager for Group companies and Institutional clients, RLAM acts as the delegated investment manager for a range of collective investment schemes operated by Royal London Unit Trust Managers Limited ("RLUTM") and Royal London Bond Funds plc. These funds are accessed predominantly via Wholesale clients.

RLAM was established in 1988 and has built a reputation as an innovative, high performing fund manager. Our track record and exceptional client service have been recognised with a number of awards. We are proud of the people we employ and the performance we have delivered to a wide-ranging group of clients. RLAM provides asset management products and services across fixed income, equity, multi-asset, property and sustainable investments.

To support the proper management of its clients' assets, RLAM's organisational structure is designed to ensure strict segregation between the investment management function, client reporting and the monitoring of compliance with clients' guidelines and regulatory requirements.

In its business plan RLAM has articulated the need to address risks to the business by investing in new capabilities and new infrastructure.

*As at 30.06.2018

3 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 RLAM Board of Directors has responsibility for the overall risk governance and management of RLAM. 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, RLAM adheres 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 RLAM in 2016. This standardises the approach taken across the firm and has facilitated the implementation of a robust bottom up Risk Control Self-Assessment ("RCSA") process. Additionally top down risks are identified and assessed by senior management. The Royal London Group maintains a Risk Appetite Framework ("RAF") which is applicable to all Royal London Group entities, including RLAM. To support the embedding of risk appetite in RLAM, 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 RLAM Board is responsible for setting the RLAM 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.

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.

In addition, any new risks associated with change activity are documented and reviewed against both Group and RLAM Risk Appetite as part of the annual business planning process and business case approval. It is the responsibility of RLAM's Risk & Compliance departments to 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 teams or externally as circumstances dictate.

RLAM is integral to 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 within RLAM, Group Internal Audit as well as the firm's external auditors, who review the control environment within RLAM.

RLAM is subject to the Group remuneration policy and comes under the governance of the Group Remuneration Committee which approves all RLAM specific remuneration plans and awards.

4 DISCLOSURE

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

These disclosures have been taken from historical and projected information updated to reflect final audited accounts for 2017 in the 2018 ICAAP.

RLAM 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 RLAM deems a certain disclosure to be immaterial, it may be omitted from this Statement.

RLAM 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, RLAM 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 RLAM's website at:

http://www.rlam.co.uk/Home/Footer/Pillar-3-/

This disclosure document has been provided by RLAM in accordance with the requirements of; the Capital Requirements Regulation and the Capital Requirements Directive, together referred to as CRD IV, and IFPRU. Unless otherwise stated, all figures are as at 31/12/2017. Further disclosures will be issued on at least an annual basis, or more frequently in the light of relevant activity in the business.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES

RLAM, as a separate subsidiary of RLMIS, follows the Governance principles and practices set out 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/

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 utilised by RLAM. The overall process of capturing, assessing, modelling and stressing risks in RLAM starts with key risks being evaluated with business owners for impacts at extreme probabilities. All functions supporting the RLAM operation 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 RLAM 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.

RLAM conducts top down and bottom up scenarios. The top down scenarios consider a number of macro or corporate-level events which could impact the business, potentially concurrently. Bottom up scenarios concern the analysis of single, but potentially catastrophic events/risks which, ultimately, must cover all risks used for modelling the capital requirement. The objective in each case is to assess the probability of the scenario occurring and to quantify any significant impacts which can then be factored into the ICAAP modelling.

RLAM 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 appropriate.

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 RLAM's business against the ICAAP framework and use it to make adjustments throughout the year and whenever else this may prove necessary.

6 CAPITAL ADEQUACY

In addition to the capital adequacy reporting requirements of the Financial Conduct Authority, RLAM has prepared an ICAAP. The ICAAP, which sets out RLAM'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 RLAM Board. Any material events or business initiatives that may materially impact the ICAAP are raised with the Board and may be incorporated into the capital model as appropriate.

Senior management intend to manage the RLAM capital base so that a prudent amount of excess capital is retained above the amounts calculated for the assessed risks. The capital retained will allow RLAM to maintain and grow its business without further capital injection. The Board meets regularly and receives comprehensive financial reports incorporating information on the capital strength of the business.

The sections below outline RLAM's defined risk categories, both business and operational, and provide a statement of the level of risk exposure.

6.1 Credit Risk

Credit risk is the loss resulting from a counterparty's failure to repay amounts in full when due. RLAM has cash balances held in 3 UK banks with the majority of cash invested in a Royal London UCITS fund - Cash Plus. Credit risk relates to the possibility of one of the counterparties defaulting.

RLAM invoices clients quarterly in arrears and has a number of debtor balances for fees. These balances are mainly with Group entities and the institutional pension funds and local authorities. Fees from wholesale clients investing via collective investment schemes are collected daily via the fund NAV calculation and paid to RLAM monthly. The terms for all other clients payments are 30 days from invoice date. The credit risk relates to the non-payment of the fees which would create a loss of revenue in the year concerned.

Fees due from clients, and other balance sheet balances, are regularly reviewed by the Finance function and the potential impact on P&L is evaluated on a monthly basis. All amounts overdue for more than 90 days are recognised to be at risk and additional management attention is given to collect them. Credit risk within the funds being managed is borne by the client and is not underwritten by RLAM. RLAM does not usually provide liquidity to its customers. Credit risk is not regarded as one of the most significant risks for RLAM.

6.2 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. 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. These business risks have been considered through the exercise of potential event scenarios in the light of existing market conditions and experience gained over the last 24 months. Changes in these sectors have not, nor are they expected to be, as volatile as previously anticipated. Management have determined that the scenarios presently conducted cover the material risks to which RLAM is exposed and that adequate steps have been taken to make suitable provision.

6.3 Market Risk

Market risk is the risk of loss arising from fluctuations in the value of assets or income. The Executive Committee approved an Investment in the Royal London Cash Plus Fund, a UCITS fund with a AAA rating. This investment is subject to market risk and RLAM is holding £1,091,000 capital to cover the risk. The investment was made due to the extraordinary low yield available on UK Gilts.

RLAM has one Group client who pays in Euros and there is a small element of market risk with this transaction. RLAM does not trade investments in its own name. It does not hold the necessary permissions to trade on its own behalf. The exposure to market risk is small and manifests itself indirectly through movements in funds under management and the fees generated from these assets. The impact of market movements on RLAM's fee income is considered within the ICAAP stress tests performed. Capital is set aside for Market Risk in Pillar 1 and Pillar 2 calculations.

6.4 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational Risk Scenario Identification

A working group of senior representatives from across the business, facilitated by the risk function, are responsible for identifying and assessing key operational risk scenarios.

To ensure all key operational risks are properly identified and assessed the process encompasses, amongst other things, information and data from the top down risk identification and bottom up RCSA results, business strategy, the medium term plan, internal and external risk event data and any material findings from reviews conducted across the business by the three lines of defence.

Key scenarios identified include; IMA breach, derivatives execution failure, regulatory risk, market abuse, financial crime, corporate actions, outsourced operations, IT supplier failure, trading and dealing errors, cybercrime, property contracts, EUC error and client instructions & reporting.

Scenario Assessment and Capital Calculation

The working group assesses the impact and frequency on an average and worst case basis for each of the key scenarios identified. The assessment is informed by the use of internal and external data and expert opinion. The results of each scenario assessment are then modelled, utilising a third party Monte Carlo model, to produce a 1-in-200 year capital estimate. Capital estimates are then qualitatively reviewed by the working group to ensure capital is reasonably aligned to the risk ranking. Sensitivity analysis of the inputs of the capital estimates is also undertaken.

Operational Risk Scenarios

The following have been identified as key operational risk scenarios:

IMA Breach

Failure to manage client assets in accordance with the investment management agreement leading to financial loss, reputational damage and potential loss of current or future business.

Derivatives Execution Failure

The risk of loss or reputational damage in the execution of over-the-counter derivative transactions in respect of clients, funds or the Royal London group.

Regulatory Risk

The risk of financial loss or regulatory censure and reputational damage resulting from the failure to comply with or implement new regulations in a timely manner.

Market Abuse

Market Abuse for the purposes of the operational risk scenario includes amongst other things insider dealing, improper disclosure, misuse of information, manipulation of transactions, misleading dissemination of information and rogue trading.

Financial Crime

Financial Crime for the purposes of this operational risk scenario is broken down as follows:

- Internal fraud (including collusion) – covers acts of fraud, malpractice, corruption, including bribery and/or any other illegal activities undertaken by any employee.
- External Fraud – where acts of fraud, malpractice, corruption and/or any other illegal activity is undertaken against RLAM by an external party.
- E-crime - criminal activity where an RLAM computer or computer network is the source, tool, target, or place of a crime
- Money Laundering – where the RLAM is used as a conduit for the proceeds of crime or facilitates the funding of terrorist acts or the fails to maintain adequate systems and controls to prevent this.

Corporate Actions

Incorrect processing of corporate actions involving large client positions in securities has the potential to cause significant losses and reputational impacts.

Outsourced Operations

Failure of a key outsource service provider resulting in disruption to the business, reputational damage and financial impact in transitioning to a new provider.

IT Supplier Failure

Failure of a key IT supplier providing a mission critical system impacting future development and support of the system resulting in financial impacts to replace the system. RLAM uses a number of controls to minimise the risk of IT supplier failures which include robust contracts, due diligence over suppliers, relationship management and regular monitoring and maintenance of systems.

Trading and Dealing errors

Risk of financial loss and reputational impact resulting from the failure of internal processes around trading and dealing on behalf of clients. The financial costs to RLAM from this scenario could be in the form of compensation to client or fines. Reputational damage may also result in the loss of current or future business.

Cyber Crime

The Financial Services Industry has recognised that Cyber-crime is becoming a more significant risk. The Royal London Group maintains up to date IT security controls, policies and procedures which are applied to RLAM systems. The reputational and financial costs to RLAM from this scenario could be in the form of compensation to client and/or fines. The subsequent reputational damage could impact future revenue streams through the loss of existing clients or not being able to win new business.

Property contracts

RLAM has outsourced the writing and administration of property related contracts to external law firms to leverage their expertise.

End User Computing (EUC) Error

Potential financial losses of errors in the sizing and instructing of tactical asset allocation (TAA) trades and daily cash/box management activities. Furthermore, failure to accurately monitor benchmark, fund positioning and IMA restrictions, may result in mandate breaches, financial losses, and reputational risk.

Client Instructions & Reporting

Failure of RLAM's client reporting or client instructions not being met could result in financial loss and reputational damage.

6.5 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. For the purposes of the ICAAP, the approach adopted by RLAM has been incorporated into the projection of cash flows and the adaptation of these to stressed environments. RLAM is not subject to wholesale or retail funding risks and does not usually provide intraday liquidity to clients. RLAM's funding arises from the payment of client fees, approximately 50:50 between Group and external clients; these are paid quarterly in arrears. Funding concentration risk amongst Group entities exists and has been considered in the liquidity stress testing within the ICAAP, providing assurance that sufficient liquid funds are available were this type of risk to materialise.

6.6 Operational Liquidity planning

In line with the FCA Policy Statement 09/16 on Liquidity RLAM 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. The firm operates within a liquidity policy which is measured and reported each month. In normal circumstances Royal London Management Services Limited ("RLMS") pays all the expenditure incurred by RLAM and recharges these costs to RLAM. All staff contracts are with RLMS. If a liquidity problem arose RLAM would still expect to receive revenue from fees which are charged quarterly in arrears, this would provide cover for the recharged costs as the business begins to contract in size. Should such a liquidity crisis arise, the Board has approved a contingency funding plan which does not rely on parental support for capital or liquidity. RLAM has adequate high quality liquid assets ("HQLA's") to fund its business expenses for a year without receiving any fee income.

6.7 Interest rate risk arising from non-trading activities

RLAM is exposed to risks to earnings and capital arising from adverse movements in interest rates relating to; cash deposits, the UCITS investment and Gilt investments. Additionally interest rate movements may impact the value of individual portfolios on which fees are based. As the impact on RLAM is indirect, interest rate movements have been included within the Stress testing and assessed through scenario analysis alongside market movements.

6.8 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. In the latter half of 2009 RLAM was required to contribute a single payment to the RLMIS pension scheme on behalf of its staff who are final salary holders. Since 2010, the Royal London Group has required RLAM to make a regular monthly contribution to the scheme. The scheme is closed to new and existing employees and future accruals. RLAM is not a participating employer in the scheme, the contribution made by RLAM in respect of accrual was a charge made by the Service Company and RLMIS in respect of the services provided by RLMIS employees.
RLAM would conclude here that there is therefore a very low probability of RLAM being exposed directly to any pension obligation risk.

6.9 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 through, for example, financial links or investor sentiment is more common in groups that share brands.

Royal London Group carries a number of products, and operates across a number of market sectors and legal entities that do not reflect a uniform front that would be materially impacted by contagion. Although an impact of another part of the group could impact new business asset flows to RLAM, the business benefits from diversification with around 50% of revenue being generated from external clients. The Royal London rebranding exercise has been largely positive. The Board has seen insufficient evidence of this risk within the group and as such feel it is highly unlikely at this time. They will monitor the customer satisfaction ratings to gather further evidence. No capital is being set aside for this risk in 2018.

All of the Companies within the Group conduct and operate different business models and each carries appropriate risk capital within their individual ICAAP submissions, or within the RL Group Solvency II submission.

6.10 Reputation risk

Reputation risk is defined as the risk of damage to the firm's reputation that could lead to negative publicity, costly litigation, a decline in the customer base or the exit of key employees and therefore directly or indirectly leading to a loss of revenue. RLAM's reputation is a fundamental tenet of its business and success.

Potential exposure to reputation risk is reduced by having a well-established control environment which ensures compliance and adherence to the regulatory, market and ethical obligations, both imposed on the firm and required by the Board. RLAM's aim is to ensure that the services it carries out are of the highest standard at all times and also ensuring the risk of reputation damage is significantly reduced by the effectiveness of the controls it has in place.

To this end RLAM has considered a number of scenarios regarding behaviour, communications, marketing and client reporting where an action (or inaction) could precipitate the loss of goodwill in clients and/or market reputation.

6.11 Own funds- Capital Resources

Tier 1 capital after deductions is £112.5m which consists of £2.0m of issued ordinary shares of £1 each, £5.0m capital contribution, and £105.5m of retained reserves. RLAM's consolidated capital resources as at 31/12/2017 are shown in the table below:

Tier	Element	£000's
Tier 1	Paid up share capital	2,000
	Capital contribution	5,000
	Disclosed reserves & current year's retained profits (verified by external audit)	105,532
	Total Tier 1 Capital	112,532
Tier 2	Total Tier 2 Capital	0
	Total Capital Resources	112,532

The assessment of capital required from the ICAAP prepared in June 2018 is £67.1m, leaving a capital excess of £45.5m.

7 SUMMARY

The Board has concluded that RLAM 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 Board 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.

8 NOTICES

This Disclosure is based on RLAM's ICAAP review dated 30/06/2018 and is subject to review and update at least annually. The next formal review is scheduled for June 2019. The information contained in this disclosure has not been audited by RLAM's external auditors.

RLAM is a subsidiary of the RLMIS and is authorised and regulated by the Financial Conduct Authority (reference number 141665). The registered office address of RLAM is, 55 Gracechurch Street, London EC3V 0RL.

Source: RLAM as at 31/12/2017 unless otherwise stated.