

Pillar 3 disclosure

Prudential Consolidation Group incorporating:

Royal London Asset Management Limited
and
Royal London Unit Trust Managers Limited

10 March 2022



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1 Introduction

Background

The Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) – usually referred to together as CRD IV – formalised the regulations for investment firms to disclose additional information relating to their risk management approach and capital adequacy. The aim of the CRD IV is to promote the market standards for information disclosures which ensure clarity, meaningfulness, consistency over time and comparability across different institutions.

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 requirements laid out in Part 8 of the CRR.

- **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** – Requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1;
- **Pillar 3** – Complements the other two pillars and effects market discipline through public disclosure showing an institution's risk management policies, approach to capital management, capital resources and an analysis of its credit risk exposures.

This disclosure reflects the RLAM Group's position as at 31 December 2021 and as such will be the last issued under CRD IV. Starting from financial years commencing 1st January 2022, RLAM will be applying disclosure requirements as set out within the new Investment Firm Prudential Regime (IFPR).

Scope of application

The Pillar 3 disclosures set out in this document are done at the level of the prudential consolidation group comprising Royal London Asset Management Limited (RLAM Ltd) and Royal London Unit Trust Managers Limited (RLUTM), both of whom are owned by a common holding company, Royal London Asset Management Holdings Limited (RLAMH). These entities are further referred to as 'the RLAM Group'. The document describes the risk management objectives and policies, processes for managing material risks, structure and organisation of the risk management functions, the scope and nature of risk reporting and measurement systems and the policies for mitigating risk.

Frequency of disclosure

This Disclosure is based on the RLAM Group's Internal Capital Adequacy Assessment Process (ICAAP) review dated 28 June 2021 and is subject to review and update at least annually. Pillar 1 Minimum capital requirements set out within this disclosure reflect the RLAM Group's position as at 31 December 2021. The RLAM Group will reassess the need to publish some or all disclosures more frequently than annually

in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy, and information about risk exposure and other items prone to rapid change.

[Disclosure is published on RLAM's website:
<http://www.rlam.co.uk/Home/Footer/Pillar-3-1>]

Board approval

These disclosures were approved for publication by the RLAM Holdings Ltd Board on 10 March 2022. The Board has verified that the disclosures are consistent with formal policies and are satisfied with the adequacy and effectiveness of the risk management arrangements.

Company description

The RLAM Group is headed up by RLAMH, which is a wholly owned subsidiary of the Royal London Mutual Insurance Society Limited (RLMIS, or 'Royal London Group' (RLG)). RLAMH in turn wholly owns two common subsidiaries, RLAM Ltd and RLUTM:

RLAM Ltd is a UK-domiciled limited license IFPRU firm authorized and regulated by the FCA. RLAM Ltd acts as a discretionary portfolio manager, providing investment management solutions to other entities in the Royal London Group as well as a wide range of third party institutional and wholesale clients, including company pension funds, universities and other educational establishments, insurance companies, local authorities, medical organisations, religious bodies and charities. RLAM Ltd provides asset management services across fixed income, equity, multi-asset, property and sustainable investments.

RLUTM is a UK-domiciled Collective Portfolio Management Firm licensed by the FCA. RLUTM acts as an Authorised Fund Manager (AFM) and an Alternative Investment Fund Manager (AIFM) on behalf of a variety of open-ended collective investment scheme vehicles including UCITS, NURS and ACS. RLUTM is authorised and regulated by the FCA and is authorised to carry out designated investment business and the marketing of authorised funds in the United Kingdom. RLUTM's wholesale clients include wealth managers, multi-managers and discretionary fund managers, with an increasing amount of intermediary business transacted through platforms.

2 Governance arrangements

As part of RLMIS, the RLAM Group is subject to the formal governance hierarchy that is in place across the Royal London Group to ensure effective escalation of issues through different business lines.

The RLAMH Board provides leadership and oversight of RLAMH and its subsidiaries, RLAM Ltd and RLUTM.

RLAMH provides a consolidation point for capital management and the RLAM Group; its Board of Directors are responsible for the consolidated ICAAP. The governance of the RLAM Ltd and RLUTM subsidiary legal entities is carried out through regular meetings of their respective Boards of Directors, who have responsibility for risk management, compliance and regulatory matters and have oversight of the effective implementation of

the Risk Management System for both their respective entities. The responsibility for governance and business oversight rests with the Directors of each legal entity and the relevant FCA Approved Persons.

The day-to-day management of the business activities of the RLAM Group has been delegated to Hans Georgeson, Chief Executive Officer, supported by the Executive Committee. Whilst the RLAM Group's strategy is set annually by the Boards, the strategic and business risks arising from the plan are reviewed by the Executive Committee on a quarterly basis.

Additionally, various management committees are in place to assist the responsible persons in the proper performance of their duties. Individuals identified as Chairs of the respective management committees have responsibility for reporting on their areas of accountability to the RLAMH Board as set out in the Matters Reserved for the Board.

The Directors who serve on the Board are:

Name	RLAMH	RLAM Ltd	RLUTM
John Brett	–	–	Independent Non-Executive Director
Hans Georgeson	Director	Executive Director (Chief Executive Officer)	Chair (Chief Executive Officer)
Piers Hillier	Director	Executive Director (Chief Investment Officer)	–
Andrew Hunt	Director	Executive Director (Chief Financial Officer)	Executive Director (Chief Financial Officer)
Rakesh Kumar	–	–	Executive Director (Operations Director)
Ewan Smith	Director	Employee Non-Executive Director	–
Susan Spiller	–	–	Executive Director (Head of Proposition)
Robert Williams	Director	Executive Director (Chief Distribution Officer)	Executive Director (Chief Distribution Officer)
Ann O'Brien	Director	Independent Non-Executive Director	–
Christopher Morson	Director	Independent Non-Executive Director	–
Shirley Garrod	Chair [†]	Chair Non-Executive Director [†]	–

[†] Shirley Garrod is also an Independent Non-Executive Director of RLMIS

The RLAM Holdings Group Risk and Capital Committee meets at least four times a year. The Committee is comprised of Non-Executive Directors and is chaired by a Non-Executive Director.

The main role of the Committee is to undertake capital and risk oversight of the RLAMH Group to ensure that the interests of the shareholders and stakeholders are properly protected through the application of effective risk and capital management frameworks; in this capacity it approves the elements of risk management framework, receives regular reports from the Chief Risk Officer and considers issues escalated by the Business Risk and Control Committee.

Recruitment and selection of members of the Board of Directors

The RLAM Group, as part of the Royal London Group, values and promotes diversity and inclusion and we recognise that having a range of backgrounds and experience in senior positions is the right thing to do and provides the RLAM Group with strategic advantage. The RLAM Group's specific targets and objectives in relation to the composition of its Boards of Directors is set out within the Royal London Board Diversity and Inclusion Policy, which can be found [here](#). It includes a commitment to:

- Having at least 33% female representation in its membership
- Having at least one Board member from a Black, Asian and Minority Ethnic (BAME) background

We are working towards these targets and currently 27% of the directors in the RLAM Group are female. We made positive steps in 2021 with the appointment of Shirley Garrod as Chair and we expect to see this position to continue to improve in the future.

In line with the UK Corporate Governance Code, the selection and recruitment of directors is based on merit. Role profiles set out the skills, experience, competencies and knowledge required for the role (and regulatory and firm specific responsibilities for regulated roles). Prior to appointment, background checks are conducted to ensure individuals are fit and proper; with follow up assessments conducted on an annual basis and at any role changes.

All employees and members of the management body are subject to the RLAM Group's Diversity and Inclusion Policy, the principles of which are to promote a genuinely inclusive workplace and equality of opportunity for everyone, irrespective of personal characteristics, such as age, gender, gender identity, sexual orientation, race or ethnicity, religious beliefs and educational and social background. This also includes promoting an open and transparent environment where employees are able to raise issues openly.

3 Risk management objectives and policies

The RLAM Group adheres to the risk management objectives and policies set out for companies within the Royal London Group (RLG). The RLAM Group maintains a comprehensive risk management framework, referred to as the Risk Management System (RMS). It has clearly defined procedures for identifying and escalating risk concerns throughout the organisation. These processes help to safeguard client assets, protect the interests of all stakeholders and meet the responsibilities of its UK regulated entities.

The RLAM and RLUTM Boards carry responsibility for risk management at their respective entities. There are also management committees chaired by, and consisting of, Senior Managers that have responsibility for specific areas of risk.

Senior management intend to manage the RLAM Group capital base so that a prudent amount of excess capital is retained above the amounts calculated for the assessed risks.

The framework is governed and structured through a variety of mechanisms that assist in ensuring employees are aware and understand their responsibilities:

- Risk is a core consideration when setting strategy, formulating business plans and managing performance;
- Implementation of a risk and control self-assessment process that facilitates the identification and assessment of risks across the business and provides a systematic means of identifying risk and control gaps that threaten the achievement of business or process objectives;
- Establishment of an effective risk management governance structure;
- Risk appetite is clearly articulated reflecting the level of risk that the RLAM Group is willing to accept (or not accept) while pursuing its business objectives whilst being consistent, where relevant, with appetite set out at RLG level;
- Development and implementation of risk policies and procedures.

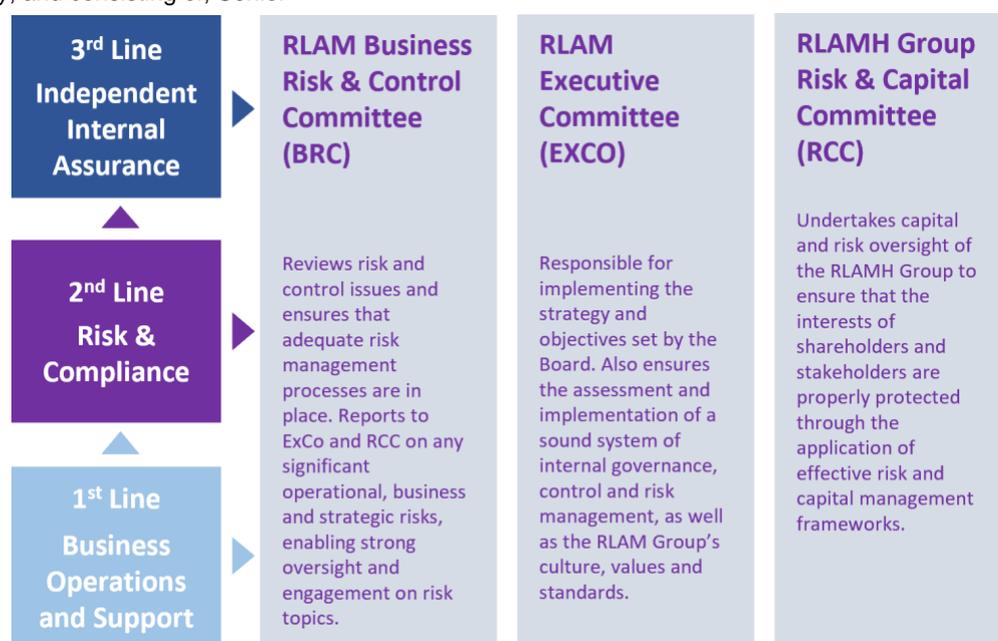
Three lines of defence

The RLAM Group's approach to risk management is based on the 'three lines of defence' model. Primary responsibility for risk management lies with the business.

A second line of defence is provided by an independent Risk and Compliance function headed by the RLAM Group's Chief Risk Officer. The risk and compliance function reports to the RLAM Holdings (RLAMH) Group Risk and Capital Committee,

which acts independently from the executive management of the RLAM Group to oversee the effectiveness of the RLAM Group's risk management and internal control systems and ensuring that the interests of the RLAM Group's shareholder and clients are protected. In doing so, it also reports on these matters to the Boards. Additional risk reporting is also provided to Royal London's Group Executive Risk Committee and Royal London's Group Risk and Capital Committee.

Group Internal Audit is the third line of defence. It provides independent assurance that the Group's (including the RLAM Group) risk management, governance and internal control processes are operating effectively. It has a dedicated RLAM Internal Audit team who report to the RLAMH Group Risk and Capital Committee and Royal London Group Audit Committee.



Risk Management System

Components of the RMS such as the risk strategy, risk appetite and policies set out the objectives, direction, limits and tolerances within which the Directors expect the business to operate. The key elements of the RMS are:

Risk appetite framework

The Risk Appetite Framework (RAF) defines what is considered an acceptable risk profile and sets limits on the level and nature of risks the firm is willing to assume in achieving its strategic objectives and Business Plan. The Risk Appetite Statements set out the RLAM Group's key risks and guides decision-making with regard to pursuing the business strategy, methods of risk management and determining whether the risk position is within our risk appetite.

The RAF is subject to a periodic review performed at least annually, the purpose of which is to reassess the tolerance for material risks inherent in the business. As part of this review, the RLAMH Group Risk and Capital Committee evaluates whether all Risk Appetite Statements and risk metrics are commensurate to the risk the RLAM Group is willing to assume in achieving its strategic objectives. The RLAMH Board then considers the recommendation of the RLAMH Group Risk and

Capital Committee and if appropriate approves the RLAM RAF for application as part of RLAM's Risk Management System.

Risk metrics are defined and monitored as part of the RAF to track the nature, complexity and scale of the business activities. All risk metrics are logged on the risk system and reported to the relevant governance bodies on a regular basis. Any areas of concern identified through the risk metrics are escalated to the Board and an assessment made with regard to the impact on internal capital requirement. Risk metrics are subject to a periodic review performed at least annually to reassess the main risks and tolerances.

Risk registers

Each function within the RLAM Group owns a risk register within which risk and control self-assessments (RCSAs) are conducted. The risk register owner is responsible for identifying all key risks inherent in the key processes operated. Each risk identified is logged on the risk system and assessed on its inherent impact and likelihood, as well as its residual impact taking into account the effectiveness of relevant controls. Action plans are put in place to address any controls identified as not being fully effective or any risks that are not mitigated to within risk appetite and are tracked and monitored to completion. All identified risk events are logged on the risk system with the impact established and documented. All risk events are independently reviewed by RLAM Group's Risk function to ensure the accuracy and completeness of the data captured, that action plans are robust, and each event is closed in a timely manner. Data from risk events logged is used to inform other elements of the RMS, including RCSAs and Operational Risk Scenarios.

ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is conducted by the RLAM Group and is an ongoing assessment of the amounts, types and distribution of capital considered adequate to cover the level and nature of the risks the RLAM Group is or might be exposed to. The RLAM Group is required to complete a consolidated ICAAP at least on an annual basis. The ICAAP includes:

- Operational Risk Scenario Analysis, which identifies and assesses plausible, yet material manifestations of the material risks faced by the business and the potential financial impact of any of these risks materialising. This assessment is conducted using a combination of internal and external operational risk data and expert judgement.
- Stress-testing, which identifies an appropriate range of adverse circumstances of varying nature, severity and duration relevant to the RLAM Group's risk profile and business model. The exercise assesses how the RLAM Group can cope with such risks on a forward-looking basis and to ascertain whether it holds sufficient capital to withstand such shocks.

Outputs from these activities not only support the RLAM Group's Pillar 1 and 2 risk capital but also informs other elements of the RMS, for example the RLAM Group's RCSAs and risk appetite.

The ICAAP process ensures the executive management of the RLAM Group regularly oversee and assesses:

- The company's processes, strategies, and systems;
- The major sources of risk to the company's ability to maintain financial adequacy;
- The results of internal stress testing of these risks; and
- The amount and types of financial and capital resources and whether they are adequate to cover the nature and level of the risks to which the RLAM Group is exposed.

The ICAAP is used within the business to support decision-making processes, identify potential risk exposures and implement appropriate mitigants. The ICAAP is formally reviewed by the RLAMH Board. Should business plans / significant re-positioning of the RLAM Group's business model or activities dictate, interim reviews will be undertaken. Management information allows the Board to regularly monitor the RLAM Group's business against the risk framework and use it to make adjustments throughout the year, where this proves necessary.

For financial years commencing 1st January 2022, RLAM is implementing the new IFPR. As part of the new regime, ICAAP will become an ICARA (Internal Capital Adequacy and Risk Assessment) process. This will see RLAM refocus its assessments from the risks it faces to also consider and mitigate the potential for harm it can pose to consumers and markets.

4 Key risks to the RLAM Group

The RLAM Group has identified and assessed the following key risks within the ICAAP:

Credit risk

The RLAM Group's credit risk principally arises where a counterparty is unable repay amounts in full when due, posing harm to the RLAM Group. Three material sources of credit risk for the RLAM Group have been identified as:

- The placement of cash deposits with banks and surplus liquidity in funds;
- Clients who owe fees for the investment management services provided;
- Fund debtor balances held on RLUTM's balance sheet.

The RLAM Group adopts the standardised approach to credit risk and uses a mixture of Fitch and S&P ratings. These ratings are used to assess the exposure classes for cash balances held with banks. Other exposures, such as trade debtors and accrued income, are treated as unrated.

The RLAM Group has cash balances held in multiple UK banks or invested in a range of funds. There is explicit management oversight of the credit quality of deposit institutions and monthly review of credit worthiness of deposit institutions. The RLAM Group manages the risk resulting from fund debtor balances through regular monitoring and evaluating P&L potential impact.

Concentration risk

Concentration risk is any single or group of exposures that may have the potential to produce losses large enough to threaten an institution's 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.

The main sources of concentration risk for RLAM Group are linked to:

- Credit concentration relating to deposits held at bank. This risk is managed by allocating deposits between three different banks with strong credit ratings. This reduces the risk significantly and provides assurance that the firm will maintain access to its cash balances and capital resources;
- Receiving the majority of its income from a limited number of clients, most notably the Royal London Group. This risk was analysed as part of ICAAP stress testing and it has been concluded that the diversification of revenue is sufficient; in particular removing any specific single stream of income (even the largest one) does not render the RLAM Group business unviable.

Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due or when the RLAM Group experiences sudden unexpected cash outflows. This may cause harm to the RLAM Group, its clients and the markets it operates within. The RLAM Group's funding sources are client fees paid in arrears while its main costs are general expenses and salaries. There is a process in place to monitor debtor balances and the RLAM Group operates a liquidity policy which is measured and reported each month to the Chief Finance Officer, who then reports to the RLAM Executive Committee and to the Board on a quarterly basis. The Company's approach of holding its liquid assets as readily accessible bank deposits and highly liquid cash funds also mitigates liquidity risk. Should a liquidity crisis arise, the Board has approved a contingency funding plan which does not rely on parental support for capital or liquidity.

Liquidity stress testing performed has highlighted that due to the level of high-quality liquid assets held, the RLAM Group would not need to rely on parental support and that the high level of these balances held provides management with time to address any funding issues that arise.

Market risk

Market risk is a risk to a firm's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates, security and commodity prices. This risk is mitigated by investments being made in short term rated cash funds held with regulated financial institutions.

None of the firms comprising the RLAM Group trade on its own account, underwrite issues of financial instruments on a firm commitment basis, nor run proprietary trading positions.

Although it is common for asset management firms to invest 'seed capital' in newly launched funds, in the Royal London Group the 'seed capital' is normally provided by the parent entity – RLMIS. Market risk on the RLAM Group's balance sheet is therefore limited to short term exposures arising from the payment of invoices or receipt of income in foreign currency which are not material.

Interest rate risk arising from non-trading activities

Interest rate risk is the risk that fair value of future cashflows will fluctuate because of changes in market interest rates.

The main sources of interest rate risk for the RLAM Group are risks to earnings and capital arising from adverse movements in interest rates relating to cash deposits and investments in funds.

Interest rate movements have been incorporated within stress-testing and assessed through scenario analysis alongside market movements.

Operational risk

Operational risk is the risk of loss resulting from people, systems, inadequate or failed internal processes or from external events (excluding strategic and reputational risk).

Operational risk may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to system failures, execution, delivery and process management or other events. Operational risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, ethical or market standards or contractual obligations.

Sources of operational risk are monitored through the RMS. Components of the RMS such as the risk strategy, risk appetite and policies set out the objectives, direction, limits and tolerances within which the Directors expect the business to operate. Other components of the RMS also support the management of operational risk across the RLAM Group, with procedures and processes in place to identify, assess, control and remediate, monitor and report on operational risk.

Strategic risk

Strategic risk arises from the choice of strategy, business model and decisions about the direction of the organisation and is defined as a failure to achieve business objectives in the medium term. Strategic risk may also arise as a result of a failure to identify and address emerging risks or ESG and climate change risks.

Strategic risk may arise as a result of unexpected changes in the external macro-economic, geopolitical, industry or regulatory environment, client behaviour or an event that impacts earnings, including contracting markets, reduced margins from competitive pressure, adverse customer selection and business concentration, inappropriate management actions, and other external risks that might deflect from desired strategy and execution of business plans. If these risks are not carefully managed, our AUM and the income we therefore receive may be lowered. The component

aspects are identified, assessed, monitored and reported through application of the RLAM Group's RMS. The RLAM Group has also applied a number of scenarios to stress-test the business model and business plan strategy and its resistance to unexpected shocks and changes.

Pension obligation risk

Pension risk is the risk resulting from the firm's contractual liabilities or moral obligations with respect to a pension scheme.

The RLAM Group previously contributed to the Royal London Group Pension Scheme (RLGPS) reflecting its obligations associated with those RLMIS employees responsible for the performance of the business activities of the RLAM Group. The scheme closed to future accruals on 1 April 2016. The responsibility for cash injections arising from the Trustees' funding decisions, Section 75 employer debt provisions or any other reasons has been with RLMIS. In any event, the RLAM Group may be required to cover a proportion of cash injections in respect to its proportion of employees who have participated in the RLGPS. The triennial valuation of RLGPS as at the end of 2019 concluded that the scheme had a funding surplus therefore no capital injections were required. The RLMIS ICA assessment continues to set aside capital against pension obligation risk therefore there is no additional capital provision held for this risk in the RLAM Group.

Contagion risk

Contagion (or Group) risk is the risk that the financial position of the firm could be adversely affected by its relationship with other entities in the same group or by risks which may affect the financial position of the whole group.

The Royal London Group offers a diverse product range and operates across a number of market sectors, and the different legal entities forming the Royal London Group do not reflect a uniform front that would be materially impacted by contagion. However, legal entities within the group operate under the same brand. In much the same way that the RLAM Group benefits from being part of the Royal London Group, it is recognised that in case of a reputational event and subsequent negative publicity relating to the Royal London brand could result in some impact on the RLAM Group and its business. However, the RLAM Group has built a strong position as an investment manager, supported by a good performance history, is not reliant on the Royal London Group for financing and has adequate risk management processes in place to ensure mitigation of such risk.

All of the Companies within the Group set aside appropriate risk capital within their individual prudential requirements, or within the RL Group Solvency II submission.

Reputational risk

Reputational risk is defined as the risk of damage to the RLAM Group'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. The RLAM Group'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 regulatory, market and ethical obligations, both imposed on the firm and required by the Board. The RLAM Group'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.

Reputational risk has been considered within a number of stress tests performed by the RLAM Group. Furthermore, the consequences of damage to the RLAM Group's reputation is considered as a trigger for wind down of the RLAM Group's activities. The RLAM Group's wind down plan has also been designed with reputational considerations in mind.

Legal risk

Legal risk is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of compliance with laws, regulations, ethical standards, and contractual obligations in any aspect of the RLAM Group's business. If these were to materialise, a legal incident could damage the reputation or brand of the Royal London entities leading to loss of clients and/or outflow of funds under management.

Legal risk has been considered as part of the RLAM Group's ICAAP scenarios, both in terms of potential regulatory breaches and fines as well as the impact of legal or contractual disputes with other parties.

Regulatory risk

Regulatory risk is related to the effect a change in regulations or legislation may have on the RLAM Group or the way it is carrying out its business, as well as the risk of a regulatory fine as a result of being non-compliant with regulatory requirements.

A Regulatory Change Steering Group is in place to ensure that new legislation and regulatory requirements applicable to the RLAM Group are identified and their impact on the business is assessed. Monitoring of change regulatory projects takes place in various governance forums and relevant Management Information is reported to the Board periodically. The Risk Appetite Framework includes metrics relating to change and regulatory projects which are reported quarterly to the RLAM Holdings Group Risk and Capital Committee and Business Risk and Control Committee.

Conduct risk

The RLAM Group defines conduct risk as the risk of any action that leads to customer detriment or has an adverse effect on market stability or effective competition. Conduct risk may arise from our business, culture, governance, and controls, including our proposition design and approvals processes, sales interactions and relationships with customers and post-sales service and transaction handling.

The RLAM Group manages its conduct risks with reference to the Royal London Customer Value statements (RL CVS). In alignment with this, we have processes in place in order to ensure that our products and services are designed with client needs in mind and we provide clear information to ensure

these are understood. We actively seek and consider client feedback and complaints and regularly review propositions to ensure they continue to deliver value and meet client needs. Behaviour, attitudes, and motivations are key areas of cultural conduct risk. Senior management model good behaviour and demonstrate the values and spirit of Royal London to ensure good outcomes are delivered to customers and engender a culture in which there is no room for misconduct.

Conduct risks and adherence to the RL CVS has been considered within the RLAM Group's ICAAP scenarios, and our wind down planning also incorporates conduct risk considerations, including the importance of a communication plan in order to manage the expectations of customers, regulators and other stakeholders.

5 Capital requirements

Calculating capital requirements

The minimum capital requirement for the RLAM Group is determined as the higher of Pillar 1, Pillar 2 and the net cost of the wind-down:

- The Pillar 1 requirement is calculated as the higher of the fixed overhead requirement (FOR) and Credit and Market risk. For the RLAM Group, the Pillar 1 is set by the FOR of £32.0 million.
- Pillar 2 capital requirement is estimated as part of the annual ICAAP. The minimum Pillar 2 capital requirement has been determined to be £120.6 million.
- The Individual Capital Guidance (ICG)-adjusted requirement is £139.8 million.
- The RLAM Group has defined a wind-down plan covering the prudential consolidation group. The net cost has been calculated as part of the annual ICAAP to be £66.7 million.

		Pillar 1 (in £m)	Pillar 2 (in £m)	Wind-down
Consolidated requirement	Credit risk	13.4	15.2	–
	Market risk	0.1	0.1	–
	FOR	32	n/a	–
	Operational risk	n/a	105.3	–
	Consolidated capital requirement	32	120.6	66.7
	ICG-adjusted requirement	139.8		

Capital resources

At 31 December 2021 and throughout the year, all legal entities within the RLAM Group complied with their individual capital requirements as set out by the FCA.

The table below summarises the total capital for the RLAM Group as at 31 December 2021.

Capital resources*	RLAM Group £m
Tier 1	
Permanent share capital	30
Profit and loss account and other reserves	237.6
Interim net losses	–
Deductions from Tier 1 Capital	–
Total Tier 1 after deductions	267.6
Tier 2	–
Total Capital before deductions	267.6
Deductions from total capital	–
Total own funds	267.6

* Tier 1 capital comprises of share capital, share premium, profit and loss and other reserves. Tier 2 capital includes revaluation reserves; RLAM Group does not utilise any Tier 2 capital or debt funding.

The Board has concluded that the RLAM Group 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 Directors firmly believe that adequate and effective risk management processes represent the most effective means of managing the business activities of the RLAM Group, and senior management continues to review and oversee the existing business control environment to ensure that risks are managed in a comprehensive and robust manner.

6 Remuneration disclosure

The remuneration policy of the RLAM Group is under the oversight of the Group's Remuneration Committee. Information on the remuneration policy, the link between pay and performance, and quantitative information can be found within this section of the Royal London website:

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

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Issued on 10 Mar 2022 by Royal London Asset Management Limited,
55 Gracechurch Street, London, EC3V 0RL. Authorised and regulated by the Financial
Conduct Authority, firm reference number 141665. A subsidiary of The Royal London
Mutual Insurance Society Limited.

Ref: PO RLAM PD 0025

