ASSET MANAGEMENT

CAPITAL REQUIREMENTS DIRECTIVE

PILLAR 3 DISCLOSURES

PERIOD ENDING 31ST DECEMBER 2013

TABLE OF CONTENTS

1 INTRODUCTION

1.1 Background

The Capital Requirements Directive “CRD” introduced the need for investment firms under this new legislative framework to publish certain information relating to their risk management and capital adequacy. The aim is to promote market discipline by providing key data on risk exposures and risk management processes.

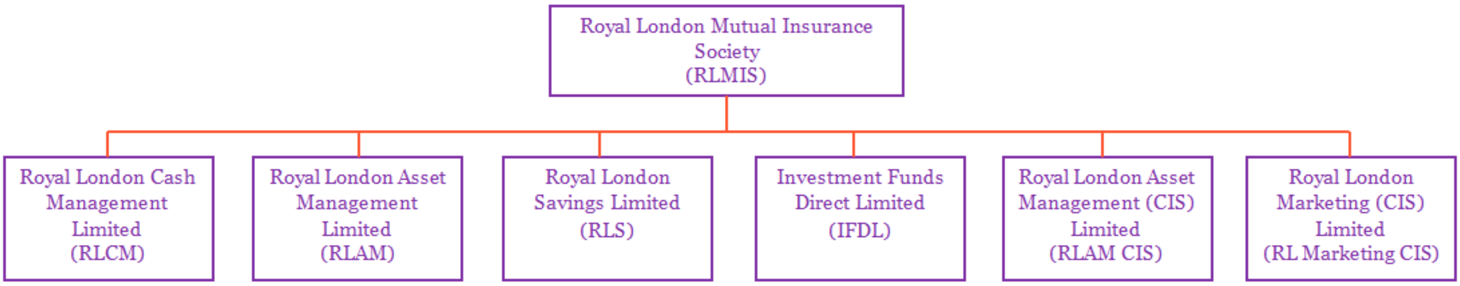
The disclosure of this information is known as Pillar 3 and is designed to complement the two other pillars of the CRD, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The disclosure has been prepared in accordance with the rules laid out in BIPRU 11 of the FCA Handbook.

The CRD three Pillars:

- **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 London Cash Management “RLCM” was established in 1986 and has functioned as a wholly owned subsidiary of Royal London Mutual Insurance Society “RLMIS” since May 2001. RLCM manages cash funds on behalf of Royal London Asset Management “RLAM” and has in excess of 250 external clients. RLCM invests clients’ money in deposits (overnight and fixed term), Certificates of Deposit “CDs” and other short term financial instruments. RLCM’s clients include Government bodies, insurance companies, registered charities, professional associations, commercial companies, housing associations, universities and other institutions.

The structure below shows the subsidiaries of RLMIS which fall under the remit of the CRD:



The Board is supported in its duties by the operation of staff within RLAM to provide an appropriate level of oversight and governance.

RLCM is integral to the overall RLMIS group structure. Controls are reviewed by a number of independent governance committees within RLMIS and by dedicated Risk & Compliance departments within RLAM in addition to Group Internal Audit and our external auditors. A brief commentary on each of the above is detailed in the “Governance” section of this report.

RLCM’s Investment and Marketing Directors report into RLAM’s Chief Executive who is also Chairman of RLCM. The recording of transactions is performed by RLCM and HSBC Holdings plc “HSBC” acts as custodian.

1.2 Summary

The Board concludes that RLCM 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.

RLCM 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 RLCM Board of Directors has responsibility for the overall risk governance and management of RLCM. 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, RLCM 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 Group and on the Corporate Governance section of the Royal London website at www.royallondongroup.co.uk.

The RLCM Board of Directors and senior management will determine whether actual performance was above, below or in line with RLCM's tolerance level. They determine the statement of risk appetite, budget or forthcoming business plan. The Group maintains a Risk Appetite statement which is applicable to all Group entities, including RLCM.

The RLCM Board is responsible for setting the RLCM 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 RLCM Board agree risk indicators and set thresholds that align with the statements and preferences, and the RLAM Executive then determine the thresholds and agree actions to be taken when thresholds are breached.

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 Group Risk & Compliance or externally as circumstances dictate.

RLCM is integral to the overall 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 RLCM.

The remuneration policy of RLCM 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 in the Royal London website at: www.royallondongroup.co.uk.

3 DISCLOSURE

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

These disclosures have been taken from historical and projected information updated to reflect final audited accounts for 2013 in the 2014 Internal Capital Adequacy Assessment Process “ICAAP”.

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

RLCM 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, RLCM 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 RLCM’s website at www.rlam.co.uk/home-rlcm/

This disclosure document has been provided by RLCM in accordance with the requirements of Pillar 3 and the BIPRU Chapter of the Financial Conduct Authority Handbook. Unless otherwise stated, all figures are as at 31/12/2013. 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

RLCM, 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: www.royallondongroup.co.uk.

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 Enterprise Risk Assessor ("ERA"), the group wide risk software utilised by RLCM. The overall procedure of capture, cleansing, stressing, and modelling risks in RLCM starts with key ERA risks being evaluated with business owners for impacts at extreme probabilities. All functions supporting the RLCM operation have participated and self-assessed their own risks and these assessments are subject to 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 RLCM 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.

RLCM conducts top down and bottom up scenarios. The top down scenarios considers 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.

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

To support this process the following management engagement is undertaken:

- Accounting reports to RLCM Board.
- Risk papers to RLCM Board and Group Committees.
- Monthly meetings between the Head's of Risk & Compliance and Executive Directors.
- Engagement of the executive through scenario workshops.
- Annual strategic plan preparation and challenge.

5 CAPITAL ADEQUACY

In addition to the capital adequacy reporting requirements of the Financial Conduct Authority, RLCM has prepared an ICAAP. The ICAAP, which sets out RLCM'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 RLCM Board and any material events that may impact the ICAAP are subsequently raised at the appropriate Board Meeting.

Senior management intend to manage the RLCM capital base so that the majority of assessed risks have sufficient capital provided to allow RLCM to maintain its business without further capital injection. The Board meet regularly and receive financial reports on Pillar 1 and Pillar 2 capital availability.

The paragraphs below outline RLCM's defined risk categories, both business and operational, and provides 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. RLCM has cash balances held with a number of counterparties, which are highly rated by Standard & Poor's and Moodys. RLCM has a number of debtor balances but the credit risk from debtors is mitigated by fees being deducted from RLCM's portfolios on a monthly basis.

Fees and other balances due from clients are regularly reviewed and potential impact on profit and loss 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.

5.2 Counterparty failure or exposure

The exposure within RLCM is considered to be quite small, due to the small period of time between trading and settlement, and, as mentioned above, no amounts held are significant enough to threaten the ability of RLCM to continue business and there is no concentration in an individual counterparty. In addition, the Credit and Market Risk Committee "CMRC" meets 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 CMRC members are in operation. RLCM considers that no additional capital is required for credit risk in Pillar 2.

Concentration

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.

RLCM has cash balances held with a small number of banks which represents a concentration risk. Ratings given to these banks by agencies such as Standard & Poor's and Moodys are very high and provide assurance that this risk is unlikely to materialise. RLCM fee incomes are concentrated across a limited number of client sectors but RLCM believes that the possibility of the concentration risk materialising would be very low and would not require additional capital being set aside.

As mentioned, the CMRC review counterparty exposure to ensure that ratings are appropriate in the current market conditions. RLCM considers that no additional capital is required for concentration risk in Pillar 2.

Market risk

RLCM 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 exposure to market risk is small. Where RLCM is exposed to the impact of market changes is to funds under management. The impact of these market movements on RLCM's fee income is considered as a Stress test. Consequently market risk is not considered material in determining the capital requirements of the business.

5.3 Operational risk

Operational risk is the risk of loss or negative impact to RLCM 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.

Operational risk is a key risk factor for RLCM as an asset manager. RLCM will not engage in activities that in the opinion of the Board would fall outside the scope of the definition of investment management used by the CRD in relation to the calculation of operational risk capital.

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

- RLCM 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, in particular those requirements associated with the protection of client monies.
- Further, the failure to maintain a positive relationship with the regulator could lead to a threat in meeting RLCM's business objectives.
- An embedded compliance culture exists to the extent that it is an integral component in the RLCM 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.

IT system operational effectiveness

RLCM requires multi currency and automatic reporting functionality to service its clients. This risk considers the unavailability or ineffectiveness within associated systems.

Financial crime

This risk relates to illegal or fraudulent action, theft or financial crime.

The risk here was assessed as high impact, but low probability. RLCM management has identified and implemented a number of controls to mitigate this risk as far as possible.

Breach of limits

The scenario anticipates a bank defaulting and clients having exposure to that bank in breach of their IMA investment parameters.

A number of controls are in place to mitigate the risks, including; RLCM client mandates are not complex, investment parameters are set by the clients & held on CALMS, and deals are monitored intraday. Furthermore, segregation exists between the front and back office.

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 RLCM has been incorporated into the projection of cash flows and the adaptation of these to stressed environments. This provides assurance that enough liquid funds are available if this type of risk was to crystallise.

5.5 Operational liquidity planning

In line with the FCA Policy Statement 09/16 on Liquidity, RLCM 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. Should a liquidity crisis arise, RLCM will not pay discretionary bonuses or make payments on incentive plans. In normal circumstances, Royal London Management Services Limited (RLMS) pays all the expenditure incurred by RLCM and recharges these costs to RLCM. Under a liquidity stress situation, RLMS will still incur all expenditure but will not recharge these costs to RLCM. All staff contracts are with RLMIS. RLCM will still receive revenue as fees which are charged in arrears, this would cover for costs still incurred and be recharged as the business begins to contract in size. At the same time, RLCM will have the ability to increase the fee charging structure for the Group with funds managed by RLCM, should such a situation arise.

5.6 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 carry a number of brands, products, market sectors and legal entities that do not reflect a uniform front that would be materially impacted by contagion. In addition, all Companies within the Group conduct and operate different business models, under separate brands and each carries appropriate risk capital within their individual ICAAP. Consequently it is not felt necessary to provide additional capital in the RLCM ICAAP.

It is worth noting the present 'Brand development plans' of the Royal London Group. Whilst it is felt this initiative will bring myriad benefits to the Group – further consideration of the potential impact on contagion risk will be given, as the Brand program plans are more formally defined.

5.7 Business risk

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.

5.8 Interest Rate Risk arising from non-trading activities

The current or prospective risk to RLCM's earnings and capital may arise from adverse movements in interest rates. The impact of these adverse interest rate movements could result in a loss of clients. This is a factor affecting the market as a whole and is a factor determined by economic indicators and confidence in the market. Whilst this may lead to a divergence of funds, RLCM does not believe the loss would be significant as clients would still want to place their money on deposit and achieve the best return possible in line with the level of the security they are seeking. Stress testing undertaken as part of the ICAAP for RLCM has taken account of a 20% loss of its client base and the impact this will have on RLCM's profits.

5.9 Pension obligation risk

This 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 RLCM was required to contribute a single lump sum payment and in 2010 and 2011, Group has required RLCM to make a regular monthly contribution to the scheme. The Group's ICAS assessment continues to set aside capital against pension obligation risk and therefore RLCM does not consider this commitment to require additional capital provision within this assessment.

5.10 Capital resources

Tier 1 capital after deductions is £9.0m. RLCM's capital resources at 31/12/2013 are shown in the table below:

Tier	Element	£000's
Tier 1	Paid up share capital	885
	Disclosed reserves & current year's retained profits (verified by external audit)	8,140
	Total Tier 1 Capital	9,025
Tier 2	Total Tier 2 Capital	0
	Total Capital Resources	9,025

6 NOTICES

This Disclosure is based on RLCM's ICAAP review dated 25/06/2014 and is subject to periodic review and update. The next formal review is scheduled for June 2015. The information contained in this disclosure has not been audited by RLCM's external auditors.

RLCM is a subsidiary of the RLMIS and is authorised and regulated by the Financial Conduct Authority (reference number 121844). The registered office address of RLCM is, 55 Gracechurch Street, London EC3V 0UF.

Source: rlcm as at 31/12/2013 unless otherwise stated.
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. Royal London Cash Management Limited registered in England & Wales number 19632; FCA register number 121844. 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 regulated by the Irish Financial Services Regulatory Authority (IFSRA).
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.