Capital Requirement Regulation (CRR) Part Eight Disclosure

Contents

1. Overview (Articles 431–434)

1.1 Introduction

The European Union Capital Requirements Directive Third Amendment (CRD IV) came into effect on 1 January 2014. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the Financial Conduct Authority (FCA) and through the Capital Requirements Regulations (CRR) from the European Banking Authority (EBA). Among them are disclosure requirements applicable to investment firms under rules known as Disclosure by Institutions (Articles 431–451 of the CRR), replacing the previously used 'Pillar 3'. These are designed to promote market discipline by providing market participants with key information on a firm's risk management processes, risk exposures and capital. The CRR disclosure also aims to complement the minimum capital requirements described under Pillar 1 of Basel II, as well as the supervisory review processes of Pillar 2.

This disclosure document has been prepared by the AJ Bell Group (the 'Group') in accordance with the requirements of Part Eight of the CRR, and can be found at ajbell.co.uk/investor-relations. This document has been prepared under the rules which were in effect at the financial year ending 30 September 2021. For the financial year ending 30 September 2022 it will be replaced by the disclosures outlined in the Investment Firms Prudential Regime which came into effect on 1 January 2022.

1.2 Scope

The CRR rules governing disclosures state that the Group may omit one or more of the disclosures, provided the disclosure(s) omitted is (or are) not material (Article 432 (1)). The Group may also choose not to disclose information if it is proprietary or confidential, however, it must state if any such items have been omitted (Article 432 (2)), with the exception of Risk Management Objectives and Policy (Article 435 (2) (C)), Own Funds (Article 437) and Remuneration Policy (Article 450).

AJ Bell plc (AJB plc) is a parent institution of a group regulated by the FCA. The CRD Group, which comprises the consolidated AJ Bell group excluding AJ Bell Media Limited, is supervised by the FCA on a consolidated basis. Within the CRD Group, there are three subsidiaries that are also directly regulated by the FCA as listed below.

AJ Bell Securities Limited (AJBSL) is classified as a Limited Licence IFPRU 125k Investment Firm and the required parameters are set out in the FCA handbook (IFPRU 2.2). AJBSL does not trade on its own account and operates on an execution-only basis with limited advisory permissions. It does not provide personal recommendations. AJBSL is a significant IFPRU firm and as a consequence, in addition to reviewing the adequacy of the individual Internal Capital Adequacy Assessment Process (ICAAP) at least annually, the firm is required to submit the results of its stress and scenario testing to the FCA within six months of its annual reporting date (30 September).

AJ Bell Management Limited (AJBML) is authorised by the FCA to establish, operate and wind up personal pension schemes, and acts as the administrator to all the Group's self-invested personal pension schemes (SIPPs). It is subject to the requirements set out in the Interim Prudential sourcebook for investment businesses. With effect from 1 September 2016, a new capital framework for SIPP operators was implemented, as set out in FCA Policy Statement 14/12 and the Personal Pension Scheme Operators (Capital Requirements) Instrument 2014. As a minimum, AJBML will always hold the amount of capital required by the 2014 instrument, recalculated at the end of each calendar quarter.

AJ Bell Asset Management Limited (AJBAML) is an investment management company, authorised by the FCA to provide investment management services to professional and retail clients and provide investment advice to eligible counterparties and professional investors. It may control but not hold client money. It acts as investment manager to a number of FCA-regulated funds. AJBAML is classified as a Limited Licence BIPRU Euro 50k Firm and is subject to the provisions of the Capital Requirements Directive IV, comprising the Capital Requirements Regulation (CRR), and the required parameters as set out in the FCA handbook (BIPRU).

The accounting consolidation for the annual financial statements includes all entities controlled by AJB plc. A list of the principal Group subsidiaries can be found in note 6 of the Company's separate financial statements in the 'AJ Bell plc Annual report and financial statements 2021'.

Apart from the requirements to hold regulatory capital in individual regulated entities and corporate law restrictions on the reduction, redemption and purchase of share capital, there are no practical or legal impediments to the prompt transfer of capital between AJB plc and its subsidiaries.

1.3 Basis and frequency of disclosures

The Group's capital assessment will be informed by the Group's ICAAP, which is kept under review and subject to formal revision at least annually. Future disclosures will be issued on an annual basis and published as soon as practicable after the publication of the Group's annual report and accounts. Unless otherwise stated all figures are as at 30 September 2021, AJ Bell's financial year end, with comparative figures as at 30 September 2020.

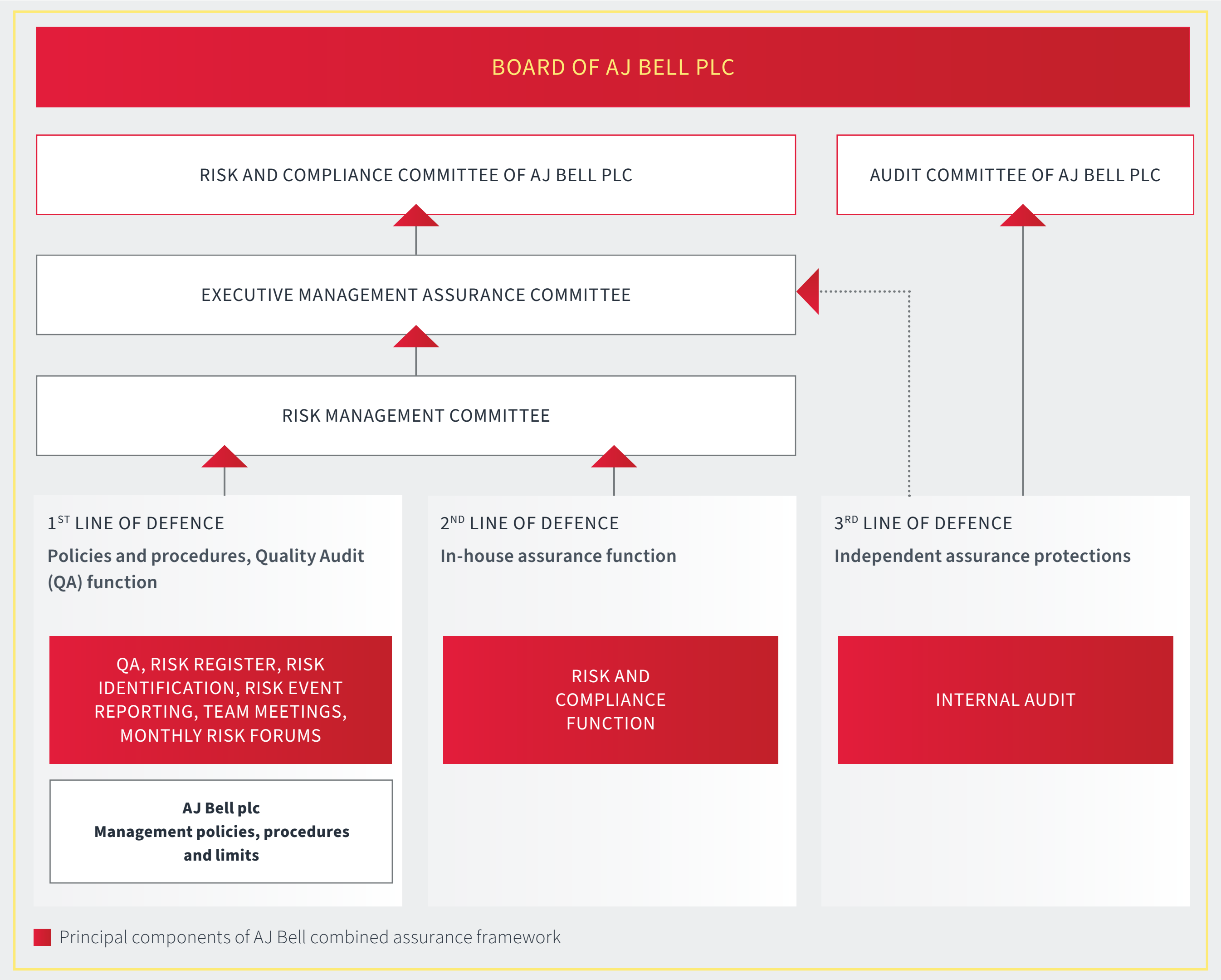
1.4 Verification of disclosure

Disclosures will only be subject to external verification to the extent that they are equivalent to those taken from the audited annual financial statements. These disclosures explain how the Board has calculated certain capital requirements and information about risk management. They do not constitute financial statements and should not be relied upon in making judgements about the Group.

2. Risk management objectives and policies (Article 435)

2.1 Risk management framework (RMF)

The Board is ultimately responsible for the Group's risk management framework (RMF), but has delegated certain responsibilities to the Risk and Compliance Committee (R&CC), a subcommittee of the Board. The governance framework for risk management is detailed below.



2.2 Risk appetite

2.2.1 Definition of risk appetite

The Group defines its risk appetite as representing the amount and type of risk it is prepared to seek, accept or tolerate at any point in time in the context of its business model and in the course of achieving its strategic objectives.

The objective of the Group's risk appetite framework is to ensure that the Board, Executive Management Board (EMB) and senior management are properly engaged in agreeing and monitoring the Group's appetite for risk and setting acceptable boundaries for business activities and behaviours. The Group's high-level risk appetite statement provides a means of expressing senior management's attitude to risk (a top-down process) which can then be communicated throughout the Group as part of promoting a risk-aware culture (a bottom-up process). This in turn forms the basis of a framework for risk decision-making, and for the allocation of risk management resources, tolerances and capital where applicable.

The Group has defined a number of key statements (risk appetite statements) which detail the general approach to risk management and can be used both internally and externally as appropriate.

The Group risk management policy provides the mechanism to define its risk appetite. The Group has generally adopted an overall conservative approach to achieving controlled growth, which is reflected in its risk appetite statements and in the overall approach to risk management.

2.2.2 Risk appetite categories and risk appetite statements

The Group's RMF is based on a defined set of risk appetite categories. These are the high-level enterprise-wide risk categories the Group manages. Each risk appetite category has a defined risk appetite statement.

Risk appetite category	Rationale	Risk appetite statement
Strategic, business or market risk.	Largely external risks that can impact the Group.	The Group is willing to accept some risk in the pursuit of its strategic goals within agreed tolerances.
Operational risk including: a) Technology b) People c) Process d) Change e) Information security and data f) Business continuity/Disaster recovery g) Financial Crime h) Conduct i) Legal/Regulatory/Litigation j) Financial control environment k) Third-party suppliers	Largely internal risks undertaken as part of the fulfilment of Group strategy.	The Group is willing to accept such operational risks in the pursuit of its strategic goals within agreed tolerances but has no appetite for unfair client outcomes or material breaches of regulations arising from systemic failures.
Credit	Specific and limited credit risks strictly within the context of the Group strategy.	The Group has a strictly limited appetite to take credit risk in the pursuit of revenue or profit.
Liquidity	Specific and limited liquidity risks strictly within the context of the Group strategy.	The Group's liquidity risk appetite is to maintain its liquidity resources in excess of its liquidity resource requirement.
Capital	Prudential risk-taking capacity of the Group.	The Group's risk appetite is to maintain its capital resources in excess of the Group's ICAAP capital resource requirement.

2.2.3 Top-down measurement and reporting of risk appetite

The Group adopts both a quantitative and qualitative approach to measuring risks against its risk appetite, incorporating both absolute and relative measurements of risks within each of the categories.

Where the Group has assessed that it faces a significant individual risk, it seeks to set appropriate individual quantitative tolerance levels. In cases where such risks have crystallised materially in the past, the Group performs a review of the amount and distribution of past losses, or uses other techniques, and sets an appropriate tolerance level in the context of the overall risk appetite.

The Board and EMB have identified key risks that, should they crystallise, could impact the Group's ability to meet its strategic objectives. These risks are referred to as the high-impact top risks (HITR).

The Risk team collates the underlying Key Risk Indicators (KRI) mapped to the HITR and highlights any breaches of tolerances to the Chief Risk Officer (CRO) and through onwards reporting to the Risk Management Committee (RMC), Executive Management Assurance Committee (EMAC), R&CC, EMB and Board.

2.2.4 Amendments to risk appetite statements

The risk appetite statements are reviewed by the EMB and R&CC and approved by the Board on an annual basis in line with the Internal Capital Adequacy Assessment Process (ICAAP) and the Group business planning process. Accordingly, the risk appetite is reviewed and updated in line with the Group's evolving strategy, operating model, financial capacity, business opportunities, regulatory constraints and any other internal or external factors.

2.2.5 Risk identification and assessment of risks

The Group adopts a top-down and a bottom-up approach to the identification of risks. The EMB and the Board have identified the HITR that could impact the ability of the business to meet its strategic objectives and these are reviewed against the Group's risk appetite statements, on an ongoing basis by the RMC, EMAC and R&CC. They are also reviewed as part of the ICAAP and business planning process each year.

In addition to the HITR, the Group maintains a risk register of bottom-up risks.

2.2.6 Risk reporting

The Group adopts two methodologies for the purpose of risk reporting.

A summary of all risks recorded on the risk registers, including both quantifiable and non-quantifiable risks or uncertainties, is reported to the RMC (together with any relevant KRI) with significant changes or risks outside of appetite presented to the EMAC and R&CC. As referred to above, these risks are reported in the context of the qualitative comparison to risk appetite, and for those risks outside appetite, progress is reported as to the actions required to bring the risk back within appetite.

For significant quantifiable risks (e.g. operational losses), individual tolerance levels are set in the context of the Group's risk appetite. Actual results are reported against tolerance levels to the Risk team, the EMB and the Board on a monthly basis. In the event that tolerance levels are breached, the appropriate remedial action may be taken immediately.

2.2.7 Integration of risk appetite framework

Risk appetite is integrated into the business via the Group's business planning, capital planning and the RMF. These enable the Board to set the overarching parameters for risk appetite within which it wishes the Group to operate, and to monitor performance thereon. The process streams are illustrated below:

2.2.8 Objectives of the Group's risk appetite framework

The objective of the Group's risk appetite framework is to ensure that the Board, EMB and senior management are properly engaged in agreeing and monitoring the Group's appetite for risk and setting acceptable boundaries for business activities and behaviours. The Group's risk appetite statements provide a means of expressing senior management's attitude to risk (a top-down process) which can then be communicated throughout the Group as part of promoting a risk-aware culture (a bottom-up process). This in turn forms the basis of a framework for risk decision-making and for the allocation of risk management resources, tolerances and capital where applicable.

2.2.9 Adequacy of risk management systems and controls

The Board has delegated responsibility for the annual review of the Group's internal control systems to the Audit Committee (AC), assisted by the R&CC (responsible for the Group's RMF). In satisfying the requirements to ensure that the Group has adequate risk management and internal control systems, the AC has monitored the Group's internal control systems on an ongoing basis and reviewed an annual effectiveness assessment of the Group's risk management and internal control systems.

2.3 Senior management arrangements and organisational structures

The Board was made up of the following individuals at 30 September 2021:

Role	Board member	Directorships held
Chairman and Non-executive Director	Les Platts	1
Chief Executive Officer (CEO)	Andy Bell	36*
Deputy Chief Executive Officer and Chief Financial Officer (CFO)	Michael Summersgill	21**
Senior Independent Director	Laura Carstensen	3
Non-executive Director	Simon Turner	2
Non-executive Director	Eamonn Flanagan	4
Chair Designate and Non-executive Director	Helena Morrissey***	3
Non-executive Director	Evelyn Bourke***	5
Non-executive Director	Margaret Hassall****	10

*Includes directorship of 10 dormant companies
**Includes directorship of 8 dormant companies
***Helena Morrissey and Evelyn Bourke were appointed to the Board on 1 July 2021
****Margaret Hassall was appointed to the Board on 1 September 2021

The day-to-day management of the Group is delegated by the Board to the CEO, who is supported by the EMB, which he chairs. The day-to-day management of operations is delegated to the EMB. The CEO and EMB exercise their respective delegated responsibilities within the confines of the risk and control framework set by the Board.

The EMB for the Group at 30 September 2021 comprised of the following individuals:

Chief Executive Officer	Andy Bell
Deputy Chief Executive Officer and Chief Financial Officer	Michael Summersgill
Managing Director, AJ Bell Investcentre (AJBIC MD)	Fergus Lyons
Managing Director, AJ Bell Youinvest (AJBYI MD)	Charles Galbraith
Chief Technology Officer (CTO)	Mo Tagari
Chief Operating Officer (previously Group Finance Director)	Roger Stott
Chief Risk Officer (CRO)	Karen Goodman*
Group Legal Services Director and Group Secretary	Bruce Robinson

*Karen Goodman was appointed to the EMB on 20 September 2021

Board and EMB changes

A number of changes were made to the Board during the year, initially with the appointments of Baroness Helena Morrissey and Evelyn Bourke, who both joined the Board as Non-Executive Directors on 1 July 2021, with Helena being the designated successor as Board Chair, subject to the approval of shareholders at the January 2022 AGM when Les Platts will step down as Chair. Subsequently, Margaret Hassall was appointed as an additional Non-Executive Director with effect from 1 September 2021.

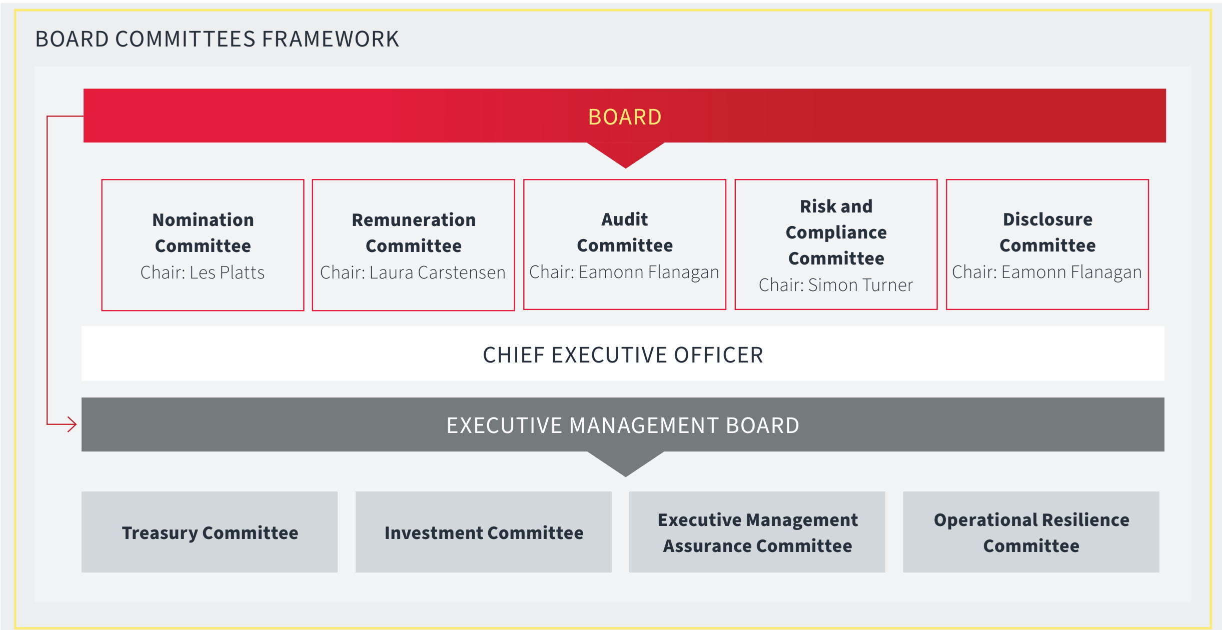
Laura Carstensen, our Senior Independent Director and the Chair of our Remuneration Committee, has decided not to seek re-election at the AGM. As recently announced, the intention is for Evelyn Bourke to become our Senior Independent Director and Margaret Hassall the Chair of the Remuneration Committee, with effect from the end of the 2022 AGM and subject to regulatory approval.

In order to further strengthen the Board at executive level, with effect from 1 October 2021 our Chief Financial Officer, Michael Summersgill, was appointed as Deputy Chief Executive Officer, and Roger Stott, our Group Finance Director, joined the Board as Chief Operating Officer. Roger has gained detailed knowledge of the business from the wide range of roles which he has performed during the 13 years he has been with us. In order to facilitate those changes, we also announced the external recruitment of a new Chief Financial Officer, Peter Birch, who, subject to FCA approval, will join the Board and EMB on 1 July 2022.

The executive management team also had a number of changes during the year, including the recruitment of Karen Goodman, who joined us as Chief Risk Officer and a member of the EMB on 20 September 2021 and the AJ Bell Investcentre Managing Director, Fergus Lyons, stepped down from his role with effect from 30 September 2021. Fergus' successor is an internal candidate, Billy Mackay, our AJ Bell Investcentre Marketing Director.

The EMB was further strengthened following the year end with the internal promotions of our HR Director, Liz Carrington, and the AJ Bell Investments Managing Director, Kevin Doran, with effect from 1 October 2021.

The Board has five main committees: Nomination Committee; Remuneration Committee; Audit Committee; Risk & Compliance Committee; and Disclosure Committee. The committee structure and Committee Chairs are illustrated below:



All of the members of the Board are expected to attend all meetings of the Board, the Board Committees on which they serve and the AGM. The Chief Executive Officer and Deputy Chief Executive Officer and Chief Financial Officer are routinely invited to attend the Board Committees meetings when appropriate.

The table below summarises the committee membership of the Board of Directors at 30 September 2021:

Board member	Nomination	Remuneration	Audit	Risk & Compliance	Disclosure
Les Platts	✔	✔		✔	
Simon Turner		✔		✔	
Laura Carstensen	✔	✔	✔	✔	
Eamonn Flanagan		✔	✔		✔
Andy Bell					✔
Michael Summersgill					✔
Helena Morrissey	✔			✔	
Evelyn Bourke			✔	✔	
Margaret Hassall		✔	✔		

The Committees oversight responsibilities are listed below.

- **The Nomination Committee** is responsible for reviewing the leadership needs of the business to ensure it can continue to succeed in the marketplace. This includes succession planning, considering and making recommendations to the Board in respect of appointments to the Board, the Board Committees, EMB and the chairmanship of the Board Committees. The Committee is responsible for keeping the structure, size and composition of the Board and the other governance bodies under regular review, and for making recommendations to the Board with regard to any changes necessary, taking into account the skills and expertise required to deliver the Group's strategy.
- **The Remuneration Committee** is responsible for determining the remuneration packages for each of the Executive Directors, the Chair and certain senior executives. It also recommends and monitors the level and structure of remuneration for senior management, and the implementation of share incentive or other performance-related schemes.
- **The Audit Committee** reviews and monitors the integrity of the Group's financial and narrative statements and other financial information provided to shareholders, the Group's systems of internal controls, the Group's internal and external audit processes and auditors, and the Group's processes for compliance with laws, regulations and ethical codes of practice.
- **The Risk & Compliance Committee** is responsible for monitoring the Group's attitude to and appetite for risk and its future risk strategy, the Group's risk management framework, how risk is reported both internally and externally, and the processes for compliance with laws, regulations and ethical codes of practice and prevention of fraud.
- **The Disclosure Committee** is responsible for the review and implementation, on an ongoing basis, of AJ Bell's disclosure policy to ensure that it addresses AJ Bell's continuing compliance with the Disclosure Guidance and Transparency Rules, Listing Rules, Prospectus Rules and the Market Abuse Regulation. It is also responsible for ensuring that the disclosure policy is properly communicated within the business.

Further details on the Board and its Committees can be found in the Governance section of the 'AJ Bell plc Annual report and financial statements 2021'. The roles and responsibilities of each of the above Committees are set out in its formal terms of reference, a copy of which can be viewed on the Group's website ajbell.co.uk.

The Board is ultimately responsible for the Group's RMF but has delegated certain responsibilities to the R&CC, a subcommittee of the Board which met five times in the financial year ended 30 September 2021.

The CRO has principal, day-to-day responsibility for the effective operation of the Group's Risk Management Policy, with oversight provided by the EMAC and the R&CC. The CRO reports directly to the Group's CEO, but also has direct access to the Chair of the R&CC and the AJB plc Board. The asset management business is carried on by AJBAML under the name AJ Bell Investments (AJBI).

The members of the EMB are also the directors of AJBML, AJBSL and AJBAML. The Boards of AJBML, AJBSL and AJBAML have delegated day-to-day management responsibility to the EMB. The EMB is also the governing body of AJBML, AJBSL and AJBAML.

The members of the EMB, with the exception of the CEO, HR Director and AJBI Managing Director, comprise the Executive Management Assurance Committee (EMAC), which is a subcommittee of the EMB. The CRO chairs the EMAC.

The subcommittees of the EMB include the following.

- **The Treasury Committee,** which operates subcommittees with delegated responsibility for the management of client money, trustee money, corporate funds and the AJ Bell Cash Savings Hub panel banks. At 30 September 2021 the Treasury Committee consisted of all members of the EMB, except the Chief Technology Officer, with the addition of the Head of Commercial Finance. The Chief Operating Officer acts as the Chair. The Treasury Committee has sub-delegated responsibility for the management of:
    - client money to the Client Money Subcommittee (the SM18 (CASS) is also a member of this subcommittee);
    - trustee money to the Trustee Money Subcommittee;
    - corporate funds to the Corporate Balance Subcommittee; and
    - AJ Bell Cash Savings Hub panel bank selection and monitoring to the AJ Bell Cash Savings Hub Subcommittee.

- **The Investment Committee,** which is responsible for overseeing the activities of AJBAML's Investment Team. In particular, the Committee monitors that AJBAML's investment funds and services – including the AJ Bell Investcentre Managed Portfolio Service and AJ Bell Funds – operate in accordance with their Investment Policy Statement (IPS), approved by the Investment Committee, and that risk volatility is within the agreed tolerances. It also checks that performance is in line with expectations and that excessive risks are not being taken to achieve performance.

The Investment Committee comprises the following individuals:

Chair (external/independent)	Jim Sutcliffe
Managing Director, AJBI	Kevin Doran
Managing Director, AJBIC	Fergus Lyons*
Managing Director, AJBYI	Charles Galbraith
Chief Risk Officer	Karen Goodman
Independent non-executive member	Paul Clements

*Fergus Lyons stepped down from his role on 30 September 2021. It is intended that his successor as our AJ Bell Investcentre Marketing Director, Billy Mackay, an internal candidate, will become a member of the Investment Committee with effect from 1 April 2022. Investment Committee meetings are also attended by the AJBI Managing Director, AJBI Head of Product, AJBI Head of Passive Portfolios and AJBI Head of Active Portfolios. The Investment Committee meets on a quarterly basis and its minutes are circulated to the EMB and EMAC.

- **The EMAC,** which has oversight responsibility for all the assurance functions within the Group, including regulatory compliance and risk management, but excluding external and internal audit.
- **The Operational Resilience Committee,** which has oversight responsibility for our operational resilience strategy, which includes monitoring and managing the operational resilience of important business services in line with set impact tolerance levels. This Committee was established during the financial year ended on 30 September 2021 partly in response to the incidents on 9 November 2020 and partly in response to the final rules and guidance on new requirements to strengthen operational resilience in the financial services sector which were issued by the FCA during the year.

The Operational Resilience Committee comprises the following individuals:

Deputy CEO	Michael Summersgill
Chief Operating Officer	Roger Stott
Chief Technology Officer	Mo Tagari
Operations Director and Chair	Andy Bysouth
Customer Services Director	Nick Carrington
Head of Operational Oversight	Cathy Bell
Operational Risk Manager	Keira Cooper
Chief Risk Officer	Karen Goodman

The day-to-day management of AJBI is delegated to the AJBI Managing Director, who is responsible for monitoring the performance of the asset management business and reports to the AJBIC Managing Director. The AJBI Managing Director has sub-delegated certain responsibilities to a series of subcommittees, as follows:

- **The Customer Outcome Committee,** which is responsible for oversight of design and implementation of investment products manufactured within AJBI in accordance with the six TCF Consumer Outcomes laid down by the FCA, and ensuring compliance with the PROD Handbook.

- **The Asset Allocation Committee,** which is responsible for oversight of all asset allocation processes and decisions.
- **The Portfolio Implementation Committee,** which is responsible for oversight of the construction and performance of the AJBI portfolios.
- **The Department Risk Committee,** which is responsible for oversight of operational risk matters within AJBI.

3. Own funds – capital resources (Article 437)

3.1 Capital available

The Group has complied with the capital requirements set out by the FCA. The table below shows a breakdown of the total available capital for the CRD consolidation group and the total Group.

Tier 1 capital resources	CRD Group total as at 30 September		Total Group as at 30 September	
	2021 £000	2020 £000	2021 £000	2020 £000
Common Equity Tier 1 (CET1) capital				
Ordinary share capital	51	51	51	51
Share premium	8,658	8,459	8,658	8,459
Own funds	(740)	(1,147)	(740)	(1,147)
Retained earnings	118,017	98,400	122,739	102,103
Sub-total	125,986	105,763	130,708	109,466
Regulatory deductions				
Intangible assets	(6,014)	(1,986)	(6,014)	(1,986)
Goodwill	(5,455)	(2,123)	(6,991)	(3,660)
Foreseeable dividends	(38,971)	(19,070)	(38,971)	(19,070)
Total CET1 capital resources	75,546	82,584	78,732	84,750
Risk-weighted assets	288,050	203,938	288,050	203,938
CET1 ratio	26%	40%	27%	42%
Minimum CRD requirement	8%	8%	8%	8%
Coverage under CRD	328%	506%	342%	519%

For accounting purposes, software and development costs are capitalised as intangible fixed assets where they meet certain criteria. Intangible fixed assets do not qualify as capital for Tier 1 and so are deducted.

Foreseeable dividends are based on the quantum of the final dividend due to be paid on 4 February 2022 relating to the financial statements for the year ended 30 September 2021.

Throughout the year, the Group complied with the capital requirements that were in force, as set out by the FCA. The Group's capital resources are based entirely on Tier 1 capital, which is the most robust category of financial resources.

4. Capital requirement (Article 438)

4.1 Basic requirements

Under CRD IV, the CRD Group is required to perform a continual assessment of its principal risks and uncertainties using stress-testing and scenario analysis, considering severe but plausible events to determine the capital and liquidity requirements of the Group. To satisfy this requirement, the Group performs an ICAAP, which is subject to formal review at least once a year.

All qualifying regulated entities within the Group are required to meet the general 'own funds' requirement in accordance with Article 92 of the CRR, including the maintenance of a minimum total capital ratio of 8%.

The Group's minimum capital requirement under Pillar 1 is the higher of:

ii. the fixed overhead requirement; and

iii. the sum of the credit risk, market risk and settlement risk capital requirements in accordance with the sum of points a) to d) and f) of Article 92(3).

4.2 Total Pillar 1 minimum capital requirement

The Pillar 1 minimum requirements as at the two most recent financial year ends are set out below.

Own funds Pillar 1 requirement	**2021 From 1 October**		**2020 From 1 October**	
	Minimum 8% own funds requirement £000	**Risk- weighted assets £000**	**Minimum 8% own funds requirement £000**	**Risk- weighted assets £000**
Operational risk: risk exposure due to fixed overheads	23,044	288,050	16,315	203,938
Credit risk: risk-weighted exposure	7,528	94,105	7,145	89,308
Market risk	-	-	-	-
Settlement risk: risk-weighted exposure	15	184	20	250
Own funds – Pillar 1 requirement	**23,044**	**288,050**	**16,315**	**203,938**
Capital resources	75,546		82,584	
Excess of capital resources over Pillar 1	**52,502**		**66,269**	
Coverage under CRD	328%		506%	
Additional information				
SIPP operator capital requirement (AJBML)	8,482		8,184	
Cover relative to Group capital resources	891%		1,009%	

4.3 Operational risk Pillar 1 minimum capital requirement

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. As a Limited Licence Group, the Group is not required to hold capital under the FCA's Pillar 1 standardised approach to operational risk (IFPRU 5.1.1). The Group has calculated the fixed overhead requirement as a proxy for Pillar 1 operational risk exposure as shown above.

4.4 Credit risk Pillar 1 minimum capital requirement

The Group has adopted the standardised approach, applying an 8% factor to the risk weighting for each asset class as appropriate. The table below sets out the Group's minimum capital requirement for credit risk and risk-weighted assets.

Exposure classes (all domestic exposures)	CRD Group from 1 October 2021	
	Minimum 8% own funds requirement £000	Risk-weighted assets £000
Banking institutions	3,307	41,331
Corporates	-	-
Retail	-	-
Other debtors	2,701	33,767
Fixed assets	1,334	16,676
Deferred tax	186	2,331
Total credit risk minimum capital requirement	**7,528**	**94,105**

4.5 Market risk Pillar 1 minimum capital requirement

The Group does not trade as principal and does not expose itself to material foreign exchange risk. Settlement risk is discussed below. Therefore, there is no Pillar 1 market risk capital requirement for the Group.

4.6 Settlement risk Pillar 1 minimum capital requirement

The risk exposure for settlement and delivery risk are calculated as the price difference between the agreed settlement price of the security and its current market value where this could result in a loss for the Group. This is known as the Counterparty Risk Requirement and is calculated in accordance with Articles 378 and 379.

5. Discussion of approach to risk exposures (Articles 439–449)

5.1 Operational risk overview

As noted above, the Group has calculated the Fixed Overhead Requirement under Pillar 1, which assesses the risk as being equivalent to one quarter of the Group's relevant annual expenditure. For Pillar 2 purposes, the Group's approach is to assess the actual level of operational risk not covered under Pillar 1 to determine whether any additional capital is required. In assessing operational risk under Pillar 2, consideration has been given to a range of operational risks, including technology, back-office failure, conduct and regulatory risks, and their potential impact on the Group's reputational risk stemming from a loss in confidence by customers and advisers.

Given the Group's business model, a high proportion of its material risks are classified under the heading of 'operational risks' within the Group's ICAAP.

The Group seeks to mitigate operational risk in accordance with its risk management processes as noted above, including the employment of appropriately qualified staff in all areas of the business, supported by appropriate training and HR policies.

5.2 Credit risk overview

5.2.1 Credit risk and dilution risk

The Group holds all cash with UK banks with high credit ratings. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset. The risk of past due or impaired exposures is minimal.

5.2.2 Client and market counterparty settlement risk

There is a risk that unexpected losses may arise as a result of client and market counterparties used by the Group failing to meet their financial obligations. The Group carries out initial and ongoing due diligence on the market counterparties that it uses and regularly monitors the level of exposure. The Group does not have a trading book and executes trades for its clients on an agency basis.

Within the Group's stockbroking activities, the Group has limited exposure to the potential failure of securities transactions during the period between trade and settlement date, generally a period of two days. The AJBIC and AJBYI terms and conditions make it clear that risk of a settlement failure is borne by the customer and that AJ Bell is not responsible for any delay in settlement as a result of circumstances beyond its control or for the failure of any other person.

The Group has credit exposure extending beyond the settlement period if the counterparty fails to either make a payment on a sell trade (although the Group holds and controls the relevant client securities pending such payment) or deliver securities on a buy trade (although the Group holds and controls the clients' cash pending such delivery). This settlement risk is substantially minimised as a result of the delivery versus payment mechanism. Therefore, the economic substance of a sales transaction is that securities act as collateral in the case of delivery versus payment to debtors on the Group's balance sheet and so exposure is extremely limited. Similarly, in the case of a buy trade, client-side settlement risk in the form of cash held on the Group's balance sheet does not represent a significant real-world exposure to the Group.

In addition, the deal sizes undertaken by the Group as agent of its retail clients are relatively small and therefore exposure to large deals is limited in number and can be monitored accordingly.

The FCA has stated that it does not require Pillar 1 capital to include a credit risk capital requirement in respect of the execution of client orders on an agency basis.

5.2.3 Other credit risk disclosures

Disclosure on retail or equity exposures is not required as the Group has not adopted the Internal Ratings Based (IRB) approach to credit risk. Disclosures on value-added adjustments and provisions are not required as the Group does not make value adjustments and provisions for impaired exposures.

Disclosure on non-trading book exposures to equities is not required as the Group does not have such exposure. Similarly, the Group does not securitise its assets.

5.3 Market risk overview

5.3.1 General

Market risk is the risk of any impact on the Group's future cash flows due to market movements caused by market variables such as interest rates, asset prices, etc. As noted above, the Group does not deal on its own account and so there is no Pillar 1 requirement for this risk. The Group is exposed to business risk arising from a downturn in stock markets and the resulting fall in revenues from assets under administration (AUA). The Group has assessed the impact of future market movements under its Pillar 2b capital buffer assessment.

5.3.2 Interest rate risk in the non-trading book

The Group is exposed to interest rate risk in relation to loss of revenues from adverse movements in its interest-bearing assets. Cash at bank earns interest at floating rates based on daily bank deposit rates. Term deposits can also be made for varying periods depending on the immediate cash requirements of the Group, and interest is earned at the respective fixed-term rate. Interest rate risk is discussed further within note 26 of the 'AJ Bell plc Annual report and financial statements 2021'.

5.3.3 Foreign exchange risk

The Group is not exposed to any material foreign exchange risk.

5.3.4 Approach to ICAAP

The Group uses a structured approach to determine its internal capital adequacy requirement. Initially, the internal capital requirement has been set at a starting point of zero and then capital due to all Pillar 1 and Pillar 2 risks and external factors has been assessed as described in this document.

The material risks to achievement of the Group's strategic objectives, set out in each year's Business Planning Report, are reviewed and agreed annually as part of the business planning process. All material risks – including credit, market, and operational risks as discussed above – have been agreed by the EMB and Board, and are continuously monitored and taken into account in assessing the Group's internal capital adequacy requirement. The methodology in relation to risk appetite, tolerance and capital allocation is discussed in section 2 of this document.

In assessing the Group's material risks, a range of stress and scenario tests have been undertaken. These are designed to demonstrate that the Group could survive a range of severe but plausible future events in line with the Group's stated risk appetite.

The Board and EMB oversee the ICAAP process, including agreeing the material risks; reviewing and challenging the assumptions used and the stress tests and scenario modelling carried out; and the final approval of the ICAAP document.

6. Remuneration policy (Article 450)

The remuneration disclosures have been drafted in accordance with Article 450 of the CRR.

6.1 Decision-making process for the remuneration policy

The Group maintains a Remuneration Committee which meets at least three times a year and as otherwise required. The committee is comprised of certain Non-executive Directors of the Board, as set out on page 10.

The Remuneration Committee is responsible for maintaining policies and practice in accordance with the applicable principles of the Remuneration Code. Material decisions in relation to the remuneration of staff whose professional activities have a material impact on the risk profile of the firm are overseen by the Remuneration Committee. For these purposes, material risk-takers are defined as members of the EMB. The Group's remuneration policies provide for variable remuneration to be linked to performance.

6.1.1 External consultants

Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Prior to listing, AJB plc undertook a review of its remuneration policy for Executive Directors and senior management in order to ensure it was appropriate for a listed company. The Committee engaged with Deloitte to support the design of the post-admission remuneration structure.

6.2 Remuneration policy principles

The Group's remuneration policies are based on the following key principles.

- **Alignment of interests** of the Executive Directors, senior management and employees with those of shareholders and wider stakeholders, and appropriate alignment with the Group purpose, guiding principles and strategy.
- **Competitive mix of fixed remuneration and performance-related pay,** with an appropriate proportion of the package determined by stretching targets linked to the Group's financial and non-financial performance.
- **Simplicity/transparency** with the creation of a clear framework for the measurement and assessment of performance aligned to the Group business model/cycle rather than an 'off-the-shelf' solution. In line with this principle, instead of having an annual bonus and separate long-term incentive plan, it operates a single incentive plan – the EIP, which has been designed to promote and reward long-term sustainable Group performance.
- **Equity participation,** rather than cash-based incentives, for long-term value creation and to enable executives to participate in potential share price growth.
- **Attraction and retention** of high-calibre talent to ensure continued growth and success.
- **Good corporate governance,** ensuring that remuneration and incentives adhere to the principles of good corporate governance, and the FCA Remuneration Code, and that they support good risk management practice.

Full details of the remuneration policy can be found on pages 56–63 of the 'AJ Bell plc Annual report and Financial statements 2019'.

6.3 The link between pay and performance

The Remuneration Committee seeks to ensure that the Executive Directors' remuneration is aligned with the interests of shareholders.

The basis of remuneration is that of fair reward, ensuring the Group is not significantly out of line with the market, based upon a combination of the role itself, the individual performing the role and performance against defined objectives and behaviours.

An individual employee's remuneration package will consist of the following elements:

- **Fixed remuneration**

Basic salary and other benefits such as private medical and life assurance cover, which do not vary directly as a result of individual or AJ Bell group performance against objectives.

- **Variable remuneration**

Variable remuneration is dependent on achievement of personal objectives and/or the achievement by AJ Bell of its strategic goals and financial objectives over a one-year performance period.

The proportions of an employee's remuneration that are fixed and variable will be determined by reference to the role of the employee and the bonus scheme to which they belong. The rules of each bonus scheme set out how the employee's variable remuneration will be determined based on their performance against their own individual objectives and AJ Bell's performance in meeting its strategic goals and financial objectives.

EMB and other senior management members are remunerated under the EIP scheme, which has been designed to comply with the UK Corporate Governance Code.

EIP awards are granted at the start of the financial year and the number of shares subject to the EIP awards is determined based on the share price at the date of grant. This means that executives are exposed to the impact of any subsequent movement in the share price over the performance period. The Group considered this would help to further align the interests of the executives with those of shareholders.

Awards will be granted subject to the satisfaction of performance conditions assessed over the financial year. The performance measures set for the EIP awards are divided between a balanced scorecard of financial and non-financial measures linked to the KPIs and strategy of the business, with the primary focus being on the drivers of long-term value, such as growth in AUA and customer numbers and retention rates. The Group considers that this, and its clear and robust framework for setting targets, and for measuring and assessing performance objectively, ensures the Group rewards executives appropriately for both their own contribution and the performance of the Group. The Committee retains the discretion to override mechanical assessment ratings if it considers them to have resulted in inappropriate award outcomes. The vesting of a significant proportion of the awards are deferred. Deferred awards are also subject to a performance underpin which is linked to the underlying performance of the Group, risk management, conduct and compliance over the deferral period.

6.4 Equity-based remuneration

The Group's remuneration policies and strategy include the potential for employees to participate in equity ownership through direct share holdings and share option schemes. This gives us the ability to include within an employee's overall remuneration an element of remuneration which is based upon the longer-term performance of the individual employee and is intrinsically linked to the Group's longer-term performance against its strategic objectives.

Share awards are subject to malus and clawback provisions.

6.5 Code staff

Only employees deemed to be ‘code staff’ by reference to the FCA’s definition are formally subject to the principles of the FCA’s Remuneration Code (the ‘Code’). However, it is the Group’s policy to structure remuneration for all employees to meet the key principles of the Code, taking into account the scale, activities and risk profile of AJ Bell’s business.

Employees meeting the definition of code staff include any employees who have a material impact on the Group risk profile. For AJ Bell, this includes all those individuals who perform a significant influence-controlled function, senior managers who have been given delegated responsibility for management and supervision by the governing body of a regulated company within the Group, or the Chief Executive, and employees whose remuneration is in the same bracket as senior management.

The Group reviews and records individuals who are deemed code staff on an annual basis.

6.6 Quantitative remuneration information

During the year ending 30 September 2021, the Group had a total of nine members of staff classified as material risk-takers, assessed as being members of the EMB (2020: eight). Material risk-takers received aggregate remuneration of £3,245,000 (2020: £3,491,000) of which £1,808,000 was fixed remuneration (2020: £1,866,000).

The total remuneration for the financial year ended 30 September 2021 includes the annual and deferred share awards granted under the EIP scheme, the value of which is based on the share price at 15 November 2021, being the date the awards were approved by the Remuneration Committee.

In accordance with Article 450(1)(i), one individual received remuneration in excess of €1 million in the last financial year (2020: one).