MetLife Investment Management

# MetLife Investment Management Pillar 3 Disclosure

April 2022

# Background

The purpose of this document is to set out the Pillar 3 disclosures of MetLife Investment Management Limited (MIML) as of 31 December 2021.

MIML is authorised and regulated by the UK Financial Conduct Authority ("FCA") as an investment firm and as such is subject to the Capital Requirements Directive ('CRD III') and the rules in the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). As such, in respect of the MiFID business that MIML has permission to conduct, MIML is prudentially categorised as a BIPRU firm.

The CRD III established the regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom, the CRD III was implemented by the FCA in its regulations through the GENPRU and BIPRU sourcebooks. The capital framework consists of three Pillars:

- Pillar 1 sets out the minimum capital amount that meets MIML's credit, market and operational risk;
- Pillar 2 requires MIML to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA (the ICAAP as set out below); and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls, capital position and remuneration.

# Frequency and Scope

The rules set out in BIPRU 11 allow a firm to omit required disclosures if the firm believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

Also, a firm may omit required disclosures where the information is regarded as proprietary or confidential. Proprietary information is regarded as any information which, if it were shared, would undermine MIML's competitive position.

Information is considered to be confidential where obligations bind MIML to confidentiality with customers, suppliers and counterparties.

Disclosures are reviewed at least annually and, if appropriate, more frequently. Disclosures will be published as soon as practicable after the publication of the Annual Reports and the finalisation of MIML's Internal Capital Adequacy Assessment Process (ICAAP) and published here.

The information contained in this disclosure has not and is not required to be externally audited and does not constitute any form of financial statement.

# Risk Management

MIML (the "Firm") operates within the risk management framework of MetLife Investment Management LLC ("MIM") and MetLife, Inc. ("MetLife" or the "Company"). The Company's objective is to maintain a risk management framework that identifies, measures, manages, monitors and reports on all material and relevant risks. The techniques used take into account the nature, scale, and complexity of the risks to which we are exposed and in a manner that is adequate to support risk and strategic decisions, while providing a group-level perspective on risk, solvency and capital. Our risk framework is designed to be comprehensive, addressing all material risks, and is embedded within key business decision-making processes.

MetLife operates under the “Three Lines of Defence” model which can be summarised as follows:

### First Line of Defence

The first line of defence is comprised of the managers responsible for the Firm’s business units and departments who are primarily responsible for identifying, managing, measuring, mitigating and reporting on risks.

### Second Line of Defence

Risk oversight and monitoring is undertaken, among others, by Global Risk Management (“GRM”), including Corporate Ethics and Compliance (“CEC”), along with IT Risk and Security and provide effective strategic advisory, review and challenge services to the businesses.

### The Third Line of Defence

The third line of defence is Internal Audit (“IA”), providing independent assurance of the suitability and effectiveness of the Firm’s risk management framework, including management’s execution of its responsibilities to ensure an effective system of internal controls, risk management, and compliance is embedded throughout the Firm.

## Risk Governance

MetLife’s risk management framework is designed to address all material risks. The framework provides for an independent, dedicated risk management team led by the Company’s Chief Risk Officer (“CRO”) who reports directly to the Company’s CEO and is a member of MetLife’s Executive Group. The CRO is primarily responsible for maintaining and communicating the Company’s enterprise risk policies and for monitoring and analysing all material risks. GRM considers and monitors a full range of risks against the Company’s solvency, liquidity, earnings, business operations and reputation.

## Principal Risks

### Operational

Operational risk is the risk of loss or damage resulting from inadequate or failed internal processes, human error, system errors or external events. Operational risk is managed to acceptable levels through the combination of robust risk governance, strong systems and controls.

MetLife’s global operational risk management programs are designed to ensure operational risks are adequately identified and assessed so that material operational risk exposures are captured and managed most efficiently and effectively possible, leveraging the existing risk and control framework. MetLife’s Non-Financial Risk Committee oversees the Company’s operational risk management framework, which consists of individual operational risk management programs supported by functional units. The operational risk management programs primarily reside within GRM, IT Risk and Security, Finance and Global Procurement These groups work closely to provide operational risk governance and support.

### Credit

Credit Risk, defined as the risk of potential losses arising from the failure of a counterparty to meet its financial obligations when due, is not a significant direct factor for MIML in its function as an investment manager. The main risk is the failure of a material third party provider, such as a custodian or trading partner. Third parties are subject to oversight as part of MIM’s and MetLife’s global risk platform.

### Market

Market Risk, defined as the risk of broad market fluctuations in the value of financial instruments, is not borne directly by MIML in its function as an asset manager. Market risk arises indirectly in that MIML’s income from investment management services could be negatively impacted by a decline in the value of assets under management. The market risk of our clients’ portfolios is regularly assessed by portfolio managers and the Firm’s Risk Officer and reported to the Board at least quarterly.

## Liquidity

Liquidity Risk is defined as the risk that the Firm does not have sufficient available funds to meet its obligations as they become due. MIML does not trade for its own account, and therefore does not have exposure to intra-day liquidity risk. Client money and assets are held separately. The Firm's other liquidity needs are assessed and funded as a subsidiary of a large global company.

## Other Risks

In addition to the projection of quantitative financial and risk metrics, MetLife considers qualitative factors to determine whether additional capital should be held to address the potential impact of less quantifiable risks and the risk of uncertainty in quantitative estimates.

The less quantifiable risk categories include model risk, reputational risk, strategic risk and regulatory risk. These risks are not explicitly measured by quantitative projection models.

## Model risk

MetLife uses models for business purposes, including but not limited to reserving, cash flow testing, pricing new business, and stress testing. There is a risk that these models are not fit for their intended purpose and could thus lead to inaccurate estimates which impact financial statements, risk management, or material business decisions. MetLife's model inventory is refreshed regularly to ensure all models are appropriately risk-managed for model risk according to the profile of the model. Critical, high, and medium risk models are required to have a formal model validation which provides additional assurance and reduces model risk to an acceptable level. MetLife has a formal Model Risk, EUC and Tool Policy that governs model risk and validation activities and which is supported by a dedicated team.

## Reputational risk

Reputational risk is a "second-order" / "by-product risk", i.e., it can arise as a result of business activities and the occurrence of other primary risk events. MetLife maintains Enterprise level policies to instil desired business practices and employee behaviour. All employees are expected to comply with such policies, and any exceptions are documented and approved as outlined in respective policies. Also, MetLife assesses the reputational impact resulting from operational risk events through its non-financial risk self-assessment process.

## Strategic risk

Strategic Risk may arise from many sources including, but not limited to, the acceptance of new business, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions or divestitures and major capital expenditures. MetLife's strategic and business planning processes include extensive review within the key businesses. GRM plays an integral role in these processes and in assessing the impact strategic decisions may have on capital, solvency and liquidity. The Company's EC framework is used to allocate equity to the businesses and new products are evaluated for risk considerations before being launched. We optimize our risk and reward profile through robust strategic planning processes, pricing and underwriting strategies, risk management practices, mergers and acquisitions and product strategies, all of which directly contribute to balancing growth, profitability and prudent risk-taking. Decisions related to MIML strategy are made by the Firm's Board of Directors which also oversees and monitor this risk.

## Regulatory risk

MetLife's investments activities, insurance operations and brokerage businesses are subject to a wide variety of laws and regulations, many of which continue to evolve. MetLife follows regulatory rulemaking closely and takes proactive steps to ensure compliance with new laws and regulations thus managing regulatory risk. The Company assesses new regulatory requirements and develops plans to address them in advance of implementation timelines. MetLife reviews losses associated with regulatory fines and penalties as part of its Operational Risk Management framework. All such issues are assessed to ensure proper and timely remediation is taken.

### Business Risk

Business risk is defined as the possibility that the Firm will have lower than expected profits or losses due to the adverse impact of regulatory changes, market conditions, increased competition, the loss of key personnel, increased expenses of the loss of customers due to poor performance or other issues may arise due to increased expenses or the of the loss of customers due to poor performance or other issues. Business risk may arise where functions or processes unrelated to investment activities are not sufficiently resourced to support a successful investment process resulting from changes in management or the loss of key personnel. The Firm's Board of Directors oversees and monitors this risk.

## Capital Resources Requirement

The Company is authorised as a BIPRU Firm by the FCA. For regulatory capital purposes, the Company is classified as a BIPRU 50K Firm and is required to calculate capital requirements under the criteria set out in BIPRU and GENPRU.

As a BIPRU 50k Firm, the Company's Pillar 1 capital requirements are the greater of (GENPRU 2.1.45):

- Base capital requirement of €50,000;
- The sum of its credit and market risks requirements or fixed overhead requirement

MIML's capital adequacy as a BIPRU firm is summarised as follows as at 31 December 2021:

| **Capital Item** | £000s |
|---|---|
| Tier 1 Capital | 9,373 |
| Tier 2 Capital less deductions | 0 |
| Tier 3 Capital less deductions | 0 |
| Total Regulatory Capital after deductions | 9,373 |
| **Capital Requirement** | |
| Credit risk requirement | 0 |
| Market risk requirement | 0 |
| Total of credit and market risk | 0 |
| Fixed overhead requirement | 630 |
| Base Capital Resource Requirement | 42 |
| Total Capital Requirement | 630 |
| **Surplus** | 8,743 |

As required according to GENPRU 1.2 and the Pillar 2 rule, MIML maintains an ICAAP document to establish whether the Firm is required to hold any additional capital to cover any risks the Firm is exposed to which are not fully captured under the Pillar 1 requirements.

The Firm is small with a simple operational infrastructure. The capital requirement has been determined as being the higher of the fixed overheads requirement, the sum of the operational, credit and market risk requirements costs or the wind-down cost.

Under BIPRU and GENPRU, as at 31 December 2021, the Firm was subject to a capital requirement, amounting to £630,000. The surplus of regulatory capital under BIPRU and GENPRU under Pillar 1 was £8,743,000 as at 31 December 2021. The surplus of regulatory capital under Pillar II was £7,825,000.

# Remuneration Disclosures

As at 31 December 2021, MIML is subject to the BIPRU Remuneration Code. This section provides further information on our remuneration policy.

MIML's compensation falls within the global arrangements set by the Company. The compensation program is designed to:

- provide competitive total compensation opportunities that will attract, retain and motivate high-performing employees;
- align the Firm's compensation plans with its short-term and long-term business strategies;
- align the financial interests of the Firm's employees with those of its shareholders through stock-based incentives and stock ownership requirements; and
- reinforce the Firm's pay for performance culture by making a meaningful portion of total compensation variable and differentiating awards based on Firm and individual performance.

The Company uses a competitive total compensation structure that consists of base salary, annual incentive awards and stock-based long-term incentive award opportunities. The primary components of the Firm's regular executive compensation and benefits program play various strategic roles.

### BIPRU Remuneration Code Staff

We have identified, and maintain a record of 'BIPRU Remuneration Code Staff' or "Code Staff" – i.e. staff to whom the BIPRU Remuneration Code applies. This includes senior management and members of staff whose actions may have a material impact on a firm's risk profile. All MIML's Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the BIPRU Remuneration Code.

MIML does not have a Remuneration Committee. The Directors are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk-taking.
- Agreeing to any major changes in remuneration structures.

When assessing individual performance, MIML uses a robust performance review process which includes qualitative criteria.

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "risk takers".

MIML has identified 5 Code Staff. The remuneration provided to employees that were categorised as Code Staff during 2021 was £2,898,178.

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