

Aviva Wrap UK Limited

Pillar 3 Disclosures

Year ended 31 December 2019

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Introduction

Overview

Purpose

The Capital Requirements Directive IV ("CRD IV") is the framework for implementing international capital adequacy standards in the European Union ("EU"); and consists of three pillars:

- Pillar 1 sets the minimum capital requirements that regulated entities are required to meet for credit, market and operational risk, as determined by the local regulator;
- Pillar 2 requires regulated entities and their supervisors to assess whether additional capital should be held against risks not covered in Pillar 1; and
- Pillar 3 seeks to improve market discipline by requiring regulated entities to disclose certain information on their risks, risk management and capital.

The disclosures outlined in this document meet the obligations with respect to Pillar 3 and the requirements outline in Article 431 - 455 of the Capital Requirements Directive ("CRR").

Frequency of disclosures

These disclosures are produced on an annual basis.

Verification, media and location

These disclosures are produced solely for the purposes of satisfying the Pillar 3 requirements, to explain the basis of preparation, disclosure of certain capital requirements and to provide information about the management of certain risks. The disclosures are not subject to audit nor do they constitute any form of audited financial statements.

The disclosures have been verified internally and will only be subject to external verification to the extent they are equivalent to those made in published financial information prepared in accordance with International Accounting Standards. These disclosures explain how the board has calculated certain capital requirements and information about risk management generally. They do not constitute financial statements and should not be relied upon in making judgements about UKW or for any other purpose other than that for which they are intended.

The disclosures are published on the Aviva website.

Scope

The Pillar 3 disclosures apply to Aviva Wrap UK Limited a €125k limited licence investment firm. The Firm is not part of a prudential consolidation group for FCA regulatory purposes, hence the disclosures have been made on an individual basis.

All disclosures in this document are for the year ended 31 December 2019.

Governance

Governance Structures

Aviva Board plc

UKW forms part of the Aviva Group headed by Aviva plc. The Aviva plc Board is responsible for determining the overall Group risk appetite, which is an expression of the risk that Aviva Group is willing to take. Risk appetite is set relative to capital, liquidity and franchise value at group and individual entity level. The group's position against risk appetite is monitored and reported to the Aviva plc Board on a regular basis.

Aviva Life Holdings UK Limited

UKW is fully owned by Aviva Life Holdings UK Limited ("UKLH"), which is ultimately owned by Aviva Plc. UKW and its Board membership is subject to endorsement from both the UKLH Administration Committee/CEO and Aviva Group, the latter being in line with the Aviva Group's Escalation and Sign-off procedure and Subsidiary Governance Principles.

Aviva Wrap UK Limited

The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote the success of the Company for the benefit of its shareholders as a whole and in a way which is consistent with its Articles of Association, applicable regulatory requirements and current corporate governance practice.

The Board composition is as below:

Board Members	Position
Chris Esson	Non-Executive Director
Lindsey Rix	Chief Executive Officer
Stuart Robinson	Chief Financial Officer
Mike Hogg	Director
Matt McGill	Director
Paul Trickett*	Non-Executive Director and Chair
Board Attendees	Position
Simon Morgan	Chief Risk Officer, Aviva Wrap
Ashish Madaan	Risk Head of Platform Compliance
Chris Golland	Head of CASS & Middle Office
Roger Marsden	MD Savings
Sue Kelly	Director S&R Governance & Assurance

*Subject to regulatory approval



Directors and management of UKW are committed to maintaining a strong risk, control and compliance culture throughout the organisation.

This is achieved through a governance structure consisting of three core elements:

- Boards, board committees and personal committees;
- Three lines of defence, policies, processes and controls;
- Roles and accountabilities.

Board members have specific responsibility to review and monitor current and future risks. The governance committees are responsible for reviewing and setting policies and procedures for the business lines within UKW. These committees are established to assist and support Board members manage key strategic matters; review business activity and risks and provide support where needed.

Board Committees

The UKW Board delegates certain duties to the board committees as described below. Matters may also be escalated, by the business, to these committees or indeed to the UKW Board.

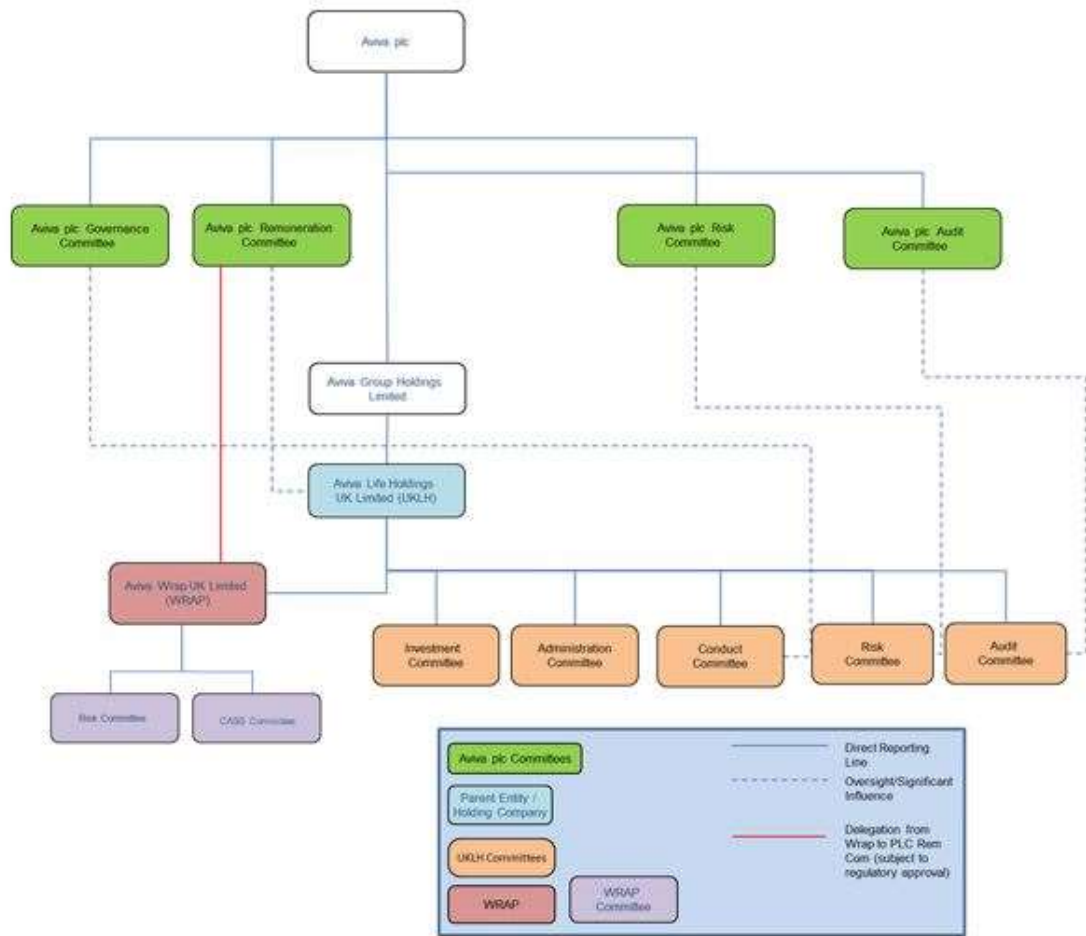
UKW Risk Committee

Chaired by a Non-Executive Director, established as part of IFPRU Significant Firm Compliance the Risk Committee is responsible for assisting the Board in its oversight of risk (including conduct risk, investment risk (the operational risk relating to client investment and the second line investment risk oversight process), operational risk, regulatory compliance and legal risk), reviewing the Company's risk appetite and risk profile in relation to capital and liquidity, reviewing the effectiveness of the Company's risk management framework, reviewing the methodology used in determining the Company's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, and monitoring the Company's regulatory requirements.

CASS Committee

Chaired by Chris Golland (CF10a), Head of CASS, the CASS Committee has been set up as the governing body that oversees all aspects of CASS compliance. The forum has been established to facilitate monitoring and oversight and thereby assist the Board fulfil its regulatory obligations pertaining to Principle 10 and compliance with the Financial Conduct Authority's (FCA's) Client Asset ("CASS") regime.

Board Committees Structure



UKW Remuneration matters are considered by the Aviva PLC Remuneration Committee and UKW Nomination matters are considered by the UKW Board.

UKW Audit matters are considered by the UKLH Audit Committee.

Personal Committees

The UKW Board has delegated authority to the Chief Executive Officer (“CEO”) for the executive management of the business. The CEO is provided with support and advice by the Savings Senior Leadership Team (“SLT”) who discharge through their own personal committees challenge and oversight concerning the strategic, financial, reputational, operational, investment, emerging, conduct risks; and control aspects of the day-to-day management of UKW. Decisions are taken by individual executives as part of their delegated authority and, as required, matters are escalated appropriately to an appropriate Board, Committee or Individual.



NB: UKW legal entity falls within the Savings Business (Adviser and OIS Platforms)

The role of the personal committees are:

Savings Risk Committee - Oversee, monitor and challenge the risk management practices, processes and control framework of the Adviser and OIS Platform businesses ultimately ensuring that risks operate within the agreed business risk appetite

Savings Conduct Forum - Oversee the quality of customer experience through actively monitoring key sources of conduct MI, identifying / Investigating areas of potential concern and overseeing actions to rectify conduct issues.

Savings Leadership Team Meeting - To oversee the management of the Savings business including operational performance, change, marketing and distribution

Savings Proposition Development Forum - Oversee propositional development, maintenance of exiting proposition and any other material business change impacting customers ensuring operating in line with Customer Led Propositions governance framework as set out in the UK Life Product Development Approval and Management ("PDAM") business standard

Platform Investment Governance Committee - To provide oversight and challenge to ensure that fairness and suitability, customers' interests, and all relevant legal and regulatory requirements are appropriately considered in the investment and propositional ranges, design, decisions and structures. Operates in line with the Asset Eligibility Policy.

Platform Change Steering Group - Responsible for the delivery of the Platform Change planned business outcomes against agreed scope and within approved budget levels. Responsibilities also include provision of strategic direction/guidance and establish priorities and alignment to platform change to Aviva IT test and release controls.

Risk Management Framework

Overview

UKW seeks to perform its operations subject to remaining within risk appetite and meeting stakeholders' expectations. This is achieved by embedding rigorous and consistent risk management across the business. The Risk Management Framework ("RMF") includes the strategies, policies, processes, governance arrangements, tools, and reporting procedures necessary to support this.

Employees are responsible for the identification, measurement, management, monitoring and reporting ("IMMMR") of the full spectrum of current and future risks facing the business whilst achieving its strategic objectives.

The appropriate controls are developed and embedded to adequately meet business operational goals and guard against the materialisation of the risk.

UKW monitors the risks within the Risk Control Self-Assessment ("RCSA"). Senior management meetings involve review of iCare extracts, focussing on out of tolerance risks and outstanding periodic tests. Examples of indicators used are MI and control testing results within the periodic test plans, which test whether the controls are appropriately designed and working effectively.

The progress of remediation is monitored by the risk owners to early identify risks not on track to return to tolerance. In such instances, risk owners are required to decide how best to bring the risk back to tolerance in a timely manner (e.g. additional allocation of resources, tactical or short-term solutions until resolution is completed, etc.).

The RMF supports the decision-making process and also helps develop the appropriate control activities in response to:

- Risks facing the business; and
- Control objectives required to successfully perform business activities to meet business objectives and strategic goals.

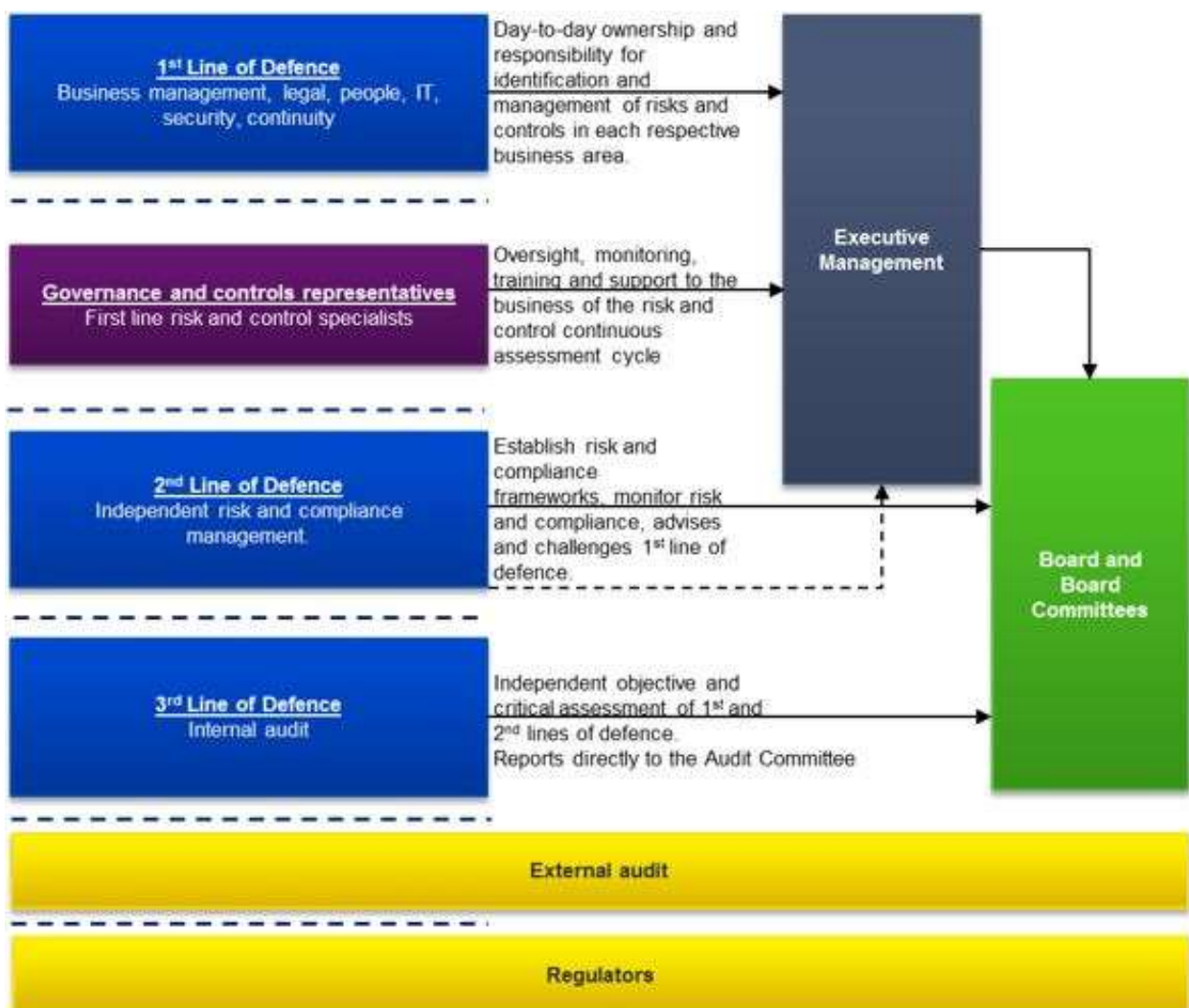
RMF Principles

The RMF provides a framework for managing risk across the business. To facilitate this goal, the following principles are followed:

- The business strategy and risk strategy must align with each other, considering operational controls designed to prevent risks from materialising.
- Risk must be taken into account in all key business decisions.
- An appropriate culture must be in place to ensure effective management of exposures, to remain within risk tolerances and appetites (respectively), where this is within management's control. Action plans for risks out of tolerance or appetite must be documented and, once agreed, followed without undue delay.
- An appropriate governance structure, supported by documented Board and committee terms of reference, must exist to ensure effective implementation of the RMF.
- The Three Lines of Defence model must be operated effectively, supported by clear and documented delegations of authority and role profiles, that maintain an appropriate segregation of duties.
- Tracking and observing tools must be used to monitor data results across the business. Examples include (but are not limited to) key risk indicators ("KRIs"), control effectiveness reviews, risk events, capital adequacy assessments and stress and scenario testing ("SST").

- Management should seek to take on only those risks for which there is appropriate appetite, tolerance and resources (capital, liquidity, staff and knowhow) and avoid concentrations of exposures to risks.
- The risk management requirements of local and group regulators must be met.
- The business must ensure it can provide documented evidence of effective risk management and annual review of both the risk management system and systems of governance.

To promote a consistent and rigorous approach to risk and control management across all businesses, UKW maintains frameworks, policies, methodologies, registers and supplementary guidance documents that are aligned with the policies and standards prescribed by Aviva Group. On an annual basis the CEO, supported by the CRO, signs-off compliance with the Aviva Group policies and standards, providing assurance to the relevant oversight committee that the framework is being used for managing its business and associated risks.



Three Lines of Defence

First line of defence

The firm recognises the importance of clear and appropriate apportionment of significant responsibilities among directors and senior managers. This is achieved by having clear role profiles that record all employee accountabilities and are consistent with committee and delegated authority structures.

The first line of defence is primarily responsible for risk IMMMR. The first line management is responsible for the implementation and practice of risk management across current and future risk profiles of the business.

UKW recognises the importance of oversight, monitoring, training and supporting the business in performing its risk and control management responsibilities. This is achieved by employing appropriate representatives in the successful commencement and completion of the risk and control assessment cycle throughout the year.

The governance and control representatives remain operationally independent from risk-taking activities that could compromise their independence and ability to challenge. In functions where there is no full time governance and controls resource allocated (i.e. Finance, People Function, Legal) appropriate mitigations are in place to ensure independence and threats are self-reviewed to a reasonable level.

The Head of CASS is responsible for assessing, advising, managing and reporting on the firm's CASS risk providing assurance that appropriate arrangements are in place and/or identifying any failings with the firm's obligations under MiFID as well as key CASS regulatory requirements.

Second line of defence

The Risk and Compliance functions report directly to the firm's CRO and are operationally independent from risk-taking activities and any other activities that could compromise their independence. A summary of activities is outlined below:

- Risk is responsible for the design, implementation and validation of the risk and control management frameworks, systems and economic capital models requiring regulatory approval. The risk function reports to the CRO, Risk Committee and UKW Board on the overall risk profile of the company.
- Compliance is responsible for assessing, advising, monitoring and reporting on the firm's compliance risk i.e. the risk that the firm fails to comply with its obligations under the applicable requirements and the standards set by the FCA and other relevant regulatory authorities. The Head of Compliance (SMF16) is responsible for assessing, advising, monitoring and reporting on the firm's compliance risk providing assurance that appropriate arrangements are in place and/or identifying any significant failings with the firm's obligations under MIFID as well as other key conduct regulatory requirements.

Third line of defence

Internal Audit's purpose is to help the Board to protect the assets, reputation and sustainability of UKW by challenging the effectiveness of the framework of controls which enable risk to be assessed and managed. The team assists the business in achieving its objectives by exhibiting a systematic, disciplined approach to evaluate the effectiveness of risk management, control and governance processes.

In pursuit of this purpose Internal Audit, objectively and independently from management, assesses the effectiveness of the design and operation of the framework of controls; on the effectiveness of management actions to address any deficiencies within the framework of controls; and to investigate and report on cases of suspected financial crime or employee fraud and malpractice.

Internal Audit is responsible for performing these functions efficiently and effectively, but it is not responsible for setting the risk appetite or for the effectiveness of the framework of controls.

Enterprise Risk Management

Aviva Group risk policies

Aviva Life Holdings UK Limited (“UKLH”) complies with the Group Risk Management Framework Policy and uses the diagram below to represent the Life Enterprise Risk Management (“ERM”) Framework.



The ERM Framework considers all categories of risk (financial, conduct, strategic and operational) facing UKLH in its pursuit of business objectives and sets out the key activities that must be undertaken in order to operate in a risk-conscious manner.

The ERM Framework forms an integral part of the management and Board processes and decision-making framework. It ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis. It ensures risks are measured considering the significance of the risk to the business and its stakeholders (both internal and external) in the context of our strategy, objectives and risk appetite.

The ERM Framework applies to UKW as it does to the life companies as subsidiaries of UKLH.

At the core of the ERM framework is Risk Strategy & Appetite. This demonstrates how a risk lens should be used when translating the Strategy into business decisions, in order to ensure UKLH generates value safely. It shows the 3 components of the risk lens are: Risk Appetite, Risk Preferences and Risk Tolerances and Limits. These are noted in turn below.

Risk Appetite

Overarching Risk Appetites represent quantitative expressions of the degree of risk accepted in seeking to deliver the business strategy. UKLAP currently sets overarching risk appetites for solvency and liquidity cascaded to the UKW Board for review and approval.

Monitoring

Monitoring takes place monthly and reviewed by the Life Financial Risk and Solvency Forum (“LFRSF”) with an update provided to the UKW Board at each quarterly meeting through the CFO Report to the Risk Committee and to the Board.



Solvency Risk Appetite (“SRA”)

UKW must hold a capital buffer above the economic capital requirement such that there is still sufficient capital left to at least cover 100% of the economic capital requirement and maintain regulatory solvency following a 1-in-5-year adverse event (plus an addition to allow for solvency estimation error).

The capital buffer requirement defined in the SRA is 25% of Pillar 2, added to both Pillar 1 or Pillar 2.

A solvency monitoring corridor is defined to determine what actions are required when monitoring solvency against the approved SRA. The solvency monitoring corridor for UKW is anchored around Pillar 2 (the economic capital requirement) given that this is currently and expected to be the biting constraint. The term Solvency Capital Requirement (“SCR”) is used for UKW to mean the Pillar 2 economic capital requirement and is not referring to a Solvency II capital requirement.

Liquidity Risk Appetite (“LRA”)

Short-Term Liquidity Risk Appetite

To hold sufficient liquid resources to withstand a 1-in-20-year liquidity risk event crystallising over a one-month period and to continue to meet business as usual liquidity needs.

Long-Term Liquidity Risk Appetite

To hold sufficient liquid resources (including the ring-fenced funds in UKLAP) to withstand a 1-in-200-year liquidity risk event crystallising over a six-month period and to continue to meet business as usual liquidity needs.

The full LRA is held in cash and therefore as the same liquid assets are currently available to meet the short and long term LRA it is only necessary to monitor against the higher constraint i.e. the long term LRA.

Liquidity monitoring takes place at least monthly. The following liquidity monitoring triggers, incorporating a 5 day “resolution period” in line with that adopted for UKLAP has been approved.

Risk Preferences

Risk preferences are qualitative expressions which specify whether the business is seeking, limiting or averse to each individual risk type. Risk preferences are set at an overall UK Life level and automatically apply to the subsidiaries of UKLH.

Risk preferences are reviewed annually, with the most recent preferences agreed by the UKLH Risk Committee in April 2019. The definitions of the risk preference categories are shown below.

Preference	Action
RISK SEEKING	UK Life will actively seek out this risk. UK Life will seek to increase exposure via responsible risk taking in areas where it identifies that risk taking will be rewarded.
RISK LIMITING	UK Life is tolerant of limited, managed exposures to this risk. UK Life will accept inherent exposure to this risk in support of business objectives and will continue with existing strategies which aim to reduce or transfer any significant exposures, where cost effective and practical to do so.
RISK AVERSE	UK Life is averse to this risk and seeks to avoid exposure. UK Life will accept inherent exposure only when necessary to support business objectives but will actively seek out new strategies with the aim of minimising the net exposure to this risk, where cost effective to do so.

UKW risk preference categories

Risk Preferences have previously been set for UKLH (and expected to be used for all Life subsidiaries) and are adopted by UKW as shown in the table below.

Risk Type		Preference	Rationale
Other	Operational	Risk Limiting	On the basis that these risks will rarely provide an upside, we seek to reduce our operational risk profile to as low a level as commercially sensible, whilst recognising that the organisation needs to remain agile and execute at pace in the current strategic environment. However, there is an inherent link between business volumes and the level of operational risk which means our business growth ambitions will not result in a reduction in proportional exposure over the plan.
	Expenses	Risk Limiting	We accept a level of expense risk, inherent in our business model and growth ambitions, however we should actively seek to reduce expenses and expense risk in support of our strategic ambitions.
	Conduct (new business)	Risk Limiting	We accept a degree of increasing conduct risk on new sales as it is acknowledged we may be exposed to additional risk as UKW grows, and hence the risk should be managed where cost effective and practical to do so.
	Conduct (existing business)	Risk Averse	On existing business, we actively seek to reduce conduct risk in line with our preference on franchise risk.
	Franchise	Risk Averse	Our businesses' growth strategy and long-term sustainability depends upon the protection of our franchise and doing the right thing by our customers. We actively seek to reduce risks that materially impair our or the Aviva Group's reputation and always seek to ensure that customers are treated with integrity.
Market Risks	Credit	Risk Limiting	Credit risk already dominates the UKLH balance sheet and forms a key part of its business plan. We take a balanced approach by increasing illiquid credit risk (in a low risk fashion) where there is a competitive advantage and offset this with less liquid credit. It is noted that the relative attractiveness of liquid vs illiquid credit is dependent on market conditions and the difference has narrowed recently.
	Equity	Risk Limiting	Direct equity is unlikely to be attractive and we do not have a competitive advantage. This is balanced with the desire to continue to grow unit linked business and other return seeking alternatives (e.g. AIMS) which inherently contains equity risks. The exposure is generally relatively easy to hedge.
Insurance Risks	Persistency	Risk Seeking	We accept increasing relative exposure because of our new business strategy as well as to continue offering attractive flexible products for our customers. Typically, not a sustainable source of return hence we will continue to practice good risk management to control it wherever commercially practical.



Operational Risk

Operational risk is the key risk in UKW on which UK Life has a 'risk limiting' preference.

UKW's view of operational risk is consistent with the UK Life preference, as it is acknowledged that operational risk is likely to increase as UKW grows, and hence the risk should be managed where cost effective and practical to do so.

Conduct Risk

The UK Life preference to conduct risk was clarified in the 2018 review and split into its three constituent parts namely:

- Franchise risk;
- conduct risk on existing business; and
- conduct risk on new business.

Risk averse preferences have been set for franchise risk and conduct risk on existing business but a risk limiting preference applied to conduct risk in relation new business.

This risk limiting preference accepts the increased but managed exposure to conduct risk aligned to the plan to deal with more customers directly which will explicitly increase the Conduct Risk taken by UKLH.

This is consistent with the Group Risk Management Framework Policy, which notes that Aviva has no appetite for:

- Adopting strategic plans or developing new products and services which are unlikely to result in good customer outcomes;
- Failing to keep under review our products and services to ensure that they continue to be consistent with the achievement of good customer outcomes at all stages of the product lifecycle;
- Failing to incentivise good employee behaviours which support the achievement of good customer outcomes and/or regulatory conduct requirements; and
- Failing to implement risk based and proportionate controls for preventing financial crime and inappropriate market conduct, including market abuse.

All Other Risks

Currently UK Life has a 'risk limiting' preference for most other risks to which UKW is exposed (e.g. expenses, equity, and credit). Therefore, whilst exposure is accepted in support of business objectives, any existing strategies which aim to reduce or transfer significant exposures should be continued, where cost effective and practical to do so.

Risk Tolerances and Limits

Aviva UK Life & Pensions Limited ("UKLAP"), as the main trading company within the UK Life group, monitors risk capital exposure to individual risk types against Risk Capital Tolerances. Risk Capital Tolerances are set in line with Aviva Group guidance and enable the company to monitor and understand the evolution of the risk profile relative to the Business Plan, enabling actions to be taken where necessary.

Methodology

Upper and lower tolerances are set for each risk type by applying a corridor around a baseline view of risk capital for each risk, ensuring that in case all risks reach the upper tolerance level, the solvency cover ratio would not fall in the capital risk appetite "red range".



For UKW a risk tolerance is set only for Operational Risk Capital Requirements as this is the most material risk.

The corridor width is set as per the latest Group guidance, based on the extent to which each risk diversifies under the Internal Model and the sensitivity of the balance sheet (i.e. less sensitive risks or those that diversify well have wider corridors).

Monitoring

In accordance with Aviva's Risk Management Framework, individual risk exposures against the approved tolerances should be monitored through regular MI updates covering capital and liquidity reporting prepared by or for the UKW CFO.

In case of an operational risk tolerance breach, it should be investigated and reported to the UKW CFO and CRO. It should also be reported to the next UK Life Financial Risk Steering Committee ("LFRSC") and at the next UKW Risk Committee and Board meeting, where proposed actions will be agreed. The reporting should include an explanation in case of material movements over previous period and plan, as well as, year-end projected position.

Internal Capital Adequacy Assessment (ICAAP)

The ICAAP is a process used to determine the appropriate minimum capital requirements to be held by UKW for severe, but plausible events. This process consists of several underlying activities which considers the information of the day-to-day current and future risk profiles (e.g. risks, controls, issues, etc.) to inform the internal capital adequacy assessment process.

In summary, the ICAAP includes the below three activities:

- 1) Determining the amount of capital that needs to be held to ensure that the business can withstand the impact of a severe, yet plausible 1-in-200-year combination of its top-down current risks crystallising.
- 2) Developing operational risk scenarios, stress testing and wind down plans through workshops that are conducted between the risk function, relevant Executives and subject matter experts (SMEs). These are used in the ICAAP to assess and stress the capital position of UKW. Workshop participants are briefed using data from the business, such as the current and future risk profiles, internal / external events, internal audit open issues, monitoring measurement results and internal / external reviews performed.
- 3) Assessing the capital requirements of UKW. The scenarios and calculations generated are discussed in detail with the relevant Executives and updated for the feedback received. The entire ICAAP document is reviewed and challenged by the Executive Committee, Capital Committee, Risk Management Committee and Risk Committee; and approved by the Board.

Capital Resource and Adequacy

Own Funds

A reconciliation of the audited financial statements as at 31 December 2019 to regulatory own funds is shown in the table below:

Tier 1 Capital	£'000
Ordinary share capital	169,500
Retained earnings	(85,721)
Total balance sheet equity	83,779
Regulatory Deductions	
Intangible assets*	(6,527)
Deferred tax	—
Total regulatory deductions	(6,527)
Total own funds	77,252

*Based on net profit impact of deferred acquisition costs.

Tier 1 and Tier 2

In 2019 UKW's own funds comprised entirely of Tier 1 capital, being £77.3m.

UKW's common equity tier 1 ("CET1") capital comprises of Permanent Share Capital (Ordinary Shares). All ordinary shares are fully paid up and rank equally with regard to voting rights and dividend entitlements declared, made or paid by the Company. All shares will also be entitled to a proportional share of the residual assets of the Company upon winding up.

Profit and loss consists entirely of retained earnings.

Prudential Filters and deductions

No prudential filters, including those in respect of unrealised gains or losses on fair value assets, have been applied to capital resources in arriving at common reporting ("COREP") Own Funds.

UKW is not required to make any deductions for intangible or deferred tax assets as would otherwise be required under the CRR.

Capital Requirements

Capital Resource Requirements - Pillar 1

UKW calculates its pillar 1 capital requirement as the higher of:

- The base capital requirement;
- The sum of its credit risk and market risk capital requirements; and
- The fixed overhead requirement ("FOR")

At 31 December 2019 and throughout the year, UKW complied with the capital requirements as set out in article 92 of the CRR.

Capital resource requirement	Risk weighted exposure amount	Capital requirements £'000
Credit Risk	1,307	
Market risk	—	
(A) Total	1,307	—
(B) Fixed Overhead Requirement		7,065
Higher of (A) and (B) - Pillar 1 requirement	—	7,065
Total Own Funds		77,252
Pillar 1 Surplus		70,187
Total Capital Ratio (Own Funds / FOR x12.5)		87%

The Total Capital Ratio was above the minimum required threshold of 8%. The ratio is the Total Own Funds divided by the total risk exposure. For UKW this is based on the FOR which is multiplied by 12.5 to calculate the ratio. If Total Own Funds is higher than the Pillar 1 capital requirement the ratio will always be greater than 8%.

Analysis of Capital Requirements - Pillar 1

Standardised Credit Risk Capital Requirement

Credit Risk is defined as "the risk that a party to a financial transaction or instrument will cause financial loss to the other party by failing to discharge its obligation."

UKW applies the standardised approach to calculating its credit risk capital requirement as set out in Part 3 Title II of the CRR. The Pillar 1 capital requirement is calculated by applying a risk weighting to the balance sheet asset value and then applying an Own Funds Requirement percentage of 8% to the risk weighted asset.

The principal source of credit risk to UKW arises from firm cash deposited at highly rated credit institutions and client and/or market counterparty contractual obligations as trade receivables.

See below for an analysis of UKW own funds requirement for credit risk on an exposure class basis at 31 December 2019 (£'000s):

	Balance sheet as at 31 December 2019	Credit risk adjustment	Credit risk exposure	Risk weighted exposure
Balance sheet item	£'000	%	£'000	£'000
Institutions	77,733	20%	15,547	1,244
Corporates	5,367	—%	—	—
Other items	789	100%	789	63
Totals	83,889	20%	16,336	1,307

Market Risk

Market risk is defined as “the risk of losses in positions arising from movements in market prices”.

As a limited licence IFPRU investment firm, UKW has no trading book, undertakes no proprietary trading and has no foreign currency exposures. As at 31 December 2019 the market risk requirement was nil.

NB: The potential for market risk to impact the solvency of UKW is considered as part of the ICAAP in the same way that exposure to equities not in the trading book is also considered.

Exposure to Counterparty Credit Risk

UKW does not have any exposures to over-the-counter (“OTC”) derivatives and does not have a trading book, therefore faces no counterparty risk exposures outlined in Article 439 of the CRR at present.

Credit Risk Adjustments

Crystallised and anticipated losses are provided for within the income statement as soon as their crystallisation is considered probable and the quantum can be reliably estimated.

Expected credit losses on material trade receivables and other assets are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which do not include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. Expected credit losses have been calculated using a provision matrix where recoverability has been assessed against the age of the receivable. Expected credit losses as at 31 December 2019 are as follows:

Expected credit losses relating to trade receivables recognised in year	
	£'000
Opening expected credit losses	5,506
Utilised during the reporting period	4,291
Expected credit losses at 31 December 2019	1,215



Geographic Exposures

UKW does not have geographic exposure other than the UK.

Unencumbered Assets

UKW does not hold any encumbered assets.

Use of ECAIs

UKW calculates risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2 of the CRR. The External Credit Assessment Institutions (ECAIs) used by UKW are Standard & Poor's, Moody's and Fitch across all exposure classes. The ECAI's credit assessment is used to determine the credit quality step of each exposure using the standardised mapping.

Other Exposures

Exposures in Equities not included in the Trading Book

UKW is not directly exposed to equity risk. UKW income is derived from platform charges based on the market value of direct and indirect investment in equities through products on the platform. The exposure to this income risk is considered as part of the ICAAP.

Exposure to Interest Rate Risk on positions included in the Trading Book

UKW has no exposure to interest rate risk positions.

Exposure to Securitisation Positions

UKW does not participate in securitisation activities and, as a result, it is not necessary to hold capital against securitisation risk.



Remuneration Policy

UKW's full disclosures are set out in the Remuneration Committee section of the Aviva website.