

# PILLAR 3 DISCLOSURES

As at December 2015

[avivainvestors.com](http://avivainvestors.com)



# PILLAR 3 DISCLOSURES

Aviva Investors

DECEMBER 2015



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## Abbreviations and glossary of terms

AIGSL	Aviva Investors Global Services Limited
AIHL	Aviva Investors Holdings Limited, a member of the Aviva Group
AIPL	Aviva Investors Pensions Limited
AIUKFL	Aviva Investors UK Funds Limited
AIUKFSL	Aviva Investors UK Funds Services Limited
FLFL	Friends Life Funds Limited
FLI	Friends Life Investments Limited
AUM	Assets Under Management
Aviva Investors	In accordance with Article 7 & 9 of the CRR, includes entities detailed on page 6 of this report
Aviva Group	The Aviva plc group of companies as reported in Note 62 – Organisational structure, on page 253 of the Aviva plc Annual report and accounts 2015, available at <a href="http://www.aviva.com/reports/2015ar/">http://www.aviva.com/reports/2015ar/</a>
Aviva plc	The holding company of the Aviva Group and AIHL's ultimate parent company
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
Board	Board of Directors
Business Standards	A set of business standards which set out the requirements for operating across Aviva Group's most important business processes. The business standards are a key part of the Aviva Group's risk management framework.
CEO	Aviva Investors Chief Executive Officer
CFO	Aviva Investors Chief Financial Officer
COO	Aviva Investors Chief Operating Officer
COREP	Common Reporting – Standardised reporting framework issued by the European Banking Authority for CRD reporting.
CRD	Capital Requirements Directive
CRO	Aviva Investors Chief Risk Officer
CRR	Capital Requirements Regulation
ECAI	External Credit Assessment Institutions
EU	European Union
FCA	Financial Conduct Authority
FUM	Funds Under Management
GENPRU	General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms
GROUP	Aviva Investors UK Regulatory Group
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	Prudential Sourcebook for Investment Firms
IFRS	International Financial Reporting Standards
IPRU-INV	Interim Prudential sourcebook for Investment Businesses
NED	Non-Executive Director
OEIC	Open-ended Investment Company
ORN	Orn Capital LLP
OTC	Over The Counter
RCSA	Risk and Control Self Assessment
RMF	Risk Management Framework
SREP	Supervisory Review and Evaluation Process
UCITS	Undertakings for Collective Investment in Transferable Securities (Regulatory Status)

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## 1. Introduction

### 1.1 Overview

#### 1.1.1 Purpose

The Capital Requirements Directive ("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.

Aviva Investors Holdings Limited ("AIHL") and its subsidiaries (collectively referred to as "Aviva Investors") is categorised as a significant IFPRU group and is subject to prudential oversight by the regulators of the countries in which it operates. The United Kingdom ("UK") Regulator – the Financial Conduct Authority ("FCA") – implements the Pillar 3 requirements in the UK by way of Part Eight of the Capital Requirements Regulation ("CRR"). In summary, the regulations require Aviva Investors to consider the following:

- The alignment of Aviva Investors business strategy, plan, forecasts, Risk Appetite Statement ("RAS"), risks and Key Risk Indicators ("KRIs").
- The identification, definition, exposure and measurements of its key risks and controls to mitigate those risks.
- The integration of the Internal Capital Adequacy Assessment Process ("ICAAP") into the Aviva Investors Risk Management Framework ("RMF") processes.
- The capital adequacy assessment process to assess each material risk and determine the appropriate capital requirements.
- The resilience of the financial position by stressing the financial projections with a number of stress and scenario tests ("SST") which reflect the material, proximate and emerging risks of Aviva Investors.

#### 1.1.2 Basis of disclosures

These disclosures are made in accordance with the requirements of Articles 431 to 455 of the CRR. Specifically, Aviva Investors' risk management objectives and policies; the processes for managing its risks; the structure and organisation of its risk management functions; the scope and nature of its risk reporting and measurement systems and its policies for mitigating risk.

#### 1.1.3 Frequency of disclosures

These disclosures will be produced on an annual basis as a minimum and more frequently, if appropriate. Aviva Investors has a reporting date of 31 December and these disclosures reflect the position at 31 December 2015.

#### 1.1.4 Verification, media and location

These disclosures have been produced solely for the purposes of satisfying the Pillar 3 requirements, to explain the basis of preparation, disclosure of certain capital requirements and 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 AIHL Board, along with the boards of directors of each respective legal entity, are responsible for the system of internal control and for reviewing its effectiveness. Such a system can provide reasonable but not absolute assurance against material financial misstatement or loss and is designed to mitigate, not eliminate, risk.

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The Aviva Investors Pillar 3 disclosures have been prepared and reviewed in accordance with the Aviva Investors Pillar 3 disclosure policy approved by the AIHL Board in April 2016. Management consider that disclosures as set out in this document adequately convey the risk profile of Aviva Investors.

These disclosures are published on the Aviva Investors corporate website ([www.avivainvestors.com](http://www.avivainvestors.com)).

## 1.2 Scope

### 1.2.1 Basis of consolidation

In accordance with the exemptions available under International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements and section 400 of the Companies Act 2006, AIHL does not publish its own consolidated accounts as the Aviva Investors group is consolidated into the accounts of its ultimate parent company, Aviva plc, and which are published on the Aviva corporate website ([www.aviva.com](http://www.aviva.com)). Internal Aviva Investors group consolidated management accounts, prepared in accordance with International Financial Reporting Standards ("IFRS"), include a consolidation of its subsidiaries, joint ventures and relevant proportions of undertakings by virtue of a Banking Consolidation Directive article 134 relationship. An article 134 relationship is a relationship where significant influence is exercised over another company, but without holding a participation or other capital ties in the company and without being a parent undertaking of the company. All undertakings consolidated by Aviva Investors by virtue of an article 134 relationship are ultimately held by Aviva plc. For the purposes of regulatory reporting, and as required by the FCA, Aviva Investors France SA, which is included in consolidated internal reporting under an article 134 relationship is excluded from the regulatory group.

The following entities are included in the Aviva Investors regulatory group.

Fully consolidated entities:

- Aviva Investors Holdings Limited ("AIHL");
- Aviva Investors Global Services Limited ("AIGSL");
- ORN Management (Bermuda) Limited;
- ORN Capital LLP ("ORN");
- ORN Capital Services Limited;
- Aviva Investors Jersey Unit Trusts Management Limited;
- Aviva Investors Luxembourg SA;
- Aviva Investors Asia Pte Ltd;
- Aviva Investors Pacific Pty Limited;
- Aviva Investors Securities Investment Consulting Company Limited;
- Aviva Investors Canada Inc.;
- Aviva Investors North America Holdings, Inc.;
- Aviva Investors Americas LLC;
- Aviva Investors Employment Services Limited;
- Aviva Investors UK Funds Services Limited ("AIUKFSL");
- Aviva Investors UK Funds Limited ("AIUKFL");
- Aviva Investors Real Estate Finance Limited;
- Aviva Investors Poland S.A.;
- Aviva Investors Schweiz GmbH
- Aviva Investors London Limited (FCA permissions cancelled in July 2015);
- Friends Life Investments Limited ("FLI"), (Aviva Investors acquired in April 2015); and

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- Friends Life Funds Limited (“FLFL”), (Aviva Investors acquired in April 2015).

Proportionally consolidated entities:

- Aviva Investors Poland TFI (Aviva Investors acquired 51% ownership in October 2015)

Investments not consolidated:

- Aviva Investors Pensions Limited (“AIPL”); and
- Aviva Investors Ireland Limited

AIPL is an “insurance undertaking”, and is therefore not an institution or a financial institution. AI Ireland Ltd is an inactive company that is not involved in the active AI asset management business, and is therefore not an institution or a financial institution. Consequently both are excluded from the consolidation, but reflected as an investment in subsidiary.

Of these consolidated entities the following are regulated by the Financial Conduct Authority (“FCA”) and are consolidated for regulatory reporting purposes using the aggregation method under the FCA rules for investment firms:

- AIGSL a significant IFPRU firm – Limited Licence €125k;
- AIUKFSL an IPRU-INV collective portfolio management firm;
- AIUKFL a significant IFPRU firm – Limited Licence €125k;
- FLI a BIPRU firm – Limited Licence €50k;
- FLFL an IPRU-INV collective portfolio management firm; and
- ORN a BIPRU firm – Limited Licence €50k.

## 1.2.2 Transfer of capital resources

There is no current or foreseen material, practical or legal impediment to the prompt transfer of capital resources from AIHL, the Aviva Investors group parent undertaking, to its subsidiary undertakings.

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## 2. Risk Management Framework

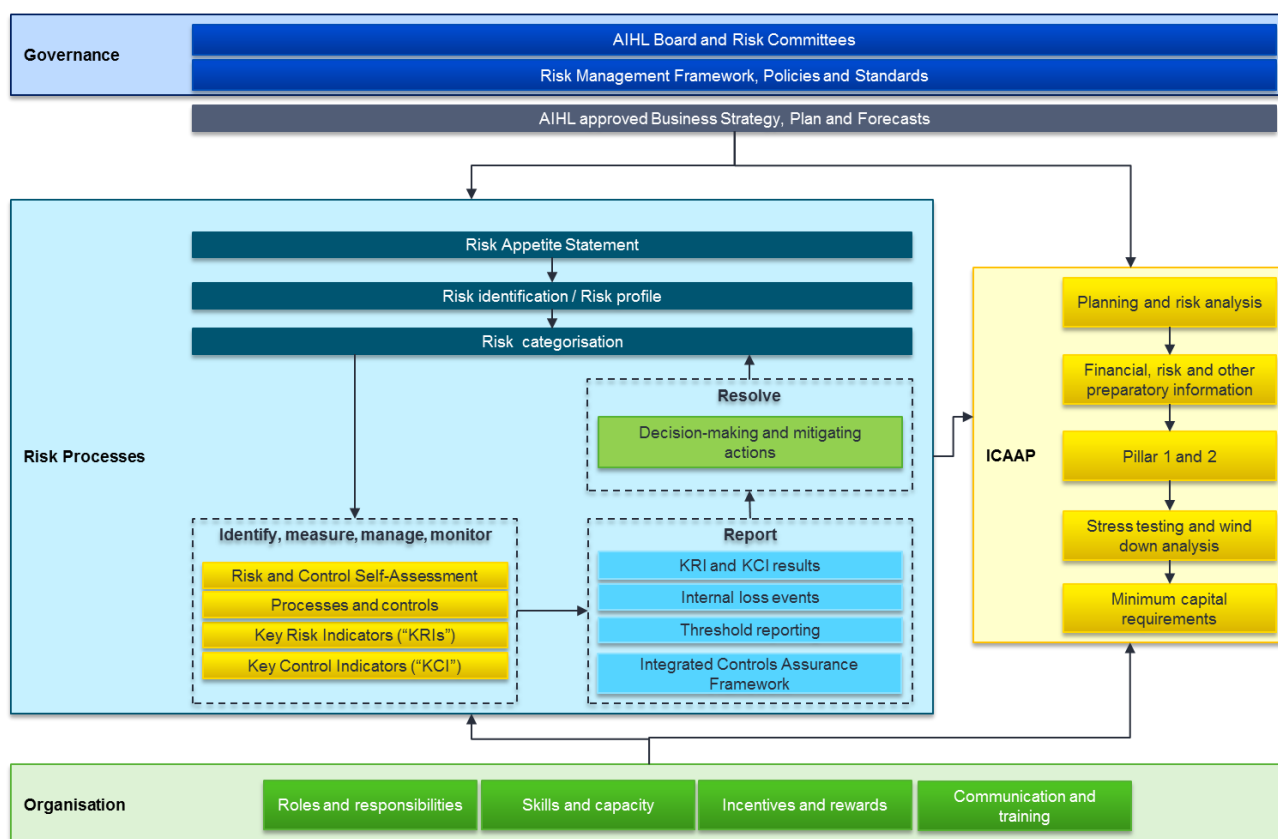
### 2.1 Overview

This section describes the Risk Management Framework ("RMF") and related policies and procedures that have been implemented by Aviva Investors to identify and manage its risks and to protect the interests of its clients. The RMF incorporates the Aviva Group's Enterprise RMF which has been adapted to the needs and requirements of Aviva Investors.

All employees are responsible for the identification of those risks which could prevent the delivery of Aviva Investors' strategic objectives including those which could result in poor client outcomes and those which are inherent in the end-to-end processes. Senior management are responsible for ensuring that those risks are adequately measured through the Risk and Control Self-Assessment ("RCSA") process and that controls (or other mechanisms such as insurance) are in place to adequately mitigate exposure to within risk tolerance. Indicators, based on business risk appetite, are used to monitor the risk exposure. Employees are required to escalate control failures (risk events), changes in risk exposure through the introduction of new processes, systems, people or external events to senior management and support functions that in turn monitor, analyse and escalate to the AIHL Board.

The AIHL Board are confident that our risk management arrangements are adequate and appropriate given the group's risk profile and strategy.

### 2.2 Aviva Investors Risk Management Framework



The Aviva Investors RMF includes the strategies, policies, tools, governance arrangements, processes and reporting procedures to manage its risks. The framework outlines the risk strategy, risk policy categorisation and approach to managing risk, including how it identifies, measures, manages, monitors and reports on the risks to which it is, or could be, exposed. This framework includes the accountabilities of management, the risk function and internal audit in relation to enterprise-wide risk management.



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The RMF provides a framework for managing risk across Aviva Investors. In order to facilitate this goal, the following principles are followed:

- The business strategy and the risk strategy must align with each other, considering risk and return, and taking Aviva Investors from its current risk profile to a desired future risk profile in articulating the business' risk appetite. The RAS must be clearly documented.
- The exposure to risk must be taken into account in all key business decisions.
- An appropriate culture must be in place to ensure that there is an effective management of risk exposures, to remain within risk appetites, where this is within management's control. Action plans for exposures to risks outside the risk 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 Risk Management Framework.
- The *Three Lines of Defence* model for risk management must be operating effectively, supported by clear and documented delegations of authority and role profiles, which maintain an appropriate segregation of duties.
- Key risks must be actively identified, measured, managed, monitored and reported. Risk identification must be forward-looking to allow management to take proactive action.
- Risks must be measured by considering the likelihood and impact (financial, reputational and conduct risk impacts) of the risk to the enterprise and its stakeholders (both internal, such as employees, and external, such as customers) in the context of strategy, objectives and risk appetite. Likelihood and impact ratings are assessed before (inherent risk) and after (residual risk) the design and effectiveness of control activities are assessed to mitigate risk exposure and any issues identified through any of the other risk monitoring and reporting tools.
- Tools, such as KRIs, control effectiveness reviews, key control indicators ("KCI") and stress and scenario testing ("SST") are adopted for measuring and monitoring the exposures to and reporting on risk.
- Management should seek to take on only those exposures to risks for which there are appropriate skills, capability and resources to manage them and should seek to avoid concentrations of exposure 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 management across all businesses, including Aviva Investors, Aviva Group maintains a set of risk policies and business standards. On a semi-annual basis the Aviva Investors CEO, supported by the CRO, signs-off compliance with these policies and standards, providing assurance to the relevant oversight committee that the framework is being used for managing its business and associated risks.

## 2.3 Governance structure and key responsibilities

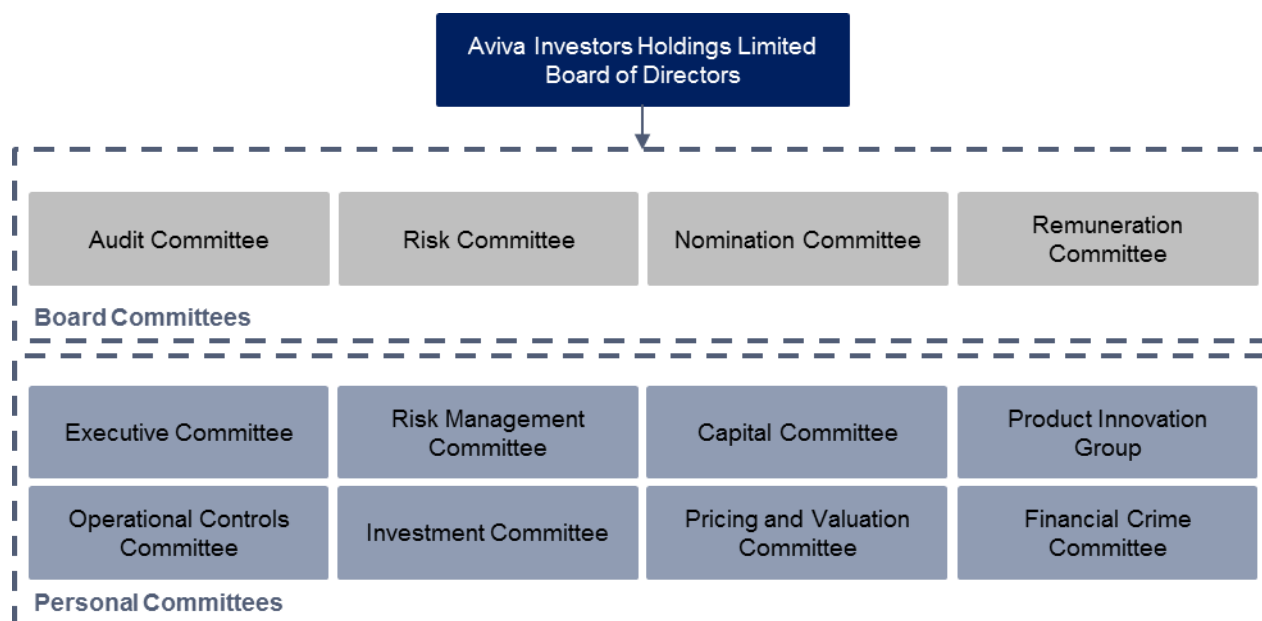
### 2.3.1 Overview

The governance structure for Aviva Investors consists of three core elements: boards, board committees and personal committees; policies and standards; and roles and accountabilities.

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## 2.3.2 Aviva plc Board

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

The number of directorships held by the members of the Aviva plc Board of Directors, and their respective knowledge, skills and experience are provided in the Aviva plc Annual Report and Accounts. The policy on diversity with regard to the selection of members of the Aviva plc Board of Directors, its objectives and targets, and the extent to which these targets have been achieved, are also provided in the Aviva plc Annual Report and Accounts, which are available at [www.aviva.com](http://www.aviva.com).

## 2.3.3 AIHL Board

The AIHL Board is responsible for organising and directing the affairs of Aviva Investors in a manner that is most likely to promote the success of Aviva Investors 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 Aviva Investors Nomination Committee ("Nomination Committee") monitors the balance of skills, knowledge, experience and diversity of directors and recommends appointments to the AIHL Board. The AIHL Board membership is subject to the approval of its shareholder and the FCA, and comprises executive and non-executive directors.

The AIHL ("the Company") diversity policy sets out the approach to diversity in relation to the composition of the AIHL Board of Directors. The Company recognises and embraces the benefits of having a diverse Board as a way to further improve our performance as a business. The Company believes that Boards drive higher and more sustainable investment outcomes if they benefit from fresh perspectives, new ideas, vigorous challenge and broad experience. Diversity can encompass different nationalities, race, skill sets, age groups, industry experience and gender as well as the personal attributes and experience of the Directors. The Company will look at these qualities when determining the optimum composition of its Board. All appointments to the Board are made on merit and suitability for the role, and seek to balance the knowledge, skills, independence, diversity and experience needed to make the Board effective as a whole.

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Number of directorships held by members of the AIHL Board as at 31 December 2015:

Name	Position with Aviva Investors	Directorships – Executive	Directorships – Non Executive
Euan Munro	Chief Executive Officer	4	-
Patrick Neville (resigned 30 June 2015)	Chief Financial Officer	13	-
Clifford Abrahams (appointed 1 July 2015, resigned 31 December 2015)	Chief Financial Officer	5	-
David Clayton (appointed 14 December 2015)	Chief Financial Officer	3	2
John Misselbrook	Independent Non Executive Chairman	-	7
Jeffrey Weingarten	Independent Non-Executive Director	-	2
Mark White	Independent Non-Executive Director	1	7
Manjit Wolstenholme (resigned 31 December 2015)	Independent Non-Executive Director	-	9
Jason Windsor	Non-Executive Director	6	-

Board members have specific responsibility to review and monitor the key risks that are aligned to the business strategy and risk appetite of Aviva Investors in the form of KRIs, KCIs, control effectiveness reviews, errors and breaches, internal audit issues identified and any other issues identified through the risk monitoring tools embedded at Aviva Investors. Key risks that have been identified are monitored through the capital adequacy assessment and stress and scenario testing processes which are reported at the Risk Management Committee and the Capital Committee, and ultimately the Aviva Investors Risk Committee ("Risk Committee"). Board meetings are held at least four times a year.

The governance committees are responsible for reviewing and setting policies and procedures for the business lines within Aviva Investors. These committees are established to assist and support the Board to manage key strategic matters; review business activity and risks; and provide support where needed.

## 2.3.4 Board committees

The AIHL Board delegates certain of its duties to the board committees as described below. The AIHL Board, together with these committees, provides oversight and challenge of global strategic, financial, reputational, and control aspects of the Aviva Investors business. Matters may also be escalated by the business to these committees or the AIHL Board. All board committees are chaired by independent non-executive directors.

- The **Aviva Investors Audit Committee** ('Audit Committee') works closely with the Aviva Investors Risk Committee and is responsible for monitoring the integrity of financial statements and the effectiveness of systems of internal control, and for monitoring the effectiveness, performance, independence and objectivity of the internal and the external auditors covering Aviva Investors' global business.
- The **Risk Committee** assists the Board in the oversight of risk (including conduct risk, operational risk, regulatory compliance and legal risk). Its remit includes reviewing the effectiveness of the RMF, risk appetite and risk profile, reviewing the methodology used in determining capital requirements, stress and scenario testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, and monitoring regulatory requirements.
- The **Nomination Committee**. The duties of the Nomination Committee include monitoring the balance of skills, knowledge, experience and diversity of directors and recommending appointments to the AIHL Board. The Nomination Committee will also discuss and agree any targets or objectives for achieving diversity on the Board and recommend them to the Board. This could be on any aspect of diversity where further representation would be beneficial for the Board's overall effectiveness.
- The **Aviva Investors Remuneration Committee** ('Remuneration Committee') comprises non-executive directors. The Remuneration Committee is responsible for supporting and advising the AIHL Board on the overall remuneration policy for

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Aviva Investors and the employment, remuneration, reward and benefits terms for Aviva Investors' senior management, code staff and any other relevant employees. It works in conjunction with the Aviva plc Remuneration Committee.

The Board Committees meet on a quarterly basis.

## 2.3.5 Personal committees

The AIHL Board has delegated authority to the Aviva Investors Chief Executive Officer ("CEO") for the executive management of the business. The CEO is provided with support and advice by a personal **Executive Committee** comprising all the members of the Executive team. The members of the Executive team are assisted by their own personal committees that are aligned to their respective business areas and provide challenge and oversight concerning the strategic, financial, reputational, conduct risks and control aspects of the day-to-day management of Aviva Investors. Decisions are taken by individual executives as part of their personal delegated authority and, as required, matters are escalated to an appropriate board, committee or individual.

The personal committees other than the Executive Committee are:

- **Capital Committee** (chaired by the Chief Financial Officer ("CFO")) - provides financial risk management oversight and supports the CFO in the management of the Aviva Investors' balance sheet and capital position.
- **Product Innovation Group** (chaired by the Director of Global Business Development) - oversees product development and management activities including new product launches and the management of existing products.
- **Risk Management Committee** (chaired by the Chief Risk Officer ("CRO")). This committee includes operational risk, conduct risk, compliance risk, investment risk, credit risk and emerging risk in its remit. It reports to the Executive Committee and to the Risk Committee. It is supported by the Operational Controls Committee, the Pricing and Valuation Committee, the Investment Committee and the Financial Crime Committee.
- **Operational Controls Committee** (chaired by the Chief Operating Officer ("COO")) - oversees and monitors the management of operational controls.
- **Pricing and Valuation** (chaired by the COO) - oversees and monitors the implementation of consistent and controlled pricing and valuation for all AUM.
- **Investment Committee** (chaired by the Director of Investment Risk) - oversees investment risk.
- **Financial Crime Committee** (chaired by the Global Head of Financial Crime Compliance) – oversees the approach to identifying and mitigating financial crime risks.

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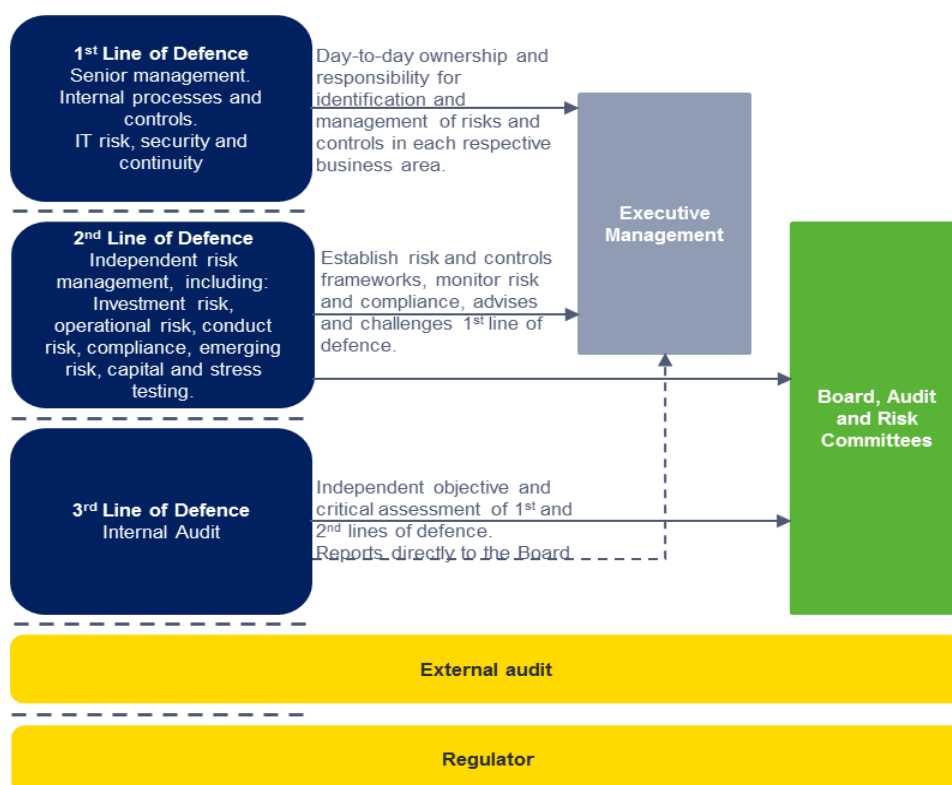
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## 2.4 Three lines of defence

Aviva Investors manages its risks based on the “three lines of defence” model: the first line of defence comprises business managers, IT risk, security and continuity teams who manage business risks on a daily basis; the second line of defence comprises the risk and compliance teams under the Aviva Investors CRO who advise and challenge the business on the management of its risks; and the third line of defence comprises of Internal Audit who assess and report on the effectiveness of controls.



### 2.4.1 First line of defence

Aviva Investors recognises the importance of clear and appropriate apportionment of significant responsibilities among directors and senior managers who are committed to maintaining a strong risk, control and compliance culture throughout the organisation. This is achieved by having clear role profiles that record senior management accountabilities and are consistent with committee and delegated authority structures.

The first line also includes the Business Processes and Controls (“BPC”) team, responsible for delivering annual risk self-assessments and a programme of monitoring and testing of all of the key processes and controls across Aviva Investors’ operations. This includes co-ordination of the quarterly RCSA process undertaken across the business.

### 2.4.2 Second line of defence

The CRO is responsible for the second line risk function. This comprises the following teams:

The **Operational Risk team** supports and advises the business on the identification, assessment and measurement of operational risks. The team provides training to the business on risk management and challenges the business on the management of its risks where it is appropriate. Quarterly independent risk reports are prepared and submitted to the Risk

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Committee for review, challenge and approval. Specifically, the Operational Risk team provides independent oversight and challenge of:

- The quarterly RCSA process; and
- The semi-annual policies and standards attestation process.

The Operational Risk team tracks Aviva Investors' compliance with its RAS and material concerns of the AIHL Board with the capital adequacy assessment process. It identifies and assesses key risks associated with material changes such as new businesses, products, clients and distribution platforms. Recommendations are provided to bring risks back within appetite, and any unresolved issues are escalated to the CRO and relevant senior management to review.

The Operational Risk team also manages the risk events, errors and breaches process at Aviva Investors. The team's role is to ensure that any material issues that occur are appropriately resolved, and that any client detriment is identified and addressed. The team also ensures that any necessary control enhancements are identified and implemented, and that any material findings that have a broader implication for the controls infrastructure are shared with relevant staff across the organisation.

The **Investment Risk team** is responsible for monitoring investment risk against fund benchmarks and other relevant risk measures. The team analyses risk, both within asset classes and at a fund level, and provides expert risk analysis and recommendations to the fund managers. The Investment Risk team works with the business to enhance the investment decision making process and provide independent challenge to ensure the level of risk taken is appropriate. Its objectives are to ensure that each portfolio's risk profile is consistent with its investment objectives and the stated investment process. Aviva Investors believes that effective and robust risk analysis, leading to an enhanced understanding of investment risk will, over time, deliver superior investment performance that is consistent with stated investment objectives.

The Investment Risk team has also taken responsibility for model validation, with a specialist team within Investment Risk Analytics undertaking this work under the supervision of the Risk Management Committee.

The **Credit Risk team** is responsible for the independent oversight and challenge of credit risks taken in the Global Investment Solutions business, as well as for independent oversight and challenge of the principal and agency counterparty credit risks run by Aviva Investors.

The **Emerging Risk, Capital and Stress Testing team** is responsible for ensuring that Aviva Investors' risk profile reflected in appropriate capital requirements and stress tests. The team uses the broader RMF as its starting point in this analysis, and ensures that it works closely with senior management across the business in identifying and quantifying appropriate risk scenarios. Where scenarios generate material capital requirements or adverse stress testing results, the team will seek to identify means to mitigate the potential risks.

The team also provides a risk review and challenge of core financial processes such as the annual strategy and budget planning exercise; to ensure that the plans do not cause key risks to arise that are outside the risk appetite. It assesses external risks to ensure that emerging risks are identified at an early stage, so that appropriate risk mitigation work can be undertaken.

The **Compliance team** is responsible for establishing Aviva Investors' compliance policies and procedures to meet its regulatory obligations, including the prevention of financial crime and monitoring and assessing the adequacy and effectiveness of their implementation. In fulfilling this, the Compliance team is responsible for both education of the business and provision of secondary assurance to senior management that regulatory risks are mitigated. The compliance agenda covers Aviva Investors' behaviour with respect to its conduct risk obligations including those obligations that it has to clients and markets.

Compliance conducts monitoring reviews in accordance with a risk based monitoring programme and on an ad hoc basis as the need arises. This provides senior management with comfort that key controls are in operation and that regulatory risks are being

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managed effectively. Issues are reported to senior management and the progress of each agreed recommendation is tracked until implementation by the relevant business manager.

The Compliance team also addresses the anti-financial crime agenda, which is coordinated by the Global Head of Financial Crime Compliance, supported by the Financial Crime Committee.

**Regional Risk** teams are responsible for ensuring that the RMF is applied consistently across Aviva Investors' business globally. The local risk teams report to:

- The CRO Europe and Funds;
- The CRO Americas; and
- The CRO Asia Pacific.

The regional CROs have direct reporting lines to the Aviva Investors CRO.

## 2.4.3 Third line of defence

Aviva Investors Internal Audit is part of the Aviva Group audit function. It has a dedicated audit team who are specialised in fund management, led by an audit director who reports to the Chief Audit Officer of Aviva plc and the Aviva Investors' Audit Committee. Internal Audit's purpose is to help the Board and executive management to protect the assets, reputation and sustainability of Aviva Investors 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 using a systematic, disciplined approach to evaluate the effectiveness of risk management, control and governance processes.

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## 3. Risk and ICAAP process

### 3.1 Overview of the Risk and ICAAP processes

Aviva Investors' RMF provides a framework for managing risk. In summary:

- The AIHL Board approves the business strategy, plan and forecasts for Aviva Investors.
- The Risk and Compliance teams have developed a risk taxonomy setting out a common basis to identify, manage, mitigate, monitor and report all key and material risks.
- The AIHL Board develops and approves the Risk Appetite Statement which sets out the risk appetite and tolerance levels for each of the key risks.
- Under the oversight of the Risk Management Committee and the Board Risk Committee, management implement plans to mitigate those key risks that are outside of risk appetite. A risk is either accepted, avoided, transferred or mitigated. The success of the risk management approach is monitored by the risk function through a range of methods including appropriate KRIs.
- The ICAAP identifies 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 material risks crystallising.
- Top-down KRIs are agreed by the AIHL Board to identify, measure, manage, monitor, report and resolve undue exposures to key risks facing the business. Each KRI has a trigger and limit requiring management responses when the thresholds are breached.
- Bottom-up KRIs are developed within the business to ensure that senior management and those responsible for the day-to-day management of the business identify, measure, manage, monitor, report and resolve the appropriate key risks they face.
- Further processes included in the RMF include errors and breaches reporting, compliance monitoring, thematic reviews, and deep dive analysis.
- External events are assessed to identify any potential lessons learned for Aviva Investors.
- Operational risk scenario, stress testing and wind down plan workshops are conducted with relevant Executives and subject matter experts ("SMEs") to determine the appropriate scenarios to use in the ICAAP to assess and stress the capital position of Aviva Investors. Workshop participants are briefed using data from the RMF, such as relevant material and key risks, internal / external events, internal audit open issues, KRI data and RCSA output.
- The ICAAP assesses the capital requirements of Aviva Investors. The scenarios and calculations generated are discussed in detail with the relevant Executives and updated for the feedback received. The ICAAP document is reviewed, challenged and approved (as appropriate) by the Executive Committee, Risk Management Committee, Capital Committee, Board Risk Committee and AIHL Board. The ICAAP is updated in the event of material changes to the business strategy, plan, forecasts and material risks facing the business. In the event that there are no material business developments the ICAAP document is refreshed, reviewed, challenged and approved at least annually.
- The ICAAP concluded that the Aviva Investors group is adequately capitalised:
  - to meet the risks that it faces;
  - to meet the minimum capital requirements of the UK Regulator and local regulators; and
  - to meet its liabilities as they fall due.



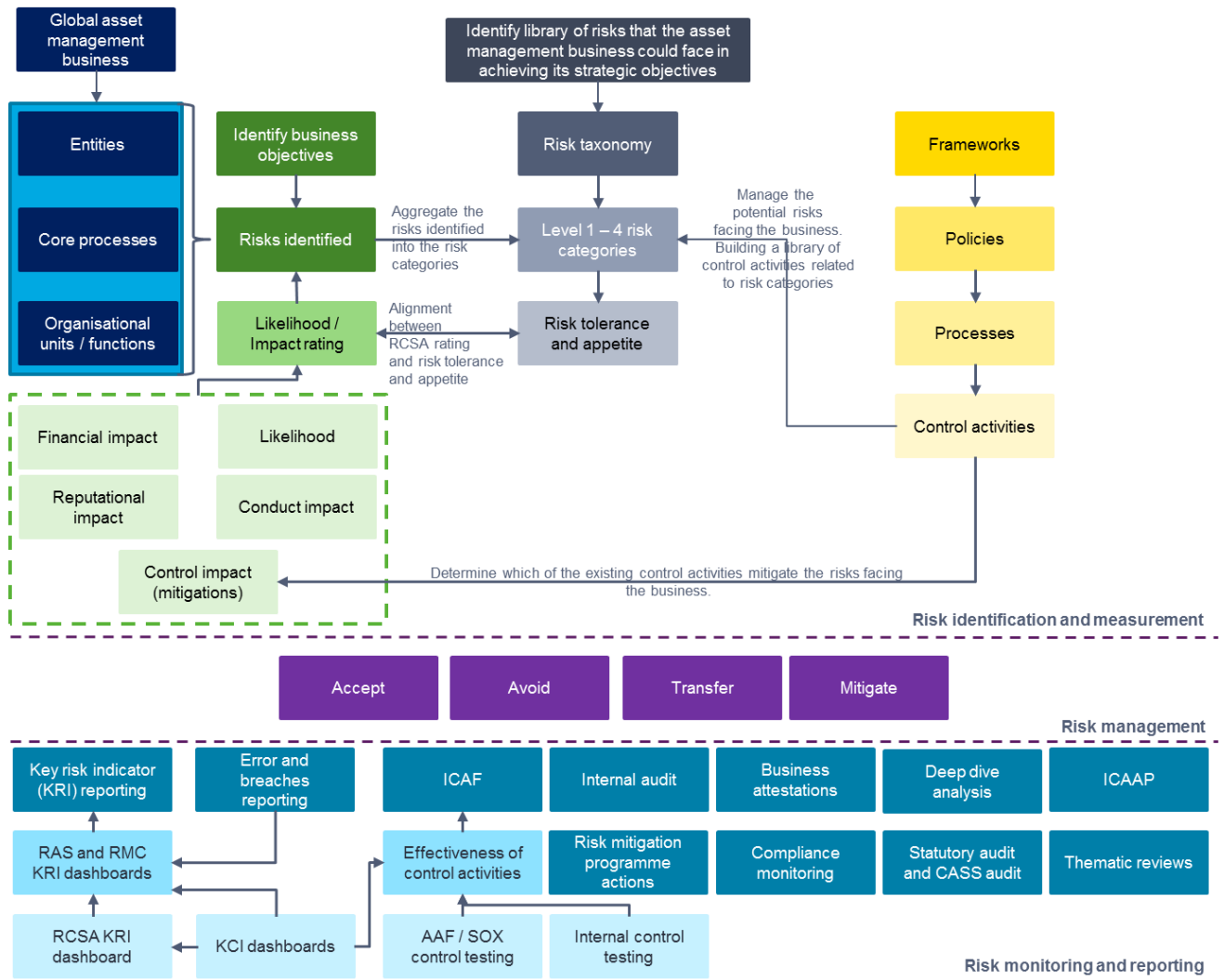
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The risk and ICAAP processes are illustrated below:



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## 3.2 ICAAP approach

The following approach was taken to complete the ICAAP:



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## 3.3 Risk appetite statement

Aviva Investors' Risk Appetite is determined by the AIHL Board. It defines the key risks that it is prepared to take in order to deliver the Aviva Investors strategy as expressed in the Business Plan. It is consistent with the Aviva Group strategy.

The Risk Appetite Statement (RAS) expresses our appetite for the range of risks that we face in both qualitative statements and quantitative measures. The range of risks is set out in the Key Risk Register. As our business evolves, so our risk appetite may change and so this statement is reviewed on a regular basis. The AIHL Board regularly reviews the RAS and formally approves each iteration.

### 3.3.1 Purpose

The purpose of the RAS is to articulate the risk appetite of the AIHL Board in providing asset management services and products to its clients. The RAS outlines:

- The definition of each risk category and how this is interpreted by the business as exposure to each risk category;
- The rationales developed by the AIHL Board to determine the appropriate risk appetites for each risk category;
- The approach used (both leading and lagging) by the business to identify, manage, monitor and report the actual exposures Aviva Investors' has to each risk category in comparison to the initial risk appetites determined by the AIHL Board; and
- The approach taken by the AIHL Board in the event that the measurements indicate a risk appetite is about to be breached and risk appetites which have been breached.

### 3.3.2 Terms used to articulate the risk appetite

The following terms defined below are used to articulate the risk appetites of the relevant risk categories to which Aviva Investors' are exposed:

- The **Risk Appetite Framework** is set out in the Group Risk Management Policy that provides management with a framework for managing risk across the enterprise. It outlines the integration of the business strategy with the risk strategy, considering risk and return, and deliberately taking the enterprise from its current risk profile to a desired future risk profile and articulating the business' risk appetite. The Group Risk Management Policy describes the risk strategy, group risk appetites, governance, roles and responsibilities, risk identification, measurement, monitoring and reporting.
- A **risk appetite** is the upper bound on the risk that should be taken, articulated in terms of economic capital, and liquidity and conduct risk. It is a broad-based description of the desired level of risk that an entity will take in pursuit of its purpose and strategy. Risk appetites are articulated as high, medium or low.
  - **High** – Aviva Investors deliberately accepts the risk in order to deliver its strategic goals;
  - **Medium** – Aviva Investors accepts the risk as is necessary, but it is supported with the appropriate controls; and
  - **Low** - Aviva Investors actively seek to avoid the risk, other than as is incurred through the normal course of business. Controls are adopted to minimise any risk accepted.
- A **risk tolerance** is the level of acceptable residual risk that Aviva Investors is willing to take for each risk category.
- A **risk profile** is the entire risk landscape which reflects the nature and scale of risks to which Aviva Investors is exposed in pursuit of its business strategy.

### 3.3.3 Regulatory risk categories

In accordance with **IFPRU 2.2.7**, all entities regulated by the FCA must identify and manage the major sources of risk in each of the following categories where they are relevant to the entity given the nature, scale and complexity of the business:

- Credit / counterparty risk;
- Market risk;

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- Liquidity risk;
- Pension obligation risk;
- Operational risk;
- Business / strategic risk;
- Group risk;
- Interest rate risk;
- Securitisation risk;
- Concentration risk;
- Residual risk; and
- Excessive leverage risk.

The customer is central to everything that we do and our products are clearly defined with specific customer requirements in mind. We treat our customers fairly and conduct ourselves appropriately in the markets in order to generate appropriate customer outcomes. Conduct Risk is an integral part of Aviva Investors' RMF. Conduct risk issues are considered as key parts of the investment risk, operational risk and compliance RMFs. Given the importance of conduct risk management we address this as a specific agenda item at the Risk Management Committee and at the Risk Committee. Tailored conduct risk reporting is supplied to support this review

In addition to the risk categories considered above, Aviva Investors uses the Basel II operational risk categories to further distinguish the material risks that fall within the broad heading of operational risk. Aviva Investors has broken the Basel II operational risk event types into the following risk categories:

- Execution, delivery and process management (EDPM);
- Business disruption and system failures (BDSF);
- Clients, products and business practices (CPBP);
- Internal fraud (considered alongside external fraud as financial crime);
- External fraud (considered alongside internal fraud as financial crime);
- Employment practices and workplace safety (EPWS); and
- Damage to physical assets (DPA).

## 3.3.4 Qualitative statements

Aviva Investors have developed qualitative statements used to support the risk appetites that have been developed in this RAS. These statements set out how Aviva Investors manages its business and are reviewed whenever we consider material changes in the business, such as acquiring or disposing of businesses, developing new product sets or distribution channels, or changing our operational platforms. They form the basis of the work that Risk and Compliance do to assess the high-level impact of such developments on the business.

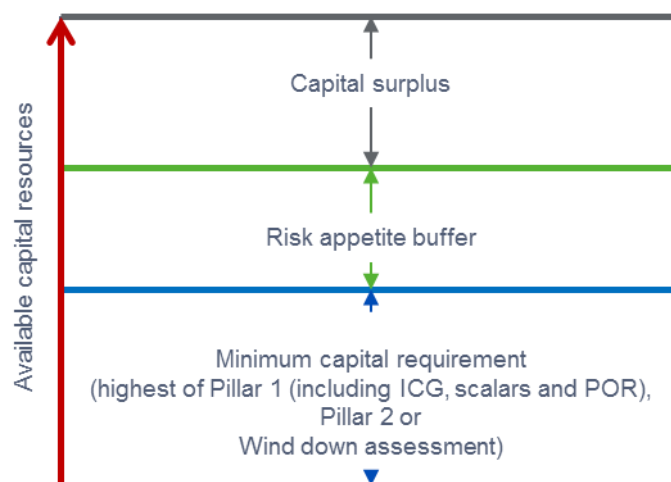
## 3.3.5 Aggregate capital requirements

Aviva Investors have set the following risk appetite buffer and capital surplus requirements to maintain sufficient capital to meet its operating financial obligations as they fall due.

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## Capital risk appetite buffer

The internal risk appetite buffer (in accordance with IFPRU 2.3.47) provides a cushion to absorb the variances that Aviva Investors may experience as a result of business cycles and changing economic conditions. Deterioration in business or economic conditions could require Aviva Investors to need additional capital or, alternatively, to contract its business at a time when market conditions are most unfavourable.

To reduce the impact of cyclical affects, an internal risk appetite buffer is held above the minimum capital requirements equivalent to a 1-in-5 year event equivalent of the internal Pillar 2 capital requirement (i.e. the Pillar 2 capital assessment performed at an 80% confidence interval over a 1 year time period).

Aviva Investors consider this value sufficiently prudent to allow the firm to take appropriate management actions to reverse the impact of short term or permanent capital erosion, where this arises, without breaching capital requirements.

Measurements, Triggers and Limits				
Measure	Description	Trigger (Amber)	Limit (Red)	Leading / lagging
Risk appetite buffer	Implement a risk appetite buffer to address the risk-sensitivity variances that Aviva Investors may experience as a result of business cycles and economic conditions.	<p><b>Risk appetite buffer is:</b></p> <p>&lt; 1-in-5 year event value of the internal Pillar 2 capital requirement</p> <p>AND</p> <p>&gt; 50% of 1-in-5 year event value of the internal Pillar 2 capital requirement</p>	<p><b>Risk appetite buffer is:</b></p> <p>&lt; 50% of 1-in-5 year event value of the internal Pillar 2 capital requirement</p>	Lagging

## Liquidity risk appetite

Aviva Investors aims to maintain a surplus of liquid resources sufficient at all times to meet reasonably foreseeable requirements. There is a low risk that Aviva Investors will experience liquidity constraints, with the current minimum liquidity requirement set as shown below.

Measurements, Triggers and Limits				
Measure	Description	Trigger (Amber)	Limit (Red)	Leading / lagging
Expenses	Budgeted Monthly expenses	< 6 months' worth of expenses	< 4 months' worth of expenses	Lagging

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## 3.4 Proximate and emerging risks

Proximate and emerging risks are the appearance of new hazards, or new or changing exposures to existing hazards. These risks are likely to have significant and group-wide consequences on the business, customers and / or business partners and are difficult to quantify. Such risks may be:

- Unknown risks that are yet to manifest;
- Known risks with impacts or outcomes that are currently not well understood, uncertain, unexpected or difficult to quantify; and
- Known risks that are currently developing, changing or interacting with other known risks in unexpected or uncertain ways.

Proximate and emerging risks are recorded on the Top Down Risk Assessment ("TDRA") register, and are analysed and assessed by means of stress test scenarios, reverse stress tests ("RSTs") and wind-down scenarios.

## 3.5 Risk and Control Self-Assessment

Business area line management has the primary responsibility for the effective identification, measurement, management, monitoring and reporting of the operational risks which could prevent the business from achieving its main objectives. The RCSA focuses on day-to-day bottom-up risks and is operated by the first line of defence and supported, reviewed and challenged by the second line.

The risks are assessed regularly, according to the likelihood of those risks materialising and the potential impact on the business should they materialise, with reference to an assessment of the design adequacy and operating effectiveness of existing controls.

The purpose of this process is to produce high quality risk data on which business decisions and management actions are based, such as:

- Support and understand the operational risks within each business activity;
- Support a review of the controls within the organisation; and
- Allow business managers to align resources with risk initiatives that are identified during this process.

Management actions are put in place to address risks outside of tolerance or where control deficiencies have been identified.

### Process

The quarterly RCSA review focuses on risks, controls, actions, and management information ("MI"). It is facilitated by the BPC team in the Chief Operating Officer's ("COO") office. The RCSA guidance summarises the preparatory work for first line owners which includes reviewing the latest data on operational risk such as risk events during the quarter, open audit issues and KRI data.

The operational risk team attends a number of these meetings in order to provide independent overview and challenge of the risks captured and the controls effectiveness.

The agreed changes to the assessment of risks or the effectiveness of controls are recorded in our integrated risk management system ("OPERA") and an "issue" will be created if any controls improvements are required or if the aggregated risk exposure is outside the risk tolerance limits set by the AIHL Board through determining its risk appetite (refer to **section 3.3** above). Similarly, if an issue is identified which places the business outside of its risk appetite through any of the risk monitoring and reporting processes described from **section 3.8 onwards**; an issue will be created in OPERA with relevant management actions to reduce the risk exposure of the business to within risk tolerance.

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The BPC team provides a summary of the output that is submitted to the Risk Management Committee and the Executive Committee. Actions are taken to address any “Red” RCSAs.

The Operational Risk team provides an overview of the RCSA process, setting out:

- Actions required addressing “Red” RCSAs.
- Actions required addressing any “Amber” RCSAs that are of particular concern (for example recurring across a number of business areas, or issues that have persisted for some time).
- Its view of the adequacy of the RCSA completion, and any actions needed to improve their completion.

The operational risk summary of the RCSA output is summarised in a quarterly report that is reviewed at the Risk Management Committee. Actions are established to bring any red RCSAs back to green. Common risk factors from across the RCSAs are also reviewed, and the key actions needed to provide a route to green are agreed. The resolution of these actions is monitored by the Risk Management Committee.

A summary of the status of the RCSAs, highlighting the actions needed to resolve red RCSAs, is included in the quarterly CRO report to the Risk Committee. This feeds the rolling program of risk priorities that is discussed at each committee meeting.

## 3.6 Policies, processes and control activities

### Policies and business standards

To promote a consistent and rigorous approach to risk management across all businesses Aviva Group maintains a set of risk policies and associated business standards. These set out the Risk Strategy, Risk Appetite, Framework and minimum requirements for the Aviva Group’s worldwide operations. Each policy defines its purpose, scope, how it aligns to the RMF, principles relating to the risk category, Aviva Group risk appetite and tolerance, governance requirements, how the RMF is applied to the risk category, risk identification, measurement, management, monitor and reporting requirements.

Each policy or business standard owner within Aviva Investors provides a 6-monthly attestation that the business complies with the requirements. Any exceptions to these attestations are reviewed by the BPC team (first line of defence) and the operational risk team (second line of defence). If there are exceptions one of the following two courses of action is taken:

- An action is agreed to resolve the exception, with a targeted completion date; or
- A permanent exception or modification is agreed with the Aviva Group owner of the policy or business standard where this is considered to be appropriate for the business.

The attestations, including all exceptions, modifications and exemptions are reviewed by the CRO and the CEO. On a semi-annual basis the Aviva Investors CEO, supported by the Aviva Investors CRO, signs-off compliance with these policies and standards and a summary of material exceptions is reported to the Aviva Group and the Audit Committee (through the Integrated Controls Assurance Framework reporting – also referred to as “ICAF”).

### Processes and control activities

Aviva Investors develops the appropriate processes and related control activities in response to risks facing the business and minimum risk management requirements set out in each of the policies above. The processes and control activities designed and implemented are allocated (as appropriate) to:

- Each relevant policy;
- Key risks facing the business to reduce (as is appropriate) the inherent risk exposure to the residual risk exposure facing the business; and
- Risk categories defined in the Aviva Investors risk taxonomy.

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Mapping the processes and control activities to the policies and key risks of the business allows Aviva Investors to identify any gaps in the business environment which requires control activities to mitigate risks, the effect that control activities have on risks if not operating effectively (inherent risk versus residual risk) and risks accepted which do not have control activities.

The effectiveness of control activities implemented across the business are monitored through KCI reporting, Audit and Assurance Faculty ("AAF") 01/06 technical release and Sarbanes-Oxley Act of 2002 ("SOX") internal control testing procedures, internal and external audit results and business attestations.

## 3.7 Key risk indicator reporting

Key risks are monitored through the following two reporting processes:

1. Bottom-up KRI reporting: Through the RCSA process, key risk indicators are identified and developed by the business to monitor each of the key risks identified. The KRI results are reported on the KRI dashboards on a quarterly basis and provided to the Risk Management Committee and Operational Controls Committee for monitoring and taking management actions where appropriate to resolve any issues.
2. Top-down KRI reporting: Through the RAS development process, senior management and the AIHL Board determine their appetite for each of the regulatory risk categories in conjunction with the key risks facing the business. The key risks are aligned to the business strategy of Aviva Investors. Setting the risk appetite determines the amount of risk the business is willing to take on whilst being exposed to its key risks in order to achieve its strategic objectives. The amount of appetite the AIHL Board is willing to accept is monitored through quantitative triggers and limits collectively referred to as the top-down KRIs. The top-down KRI results are reported on the RAS KRI dashboard to the Risk Management Committee and AIHL Board on a quarterly basis to monitor the business' aggregate exposure to each risk category, take management actions and AIHL Board actions where appropriate to manage the business' risk profile and exposure.

Both KRI dashboards show the KRI results as 'red', 'amber' or 'green' based on whether the result has breached any triggers (amber) or limits (red).

The KRIs are allocated to each risk category, for example: operational risk, market risk, credit risk, etc. as well as the underlying sub-risk categories, for example: execution, delivery and process management, credit risk (principal), credit risk (agency), etc. Each KRI receives a red, amber or green rating depending on individual triggers and limits pre-determined by the committees and AIHL Board. In addition, an assessment is performed for each sub-risk category and overall risk category based on the number of amber and red ratings received.

## 3.8 Internal event management (risk events, errors and breaches)

Risk events, errors and breaches are overseen by the operational risk team in the second line of defence. The team ensures that:

- Risk events, errors and breaches are appropriately remediated;
- Any client impact is considered and appropriately addressed;
- Control enhancements needed to prevent recurrence are implemented; and
- Lessons learned from the broader control environment are identified and communicated.

The first stage of the work is ensuring that the risk events, errors and breaches are communicated rapidly when discovered. The operational risk team must be informed of all material risks events, errors and breaches (greater than £10k or those relating to certain systematic factors, such as fraud), within 24 hours of discovery. All other risk events, errors and breaches must be communicated within 3 business days of discovery.

For material events, the operational risk team produces a risk events analysis that sets out:

- A summary of the event;



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- A clear statement of the impact;
- An assessment of any client remediation that is required;
- A summary of the control failures that led to the event;
- An opinion on the control improvements implemented to prevent recurrence; and
- A clear statement where further control improvements are needed.

The risk analyses are summarised in a risk events quarterly summary report to the Risk Management Committee and the CRO report to the Risk Committee.

The collection of internal event data is a key component of a sound operational risk process and provides important information to support the effective management and measurement of operational risk. Collection and analysis of internal operational event data is used to:

- Provide a current and historical indication of the operational event experience of Aviva Investors;
- Confirm that all events have been appropriately resolved and that controls have been enhanced where appropriate;
- Drive the identification of business processes or business areas that require control enhancements;
- Support risk processes, such as the material risk identification, key risk and RCSA and scenario analysis; and
- Support the operational risk capital requirement quantification and assessment process.

The Risk Management Committee also reviews the trends and root causes report submitted by the operational risk team in the second line of defence. This identifies negative trends in the value or volume of risk events, errors and breaches. Where clear patterns are identified, this leads to control recommendations that are agreed by the Risk Management Committee.

For individual errors that are larger than risk appetite, or that cause the business to exceed its risk appetite in aggregate, a 'lessons learnt' exercise is carried out and reported to the Risk Management Committee (Personal Committee), Risk Committee (Board Committee), Executive Committee (Personal Committee) and the AIHL Board. The lessons learnt are used to generate an action plan that is tracked by the Risk Management Committee and Risk Committee.

## 3.9 External event management

External operational risk event data provide information on control deficiencies or lessons learnt by the industry from large risk events. External operational risk event data can provide content for a variety of purposes, such as:

- Self-assessment processes;
- Control benchmarking exercises; and
- Scenario analysis processes.

## 3.10 Internal audit open items

Internal audit open items provide information on control deficiencies or areas for enhancement of the business. Collection and analysis of the internal audit open items is used to:

- Provide a current and historical indication of any control deficiencies or areas for enhancement within the business;
- Provide information on the remediation work being performed to close out each of the internal audit open items;
- Support risk processes, such as the RCSA and scenario analysis; and
- Support the operational risk capital requirement quantification and assessment process.

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## 3.11 Other monitoring performed

Aviva Investors identifies any additional issues across the business which is not identified through the processes described above through:

- Risk mitigation programmes provided by the regulator during SREP reviews;
- Compliance monitoring measurements;
- Deep dive analysis performed on high risk areas in the business;
- Statutory and CASS external audits;
- Thematic reviews; and
- The ICAAP process.

Issues which are identified are assessed against the key risks, level 4 risk categories, risk appetites and tolerance levels of the business. Where a risk appetite and tolerance is exceeded, management actions are taken to resolve the issue and bring the business back within its risk appetite and tolerance levels.

## 3.12 Scenario analysis

Aviva Investors runs a series of scenarios to analyse various risks facing the business that could prevent it achieving its strategic objectives. The scenarios assist the business in assessing the appropriate level of capital that it is required to hold if a material event or events should occur. The scenarios developed by senior management, subject matter experts and the Executive Committee are used to estimate the capital requirements of the following:

- Material and severe, but plausible operational risk events, facing the business that could happen and the expected capital outflows required to resolve these events;
- Stressed events in combination with operational risk events from which the business is required to recover through a series of management actions taken over a period of time. The stress and scenario analysis performed tests the resilience of the financial position and the appropriateness of the minimum capital requirements determined as part of the capital adequacy assessments;
- Severe stressed events, in combination with operational risk events, are developed in the form of scenarios to determine at which point the business model breaks and what plan and management actions are required to recover from such scenarios; and
- Scenarios are also developed to identify situations whereby the business would be required to wind down its business, for example parent company failure, inability to recover from a severe scenario, etc. The scenarios are used to develop the appropriate plans and timelines it would take to wind down the business whilst treating customers fairly. Through the plan, the minimum capital requirements are determined to wind down the business which is compared to the minimum capital requirements and Pillar 2 capital requirement assessments.

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## 4. Capital Resources and Adequacy

### 4.1 Capital Resources

Aviva Investors has a simple capital structure comprising Common Equity Tier 1 ("CET1") and Tier 2 ("T2") capital. CET1 capital is the highest ranking form of capital and comprises ordinary share capital, share premium, retained profits and other reserves. Total Aviva Investors capital amounted to **£318.9m** at 31 December 2015, with CET1 capital being **£228.9m** and T2 capital being **£90m**. T2 capital consisted of subordinated loans received from AIHL's immediate parent, Aviva Group Holdings Limited ("AGHL").

At 31 December 2015 and throughout the year, Aviva Investors complied with the capital requirements as set out by the UK Regulator (FCA).

### 4.2 Capital Adequacy

#### 4.2.1 Capital Resource Requirements – Pillar 1

Aviva Investors' Limited Licence entities are required to calculate capital resource requirements as the higher of:

- The base capital resources requirement;
- The sum of its credit risk and market risk capital requirements; and
- The fixed overhead requirement.

For AIUKFSL and FLFL (collective portfolio management firms) the capital resource requirement is calculated as the higher of:

- The FUM requirement; and
  - The fixed overhead requirement;
- Plus either:
- The professional negligence capital requirement; or
  - The PII capital requirement.

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The Pillar 1 capital surplus for the Regulatory Group at 31 December 2015 is represented below:

<b>Bridge from Net Assets to Common Equity Tier 1 Capital</b>	<b>£'m</b>
Permanent share capital	248.0
Share premium account	41.6
Profit and loss and other reserves	83.1
<b>Balance Sheet Net Assets</b>	<b>372.7</b>
<i>Deductions:</i>	
Intangible assets (allowing for transitional adjustment) <sup>1</sup>	(5.8)
DTA deduction (allowing for transitional adjustment) <sup>2</sup>	(1.2)
Ineligible capital <sup>3</sup>	(92.0)
Unaudited Profits	(44.8)
<b>Common Equity Tier 1 after deductions</b>	<b>228.9</b>
 <b>Tier 2</b>	
Subordinated Loans	90.0
<b>Total capital resources</b>	<b>318.9</b>
 <b>Capital Resource Requirement</b>	
<b>Deduct the higher of the following:</b>	<b>(75.8)</b>
Credit, Market and Counterparty risk requirements	37.8
Fixed Overhead Requirement	75.8
<b>Pillar 1 Surplus</b>	<b>243.1</b>

<sup>1</sup> Deductions have been made for amortised capitalised project costs intangible asset; however a transitional provision (Article 469) allowing the deduction of intangible assets to be limited to 40% in 2015.

<sup>2</sup> Aviva Investors held deferred tax assets of £34.3m that rely on future profitability and arise from temporary differences. This is over the threshold for exemption from deduction from CET1 under Article 48 of CRR. After applying transitional provision as per IFRU TP4.6 a deduction from own funds is calculated as 10% of DTA in excess of the threshold.

<sup>3</sup> A restriction is applied to the inclusion of a capital contribution reserve as CET1.

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Included in the Aviva Investors Pillar 1 calculations shown in the preceding table are the four Aviva Investors UK Limited Licence Firms; AIGSL, ORN, AIUKFL and FLI as well as AIUKFSL and FLFL, UCITS Firms. The stand alone Pillar 1 calculations for these six entities are shown in the below table as follows:

£'m	AIGSL	ORN <sup>4</sup>	AIUKFL	AIUKFSL	FLI <sup>4</sup>	FLFL
<b>Bridge from Net Assets to Common Equity Tier 1 Capital</b>						
Permanent Share Capital	200.7	-	5.0	12.0	7.5	4.5
Eligible Partnership Capital	-	0.2	-	-	-	-
Share Premium	-	-	-	-	-	-
Profit and loss and other reserves	4.5	-	17.7	3.5	5.1	-
<b>Balance Sheet Net Assets</b>	<b>205.2</b>	<b>0.2</b>	<b>22.7</b>	<b>15.5</b>	<b>12.6</b>	<b>4.5</b>
<i>Deductions:</i>						
Intangible Assets (allowing for transitional adjustment)	(5.7)	-	-	-	-	-
DTA deductions (allowing for transitional adjustment)	(2.1)	-	-	-	-	-
Deferred Acquisition Costs Adjustment	-	-	1.7	-	-	-
Illiquid Assets	-	-	-	(0.9)	-	-
Other deductions	-	-	-	-	-	-
Ineligible capital	(92.0)	-	-	-	-	-
Unaudited Profits	(19.9)	-	(13.7)	(3.3)	(4.1)	-
<b>CET1 Capital After Deductions</b>	<b>85.5</b>	<b>0.2</b>	<b>10.7</b>	<b>11.4</b>	<b>8.5</b>	<b>4.5</b>
<b>T2 Capital</b>						
Subordinated Loans	73.0	0.1	-	-	-	-
<b>TOTAL CAPITAL RESOURCES</b>	<b>158.5</b>	<b>0.3</b>	<b>10.7</b>	<b>11.4</b>	<b>8.5</b>	<b>4.5</b>
<b>Capital Resource Requirements</b>						
<i>Deduct the higher of the following:</i>						
Credit, market and counterparty risk	23.1	-	-	-	0.0	-
Fixed Overhead Requirement	59.7	-	2.3	0.0	0.0	0.0
FUM Requirement	-	-	-	4.3	-	4.0
Base Capital Requirement	0.1	0.0	0.1	0.1	0.0	0.1
<b>TOTAL CAPITAL RESOURCES REQUIREMENT</b>	<b>59.7</b>	<b>0.0</b>	<b>2.3</b>	<b>4.3</b>	<b>0.0</b>	<b>4.0</b>
<b>PILLAR 1 SURPLUS</b>	<b>98.8</b>	<b>0.3</b>	<b>8.4</b>	<b>7.1</b>	<b>8.5</b>	<b>0.5</b>

<sup>4</sup> Total capital requirement for ORN and FLI is £39k, being the base capital requirement.

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## 4.3 Features, Terms and Conditions of Capital Instruments

### 4.3.1 CET1 Capital

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.

Share Premium represents the excess amount received over the par value of shares.

Profit and loss and other reserves consist primarily of retained earnings. Other reserves consist of currency retranslation reserves reflecting the impact of exchange rate movements and a capital contribution reserve.

### 4.3.2 Tier 2 Capital

Tier 2 Capital comprises of Subordinated Loans of which the key features, terms and conditions are:

- Each loan is fully paid up;
- Claims on the principal amount of the subordinated loan is wholly subordinated to the claims of all non-subordinated creditors;
- The loans are neither secured, nor subject to a guarantee or any other arrangement that enhances the seniority of the claim by the borrower, any direct or indirect holding company or any undertaking that has close links with the borrower;
- Have an original maturity of greater than five years;
- Provisions of the loans do not include any incentive for their principal amount to be redeemed or repaid prior to their maturity;
- Any early repayment option is exercisable at the sole discretion of the borrower; and
- The lender has no right to accelerate the future scheduled payment of interest or principal, other than in the insolvency or liquidation of the borrower.

## 4.4 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.

Intangible asset deductions as set out in section 3.2 relate to capitalised internal project costs.

All appropriate items have been deducted in accordance with articles 47, 48, 66 and 79 and CRR.

## 4.5 Capital Ratios

See below for details of the CET1 and Total Capital Ratios, which have been calculated in accordance with amounts disclosed in section 3.2 for the IFPRU Consolidation Group and two significant IFPRU firms. All ratios were above the required threshold of 4.5% and 8% as set out in the CRR Article 92.

%	Aviva Investors Group	AIGSL	AIUKFL
CET1 Capital Ratio	24.2%	11.4%	37.4%
Total Capital Ratio	33.7%	21.2%	37.4%

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## 4.6 Analysis of Capital Requirements

### 4.6.1 Standardised Credit Risk Capital Requirements

Pillar 1 credit risk capital requirement calculations have been carried out in line with CRR. Aviva Investors applies the standardised approach to calculating its credit risk capital requirement as set out in Part 3 Title II of 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 to the risk weighted amount.

See below for an analysis of Aviva Investors credit risk capital requirements on an exposure class basis:

Exposure class	2015
Institutions	7.5
Corporates	18.7
Central Governments	6.6
Equity Exposures	2.5
Exposures in default	0.1
Other Items	0.5
<b>Total</b>	<b>35.9</b>

### 4.6.2 Counterparty Credit Risk

Aviva Investors does not have any exposures to over-the-counter ("OTC") derivatives and does not have a trading book, therefore faces no counterparty risk exposures.

### 4.6.3 Credit Risk Adjustments

Aviva Investors defines past due items for accounting purposes as any items not received within 90 days of the invoice date.

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.

No accounting offsets are present that would result in exposure values different from those outlined in section 3.6.1.

At Aviva Investors Group level there have been no material impairments to assets.

### 4.6.4 Geographical Analysis of Credit Risk Exposures

See below for a table outlining the geographic distribution of Aviva Investors risk weighted credit risk exposures at 31 December 2015:

£'m	UK	Europe	Asia Pacific	North America	Total
Institutions	70.9	17.3	1.2	4.1	93.5
Corporates	215.2	6.6	1.8	10.1	233.8
Central Governments	72.4	0.3	-	10.1	82.8
Equity Exposures	20.1	10.0	0.9	-	31.0
Exposures in default	1.3	-	-	-	1.3
Other Items	4.8	0.1	0.4	0.6	5.9
<b>TOTAL</b>	<b>384.7</b>	<b>34.3</b>	<b>4.3</b>	<b>25.0</b>	<b>448.3</b>

In respect of Article 442 (e) of the CRR, and taking into account both proportionality and the fact that Aviva Investors is not a credit institution, exposures primarily relate to trade receivables and cash held at bank with highly rated corporate institutions (including other Aviva Group companies) and highly rated banking institutions.

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All exposures are due and payable within 90 days of invoicing. There are no material past due exposures where we have concerns over recoverability. The only long term exposure included in the amounts above is an investment in an Irish Subsidiary (that is excluded from the regulatory group) of £9.8m. This is included within equity exposures above.

## 4.6.5 Encumbered Assets

Aviva Investors does not hold any encumbered assets.

## 4.6.6 Use of External Credit Assessment Institutions

Aviva Investors 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 Aviva Investors are Standard & Poor's, Moody's and Fitch across all exposure classes. Where differences in ratings occur between ECAIs the lowest rating of the three is taken in line with Aviva Investors Credit Risk Policy. The ECAI's credit assessment is used to determine the credit quality step of each exposure using the standardised mapping. Where no rating is available a 100% risk weighting is applied.

## 4.6.7 Market Risk

Aviva Investors has a market risk exposure amount of £22.6m and a market risk capital requirement of £1.9m. This risk solely relates to foreign currency translation risk on assets and liabilities denominated in currencies other than GBP, as the Group does not operate a trading book.



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## 5. Remuneration Code Disclosure

The Remuneration Code (SYSC 19A) applies to 17 Aviva Investors firms. These companies are designated as level three organisations as defined in the Remuneration Code. This disclosure meets the requirements of Article 450 of the CRR.

### 5.1 Decision-making process for remuneration policy

The Aviva Investors Remuneration Committee is comprised of Aviva Investors' independent Non-Executive Directors. This committee considers issues relating to the remuneration policy and structures for Aviva Investors including the terms of annual bonus and long-term incentive plans and individual remuneration packages for all employees to which the Remuneration Code applies. It is also responsible for reviewing and making recommendations on the Reward Policy Statements for Aviva Investors to the Aviva Group Remuneration Committee. In 2015, the Aviva Investors Remuneration Committee met on eight occasions.

The Aviva Group Remuneration Committee approves the Remuneration Policy Statements for Aviva Investors. It considers alignment between Group strategy and the remuneration of its Directors and Code staff and Material Risk Takers. Our remuneration policy provides market competitive remuneration, and incentivises Code staff to achieve both the annual business plan and the longer term strategic objectives of the Group. Significant levels of deferral aid retention and align the interests of key personnel. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met. In 2015, the Aviva Group Remuneration Committee met on five occasions

The creation of long-term wealth for our shareholders is the guiding principle that underpins the work and decisions of the Aviva Group Remuneration Committee. A clear Group strategy has been defined to achieve long-term sustainable growth, based on the three anchors of:

- True Customer Composite
- Digital First; and
- Not Everywhere

Their full objectives are documented in the Directors' remuneration report in the Aviva Annual Report which is included on the Investor Relations web site, found here:

[\(http://www.aviva.com/investor-relations/corporate-governance/board-of-directors/board-committees/remuneration-committee/.\)](http://www.aviva.com/investor-relations/corporate-governance/board-of-directors/board-committees/remuneration-committee/)

### 5.2 External consultants

The Aviva Investors Remuneration Committee received independent advice on executive remuneration issues from Deloitte LLP which is a member of the Remuneration Consultants Group and adheres to its Code of Conduct. No individual is involved in decisions relating to his or her own remuneration.

During the year the Aviva Group Remuneration Committee also received advice on executive remuneration matters from Deloitte LLP.

### 5.3 Role of the relevant stakeholders

The relevant Remuneration Committees take full account of the company's strategic objectives in setting remuneration policy and are mindful of their duties to shareholders and other stakeholders. The Bodies seek to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

### 5.4 Code Staff criteria

The following groups of employees have been identified as meeting the criteria for Code Staff:

- Legal Directors of UK Regulated Entities
- Member of AI Executive Committee
- Significant Influence Functions at each UK Regulated Entity

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CF 3	Chief executive function
CF 4	Partner function
CF 8	Apportionment and oversight function
CF 10	Compliance oversight function
CF 10a	CASS operational oversight function
CF 11	Money laundering reporting function
CF 28	Systems and controls function
CF 29	Significant management function

- Legal department head
- Internal Audit department head
- Human Resources department head
- Chief Operating Officer
- Individuals identified as part of a quantitative assessment.

The Code Staff population is reviewed at least annually by the Remuneration Committees and Code Staff are notified of their status.

## 5.5 The link between pay and performance for Code Staff

Aviva Investors' remuneration framework is based on a total reward approach and is designed to reflect the success or failure against a range of personal and company performance objectives.

There are four components of pay:

- Basic Salary – set within an appropriate market range, which is sufficient to allow the possibility, where performance so warrants, that an employee may receive no variable pay.
- Annual bonus – a discretionary short term incentive plan where individuals have the opportunity to receive a bonus (which may be subject to 3 year deferral in Aviva products and/or Aviva Group Plc shares, and a further holding period where regulation requires) based on business and individual performance against targets. The extent to which each aspect of performance affects the overall payment level depends on the role and responsibilities of the individual. Performance is measured against personal objectives, including Risk and Control objectives, as well as Aviva Investors and the business unit performance against agreed targets.
- Long Term Incentives Schemes (LTIP) – to align reward with delivery of the long term strategy and performance objectives of Aviva Investors, Aviva Group and with shareholder interests, and with the additional intention to help retain key talent.
- Benefits in Kind – standard benefits are provided that are appropriate to the market

Aviva believes in rewarding strong performance and achievement of our business and individual goals; however, the manner in which these goals are achieved is also important. We do not consider it appropriate to reward people who have engaged in inappropriate behaviour or conduct which is not in line with Aviva's values. As such the Aviva may decide that a Deferred Award which has not vested will lapse wholly or in part if they consider that:

- the participant or their team has, in the opinion of the Directors, engaged in misconduct which ought to result in the complete or partial forfeit or repayment of their award;
- there has been, in the opinion of the Directors, a material failure of risk management by reference to Group risk management standards, policies and procedures, taking into account the proximity of the participant to the failure of risk management in question and the level of the participant's responsibility;

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- there is, in the opinion of the Directors, a materially adverse misstatement of Aviva's or the participant's relevant business unit's financial statements for which the participant has some responsibility;
- the participant participated in or was responsible for conduct which resulted in significant, or potentially significant, loss(es) to their relevant business unit, Aviva or any member of the Aviva Group;
- the participant failed to meet appropriate standards of fitness and propriety;
- there is evidence of misconduct or material error that would justify, or would have justified, had the participant still been employed, summary termination of their contract of employment; or
- any other circumstances required by local regulatory obligations to which any member of the Group or business unit is subject.

## 5.6 Aggregate remuneration cost for Code Staff by business area

Following a review of the business, it has been determined that the operations of Aviva Investors should be considered as one business unit. The total aggregate remuneration is as follows:

There were 37 Code Staff for all or part of the 2015 performance year. Aggregate remuneration expenditure in respect of Code Staff for the 2015 performance year was £22.8 million.

Fixed remuneration represents 29% of this total, with 7% being pension/benefits and 64% variable remuneration.

Of the total variable pay (bonus and LTIP) made to Code staff, 56% was deferred and is subject to malus provisions as outlined above during this period. These awards are also subject to clawback provisions for a further 2 years upon vesting.