PILLAR 3 DISCLOSURES

As at December 2016

avivainvestors.com

AVIVA INVESTORS

PILLAR 3 DISCLOSURES

Aviva Investors

DECEMBER 2016

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Abbreviations and glossary of terms

AAF	Audit and Assurance Faculty
AIGSL	Aviva Investors Global Services Limited
AIHL	Aviva Investors Holdings Limited
AIPL	Aviva Investors Pensions Limited
AIRR	Aviva Investors Risk Register
AIUKFL	Aviva Investors UK Funds Limited
AIUKFSL	Aviva Investors UK Fund Services 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 60 – Organisational structure, on page 255 of the Aviva plc Annual Report and accounts 2016, available at http://www.aviva.com/reports/2016ar/
Aviva plc	The holding company of the Aviva Group and AIHL's ultimate parent company
BDSF	Business disruption and systems failure
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
Board	Board of Directors
BPC	Business Processes and Controls
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 IV reporting.
CPBP	Clients, products and business practices
CRD IV	Capital Requirements Directive IV
CRO	Aviva Investors Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Control Self Assessment
DPA	Damage to physical assets
ECAI	External Credit Assessment Institutions
EDPM	Execution, delivery and process management
EIOPA	European Insurance and Occupational Pensions Authority
EPWS	Employment practices and workplace safety
EU	European Union
FLFL	Friends Life Funds Limited
FLI	Friends Life Investments Limited
FCA	Financial Conduct Authority
FUM	Funds Under Management
GENPRU	General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	Prudential Sourcebook for Investment Firms
IFRS	International Financial Reporting Standards
IMMMR	Identifies, measures, manages, monitors and reports

IPRU-INV	Interim Prudential sourcebook for Investment Businesses
LTIP	Long Term Incentives Schemes
KCI	Key Control Indicator
KRI	Key Risk Indicator
NED	Non-Executive Director
OEIC	Open-ended Investment Company
ORN	Orn Capital LLP
OTC	Over-the-counter
RAG	Red-Amber-Green
RAS	Risk Appetite Statement
RCSA	Risk and Control Self Assessment
RED	Risk Event Database
RST	Reverse stress testing
RMF	Risk Management Framework
RMP	Risk Mitigation Programme
SME	Subject matter expert
SREP	Supervisory Review and Evaluation Process
SST	Stress and scenario testing
TDRA	Top down risk assessment
UCITS	Undertakings for Collective Investment in Transferable Securities (Regulatory Status)

1. Introduction

1.1 Overview

1.1.1 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 UK Regulatory Group (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's 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 measurement 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, these disclosures include Aviva Investors' risk management objectives and policies; the strategies and 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 are 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 2016.

1.1.4 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 Aviva Investors Holdings Limited ("AIHL") Board, along with the boards of directors of each respective legal entity within the Aviva Investors Group, 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.

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 on 10 April 2017. 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).

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, which are published on the Aviva corporate website (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, Aviva Investors France Real Estate SA and Aviva Investors France Real Estate SGP, which are included in consolidated internal reporting under an Article 134 relationship as defined by the FCA are excluded from the UK Regulatory Group.

Within the UK Regulatory Group, the following entities are regulated by the 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;
- AIUKFL, a significant IFPRU firm – Limited Licence €125k;
- AIUKFSL, an IPRU-INV collective portfolio management firm;
- FLI, a BIPRU firm – Limited Licence €50k (FCA permissions cancelled with effect from 10 February 2017);
- FLFL, an IPRU-INV collective portfolio management firm; and
- ORN Capital LLP, a BIPRU firm – Limited Licence €50k (FCA permissions cancelled with effect from 20 October 2016).

The following overseas entities are regulated by local regulatory authorities in their jurisdiction of incorporation and are consolidated using the aggregation method:

- Aviva Investors Luxembourg SA;
- Aviva Investors Asia Pte Ltd;
- Aviva Investors Pacific Pty Limited;
- Aviva Investors Securities Investment Consulting Company Limited; and
- Aviva Investors Canada Inc.

Proportionally consolidated entities:

- Aviva Investors Poland TFI (Aviva Investors has 51% ownership)

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 and falls under Solvency II regulatory regime, as defined by European Insurance and Occupational Pensions Authority (“EIOPA”). AI Ireland Ltd is an inactive company that is not involved in the Aviva Investors 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.

There are other unregulated and dormant entities in the AIHL ownership structure which are not included in the list above, but are consolidated for regulatory reporting purposes. A full list of Aviva Investors entities is included in the Aviva plc Annual Report 2016 available at http://www.aviva.com/reports/2016ar/

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.

2. Risk Management Framework

2.1 Overview

Aviva Investors seek to optimise its asset management business' performance subject to remaining within risk appetite and meeting the expectations of stakeholders. This is achieved by embedding rigorous and consistent risk management across the asset management business. Aviva Investors' RMF includes the strategies, policies, processes, governance arrangements, tools, and reporting procedures necessary to support this. This section outlines Aviva Investors' risk strategy, risk categorisation and its global approach to managing risk, including how it identifies, measures, manages, monitors and reports ("IMMMR") on the risks to which it is, or could be, exposed.

All employees are responsible for the identification of Aviva Investors' full spectrum of risks facing the business whilst achieving its strategic objectives as well as those risks to which it is not yet exposed, but may be in the future. Senior management are responsible for the IMMMR of key, material, proximate and emerging risks. Key risks are identified and measured through the Risk and Control Self-Assessment ("RCSA") process whilst other material and emerging risks are identified and measured through separate risk processes.

Senior management are responsible for deciding on how the key risks facing the business are to be managed (accept, transfer, avoid or mitigate). Controls (or other mechanisms such as insurance) are developed and embedded to adequately mitigate exposure to key risks within Aviva Investors' risk tolerance. In addition, indicators, based on business risk appetite, are used to monitor Aviva Investors' risk exposure.

Employees are required to:

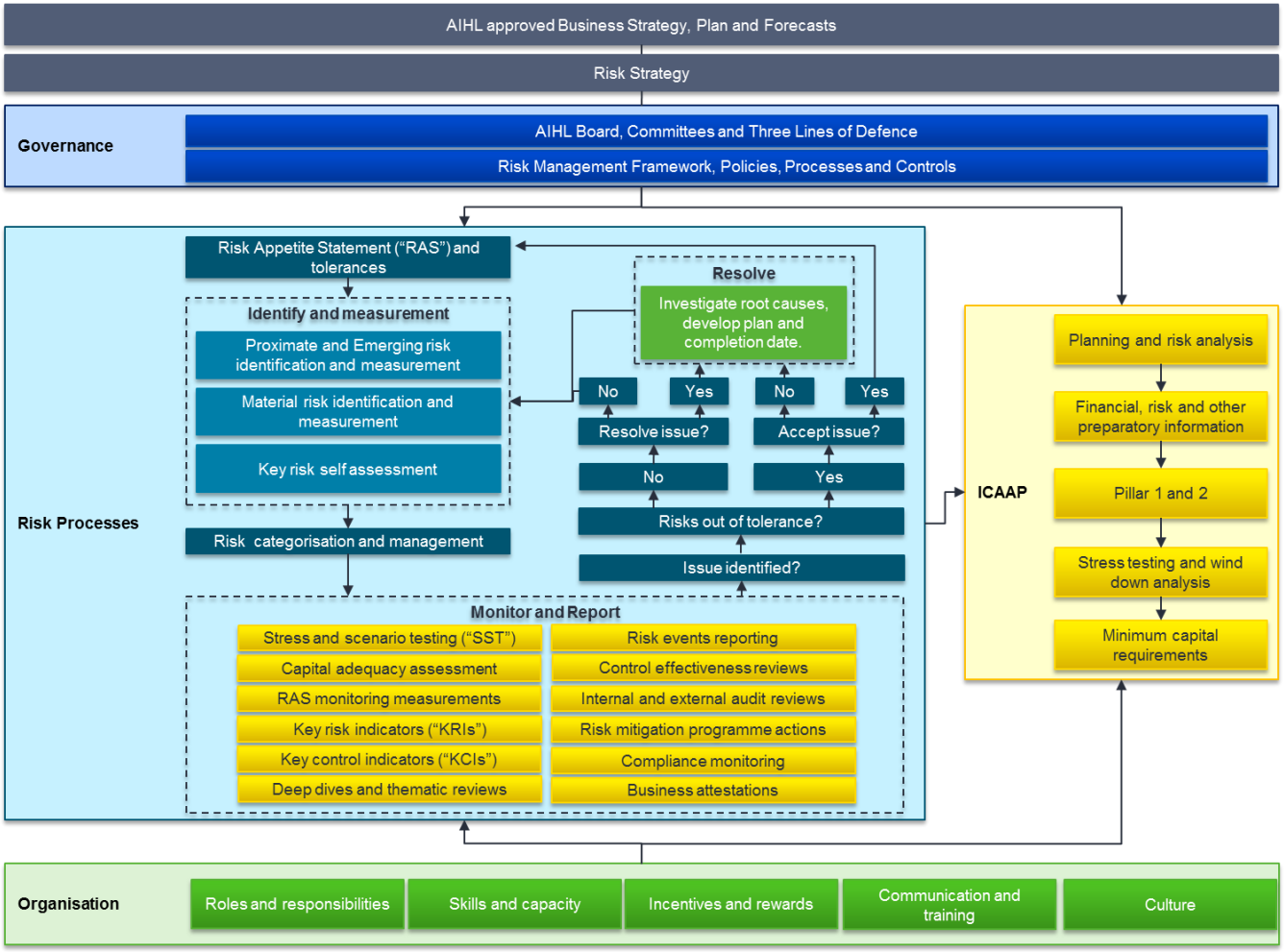
– Escalate control failures, errors and breaches (collectively referred to as "risk events") due to inadequate or failed internal processes, personnel, systems, or external events.
– Perform investigations of all material risk events (above £25k or those relating to certain systematic factors, such as fraud) or risk exposures exceeding Aviva Investors risk tolerances to determine the root causes and escalate the proposed resolutions through the approved governance structures and escalation procedures in this document for review, challenge and approval.

The RMF incorporates the Aviva plc Group's Enterprise RMF which has been adapted to the needs and requirements of Aviva Investors.

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

2.2 Aviva Investors Risk Management Framework

Below is the Aviva Investors RMF which discloses interaction between the business and risk strategies, governance arrangements, risk processes, ICAAP and organisational structures.



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 the current risk profile to the 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 RMF.
- The Aviva Investors 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.
- Material and key existing or proximate and emerging 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 operating 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 ("KCIs") and SST are adopted for 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 Aviva Investors Control Framework

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 the Aviva Group and Aviva Investors policies and governance arrangements.

The processes and control activities designed and implemented are allocated (as is appropriate) to:

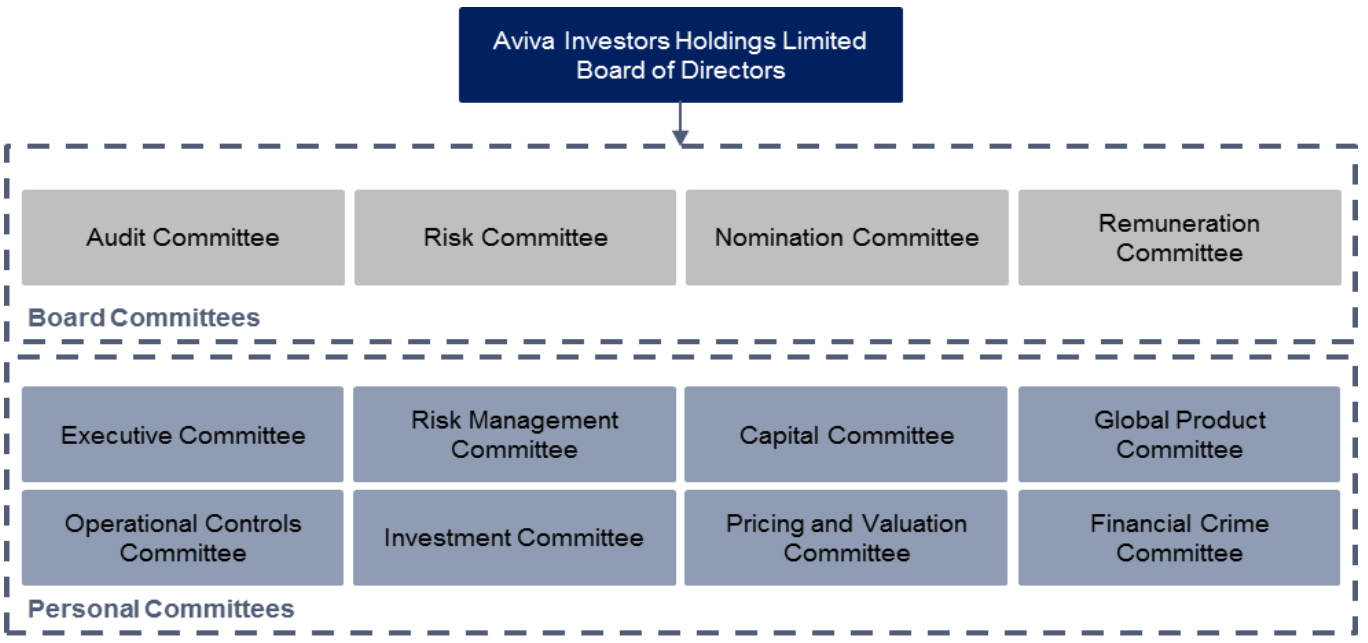
- Each relevant policy and / or governance arrangement;
- Key risk exposures facing the business to reduce (as is appropriate) inherent risk exposures to the residual risk exposures;
- Aviva Group business standard control objectives; and
- Audit and Assurance Faculty ("AAF") 01/06.

The finalised mapping (and changes) of existing control activities are reviewed, challenged and approved on an ongoing basis by the Operational Controls Committee.

2.4 Governance structure and key responsibilities

2.4.1 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.



2.4.2 Aviva plc Board

Aviva Investors form 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 the entire 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.

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 http://www.aviva.com/reports/2016ar/.

2.4.3 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 AIHL Board membership is subject to the approval of its shareholder and the FCA, and comprises both executive and non-executive directors.

Directors and management of Aviva Investors 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, controls; and roles and accountabilities. Board members have specific responsibility to review and monitor the key risks (that are aligned to the business strategy and risk appetite), material, proximate and emerging risks of Aviva Investors as outlined in the diagram in Section 2.2.

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.

2.4.4 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 non-executive directors.

- The **Aviva Investors Audit Committee** ('Audit Committee') works closely with the Aviva Investors Risk Committee (Board 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 **Aviva Investors Risk Committee** ('Risk Committee') assists the Board in the oversight of risk (including conduct 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 **Aviva Investors Nomination Committee** ('Nomination Committee') comprises non-executive directors. 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 **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 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.

The Aviva Investors Nomination Committee ("Nomination Committee") monitors the balance of skills, knowledge, experience and diversity of the AIHL 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 diversity policy sets out the approach to diversity in relation to the composition of the AIHL Board. Aviva Investors recognises and embraces the benefits of having a diverse board as a way to further improve our performance as a business. Aviva Investors 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 AIHL Board will look at these qualities when determining the optimum composition of the AIHL Board. All appointments to the AIHL 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 AIHL Board effective as a whole.

Number of directorships held by members of the AIHL Board as at 31 December 2016:

Name	Position with Aviva Investors	Directorships – Executive	Directorships – Non Executive
Euan Munro	Chief Executive Officer	3	0
David Clayton	Chief Financial Officer	3	2
Sarah Morris (appointed 1 August 2016)	Non Executive Director	2	0
John Misselbrook	Independent Non Executive Chairman	3	4
Jeffrey Weingarten	Independent Non-Executive Director	0	1
Mark White	Independent Non-Executive Director	1	7
Anne Whitaker (appointed 6 June 2016)	Independent Non-Executive Director	0	8

2.4.5 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.

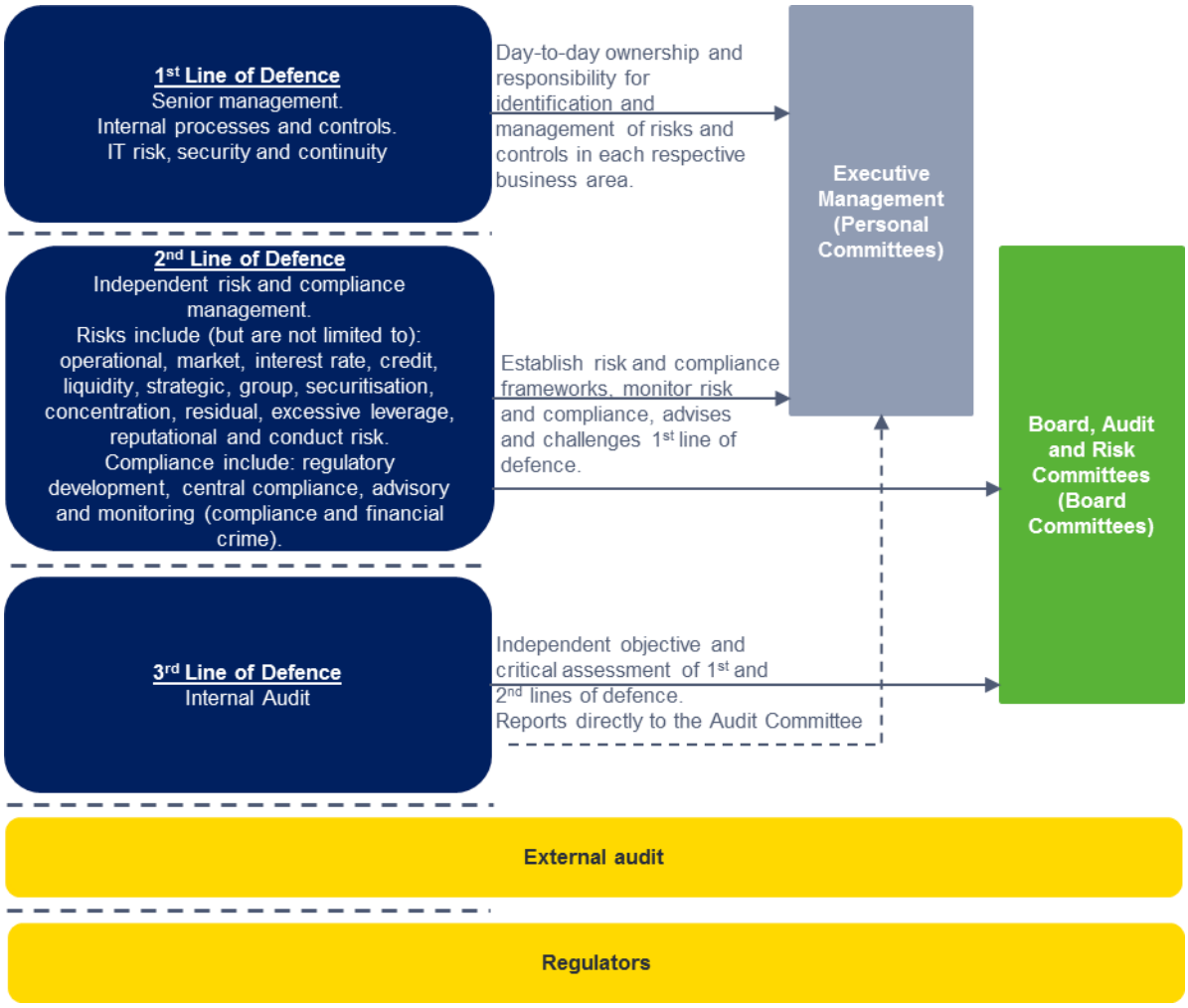
The personal committees (other than the Executive Committee) are:

- **Risk Management Committee** (chaired by the CRO). This committee includes the risk profile of the business globally in its remit. It reports to the Executive Committee (Personal Committee) and to the Risk Committee (Board Committee). It is supported by the Operational Controls Committee (Personal Committee), the Pricing and Valuation Committee (Personal Committee), the Investment Committee (Personal Committee) and the Financial Crime Committee (Personal Committee).
- **Investment Committee** (chaired by the Director of Investment Risk) - oversees investment management activities, including investment risk.
- **Operational Controls Committee** (chaired by the Chief Operating Officer ("COO")) - oversees and monitors the management of operational controls.
- **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.
- **Pricing and Valuation Committee** (chaired by the COO) - oversees and monitors the implementation of consistent and controlled pricing and valuation for all assets under management ("AUM").
- **Global Product Committee** (chaired by the Director of Global Business Development) - oversees product development and management activities including new product launches and the management of existing products.
- **Financial Crime Committee** (chaired by the Global Director of Financial Crime) – oversees the approach to identifying and mitigating financial crime risks.

2.5 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.



2.5.1 First line of defence

Aviva Investors 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 senior management accountabilities and are consistent with committee and delegated authority structures.

The first line of defence also includes the Business Processes and Controls ("BPC") team and other embedded governance staff in the first line of defence who are responsible for reviewing and challenging the update and refresh of the RMF, policies and Aviva Investors Risk Register ("AIRR"); monitoring that the first line of defence is embedding the approved RMF, policies and AIRR. The monitoring of risk activities in the first line of defence includes providing review and challenge on all risks identified, measured, managed, monitored and reported as well as all issues identified, route to green plans, risk acceptance procedures and business decisions made by the business. The BPC and Governance teams co-ordinate the risk self-assessment, monthly key risk register and control self-assessment processes across the business; and monitor, review and challenge all risk monitoring results obtained from the business.

2.5.2 Second line of defence

The second line of defence consists of the risk and compliance functions.

The risk and compliance functions report directly to the CRO and are operationally independent of risk-taking activities and any other activities that could compromise their independence. A summary of their activities are outlined below:

1. **Risk** is responsible for the design, implementation and validation of the risk management systems and economic capital models requiring regulatory approval. The risk function reports to the CRO, the Risk Management Committee, Risk Committee and the AIHL Board on the key risks of Aviva Investors.

Material business decisions such as the development of new products or the purchase of new businesses require the support of the risk function before proceeding which is summarized in a CRO opinion.

2. **Compliance** is responsible for advising the AIHL Board on compliance with applicable laws, regulations and administrative provisions and assessing the possible impact of any changes in the legal environment and identifying and assessing compliance risk. These responsibilities include:

   – Establishing Aviva Investors' compliance policies and procedures to meet the firm's 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 assurance to senior management that regulatory risks are mitigated. The compliance agenda covers the firm's behaviour with respect to its conduct risk obligations including those obligations that it has to clients and markets.
   – Conducting monitoring, business area compliance and thematic 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 managed effectively. Issues are reported to senior management and the progress of each agreed recommendation is tracked until implementation by the relevant business manager.
   – Addressing the anti-financial crime agenda. The Global Head of Financial Crime Compliance co-ordinates this, supported by the Financial Crime Committee.

The Risk function is divided into the following teams:

The **Operational Risk** team is responsible for providing the business with the risk framework in which it performs its risk management responsibilities. The risk framework includes the approved RMF, policies, and risk register, RAS (owned by the AIHL Board) and risk tolerances. The operational risk team reviews and challenges all risks identified, measured, managed, monitored and reported across the business. The team aggregates the results of all the risk exposures across the business globally to provide an overall risk profile of Aviva Investors.

The team is also responsible for providing the business with an errors and breaches reporting system ("RED") to report all risk events into one database. The risk events reported are reviewed and challenged by the team to identify:

– Untimely identification, reporting and resolving of risk events;
– Inappropriate resolutions developed by the business to resolve errors;
– Inaccurate risk event descriptions, risk categories, processes, functions and any other relevant allocations documented by the business to record a risk event; and
– Inappropriate compensation / costs calculated to resolve the risk events.

The team reviews, challenges and approves all risk event reports provided to Aviva Investors business functions, clients and committees.

The team is also responsible for identifying and assessing emerging risks in order to prioritise work to address these. The team identifies and assesses the appropriate risks that are quantified into Pillar 2 capital requirements, stress and scenario tests, reverse stress testing and wind down analysis. Where scenarios generate material capital requirements or adverse stress testing results, management actions are developed with the first line of defence to mitigate or reduce exposure to the risks.

The team is also responsible for performing a risk review and challenge of core financial processes such as the annual strategy, plan and forecast exercise; to identify key risks in not achieving the business strategy.

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The **Investment Risk** team is responsible for monitoring and independent challenge of investment risk. The team analyses risk, both at asset level and at portfolio level, and provides expert risk analysis and recommendations to the asset 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 investors' risk appetites. 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 is also responsible 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 Compliance function is divided into the following teams:

The **Compliance Advisory** team supports the business by giving timely and accurate advice to business units, management and the Aviva Investors Executive on a wide range of specialist regulatory subject matters as they apply to Aviva Investors' businesses, oversight of financial promotions, management of Aviva Investors' framework of controls over market abuse risks, participation in key operational and risk management forums and providing Compliance oversight over development of new products and services.

The Compliance Advisory team is responsible for:

- Review, challenge and approval of investment management agreements, service level agreements, distribution agreements and any other relevant agreements with clients, distributors, outsource providers and service provides with Aviva Investors; and
- Review, challenge and approval of all Aviva Investors branded documents provided to prospective clients or the external market (for example, documents presented on the Aviva Investors website, fact sheets, press releases, prospective client presentations).

The **Regulatory Development** team is a sub-set of the Compliance Advisory function and is responsible for the early identification of regulatory developments in the market before their crystallisation. Throughout the process of an initial discussion or consultation paper to the made rules, the team collates and provides feedback on behalf of Aviva Investors. This feedback is provided to the Investment Association, Aviva Group or to the Regulator itself as is appropriate. The team assists in determining the changes that are required within Aviva Investors to adhere to new regulatory requirements. The Regulatory Development team facilitates in conjunction with the other Compliance colleagues, Legal and Mandatory Change work streams within to appropriately prepare and adapt the business processes to adhere to the new regulatory requirement upon crystallisation.

The results of the team's early identification of regulatory developments are provided to the Compliance Monitoring team and Emerging Risk, Capital and Stress Testing team for consideration during the Compliance Monitoring plan for thematic reviews and proximate and emerging risk identification, measurement and management and quarterly review processes respectively.

The **Central Compliance** team is responsible for providing the framework for core central compliance processes (e.g. conflicts of interest, personal account dealing, gifts and hospitality, etc.), to ensure that Aviva Investors adheres to its regulatory requirements.

The team is responsible for:

- Providing the framework for managing CF30 approved persons' requirements at Aviva Investors;
- Managing the overall compliance training framework (both for new joiners and existing employees); and
- Managing the compliance related attestations (e.g. code of ethics, access persons, CF30 fitness and propriety, etc.).

The **Compliance Monitoring** team is responsible for the development and execution of a risk based Compliance monitoring programme, which includes:

- Transaction surveillance;
- Business area compliance reviews; and
- Thematic reviews.

The Compliance monitoring programme is developed through the Rule Mapping and Risk Assessment process to identify areas / processes that present the highest regulatory risk to Aviva Investors (in relation to both current and upcoming regulatory requirements and developments) and to focus compliance resources on those areas accordingly. The results of this process are presented in a heat map and approved on an annual basis, with reviews at six-monthly intervals.

The Compliance Monitoring team performs the transaction surveillance on a daily, weekly or monthly basis as is appropriate and makes challenges or escalations into the business as required. Finalised results are published monthly to the business for consideration against the risk exposures as well as to the operational risk team for consideration against the overall risk profile of the business.

Business area compliance reviews and thematic reviews are defined by terms of reference and performed against test plans. Reports of the reviews are agreed with stakeholders. Findings and actions are logged as issues against relevant risk categories and these are considered by the business during the monthly key risk register reviews and overall risk profile results.

The **Global Financial Crime Compliance** team is responsible for:

- Implementing and embedding the Financial Crime Business Standard and related procedures to meet the standard that has been allocated to the CRO by the CEO.
- Establishing and maintaining a Global Financial Crime Threat Assessment.
- Ensuring that financial crime measures are in place to mitigate identified threats by providing challenge, oversight, advice and guidance over the development and deployment of suitable tools and processes.
- Ensuring all business areas, including local compliance teams, understand, and are carrying out, their financial crime responsibilities.
- Informing Aviva Investors management of any violations of the Financial Crime policy and any measures taken.

Aviva Investors has a matrix structure with regional CROs reporting to the Aviva Investors Global CRO:

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.

2.5.3 Third line of defence

Aviva Investors Internal Audit is part of the Aviva plc Group Audit function. It has a dedicated audit team who are specialised in fund management, led by an Internal 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 exhibiting a systematic, disciplined approach to evaluate the effectiveness of risk management, control and governance processes.

In pursuit of this purpose Internal Audit undertakes, objectively and independently from management, to assess and report (to Aviva Group and Aviva Investors Audit and Risk committees and executive management as appropriate) on 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 Aviva Investor's risk appetite or for the effectiveness of the framework of controls.

2.6 Enterprise Risk Management Framework, Policies and Standards

2.6.1 Aviva Group risk policies

The risk policies set out by Aviva Group outline the Group's risk strategy and appetite for risk and its expectations in respect of the management of risk across the group. These expectations include:

– The risk appetite framework for use by the business;
– The approach to identifying, measuring, managing, monitoring and reporting risk;
– Roles and responsibilities (including the three lines of defence model); and
– The risk governance structures.

The tools needed to identify, measure, manage, monitor and report risk vary by type of risk. Consequently, the risk policy framework contains a risk policy for each of the eight risk types to which Aviva Group is exposed*: life insurance, general insurance, asset management, credit, market, liquidity, conduct and operational risk*.

Aviva Investors implements the Aviva Group Enterprise RMF and its related risk policies (owned and maintained by the Aviva plc Board) to adhere to group requirements provided that it also adheres to Aviva Investors' regulatory requirements.

2.6.2 Aviva Investors risk policies

Aviva Investors develops risk policies and governance arrangements that are aligned to the above policies.

The policies and governance arrangements are owned by the AIHL Board and are managed on their behalf by the CRO and Directors of Risk.

Where risk events have more than one risk exposure the appropriate identification, measurement, management, monitoring and reporting of these risks are highlighted in each policy and governance arrangement.

The Risk Management Committee reviews, challenges and approves all Aviva Investors risk policies.

2.6.3 Business standards

Aviva Group implements consistent and controlled business processes as a form of risk management – referred to as the business standard process. All risk policies are supported by a number of associated business standards which sets out management's response to Aviva plc's expectations in terms of specific control objectives to be met by the implementation of control activities.

The business standards undergo an annual review for appropriateness that is facilitated and performed by the business standard owners.

The output from the business standard review process is provided to Aviva Group for consideration and amendment to the current business standards.

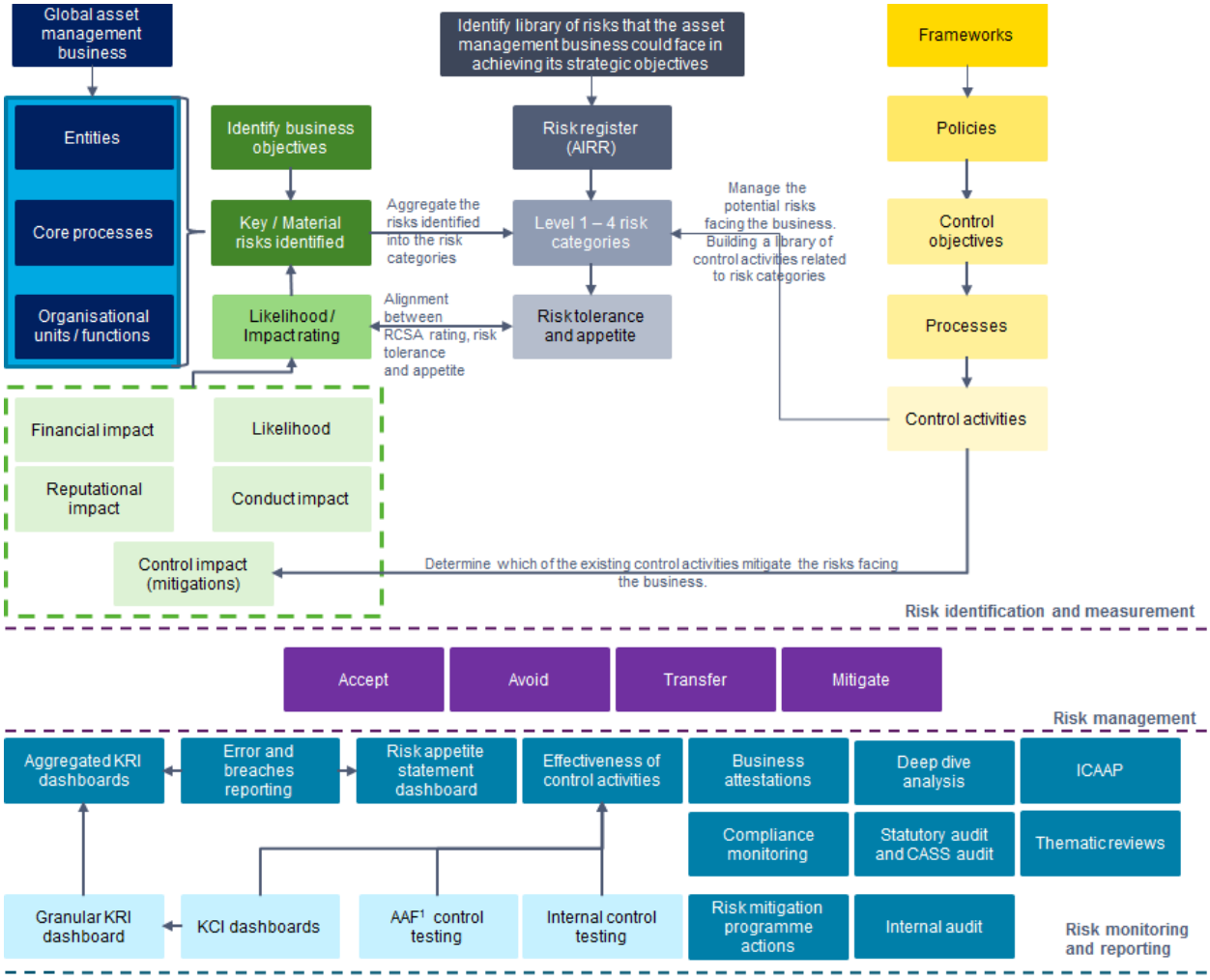
3. Risk and ICAAP process

3.1 Overview of the Risk and ICAAP processes

Aviva Investors' Risk Management Framework provides a structure for managing risk. In summary:

- The AIHL Board approves the business strategy, plan and forecasts for Aviva Investors.
- The Risk function develops the Risk Management Framework, Aviva Investors Risk Register (AIRR), and the proximate and emerging risk spectrum setting out a common basis to identify, measure, manage (accept, transfer, avoid or mitigate), monitor and report all risks.
- The AIHL Board owns the Risk Appetite Statement which is proposed by the Executive Committee and approved by its Risk Committee setting out the risk appetite and limits for each of the key risks. The Risk Appetite Statement includes the risk appetites, limits and top-down monitoring measurements. The monitoring measurements are used by the business to monitor the actual risk exposures against the risk appetite and resolve any undue risk exposures.
- The risk owners are responsible for proposing the appropriate granular risk tolerances, aligned to the Risk Appetite Statement, for the risk exposure assessments performed in the RCSA process to the Risk Committee for approval.
- Bottom-up monitoring measurements (such as: Key Risk, Control and Performance Indicators, risk event reporting, compliance monitoring, thematic reviews, control testing, deep dive analysis, etc.) are developed, aligned to the RCSA risks and owned by the business to monitor actual risk exposures against the granular risk tolerances and resolve any undue risk exposures.
- Under the oversight of the Risk Management Committee and the Risk Committee, management implement plans to mitigate those risk exposures that are outside of risk appetite or tolerance. A risk is accepted, mitigated, transferred or avoided. The risk management approach is executed by the Executive risk owners and its success is monitored by Risk.
- External events are assessed to identify any potential lessons learnt for Aviva Investors.
- 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.
- Operational risk scenario, stress testing and wind down plan workshops are conducted between the Risk Function, 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 business, such as relevant risk profiles, internal / external events, internal audit open issues and monitoring measurement results.
- 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 entire ICAAP document is reviewed and challenged by the Executive Committee, Capital Committee, Risk Management Committee and Risk Committee; and approved by the AIHL Board.

Below is a high-level presentation of the risk processes that are implemented by Aviva Investors. Refer to the sub-sections of this section for a detailed description on each of the risk processes:



1: AAF: Audit and Assurance Faculty

3.2 ICAAP approach

The following approach was taken to complete the ICAAP:

Planning and risk analysis

- Determine the timeline and plan deliverables.
- Allocate roles and responsibilities to experienced individuals.
- Obtain the approved business strategy and plan. Refresh the RAS and related monitoring measurements.
- Obtain the key, material, proximate and emerging risks from the risk registers.
- Arrange workshops with each member of the executive supported by relevant SMEs for the entire ICAAP.

Financial, risk and other preparatory information

- Obtain historical and projected financial data.
- Obtain internal and external event data.
- Obtain the data results for internal monitoring measurements (e.g. KRI, KCI, internal audit reviews, etc.).
- Prepare operational risk workshop participant packs for the scenario workshops that include material risks, event data, the results of internal monitoring measurements, prior year scenarios developed and how output of the workshops will be used throughout the ICAAP.

Pillar 1 and 2

- Define the methodologies to quantify the capital requirements for each risk category.
- Pillar 1: Calculate, validate and approve the Pillar 1 capital requirements.
- Pillar 2: Run, review and approve the operational, market, credit and other risk workshops and output.
- Quantify, validate, challenge and review the Pillar 2 capital requirements with SMEs, each Executive and the Executive Committee as a whole, Capital Committee and Risk Management Committee.
- Review, challenge and approve the finalised results with the Risk Committee.

Stress testing and wind down analysis

- Define the methodologies to quantify the stress test scenarios, reverse stress test scenarios and wind down.
- Define the stress test , reverse stress test and wind down scenarios and determine the appropriate assumptions for each in conjunction with the SMEs and Executive Committee members.
- Quantify, validate, challenge and review the scenarios, assumptions and management actions with the Finance, Risk and Compliance functions, Operational Controls Committee, Executive Committee, Capital Committee and Risk Management Committee.
- Review, challenge and approve the finalised results with the Risk Committee.

Minimum capital requirements

- Determine the higher of market and credit risk in Pillar 1 and 2 capital calculations.
- Calculate and compare minimum capital requirements, Pillar 2 and wind down capital requirements to select the highest of the three values.
- Compare the capital requirements to the capital resources.
- Determine whether the capital requirements are sufficient to sustain the business during stressed events.
- Document the ICAAP thoroughly including all key assumptions and input data, methodologies, outputs, testing and validation.

Governance

- Executive Committee, Capital Committee, Risk Management Committee, Risk Committee review and challenge of the ICAAP, including challenge of outputs and assumptions.
- AIHL Board review, challenge and approval of the ICAAP, including challenge of outputs and assumptions.
- ICAAP formal sign-off by the AIHL Board.
- Submission to the FCA.
- Regulatory SREP.

3.3 Aviva Investors Risk Register

The purpose of the AIRR is to provide Aviva Investors with a common basis to identify, measure, manage, monitor and report all key and material risks across the business. The AIRR contains 3 registers (cause, event and effect registers that are complementary registers to each other).

Causal register

The causal register provides Aviva Investors with a common basis to analyse the root cause or drivers of risk events crystallising in the business. The causal register is divided into 4 level 1 categories, namely: people, process, internal systems and external events which are further divided into granular causal categories (level 2).

Event register

The event and effect register contains the following:

– IFPRU 2.2.7 regulatory risk categories (level 1);
– Operational risk is further divided into the 7 Basel II risk event categories and the other regulatory risk categories have been divided into risk event categories internally developed by the business (level 2);
– The risk event categories are divided into granular events that could crystallise across the business (levels 3 and 4).

Effect register

Effect types have been obtained from Basel guidance documentation and internally developed measurements to provide the business with a common basis to assess the effect that each event – if crystallised – could have on the business (financial, conduct and reputational impacts).

The AIRR is reassessed on an annual basis and approved by the Risk Committee. The AIRR is further used to aggregate the individual risk exposures of the business into an overall risk profile which enables the CRO to report the overall risk profile to the AIHL Board and Aviva Group.

3.4 Regulatory risk categories

In accordance with IFPRU 2.2.7, all entities regulated by the FCA must identify and manage the major sources of risks 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;
– 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.

Conduct risk and reputational risk are not regulatory risk categories as is listed above, but are taken into account in the assessment of all risk categories facing the business.

In addition to the risk categories considered above, Aviva Investors uses the Basel II operational risk event categories to further distinguish the risks that fall within the broad heading of operational risk:

– 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”).

3.5 Business strategy, plan and forecast

On an annual basis, the Executive Committee develops the business strategy and the Finance function translates the business strategy into a business plan and forecast.

The model used to quantify the business strategy and plan into the forecast is reviewed and challenged by the Capital Committee; and approved by the Risk Committee.

The Risk and Compliance function reviews and challenges the development of the business plan and forecast against the business strategy to identify risks or concerns that Aviva Investors will not achieve the strategy over the forecast period and whether the business plan and forecast appear reasonable and achievable. The risk assessment is reviewed, challenged and approved by the CRO and submitted to the AIHL Board for consideration during the approval of the business strategy, plan and forecast each year.

3.6 Risk appetite statement

Aviva Investors risk appetites are proposed by the Executive Committee and reviewed, challenged and approved by the Risk Committee. It articulates the risks that the AIHL Board is prepared to be exposed to in delivering the business strategy as is expressed in the business plan. The RAS outlines:

- The definition of each risk category and how this is interpreted by the business as exposure to each risk category.
- Reconciliation between the risk categories assessed in the RAS and the AIRR.
- The appetite that Aviva Investors has for each of these risks in delivering the business plan.
- The rationales developed to determine the appropriate risk appetites for each risk category.
- The approach used (leading, lagging, quantitative and qualitative) by the business to identify, measure, manage, monitor and report the actual exposures Aviva Investors has to each risk category in comparison to the initial risk appetites.
- The approach taken in the event that the measurements indicate a risk appetite is about to be breached and risk appetites that have been breached.
- The qualitative statements used to define the behaviour and culture of Aviva Investors.

As the business evolves, so the risk appetite may change and so this statement is reviewed and approved at least annually and with every significant business change.

3.7 Common materiality framework

Aviva Group developed a common materiality framework (“CMF”) that is used by all Aviva entities to determine the likelihood and impact of the inherent and residual risk exposures. The CMF is used to assess the risk exposures facing the business as well as any issues / events identified across the business. In turn the risk assessment of the issues identified across the business is used to determine whether Aviva Investors’ residual risk exposure exceeds its risk tolerance.

Materiality is considered through four impact scales:

- Financial impact;
- Balance sheet impact;
- Reputational impact; and
- Conduct impact.

A common impact scale is used to define each of the four impact scales which are ‘very high’, ‘high’, ‘medium’ and ‘low’.

Likelihood (i.e. probability) is considered through four probability scales:

- Remote – broadly equivalent to once in 10 years;
- Possible – broadly equivalent to once in 3 – 10 years;
- Probable – broadly equivalent to once every 2 – 3 years; and
- Very probable – broadly equivalent to once in less than 2 years.

The likelihood and impact scales are disclosed on a heat map with 16 grid blocks. Each grid block is translated into a number of 1 to 6 which represents the risk exposures that Aviva Investors would have should a key or material risk be measured within a particular grid block.

3.8 Risk tolerances and aggregation

The risk appetites (set at level 2 of the AIRR) in the RAS are translated into risk tolerances (set at level 4 of the AIRR) and mapped against the approved AIRR. The risk tolerances are approved at least annually or with every significant business change by the Risk Management Committee.

The approved risk tolerances are provided to the business to measure the residual risk exposures of the business against to identify risk exposures that are out of tolerance.

The risk aggregation method implemented by Aviva Investors aggregates the risk exposures at its most granular level on the AIRR to its highest level (regulatory risk categories) and allows the AIHL Board to obtain a view on its risk profile.

3.9 Risk identification, measurement, management, monitoring and reporting

Aviva Investors is required to identify the risks facing the business which can be divided into three different categories:

- Proximate and emerging risks arising from events outside Aviva Investors that are beyond its influence or control (top-down risk process);
- Material risks facing the business so that if such an event were to crystallise, the business would immediately be outside its risk appetite and be required to utilise its capital resources (top-down risk process); and
- Key risks facing the business whilst achieving its strategic objectives (bottom-up risk process).

3.10 Material, proximate and emerging risks

Material risks are those risks that require Aviva Investors to utilise its capital resources to resolve the crystallisation of such events. These risks have a low probability of occurring, but a high financial, conduct and / or reputational impact that the business faces in achieving its strategic objectives. Material risks are mitigated as far as is possible with control activities to prevent and detect material events in a timely manner, however these risks assume that multiple control failures occurred within the business in order to crystallise.

Proximate and emerging risks are the appearance of new hazards, or new or changing exposures to existing hazards of which the timing and impact of these risks are uncertain. These risks arise from events external to Aviva Investors and are beyond its influence or control. Source of these risks include (but are not limited to) geopolitical, technological, macroeconomic and regulatory events.

3.10.1 Risk identification and measurement

On an annual basis senior management in first line of defence identifies the material, proximate and emerging risks via risk identification workshops. Relevant internal and external data is provided by the Risk function during these workshops to enable senior management to make informed decisions, such as (but not limited to):

- Most up to date emerging risk spectrum and material risk register;
- Business plan, strategy and forecast;
- Regulatory, investment and financial crime developments in the external market;
- External trends: Macroeconomic, financial market (stock market indices, credit spreads, megatrends, etc.) and social indicators;
- External research and risk analysis;
- Regulatory communications and publications;
- Relevant stress test scenario results, reverse stress test (“RST”) results and wind down scenario results;
- Risk appetite statement dashboard results; and

– Key risk monitoring results, such as KRI, KCI, risk events, internal and external audit reviews, business attestations, effectiveness of control activities, deep dive analysis results, compliance monitoring results and thematic reviews.

The results of the workshops are validated, reviewed and challenged by the Risk function, Capital Committee, Executive Committee, Risk Management Committee; and approved by the Risk Committee.

On a quarterly basis, senior management assesses the material, proximate and emerging risks to identify any new risks or amendments to the current risks. The updated risk registers are reviewed, challenged and approved by the Risk Management Committee.

3.10.2 Risk management, monitoring and reporting

Material risks are disclosed on the Aviva Investors material heatmap, and are treated as part of the ICAAP to determine Aviva Investors minimum capital requirements. Material risks are considered in the quantification of Aviva Investors' minimum capital requirements and also forms part of stress test scenarios, RSTs and wind down scenarios.

Proximate and emerging risks are disclosed on the top-down risk assessment ("TDRA") register, and are analysed and assessed by means of stress test scenarios, RSTs and wind down scenarios.

Scenario analysis

Aviva Investors runs a series of scenarios to analyse various risks facing the business that could prevent it from 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 and SMEs 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 failures, inability to recover from severe scenarios, 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.

3.11 Key risks

Key risks are the day-to-day risks facing the business whilst achieving its strategic objectives. The exposures to these risks are considered expected losses that are within the risk appetite of the business (as is defined in the RAS).

3.11.1 Risk identification and measurement (risk self-assessment)

On an annual basis, the Executive risk owners of each risk category in the AIRR identify the key risks facing the business via the annual key risk identification and measurement workshop. Relevant internal and external data is provided by the business to enable the Executive risk owners to make informed decisions, such as (but not limited to):

– Business strategy, plan and forecast;
– The risk categories in the AIRR to be assessed and related tolerances as translated from the RAS;
– The processes and control activities mapped to each of the risk categories;
– Control effectiveness testing results;
– Monitoring measurement results;
– Risk events;

– Internal and external audit results, risk mitigation programme actions and compliance monitoring issues; and
– Business attestation results, deep dive analysis and thematic review results.

The results of the workshops are validated, reviewed and challenged by the Risk Management Committee; and approved by the Risk Committee.

On a monthly basis, the key risk register is reviewed by the Executive risk owners to determine whether any residual risk exposures of key risks have moved from the annual key risk assessment due to issues and ineffective control activities identified or decisions / changes in the business that have been made. The finalised results are reviewed, challenged and approved by the Risk Management Committee.

3.11.2 Risk management

The key risks' residual exposures are compared to Aviva Investors' risk tolerances. Residual exposures exceeding Aviva Investors' risk tolerances are primarily mitigated to reduce residual exposures and in rare circumstances accepted.

Risk mitigation

The Executive risk owner assigns action owners in first line of defence to each risk exposure identified as out of tolerance. The action owners investigate the root causes of the risks out of tolerance and design the appropriate plans to bring the risk exposures back in tolerance. The proposed plans are reviewed and challenged by the Risk function; and approved by the Risk Management Committee.

All plans developed by the business to bring a risk out of tolerance back into tolerance include an action owner and targeted completion date. The business provides progress updates of the plans on a monthly basis to the Risk Management Committee.

Risk acceptance

In some instances, a risk category is assessed as out of tolerance via the risk assessments, but the business would prefer to tolerate the exposure of the risk category rather than reduce the risk exposure by avoiding, transferring or mitigating the particular exposure. Aviva Investors have different governance sign-off requirements depending on whether the risk exposure acceptance exceeds the RAS and / or Aviva plc Group's risk tolerances.

3.11.3 Control self-assessment ("CSA")

On a quarterly basis, the control owners of the business perform a control self-assessment. The CSA considers all control activities that are assigned to the risk categories, process, control objectives and policies of Aviva Investors.

Each control owner is provided with a CSA pack containing the relevant control activities to be assessed and all relevant internal and external data, such as KCI results and control effectiveness review results that allow the control owner to make an informed decision on said control activities.

Any issues or gaps identified via the CSA process, such as ineffective control activities, are raised as issues against each relevant risk category and reported at the monthly key risk register review as a contributing factor to determine whether a risk is in or out of tolerance.

3.11.4 Risk monitoring and reporting

Governance

Upon completion of the key risk identification, measurement and management activities, first line of defence is responsible for implementing the appropriate risk monitoring processes in response to each risk exposures that it faces in relation to each risk category in the AIRR. Risk monitoring measurements that require specific parameters include:

– Risk appetite statement monitoring measurements (refer to **Risk appetite statement** section above);
– Compliance monitoring measurements;
– Key risk indicators; and
– Key control indicators.

Other risk monitoring processes performed in response to residual risk assessments are:

- Stress and scenario testing;
- Capital adequacy assessment;
- Risk events reporting;
- Risk mitigation programme actions;
- Internal and external audit reviews;
- Business attestations;
- Control effectiveness reviews;
- Deep dives; and
- Compliance monitoring and thematic reviews.

Each monitoring measurement developed is allocated to specific risk categories as is defined in the AIRR (or the proximate and emerging risks if it is stress and scenario testing). The finalised risk monitoring activities developed for all key risks are reviewed and challenged by the Risk Management Committee.

3.11.5 Red-Amber-Green ("RAG") rating methodology

Each monitoring measurement that is developed to monitor Aviva Investors risk exposure obtains a parameter that can be used to rate actual data against the measurement on a regular basis. Aviva Investors applies the red-amber-green ("RAG") rating methodology as follows for risk monitoring activities:

- **GREEN:** Aviva Investors is comfortably within its risk tolerance / parameter.
- **AMBER:** Aviva Investors is close to breaching its risk tolerance / parameter.
- **RED:** Aviva Investors has breached its risk tolerance / parameter.

3.11.6 Risk appetite statement monitoring measurements

On a monthly basis, the data for the RAS monitoring measurements are obtained from the business and collated in the RAS dashboard. The results are compared to the triggers (amber parameters) and limits (red parameters) for each monitoring measurement.

An amber trigger indicates that the risk appetite of Aviva Investors is close to breaching. It is the responsibility of the first line of defence to escalate the issue and proposed plan to resolve the issue to the Risk Management Committee for review, challenge, approval and monitoring of the approved plan.

A red limit indicates that the risk appetite of Aviva Investors has been breached. It is the responsibility of the first line of defence to escalate the issue and proposed plan to resolve the issue to the Risk Committee for review, challenge, approval and monitoring of the approved plan.

3.11.7 Key risk indicators and key control indicators

On a monthly basis, the data for the KRIs and KCIs are obtained from the business and collated in the KRI and KCI dashboards by the business owners in first line of defence. All KRI and KCI measurements are allocated to the risk categories in the AIRR.

KRIs and KCIs indicate whether Aviva Investors' risk exposure or exposure to control failures is close to breaching its tolerance. The triggers and limits are developed in line with Aviva Investors residual risk exposures and risk tolerances.

All finalised KRI and KCI results identified are contributing factors during the monthly key risk register review to identify whether a key risk is in or out of tolerance.

3.11.8 Internal event management (risk events, errors and breaches)

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

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

The first stage of the work is ensuring that the risk events are communicated rapidly when discovered. The operational risk team must be informed of all material risk events, errors and breaches (greater than £25k 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.

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 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. Where clear patterns are identified, this leads to control recommendations that are agreed by the Risk Management Committee.

A 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 register review and scenario analysis; and
- Support the operational risk capital requirement quantification and assessment process.

3.11.9 External event management

External operational risk event data provides 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 process.

3.11.10 Risk mitigation programme actions

The FCA performs a Supervisory Review and Evaluation Process ("SREP") on Aviva Investors' Risk Management Framework, risk processes and capital adequacy assessment processes from time to time. The results of the SREP are documented in a SREP letter. Where particular gaps or enhancements have been identified, the FCA documents the actions to be taken by Aviva Investors to close the gaps or enhancements in a Risk Mitigation Programme ("RMP").

The RMP actions are recorded as issues against the particular risk categories that are affected and serve as contributing factors to determine whether key risks are in or out of tolerance.

3.11.11 Internal and external audits

Internal and external audit issues identified provide information on the control deficiencies or areas for enhancement for the business. Collection and analysis of the audit items are 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 key risk register review and scenario analysis; and
- Support the operational risk capital requirement quantification and assessment process.

3.11.12 Business standard attestations

Each policy or business standard owner within Aviva Investors provides a bi-annual 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. A summary of material exceptions is reported to the Aviva Group and the Audit Committee.

The issues identified through the attestation process are recorded against the particular risk categories that are affected and serve as contributing factors to determine whether key risks are in or out of tolerance.

3.11.13 Effectiveness of control activities

The control owners across the business are responsible for testing the design and operating effectiveness of the control activities implemented across the business in accordance with Aviva Investors internal testing methodologies.

The results of the control testing performed are reviewed and challenged by the BPC team and reported against the control activities as either effective or ineffective. The results of the controls testing is included in the monthly key risk register review and is a contributing factor to determining whether a key risk is in or out of tolerance.

In addition, the results of the control testing determines whether AAF 01/06 or business standard control objectives have been met or not and feeds directly into those relevant control objectives.

3.11.14 Deep dive analysis

A deep dive analysis is facilitated by the BPC and Governance teams. This analysis can be performed as a result of the following reasons:

– Aviva Investors has experienced a significant risk event (above £25k or those relating to certain systematic factors, such as fraud) and performs a deep dive analysis to determine the root cause(s) of the event.
– Aviva Investors identifies a negative trend of errors occurring over a period of time.
– A risk monitoring activity received an AMBER or RED rating and is deemed to be the cause of a risk assessed as out of tolerance.
– A control activity / activities have been identified as significant, yet it has been assessed as not effective.
– Aviva Investors would like to identify a more efficient, cost-effective way to perform a process / activity within the business whilst reducing its risk exposure(s).

The BPC and Governance teams set up the required working group within the business to deep dive into the particular area of the business of concern and identify the root causes for the issues identified via the risk monitoring activities. The working group consists of and is owned by first line of defence. The BPC and Governance teams and Risk Identification team are involved in the process to review and challenge the deep dive analysis as it is performed.

It is the responsibility of first line of defence to develop the appropriate resolutions for the deep dive analysis which is reviewed and challenged by the BPC and Governance teams and the Risk Identification team.

The finalised proposal for improvements are submitted to the CRO and relevant Executive Committee member's function(s) affected for review, challenge and approval. The finalised proposal includes relevant action owners and a targeted completion date for the improvements / enhancements.

The results of the deep dive analysis is included in the monthly key risk register review and is a contributing factor to determining whether a key risk is in or out of tolerance.

3.11.15 Compliance monitoring and thematic reviews

The Compliance Monitoring team performs the routine monitoring reviews on a daily, weekly or monthly basis and makes challenges or escalations into the business as appropriate. Findings and actions are logged as issues against relevant risk categories and these are considered by the business during the monthly key risk register reviews to determine if key risks are out of tolerance.

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 **£355.2m** at 31 December 2016, with CET1 capital being **£265.2m** 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 2016 and throughout the year, Aviva Investors complied with the capital requirements as set by the FCA.

4.2 Capital Adequacy

4.2.1 Capital Resource Requirements – Pillar 1

Aviva Investors' Limited Licence IFPRU and BIPRU entities are required to calculate the capital resource requirement 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 professional indemnity insurance (excess) capital requirement.

Overseas regulated entities are following local capital requirements.

The Pillar 1 capital surplus for the Regulatory Group at 31 December 2016 is represented below:

Bridge from Net Assets to Common Equity Tier 1 Capital	**£'m**
Permanent share capital	248.0
Share premium account	41.6
Profit and loss and other reserves	100.5
Balance Sheet Net Assets (excluding MI)	**390.1**
Deductions:	
Intangible assets (allowing for transitional adjustment)[1]	(5.1)
Ineligible capital[2]	(72.0)
Unaudited Profits	(47.8)
Common Equity Tier 1 after deductions	**265.2**
Tier 2	
Subordinated Loans	90.0
Total capital resources	**355.2**
Capital Resource Requirement	
Deduct the higher of the following:	
Credit, Market and Counterparty risk requirements	(44.6)
Fixed Overhead Requirement[3]	**(84.6)**
Pillar 1 Surplus	**270.6**

[1] Deductions have been made for capitalised project costs; however a transitional provision (Article 469) has been applied allowing the deduction of intangible assets to be limited to 60% in 2016.

[2] A restriction is applied to the inclusion of a capital contribution reserve as CET1.

[3] Pillar 1 Own Funds Requirement has been calculated by adopting a projected fixed overheads approach using 2017 planned costs.

Included in the Aviva Investors Pillar 1 calculations shown in the preceding table are the three Aviva Investors UK Limited Licence Firms; AIGSL, AIUKFL and FLI as well as AIUKFSL and FLFL, collective portfolio management firms. The stand alone Pillar 1 calculations for these five entities are shown in the below table as follows:

£'m	AIGSL	AIUKFL	AIUKFSL	FLI[4]	FLFL
Bridge from Net Assets to Common Equity Tier 1 Capital					
Permanent Share Capital	200.7	5.0	12.0	7.5	9.0
Eligible Partnership Capital	-	-	-	-	-
Share Premium	-	-	-	-	-
Profit and loss and other reserves	11.0	23.8	6.5	0.5	-
Balance Sheet Net Assets	211.7	28.8	18.5	8.0	9.0
Deductions:					
Intangible Assets (allowing for transitional adjustment)	(5.2)	-	-	-	-
DTA deductions (allowing for transitional adjustment)	(1.6)	-	-	-	-
Deferred Acquisition Costs Adjustment	-	-	-	-	-
Illiquid Assets	-	-	(1.4)	-	-
Other deductions	-	-	-	-	-
Ineligible capital	(72.0)	-	-	-	-
Unaudited Profits	(22.8)	(17.6)	(6.5)	(0.4)	-
CET1 Capital After Deductions	110.1	11.2	10.6	7.6	9.0
T2 Capital					
Subordinated Loans	93.0	-	-	-	-
TOTAL CAPITAL RESOURCES	203.1	11.2	10.6	7.6	9.0
Capital Resource Requirements					
Deduct the higher of the following:					
Credit, market and counterparty risk	24.8	1.2	-	0.0	-
Fixed Overhead Requirement	62.9	1.7	3.3	0.0	0.0
FUM Requirement	-	-	5.4	-	4.2
Base Capital Requirement	0.1	0.1	0.1	0.0	0.1
TOTAL CAPITAL RESOURCES REQUIREMENT	62.9	1.7	5.4	0.0	4.2
PILLAR 1 SURPLUS	140.2	9.5	5.2	7.6	4.8

[4] Capital requirement for FLI is €50k, being the base capital requirement and is the higher of when compared to the credit, market and counterparty risk and fixed overhead requirement. The entity was deregulated on 10 February 2017, after which the Pillar 1 capital requirement will no longer apply. FLI is forecasted to be liquidated in 2017.

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;
- Each loan has 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 4.2 relate to capitalised internal project costs.

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

4.5 Capital Ratios

See below for details of the CET1 and Total Capital Ratios, which have been calculated for Full Year 2016 in accordance with amounts disclosed in section 4.2 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 Article 92 of the CRR.

%	Aviva Investors Group	AIGSL	AIUKFL
CET1 Capital Ratio	25.1%	14.0%	52.7%
Total Capital Ratio	33.6%	25.8%	52.7%

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 of 8% to the risk weighted asset.

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

Exposure class (£'m)	2016
Institutions	6.2
Corporates	20.2
Central Governments	5.1
Equity Exposures	2.2
Retail	0.7
Other Items	4.5
Total	**38.9**

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 at present.

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 4.6.1.

At Aviva Investors 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 2016:

Exposure class (£'m)	UK	Europe	Asia Pacific	North America	Total
Institutions	88.3	3.8	1.7	4.4	98.2
Corporates	247.6	0.8	1.9	1.3	251.6
Central Governments	50.6	0.9	-	12.1	63.6
Equity Exposures	27.1	0.3	0.8	-	28.2
Retail	1.5	1.4	0.2	6.2	9.3
Other Items	28.2	6.6	0.4	2.1	37.3
TOTAL	**443.3**	**13.8**	**5.0**	**26.1**	**488.2**

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 investments and trade receivables with highly rated corporate institutions (including other Aviva Group companies).

All exposures are due and payable within 90 days of invoicing. There are no material past due exposures which cause concern 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 consolidation) 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 £71.4m and a market risk capital requirement of £5.7m. This risk solely relates to foreign currency translation risk on assets and liabilities denominated in currencies other than GBP, as Aviva Investors does not operate a trading book.

5. Remuneration Code Disclosure

The Remuneration Code (SYSC 19A) applies to 16 Aviva Investors Firms, making up the UK Regulatory Group. 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 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 2016, the Aviva Investors Remuneration Committee met on six 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. The 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 2016, the Aviva Group Remuneration Committee met on four 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/)

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
- Members of AI Executive Committee
- Significant Influence Functions at each UK Regulated Entity

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

– Chairs of the AI Board, AI Remuneration Committee, AI Risk Committee and AI Audit Committee
– General Counsel
– Internal Audit Director
– People Director
– Chief Operating Officer
– Individuals identified as part of an additional qualitative assessment
– 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, 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;

- 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 35 Code Staff for all or part of the 2016 performance year. Aggregate remuneration expenditure in respect of Code Staff for the 2016 performance year was **£23.2 million**.

Fixed remuneration represents 27% of this total, with 6% being pension/benefits and 67% variable remuneration.

Of the total variable pay (bonus and LTIP) made to Code staff, 60% 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.

The remuneration split between Senior Management and other Code staff that make up the 35 Code staff is as follows:-

	Senior Management	Other Code Staff
Total Remuneration:	£14.0m	£9.2m
Of which, Fixed Remuneration:	22%	36%
Variable Remuneration:	73%	57%
Of which deferred	64%	52%
Pension/Benefits:	6%	7%
Number of Code staff:	15	20

Important Information

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