PILLAR 3 DISCLOSURES

As at December 2017

avivainvestors.com

AVIVA INVESTORS

PILLAR 3 DISCLOSURES

Aviva Investors

DECEMBER 2017

Contents

Abbreviations and glossary of terms

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 7 of this report
Aviva Group	The Aviva plc group of companies as reported in Note 60 – Organisational structure, on page 216 of the Aviva plc Annual Report and accounts 2017, available at www.aviva.com
Aviva plc	The holding company of the Aviva Group and AIHL's ultimate parent company
BDSF	Business disruption and systems failure
Board	Board of Directors
Business Standards	A set of business standards which set out the requirements for operating across Aviva Group's most important business processes. The business standards are a key part of the Aviva Group's risk management framework.
CEO	Aviva Investors Chief Executive Officer
CFO	Aviva Investors Chief Financial Officer
COO	Aviva Investors Chief Operating Officer
COREP	Common Reporting – Standardised reporting framework issued by the European Banking Authority for CRD IV reporting.
CPBP	Clients, products and business practices
CRD IV	Capital Requirements Directive IV
CRO	Aviva Investors Chief Risk Officer
CRR	Capital Requirements Regulation
DPA	Damage to physical assets
EBA	European Banking Authority
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
FCA	Financial Conduct Authority
FOR	Fixed Overhead Requirement
FUM	Funds Under Management
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	Prudential Sourcebook for Investment Firms
IFRS	International Financial Reporting Standards
IMMMR	Identification, measurement, management, monitoring and reporting
IPRU-INV	Interim Prudential sourcebook for Investment Businesses
LTIP	Long-Term Incentive Plan
KCI	Key Control Indicator
KRI	Key Risk Indicator

NED	Non-Executive Director
OEIC	Open-ended Investment Company
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
SREP	Supervisory Review and Evaluation Process
SST	Stress and scenario testing
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 FCA consolidation group (hereafter referred to as "UK Regulatory Group") 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 capital adequacy assessment process to assess each material risk and determine the appropriate capital requirements.
- The integration of the Internal Capital Adequacy Assessment Process ("ICAAP") into the Aviva Investors Risk Management Framework ("RMF") processes.
- 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 financial reporting date of 31 December and these disclosures reflect the position at 31 December 2017.

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 2018. 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, an IFPRU firm – Limited Licence €125k;
- AIUKFSL, an IPRU-INV collective portfolio management firm; and
- FLFL, an IPRU-INV collective portfolio management firm.

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 (liquidation commenced in June 2017);
- Aviva Investors Americas LLC; and
- Aviva Investors Canada Inc.

Fully consolidated entities with a minority interest:

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

Investments not consolidated:

- Aviva Investors Pensions Limited ("AIPL");
- Aviva Investors Ireland Limited (currently in liquidation); and
- Aviva Investors Ireland Holdings Limited (currently in liquidation).

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"). Both AI Ireland Ltd and AI Ireland Holdings Ltd are both dormant companies that are not involved in the Aviva Investors asset management business, and are therefore not an institution or a financial institution. Consequently these entities 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 2017 available at www.aviva.com

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 FrameworkOverview

Aviva Investors seek to optimise its asset management business' performance while remaining within risk appetite and meeting stakeholder expectations. This is achieved by embedding rigorous and consistent risk management across the asset management business. Aviva Investors' Risk Management Framework ("RMF") includes the strategies, policies, processes, governance arrangements, tools, and reporting necessary to support this.

All employees are responsible for the identification of Aviva Investors' full spectrum of risks facing the business as well as those risks to which it may be exposed in the future. Senior management are responsible for the identification, measurement, management, monitoring and reporting ("IMMMR") of current and future risks. Current risks are identified and measured through risk, process and control assessments while future risks are identified and measured through gap analysis and preparation processes.

Appropriate controls are developed and embedded to adequately minimise losses to an acceptable residual risk exposure level. The controls' dependencies on people, processes, systems and external factors (e.g. outsource providers) are also mapped.

Aviva Investors monitors the achievement of risk goals via tracking data points calibrated to tolerances, appetites and / or strategic targets as well as indicators and reviews. Observations are made by the business about these data points to determine potential failures or gaps in controls or control dependencies on people, processes, systems or external factors.

The impact and root cause(s) of the failures and gaps are determined by the control owners. Issues are raised and mapped to the relevant control environments which in turn map to risk categories. The risk owners are therefore enabled to assess the risks facing the business.

If a risk assessment determines risk exposure exceeds risk tolerance, a resolution plan is developed targeting the relevant failure or gap. The execution of the resolution plan is monitored to determine whether failures or gaps are sufficiently addressed to resolve the over-exposure to risk.

Senior management are responsible for allocating resources (capital, liquidity, people and knowhow) in a responsible manner to achieve Aviva Investors' goal of minimising losses.

All employees are required to escalate control failures, errors and breaches (collectively referred to as "risk events"). These events might arise due to inadequate or failed internal processes, personnel, systems, or external events. Where the risk event is material (as defined in the Risk Events, Errors and Breaches policy) an investigation is required to determine the root causes and proposed resolution that is reviewed, challenged and approved through governance structures.

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

2.2 Aviva Investors Risk and Control Management Frameworks

Purpose of frameworks

The below diagram discloses Aviva Investors' integrated management and decision-making model which includes the risk and control management models of current and future profiles across the business. The model discloses the interaction between strategies, models, resources (capital, liquidity, staff and knowhow), governance arrangements, libraries of information, profiles of the business and the internal capital adequacy assessment process (ICAAP).

Aviva Investors develops the appropriate control activities in response to:

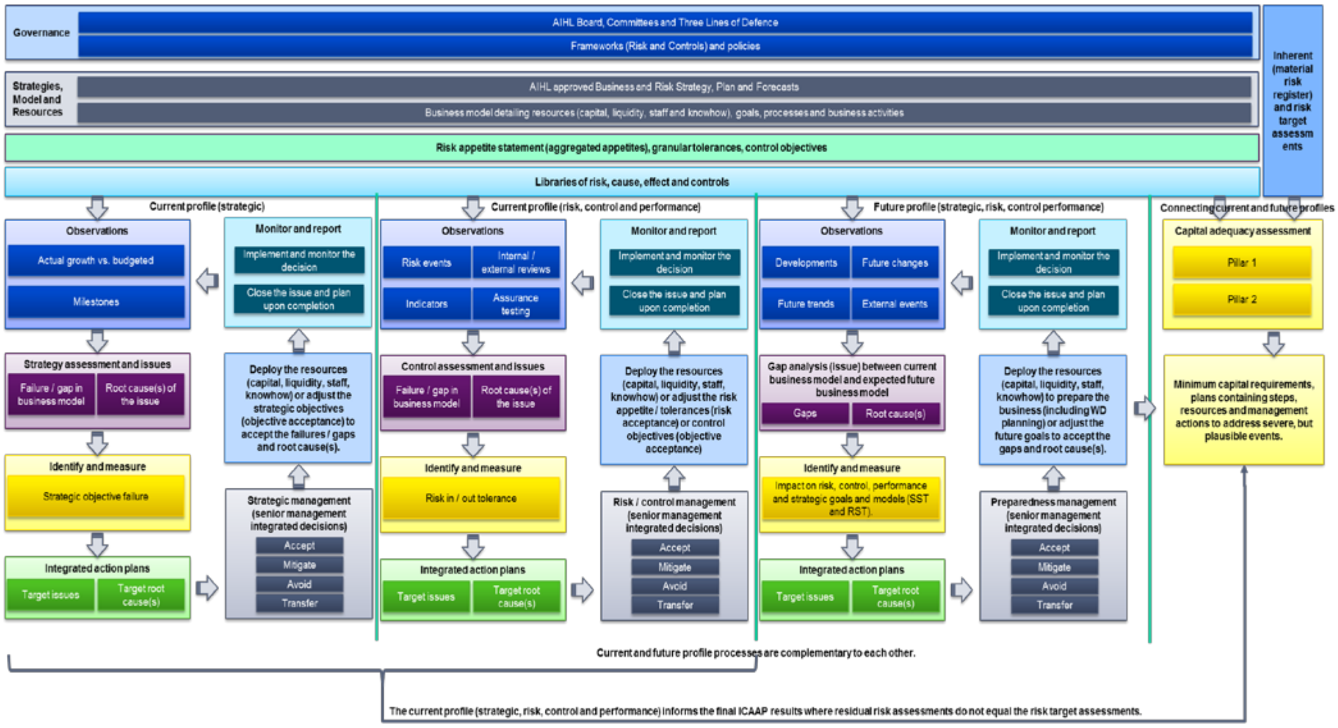
- Risks facing the business; and
- Control objectives required to successfully perform business activities to meet business objectives and strategic goals.

Business activities are grouped together to form processes across the business.

Aviva Investors risk, performance and control goals are to:

- Minimise losses (risk goals); and
- Perform and control best in class (performance and control goals).

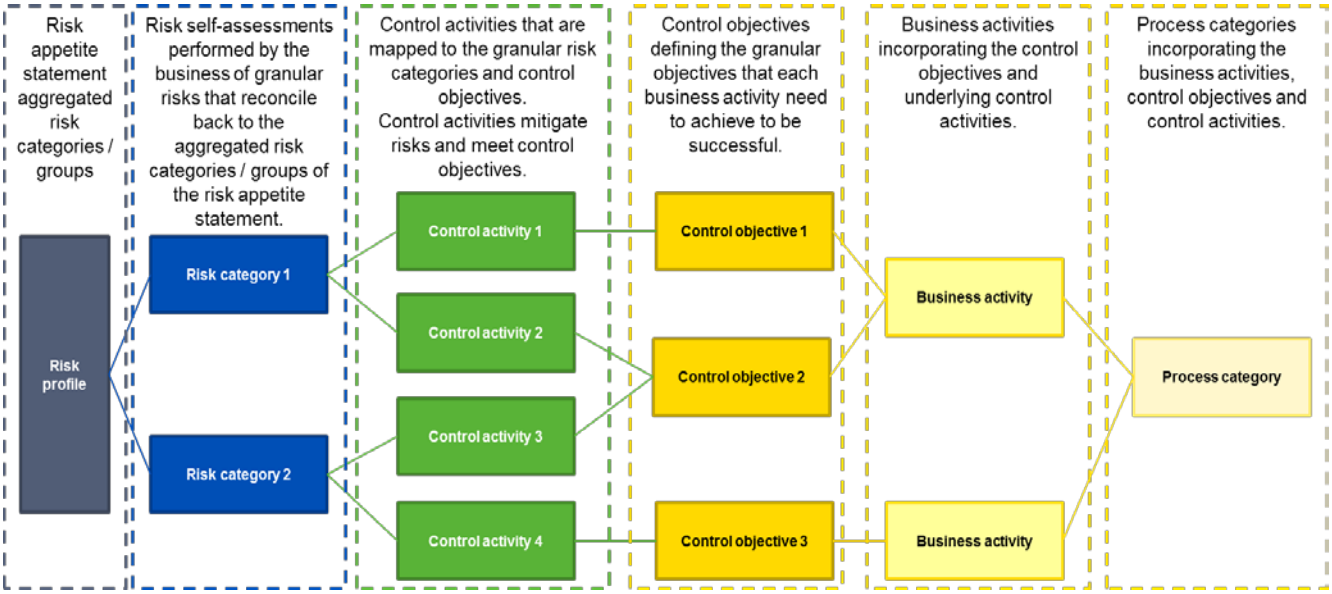
The RMF sets out the approach to manage the risk goals (i.e. minimise the losses) and the Control Management Framework ("CMF") sets out the approach to manage the performance and control goals (i.e. perform and control best in class).



Note that root cause is not just control failure, but spans across people (e.g. knowledge, skills), processes, systems and external dependencies.

Mapping of control activities to both risks and control objectives

Control activities are mapped to both risks and control objectives as is illustrated in the diagram below.



Principles

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 deliberately taking Aviva Investors from its current risk profile to the desired future risk profile articulated in the business' risk appetite. The Risk Appetite Statement ("RAS") must be clearly documented.

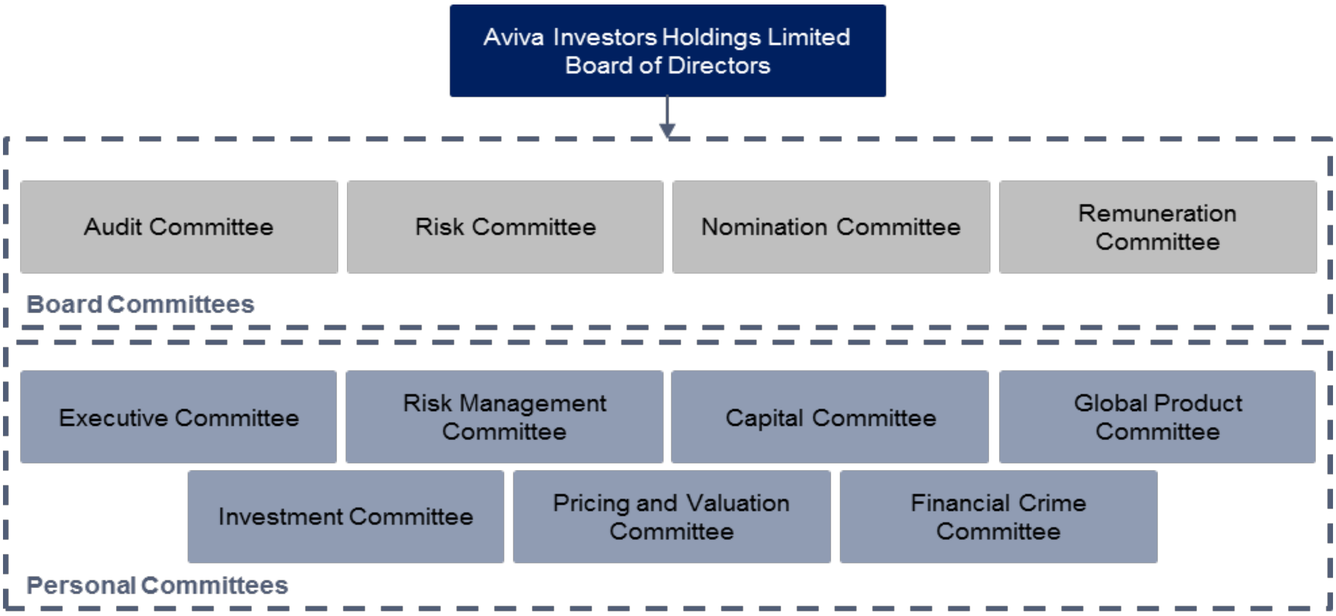
- The exposure to risk must be taken into account in all key business decisions.
- An appropriate culture must be in place to ensure that there is an effective management of risk exposures, to remain within risk tolerances and appetites (respectively), where this is within management's control. Action plans for risks out of tolerance or appetite must be documented and, once agreed, followed without undue delay.
- An appropriate governance structure, supported by documented Board and committee terms of reference, must exist to ensure effective implementation of the RMF.
- The Aviva Investors *Three Lines of Defence* model must be operated effectively, supported by clear and documented delegations of authority and role profiles, which maintain an appropriate segregation of duties.
- Current and future 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 significance 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, risk appetite and tolerance (respectively).
- Tracking and observing tools must be used to monitor data results across the business calibrated appropriately and respectively to risk tolerances, appetites, objectives and strategic targets. Examples include (but are not limited to) key risk indicators ("KRIs"), control effectiveness reviews, risk events, capital adequacy assessments and stress and scenario testing ("SST").
- Management should seek to take on only those exposures to risks for which there is appropriate appetite, tolerance and resources (capital, liquidity, staff and knowhow) and avoid concentrations of exposures to risks.
- The risk management requirements of *local* and group regulators must be met.
- The business must ensure it can provide documented evidence of effective risk management and annual review of both the risk management system and systems of governance.

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

2.3 Governance structure and key responsibilities

2.3.1 Overview

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



2.3.2 Aviva plc Board

Aviva Investors forms part of the Aviva Group, headed by Aviva plc. The Aviva plc Board is responsible for determining the overall Group risk appetite, which is an expression of the risk the 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 www.aviva.com. In May 2017, the Board adopted a Diversity and Inclusion statement which supports its approach to succession planning. The Aviva plc Board's Diversity and Inclusion statement, which is in line with the overall Group Diversity and Inclusion strategy, is available at www.aviva.com/corporate-governance.

2.3.3 AIHL Board

The AIHL Board is responsible for organising and directing the affairs of Aviva Investors in a manner that is most likely to promote the success of Aviva Investors for the benefit of its shareholders as a whole and in a way which is consistent with its Articles of Association, applicable regulatory requirements and current corporate governance practice. The AIHL Board membership is subject to the approval of its shareholder and the UK regulator, and comprises 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.

Board members have specific responsibility to review and monitor the current and future 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 AIHL Board to manage key strategic matters; review business activity and risks; and provide support where needed.

2.3.4 Board committees

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

- The **Aviva Investors Audit Committee** ('Audit Committee') works closely with the Aviva Investors Risk Committee and is responsible for monitoring the integrity of financial statements and the effectiveness of systems of internal control, and for monitoring the effectiveness, performance, independence and objectivity of the internal and the external auditors covering Aviva Investors' global business.
- The **Aviva Investors Risk Committee** ('Risk Committee') assists the Board in the oversight of risk (including conduct risk, regulatory compliance and legal risk) and control. 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, consistent with the AIHL Diversity Policy.
- 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, Remuneration 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 Nomination Committee monitors the balance of skills, knowledge, experience and diversity of the AIHL directors and recommends appointments to the AIHL Board and the boards of each of its regulated subsidiaries. AIHL Board membership is subject to the approval of its shareholder and the FCA, and the AIHL Board 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 performance. 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 Nomination Committee 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.

At 31 December 2017, the Board comprised eight directors, including five independent non-executive directors and one non-executive director who is also a member of the Aviva plc Group Executive team. The following table sets out the number of directorships held by each member of the Board as at 31 December 2017:

Name	Position with Aviva Investors	Number of directorships
David Clayton	Chief Financial Officer	7 Aviva entities and 1 external entity
Mike Craston (appointed 28 September 2017)	Independent Non-Executive Chairman	9 Aviva entities and 1 external entity
Patricia Cross (appointed 1 January 2017)	Independent Non-Executive Director and Senior Independent Director	2 Aviva entities and 4 external entities
Sarah Morris	Non-Executive Director	2 Aviva entities
Euan Munro	Chief Executive Officer	2 Aviva entities and 1 external entity
Jeffrey Weingarten	Independent Non-Executive Director	2 Aviva entities
Anne Whitaker	Independent Non-Executive Director	1 Aviva entity and 7 external entities
Mark White	Independent Non-Executive Director	1 Aviva entity and 8 external entities

2.3.5 Personal committees

The AIHL Board has delegated authority to the 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 Chief Risk Officer ("CRO")). This committee includes the entire risk and control spectrums of concern in its remit. It reports to the Executive Committee and Risk Committee. It is supported by the Pricing and Valuation Committee, Investment Committee and Financial Crime Committee.
- **Investment Committee** (chaired by the Director of Investment Risk) - oversees investment management activities, including investment risk.

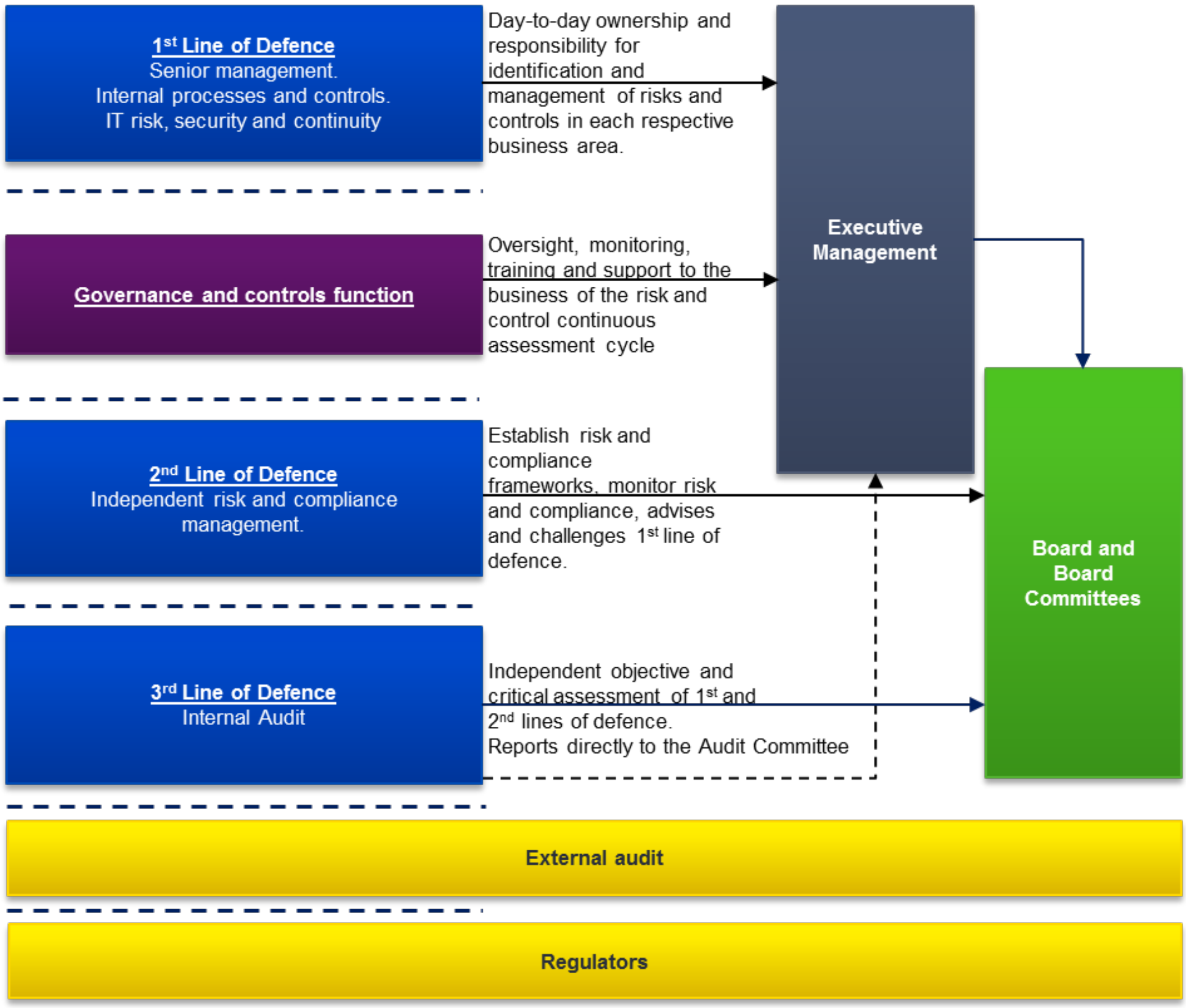
- **Capital Committee** (chaired by the Chief Financial Officer ("CFO")) - provides financial risk management oversight and supports the CFO in the management of the Aviva Investors' balance sheet and capital position.
- **Pricing and Valuation Committee** (chaired by the Chief Operating Officer ("COO")) - oversees and monitors the implementation of consistent and controlled pricing and valuation for all assets under management ("AUM").
- **Global Product Committee** (chaired by the Chief Operating Officer ("COO")) - 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 Compliance) **–** oversees the approach to identifying and mitigating financial crime risks.

2.4 Three lines of defence

Aviva Investors manages its risks based on the "three lines of defence" model: the first line of defence comprises business managers, IT risk, security and continuity teams who manage business risks on a daily basis; the second line of defence comprises the risk and compliance teams under the 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.

All employees of the organisation are involved in the management and mitigation of risk at Aviva Investors. As a result, Aviva Investors RMF is embedded in the day-to-day management and decision-making processes. There is active and demonstrable sponsorship and support from the board and executive management.

The roles of the three lines of defence outlined below each contribute to embedded risk management. Role profiles, agreed objectives and where appropriate, delegated authority letters, must be in place, which make each relevant employee's risk management responsibilities clear. The requirement for a delegated authority letter may be driven by local regulatory requirements and would typically be considered appropriate for the most senior roles within Aviva Investors where authority is being given to bind the company financially.



2.4.1 First line of defence

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

The first line of defence is primarily responsible for risk identification, measurement, management, monitoring and reporting. The first line management is responsible for the implementation and practice of risk management across current and future risk profiles of the business.

2.4.2 Governance and controls functions

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

The governance and control functions report directly to Executive Committee members in the business that they represent. Such members remain operationally independent from risk-taking activities within the business that could compromise their independence.

2.4.3 Second line of defence

The second line of defence consists of the Risk and Compliance Functions.

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.

1. **Risk** is responsible for the design, implementation and validation of the risk and control management frameworks, systems and economic capital models requiring regulatory approval. The risk function reports to the CRO, Risk Management Committee, Risk Committee and AIHL Board on the overall risk profile 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 summarised in the CRO opinion.

2. **Global Compliance** is responsible for assessing, advising, monitoring and reporting on the firm's compliance risk i.e. the risk that the firm fails to comply with its obligations under the applicable requirements and the standards set by the FCA and other relevant regulatory authorities.

   In particular, the role of Global Compliance is to ensure that, in each of the jurisdictions in which Aviva Investors operates:

   - The firm maintains adequate policies, procedures and controls to ensure that the firm and its directors and employees comply with their regulatory obligations and to prevent the use of the firm for financial crime; and
   - The business units of the firm are provided with compliance expertise and advice on all strategic decisions or new business models and that Global Compliance is involved in all new products and significant modifications of the organisation of the investment firm.
   - It provides oversight of how Aviva Investors meets its regulatory obligations and upholds its cultural and ethical values to protect and have due regard to clients' interests.

   The CCO reports to the CRO and attends Governance meetings of the Aviva Investors Executive Committee. The CCO also has a reporting line to the Aviva Group Compliance Director.

   The core of Global Compliance is based in the UK and comprises three teams. Two of these are based in London and comprise Advisory and Regulatory Development and Compliance Operations (which includes Compliance Monitoring and Central Compliance). The third team, Global Funds Compliance, is based in York and provides dedicated Compliance advice and oversight over Aviva Investors' UK retail funds businesses.

   The Director of Global Financial Crime, also based in London, has a reporting line to the CCO for all regulatory requirements relating to the prevention of financial crime.

   In addition, there are five Compliance functions operating in France, Luxembourg, Poland, the US and Singapore, each led by a Compliance Officer accountable for compliance advice and oversight in their own jurisdictions, with reporting lines to their local Executives and to the CCO. Global Compliance provides support and oversight over each of these, working closely with them to establish a growing body of global policies, systems and controls to manage regulatory risks within the Aviva Investors global appetite for risk.

3. **Regional Risk** teams are responsible for ensuring that the RMF is applied consistently across Aviva Investors' business globally. Aviva Investors has a matrix structure with regional CROs reporting to the CRO. The local risk teams report to:

   – The CRO Europe and Funds;
   – The CRO Americas; and
   – The CRO Asia Pacific

2.4.4 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 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.

2.5 Enterprise Risk Management Framework, Policies and Standards

2.5.1 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 with respect to 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.* Concentration risk is not considered a separate risk type, but is instead a reflection of too little diversification within or across risk types.

Aviva Investors implements the Aviva Group RMF policy 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.

2.5.2 Aviva Investors risk policies

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

Risk policy implementation

The Aviva Investors policies must be implemented across the entire asset management business. In some instances subsidiaries of Aviva Investors may require adaptations or the policies given the size, nature and complexity of the subsidiary. The approved modifications and exceptions process is followed in these instances.

Risk policy ownership

The policies and governance arrangements are owned by the AIHL Board and are managed on their behalf by the CRO and Directors of Risk as 'policy authors'. Each policy author is responsible for:

- Reviewing the policy at least annually (or more often, if required) to maintain the integrity and content.
- Acting in an advisory capacity to support risk appetite setting and provide guidance on establishing a control environment so that risks are managed within appetite and tolerance respectively.
- Providing advice, support and technical guidance in relation to the policy.
- Approving any modifications or exceptions requests by the business.
- Reviewing the adequacy of management information provided to key oversight committees and providing independent technical advice and reports to those committees, as appropriate.

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.

2.5.3 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 that set out management's response to Aviva plc's expectations in terms of specific control objectives to be met by the implementation of control activities.

Business standard ownership and maintenance

The majority of the business standards are owned by the first line, with a small number owned by the second or the third line. For regulatory reasons, a few of the business standards are owned by the Aviva plc Board or a Board sub-committee. Each business standard has a group standard owner who is responsible for ensuring that the content of the standard remains up-to-date and fit for purpose and for reviewing and approving (or rejecting) any requests from the business for a permanent exception or a modification to the wording of control specified in the standard. The business standards are reviewed at least annually. Standard owners are expected to ensure that the risks and controls associated with their business standard are communicated to and understood by relevant contacts in the businesses, including ensuring that any updates to the standard are communicated.

Business standard implementation

The control objectives and controls outlines in the business standards must be implemented across the entire Aviva Investors business. Where the business is not able to implement a control objective or control in a standard, the business must endeavour to close the gap and limit the time it remains non-compliant with the standard. In instances where a business will not be able to comply in the foreseeable future (such as a conflict with local regulatory requirements or an inability, despite reasonable endeavours, to implement) then the business must apply for a permanent modification in accordance with the approved modifications and exceptions process.

3. Risk and ICAAP process

3.1 Overview of the Risk and ICAAP processes

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

- The AIHL Board approves the business strategy, plan and forecasts for Aviva Investors.
- The Risk Function develops the Risk and Control Management Frameworks, Aviva Investors Risk Register (AIRR) and supporting policies and methodologies.
- The AIHL Board owns the Risk Appetite Statement which is proposed by the Executive Committee and approved by its Risk Committee. 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 Risk and Control Self-Assessment (RCSA) process to the Risk Committee for approval.
- Bottom-up monitoring measurements (such as: indicators, errors and breaches 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 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 risks exposures that are outside of risk appetite or tolerance. A risk is accepted, mitigated, transferred or avoided. The success of the risk management approach is monitored 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 process 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 top-down current 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 the current and future risk profiles, internal / external events, internal audit open issues, monitoring measurement results and internal / external reviews performed.
- 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.

Refer to the sub-sections of this section for a detailed description on each of the risk processes.

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 current and future top-down risk profiles. • 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 - by the Capital Committee - 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, 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 Aviva Investors Risk Register ("AIRR") is to provide Aviva Investors with a common basis to identify, measure, manage, monitor and report all current risks across the business. The AIRR developed 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. These categories are further divided into granular causal categories (level 2).

Event register

The event register provides Aviva Investors with a common basis to classify and group residual risk exposures and consists of the following:

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

Effect register

Effect types provide the business with a common basis to assess the effect that each event – if crystallised – could have on the business (financial loss, financial misstatement, conduct and reputational impacts).

The AIRR is used to aggregate the individual risk exposures of the business which enables the CRO to report the overall risk profile to the AIHL Board and Aviva Group.

3.4 Regulatory risk categories

Our stakeholders are central to everything that we do. Our products and services are clearly defined with specific stakeholder requirements in mind. We treat our stakeholders fairly and conduct ourselves appropriately in the markets in order to generate appropriate stakeholder outcomes.

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;
- Credit residual risk; and
- Excessive leverage risk.

Reputational and conduct risks are not regulatory risk categories as is listed above, but they are taken into account in the exposure assessment of all risk categories as two of the four impact categories.

Group risk, credit residual risk and concentration risk are indirect risk exposures. Where these risk exposures are experienced as part of a particular risk category, it is disclosed.

From time-to-time, Aviva Investors has exposure to temporary risks which do not form part of the business as usual (BAU) activities. The temporary underlying individual risk exposures are classified in accordance with the AIRR, but are separately treated and not as part of BAU risk processes. Temporary risk exposures are collectively categorised as Transition risk for reporting purposes.

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 'fraud');
– External fraud (considered alongside internal fraud as 'fraud');
– Employment practices and workplace safety ("EPWS"); and
– Damage to physical assets ("DPA").

3.5 Risk appetite statement

AIHL Board owns the RAS which articulates how all risk categories are defined, assessed and monitored in line with the business strategy, plan, forecast and Aviva Investors' current capital position. The RAS forms part of the risk management process. The purpose of the RAS is to articulate the risk appetite of the AIHL Board in providing asset management services and products to its clients. The RAS outlines:

- The definition of each risk category and how this is interpreted as exposure facing the business.
- Reconciliation between the risk categories assessed in the RAS and AIRR.
- The appetite 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 (both 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 risk appetites.
- The approach taken in the event that the measurements indicate a risk appetite is about to be breached as well as action taken to address risk appetites which have been breached.
- The qualitative statements used to define the behaviour and culture of Aviva Investors.

The RAS expresses Aviva Investors' appetite for the range of risks that it faces in both qualitative statements and quantitative measures. As the business evolves, so the risk appetite may change. As a result, the statement is reviewed on a regular basis by the AIHL Board of which iterations require formal approval.

3.6 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 (e.g. risk events). 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;
- Financial misstatement 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 5 years;
– Probable – broadly equivalent to once in 3 years; and
– Very probable – broadly equivalent to every year.

3.7 Risk tolerances and aggregation

The risk appetites in the RAS are translated into granular risk tolerances and mapped against the granular risk exposures managed in the business. The risk tolerances are approved at least annually or with every significant business change by the Risk 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 to its highest level (regulatory risk categories) which allows the AIHL Board to obtain a view of its overall risk profile.

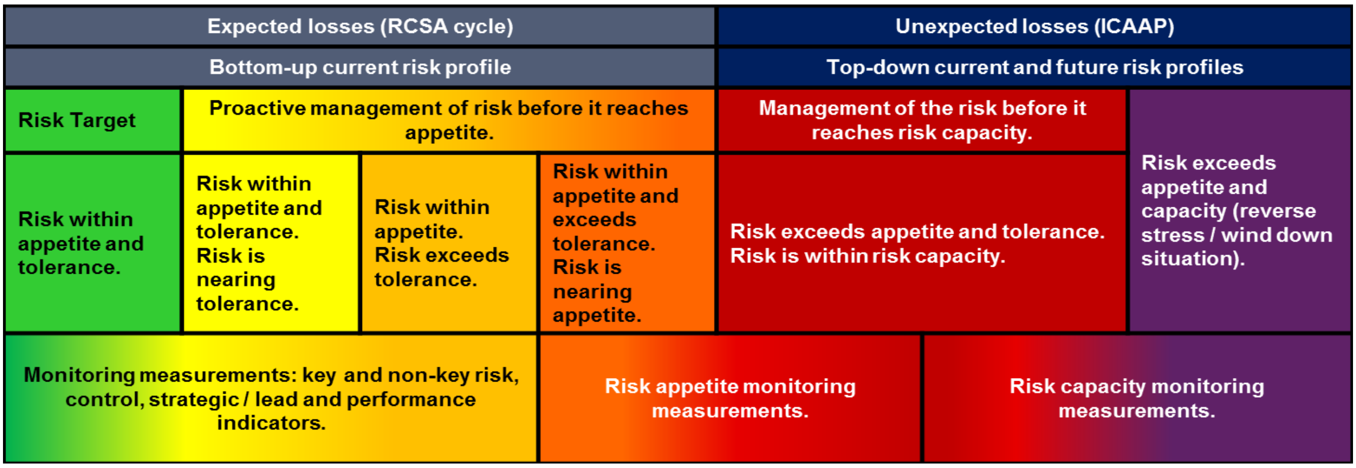
3.8 Risk identification, measurement, management, monitoring and reporting

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

- Future risks to which Aviva Investors may be exposed to sometime in the future; and
- Current risks facing the business (both residual and inherent) whilst achieving its strategic objectives.

Both future and current risks are considered by senior management to determine the top down concerns of the business.

Below is a diagrammatical presentation of the different areas of risk management included within the scope of this risk management framework.



The framework describes the requirements to IMMMR each risk type (current and future) as is illustrated in the flow diagram below.

3.8.1 Observations

Observations are methods used by Aviva Investors, auditors, advisors, employees and consultants to *observe* the business model and identify failures or gaps exposing the firm to risk or failure of objectives. All observations made by the *observers* must map to the relevant risks facing the business and objectives Aviva Investors endeavours to achieve. The observations are used as a fundamental basis on which risks are identified and measured and the success of business objectives are assessed.

Observations are categorised into four groups:

- Risk events or near misses reported by the business when a failure or gap in the business model is identified (proactively or reactively).
- Internal and external reviews performed by audit (internal or external), risk, compliance, consultants, advisors or any other party responsible for observing the Aviva Investors business model.
- Indicators or tracking mechanisms used to monitor the business model in regards to risks, controls, performance and strategies.
- Assurance testing such as control testing performed by the business or an external party to provide comfort that the control environment of Aviva Investors is designed adequately and operating effectively.

Risk monitoring tools adhere to the following requirements:

- Includes both proactive and reactive methods to either early identify gaps or failures before risks crystallise in the business or identify gaps or failures crystallised in the business in a timely manner to minimise losses (conduct, financial and reputational) across the business.
- Sensitivity testing, stress and scenario testing, trend analysis and analysis of change and forecasts are used where appropriate.
- Monitoring tools and information are in place to allow management to assess the impact of prospective changes in the risk profile and key metrics / dimensions including economic capital, liquidity, and franchise value, and take appropriate action within delegated authority structures.
- Monitoring tools are in place to facilitate an understanding of the drivers of any material changes in the key metrics used by the business.

Notwithstanding the above, all employees are individually responsible for reporting on any failures or gaps identified in the working environment. Failures or gaps include inappropriate behaviours in the firm, such as market abuse, financial crime or other similar conduct related failures.

3.8.2 Assess the control environment

Material activities are grouped together into business activities which in turn are grouped together into process categories. Control activities and process categories have specific owners assigned to them within the business. The control owners are responsible for assessing the appropriateness of the specific control environment on a continuous basis using the control objectives relevant to the control environment managed by the control owner and the risks mitigated by the control activities.

Control and process owners require an intimate knowledge of the control environment and markets in which Aviva Investors operates as well as the relevant control activities' control objectives and risk exposures. Control assessments are performed by thoroughly analysing all observations to appropriately determine whether a control failure has occurred or a gap exists in the business.

All control assessments are performed to determine:

- Whether a control failure of a gap exists in the business environment resulting in a control objective failure or weakness or a risk not being appropriately mitigated.
- The impact that the control failure or gap has on the control objectives and risk exposures of the business.
- The root cause(s) of the control failure or gap.

3.8.3 Raising issues

The control (if a control failure) or process (if a control gap) owner responds to observations made by the observer through control assessments performed on the business' control environment. If an observation results in the identification of a control failure or gap an issue is raised against the particular control activity (if a control failure) or process category (if a control gap). The issue owner is usually the control or process owner.

If a control or process owner does not respond appropriately to the observations made by the observer and does not raise an appropriate issue, the observer may in such circumstances raise the issue on behalf of the control or process owner. If the control or process owner does raise an issue, but the issue is not appropriately aligned to the observation, the observer may also in such circumstances raise the issue that would appropriately align to the observation.

Documentation, management and closure of issues raised across the business requires an intimate knowledge of the control environment and markets in which it operates as well as the relevant control activities' control objectives and risk exposures that are mitigated. Issues are identified by thoroughly analysing all relevant observations to identify duplicate observations made by observers for which integrated issues can be raised.

3.8.4 Risk identification

Risk identification requires an intimate knowledge of the business, the markets in which Aviva Investors operates, and its strategic and business objectives. Risks must be identified by thoroughly scanning and analysing all relevant risk factors. This analysis considers how risks may interact or aggregate across the business. These risks form the basis for the organisation's risk profile and are refreshed as soon as changes in the environment occur.

Care is taken to ensure that the consideration of the impacts of risks does not focus exclusively on the balance sheet or profit and loss, but also reputational and conduct impacts. Conduct impacts include the consideration of impacts of risks to customers, employees, Aviva Group and any or relevant stakeholders. Reputational impacts include the consideration of impacts of risks to the long-term health of the business.

A variety of tools and processes are available to support risk identifications. Risk identification draws on a combination of internal and external data, covering both normal conditions and stressed environments. Data is drawn formally or informally from a range of sources such as historic, forward-looking analysis, expert judgement and models.

The business should maintain registers detailing the current and future risks. Such registers are updated dynamically and reviewed at relevant management meetings in accordance with the governance structures and arrangements setup and implemented.

Once identified, risks are mapped back to the AIRR (current profile) or the future risk profile spectrum.

Risk identification is carried out on a regular basis in response to observations made across the business that identified control failures or gaps and ultimately issues raised across the business that are mapped to both the control environment and risk categories.

Risk identification also forms part of the business planning process and any significant business changes or decisions**.**

3.8.5 Risk measurement

Measurement of risks is necessary to be able to prioritise resolution plans (current risk profile) and preparedness plans (future risk profile). These plans are complementary to the strategic plans of the firm. All three types of plans must be represented for review, challenge and approval in a complementary fashion to the relevant committees in accordance with their terms of reference.

Systems, methods, models and processes are available and are used to measure the risks to the business. The results of models are viewed with caution and sense-checked by staff with appropriate skills and experience. Similarly, overreliance on a single model or metric is avoided. Regardless of the measurement technique, management demonstrates that:

- Measurement considers both normal conditions and stressed situations and considers, where appropriate, causal links and correlations between risk factors.
- Consideration is given to the impact, should assumed mitigating activity (e.g. controls, hedges) not operate as intended.
- Assessment is carried out to provide indications of changes in the scale or trend of risk emergence, and compared with the assumptions in, and outputs from, the risk based capital model; and
- Models used to measure risk and make decisions receive rigorous challenge and appropriate controls are in place to assure that models are fit for purpose. Assumptions and parameters are reviewed at least annually.

3.8.6 Risk management

A risk aware culture is maintained within the business.

Risk management forms part of the integrated decision-making model as is illustrated in **section 2.2**. Based on the finalised results of the current and future risk profiles of the firm, senior management is responsible for deciding how resources (capital, liquidity, staff and knowhow) are invested into:

- Enhancing or resolving gaps or failures in the current profile;
- Preparing the business for future changes; and
- Strategically growing the firm.

Risk management decisions demonstrate a clear and documented consideration of the expected return, associated risk and position relative to the risk appetite and tolerance. In addition, all alternative risk management decisions considered are demonstrated.

Management of risk can take a variety of forms including avoiding, transferring or accepting the risk with mitigation. Aviva Investors manage any gaps or failures in its current risk profile resulting in risk exposures out of tolerance or appetite with appropriate resolution plans addressing the underlying root cause(s) of the over-exposures, while balancing cost against the benefits of risk reduction. Risk management responsibilities (of management and the risk function as a minimum) is set out in role profiles and, when committee decisions are needed, terms of reference.

Aviva Investors maintains an internal control environment that includes the implementation of a system of proportionate controls to manage the current risk profile of the business. The controls are mapped to both the risks facing the business and the control objectives of the business. This method of mapping assists the business in managing the risk profile within appetite and tolerance and meeting its strategic objectives.

A framework is in place to facilitate the business' rapid response to extreme events (financial event response planning, business continuity planning, etc.)

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 **£379.5m** at 31 December 2017, with CET1 capital being **£302.9m** and T2 capital being **£76.6m**. T2 capital consisted of subordinated loans received from AIHL’s immediate parent, Aviva Group Holdings Limited (“AGHL”).

At 31 December 2017 and throughout the year, Aviva Investors complied with the capital requirements as set by the FCA.

4.2 Capital Resource Requirements – Pillar 1

For the UK Regulatory Group (significant IFPRU Group) and individual Limited Licence IFPRU entities the capital resource requirement is calculated 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”).

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

- The FUM requirement (including the base capital resources 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 UK Regulatory Group at 31 December 2017 is represented below:

Bridge from Net Assets to CET1 Capital	**£'m**
Permanent share capital	248.0
Share premium account	41.6
Profit and loss and other reserves	158.7
Balance Sheet Net Assets (excluding MI)	**448.3**
Deductions:	
Intangible assets (allowing for transitional adjustment)[1]	(3.1)
Ineligible capital[2]	(39.6)
Unaudited Profits	(102.7)
CET1 Capital After Deductions [A]	**302.9**
T2 Capital	
Subordinated Loans	76.6
TOTAL CAPITAL RESOURCES [B]	**379.5**
Capital Resource Requirement	
Deduct the higher of the following:	
Credit and Market risk requirements[3]	(52.1)
Fixed Overhead Requirement [C]	**(89.4)**
Pillar 1 Surplus	**290.1**

	Required	**Actual**
CAPITAL RATIOS	**%**	**%**
CET1 Capital Ratio A/(12.5*C)	4.5%	27.1%
Total Capital Ratio B/(12.5*C)	8.0%	34.0%

[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 80% in 2017.

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

[3] The UK Regulatory Group is a limited license IFPRU Group and as such operational risk is not considered under Pillar 1, however, this is included in the Pillar 2 internal capital adequacy assessment.

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

£'m	AIGSL	AIUKFL	AIUKFSL	FLFL
Bridge from Net Assets to CET1 Capital				
Permanent Share Capital	207.1	5.0	21.5	17.0
Profit and loss and other reserves	38.8	28.2	21.4	0.1
Balance Sheet Net Assets	**245.9**	**33.2**	**42.9**	**17.1**
Deductions:				
Intangible Assets (allowing for transitional adjustment)	(3.0)	-	-	-
DTA deductions and other adjustments[4]	(3.4)	-	-	-
Ineligible capital	(39.6)	-	-	-
Unaudited Profits[5]	(60.8)	(19.5)	(14.9)	(0.1)
CET1 Capital After Deductions [A]	**139.1**	**13.8**	**28.0**	**17.0**
T2 Capital				
Subordinated Loans	82.6	-	-	-
TOTAL CAPITAL RESOURCES [B]	**221.7**	**13.8**	**28.0**	**17.0**
Capital Resource Requirements				
Deduct the higher of the following:				
Credit and Market Risk	32.4	1.0	-	-
Fixed Overhead Requirement	70.1	1.7	3.5	0.0
FUM Requirement[6]	-	-	5.4	8.8
PII Requirement	-	-	0.9	4.4
Base Capital Requirement	0.1	0.1	-	-
TOTAL CAPITAL RESOURCES REQUIREMENT [C]	**70.1**	**1.7**	**6.3**	**13.2**
PILLAR 1 SURPLUS	**151.6**	**12.1**	**21.7**	**3.8**
CAPITAL RATIOS (%)[7]				
CET1 Capital Ratio A/(12.5*C)	15.9%	64.9%	N/A	N/A
Total Capital Ratio B/(12.5*C)	25.3%	64.9%	N/A	N/A

[4] An adjustment of c£1.6m is required to bridge from financial statement equity back to COREP own funds

[5] 2017 unaudited profit aligns to latest view per financial statement and the capital position aligns to Q4 2017 COREP submission.

[6] For AIUKFSL and FLFL (collective portfolio management firms), the FUM requirement includes the base capital resources requirement of €125k.

[7] The CET1 and Total Capital Ratios only apply to IFPRU firms (UK Regulatory Group, AIGSL and AIUKFL)

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 36, 47, 48, 66 and 79 of the CRR.

4.5 Capital Ratios

See the tables in 4.2.2 for details of the CET1 and Total Capital Ratios, which have been calculated for Full Year 2017 in accordance with amounts disclosed in section 4.2 for the UK Regulatory Group and two IFPRU firms (AIGSL and AIUKFL). All ratios were above the minimum required threshold of 4.5% (CET1 Ratio) and 8% (Total Capital Ratio) as set out in Article 92 of the CRR.

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

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

Exposure class (£'m)	2017
Corporates	25.4
Units or shares in CIUs	7.6
Equity Exposures	3.2
Institutions	2.9
Retail	0.7
Other Items	7.2
Total	**47.0**

As at 31 December 2017, Aviva Investors had not employed any of the credit risk mitigation techniques outlined in Part Three, Title II, Chapter 4 of CRR.

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 outlined in Article 439 of the CRR 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 2017:

Exposure class (£'m)	UK	UK Retail	Europe	Asia Pacific	North America	Total
Corporates	281.2	19.1	12.8	3.0	1.0	317.1
Unit or shares in CIUs	86.7	7.2	0.0	0.0	1.3	95.2
Other Items	70.0	4.1	1.4	0.3	13.6	89.5
Equity Exposures	39.5	0.0	0.3	0.7	0.0	40.5
Institutions	6.7	20.3	5.1	2.0	2.8	36.9
Retail	0.0	8.3	0.0	0.0	0.0	8.3
Central Governments	0.2	0.0	0.0	0.0	0.0	0.2
Regional Governments	0.2	0.0	0.0	0.0	0.0	0.2
TOTAL	**484.4**	**59.0**	**19.7**	**6.0**	**18.7**	**587.8**

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 two Irish subsidiaries (both excluded from the regulatory group consolidation) of £26.9m. 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. As per the Aviva Investors Global Counterparty Credit Policy, where counterparties have split ratings, the middle rating is used and if the counterparty has only two ratings, the lower will be used. The policy sets the minimum long term credit rating as A-/A3 which is equivalent to an ECAI score of 2. The ECAI's credit assessment is used to determine the credit quality step of each exposure using the standardised mapping.

4.6.7 Market Risk

Aviva Investors follows a standardised approach to calculating the Pillar 1 market risk capital requirement and is calculated in line with Article 352 of CRR. Positions in each currency are netted to either a net long or net short position (other than the reporting currency) and converted at spot rates into GBP. The higher of either; sum of all long or sum of all short positions is the overall FX exposure. The capital requirement is calculated as 8% of the overall net FX exposure. As at 31 December, Aviva Investors has a market risk exposure amount of £64.2m and a Pillar 1 market risk capital requirement of £5.1m. 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.

Excessive leverage risk is the "current or prospective risk resulting from Aviva Investors' vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets".

Aviva Investors does not currently undertake any business activities on its own account that use leverage and the leverage ratio is therefore not applicable.

4.7 Other Exposures

4.7.1 Exposure in equities not included in the trading book

AIUKFSL, an IPRU-INV collective portfolio management firm, has OEIC box float units which are classified as equity exposures.

The box holdings are in a large number of funds across numerous asset types (property, equity, fixed income, multi-asset). Different asset classes are exposed to different risks. This has been included in Pillar 1 credit risk calculation and treated according to CRD IV/CRR rules and is not considered material for disclosure.

4.7.2 Exposure to interest rate risk on positions not included in the trading book

Aviva Investors has no Pillar 1 capital requirement for interest rate risk in the banking book ("IRRBB") and is not exposed to interest rate risk on positions not included in the trading book for regulatory capital purposes.

4.7.3 Exposure to securitisation risk

Securitisation risk is the “current or prospective exposure that the capital resources held by Aviva Investors in respect of the assets which it has securitised are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved”.

Aviva Investors does not participate in securitisation activities on its own account and, as a result, it is not necessary to hold capital against securitisation risk.

4.8 Capital Resource Requirements – New prudential regime for investment firms

In September 2017, the European Banking Authority (“EBA”) issued a recommendation on the design of a new prudential framework for investment firms, which was later seconded by the European Commission’s proposal in December 2017. The scope of the new proposal covers all MiFID licensed investment firms excluding UCITs and AIFMs. Within the Aviva Investors UK Regulatory Group, the only entity in scope will be AIGSL, which is a MiFID investment firm. AIUKFL is also a MiFID investment firm but the entity will be liquidated by the time the new prudential regime is adopted.

Date of implementation of the new proposal is not yet clear and the impact on Aviva Investors is currently under review.

5. Remuneration Code Disclosure

The Remuneration Code (SYSC 19A) applies to 12 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 Remuneration Committee is comprised of the Aviva Investors Independent Non-Executive Directors:-

Jeffrey Weingarten, Chair

Mark White

Anne Whitaker

John Misselbrook (until 27 September 2017)

Mike Craston (appointed 27 September 2017)

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. Aviva Investors operates the Aviva Group Malus & Clawback Policy. In 2017, the Remuneration Committee met on six occasions.

Aviva Investors aims to be a global leader in outcome-oriented investing and the priorities for 2018 are to:

– improve our already strong investment performance through better research and improved portfolio construction
– grow and protect our asset base by investing in distribution and creating attractive savings solutions for the rest of the Group
– simplify our business by removing complexity

In 2017 we continued to make progress in externalising the business and developing higher value outcome-oriented propositions for our clients.

The Aviva Group Remuneration Committee approves the Remuneration Policy Statements for Aviva Investors. The Independent Non-Executive Directors of the Group Remuneration Committee are:-

Patricia Cross

Michael Mire

Claudia Arney

Glyn Barker

It considers alignment between Group strategy and the remuneration of its Directors and Remuneration Code staff and Material Risk Takers. The remuneration policy provides market competitive remuneration, and incentivises Remuneration 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 2017, the Aviva Group Remuneration Committee met on four occasions.

Their full objectives are documented in the Directors' remuneration report (Page 61) in the Aviva Annual Report which is available at: www.aviva.com

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. These Bodies seek to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

5.4 Remuneration 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 AIHL Board, Remuneration Committee, Risk Committee and Audit Committee

– General Counsel

– Internal Audit Director

– 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 (where bonuses are £75,000 and over a 3 year deferral with pro-rata vesting in Aviva funds and/or Aviva Group Plc shares occurs, a further holding period applies 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 a combination of individual, business unit, Aviva Investors and Group performance over an appropriate period.

    - The financial considerations includes the following comparisons -:

        - Actual results vs. prior period results

        - Actual results vs. agreed plans

        - Actual results relative to competitors

        - Actual results vs., and progress towards, our long-term target ambition.

    - The non-financial considerations include risk, conduct, culture, customer and employee engagement metrics, with Aviva values clearly underpinning all our decisions. In certain roles, adherence to Responsible Investment and ESG principles will also be a consideration.

    - The Performance assessment does not encourage risk taking outside the Aviva Investors stated risk appetite, and includes mechanisms by which performance against risk and conduct related measures has a significant impact on the availability and size of business and individual variable awards.

- Long Term Incentive 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 and variable pay awards are subject to the Aviva Malus and Clawback Policy. 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 Remuneration 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 material business unit. The total aggregate remuneration is as follows:

There were 35 Remuneration Code Staff for all or part of the 2017 performance year (2016: 35 Remuneration Code Staff). Aggregate remuneration expenditure in respect of Remuneration Code Staff for the 2017 performance year was **£24.0 million** (2016: £23.2m remuneration).

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, 58% 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:		£15.6m	£8.4m
Of which,	Fixed Remuneration:	22%	35%
	Variable Remuneration: Of which deferred	72% 60%	58% 54%
	Pension/Benefits:	5%	8%
Number of Code staff:		16	19