

Crown Agents

Investment Management

Crown Agents Investment Management Limited

Pillar 3 Disclosures

31 December 2016

Version 1.0

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1. Introduction

1.1 Background

On 31 March 2016 the ownership of Crown Agents Investment Management Limited (“CAIM”) was transferred to CABIM Limited (formerly Merlin Holdco (UK) Limited) (“CABIM”) a company controlled by funds managed by Helios Investment Partners LLP. As a result CAIM’s Control Framework, and in particular the Committee Structure, has changed. This document reflects the CAIM’s Control Framework in effect post 31st March 2016.

The Capital Requirements Directive (“CRD”) introduced a new framework under which banks and financial institutions are required to calculate their capital. This was based on global standards introduced by the Basel Committee on Banking Supervision through the Basel framework. The framework consists of 3 Pillars:

Pillar 1	Minimum capital requirements: defines the rules for the calculation of credit, market and operational risk to ensure that financial institutions hold adequate regulatory capital against the risks they assume within their current business.
Pillar 2	Supervisory review process: sets out the key principles for the supervisory review of a financial institution’s risk management framework and its capital adequacy. It sets out specific oversight responsibilities for both the Board and senior management, thereby reinforcing the principles of internal control and other corporate governance practices.
Pillar 3	Market discipline: sets out the items covered by this report; it requires expanded disclosures to permit investors and other market participants to obtain an understanding of the risk profiles of the financial institution.

The Financial Conduct Authority (FCA) has responsibility for implementing the CRD within the United Kingdom. The FCA sets out its minimum Pillar 3 disclosure requirements in its handbook in its Investment Firms Prudential Sourcebook (IFPRU).

The disclosure requirements in the Capital Requirements Regulation Part 8 and IFPRU aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), and aim to encourage market discipline by allowing market participants to assess the impact of key information on risk exposures and the risk assessment processes of the firm.

This document sets out CAIM’s Pillar 3 disclosures in accordance with this requirement. These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of CAIM’s financial statements.

1.2 Frequency, Location and Verification

CAIM publishes its Pillar 3 disclosures on an annual basis in line with its annual report and accounts. These disclosures are based on the results of the year ended 31st December 2016 unless otherwise stated and can be found at www.caiml.co.uk.

These disclosures have been subject to internal verification and are reviewed by the group’s Audit and Risk Committee and CAIM’s Board.

1. Introduction (continued)

1.3 Scope of Disclosure

CAIM is an unquoted company registered in England with no subsidiaries or branches.

2. Governance arrangements

CAIM is headed by a Board of Directors which meets regularly. There is a clear division of responsibility at the head of the company which ensures a balance of power and authority between the Non-Executive Chairman, who controls and directs the Board meetings and the Chief Executive Officer, who carries responsibility for running CAIM's business.

The Board consists of a balance of both executive and non-executive directors and is responsible for:

- Providing leadership to the company, consistent with the ethos and mission of CAL, within a framework of prudent and effective controls;
- Setting the strategic direction of CAIM to ensure profitable and sustainable growth, with an acceptable return on capital, in keeping with CAIM's values, corporate objectives and purpose;
- Overseeing the implementation of strategy and ensuring that appropriate and adequate financial and human resources are available for its delivery;
- Ensuring that a framework is in place for compliance with all regulatory matters linked to an appropriate risk management structure; and
- Following best practice in corporate governance appropriate to the size and status of CAIM.

The day to day running of CAIM is delegated by the Board to the Chief Executive Officer and its executive directors.

CAIM's Corporate Governance manual contains terms of reference for the Board and its committees.

Effectiveness reviews are undertaken periodically to evaluate the performance of the Board, its committees; and individual directors.

Corporate governance is subject to periodic reviews by both the Compliance Department and by internal audit.

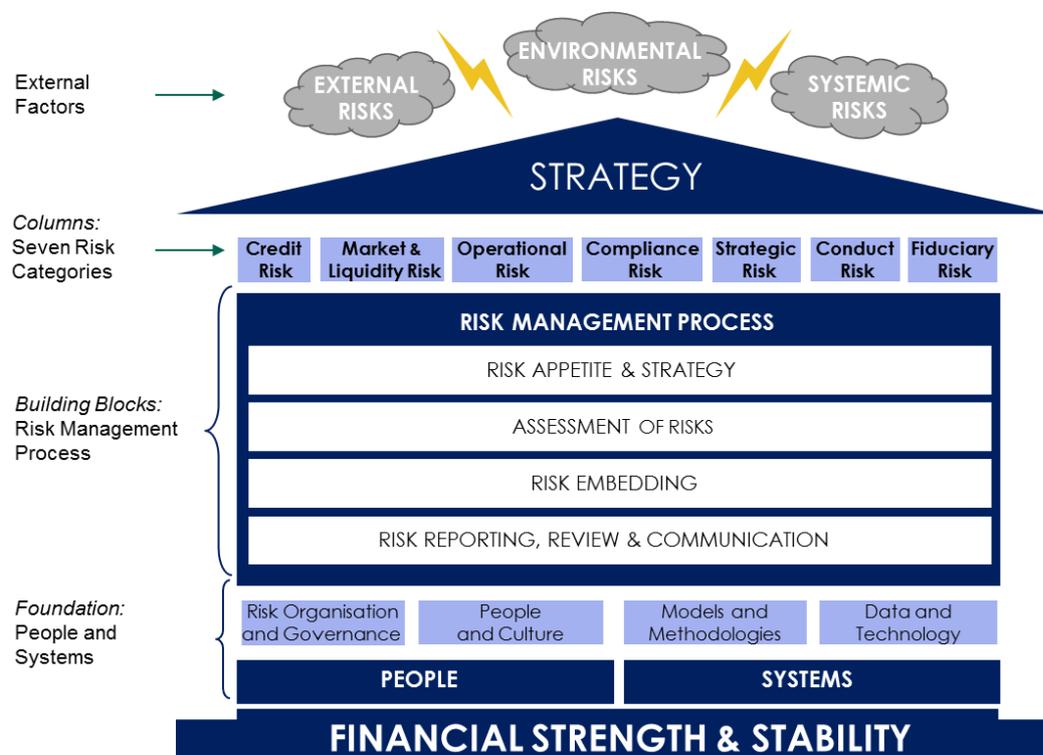
2.1 Risk Management

CAIM's Corporate Governance Manual outlines how CAIM's Board and the Executive Management team fulfil their respective risk management responsibilities through the deployment of a risk management framework. This framework covers the full spectrum of risk to which CAIM is exposed and sets out how those risks are described and the measures which CAIM applies to mitigate those risks. It is the use of this framework (or "House") which will enable CAIM to maximise value to its shareholder and its customers by aligning risk management with the business strategy; assessing the impact of emerging legislation and regulation; and developing CAIM's risk appetite accordingly.

The House provides the risk framework to support our corporate and business unit strategy for the benefit of our employees, shareholders and clients. It provides us with a methodology to identify measure and manage both internal and external risks to our business.

2. Governance arrangements (continued)

2.1 Risk Management (continued)



Key Principles

- Forward-looking
- Enterprise-wide, consistent application across all risk categories
- Dynamic, allowing pro-active management of the risk profile and risk appetite
- Flexible and scalable to allow for changes in business and regulatory requirements
- Usable at all levels within the organisation i.e., department and corporate
Embedded in business processes such as planning, and performance management

2.2 Monitoring & Control

CAIM's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

Each year CAIM updates its five year plan in relation to the growth of Assets Under Management.

CAIM also prepares a detailed Internal Capital Adequacy Assessment to support its capital requirements. Each material risk is assessed through a series of stress testing scenarios, relevant mitigants are considered and appropriate levels of capital determined. This Internal Capital Adequacy Assessment is carried out at least annually and is a key part of CAIM's management disciplines through its review by

2. Governance arrangements (continued)

2.2 Monitoring & Control (continued)

ALCO, the Audit and Risk Committee and approval by the Board. It is ultimately subject to review by the FCA, when a minimum level of capital is agreed.

CAIM monitors its capital requirements on a daily basis and if surplus capital falls significantly the business would take necessary action to ensure that the minimum regulatory capital requirement is not breached.

At 31st December 2016 and throughout the year then ended CAIM complied with the capital requirements that were in force and set out by the FCA.

2.3 Risk categories

CAIM recognises seven broad categories of risk inherent within its operations:

- Credit risk - the risk of financial loss arising from a counterparty failing to meet their financial obligations to CAIM in accordance with agreed terms or the non-payment of fees from a client
- Market & Liquidity risk - Market risk is the risk that the value of, or net income arising from, CAIM's assets and liabilities changes as a result of changes to market forces, in particular interest rates, exchange rates or equity prices. Liquidity risk is the risk that CAIM is not able to meet its financial obligations as they fall due, or can do so only at excessive cost.
- Operational risk - is the risk of financial loss and/or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events including financial crime
- Compliance (including regulatory and reputational) risk – is the risk to CAIM's reputation of failure to comply with regulatory requirements
- Strategic risk - the risk which can affect CAIM's ability to achieve its corporate and strategic objectives.
- Conduct risk - the risk of detriment caused to CAIM's customers due to the inappropriate execution of its business activities and processes
- Fiduciary risk – the risk that CAIM will fail in its fiduciary duty to act in its clients' best interest.

The most significant risks identified from the latest risk assessment are strategic, compliance, and fiduciary risk. The Board of CAIM is responsible for determining the long term strategy of the business, the markets in which it operates, and the level of risk acceptable to CAIM. Risk Management has an oversight role in the maintenance of policies and procedures, evaluating and monitoring risk levels and reports direct to the Board on risk issues generally.

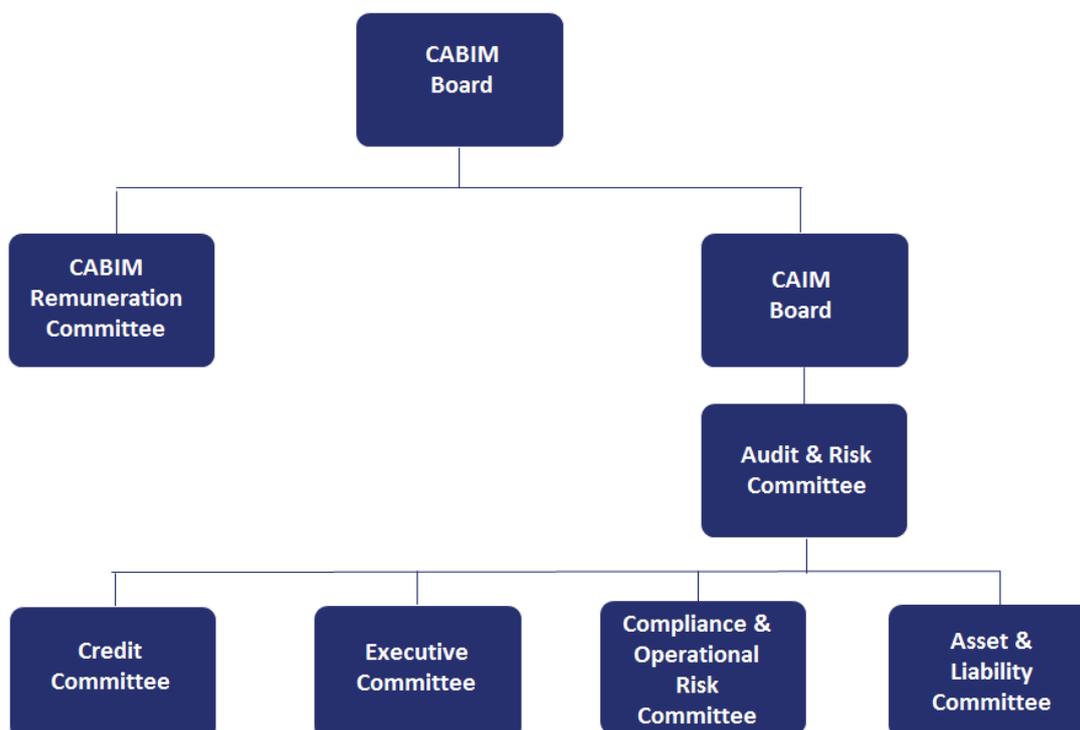
Responsibility for the management of CAIM's exposure to all risks is delegated to the Executive Committee (EXCO). Compliance, operational, fiduciary and conduct risks are delegated to the Compliance and Operational Risk Committee (CORC); a sub-committee of EXCO. Credit risk is delegated by the Board to the Credit Committee of Crown Agents Bank Ltd. Market and liquidity risk is delegated by the Board to the Asset & Liability Committee of Crown Agents Bank Ltd (ALCO).

2. Governance arrangements (continued)

2.4 Control Framework

2.4.1 Committees

CAIM's supervision is further driven through the establishment of a number of committees that are responsible for technical governance of the business ensuring adherence to internal policies and with powers to make decisions related to the day to day running of the business. These committees are described as follows:



2.4.2 Group Board

The CABIM Board is the primary governing body and has ultimate responsibility for setting the group strategy.

2.4.3 Group Audit and Risk Committee

The Committee consists of three independent non-executive directors of CABIM. It receives frequent reports and meets at least four times annually. Its key responsibilities are to:

- Review and approve the audit plans for the following year for the external and internal auditors and annually appraise the effectiveness of the external auditors;
- Review CAIM's annual financial statements, including reviewing the effectiveness of CAIM's disclosure controls and procedures and systems of internal control and areas of judgment involved in the compilation of CAIM's financial statements and other documentation;

2. Governance arrangements (continued)

2.4.3 Group Audit and Risk Committee (continued)

- Review CAIM's overall risk appetite statement, prior to its consideration by the Board; and
- Consider CAIM's Internal Capital Adequacy Assessment Process (ICAAP), including a consideration of CAIM's capital stress test scenarios, including those proposed by the FCA and other regulatory bodies, where relevant.

2.4.4. Group Remuneration Committee

The Group Remuneration Committee provides a framework for ensuring that CAIM complies with its regulatory requirements in respect of remuneration and the fitness and competency of Board members. It meets at least on an annual basis and its main functions are to:

- Determine and agree with the Board the framework or broad policy for the remuneration of the company's Chairman, Chief Executive, the executive directors, the company secretary and such other members of the executive management as it is designated to consider. The remuneration of Non-executive directors is a matter for the Chairman and the Chief Executive. No director or manager may be involved in any decisions as to their own remuneration;
- Review the ongoing appropriateness and relevance of the remuneration policy;
- Determine, within the terms of the agreed policy, the total individual remuneration package of personnel designated as Code Staff within the Financial Services subsidiaries;
- Approve the design of, and determine targets for, any performance related pay schemes operated by CAIM and approve the total annual payments made under such schemes;
- Oversee any major changes in employee benefits structures throughout CAIM.
- Ensure that members of the managing body:
 1. Are of sufficiently good repute.
 2. Possess sufficient knowledge, skills and experience to perform their duties;
 3. Collectively possess adequate knowledge, skills and experience to understand CAIM's business activities and the risks it faces;
 4. Reflect a broad range of experiences;
 5. Have sufficient time to perform the duties they have been allocated; and
 6. Act with honesty and integrity and have the independence to assess and challenge decisions where necessary.

In addition, the committee will meet on an ad hoc basis to consider nominations to the CABIM group boards, and its various committees.

2. Governance arrangements (continued)

2.4.5 The Board of CAIM

The Board of CAIM is the primary governing body for CAIM and has ultimate responsibility for setting the strategy, corporate objectives and risk appetite. That strategy takes account of the interest of all stakeholders in CAIM.

The Risk Appetite and Tolerances Statement (RATS) established by the Board sets out the levels of risk which CAIM is willing to take. The Board is also responsible for the establishment of a control environment to manage the risks encapsulated within the RATS.

The Board also maintains close oversight of the current and future activities through a combination of quarterly board reports and monthly financial results, including budgets, forecasts and other operational reports.

The Executive and Non-Executive Directors who served on the Board during the year ended 31 December 2016 (and subsequently) were:

Name	Date Of Appointment/ Cessation	Position
Paul Batchelor	4 April 2017 (c)	Chairman
Richard Jones	7 Feb 2017 (c)	Executive Director
Douglas MacLennan		Executive Director
Michael Naameh	19 July 2016 (c)	Executive Director
Roger Hanly		Executive Director
Michael Symes	31 Dec 2016 (c)	Executive Director
Stephen Wiltshire		Independent Non-Exec Director
Simon Poole	19 April 2016 (a)	Non-Exec Director
Arnold Ekpe	19 April 2016 (a)	Non-Exec Director
Richard Hallett	31 Jan 2017 (a)	Executive Director
Jeremy Parrish	4 April 2017 (a)	Chairman

2.4.6 Credit Committee

The Credit Committee was established by the Board of Crown Agents Bank Limited (the Bank) and is charged with responsibility for reviewing any matter involving credit risk, including country exposure and the controlling, monitoring and reporting of individual counterparty exposures. The Credit Committee is responsible for setting limits for and reviewing the creditworthiness of counterparties for CAIM.

The full Credit Committee meets on a quarterly basis and delegates certain authorities to the Credit Application Review panel for the management of day to day credit applications.

2. Governance arrangements (continued)

2.4.7 Executive Committee

EXCO meets on a weekly basis to:

- consider and approve business and risk strategies, policies and authorities appropriate to the businesses, and ensure they are implemented accordingly via the Annual Operating Plan;
- consider appropriate levels of risk appetite (other than for Credit Risk) and recommend them to the Board;
- review the Risk Register and monitor progress of action points; and
- monitor liquidity and capital requirements

2.4.8 Compliance and Operational Risk Committee (CORC)

CORC is established to:

- Consider, review, and where appropriate make recommendations to the Board on all Regulatory, Compliance and Operational risk issues;
- Consider, review and recommend to the Board appropriate policies;
- Receive reports on activities and controls underpinning the relevant Policy Statements to ensure compliance with the policies;
- Consider appropriate levels of risk appetite for Compliance and Operational Risk and recommend them to the Board;
- Consider the results of risk assessments; internal and external audit reports; the impact of impending regulations or pronouncements; correspondence from external bodies;
- Review compliance with specific and thematic guidelines and subsequent reviews issued by the FCA;
- Monitor the number and value of operational risk events;
- Receive regular updates in respect of Business Continuity issues; and
- Consider and recommend to the Boards stress testing scenarios in respect of Operational and Compliance risks.

The Committee meets monthly.

2.4.9 Assets and Liability Committee (ALCO)

ALCO monitors the liquidity and market risks of CAIM on a monthly basis by exception, reporting to the Board on a periodic basis as appropriate.

3. Risk Appetite

Risk appetite is the maximum level of residual risk that CAIM is prepared to accept to deliver its business objectives. CAIM has developed a robust framework that is used to articulate risk appetite throughout CAIM and to external stakeholders.

The Board establishes CAIM's parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts, under both normal and stressed conditions, for CAIM; and
- regularly reviewing, anticipating and monitoring CAIM's risk performance through quarterly Board reports.

The Board delegates the control of risk appetite to the EXCO. It ensures that risk appetite is in line with CAIM's strategy and its desired balance between risk and reward. It is responsible for recommending to the Board the respective levels of risk appetite and risk tolerances for CAIM.

CAIM's risk appetite statements are defined by five broad metrics:

- headline earnings;
- liquidity;
- regulatory capital;
- economic capital; and
- the confidence level applied to our capital adequacy to cover any unexpected losses.

These metrics are then converted into tolerance levels and limits through an analysis of the risks that impact on them. CAIM's risk assessment process has been linked with its Risk Appetite Statement. This means that it links qualitative terms such as set out below, and which are used in the Risk Appetite Statement, to a qualitative assessment of each risk. In turn this enables a comparison to be made between risk appetite, and residual risk.

"Low" – CAIM does not seek to take risk within the relevant category, although it recognises that it may nevertheless be exposed to a certain minimal level.

"Limited" – CAIM has some exposure to this category, however seeks to restrict appetite for this risk where possible.

"Moderate" – CAIM accepts a level of risk appropriate to its resources.

"Considerable" – relative to its capital and other resources the appetite for risk within this category is large.

"High" – CAIM recognises that this category would imply a greater than usual level of risk.

CAIM's position within its market sector is unique. It focuses on benefiting the markets in which it operates as well as ensuring it remains commercially viable in order to continue to service its clients. As a result CAIM's over-riding approach to risk is closely controlled. It seeks to provide a market rate

3. Risk Appetite (continued)

of return to its clients while at the same time safeguarding the capital values of assets through careful appraisal of investments made.

CAIM offers investment management products that provide clients with the assurance that their funds will be invested in securities and other assets which are of high quality and, particularly in respect of sustainability, ethics. It looks to optimise returns within its risk parameters and by the expansion of its client base and management of costs.

CAIM does not run a trading book for its own account and it does not lend money. It invests on behalf of its clients in liquid, listed and readily marketable securities. Most clients' funds are held in fixed income, money market instruments and equities.

Investment guidelines tend to restrict the portfolios to investment grade bonds (usually with a minimum A rating) and developed and key emerging equity markets. Investment in any other markets is typically restricted to very low proportions of clients' funds. CAIM only invests client funds.

CAIM has a simple business model and additional sources of capital have never been required.

4. Capital Resources

4.1 TOTAL AVAILABLE CAPITAL

As at 31 December 2016 and throughout the financial year then ended, CAIM has complied with the capital requirements required by European and UK legislation, and enforced by the FCA.

4.2 CAPITAL RESOURCES

The table below shows the composition of the CAIM's regulatory capital position as at 31 December 2016 as per CRD IV.

CAIM's capital comprises only shareholder's equity, which itself comprises of issued share capital and accumulated profits.

	31/12/2015	31/12/2016
	£000's	£000's
Regulatory Capital:		
Share Capital	1,300	1,650
Audited Reserves	912	1,005
Total	2,212	2,655
Less Illiquid Assets	(22)	(31)
Total Available Capital	2,190	2,624
Fixed Overhead Requirement	(628)	(632)
Surplus Capital	1,562	1,992

Note: the 2015 comparative figures have been amended to take account of the prior year adjustments included within the 2016 accounts.

As a limited licence firm, CAIM calculates its capital resources requirement on the higher of a base of €125,000 and its fixed overheads requirement ("FOR") (which is, generally, a quarter of its annual "fixed overhead" or costs (purely discretionary costs are excluded). (Note: if the total of the firm's credit risk and market risk were higher than the FOR, then that total would be used instead of the FOR.) In CAIM's case, the FOR is higher than €125,000 and so must be used.

5. Capital Management

As part of the Internal Capital Adequacy Assessment Process ('ICAAP') applicable to CRD IV firms, the Board is required to consider all material risks which CAIM faces and determines whether additional capital is required.

The Board manages its internal capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP.

The ICAAP represents the aggregated view on risk for CAIM and is used by the Board and management to understand the levels of capital required to be held over the near and medium term. The Board approved the last ICAAP in December 2016 based on figures as at 31 March 2016.

CAIM is required to maintain a certain level of capital to meet several requirements:

- To meet minimum regulatory capital requirements;
- To ensure CAIM can meet its objectives, including growth objectives;
- To ensure CAIM can withstand future uncertainty; and
- To provide assurance to clients, shareholders and other third parties.

CAIM aims to maintain sufficient capital to cover regulatory requirements and to maintain an operational capital buffer.

6. Risk Categories

6.1 CONDUCT RISK

Conduct risk is limited within CAIM as it has no retail clients. It follows the Regulators Principles for Businesses and through a framework of policies, procedures, training and compliance testing, conduct risk is managed and monitored to ensure clients are treated fairly.

6.2 STRATEGIC RISK

Given the small size of CAIM's operation (total staff of 12) the loss of a senior fund manager could present a significant risk. Similarly, it is important to retain knowledgeable middle office support staff. The ability to attract and retain appropriately qualified and skilled personnel is a matter regularly reviewed by senior management and the Board. Succession planning and cross-training provide a degree of mitigation and the introduction of a performance based bonus scheme for front office staff provides for a further counter-measure.

The company's revenue is a factor of the performance of the existing accounts under management and its ability to add new accounts. The risk posed to CAIM relates to underperformance resulting in a decline in revenue, the risk of redemptions or termination of investment management agreements. The company has built trust with clients, through longstanding relationships. The turnover of clients in recent years has been extremely low compared with the industry. The Company maintains surplus capital to cover the expenses of the business should there be an unexpected redemption or termination.

6. Risk Categories (continued)

6.3 FIDUCIARY RISK

Fiduciary Risk is inherent given the nature of CAIM's business. The risk is closely managed and monitored through regular risk assessment, policies and procedures, training, reporting and compliance testing.

Transactions are subject to pre and post guideline checks to mitigate against breach of mandate.

6.4 COMPLIANCE RISK

As an entity authorised and regulated by the Financial Conduct Authority, CAIM is exposed to compliance risk including the risk of legal sanctions and the risk of material financial or reputational loss that it may suffer as a result of its failure to comply with laws, regulations, code of conduct, and standards of best/good practice.

Compliance risk is managed and monitored by CORC on a monthly basis and through a robust monitoring and testing programme.

6.5 CREDIT RISK

CAIM's exposure to credit risk is low. Most clients are not invoiced for fund management fees and by agreement these fees are deducted, without referral, from funds held. In 2016, 61.5% of fees were debited directly to client accounts with the other 38.5% being invoiced.

CAIM's only credit risk relates to funds deposited with its UK based sister company, Crown Agents Bank Limited, a financial institution. Risk weighted assets as at 31 December 2016 were £1,265K. Credit Risk is calculated using the Standardised Approach resulting in a capital requirement of £101K. The only exposure, also to the Bank, relates to the purchase of foreign exchange forward contracts undertaken to hedge non-sterling income

6.6 CONCENTRATION RISK

CAIM's revenue is skewed towards a small number of large clients. As part of the ICAAP, the Company includes in its scenario tests the loss of a major client. The company maintains excellent relationships with these longstanding clients and considers the risk to be low.

Client income during 2016 as a percentage of CAIM's revenue by region was as follows:

Region	%
Africa	34
Caribbean, Atlantic and the Americas	26
UK	25
Rest of Europe	15
Total	100

6. Risk Categories (continued)

6.7 MARKET RISK

CAIM does not trade on its account. Any exposure to market risk is related to the value of the clients' portfolios, with a fall in fund values resulting in reduced management fee income. Own funds are not invested in any marketable securities and net foreign currency exposure is hedged using foreign exchange forward contracts.

6.8 OPERATIONAL RISK

The most likely type of operational risks are considered to be breaches of client guidelines, buying the wrong security or buying the wrong amount of a security and breaching counterparty limits. CAIM has a system in place to monitor pre-dealing checks in relation to investment restrictions. CAIM also has a Levels of Authorities Manual (LAM) which sets authority levels for all staff to follow, therefore mitigating the risk of unauthorised transactions.

There is also a potential risk relating to liquidity within the investment funds in circumstances where CAIM is not able to meet the contractual redemption requirements of its clients. CAIM has senior management controls in place to ensure that fund liquidity is always available in such circumstances. Such a risk is considered as an operational risk rather than a liquidity risk.

Operational incidents (with or without losses) are investigated by Risk Management independently of fund management and reported monthly to CORC and quarterly to the Board. The number and value of operational risk events is low and have been recorded in compliance with regulatory and internal policies.

6.9 LIQUIDITY RISK

CAIM does not trade in its own name. It acts as agent for its clients and is not exposed to material liquidity risk. It is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario. CAIM's liquidity policy sets an amount it considers suitable for providing sufficient liquidity to meet working capital requirements under normal business conditions. Management fee debts are settled promptly, thus ensuring liquidity resources are available on a timely basis. CAIM's cash position is monitored daily by Finance and Risk.

6.10 FINANCIAL CRIME

The majority of CAIM's clients are governments, central banks or public sector entities and the provenance of funds is known. However, the jurisdictions in which CAIM's clients reside are perceived to be high risk in respect of anti-money laundering and anti-bribery and corruption due to poor/weak legislation and regulation.

CAIM's systems and controls are sufficiently robust to ensure the residual risk is low. Members of staff receive regular training and regular compliance reviews are undertaken.

CAIM has a suite of Financial Crime Policies which are reviewed annually by the Board and rolled out to staff. Staff training in relation to Financial Crime issues is mandatory and delivered through face-to-face training and online modules which include tests designed to measure knowledge levels.

6. Risk Categories (continued)

6.11 INSURANCE RISK

CAIM has established its own insurance scheme. A comprehensive range of insurance cover is taken out via a broker with reputable third party insurance companies including professional indemnity, public and employers' liability. The levels of cover, policy excesses and the financial strength of the insurer are reviewed and discussed annually with brokers. Insurance risk is not considered to be material for CAIM.

6.12 POOR INVESTMENT PERFORMANCE

Given the risk averse nature of the majority of portfolio guidelines, the likelihood of significant under performance against the relevant benchmarks is low. Performance is carefully measured, GIPS compliant, and the performance of key funds is reported to and discussed on a monthly basis by the EXCO and a quarterly basis by the Board.

6.13 LOSS OF SYSTEMS

A comprehensive Business Continuity plan has been devised to ensure that operations may be continued with minimum delay in the event that systems on site become unavailable. IT systems are managed with data replication to servers at an alternative location to which CAIM staff have access. The plan is reviewed periodically and tested on a regular basis (typically, every 1-2 years).

6.14 ECONOMIC DOWNTURN

Consideration was given to how an economic downturn could affect CAIM. The Company's client mandates mainly consist of conservative investment objectives. The mandates are also heavily weighted towards sovereign fixed income bonds which do not have the same levels of price volatility as corporate bonds and equities. In an economic downturn as was experienced during a period following the 2008 financial crisis, sovereign fixed income bonds were seen as a 'safe haven' and especially those issued by highly rated G7 countries. The Company manages the equity exposure in the relevant portfolios on a highly diversified basis and has facilities to hedge some of this exposure through the use of hedging techniques commonly used for this purpose.

6.15 INTEREST RATE RISK

CAIM's only direct exposure to interest rate risk relates to its own reserves and this is not considered to be a material exposure. There is indirect exposure to interest rates on the value of the portfolios managed. When interest rates increase the value of fixed coupon bonds fall and this reduces the value of portfolios holding these securities. Consequently the management fee will be lower. When fund managers expect interest rates to rise, portfolios are adjusted accordingly to mitigate this risk.

6.16 PENSION OBLIGATION RISK

At the date of this report (31st December 2016) certain of CAIM's staff were members of either or both:

- the defined benefit pension scheme operated by CAIM's previous parent, Crown Agents Limited (and now closed to both new members and further accruals).
 - CAIM had historically paid contributions and costs to the scheme as determined by the fund actuaries.
 - On an actuarial basis at last valuation date there was no deficit. On an accounting basis there is a deficit. Given the stock market rise of the last few years, and the current growth of the UK economy, it can be reasonably expected that the value of assets will grow as well which will have an impact on any overall deficit.

6. Risk Categories (continued)

6.16 PENSION OBLIGATION RISK (CONTINUED)

- While the Pensions Regulator can require the CAIM to contribute towards any deficit in the scheme, the length of time over which that contribution needs to be made is not set in stone. Prior to the Sale, CAIM considered it may have had a secondary pension obligation risk in respect of the defined benefit scheme. However, as part of the Sale, Crown Agents Limited contractually agreed to taken on responsibility for any such liability.
- the defined contribution pension scheme operated by the Bank. CAIM has no liability re such a scheme.

6.17 POLITICAL/EXTERNAL

As previously stated, much of CAIM's business is predominantly derived from clients in Africa and the Caribbean and the political stability of a number of these countries could have an impact on the business in the future. CAIM is also exposed to the effect of the economic risk in these countries, many of which are single commodity economies and/or highly indebted, making the stability of their reserves and assets generally less certain. The international programme of debt forgiveness has significantly improved the financial condition of many of these clients and, therefore, caused this risk to fall.

7. Remuneration

7.1 BACKGROUND

The Remuneration Code was introduced in 2009 and its scope was extended from 1 January 2011 to incorporate the remuneration rules required by the Capital Requirements Directive and the Financial Services Act 2010. CAIM falls into proportionality tier 3 in respect of these disclosures and therefore is not required to apply the rules on retained shares, deferral, and performance adjustment.

7.2 REMUNERATION POLICY

CAIM's Remuneration Policy is approved by the group Board following input from the management and Board of CAIM and Group Remuneration Committee. Remuneration of all Code and other senior staff is overseen by the group Remuneration Committee.

The Committee is responsible for agreeing the over-arching principles and parameters of Remuneration Policy across the group. The policy is designed to support the delivery of business strategy which aims to deliver quality service to clients and ensure the sustainability of the business. The Committee considers and approve the remuneration arrangements of the Executive Directors, certain key executives and those discharging key functions. It will exercise oversight of strategic people issues, including employee retention, equality and diversity and significant employee relations matters.

7. Remuneration (continued)

7.3 THE LINK BETWEEN PAY AND PERFORMANCE

To reward performance, remuneration within CAIM is made up of fixed (salary and fees) and variable pay (bonuses). Variable remuneration may not exceed more than 50% of an individual's fixed remuneration and is linked to performance by way of individual targets which comprise of both financial and non-financial metrics. The award of any variable remuneration is also dependent upon group and company financial targets being achieved. There are also limits in terms of total remuneration as a percentage of the aggregate gross pay of all individuals qualifying to participate in the variable remuneration scheme.

7.4 REMUNERATION

The analysis of remuneration payable to Code Staff re the 2016 financial year, split between fixed and variable remuneration, is set out below:

	Senior Management*	Other Code Staff	Total
	£'000	£'000	£'000
Total fixed remuneration	272	384	656
Total variable remuneration	17	32	49
Total remuneration	289	416	705
Number of Code Staff**	13	10	23

* includes executive and non executive directors.

** includes 15 staff not remunerated by CAIM.

No Code Staff were paid more than €1 million.

No severance packages or sign-on payments were paid to Code Staff.

All remuneration is paid in cash although the fixed remuneration figures above include sundry staff benefits (such as medical insurance and pension contributions). In particular no Code Staff received remuneration via shares or share-linked instruments.

None of the remuneration is deferred.