Capital Requirements Directive

Pillar 3 disclosure for the year ended 31 December 2019

Background

The Pillar 3 disclosures cover the entity Cofunds Limited (Cofunds or the firm), that is a subsidiary of Aegon UK plc (AUK).

Under the Capital Requirement Directive framework (CRD IV) the firm is classified as an IFPRU €125k Limited Licence firm. This is due to the firm having permissions to hold client money and assets, but not having permission to deal on own account, which precludes it from being a Full-Scope or €730k firm.

The CRD IV framework is split between the Capital Requirements Directive (Directive 2013/36/EU) and the Capital Requirements Regulation (Regulation (EU) No 575/2013) (CRR). The CRR is directly binding on the firm, and does not need to be implemented by the FCA (or via UK regulation). However, the FCA has transposed the Directive into the Financial Conduct Authority (FCA) Handbook, along with a limited number of discretionary policies and derogations available to member states in the CRR.

The firm therefore refers directly to the CRR, supplemented by European Banking Authority (EBA) technical standards and the FCA's rules/guidance in a new sourcebook, the Investment Firms Prudential sourcebook (IFPRU). The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the CRR. As a reminder the three pillars within the CRR are:

- Pillar 1 establishes minimum capital requirements in respect of credit, market and operational risk exposures using standard criteria.
- Pillar 2 requires firms to assess the risk exposures specific to their business and to calculate the amount of capital that should be held against those exposures. This has been implemented in the UK by the FCA as the Individual Capital Adequacy Assessment Process (ICAAP). FCA rules also establish a supervisory process for the FCA to challenge firms' own assessments of their risk exposures and corresponding capital requirements. The amount of capital a firm is required to hold is the greater of the Pillar 1 or Pillar 2 values.
- Pillar 3 requires firms to publicly disclose their policies for managing risk and their capital requirements. This is designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes.

Basis of disclosure

This document sets out the Pillar 3 disclosures of the firm in accordance with the requirements under the CRR as laid out in Part 8 of the CRR (articles 431-455). The disclosures have not been audited and do not form part of the annual audited financial statements and should not be relied upon in making any judgment about the financial position of the firm.

Unless otherwise stated all figures are as at 31 December 2019, the firm's financial year end, with comparative figures for 31 December 2018 where relevant.

Frequency of disclosure, media and location

In accordance with Article 433 of the CRR, Pillar 3 disclosures are made on an annual basis as a minimum, and as soon as is practicable after the publication of the firm's Annual Report and Accounts. The firm pays particular attention to the need to publish some or all of these disclosures more frequently than annually if the scale, nature or involvement in financial activities of the business changes significantly.

These disclosures are published on the firm's website.

Declaration and risk statement from the Board of Cofunds Ltd

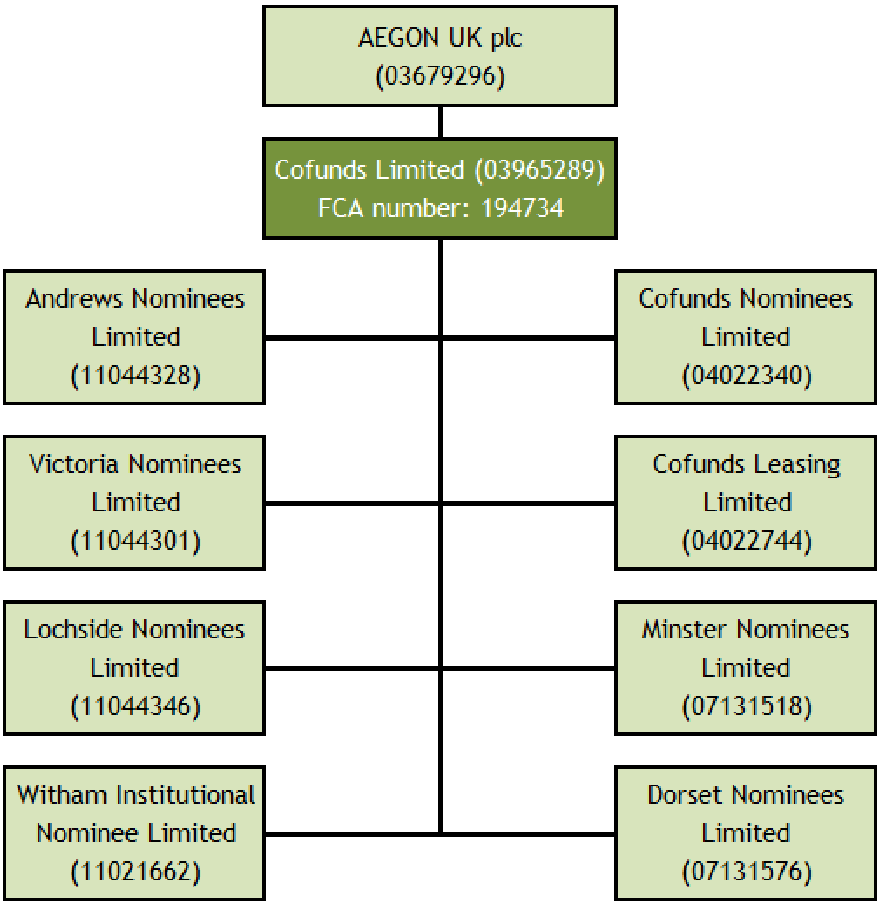
The Board takes responsibility for ensuring that the risk management framework implemented is suitable and effective in the context of the risks that are relevant to the business. The Board considers the framework to be appropriate and adequate in line with Cofunds' risk profile and business strategy.

The Board of Cofunds sets the risk tolerance and appetites for the firm and does so through a process of quantitative and qualitative risk analysis undertaken by the business. Capital ratios are monitored to ensure that Cofunds holds a sufficiently liquid and appropriate amount of capital which is calculated based on the analysis of the risk that it faces.

Information about the risk management processes and methodologies are described within the risk management and governance structure section below.

Scope and application

The firm is 100% owned by AUK. The group structure in which the firm is part is as follows (company numbers in brackets):



The nature of the firms are follows:

- Cofunds Limited, which is the trading firm and is an IFPRU €125k Limited Licence firm.
- All Nominee companies are dormant and established to hold and administer assets of the different business lines of the firm.
- Cofunds Leasing Limited, which is a non-trading wholly owned subsidiary of Cofunds Limited.

Unless otherwise indicated, the disclosures within this document are in respect of Cofunds as the FCA authorised and regulated entity, whose primary activity is to offer fund platform services and administration to FCA authorised intermediaries and their customers.

Cofunds acts as agent in the placing of aggregated deals with fund managers and does not engage in any dealings as principal. Cofunds does not offer any advice on products or investments.

Non-material, proprietary or confidential information

The firm does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

Risk management and governance structure

Governance

The Board of the firm recognises that risks will be present throughout the activities that the firm undertakes. With that in mind, the Board is responsible for ensuring that the firm has in place a suitably robust Governance and Risk Management Framework in order to ensure that risks are adequately identified, assessed and mitigated and ultimately to ensure that clients' and the firm's own assets are suitably protected.

The governance framework below relates specifically to the Cofunds Limited legal entity.

Cofunds Limited has been granted a waiver by the FCA in respect of IFPRU 1.2.1G (1, 2 & 4), which sets out certain governance requirements for significant IFPRU firms. The waiver recognises that Cofunds Limited is included in the remit of the AUK Remuneration, Audit and Nominations Committees, therefore is not required to operate these at firm level.

The governing body of the firm is the Cofunds Limited Board ('the Board'). To complement the role of the Board, the firm's governance structure is comprised of a number of local and group committees.

Each committee has a Terms of Reference clearly stating its responsibilities, membership and escalation procedures.

The key local governance committees are listed below:

- Cofunds Board

The Board have overall responsibility for the company, its strategy and fulfilling its commitments to customers. The Board is ultimately responsible for oversight of capital and the ICAAP within the business. It is responsible for:

  - Establishing the risk appetite and tolerances;
  - Reviewing the stress test and scenario report and results at least annually, including an update on key vulnerabilities and remedial actions;
  - Approving the level of capital and liquidity required within the business;
  - Setting the Risk Strategy of the firm.

- Cofunds Risk Committee

The Cofunds Risk Committee is a sub-committee of the Board, whose purpose is to provide oversight and make recommendations to the Cofunds Board in respect of risk matters. It is responsible for:

  - Overseeing and making recommendations on the firms overall risk appetite, risk tolerance limits and risk strategy. This covers financial, operational and conduct risk;
  - Overseeing the operational risk tolerances;
  - Overseeing the structure and implementation of the risk management framework, to ensure:
    - All material risks have been identified, assessed and managed through an effective control environment;
    - The framework can identify new and emerging risks;
    - Appropriate risk policies are in place.
    - Overseeing and advising the Cofunds Board on risks inherent to strategic transactions and business plans;
    - Ensuring via review that there is effective leadership of risk issues, the risk cultures are appropriate.

- AUK Committees

The key AUK committees are as follows, with Cofunds using the Remuneration and Audit Committees in relation to the IFPRU 1.2.1G waiver:

  - AUK Remuneration Committee: responsible for determining and approving the framework of the remuneration policy and specifically to manage executive director and Code Staff remuneration.

  - AUK Audit Committee: responsible for assisting the Board in discharging its responsibilities with regards to monitoring the integrity of the group's financial statements, the effectiveness of the internal control (including financial control) framework and the independence and objectivity of the internal and external auditors. The Audit Committee provides oversight of the firm's CASS compliance.

  - AUK Nominations Committee: responsible for evaluating the board of directors of each Board. This committee is looking for the relevant skills and characteristics that are required of members of that Board.

The Board and Board Reporting

The Board meets quarterly with additional Board meetings being convened to meet business needs as required, and has a Reserved Matters for the Board mandate which is subject to annual review. The Board also has a schedule of regular agenda items which identifies the regular and standing items that are considered at each Board meeting.

The flow of information on risk matters to the Board is taken through various internal governance committees before being presented to the Risk Committee and ultimately the Board.

Number of directorships held by members of the Board

In accordance with Article 435 of CRR, the table below shows the number of directorships held by members of the management body as at 31 December 2019:

Name	Position	Number of Aegon NV group directorships – including Cofunds Ltd	Number of directorships held outside Aegon NV group
Adrian Grace	Director	31	4
James Ewing	Director	30	1
Stephen McGee	Director	28	0
Mark Bloom	Non-Executive Director	4	1
Caroline Ramsay	Non-Executive Director	4	3
David Dalton-Brown	Non-Executive Director	5	3
Michael John Rogers	Non-Executive Director	4	7
Simon Gulliford	Non-Executive Director	2	7

Recruitment and diversity guidelines for selection of members of the management body

The composition of the Board should be such that the Board has the trust of the Shareholder. The Board aims for a composition that is balanced and diverse in terms of experience, nationality, ethnicity, age, gender and active or retired background of the individual members. The Board recognises that diversity and especially diversity of thought can bring insights and behaviours that may make a valuable contribution to its effectiveness.

Individual members of the Board will be assessed on the basis of the following generic qualities:

- customer focus – considering the needs of both current and future customers;
- ability to work well with the Executive and Non-Executive Directors and complement their strengths;
- entrepreneurial attitude;
- team player with a well-developed sense for cooperation and communication;
- appropriate time for preparation and attendance of meetings;
- no material conflicts of interest.

Aegon have set a target to have 33% of CEO-2 roles to be female by end 2021, and for diverse candidate shortlists for all CEO-2 appointments. At the time of setting these targets 30% of the CEO-2 population were female. The CEO-2 population includes the CEO of Aegon UK, the CEO's direct reports and their direct reports.

Adequacy of risk management arrangements

The Board is ultimately responsible for the Risk Management Framework of the firm and has implemented an appropriate governance and risk management structure. The Board is responsible for reviewing the effectiveness of the firm's risk management arrangements and systems of financial and internal control. The risk appetite of the firm is clearly defined and is monitored on a regular basis.

The latest ICAAP report sets out the Board's view of the firm's risks and the capital requirements for the firm. The approval of the ICAAP confirms the Board believe that the risk management arrangements and systems are adequate for the firms profile and strategy.

Information about the risk management processes and methodologies are described within the risk management framework descriptions below.

Risk management objectives and framework

Cofunds operates within the AUK Enterprise Risk Management (ERM) Framework which is aligned to the Aegon N.V. group wide ERM framework. The ERM framework provides the infrastructure within AUK for identifying, measuring, monitoring, managing and reporting of risk exposures, covering financial, strategic, regulatory and operational risks. The objective is to manage risk within risk tolerance, in order to support the achievement of AUK's objectives.

Enterprise Risk Management framework

The ERM framework involves:

- Understanding which risks the company is facing.

- Establishing a firm-wide framework through which risk return trade-offs can be assessed.

.

- Establishing risk tolerances, and supporting policies, for the management of the level of exposure to a particular risk or combination of risks.

- Monitoring risk exposure and actively maintaining oversight over the company's overall risk and capital adequacy positions.

The ERM framework lays the foundation for managing risk throughout AUK's operations. Therefore, it applies to all business areas of AUK for which it has operational control. The approach to managing risk and capital together is fully documented.

The risk strategy provides the link between the business strategy and day-to-day management of risk through the wider ERM Framework. The risk strategy defines how we think about risk through our risk philosophy, our risk preferences, and how we measure, manage and monitor risk on an economic basis. It is a structured and logical approach towards risk management.

AUK operates a three lines of defence model of risk management, with clearly defined roles and responsibilities for committees and individuals:

- 1st line of defence is our business functions and those who work in them. Risks and controls are owned and managed day to day within our first line functions.

- 2nd line of defence is our full Risk Team (whether it be operational risks, financial risks or regulatory risks). The Risk Team develops and implements the risk framework and challenges the 1st line on their management of risk.

- 3rd line of defence is Internal Audit who review all activities across Aegon UK of which Cofunds is part.

The ERM framework is represented across all levels of the organisation. This ensures a coherent and integrated approach to risk management throughout the Aegon N.V. group including Cofunds.

The risk profile is regularly monitored via the production and presentation of regular risk management information to various risk forums and management governance including the Board members of Cofunds. Risk management information is prepared at a functional level within the organisation and is presented internally on a quarterly basis. This is used to compare the current risk profile to the risk tolerance and business performance targets. The ERM Framework allows each risk to be measured and ranked via a probability and impact matrix. Suites of risk metrics and Management Information measure and monitor risks under both business as usual and stressed circumstances and carries out appropriate stress and scenario tests. Key risks are reported to the Board Risk Committee, which met four times during 2019. The Cofunds Board confirms the continued adequacy of the risk management systems to Cofunds risk profile and strategy.

Policies for hedging and mitigating risk

Risk Policies are a key component of the ERM framework. Having a robust policy framework in place ensures the right standards and principles are in place for managing and mitigating key areas of risk exposure across the organisation. AUK has developed and refined a suite of policies that cover these key risks. All policies are approved by the Board Risk Committee. To support understanding of responsibilities, AUK has developed a Policy Framework Manual. This also explains the process for governing, reviewing and providing assurance over the status of policies. Policy compliance procedures are detailed within the Policy Framework and, in the event of an inability to comply with policy requirements, procedures for dealing with exceptions are covered by the Risk Acceptance Process.

Risk management objectives and policies

Cofunds' risk management policies reflect the FCA requirement that a number of different categories of risk must be managed. These include: credit, market, business, operational, liquidity and group risk. In respect of this disclosure it is operational risk that is most relevant, however, further information on all these risks is set out below.

Operational risk

Operational risk includes everything from risk to our high-level strategy to risk of administrative errors. Our policy is to operate a robust and effective risk management process, embedded within the governance and management structures of our business. The concept of reducing risk to acceptable levels implies some articulation of risk appetite.

The business-related risks are detailed within the relevant functional risk registers, in line with the AUK Enterprise Risk Management (ERM) Framework. The risk registers consider the risk universe, covering risks such as strategic, operational and non-operational risk categories. The risk registers have been aligned to the Aegon ERM framework.

Significant work has been undertaken to define the target operating model for Cofunds which includes the definition of standards to ensure that operational risks are managed in line with risk tolerance.

Credit risk

This is considered as the risk of loss caused by the failure of a counterparty to perform its contractual obligations.

Credit risk is not sought in its own right but arises as an unavoidable consequence of dealing with banking counterparties, or the providers of settlement and custody services. Cofunds principle exposures relate to banking counterparties where the firm's own funds are held.

Cofunds is exposed to credit risk relating to default by its clients, product providers (e.g. fund managers) and banks holding either corporate or client money assets. Exposure to default by Cofunds' clients and product providers is accepted as a consequence of its business model and should be mitigated through contractual provisions to liquidate client holdings and through appropriate due diligence of clients and product providers.

In respect of client default Cofunds may sell the assets on which settlement is awaited. Cofunds is therefore only exposed to market movements over the period taken to liquidate holdings. Cofunds actively monitors its credit risks, considering the effects of potential contagion where relevant, and employs appropriate aggregation and diversification techniques to manage exposures.

Market risk

This is defined as the risk of loss arising from fluctuations in the value of, or income from, assets held on the balance sheet. Cofunds acts as agent in the placing of aggregated deals with fund managers. There is therefore no direct market risk as Cofunds does not have a trading book. During 2019 non-sterling funds were introduced to some institutional clients. Therefore a small currency risk exists through currency balances held to support the client money funding of non-sterling funds.

There is a process of correcting fund trades where price points are out with stated Terms & Conditions. Cofunds earns a significant part of its revenue on the basis of fees calculated on the value of client assets under administration, which in turn is linked to fund performance and the value of investments in those funds. Cofunds accepts this risk as a consequence of its current pricing models. Additionally it is noted that Cofunds holds no exposure to the following asset classes and therefore does not carry market risks for the following:

- Debt Instruments
- Equities
- Underwriting
- Credit derivatives
- Collective Investment Undertakings
- Commodities

Business risk

Business risk is defined as any risk to a firm arising from: changes in its business, including: (i) the acute risk to earnings posed by falling or volatile income; (ii) the broader risk of a firm's business model or strategy proving inappropriate due to macro-economic, geopolitical, industry, regulatory or other factors; and (iii) the risk that a firm may not be able to carry out its business plan and desired strategy; and (b) its remuneration policy.

Business Risk in Cofunds is considered to cover the impact arising from a stress to any of the drivers which can impact one or more of the following factors:

- Higher operating expenses, primarily due to the risks inherent in delivery of the integration initiatives and a failure to deliver anticipated expense efficiencies.
- Adverse market movements, which reduce the level of assets under administration, and the associated charge income.
- Higher outflows either from the exit of one or more large accounts, or from a general increase in anticipated exits across the book.
- Lower inflows - primarily a slowing of anticipated new business volumes.
- Price reduction - in particular where we need to reprice the entire book in response to external market factors.

Liquidity risk

This is the risk that the firm, although capital adequate, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. Cofunds is exposed to liquidity risk in respect of payment obligations to its clients and product providers and the settlement timing of corresponding cash inflows and outflows. Therefore liquidity risk arises primarily due to the requirement to fund client money and client asset shortfalls, under client money rules.

The firm expects to be able to meet its payment and collateral obligations under extreme but plausible liquidity scenarios. Cofunds conducts stress testing against a range of potential liquidity risk events and scenarios on an ongoing basis as part of its liquidity risk management process.

Concentration risk

This is the risk that exposure to sectoral, geographic, liability and asset concentrations increase the firm's exposure to credit risk. Cofunds accepts that it does have concentrations of exposures to banking counterparties, fund managers and institutional clients which could give rise to an increased level of potential credit risk. However, the firm attempts to minimise this risk by maintaining a diverse portfolio of client relationships. Cofunds' range of distribution channels mitigates against risk concentrations associated with particular channels.

Pension obligation risk

The risk of losses arising from contractual or other liabilities to or with respect to a pension scheme is not considered material. Cofunds has no obligation to subscribe any sums to staff pension plans in excess of the agreed monthly contribution based on a percentage of salary. All staff are employed by a fellow AUK subsidiary and those that work for Cofunds have only defined contribution pension schemes.

Securitisation risk

The firm does not participate in securitisation transactions. These are transactions where assets are sold to a bankruptcy-remote special purpose vehicle in return for immediate cash payment, facilitated by the vehicle raising funds through the issue of tradable debt securities.

Residual risk

Residual risk is defined as the risk that credit risk mitigation techniques, as defined in the EU CRR regulations, are not fully effective. As the firm does not implement any of these credit risk mitigation techniques, it is not exposed to residual risk.

Risk of excessive leverage

Firms are required to have policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. As the firm does not have any leveraged assets or off-balance sheet items (e.g. derivatives, guarantees etc.), the risk of excessive leverage is deemed to be nil.

Group Risk

This is the risks arising as a consequence of Cofunds being a part of Aegon NV group of companies. While the firm uses shared services with AUK to allow key parts of the firm to function, these are charged at an arm's length rate. The on-going support of the group is however key to delivering the long-term strategy of the firm, but this longer-term risk can be mitigated by actions available to the management of the firm, and hence is not considered a material risk to the firm.

Interest Rate Risk

Interest rate risk is defined as the company's capital exposure to both an upwards and downwards change in interest rates. Cofunds has exposure to interest rate risk in both interest earned on corporate cash balances in a downward stress as well as exposure on interest paid on borrowings (including overdraft facilities) through an upwards interest rate stress. The exposure to a downward interest rate stress is the larger and therefore used as the amount of capital to hold against interest rate risk. The 2019 ICAAP assessment has assessed this exposure to be £2.8m.

Capital requirements

Own funds requirements

Own funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to absorb losses. The firm is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions of own funds.

The firm does not have any encumbered assets as at 31 December 2019.

The firm's Pillar 1 capital requirement is driven by its fixed overhead requirement (FOR) as this exceeds the credit risk requirement and the base capital requirement.

The own funds held by the firm comprises ordinary share capital, share premium and accumulated reserves with deductions made in line with the CRR. The table sets out the key components of own funds as at 31 December.

£m	2019	2018
Share capital: Ordinary shares of £1 each paid in full	151.4	131.4
Share Premium	9.5	9.5
Audited retained earnings	(49.8)	3.2
Net Assets / Total equity per financial statements	**111.1**	**144.1**
Deferred tax assets	(2.0)	(0.6)
Total Tier 1 Capital, Total Capital and Own Funds	**109.1**	**143.5**

Pillar 1 capital requirements

The firm meets the definition of Article 95 in the CRR, which outlines that the firm has limited authorisation and in particular is not authorised to deal on its own account or place and/or underwrite financial instruments on a firm commitment basis. The firm monitors its Pillar 1 capital requirements on a regular basis and reports the results at least quarterly to the Executive

Committee and Cofunds Risk Committee. This includes actual business performance to date, business forecasts for future periods and any known changes in regulatory requirements.

The firm calculates its risk exposure amount, required within the Pillar 1 calculation, as the higher of the following:

A. Base Capital Requirement (€125,000)
B. Fixed Overhead Requirements – 25% of the fixed overheads of the preceding year
C. Variable Capital Requirements = the sum of:

- Credit and dilution risk;
- Market risk for the trading book of business;
- Settlement risk;
- Credit valuation risk for Over the Counter Derivative instruments; and
- Counterparty risk for the trading book of the business.

Due to the nature of the firm's business it does not hold any financial instruments, does not have a trading book and credit risk exposures are limited to amounts receivable in the normal course of business. Therefore, for the variable capital requirements, only credit risk applies, to which the firm applies the standardised approach.

Cofunds' Pillar 1 requirement as at 31 December 2019 was £23.9m (31 December 2018: £23.6m) as set out below.

Pillar 1 requirement	**Capital requirements (£m)**	**Comments**
Credit risk	4.6	See Risk Exposure Table below
Fixed Overhead Requirements ("FOR")	23.6	25% of the annual fixed overheads of the firm
Base Capital Resource requirement of €125k	0.1	
Total Pillar 1	**23.6**	**The highest of the above three**

Total risk exposure amount

The firm is required under Pillar 1 to hold own funds in excess of 8% of the total risk exposure amount. The calculation of risk weighted assets of the firm as at 31 December 2019 is shown below.

£m	**Total exposure**	**Risk weighted exposure**	**Own funds capital requirements at 8%**
Institutions	135	27	2.2
Retail	12	9	0.7
Other assets	21	21	1.7
Total credit risk	**168**	**57**	**4.6**
Additional exposure from FOR		238	19.0
Total risk exposure amount		**295**	**23.6**

In calculating the credit risk capital requirement for institutions there are deposits with an effective maturity of 3 months or less with two UK Banking institutions, HSBC and RBS. Also included are fees and income due from financial institutions and fund managers.

The retail exposure is to individual UK customers, both retail and institutional, through client money funding.

Other assets consist of income that is due in relation to the previous month's charges for UK retail and institutional clients.

Capital ratios

The Pillar 1 capital ratio for the firm was 37.0% (own funds capital as a percentage of total risk exposure) as at 31 December 2019 (2018: 48.6%). As the firm only has Tier 1 capital, the total capital ratio and Comment Equity Tier 1 (CET1) ratio are equal.

Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is the process under which the Board oversees and regularly assesses:

- the firm's processes, strategies and systems;
- the major sources of risks faced by the firm that may impact its ability to meet its obligations;
- the results of internal stress testing of these risks;
- the amounts and types of financial resources and internal capital, including own funds and liquidity resources, and whether these are adequate both as to amount and quality to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

Scenario analysis and stress testing are performed as part of the ICAAP to assess the firm's exposure to extreme events for the relevant major sources of risk. The outcome of this testing is to ensure that appropriate mitigating factors are in place. Any residual risk can then be mitigated by holding capital against these risks. This assessment is known as Pillar 2 capital requirements, which are risk which are not adequately covered within the Pillar 1 requirements.

The outcome of the ICAAP is formally approved by the Board at least annually, with more frequent reviews if there is a fundamental change to the business or the operating environment.

Remuneration policy

The following disclosures are made in accordance with the requirements of Article 450 of the CRR, which establishes qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile.

Governance

Cofunds Limited has been granted a waiver by the FCA in respect of IFPRU 1.2.1G (1, 2 & 4), which sets out governance requirements for significant IFPRU firms. The waiver recognises that Cofunds Limited is included in the remit of the AUK Remuneration Committee, therefore is not required to operate the committee at firm level.

Aegon has developed the Aegon Group Global Remuneration Framework (AGGRF) to govern all remuneration in the Aegon Group, including within AUK. The AGGRF is reviewed annually by Aegon N.V.

The AGGRF sets out Aegon Group's remuneration philosophy, principles, and guidelines to be applied to all staff. It has been developed to comply with applicable remuneration regulation. In the UK, the requirements of the FCA Code are taken into account in its application. Work on the policy is primarily undertaken at Group level and no external consultants have been employed by AUK to assist in determining the policy.

All Remuneration within AUK (including employees acting on behalf of Cofunds Ltd) is overseen by the AUK Remuneration Committee. Decisions of the AUK Remuneration Committee are taken by a quorum of independent Non-Executive Directors and Aegon N.V. shareholder representatives.

Therefore the AUK Remuneration Committee is empowered by the Board to:

- approve the design of, and determines the targets for, any performance related pay schemes operated by a Company and approves the total annual payments made under such schemes;

- provide levels of remuneration sufficient to attract, retain and motivate executives of the quality required to run each Company successfully, but avoids paying more than is necessary for this purpose;

- ensure that the total remuneration package of an individual accurately reflects the risks for which they are responsible and does not promote or reward excessive risk taking;

- ensure that the performance related elements of remuneration are in accordance with FCA and regulatory best practice and are designed to align their interest with those of shareholder and promote the long-term success of the Company and provide keen incentives to perform at the highest levels;

- review the terms of executive service agreements from time to time and ensures that contractual terms on termination and any payments made are fair to the individual and the relevant Company; that failure is not rewarded; and that the duty to mitigate loss is fully recognised.

The AUK Remuneration Committee met six times in 2019, four actual meetings and two virtual meetings.

In setting remuneration packages for individual employees, AUK adopts a job evaluation approach. All roles are evaluated according to recognised job evaluation methodology and are then benchmarked against industry data to ensure that total reward (fixed compensation, variable compensation, and contractual benefits) is appropriate to the particular role and local market conditions. This part of the process uses externally prepared survey data interpreted by AUK

Remuneration packages within AUK are categorised into Fixed and Variable Compensation. Fixed Compensation includes: Basic Salary, Employer Pension Contributions and contractual benefits. Variable Compensation is any type of remuneration that is not fixed. It includes participation in a performance bonus scheme appropriate to the employee's role. Other forms of variable pay such as sign on bonuses, retention bonuses, and variable severance pay are only permitted in exceptional circumstances and are subject to strict governance. Variable Compensation is limited to a maximum percentage of Basic Salary for all employees.

Variable Compensation paid to AUK employees is from a bonus pool determined by company performance. The funding of the pool is determined by performance against financial and non-financial indicators which are agreed by the AUK Remuneration Committee at the start of each performance year, and which are aligned to AUK and Aegon Group's Medium Term Plan. Separate incentive schemes apply for employees in sales roles and these are similarly aligned to individual and company performance.

The allocation of individual awards to employees from the bonus pool is determined by personal performance against individual financial and non-financial objectives.

Risk input into performance reviews

The Remuneration Code (the Code) General Requirement states that 'A firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management'. As part of this, the Code highlights several instances where it expects risk and compliance functions to be able to have significant input into the setting of remuneration awards where concerns exist as to the behaviour of an individual or the riskiness of business undertaken.

Cofunds has processes in place that facilitate risk and compliance functions inputting into the process reviewing staff that are subject to the Code (Code staff), are approved persons or who are Material Risk Takers (MRT).

Performance conditions and performance adjustments ('malus and clawback')

The remuneration committee reviewed the malus and clawback provisions in place for executive director and Material Risk Taker and Code Staff incentive plans. Awards are subject to malus and clawback provisions with Risk input to support these considerations.

Quantitative remuneration data

Cofunds has identified those employees who are deemed to be Code staff with reference to their managerial and influence on the company's overall risk profile of the FCA regulated business.

Identification is further subject to the qualitative and quantitative methods set out in the European Banking Authority's Regulatory Technical Standards (RTS) for the identification of material risk takers.

For 2019, Cofunds has identified Sixteen 'Code' staff, three of whom were also directors of the company during the year. These individuals are not remunerated directly by Cofunds, with employee contracts being with Aegon UK Corporate Services Ltd for the 2019 accounting period. The remuneration disclosed below relates to the amounts they received in 2019 for their services to Aegon as a whole.

Remuneration includes salary, benefits, bonus awards, compensation in respect of loss of office and long term incentive schemes.

Despite Cofunds being a proportionality level three firm, a full breakdown of the figures is provided below due to the firm being a ‘significant IFPRU firm’:

Cofunds Directors			Other Code Staff		Total	
	No of recipients	£k	No of recipients	£k	No of recipients	£k
Fixed remuneration for FY 2019	3	2,357	13	2,758	16	5,116
Variable remuneration awarded for FY 2019						
- Cash	3	499	9	535	12	1,035
- Shares	3	571	8	394	11	965
Total Variable remuneration awarded for FY 2019		**1,070**		**930**		**1,824**
Ratio between fixed and variable remuneration		68.8%		74.8%		71.9%
‘						
- Awarded during 2019	3	571	8	394	11	965
- Lapsed due to performance adjustments		-		-		-
- Paid during 2019	2	406	5	384	7	790
Outstanding deferred remuneration at year end:						
Outstanding unvested		0		0		0
Outstanding vested	3	2,371	11	1,730	14	4,101
Sign-on payments paid during FY 2019		-		-		-
Severance payments paid during FY 2019	-	-	-	-	-	-
Severance payments awarded during FY 2019	-	-	-	-	-	-
Highest individual severance Payment	-	-	-	-		

There was one member of Code staff earning more than €1m. Their total remuneration was in the €1.5-2.0m range.

Appendix 1

- Exposure to counterparty credit risk (Article 439): The impact of credit risk on Cofunds' business is explained above and does not relate to trading. Therefore credit risk policies, collateral policies, collateral provision in case of counterparty downgrade, net exposure and all other disclosures under this article are not applicable to Cofunds.
- Capital Buffers (Article 440): As an IFPRU 125k investment management firm Cofunds is not required to implement capital buffers, therefore the disclosures under this article are not applicable.
- Indicators of global systemic importance (Article 441): Cofunds has not been identified as a G-SIIs in accordance with Article 131 of Directive 2013/36/EU, therefore the disclosures under this article are not applicable. (Cofunds is part of Aegon N.V. which has been identified as a global systemically important insurer).
- Use of ECAIs (Article 444) - Cofunds is not calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2, therefore the disclosures under this article are not applicable.
- Exposure to market risk (Article 445) – Cofunds does not have a trading book, therefore the disclosures under this article are not applicable.
- Exposures in equities not included in the trading book (Article 447) – Cofunds does not have any direct exposure to equities, therefore the disclosures under this article are not applicable.
- Exposure to securitisation positions (Article 449) - Cofunds is not undertaking any securitisation activity, therefore the disclosures under this article are not applicable.
- Leverage (Article 451): Cofunds does not employ leverage, therefore the disclosures under this article are not applicable.
- Use of the Advanced Measurement Approaches to operational risk (Article 454) – Cofunds does not make use of Advanced Measurement Approaches for the calculation of their own funds requirements for operational risk, therefore the disclosures under this article are not applicable.