Capital Requirements Directive

Aegon Investment Solutions Limited

Pillar 3 disclosure for the year ended 31 December 2020

Background

These disclosures are prepared in accordance with the Capital Requirements Directive IV (CRD), which is the framework for implementing Basel III in the European Union. Following the end of the EU exit transitional period this has now been adopted into UK law. Basel III sets out certain capital adequacy standards and disclosure requirements to be implemented by regulated firms. The framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements that we are required to meet for credit, market and operational risk;
- Pillar 2 requires us, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires us to publish certain details of our risks, capital and risk management process.

This document discloses key information about Aegon Investment Solutions Limited (AISL) as at 31 December 2020, under the CRD and, specifically, Part 8 of the Capital Requirement Regulation. The contents of this document may be updated more frequently than annually if required.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where we have considered a disclosure to be immaterial, we have stated this in the relevant section. Some disclosures required under CRD IV are not applicable to AISL's business model and these are listed in an appendix with a short explanation as to why they are not applicable and therefore do not require specific disclosures or use of a waiver.

We are also permitted to omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section or in the appendix with the reasons for this.

Where appropriate, we have published more general information on the subject matter of any waived disclosures.

Any required disclosures which are omitted are done so in conformity with the European Banking Authority's Guidelines, published 23 December 2015.

This Pillar 3 Disclosure has been subject to internal review procedures. The information has not been audited by the firm's external auditors.

In this document we disclose information in relation to our various risks, unless it is has been determined as immaterial or of a proprietary or confidential nature:

- The scope of application of directive requirements;
- Our risk oversight, strategy, management objectives and policies;
- Our capital resources and requirements including Pillar II requirements; and
- Remuneration disclosures.

Declaration and risk statement from the Board of Aegon Investment Solutions Ltd

The Board takes responsibility for ensuring that the risk management framework implemented is suitable and effective in the face of the risks that business encounters and takes. The Board considers these measures to be appropriate and adequate in line with AISL's risk profile and business strategy.

The Board of AISL 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 AISL holds a sufficiently liquid and appropriate amount of capital which is calculated based upon the analysis of the risk that it faces.

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

Scope and application of CRD Requirements

The disclosures in this document are made in respect of AISL which was established as a platform service provider and sells Individual Savings Accounts (ISAs) and General Investment Accounts (GIAs).

AISL is a wholly owned subsidiary of Aegon UK plc (AUK) and is authorised and regulated by the Financial Conduct Authority (FCA).

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between AISL's parent AUK and AUK's subsidiary undertakings and AUK has no subsidiary undertakings where actual capital resources are less than the required minimum.

Risk oversight and strategy

AUK operates a number of subsidiary companies as fully integrated businesses within a shared governance framework. As such AISL operates within the AUK Enterprise Risk Management Framework (ERM) 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.

ERM 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 solvency 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 Appetite provides the link between the Business Strategy and day-to-day management of risk through the wider ERM Framework. The Risk Appetite 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 and recognises that risk represents both a threat and an opportunity.

AUK operate 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 AISL 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 AISL.

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 AISL. Risk Management Information is prepared at a functional level within the organisation and is presented to the Operational and Regulatory Risk Committee 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 MI measure and monitor risks under both business as usual circumstances and carries out appropriate stress and scenario tests. Key risks are reported to our quarterly Aegon UK Risk Committee meetings (met four times in 2020). The AISL Board confirms the continued adequacy of the risk management systems to AISL's 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 our 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

Our risk management policy reflects the FCA requirement that we must manage a number of different categories of risk. These include: credit, market, business, operational, insurance, 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.

Credit Risk

The extent to which we provide credit to clients and, therefore, the extent to which we are subject to credit risk and how we mitigate this is governed by the terms and conditions (T&Cs) of individual agreements with those clients. Customer billing direct from client accounts mitigates the majority of credit risk for AISL.

With regard to credit risk arising on bank deposits, we only deposit these with high quality banks (rated at least investment grade) to substantially mitigate the risk.

Market Risk

There is no direct market risk as AISL does not have a trading book, hold a box, or operate outside the UK. However, there is a process of correcting fund trades where price points are out with T&Cs. Revenues are indirectly exposed to market risk as they are dependent upon the value of assets under management. The Directors consider this market risk to be uncontrollable; it is inherent in the business of platform asset management and arises from the operational risk. Potential market risk is monitored through scenario analysis and the Company aims to hold a level of capital that will afford protection against a significant market downturn.

Business Risk

Business risk is reduced by the AISL business model as the majority of expenses of AISL are incurred within Aegon UK Corporate Services and recharged on a monthly basis. The basis for recharging has been set as a proportion of relevant activity drivers allowing for the fact that AISL ISA/GIA sales are a small part of the overall proposition of Aegon UK

As AISL only sells ISA/GIA products, the business would be significantly impacted by tax/legal/regulatory changes which make these products less attractive. However, the impact of this might only affect the level of growth going forward, rather than the current level of Funds under administration where the current book of ISAs/GIAs is not expected to be affected.

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 within the relevant functional risk registers, in line with the AUK Enterprise Risk Management Framework. The risk registers consider the risk universe, covering risks such as strategic, operational and non-operational risk categories.

Liquidity risk

Liquidity risk arises primarily due to the requirement to fund client money and client asset shortfalls, under client money rules.

Other than in relation to client money funding AISL does not have significant liquidity risk.

Insurance and Group risk

AISL has no insurance risk due to the nature of the business. AISL has an element of group risk, which is mitigated as Scottish Equitable plc (SE plc) has its own regulatory capital requirement to ensure it is sustainable and we aim to make sure we have appropriate interaction with group functions to understand and influence group level decisions. These risks are not considered material for the purposes of this disclosure.

Capital resources and requirements

The value of share capital and audited reserves is £4,178k at 31 December 2020 and our capital resources comprise of core Tier 1 capital only. AISL is not required to and does not hold Tier 2 or 3 capital. There are no other items or deductions.

The capital resources of AISL as at 31 December 2020 are:

	£'000
Share capital	4,000
Audited reserves	178
2020 profits	1,288
Unaudited inadmissible profits	(1,288)
Core Tier 1 Capital	**4,178**
Total Capital Resources	**4,178**

The Firm calculates its Pillar 1 capital requirement, as the higher of:

- Base Capital Requirement (€125k);
- Fixed Overhead Requirements
- Variable capital risk weighted exposures.

Our Pillar 1 capital requirement has been determined as being our fixed overhead requirement, which has been calculated as being £598k.

AISL's credit risk capital requirements has been calculated as £145k.

Standard credit risk exposure classes	**8% of risk weighted exposure amounts**
	£'000
Institutions	87
Retail	58
Total	**145**

In calculating the credit risk capital requirement for institutions there are only deposits with an effective maturity of 3 months or less with one UK Banking institutions, HSBC Bank plc. The retail exposure is to individual UK customers through income that is due in relation to the previous months charges and client money funding for the individual clients.

There is no direct market risk as AISL does not have a trading book, hold a box, or operate outside of the UK.

Internal Capital Adequacy Assessment Process

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, as part of the AUK Investment (AUKIG) ICAAP, with more frequent reviews if there is a fundamental change to the business or the operating environment.

Remuneration Disclosures

Applicable rules require AISL to identify individuals whose professional activities have a material risk impact on its profile (known as 'Code staff') and the requirements and disclosures (applicable to FCA proportionality level three firms) apply to those individuals.

These disclosures should be read in conjunction with the Remuneration Policy and Report in the 2020 Aegon Group Annual Report & Accounts (available on the Group's website - www.aegon.com), which provides more information on the activities of the Compensation Committee and remuneration principles and policies. The UK Remuneration Committee follows the same principles and policies.

Code Staff Criteria

AISL has identified those employees who are deemed to be Code staff with reference to their managerial 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 AISL in 2020 we have identified there were six Code staff during the year, one leaver with five Code staff at 31 December 2020, of which three were also the Directors of the company during the year. These individuals are not remunerated directly by AISL and the remuneration disclosed below relates to the amounts they received in 2020 for their services to Aegon as a whole.

For 2020, £3,779k was awarded as remuneration to the Code staff. Remuneration includes salary, benefits, bonus awards, compensation in respect of loss of office and long term incentive schemes. In respect of long term incentive share schemes it includes amounts awarded in respect of 2020 (valued using the strike price for the 2020 schemes, although they do not vest until 2023 and 2024) and excludes amounts paid out in 2020 in relation to earlier periods. Included within the remuneration are variable remuneration awards of £1,338k that are determined by the Aegon UK remuneration committee based on individual and corporate performance during the year under review.

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 AISL 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 five times virtually in 2020.

Disclosures: Governance Arrangements

Director Name	Executive (E) or Non Executive (N) (for AISL)	Number of Aegon NV group Directorships (including AISL)	Number of Directorships held outside of the Aegon NV group
Mike Holliday-Williams	E	29	-
Stephen McGee	E	30	-
James Ewing	E	29	2

Recruitment and Diversity Policy 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 recognises that diversity and especially diversity of thought can bring insights and behaviors 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; and
- 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.

Appendix 1

- Exposure to counterparty credit risk (Article 439): The impact of credit risk on AISL's 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 AISL.
- Capital Buffers (Article 440): As an IFPRU 125k investment management firm AISL is not required to implement capital buffers, therefore the disclosures under this article are not applicable.
- Indicators of global systemic importance (Article 441): AISL 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. (AISL is part of Aegon N.V. which has been identified as a global systemically important insurer).
- Use of ECAIs (Article 444) - AISL 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) – AISL 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) – AISL does not have any direct exposure to equities, therefore the disclosures under this article are not applicable.
- Exposure to interest rate risk on positions not included in the trading book (Article 448) – AISL's exposure is not considered to be material therefore these disclosures have been omitted.
- Exposure to securitisation positions (Article 449) - AISL is not undertaking any securitisation activity, therefore the disclosures under this article are not applicable.
- Leverage (Article 451): AISL does not employ leverage, therefore the disclosures under this article are not applicable.
- Use of the Advanced Measurement Approaches to operational risk (Article 454) – AISL 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.