Capital Requirements Directive

Aegon Investments Limited

Pillar 3 disclosure for the year ended 31 December 2020

Background

The Capital Requirements Directive ('the Directive') of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. Following the end of the EU exit transitional period this has now been adopted into UK law. In the United Kingdom this was implemented by the regulator, who created rules and guidance specifically in the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). 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 Investments Limited (AIL) as at 31 December 2020, under the framework and, specifically, BIRPU 11. 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 BIPRU 11 are not applicable to AIL'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 BIPRU 11.3.6..

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 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 Investments Limited

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 AIL's risk profile and business strategy.

The Board of AIL 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 AIL 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 AIL which was established as a company which provides management services to a range of Aegon Open Ended Investment Company (OEIC) funds, in accordance with GENPRU and BIPRU, AIL is a BIPRU firm subject to CRD III capital requirements.

AIL is a wholly owned subsidiary of Aegon UK plc (AUK) and is authorised and regulated by the Financial Conduct Authority (FCA). It should be noted that on the 1 January 2021, Cofunds Limited, Aegon Investment Solutions Limited, Aegon Investments Limited, Momentum Group Limited, Origen Limited and Origen Financial Services Limited were transferred to Aegon UK Investment Holdings Limited a subsidiary of Aegon UK plc. This follows increased regulatory expectation to consider the prudential position of our Investment-type businesses (regulated by the FCA) as a single group and report its financial strength in line with that expectation. By creating a single holding company into which the investment-type companies become legal subsidiaries, we can satisfy this overall objective.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between AIL'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 AIL within a shared governance framework. As such AIL 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 AIL 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 AIL.

The risk profile is regularly monitored via the production and presentation of regular Risk Management Information to various risk forums and management governance. 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 the Board, which met four times in 2020. The AIL Board confirms the continued adequacy of the risk management systems to AIL'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 the AUK 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

Exposure to credit risk is to the extent to which AIL holds cash and cash equivalents and has management fee receivables. Management fees are billed and settled on a monthly basis in line with the contractual agreement, which helps reduce the exposure. Deposits are only held with high quality banks (rated at least investment grade) to substantially mitigate the risk.

Market Risk

There is no direct market risk as AIL activities involve investing client assets into investment funds, and it has negligible direct exposure to market risk in the normal course of its operations. The direct market risk associated with the investments is borne by the clients.

AIL has indirect exposure to market risk arising from income that is largely driven by management charges applied on the basis of the value of assets under management. A general collapse in markets could result in a fall in revenues.

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. 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

Exposure to business risk is due to the nature of the business that AIL operates, where revenues could fall and expenses could increase.

Business risk is reduced by the AIL business model as the majority of expenses of AIL 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 AIL activities are a small part of the overall proposition of Aegon UK.

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.

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

Liquidity risk

Liquidity risk arises primarily due to the operation of the business as the flows of revenue to pay expenses as they are due are dependent on any fee income being received.

Other than in the normal course of business AIL does not have significant liquidity risk.

Insurance and Group risk

AIL has no insurance risk due to the nature of the business. AIL has an element of group risk, which is partly mitigated as the key group entities with which AIL interacts, Cofunds Ltd and Aegon Investment Solutions Ltd, have their own regulatory capital requirements to ensure they are sustainable. 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 £2,614k at 31 December 2020 and our capital resources comprise of core Tier 1 capital only. AIL is not required to and does not hold Tier 2 or 3 capital. There are no other items or deductions.

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

	£'000
Share capital	6,000
Audited reserves	(2,379)
2020 losses	(1,007)
Core Tier 1 Capital	**2,614**
Total Capital Resources	**2,614**

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

- Base Capital Requirement (€50,000);
- 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 £675k.

AIL's credit risk capital requirements has been calculated as £54k.

Standard credit risk exposure classes	**8% of risk weighted exposure amounts**
	£'000
Institutions – Banking exposure	43
Institutions – taxation receivable	9
Institutions – management fees receivable	2
Total	**54**

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 institution, Natwest Markets plc. The other exposures relate to taxation receivable in respect of losses incurred during 2020 and management fees receivable in respect of one month.

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

Compliance with rules in GENPRU, BIPRU and Pillar 2 rule requirements

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 3-year time horizon. Probability is assessed subjectively. Both current and projected capital requirements are considered. We also perform an assessment of the cost of performing a wind down in assessing the minimum capital that should be held.

Remuneration Disclosures

Applicable rules require AIL 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

AIL 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 AIL in 2020 we have identified there were ten Code staff during the year one leaver with nine at 31 December 2020. Six of these were also the Directors of the company during the year. All of our Code Staff fall into the “senior management” category of Code Staff. These individuals are not remunerated directly by AIL and the remuneration disclosed below relates to the amounts they received in 2020 for their services to Aegon as a whole.

For 2020, £4,197k 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 £1,402k 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 AIL 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.

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 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 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

- Retail and Equity exposures (BIPRU 11.5.5/6) are not applicable to AIL as it does not have these exposures and is not using the IRB approach.
- Exposure to counterparty credit risk (BIPRU 11.5.7): The impact of credit risk on AIL'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 rule are not applicable to AIL.
- Value adjustments and provisions for impaired exposures (BIPRU 11.5.9): Not applicable as AIL does not have any value adjustments or impaired exposures.
- Use of ECAIs (BIPRU 11.5.10) - AIL is not calculating the risk-weighted exposure amounts in accordance with BCD Annex XII Part 2, point 7, therefore the disclosures under this rule are not applicable.
- Firms calculating Risk Weighted Exposure amounts using the IRB approach (BIPRU 11.5.11) - (Not applicable AIL is not calculating risk weighted exposure amounts in accordance with the IRB approach.
- Exposure to market risk (BIPRU 11.5.12) – Not applicable as AIL does not have a trading book.
- Use of VaR model for calculation of Market risk capital requirement (BIPRU 11.5.13) – Not applicable AIL does not use the VaR model for calculating market risk.
- Non-Trading Book Exposures in Equities (BIPRU 11.5.15) – Not applicable AIL does not have any non-trading book equity exposures.
- Exposure to interest rate risk on positions not included in the trading book (BIPRU 11.5.16) – AIL's direct exposure is not considered to be material therefore these disclosures have been omitted.
- Securitisation (BIPRU 11.5.17) – Not applicable AIL does not undertake any securitisation activities.