COFUNDS LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2018

REGISTRATION NUMBER 03965289

COFUNDS LIMITED
COMPANY INFORMATION

Chairman	Michael J Rogers
Directors	Mark Bloom David M Dalton-Brown Adrian T Grace Stephen J McGee James Ewing Caroline F Ramsay
Secretary	James K MacKenzie
Company Number	03965289
Registered Office	Level 43 The Leadenhall Building 122 Leadenhall Street London EC3V 4AB
Independent Auditors	*PricewaterhouseCoopers* LLP Atria One 144 Morrison Street Edinburgh EH3 8EX

COFUNDS LIMITED
STATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

Principal activities

Cofunds Limited's (the Company) principal activity is the provision of a consolidated investment platform, making investing easier for its intermediary and institutional customers and the investors they serve.

The proposition is multi-dimensional, providing administrative services to a diverse range of clients such as financial advisers and wealth managers, intermediaries offering self-directed solutions, major institutions, Building Societies, other platforms and funds.

Review of business and future developments

The Company is a wholly owned subsidiary of Aegon UK plc. The Company maintained its position as the leading general investment platform by scale measured by Assets under Administration (AUA).

Intermediaries that use the Company have been upgraded to an enhanced version of Aegon UK's platform, with approximately 79,000 customers upgraded in December 2017 and approximately 400,000 customers in May 2018. In addition, the Company has also completed the re-platforming of it's institutional business, through an outsourcing arrangement, as part of the overall strategy to upgrade technology. The final migration of the Nationwide business to the new investment platform technology is expected to take place in the second quarter of 2019.

During the initial period following the migration in May, some customers experienced delays in their trading requests being processed. The impacted customers were identified and the Company commenced a process to ensure none are worse off and that they are compensated for the delays to their trading instructions. The Company directed more than 200 additional people toward improving service levels with a focus on working through complaints and providing quicker responses to email requests for information. The programme of work is concluded.

In the second half of the year, the Company made a number of enhancements to the retail platform (e.g. General Investment Accounts (GIA) and Individual Savings Accounts (ISA) new business and switches are now online). A programme of platform developments and enhancements will continue to be implemented.

Additional expenses of £51.5m (2017: £30.1m) were incurred in the year in relation to the overall integration programme of the Company into the Aegon UK Group, including the costs of technology migration. The Company issued an additional £70.0m (2017: £60.0m) in share capital during the year to Aegon UK plc, with a further £10m issued in March 2019 to support the Company through to the completion of the integration process.

Financial performance indicators

The Board of the Company monitors key performance indicators on a regular basis to track business performance. Return on assets has been included as required by IFPRU 9.1.3.

The table below compares certain major indicators between 2018 and 2017:

	2018	2017
	£'000	£'000
Loss for the year	**(36,995)**	(23,096)
Revenue	**104,243**	108,675
Assets under administration (at end of year)	**85,495,751**	94,557,196
Return on (Net) Assets (RoA)	**(29.0)%**	(13.3)%

The Company's loss for the year increased primarily as a result of higher integration costs £51.5m (2017: £30.1m) and lower revenue set off against the realisation of some cost synergies through integration. Revenue decreased during the year as a result of lower AUA and pricing compression. AUA decreased during the year largely driven by falls in equity and bond markets.

Corporate governance and Risk Management

The Aegon UK plc Group, of which the Company is a part, has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business across the group that includes a clearly stated corporate organisational structure, appropriate delegated authorities and independent internal audit and risk management functions. Risk management for the Company operates within this governance framework.

The Directors consider that the Company is primarily subject to operational risk, business risk, credit risk and liquidity risk. They operate policies which are designed to ensure that after taking account of mitigating actions and probability, the Company maintains a level of finance and resource that is appropriate for the risks it faces.

- Operational risk considers the impact of operational events such as failure to comply fully with regulatory requirements;
- Business risk considers the impact of failure to achieve planned results;
- Credit risk considers the exposure in financial assets, cash and short term deposits and trade and other receivables; and
- Liquidity risk is the risk that the Company may have insufficient liquid assets to meet liabilities or client money funding requirements as they become due.

The Company's main exposure to risks arising from financial instruments is its exposure to credit risk arising on financial assets, cash and short term deposits and trade and other receivables. Credit risk is reduced as assets are primarily cash, which is placed with high credit-rated banks, short term client money funding, accrued income due from clients and intercompany receivables from other Aegon UK plc Group companies.

Revenues are exposed to market risk as they are dependent upon the value of AUA. This risk is inherent in the business of platform asset management. 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. The business plan of the Company already includes pricing compression in the platform industry. The Company's risk appetite for pricing risk, after incorporating the pricing compression in the industry, is low. This risk represents general pricing compression due to competition and client initiated fee renegotiations. The Executive Committee supported by the Digital Solutions Management Committee oversees pricing risk and approves any changes to pricing.

Some of the Company's key functions are outsourced, and the reliance upon outsourcers and critical suppliers to provide an appropriate level of service presents a significant operational, reputational and financial risk to the Company. A framework is in place to ensure appropriate oversight and management of outsourcer and critical supplier relationships.

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union and has formally served notice to the European Council of its desire to withdraw. The implications of such a 'Brexit' remain unclear, with respect to the European integration process, the relationship between the UK and the European Union, and the impact on economies and businesses. Although the Company only writes business in the UK, the Company could be adversely impacted by related market developments such as higher financial market volatility in general due to increased uncertainty, which could reduce the value or results of the Company.

Capital Management

The Company's objective in managing its capital is to ensure that there are adequate resources to meet the Company's liabilities as they fall due, that the Company meets external capital requirements set by the Financial Conduct Authority (FCA), to allocate capital efficiently to support growth, and repatriate excess capital where appropriate. The Company manages its capital by measuring its resources and cash available on a regular basis, and through regular monitoring of regulatory capital. The Company's capital position and its movement from the opening balance are disclosed within the Statement of Changes in Equity. The Company met all externally imposed capital requirements during the year.

The Company is regulated by the FCA and maintains a capital framework in line with the Capital Requirements Directive (CRD). The framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirements that we need to retain to meet our credit, market and operational risk;
- Pillar 2 requires us and our regulator to take a view on whether we need to hold additional capital against firm-specific risks not covered by Pillar 1; and

- Pillar 3 requires us to develop a set of disclosures that will allow market participants to assess key information about our underlying risks, risk management controls and capital position. The Company's Pillar 3 disclosure document is on Aegon UK's website.

As the Company is an Investment Firm Prudential (IFPRU) limited licence firm, the Company is within the scope of CRD IV country by country reporting obligations. The information required by the legislation has been published on Aegon UK's website.

In considering operational risk the firm has specifically taken into account Senior Management Arrangements, Systems and Controls (SYSC 8) outsourcing rules for common platform firms. The Company has established appropriate controls to ensure that operational risk is within risk tolerance, including, in particular, ensuring that contractual arrangements allow appropriate outsourcer management. These controls operate within the wider risk management and governance framework that the Company follows (consistent with that followed by other parts of the Aegon UK plc group). Therefore material risks are expected to be within the Company's risk tolerance or else a plan established to return the position to within tolerance.

By Order of the Board

James K MacKenzie
Company Secretary
Aegon Lochside Crescent
Edinburgh Park, Edinburgh
17 April 2019

COFUNDS LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report and the audited Company financial statements for the year ended 31 December 2018. The Company is a private limited company and is domiciled and incorporated in England and Wales (registration number 03965289).

Structure of these financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101) as they apply to the financial statements of the Company for the year ended 31 December 2018 and applied in accordance with the Companies Act 2006.

Financial results

The results of the Company are set out on page 9. No interim dividend was paid in the year (2017: £nil). The directors do not recommend the payment of a final dividend (2017: £nil).

Directors

The current directors of the Company are shown on page 1. The Directors have declared that they had no interest in the share capital of the Company in the year to 31 December 2018. The following resignations occurred prior to the point of signing the financial statements. All other Directors served throughout the year and up to the point of signing the financial statements.

Name of Director	Date of Resignation
Karen Cockburn	29 June 2018
David Hobbs	18 March 2019

Directors' qualifying third party indemnity provisions

During the year and at the time of signing this report, the Company maintained liability insurance for directors and officers of the Company through arrangements made by Aegon N.V. for the benefit of itself and its subsidiary companies.

Going concern

In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council. The Strategic Report includes a review of the Company's business and future developments and a description of the Company's risk and capital management and exposure to financial instruments.

After making enquiries, which include considering the liquidity of the Company's assets and it's adequacy of capital resources in light of continued losses, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of this report). Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and have been deemed reappointed under section 487(2) of Companies Act 2006.

Disclosure of information to auditors

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and each Director has taken all steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board

James K MacKenzie
Company Secretary
Aegon Lochside Crescent
Edinburgh Park, Edinburgh
17 April 2019

COFUNDS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs), as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report on the audit of the financial statements

Opinion

In our opinion, Cofunds Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Gillian Alexander

Gillian Alexander (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
17 April 2019

COFUNDS LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Revenue	2	**104,243**	108,675
Administrative expenses	3	**(150,993)**	(134,611)
Operating loss before interest and taxation		**(46,750)**	(25,936)
Other income	4	**695**	68
Finance costs	5	**(869)**	(851)
Loss before taxation		**(46,924)**	(26,719)
Tax credit on profit on ordinary activities	7	**9,929**	3,623
Net loss for the financial year		**(36,995)**	(23,096)

The loss for the year relates wholly to continuing activities and is attributable to the equity holders of the Company.

The loss for the year is consistent with Total Comprehensive Income and there were no other items of comprehensive income not already reflected within the loss for the year.

The notes are an integral part of these financial statements.

COFUNDS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018	2017
		£'000	£'000
Non-current assets			
Intangible assets	**8**	**-**	-
Property, plant and equipment	**9**	**7,220**	8,195
Deferred tax asset	**10**	**7,550**	9,047
		14,770	17,242
Current assets			
Trade and other receivables	**11**	**42,481**	45,945
Cash and cash equivalents		**146,737**	113,768
Income tax receivable		**9,045**	-
		198,263	159,713
Total assets		**213,033**	176,955
Current liabilities			
Trade and other payables	**12**	**68,946**	65,873
Total liabilities		**68,946**	65,873
Net assets		**144,087**	111,082
Capital and reserves			
Issued Share capital	**13**	**131,394**	61,394
Share premium account		**9,499**	9,499
Retained earnings		**3,194**	40,189
Total equity		**144,087**	111,082

The notes are an integral part of these financial statements.

The financial statements were approved by the Board on 17 April 2019 and are signed on its behalf by

Stephen McGee
Director

James Ewing
Director

COFUNDS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	**Share premium**	**Retained earnings**	**Total Equity**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2018	**61,394**	**9,499**	**40,189**	**111,082**
Loss for the financial year	-	-	**(36,995)**	**(36,995)**
Additional shares allotted and fully paid	**70,000**	-	-	**70,000**
Balance at 31 December 2018	**131,394**	**9,499**	**3,194**	**144,087**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	*Share* premium	*Retained* earnings	*Total* Equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2017	1,394	9,499	63,285	74,178
Loss for the *financial year*	-	-	(23,096)	(23,096)
Additional shares allotted and fully paid	60,000	-	-	60,000
Balance at 31 December 2017	61,394	9,499	40,189	111,082

The notes are an integral part of these financial statements.

1. Summary of significant accounting policies

1.1 Basis of preparation

The financial statements have been prepared on a going concern basis (see Directors report for further details) and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006. The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Company has made use of the CA 2006 S400 exemption from preparing consolidated financial statements.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements.

The financial statements of Cofunds Limited for the year ended 31 December 2018 were authorised for issue, in accordance with a resolution of the directors, on 17 April 2019.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- Paragraph 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair values of goods or services received was determined).
- IFRS 7, 'Financial Statements: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
    - paragraph 79(a)(iv) of IAS 1;
    - paragraph 73(e) of IAS 16 Property, plant and equipment
    - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
    - 10(d) (statement of cash flows)
    - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
    - 16 (a statement of compliance with all IFRS),
    - 38A (requirement for minimum of two primary statements, including cash flow statements),
    - 38B-D (additional comparative information),
    - 40A-D (requirements for a third statement of financial position)
    - 111 (cash flow statement information), and
    - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

1.1.1 Adoption of new IFRS accounting standards

IFRS 15 *Revenue from Contracts with Customers* issued in May 2014 and the amendments to IFRS 15 issued in April 2016 are effective for the Company from January 1, 2018. The standard outlines the principles an entity shall apply to measure and recognise revenue and the related cash flows. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard has no impact on the Company's financial statements because the accounting treatment of the Company's revenue is already compliant with the requirements of this standard. The Company chose to apply the modified retrospective approach as its transition method.

IFRS 9 *Financial Instruments* is also effective for the Company from 1 January 2018. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. Under IFRS 9, financial assets are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For the impairment component, the IASB included requirements for a credit loss allowance or provision which should be based on expected losses rather than incurred losses. The adoption of IFRS 9 did not result in any impact on the classification or measurement of financial assets. There is limited impact of adoption on the Company of the IFRS 9 expect credit loss requirements due to the nature of the Company's financial assets, that is, short term debtors.

1.2 Revenue Recognition

Revenue is recognised when services are transferred to customers and the Company has satisfied its performance obligations under the contract, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Revenue represents charges from the provision of consolidated platform services.

1.3 Administrative Expenses

Aegon UK Corporate Services UK Limited (AUKCS), which is a fellow subsidiary of Aegon UK plc, provides services to the Aegon UK plc Group and in particular employs those personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service.

Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term.

1.4 Interest income

Interest relates to interest on cash and short term deposit balances and is recognised on an accruals basis as it is earned.

1.5 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis.

Useful economic lives are estimated to be:

Furniture and fittings	5-15 years
Computer equipment	3 years

Depreciation and impairment losses are recognised in the income statement within administrative expenses. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

1.6 Intangible assets

Software and other intangible assets are recognised to the extent that the assets can be identified, are controlled by the Company, are expected to provide future economic benefits and can be measured reliably. The Company does not recognise internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognised in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognised in the income statement.

An intangible asset is derecognised when it is disposed of or when no future economic benefits are expected from its use or disposal.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed five years.

1.7 Investment in subsidiaries

Subsidiaries are entities over which the Company has direct or indirect power to govern the financial and operating policies so as to obtain benefits from its activities ('control'). The assessment of control is based on the substance of the relationship between the Company and the entity and, among other things, considers existing and potential voting rights that are currently exercisable and convertible.

Subsidiaries are accounted for at cost. Any impairment on individual investments in subsidiaries held at cost is determined at each reporting date. Dividends from subsidiaries are included in investment income when paid (or in respect of final dividends when approved).

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within Current liabilities: Trade and other payables.

1.9 Current and deferred income tax

Current income tax

Income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in other comprehensive income is recognised directly in other comprehensive income and not in the income statement. Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority.

1.10 Interest bearing loans

Obligations for loans are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method.

The liability is derecognised when the Company's obligation under the contract expires, is discharged or is cancelled.

1.11 Critical accounting estimates and judgements

Application of the accounting policies in the preparation of the financial statements requires management to apply judgement involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Judgements and sources of estimation uncertainty are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgement are as follows:

Deferred tax assets

As stated in accounting policy note 1.9 a deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the timing differences can be utilised.

2. Revenue

	2018	2017
	£'000	£'000
Charges and fee income received	**104,243**	108,675
	104,243	108,675

3. Administrative expenses

Administrative expenses includes the following:

	2018	2017 *
	£'000	£'000
Depreciation and amortisation	975	6,878
Loss on disposal of property plant and equipment	-	2,020
Operating lease rentals	2,244	700
Audit fees *	239	361
Audit related fees	1,128	845

*The 2017 audit fee comparative has been adjusted to include non-recoverable VAT.

4. Other income

	2018	2017
	£'000	£'000
Other interest	695	68

Other interest in 2018 is entirely comprised of bank interest.

5. Finance costs

	2018	2017
	£'000	£'000
Bank interest	192	147
Interest payable to group undertakings	677	704
	869	851

6. Directors' emoluments

The Executive Directors who served during 2018 are employees of AUKCS. The total remuneration of the Executive Directors is disclosed below, all of which was paid by the Aegon UK plc Group. The Directors do not believe that it is practicable to apportion this amount between their services as Executive Directors of Cofunds Ltd and their services to other Aegon UK plc Group companies.

Fees relate to payments to Non-Executive Directors. Non-Executive Directors do not participate in any incentive or bonus plans or pension arrangements.

	2018	2017
	£'000	£'000
Remuneration including bonuses	3,298	3,015
Fees	392	381
Compensation for loss of office	122	-
Aggregate amounts receivable by Directors in respect of long-term incentive schemes (other than shares and share options)	-	-
	3,812	3,396

Contributions were made for two directors (2017: two) to defined contribution schemes of £15,000 (2017: £20,000)

Three directors received Aegon N.V. shares in relation to long term incentive schemes in 2018 (2017: Three). Compensation in respect of loss of office to directors is £121,977 in 2018 (2017: £nil).

The above includes the following amounts in respect of the highest paid Director for his services to the Company and other Aegon UK plc Group companies.

	2018 **£'000**	2017 £'000
Remuneration including bonuses	**1,635**	1,279
Aggregate amounts receivable by Directors in respect of long-term incentive schemes (other than shares and share options)	**-**	-
	1,635	1,279

The remuneration for the highest paid Director included above is also disclosed in the Aegon UK plc financial statements where they are also a Director.

The highest paid Director at 31 December 2018 and 31 December 2017 was not a member of the defined benefit pension scheme. No Contributions (2017: £nil) were made to a defined contribution scheme in respect of the highest paid Director at 31 December 2018.

The highest paid Director received Aegon N.V. shares in relation to long-term incentive schemes in 2018 and 2017.

7. Taxation on loss on ordinary activities

(a) Taxation on loss

	2018 **£'000**	2017 £'000
Current tax		
UK corporation tax	**(8,704)**	-
Prior year adjustment[1]	**(2,722)**	-
	(11,426)	-
Deferred tax		
Origination of timing difference	**(541)**	(4,094)
Change in tax rate	**19**	479
Prior year adjustment[1]	**2,019**	(8)
	1,497	(3,623)
Total tax credit reported in the income statement	**(9,929)**	(3,623)

[1] The £2.7m current tax prior year adjustment arose as a result of tax losses being surrendered as group relief instead of being carried forward. There was a corresponding reduction in the deferred tax asset held relating to losses carried forward.

The Finance (No.2) Act 2015, substantively enacted on the 26 October 2015, included future reductions to the corporation tax rate; from 20% to 19% with effect from 1 April 2017, and then to 18% from 1 April 2020. This was subsequently amended by the Finance Act 2016, substantively enacted on 6 September 2016. The corporation tax rate will now reduce from 19% to 17% with effect from 1 April 2020.

The impact of these reductions in tax rates on the deferred tax balances have been included in the above figures and the deferred tax tables.

(b) Tax reconciliation

	2018	2017
	£'000	£'000
Loss before tax	**(46,924)**	(26,719)
Tax credit		
Expected tax credit at 19.00% (2017: 19.25%)	**(8,916)**	(5,143)
Non-deductible expenditure	**36**	1,050
Change of tax rate	**19**	479
Other	**(365)**	(1)
Prior year adjustment[1]	**(703)**	(8)
Total tax credit	**(9,929)**	(3,623)

[1] The 2018 prior year adjustment reconciling item relates to a reduction in the non-deductible expenses recognised in 2017.

8. Intangible assets

	2018	2017
	£'000	£'000
Cost		
At 1 January	-	17,836
Disposals	-	(17,836)
At 31 December	-	-
Accumulated amortisation and impairment		
At 1 January	-	9,979
Charge for year	-	5,837
Disposals	-	(15,816)
At 31 December	-	-
Net book value at 31 December	-	-

All intangible assets were written off in 2017.

9. Property, plant and equipment

	Fixtures and fittings	Computer hardware	Totals
	£'000	£'000	£'000
Cost			
At 1 January 2018	12,217	3,010	15,227
Disposals	-	(3,010)	(3,010)
At 31 December 2018	**12,217**	**-**	**12,217**
Accumulated depreciation			
At 1 January	4,050	2,982	7,032
Charge for year	947	28	975
Disposals	-	(3,010)	(3,010)
At 31 December 2018	**4,997**	-	**4,997**
Net book value			
At 31 December 2017	8,167	28	8,195
At 31 December 2018	**7,220**	-	**7,220**

10. Deferred tax asset

	2018	2017
	£'000	£'000
Decelerated capital allowances	**6,650**	6,484
Deferred revenue	**74**	-
Tax losses	**826**	2,563
	7,550	9,047
At 1 January	**9,047**	5,424
(Charge)/Credit to income statement	**(1,497)**	3,623
At 31 December	**7,550**	9,047

As in 2017, all assets have been recognised in full in the financial statements as it is probable that future taxable profits will allow the deferred tax asset to be recovered.

11. Trade and other receivables

	2018	2017
	£'000	£'000
Trade receivables	**5,770**	1,372
Settlement debtors	**25,267**	31,245
Amounts owed by group undertakings	**5**	7
Other receivables	**177**	682
Prepayments and accrued income	**11,262**	12,639
	42,481	45,945

12. Trade and other payables

	2018	2017
	£'000	£'000
Trade creditors	3,552	2,655
Amounts owed to group undertakings	35,327	32,196
Loan from related party	25,000	25,000
Other payables	919	1,352
Accruals	1,748	2,003
Deferred income	2,400	2,667
	68,946	65,873

The loan from related party relates to an unsecured loan of £25m (2017: £25m) from Scottish Equitable plc, with annual interest charged at three-month LIBOR + 2%,which is repayable in 2021. Scottish Equitable plc have the right to recall with 9 months' notice. This loan was novated from Aegon UK plc to Cofunds Ltd on 1 January 2017.

13. Issued Share capital

	2018	2017
Allotted, Issued, called up and fully paid	£'000	£'000
131,394,950 ordinary shares (2017: 61,393,950) of £1 each	131,394	61,394

	Share capital	
	Number of shares	£'000
As at 1 January 2018	61,393,950	61,394
Shares issued during the year	70,000,000	70,000
As at 31 December 2018	**131,393,950**	**131,394**
As at 1 January 2017	1,393,950	1,394
Shares issued during the year	60,000,000	60,000
As at 31 December 2017	61,393,950	61,394

The Company issued new share capital to its parent Aegon UK plc of £45m on 24 September 2018 and £25m on 3 December 2018.

14. Subsidiary undertakings

The subsidiary undertakings of Cofunds Limited are listed below. Each undertaking operates mainly in its country of incorporation and has only one class of issued ordinary shares, all of which are held by Cofunds Limited.

	Nature of business	Incorporated in
Held directly by the Company		
Cofunds Nominees Limited	Dormant	England & Wales
Dorset Nominees Limited	Dormant	England & Wales
Minster Nominees Limited	Dormant	England & Wales
Cofunds Leasing Limited	Dormant	England & Wales
Witham Institutional Nominees Limited	Dormant	England & Wales
Andrews Nominees Limited	Dormant	England & Wales
Victoria Nominees Limited	Dormant	England & Wales
Lochside Nominees Limited	Dormant	England & Wales

All subsidiaries are 100% owned, have a 31 December financial year end and are held at £nil (2017: £nil) carrying value. The registered address of all of the above Companies is Level 43, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

15. Contingent Liabilities

In the ordinary course of business with institutional clients, the Company acts as an agent to arrange trades between the institutional client and fund managers. For its institutional clients, the Company pays outstanding amounts on trades on contractual rather than actual settlement dates seeking reimbursement from the institutional client and pays outstanding amounts on redemptions on contractual rather than settlement date, seeking reimbursement from the fund.

If the institutional client does not pay the monies due on purchase settlement date, the Company is exposed to short term liquidity risk. Should the institutional client ultimately default, the Company is also exposed to market risk as the Company is entitled to sell the shares/units and use the proceeds to recover the amount it has paid. In 2018, there were no instances of institutional client default.

In respect of redemptions, if the fund does not pay the monies due on settlement date, and Cofunds has not agreed otherwise with the institutional client, the Company is exposed to short term liquidity risk. In the event of fund default, the Company continues to be exposed to liquidity risk, until such a time that it recovers the proceeds from the fund, and also to credit risk. In 2018, there were no instances of fund default.

At 31 December 2018 the outstanding amount purchase position was £169m, and the outstanding amount of redemptions was £101m. Post year end all outstanding transactions at 31 December 2018 were settled as expected without institutional client or fund default.

16. Operating lease commitments

At 31 December 2018, the company had lease agreements in respect of land and buildings for which the payments extend over a number of years.

The future minimum lease payments under non – cancellable operating leases are as follows:

	2018	2017
	£'000	£'000
Not later than one year	1,940	2,418
Later than one year and not later than five years	3,321	3,220
Later than five years	3,678	4,583
	8,939	10,221

17. Related Party transactions

(a) Immediate parent undertaking

The immediate parent company is Aegon UK plc which is registered in England and Wales. Copies of Aegon UK plc financial statements are available from the Company Secretary, Aegon UK plc, Edinburgh Park, Edinburgh, EH12 9SE

(b) Ultimate parent undertaking

The ultimate parent company is Aegon N.V., which is incorporated in the Netherlands. The Group financial statements of Aegon N.V. are available from the Company Secretary, Aegon UK plc, Edinburgh Park, Edinburgh, EH12 9SE.

(c) Related party disclosures

The Company has taken advantage of the exemption under paragraph 8(j) and (k) of FRS 101 from certain requirements under IAS 24 Related Party Disclosures. These include the requirement to disclose transactions entered into by the Company with other wholly owned members of Aegon N.V. and the requirement to present disclosures on compensation arrangements for key management personnel.