



# Esprit Insurance DAC

Solvency and Financial Condition Report

For the Financial Year Ending 31<sup>st</sup> December 2020

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## Scope of the report

This report is Esprit Insurance DAC's Solvency and Financial Condition Report (SFCR) for the year ending December 31, 2020. This report informs the Company's stakeholders about the Company's:

- A. Business and Performance,
- B. System of Governance,
- C. Risk Profile,
- D. Valuation for Solvency Purposes and
- E. Capital Management.

This report is prepared in accordance with the requirements of Solvency II Directive and Delegated Regulation (in particular article 51 of the Solvency II Directive and articles 290-298 of the Delegated Regulation) and relevant EIOPA Guidelines, in particular 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) as issued by the European Insurance and Occupational Pensions Authority (EIOPA). This is Esprit's fifth SFCR report since the implementation of the Solvency II Directive.

Esprit Insurance DAC is referred to in this document as 'Esprit', or 'the Company'.

## Summary – review of 2020

This Solvency and Financial Condition Report (“SFCR”) is prepared for Esprit Insurance DAC (“Esprit” or the “Company”), the non-life captive insurer in the Aegon Group. Esprit is a private company limited by shares with its statutory seat in Dublin, Ireland. The Company’s parent company is Aegon N.V., a public limited liability company with its statutory seat and head office in The Hague, the Netherlands. This report is based on the financial position of the Company as of 31 December 2020. Esprit’s reporting currency is US Dollar and all amounts in this report are therefore expressed in US Dollar, unless stated otherwise.

In September 2020 the parent company advised the Board of Directors that following a strategic review the Aegon Group was taking a different direction on how it would structure its corporate insurance programs for management liability risks going forward. The Board of Directors have reviewed various options open to the Company but as a captive this announcement essentially closes the Company to renewal and new business opportunities. The Board of Directors have concluded that the best course of action considering all respective stakeholder positions is an orderly wind-down of operations. In 2021 the Company will focus its efforts on de-risking the Company’s Balance Sheet through a number of different strategies including but not limited to claims settlement and commutations.

### *Business and Performance*

Esprit previously participated in the non-life insurance purchases of the Aegon Group and as at 31 December 2020 had 1 remaining active insurance policy in the general liability class of business. The policy had reported premium of USD \$36,000 in the period and has a policy period of 1 April 2020 to 1 April 2021.

No significant changes occurred in 2020 compared to 2019 in terms of the business acceptance and underwriting policies which were both reviewed during the reporting period. Although these policies will be less relevant going forward, they will continue to be reviewed and updated as part of the corporate governance activities of the Company. The Company also reviews the reserving policy to ensure it remains appropriate for Esprit.

The investment performance disimproved during the year, reflecting the macro interest rate environment. The total investment income for 2020 was US\$ 454,818 (2019: US\$ 1,232,065).

Total net income (before dividends) for the period under IFRS was US\$ 2,096,488 (2019: US\$ 4,940,928) which is a decrease of 58% year on year. This decrease reflects the decision to cease writing business and an increase in net claims incurred.

Net claims incurred for 2020 was an expense of US\$ 1,232,124, an increase in expense of US\$ 1,938,145 in comparison to the prior year when claims incurred amounted to an income of US\$ 706,021. OSLR held on the balance sheet remains unchanged in the period at US\$ 3,910,000 (2019: US\$ 3,910,000) resulting in no charge being incurred in the period. IBNR increased in the period to US\$ 10,049,544 (2019: US\$ 8,817,420) resulting in the charge of US\$ 1,232,124. This was predominately due to the inclusion of IBNR for the policy period ending November 2020 which is in line with the Company’s reserving policy.

### *System of Governance*

Esprit’s Board of Directors (also referred to as the “Board”) consisted of 4 group directors at 31 December 2020 and there were no changes during the year. Esprit has implemented the Key Functions as required under

Solvency II and makes use of outsourcing, both internally and externally to fulfil the requirements for these Key Functions. The Head of Actuarial Function, the Head of Risk and the Head of Compliance are outsourced externally, while the Head of Internal Audit is performed by Aegon N.V.

#### *Risk Profile*

The key risks for Esprit are non-life underwriting premium and reserving risk and market risk. Under the Solvency II framework non-life catastrophe risk materially reduced in the period, now accounting for less than 1% (2019: 34%) at US \$6,984 (2019: US \$2,745,852) of the Company's Basic Solvency Capital Requirement (BSCR) which totalled US \$5,556,094 (2019: US \$7,993,844). The reduction in the non-life catastrophe risk is a direct result of the company no longer underwriting future premiums. The premium and reserving risk accounted for 47% (2019: 29%) at US \$2,583,899 (2019 US \$2,294,852) of the BSCR. This percentage increase reflects the reduction in the BSCR in the period which in turn reflects Company no longer underwriting future premiums.

Other material risks faced by the Company are market risk which in absolute terms is comparable to that of the prior period at US \$2,913,418 (2019: US \$2,907,595) however in percentage terms (of the BSCR) this has increased in the period from 36% to 52%. The increase in percentage terms is a result of the overall BSCR reducing.

The Company has in place a system of risk management, which consist of various risk policies. These policies are regularly reviewed and approved by the Board. In managing the Company, the Board is assisted by an appointed Captive Manager, an Investment Committee and an Underwriting Committee. The Investment Committee's mandate is to govern the investment portfolio and Investment Policy. The Underwriting Committee is responsible for business acceptance within mandated limits and for claims management and reserving. The Board has set a Risk Appetite statement that outlines how much risk the Company is willing to take and specifies the Risk Tolerance. There were no material changes in Risk Appetite or Risk Tolerance in 2020.

#### *Valuation for Solvency purposes*

Esprit's balance sheet consists of highly liquid assets in the form of cash and cash equivalents like commercial paper. The majority of liabilities consist of technical provisions held against accepted underwriting risks. For Solvency II purposes, the value of the technical provisions is US \$10,923,656 (2019: US\$ 15,267,006), which is US\$ 3,056,230 lower than the IFRS value of US \$13,979,886 (2019: US\$ 16,407,666), please see Section D.2.1 for detailed analysis. Solvency II specifies the removal of margins, future profit and corrects for an allowance for discounting and claims handling expenses which creates a Best Estimate of USD\$ 9,617,437 (2019: US\$ 13,230,065). A Risk Margin of US\$ 1,306,219 (2019: US\$ 2,036,941) is finally added to result in the total of US\$ 10,923,656 (2019: US\$ 15,267,006).

#### *Capital Management*

Esprit's SCR at the end of 2020 amounted to US\$ 5,844,617 compared to a SCR of US\$ 7,381,517 as at the end of 2019, the movements in the material components of which are detailed above.

The MCR stayed unchanged at the US Dollar equivalent of the applicable absolute floor of EUR€ 3,700,000. With US\$ 39,749,441 (2019: US\$ 35,976,829) of assets available to cover the SCR and MCR. Assets available to cover the SCR increased in the period due to there being no dividend declared or paid to the parent company Aegon N.V. (2019: US\$ 2,925,000), this being in line with guidance issued by both the Central Bank of Ireland (CBI) and the European Insurance and Occupational Pensions Authority (EIOPA). The Company's solvency ratio was 680%,



up from 487% in the prior year which is a result of both a reduction in the SCR requirement and an increase in assets available to cover the SCR. In the prior period, the Esprit Board reviewed the Company's capital management policy and uplifted its capital bands to include a target coverage ratio, based on SCR, of between 300-500%. This target coverage ratio reflects the low frequency, high severity nature of the business and the need to hold a buffer considering the limits that the Company wrote.

## **A. Business and Performance**

### **A.1 Business**

#### **A.1.1 Overview**

Esprit Insurance Designated Activity Company, established in 2006, is a private company limited by shares with its statutory seat in Dublin, Ireland. Esprit is a 100% subsidiary of Aegon N.V., a public limited liability company with its statutory seat and head office in The Hague, the Netherlands. Esprit's statutory currency is US Dollar and its registered address is 13 Fitzwilliam Street Upper, Dublin 2, Ireland.

In September 2020 the parent company advised the Board of Directors that after a strategic review the Aegon Group was taking a different direction on how it would structure its corporate insurance programs for management liability risks going forward. As a result of this decision by Aegon the Board of Directors took time in November and December to assess its options which included the run off of the block of business, attempting to sell the Company, novation of the business or de-risk the Company followed by liquidation.

Each option was reviewed by the Board including qualitative and quantitative factors to ensure a strategy was decided upon taking into account the interests of all stakeholders. The Board of Directors have concluded that the best course of action considering all respective stakeholder positions is an orderly wind-down of operations which will involve a de-risking process. In 2021 the Company will focus its efforts on de-risking the Company's Balance Sheet through a number of different strategies including but not limited to claims settlement and commutations.

#### **A.1.2 Regulators and auditor**

The Central Bank of Ireland ("CBI") is responsible for Esprit's financial supervision. Its address is Central Bank of Ireland, North Wall Quay, Spencer Dock, Dublin 1, D01 F7X3, Ireland.

PricewaterhouseCoopers, Chartered Accountants is responsible for Esprit's Independent auditor's report who are registered at One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

#### **A.1.3 Major shareholders and group structure**

Esprit's largest and only shareholder is Aegon N.V., a Dutch life insurance and pension company domiciled in The Hague, the Netherlands. Aegon N.V. holds 100% of Esprit's shares. Aegon is an integrated, diversified financial services group that offers innovative and effective investment, protection, and retirement solutions to customers. Our purpose is to help people achieve a lifetime of financial security. From our roots in the 19th century, we have grown to serve 30.4 million customers globally with EUR 921 billion of revenue-generating investments. Our holding company, Aegon N.V., is headquartered in The Hague, the Netherlands

Esprit has been part of the Aegon group since its establishment in 2006 and has no subsidiaries or branches. Since 2012, Esprit is directly owned by Aegon N.V. More details on Aegon N.V.'s group structure is outlined below and is also available in the Aegon N.V. Solvency and Financial Condition Report on [www.aegon.com](http://www.aegon.com).

The following paragraphs outline some generic information about Esprit's ultimate shareholder Aegon N.V. that are more specific for the Group SFCR but included here for completeness. Under Dutch law a qualifying holding means a direct or indirect holding in Aegon N.V., which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of Aegon N.V.. Only Vereniging Aegon qualifies based on this definition.

Vereniging Aegon, is a Dutch association located in The Hague, the Netherlands, with a special purpose to protect the broader interests of Aegon N.V. and its stakeholders. On December 31, 2020 Vereniging Aegon, Aegon's largest shareholder, held a total of 291,145,638 common shares and 558,910,640 common shares B.

Under the terms of the 1983 Merger Agreement as amended in May 2013, Vereniging Aegon has the option to acquire additional common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake to 32.6% of the voting rights, irrespective of the circumstances that caused the total shareholding to be or become lower than 32.6%. In the absence of a 'Special Cause' Vereniging Aegon may cast one vote for every common share it holds and one vote only for every 40 common shares B it holds. As 'Special Cause' qualifies the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a Special Cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of one vote per common share B for a limited period of six months. Accordingly, at December 31, 2020, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.82%, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.). In the event of a Special Cause, Vereniging Aegon's voting rights will increase, currently to 32.6%, for up to six months.

On November 3, 2015, Aegon was designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). Up until 2019, the FSB reviewed the G-SII designation annually. However, the FSB, in consultation with the IAIS and national authorities, decided not to publish a new list of G-SIIs for 2017 or 2018. In November 2019, in recognition of the fact that the Holistic Framework (see below) provides an enhanced approach to assessing and mitigating systemic risk in the global insurance sector, the FSB decided to suspend the identification of global systemically important insurers (G-SIIs). In November 2022, the FSB will, based on the initial years of experience with the application of the Holistic Framework, review the need to either discontinue or re-establish an annual identification of G-SIIs.

Due to its G-SII status, Aegon has been subject to an additional layer of direct supervision at group level. In accordance with these requirements, Aegon submitted a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan to DNB and to the G-SII crisis management group (CMG) that was established. Aegon has updated these plans on an annual basis. In addition, the Aegon Group's Resolution Authority (the Dutch Central Bank) was made responsible for the development of Aegon's resolution plan. In November 2019, the IAIS adopted the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector. Some of the provisions of the Holistic Framework are included in the IAIS Insurance Core Principles (that apply to all insurers), while others are included in ComFrame (the Common Framework for the Supervision of Internationally Active Insurance Groups, or IAIGs).

The Holistic Framework consists of an enhanced set of supervisory policy measures and powers of intervention, an annual IAIS global monitoring exercise which includes a collective discussion of the outcomes and associated supervisory responses, and an assessment of consistent implementation of supervisory measures. ComFrame establishes supervisory standards and guidance focusing on the effective group-wide supervision of IAIGs. ComFrame is a comprehensive and outcome-focused framework that provides

supervisory minimum requirements tailored to the international activities and sizes of IAIGs. ComFrame builds on the Insurance Core Principles that are applicable to the supervision of all insurers.

If the FSB were to discontinue the annual identification of G-SIIs after the review of the Holistic Framework in November 2022 or, alternatively, Aegon would not be identified as a G-SII, Aegon would still be subject to ComFrame and ICS, to the extent these would be implemented in local legislation.

#### **A.1.4 Material lines of business and geographical areas**

Esprit's captive nature entails that previously it offered non-life insurance contracts to other entities in the Aegon group. The policies that were in force during 2020 covered a range of risk including management liability, general liability and fidelity covers. At the end of 2020, Esprit had one remaining active insurance policy which fell into the general liability class of business and has a policy period ending the 1 April 2021. No further group risks will be underwritten by Esprit.

#### **A.1.5 Significant business or other events over the reporting period**

As noted above in September 2020 the parent company advised the Board of Directors that after a strategic review the Aegon Group was taking a different direction on how it would structure its corporate insurance programs for management liability risks going forward. The Board of Directors have reviewed various options open to the Company but as a captive this announcement essentially closes the Company to renewal and new business opportunities. The Board of Directors have concluded that the best course of action considering all respective stakeholder positions is an orderly wind-down of operations. In 2021 the Company will focus its efforts on de-risking the Company's Balance Sheet through a number of different strategies including but not limited to claims settlement and commutations.

The Company continues monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its potential impact on Esprit. The impact of the pandemic on individuals, businesses and global markets had potential to lead to an increase in claims frequency and notifications across a number of classes of business and negatively impact the value of investments however to date the Company has not observed any material impact resulting from the pandemic.

There has been no other significant business or other events over the reporting period.

## **A.2 Underwriting performance**

This section provides insight into the underwriting performance of the Company. Esprit's underwriting surplus at 31 December 2020 was US\$ 2,323,790 (2019: US\$ 5,641,764). The table below shows a summary of the underwriting account on an IFRS basis and each category is discussed individually. The reduction in written premium is, as noted above, a result of the decision to cease writing business.

| <b>Underwriting performance - US Dollar</b> | <b>2020</b>       | <b>2019</b>      |
|---|-------------------|------------------|
| Written Premium                             | 36,000            | 4,400,000        |
| Change in Unearned premium                  | 3,659,904         | -3,638           |
| <b>Earned Premium</b>                       | <b>3,695,904</b>  | <b>4,396,362</b> |
| Claims Paid                                 | -                 | -10,906          |
| Change in OSLR                              | -                 | -1,233,641       |
| Change in IBNR                              | -1,232,124        | 1,950,568        |
| <b>Net Claims Incurred</b>                  | <b>-1,232,124</b> | <b>706,021</b>   |
| Investment income                           | 454,818           | 1,232,065        |
| Operating expenses                          | -594,808          | -692,684         |
| <b>Underwriting performance</b>             | <b>2,323,790</b>  | <b>5,641,764</b> |

#### Underwriting performance in 2019 and 2020

##### A.2.1 Earned Premium

Esprit's largest insurance covers were Directors and Officers, Errors and Omissions and Crime/Fidelity. Premium income was therefore predominantly attributed to the General Liability line of business. Earned premium is calculated based on number of days earned. Although there was limited gross premium written in the financial year the Company continued to earn premium for policies that had incepted in November 2019.

##### A.2.2 Claims

Esprit participated in low frequency, high severity insurance programs and therefore only shows a limited amount of claim notifications. Esprit's reserving policy incorporates the nature of the insurance covers and as such Esprit holds Incurred But Not Reported ("IBNR") reserves in addition to Outstanding Loss Reserves ("OSLR") the Company may hold for a notification. 2020 proved to be a relatively light year in terms of new claim notifications which resulted in no movement in the OSLR reserves, claims incurred consists primarily of the inclusion of IBNR reserves for the recent policy period ending the 1<sup>st</sup> November 2020.

##### A.2.3 Investment income related to the Underwriting Account

Investment income reduced year on year predominately due to macro-economic factors driven by the global pandemic which resulted in a reduction in interest rates and yields achieved. The total investment income over 2020 was US\$ 454,818 (2019: US\$ 1,232,065) which is a 63% decrease year on year. More details on overall investment performance can be found in the next section.

##### A.2.4 Expenses related to the Underwriting Account

Esprit's expenses reduced year on year to USD\$ 594,808 (2019: US\$ 692,684), a decrease during the period of US\$ 97,876 which equated to a decrease of 14%. This reduction was predominantly due to the Company no longer utilizing the services of its sister company Blue Square Re N.V. to provide finance and pricing support, this cost saving being somewhat offset by additional finance and accounting services rendered by Allied Risk Management and by legal expenses incurred in connection to the de-risking of the company.

### A.3 Investment performance

Esprit's documented Investment Policy describes the restrictions in terms of investment products the Company may incorporate in its investment portfolio. The application of the Prudent Person Principle is discussed in more detail in section C2 and the existing governance around Investments can be found in section B.

In 2020, Esprit's investment portfolio consisted of highly liquid deposits with financial institutions and commercial paper. No investments in equity or securitizations were made. All investments were in line with the documented Investment policy.

At 31 December 2020, the following amounts were invested in the following asset classes:

| <b>Investment portfolio – USD</b> | <b>2020</b>       | <b>2019</b>       |
|-----------------------------------|-------------------|-------------------|
| Bank deposits                     | 12,000,155        | 10,300,608        |
| Commercial paper                  | 38,500,000        | 41,100,000        |
| Cash                              | 590,275           | 557,490           |
| <b>Total investments</b>          | <b>51,090,430</b> | <b>51,958,098</b> |

Investment portfolio in 2019 and 2020

Total investment income to the Company was US\$ 454,818 (2019: US\$1,232,065). The next table splits the investment performance by investment type.

| <b>Investment income – USD</b>       | <b>2020</b>    | <b>2019</b>      |
|--------------------------------------|----------------|------------------|
| <b>Income from bank deposit</b>      | <b>95,763</b>  | <b>312,985</b>   |
| <b>Income from commercial papers</b> | <b>359,055</b> | <b>919,080</b>   |
| <b>Total investment income</b>       | <b>454,818</b> | <b>1,232,065</b> |

Investment income in 2019 and 2020

The decrease in investment income in 2020 compared to 2019 is mainly the result of the macro economic environment where rates of return for term deposits and commercial paper have declined during the financial year. The Company continues to maintain a balanced portfolio between Commercial Paper and Term Deposits with 1, 3 or 6 month durations utilized during the year.

Investments are managed by Aegon N.V's Corporate Treasury in The Hague at the direction of the Esprit's Investment Committee. An Investment Management Agreement is in place setting out the service levels and incorporates Esprit's Investment policy. Esprit's investments are further governed by the Aegon group's Credit Name Limit policy

## **A.4 Performance of other activities**

The Company did not engage in any other activities during the reporting year.

## **A.5 Overall business performance**

At 31 December 2020, Esprit generated a technical underwriting result of US\$ 2,463,780 (2019: US\$ 5,102,383) on an IFRS basis. Together with overall investment income and expenses the total profit before tax was US\$ 2,394,123 (2019: US\$ 5,647,101). The reduction in profit before tax in the period reflects the decision to cease underwriting and an increase in the level of claims incurred.

The overall solvency position, including the Company's Own Funds is explained in more detail in section E of this report.

Looking forward, Esprit will continue to utilize an investment mix of Commercial Paper and Term Deposits as, considering the nature of the Company's risk profile and available investment portfolio, the rates of return, risk factors and duration are an appropriate platform through which to manage investments. The investment portfolio result has been challenged during 2020 given the external macro environment and the Company will continue to monitor external markets for opportunities in line with the Company's Investment policy and strategy. Assumptions for the upcoming year remain conservative, with overall portfolio yields expected to be approximately 35 basis points.

Underwriting performance is as expected given the decision to cease underwriting and given claims experience has been benign in the period. The Company will, in the coming months, engage with all stakeholders and begin the process of de-risking the balance sheet, extinguishing underwriting liabilities with the ultimate goal of putting the Company into voluntary liquidation.

## **B. System of Governance**

### **B.1 General Information on the System of Governance**

#### **B.1.1 Corporate governance**

Esprit is incorporated and based in Ireland. As a company established in Ireland, Esprit must comply with Irish company law and is subject to the Corporate Governance Requirements for Captive Insurance and Captive Reinsurance Undertakings 2015 as published by the Central Bank of Ireland.

As a captive insurance entity, the Company has outsourced several key functions but these functions remain the responsibility of the Board – please see further paragraphs within this section for additional information on outsourcing. The Board consists of experienced executives within the Aegon Group with backgrounds in finance, risk and actuarial functions. Given the size, nature and complexity of the Company, the establishment of Audit and Risk Board Sub-committees has not been necessary. The Company does have an Underwriting Committee and an Investment Committee.

The Company is classified as a Low Impact firm under the Central Bank of Ireland's risk-based framework for the supervision of regulated firms, known as PRISM (Probability Risk and Impact System). The Company is subject

to the Central Bank of Ireland's Corporate Governance Requirements for Captive Insurance and Captive Reinsurance Undertakings 2015.

The Company's Board has ultimate responsibility for the oversight of the business and sets its strategy and risk appetite. The Board also has responsibility for ensuring that an adequate and effective system of internal controls is maintained in the Company. The Company is committed to high standards of Corporate Governance. The Company takes a risk-based approach to the system of governance taking into consideration the nature, scale and complexity of its business.

Esprit's Board of Directors is as follows;

- Mr. Barry White, Non-Executive Director and Chairman
- Mr. Brian O'Malley, Non-Executive Director
- Mr. John McCrossan, Non-Executive Director
- Ms. Martine Ammerlaan, Non-Executive Director

A suite of policy documentation and checklists supports the corporate governance regime of the business ensuring robust procedures and a strong internal control environment at all times. Oversight controls around key business processes and outsourced activities are a focus of the work undertaken by the Internal Audit function.

The Board of Directors also undertakes completion of an annual Board performance questionnaire. The results of the questionnaire are tabled at the subsequent Board meeting for discussion and consideration.

#### **B.1.1.1 General Meeting of Shareholders**

A General Meeting of Shareholders is held annually and, if deemed necessary, an Extraordinary General Meeting of Shareholders may be convened. The main function of the General Meeting of Shareholders is to decide on matters such as the adoption of annual accounts, the approval of dividend payments and auditor remuneration. In 2020, the requirement to hold an Annual General Meeting was waived by the sole shareholder.

#### **B.1.1.2 The Board of Directors and its sub-committees**

Esprit's Board is charged with overseeing the management of the Company. The Board convenes at least 3 times a year in Dublin and has the potential to hold additional meetings outside of these Board meetings depending on critical business operations. The Board is comprised of 4 non-executive directors who are existing Aegon employees and they also serve as members of the Company's Investment Committee and Underwriting Committee. In light of the COVID-19 pandemic, Board meetings were held by video conference during 2020.

#### **B.1.2 Material changes in the system of governance.**

There were no material changes in the system of governance during 2020 with the Board members and committee members not changing during the period.

#### **B.1.3 Remuneration policy**

Esprit has a documented local Remuneration policy, setting out how Aegon's Global Remuneration principles apply for Esprit specifically. For senior management, remuneration will be set according to the Aegon Group



standards. Group directors who are employed in positions elsewhere within the Aegon Group are remunerated locally at their respective group entities. Any independent directors shall be remunerated at appropriate market levels.

#### **B.1.4 Transactions with shareholders and other stakeholders**

The Company's shares are all held by its parent company, Aegon N.V.. As described in greater detail elsewhere, the Company issued general liability insurance policies to Aegon N.V.

Esprit did not declare or pay a dividend during the financial year to Aegon N.V. (2019: US\$ 2,925,000); this being in line from guidance issued from both the Central Bank of Ireland (CBI) and the European Insurance and Occupational Pensions Authority (EIOPA).

Finally, Esprit has entered into service level agreements with Aegon N.V. that cover particular services provided to the Company and the agreed cost sharing for the services within scope of the service level agreements. The Company had previously also engaged the sister company Blue Square Re N.V. however Esprit was advised that they would not be in a position to provide services beyond the 1st May 2020. The Company extended the remit of its management services agreement with Allied Risk Management to bridge the gap in resources.

## **B.2 Fit and proper requirements**

### **B.2.1 Requirements**

Esprit is subject to the requirements set out by the CBI's Fitness and Probity regime. The Company has adopted a Fitness and Probity Policy which sets out the due diligence checks that must be performed in accordance with the Central Bank of Ireland's Guidance on Fitness and Probity Standards. The Company recognizes the importance and value of the fit and proper requirements and it has a system in place to review the ability, competence, skills and integrity of candidates for a position on the Board or for other Key Functions.

According to the Fitness and Probity regime, a person is required to be:

- Competent and capable,
- honest, ethical and to act with integrity, and
- financially sound.

*Selection and recruitment process for Key Function Holders (referred to as Pre-Approval Control Functions or PCF's)*

*The process includes:*

- A written job description outlining the duties and responsibilities for the role.
- An assessment of the level of fitness and probity required for the role.
- An interview process to match suitable candidates to the specific role.
- Capturing fitness and probity due diligence referred to below.
- Upon Central Bank of Ireland approval, a letter of appointment is issued and training provided.

## B.2.2 Process for assessing such requirements

The process for assessing the fitness and the propriety of the persons in PCF positions is summarized as follows:

- Interview and application
- The Company conducts its own fitness and probity due diligence before proposing a person for appointment to a PCF. The due diligence required is referenced within the Central Bank of Ireland's Guidance on Fitness and Probity Standards. The following is captured:
  - Evidence of a relevant professional qualification.
  - Confirmation of continuous professional development.
  - Evidence of professional membership of an organisation (where applicable).
  - Reference checks.
  - Review of record of previous experience, including a review of curriculum vitae.
  - Record of experience gained outside the State (where applicable); considering the extent to which the person can demonstrate competency that relates specifically to the function within the State.
  - Review of list of directorships and concurrent responsibilities.
  - Checks are also undertaken with the Companies Registration Office and a judgment debt check is performed.
  - Signed Fitness and Probity declarations.
  - Individual Questionnaire
- A PCF holder from the Company will review the Individual Questionnaire, complete a declaration on behalf of the Company and submit the Individual Questionnaire to the Central Bank of Ireland for assessment.
- As part of the continuing obligations, annual declarations are sought from all PCF's, each PCF file is reviewed and an annual PCF return is submitted to the Central Bank of Ireland via the online reporting system.

An annual confirmation for each individual holding a Pre-Approval Control Function is required to ensure continued compliance with the requirements. Any new individuals being proposed to accept a PCF role will be subject to due diligence checks before an application for such individual is submitted for approval to the CBI.

As required within the Corporate Governance Code for Captives, each Board member completes an annual effectiveness review, which assesses the Director's own performance, but also the performance of the Chairman, the other Directors and senior management.

## B.3 Risk management system including the Own Risk and Solvency Assessment

### B.3.1 Risk management system

Esprit has documented Risk Management policies in place that govern business acceptance, risk appetite, investments, remuneration and describe the actions to take in a business continuity event or succession planning. Together these policies make up the Risk Management System for Esprit. All policies are reviewed regularly by the Board of Directors. These policies are designed to keep overall risk-specific exposures to a manageable level. Any breach of policy limits or warning levels, identified through the performance of internal controls, triggers remedial action or heightened monitoring.

### **B.3.1.1 Risk identification**

Esprit's Risk Appetite Statement is reviewed regularly and identifies the major risks, current and future, to which Esprit is exposed.

### **B.3.1.2 Risk tolerance**

The organization's tolerance for risk is established in order to assist management in carrying out Esprit's strategy within the resources available to it. Esprit's Risk Appetite Statement has defined four areas where risk tolerance plays an important role:

1. Financial strength  
First, risk tolerance is defined in terms of the applicable capital requirements in force. Actions are identified if capital management zones are breached.
2. Continuity  
Second, continuity of the company is tested against identified extreme events. This is documented in the Company's Own Risk and Solvency Assessment, which is completed once a year or more frequently if changes in the Company's environment warrant it.
3. Culture  
Third, a strong risk culture is promoted by making clear that the company has a low tolerance for operational risk.
4. Risk balance  
Fourth, risk limits are set to manage the concentration of risk and encourage risk diversification.

### **B.3.1.3 Risk response**

Esprit distinguishes the following risk responses:

- When the risk exposure is within the risk tolerance, management can accept the risk.
- When exposure exceeds the risk tolerance of management or cost-benefit analysis supports further actions, management can decide to:
  - Control – The risk is reduced by:
    - Improving processes and existing controls;
    - Introducing new controls.
  - Transfer – The risk is transferred, including:
    - Outsourcing activities to third parties or by insuring the company against the risk;
    - Re-insurance and or pooling of underwriting risks;
    - Hedging, for example of interest rate risk or currency risk.
  - Avoid – Activities that are the source of the risk are terminated, for example:
    - Product line;
    - Geographical market;
    - Business unit.

Each response needs to be considered in terms of its effect on reducing the likelihood and/or impact of the risk. The risk response also needs to consider the costs and benefits of alternative risk responses.

#### **B.3.1.4 Risk monitoring and reporting**

Risks are monitored regularly and reported on a periodic basis, at least quarterly. Breaches are reported to the Board and, depending on the nature and materiality of the breaches, an action plan has to be created within established timelines. Such an action plan can involve the notification to the CBI and senior management within Esprit's parent company, Aegon N.V.

#### **B.3.1.5 Risk control**

A system of effective controls exists to mitigate the risks identified. In Esprit's Risk Management framework, risk control includes risk governance, the risk policies listed earlier, risk culture and compliance.

Finally, an effective risk governance framework is an important element of risk control as clear responsibilities and structured decision making is a necessary requirement. Esprit's risk management governance structure has three basic layers:

- The Board of Directors;
- The Underwriting Committee and Investment Committee;
- Head of Risk Function.

### **B.3.2 Own risk and solvency assessment (“ORSA”)**

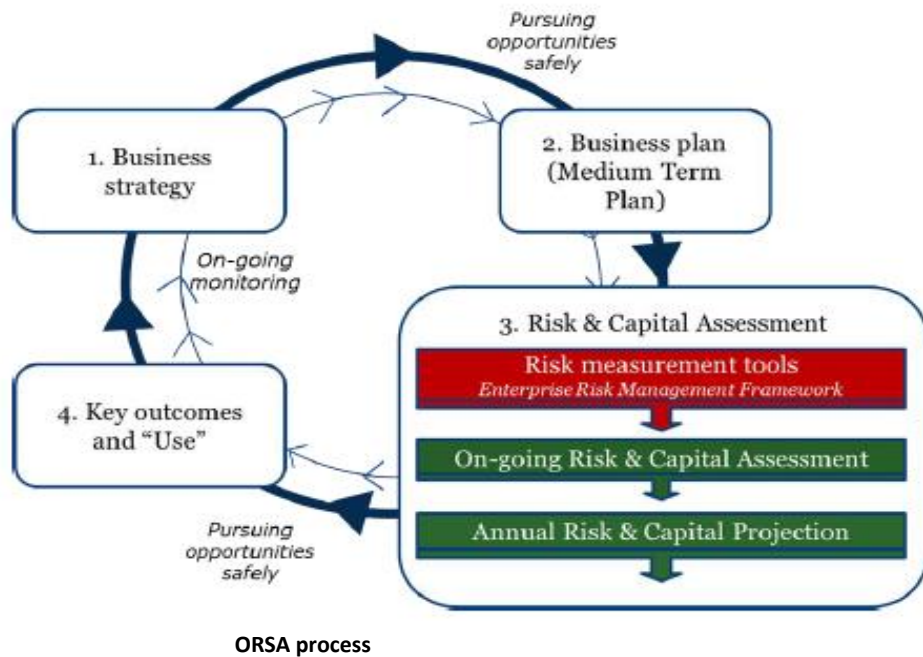
#### **B.3.2.1 ORSA process overview**

Esprit's Own Risk and Solvency Assessment (ORSA) is an internal management tool which includes a range of processes and procedures to identify, assess, monitor, manage, and report both current and forward-looking risk and capital positions.

We provide a graphical overview of the ORSA process in the figure below. This process is based on the following key working assumptions:

- The process is iterative and subject to on-going monitoring to ensure the ORSA responds to changes impacting the business;
- The business strategy for Esprit is clearly set;
- The financial strategy for Esprit must be clearly set to support the business strategy;
- The business plan combines the business and financial strategy to calculate key results;
- The Risk & Capital Assessment must include the identification, measurement, management and monitoring of risk. The capital needs of the business must be considered taking account of the proposed strategy and the acceptable level of the associated risks in pursuit of that strategy. The assessment must take into account both the present and the future;
- Aegon's Economic Framework is an informational and directional tool used to help in the measurement and quantification of risk;
- The output from the business strategy, financial strategy, business plan and the risk and capital assessments must be used in the decision-making process;

All of the above must be evidenced.



### B.3.2.2 ORSA Governance

The ORSA is performed annually or more often when deemed necessary. A non-regular ORSA does not require all sections to be re-produced necessarily. The Board is responsible for the monitoring of the triggers that may initiate the execution of a non-regular ORSA. The Esprit ORSA governance is embedded within Esprit’s corporate governance structure and requires Board input, discussion and approval.

The Board plays an active role in the discussions of risks that the Company faces and the stress tests (by way of scenario testing) that are performed. The Board will review previously used scenarios and assess their continued relevance and suggest other scenarios to be added, for example to reflect any changes the Company undergoes. The Head of Actuarial Function will also review the ORSA and issue an ORSA opinion, in which further suggestions for Board discussions may be included. A final report is presented to the Board, taking into account the feedback from earlier discussions and from the Head of Actuarial Function. The Company completed its first formal ORSA in December 2016 and annually thereafter.

The scenarios underpinning the 2020 ORSA were reviewed by the Board at Board meetings in December. The Board wishes the ORSA Process Report to be a living document and therefore continuously updates scenarios to reflect the changing risk profile of the company and the environment in which it operates. In 2020 the Company revisited the scenario of a large claim being reported, a reverse stress scenario and a scenario exploring outsourcing and reputational risk. The Company also considered the impact of a delay in the de-risking strategy and what the implications of this may be.

The financial statements used for the ORSA were as at 30 September 2020 so as to give the Board as up to date a financial picture as possible in reviewing the impact on the Company’s operations. The 2020 ORSA was

completed during 2020 and an Internal Report on the ORSA has been approved by the Board in December 2020 and is held on file. As a Low impact company in the CBI's PRISM system, Esprit was required to complete a Microsoft Excel based tool to report ORSA results to the CBI, which was reported in December 2020.

### **B.3.2.3 Determining Esprit's own solvency needs given its risk profile and how its capital management activities and its risk management system interact with each other**

Esprit looks at how the SCR and required capital develops over a three-year period based on the business strategy. We review the risks the Company is exposed to and that drive the SCR. We compare the risk to the tolerance limits. Esprit uses the Standard Formula as a key tool to measure its risk profile.

The Business Acceptance policy requires that any new or renewal business the Company wants to explore is assessed in terms of its impact on the SCR and the required pricing under the pricing policy. The Underwriting Committee reviews and decides whether to accept the business if all requirements are met.

The Company previously established a capital management policy that defines the target coverage ratio (available capital / SCR) of between 300% and 500%.

## **B.4 Internal control system**

### **B.4.1 Internal control system**

The Company's Compliance Officer plays an important role in the assessment of Esprit's Internal Control. The Company is limited in size and resources and as such four eyes principles are the main controls. One of the Compliance Officer's responsibilities is to complete the Monitoring and Compliance Programme and checks on an annual basis. This is a robust system that complements the documented risk appetite.

As a subsidiary, Esprit is also expected to adhere to the general principles of Aegon's internal control system for Solvency II reporting. These principles imply compliance with Aegon's Code of Conduct, reporting requirements if fraud or unethical behavior occur in the workplace, instructions as to sensitivity and confidentiality of company or client information and the need for business continuity plans.

Esprit has implemented the following four key control functions: risk management, compliance, internal audit and the actuarial function which complements the Company's Internal Control Environment.

- *Risk management*
  - The Board supports the Risk Management Function and shall make available such resource as is necessary. It provides access to all relevant documentation and information from the business for the Risk Management Function to fulfil its role.
- A Head of Risk function is appointed through a formal outsourcing arrangement with Allied Risk Management Limited who have responsibility for the Risk Management Function of the Company while working closely with the Board. Key documentation including the risk appetite and risk tolerance statements along with business acceptance policy are reviewed by the Head of Risk who takes an interactive role during the ORSA process.

- *Compliance*

- The Board supports the Compliance Function and shall make available such resource as is necessary. It provides access to all relevant documentation and information from the business for the Compliance Function to fulfil its role.
- A Compliance Officer is appointed through a formal outsourcing arrangement with Allied Risk Management Limited who have responsibility for the Compliance Function. The Compliance Officer ensures the Company's continuing compliance in relation to its regulatory and legal obligations. It aims to minimise the risks to the Company of material financial loss or reputational damage arising from the potential failure to comply with legal or regulatory requirements. The Compliance Officer liaises with regulatory bodies and authorities and provides updates on changes in legislation and regulatory requirements.
- The Compliance Officer has responsibility for the implementation of the Company's Compliance strategy and effective compliance processes and is responsible for the monitoring, managing and reporting of compliance risks to which the Company is exposed. It ensures that arrangements are sufficiently robust, proportionate, effective and efficient. The Compliance Officer is responsible for identifying and evaluating compliance risk, overseeing the implementation of controls for the risks identified, and monitoring their efficiency through Compliance monitoring.
- Compliance auditing occurs to check that the Company is adhering to its obligations. Compliance reports are issued to the Board assessing the effectiveness and adequacy of compliance within the Company. The activities of the Compliance function are subject to periodic review by Internal Audit. Compliance also reports to the parent company Aegon N.V. group compliance team on a bi-annual basis.
- On an ongoing basis, the Compliance Officer strives to ensure that there is an organisational culture in place which promotes a high standard of integrity and regulatory compliance.

- *Internal Audit*

- The key function holder for Internal Audit is Aegon N.V. as part of its Global Internal Audit group. Aegon N.V. is regulated by the Dutch Central Bank. The Head of Internal Audit reports directly to the Board.

- *Actuarial function*

- The existing Actuarial Function holder Mr. John Charles of Willis Towers Watson was approved by the Central Bank of Ireland in December 2017. The Actuarial Function holder provides an external view as to the appropriateness of technical provisions and reinsurance arrangements and provides essential input to the ORSA process. The Head of Actuarial Function issues documents, such as the Actuarial Function Report and various opinions on the ORSA, underwriting and the adequacy of reinsurance arrangements, to the Board.

- *Internal Control*

- The principal control framework for the Company is its controls set at Board level. These controls include the Board approved policies, reports, terms of reference, schedule of matters and minutes of board meetings. The policies describe the Board's approach to key areas of the business. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the internal control system, however day-to-day oversight is provided by the Compliance Officer. In practice, Directors and key role holders also participate in the management of the system. The Company's internal controls are part of its compliance framework. Various measures are incorporated into systems and processes to control day-to-

day activities. The Company implements adequate controls to ensure compliance and to highlight any significant breakdown in controls or inadequacy of process.

- The Compliance Officer is responsible for ensuring that all Company policies are fit for purpose. The relevant area of the business is responsible for ensuring that their procedures are up to date and reflect how the business operates. All amendments are submitted to the Board for approval. There is a compliance monitoring programme in place to review all of its regulatory requirements. This is completed by the Compliance Officer on a regular basis and forms part of the compliance report to the Board.
- Where any functions or activities are outsourced, the Company expects that any outsourcing entity manages its control framework to the same standards as the Company and adheres to the Company's policies and procedures and employs fit and proper people in its controlled functions. The Company has a Service Level Agreement in place with each outsourced entity with Key Performance Indicators set to ensure regular reporting to the Board. Presently a third-party vendor risk dashboard has been developed for Captive Manager Allied Risk Management and actuarial provider Willis Towers Watson that allows the Board to assess key performance indicators in a regular fashion thus affording a platform to quickly intervene should service levels drop below expected standards. In October 2019 Blue Square Re formally advised the Company that they would not be able to provide services beyond the 1<sup>st</sup> May 2020 and the Company extended the remit of its management services agreement with Allied Risk Management to bridge the gap in resources. The Company is able to leverage off Aegon N.V. Group resources when performing legal reviews of service level agreements to ensure best terms and contract certainty are attained. Attestations are also received from the Service Provider in respect to the ongoing fitness and probity of its Key Control Functions. Any significant or material event that occurs requires immediate reporting to the Board.

## **B.4.2 Compliance**

### **B.4.2.1 Objective of the function**

The objective of the Regulatory Compliance function is to support the Board of Directors in ensuring that Esprit acts in line with relevant legal, regulatory requirements and group risk tolerance. In this role, the function will promote and foster compliance with laws and regulations. Delivered well, strong regulatory compliance enables the organisation to act with integrity and with optimal service delivery to our clients.

### **B.4.2.2 Compliance Risk Appetite**

Esprit aims to be compliant with all applicable laws and regulations, internal company rules and policies governing its operations and established good business practices. Esprit will ensure that this requirement is embedded in the culture of its business operations.

### **B.4.2.3 Regulatory compliance**

The Board of Directors is ultimately responsible for regulatory compliance at Esprit. The Compliance Officer reports at each Board meeting, with an extended annual report at the year-end Board meeting.

### **B.4.2.4 Responsibilities & roles of the Regulatory Compliance function**

The Compliance function acts as a gatekeeper within the organisation to identify regulatory requirements, and, working with senior management, to ensure these regulations are complied with.



The Compliance function operates in accordance with Esprit policies and procedures specific to the function. In addition, the function is designed to ensure compliance with regulatory and legal requirements applicable to the business, supported by the relevant external professional or good market practice standards.

In realizing the objective of the Compliance function, the Compliance Officer:

- Advises the Board on:
  - The (potential) impact of regulatory developments on Esprit;
  - The development of a regulatory compliance framework that encompasses the relevant regulatory requirements and risks pertaining to Esprit;
  - The status of Esprit's compliance with laws, regulations and appropriate group policies.
- Supports & facilitates the Board in the implementation, maintenance and embedding of the Compliance framework.
- Monitors on behalf of the Board (in cooperation with senior management) the implementation and effectiveness of the Compliance framework.

## **B.5 Internal audit function**

### **B.5.1 Internal audit function**

Esprit's Internal Audit Function assists the Board of Directors in protecting Esprit's assets, reputation, and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. The Internal Audit function is the third line of defense.

Esprit's Head of Internal Audit is provided by Aegon N.V. and an audit was completed in 2019 and 2020 in line with the Audit Plan. The 2019 audit focused on assessing the design and effectiveness of controls surrounding activities that are outsourced. The scope encompassed the Company's management of outsourced service providers e.g. tax advisors, actuarial advisors, treasury financial services etc. As a result of this audit a formal timeline was agreed by the Board of Directors to address all open items and update the Internal Audit function on a periodic basis on progress made. A final review of steps taken by the Company was conducted by Internal Audit in 2020 and a report was issued conveying status on all matters. This review concluded that all open actions had been completed in 2020 with all the relevant information having been obtained and reviewed.

Internal Audit's main tasks and responsibilities are to:

- Prepare and execute a risk-based audit plan which is approved annually by the Board of Directors.
- Identify, and agree with Management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented within a reasonable period of time;
- Assist in the investigation of any significant suspected fraudulent activities within Esprit or conduct special reviews or consulting which may not usually be included in the scope of Internal Audit and notify the Board of the results of these activities;
- Issue periodic reports summarizing the progress and results of the annual audit plan, as well as on the sufficiency of the Internal Audit resources; and
- Execute audits on the functioning of the first and second line of defense.

### **B.5.2 Independence and objectivity of the internal audit function**

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit as well as with Aegon policies and procedures. Internal Audit's policies also align with the local professional auditing standards.

Internal Audit avoids any conflict of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions. Outsourcing of Internal Audit activities could alleviate temporary resourcing constraints as well. The Chief Internal Auditor verifies that the internal audit department possesses the necessary knowledge, skills and other competencies to execute the duties of Internal Audit. These resources are appropriately assigned to audit teams to assist the internal auditors and comply with the principles of the Aegon Internal Audit Charter.

Internal audit does not execute any operational duties for Esprit and will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted.

### **B.6 Actuarial function**

The Head of Actuarial Function holder within Esprit is outsourced to Willis Towers Watson ("WTW"). The requirements of the function, as set out in Article 48 of the Solvency II Directive, are as follows:

- Calculation of Technical Provisions
  - Coordinate the calculation of the Technical Provisions
  - Ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of Technical Provisions
  - Assess the sufficiency and quality of the data used in the calculation of Technical Provisions
  - Compare best estimates against experience
  - Inform the Board of the reliability and adequacy of the calculation of the Technical Provisions
- Express an opinion on overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the risk management system
  - Express an opinion on the ORSA report
  - Suggest additional scenarios for Esprit to consider

The Head of Actuarial Function reports the value of Technical Provisions on a quarterly basis to the Esprit Board. On an annual basis, the Board receives the Actuarial Function Report (AFR), which contains the opinion on overall underwriting policy, the opinion on the adequacy of reinsurance arrangements and the opinion on the ORSA as prepared by Esprit. In addition, the HoAF prepares the Actuarial Report on Technical Provisions and the Actuarial Opinion on Technical Provisions which discuss the appropriateness of the Technical Provisions for the Company.

As part of an ongoing due diligence process around outsourcing Esprit and WTW updated their Service Level Agreement in December 2018 that sets out the terms and conditions of the assignment including key performance indicators to fulfil the Actuarial Function under Solvency II as specified by the CBI. Esprit and WTW meet on a regular basis to exchange information for the calculations of Technical Provisions and for assistance

on the Risk Management function, such as quarterly SCR calculations and ad-hoc requests for impacts on SCR of new or renewal business.

## **B.7 Outsourcing**

### **B.7.1 External outsourcing arrangements**

External outsourcing arrangements are arrangements of any form between Esprit and a supplier, by which that the supplier performs a function or an activity, whether directly or by sub-outsourcing, which could otherwise be performed by the organization itself.

Outsourcing risk is considered material<sup>1</sup> when ‘a function or activity is a critical or important function or activity on the basis of whether this function or activity is essential to the operation of the undertaking as it would be unable to deliver its services to policyholders without the function or activity.’ Examples of significant and material processes that, if performed by another entity, would be classified as material outsourced arrangements include Internal Audit, financial accounting, the Head of Compliance function, the Head of Risk function, the Head of Actuarial function and company secretarial responsibilities. As a single parent captive insurance company Esprit has outsourced all of these functions, to both internal (i.e. within the Aegon group) and external providers.

To manage outsourcing arrangements, Esprit has adopted an Outsourcing Risk Policy. The aim of this policy is to ensure that arrangements entered into by Esprit which can result in material risk (i.e. risk classification severe and significant) are subject to appropriate due diligence, approval and on-going monitoring. All material risks arising from these activities should be appropriately managed to ensure that Esprit is able to meet both its financial and service obligations. Esprit has been able to utilize the resource of parent company Aegon N.V. and its Third Party Risk Management policy when developing its own Outsourcing policy.

A full due diligence process is undertaken prior to any final decision being made as to whether to outsource a material business activity. In undertaking this assessment, the Company adheres to the Central Bank of Ireland Notification Process for (Re) Insurance Undertakings when outsourcing Critical or Important Function or Activities under Solvency II Regulations.

### **B.7.2 Intra-group outsourcing arrangements**

Esprit has material intra-group outsourcing agreements. The Head of Internal Audit, as well as Investment Manager and accounting / pricing responsibilities are outsourced internally.

Intra-group outsourcing is also covered in the Outsourcing Risk Policy. For intra-group outsourcing (i.e. the supplier is a legal entity fully owned by Aegon) the examination of the vendor may be less detailed provided Esprit has greater familiarity with the vendor and if Esprit has sufficient control over, or can influence the actions of, the vendor. However, Esprit requires for intra-group outsourcing, a written agreement including a service level agreement (SLA) (if applicable), stipulating duties and responsibilities of both parties. Defined key performance indicators are documented and reviewed under each intra-group arrangement.

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<sup>1</sup> Under Solvency II

## **B.8 Any other information**

### **B.8.1 Assessment of adequacy of system of governance**

The Corporate Governance is determined by the Esprit Board of Directors. Local laws and regulations are taken into account and the roles and responsibilities of the Board are reflected in the Board charter. Those management charters are reviewed on a regular basis and revisions will follow required approval processes.

In addition, all employees of Aegon companies worldwide, which includes Esprit's board of directors, are committed to the Code of Conduct which consists of our Purpose, Core Values, Business Principles and Rules of Conduct. The Code of Conduct also addresses Governance aspects and reflects e.g. on the internal guidelines and policies, the compliance with laws and regulations, information sharing and the identification and management of risks in a prudent way. Furthermore, Esprit adheres to the Corporate Governance Code for Captive insurers and Captive Reinsurers as published by the CBI and applies the best practice provisions set out in the Code.

## C. Risk Profile

### C.1 General

As a captive insurance company, Esprit only offered insurance solutions to the Aegon group and therefore has no policy holders outside the Aegon group. In the CBI's PRISM rating, Esprit has been classified as "Low" impact.

In September 2020 the parent company advised the Board of Directors that after a strategic review the Aegon Group was taking a different direction on how it would structure its corporate insurance programs for management liability risks going forward. The Board of Directors have reviewed various options open to the Company but as a captive this announcement essentially closes the Company to renewal and new business opportunities. The Board of Directors have concluded that the best course of action considering all respective stakeholder positions is an orderly wind-down of operations.

Esprit continues to be exposed to underwriting risk due to the legacy policies underwritten, market and liquidity risk in terms of returns on its investment portfolio and operational risk due to limited staff levels. Each risk is briefly discussed hereunder.

#### C.1.1 Underwriting risk

##### C.1.1.1 Underwriting risk exposure

In terms of the SCR underwriting risk is no longer the largest risk Esprit is exposed to, market risk is now marginally higher. Non-life underwriting risk is comprised of premium and reserving risk and catastrophe risk. Premium and reserving risk however still accounts for 44% of the total SCR (2019: US 31%) and consequently it still remains one of the risks addressed in the Company's ORSA. Catastrophe risk is now negligible (less than 1%) when previously it accounted for 37% of the total SCR. This being a result of the decision to cease underwriting future premiums.

Esprit only underwrote non-life insurances and is therefore not exposed to any longevity or mortality risk, but to non-life risks only.

These can take several forms:

- the risk of adverse claims developments (reserve risk),
- inappropriate underwriting (premium risk),
- the risks inherent in the nature of Esprit's covers (catastrophe risk).

Not surprisingly, the non-life underwriting component is one of the largest contributors to the SCR as section E explains on a more granular level. On a quarterly basis, Willis Towers Watson calculates the SCR applicable to Esprit based on the current business mix and claims experience. Ad hoc calculations take place when Esprit considers to materially amend participation in existing business or when it would have considered the acceptance of new business. Esprit management reports the SCR on a quarterly basis to the Esprit Board and/or to the Underwriting Committee where required according to the Business Acceptance policy.

Esprit's participation in the group's non-life insurance programs were all of a low frequency, high severity nature. As such, claims are not frequent but have the potential to be large, with some exposure as large as US\$ 50 million per claim. A large claim under one of Esprit's insurance policies therefore remains one of the risks identified in the Company's ORSA.

#### **C.1.1.2 Underwriting risk concentration**

All of Esprit's exposure in 2020 is allocated to the general liability category. In terms of its insurance license, the Company can also accept property insurance, which would provide portfolio diversification however the Company will no longer continue to explore acceptance of any new business.

#### **C.1.1.3 Underwriting risk mitigation**

To mitigate reserve risk, Esprit uses an appropriate reserving policy, which requires the Company to hold IBNR against adverse claims developments and new notifications. In addition, the Company's underwriting limits to which the Underwriting Committee and Board are held are based on a 1 in 200 year maximum exposure. Any business that would breach the 1 in 200 year maximum is to be escalated for approval to the Aegon group. There is no insurance cover currently in place that required binding authority beyond the Board of Director's mandate. Finally, and as detailed in the Capital Management section of this report, Esprit's capital management target includes a buffer over the regulatory required 100% of SCR to protect the Company.

Premium risk, or inappropriate underwriting leading to insufficient premium being charged for the insurance policies Esprit provided is also mitigated through the remit of the Underwriting Committee. Esprit, as a part of the Aegon group, had to adhere to Aegon's pricing policy that sets out thresholds to be met before new business could be accepted. In addition, Esprit had a documented own business acceptance policy to ensure consistency in pricing.

Finally, catastrophe risk stems from the underlying risks that Esprit insures. Catastrophe risk is however now negligible when it had previously accounted for 33% of the total SCR. This is a result of the decision to cease writing new business in Q4 2020.

The Board of Directors and the Underwriting Committee review the reserving policy, the underwriting limits and the Business Acceptance policy on an annual basis to ensure the requirements are still effective and appropriate for the Company's business and nature.

The capital charge for underwriting risk under Solvency II was US\$ 2,590,883 (after diversification) (2019: US\$ 5,040,195), which makes up 44% (2019: 68%) of the total SCR applicable at 31 December 2020 of US\$ 5,844,617 (2019: US\$ 7,381,517). The SCR has reduced year on year primarily due to the reduction in the catastrophe risk capital charge.

#### **C.1.1.4 Underwriting risk sensitivity**

The Company's 2020 ORSA included several scenarios that incorporated underwriting risk that show the capital levels for Esprit under each.

As an example the Company's 2020 ORSA included a stress scenario where a large claim was received under the D&O policy. Based on external research customized to Aegon, there is a 5.58% chance of a D&O claim occurring in any given year and should that claim occur the average securities settlement is estimated at US\$ 69 million. If an event of this magnitude occurred at Aegon N.V. then Esprit would face a US\$ 25 million D&O claim. In this event the SCR ratio drops below the 100% and places the Company in the regulatory phase of the Company's capital policy with notification to the CBI occurring.

It is not expected that the Company's underwriting risk exposure, assessment methods, risk concentration or risk mitigations techniques will change in the business planning period.

## **C.1.2 Market risk**

In terms of the SCR market risk is the now the largest risk Esprit is exposed to; previously underwriting risk would have posed a higher degree of risk to the Company. Market risk itself however has not materially increased in the period rather underwriting risk has reduced.

### **C.1.2.1 Market risk exposure**

As described in detail elsewhere, Esprit manages a portfolio of investments and holds technical reserves due to the nature of the risks written. The Investment Policy does not allow for investments in equity, property or derivatives and the main risks therefore for the Company are concentration risk, currency risk, spread risk and interest rate risk.

### **C.1.2.2 Market risk concentration**

Concentration risk can be caused by having a significant portion of your investments in a limited number of banks and commercial paper and to mitigate risks, Esprit splits its investments over several financial institutions and issuers. Esprit's Investment Policy and the group's Credit Name Limit policy requires minimum ratings for counterparties and sets maximum exposures across the group to each counterparty with which Esprit has to comply. As an example no more than 20% of the Company's available assets can be invested in any single name subject to an absolute \$10M maximum. Monitoring takes place on a regular basis by the Group for the Credit Name Limit policy and by Esprit management for compliance with the Investment Policy. Both policies describe the relevant action plans in case of any breaches.

Currency risk and interest rate risk is mainly driven by the technical reserves Esprit holds. The nature of liability claims can be long tail and as Esprit issued group policies, subsidiaries in multiple territories can claim against the policies. Esprit's assets and liabilities are matched in terms of currency and duration, which mitigates the risk of fluctuations in currencies and interest rates.

Embedded in the SCR calculations is a stress test for market risks, where the values of assets and liabilities are stressed by 25%. More details are available in section E. The Company's ORSA describes several stress tests however as market risk is already taken into account in the SCR and risk is mitigated by the above methods, no specific stress scenarios for market risk are included.

Overall market risk for Esprit at the end of 2020 was US\$ 2,913,418 after diversification (2019: US\$ 2,907,595) or US\$ 3,695,447 pre diversification (2019: US\$3,608,588). More details on market risk can be found in section E.

### **C.1.2.3 Market risk mitigation**

The Investment policy, currency policy and Aegon N.V.'s Credit Name Limit Policy all provide risk mitigation techniques for the management of market risk. They:

- Insulate the company from currency fluctuations
- Mandate the use of several investment counterparties to counter concentration risk
- Mandate maximum durations, minimum quality of investments and issuers

An Investment Committee member receives a regular update including a check to ensure all investments comply with the approved Investment policy.

### **C.1.2.4 Market risk sensitivity**

The Company's 2020 ORSA considered several stress scenarios including market risk that show the capital levels for Esprit under each. As detailed above the Company's 2020 ORSA included a stress scenario where a large claim was received under the D&O policy. The Board also considered the significant correlation between asset performance and the environment for heightened D&O claims activity and as a result considered the impact of a default of US\$ 9 million commercial paper investment along with a US\$ 25 million D&O claim. In this extreme event the SCR ratio drops below the 100% and places the Company in the regulatory phase of the Company's capital policy with notification to the CBI occurring.

It is not expected that the Company's market risk exposure, assessment methods, risk concentration or risk mitigations techniques will change in the business planning period.

## **C.1.3 Credit risk**

### **C.1.3.1 Credit risk exposure**

Credit risk is the risk that a counterparty holding Esprit's investments defaults. Due to the nature of Esprit's investment portfolio, Esprit holds no "Type 2", i.e. "trading" investments. All Type 1 investments (all investments including cash held at bank) are subject to the Investment Policy and the Group's Credit Name Limit Policy. Compliance with these policies is assessed on a quarterly basis and action plans are defined in the case of any breaches.

Overall credit risk at the end of 2020 was \$US 51,792 after diversification (2019 US\$ 46,054) and US\$ 65,695 before diversification (2019 US\$ 57,157). More details as to this can be found in section E.

The Company's ORSA considers a reverse stress scenario that can "break" the Company which essentially is the combination of a large claim under one of Esprit's insurance policies combined with an inability to recover its largest commercial paper holding.



#### **C.1.3.2 Credit risk concentration**

All external financial institutions Esprit places investments with must meet the requirements in the Investment policy and Aegon N.V's Credit Name Limit Policy.

#### **C.1.3.3 Credit risk mitigation**

Esprit manages credit risk exposure by individual counterparty. The Company's Investment policy and Aegon N.V's Credit Name Limit Policy mandate minimum credit ratings, a minimum number of counterparties and the maximum exposure for one individual counterparty.

#### **C.1.3.4 Credit risk sensitivity**

As detailed above in 'Market risk' the Company's 2020 ORSA considered several stress scenarios including market and credit risk that show the capital levels for Esprit under each. Please refer to section 'Market risk sensitivity' for further detail.

It is not expected that the Company's credit risk exposure, assessment methods, risk concentration or risk mitigations techniques will change in the business planning period.

### **C.1.4 Liquidity risk**

#### **C.1.4.1 Liquidity risk exposure**

Liquidity risk is inherent in much of Esprit's business. Each investment and liability incurred has its own liquidity characteristics. Liquidity risk is the risk that Esprit will not have sufficient liquid assets to meet its financial liabilities, such as claims and expenses, in the short term in a going concern situation or in times of a stress situation, without incurring unacceptable costs or losses.

Esprit's investment portfolio is very liquid, with investments of up to 6 months in deposits at financial institutions and commercial paper from issuers rated at a minimum A1P1. Esprit's claims are typically of a longer duration, with liability claims taking multiple years to resolve. However, in the current market conditions, investment yields for a similar durations remain at similar levels compared to shorter term investments.

#### **C.1.4.2 Liquidity risk concentration**

As mentioned in the previous paragraph the exposure of the Company to liquidity risk is relatively low and as such there are no material risk concentrations.

#### **C.1.4.3 Liquidity risk mitigation**

Esprit's Investment policy requires the average duration of the entire portfolio to not exceed 3 years and no individual maturity may exceed 7 years. In the current budget and in light of the upcoming wind down the Company assumes that the balance sheet will be de-risked in the short / medium term and that interest rates will remain relatively low, subsequently there is no reward or incentive to invest in longer term, less liquid

investment options. As such, it is expected that Esprit will continue to invest in short term, highly liquid investments.

#### **C.1.4.4 Liquidity risk sensitivity**

As indicated previously, liquidity risk is not a major risk to Esprit due to the nature and size of the investment portfolio and the nature of claims Esprit can expect. Sensitivity to liquidity risk is therefore assumed to be negligible.

It is not expected that the Company's liquidity risk exposure, assessment methods, risk concentration or risk mitigations techniques will change in the business planning period.

### **C.1.5 Operational risk**

#### **C.1.5.1 Operational risk exposure**

Esprit's operational risk is mainly expressed as risk of internal control frameworks being inadequate. The size and nature of the Company with no dedicated employees entails that several procedures are outsourced to Allied Risk Management which provides additional resource and external involvement in terms of internal controls. The Service Level Agreement with Allied Risk Management sets out performance requirements in terms of timing and these are monitored on a quarterly basis. In addition, it also provides a level of business continuity, which is further complemented by Esprit's succession plan, in the case where a key person leaves the Company or is otherwise unavailable. As an additional line of defence, the Company's Internal Auditor has authority to test the internal control framework in line with the agreed Internal Audit Plan.

The Company's ORSA includes a qualitative stress test to examine what type of operational error the Company could be subject to as a result of its outsourcing of key roles to service providers. Due to control and reporting frameworks in place the financial impact in this area is mitigated as the company has put KPIs and regular performance reporting in place to monitor the outsourcing risk.

#### **C.1.5.2 Operational risk concentration**

Esprit's operational risk is mainly concentrated in the failure of the internal control framework and key dependency of critical staff. This is due to the limited number of staff involved which is expected to remain the case over the business planning horizon. This exposure is to be managed by the risk mitigation controls that are described in the next section.

#### **C.1.5.3 Operational risk mitigation**

Outsourcing to other providers has the following benefits in mitigating operational risk:

- It provides a level of business continuity is provided, which is further complemented by Esprit's succession plan, in the case key personnel leaves the Company
- It provides additional resources to enable objective views and benchmarking on the internal control framework and resources to execute defined internal controls

Operational risk is further mitigated by dedicated Underwriting Limits, Escalation thresholds, testing of the Business Continuity Plan, banking authorities in place and four eyes principles. As an additional line of defence,

the Company’s Internal Auditor has authority to test the internal control framework in line with the agreed Internal Audit Plan.

**C.1.5.4 Operational risk sensitivity**

The Company’s 2020 ORSA included an operational risk scenario that shows the capital level required under such circumstances. This qualitative stress test examined what type of operational error the Company could be subject to as a result of its outsourcing of key roles to service providers. Due to control and reporting frameworks in place the financial impact in this area is mitigated as the company has put KPIs and regular performance reporting in place to monitor the outsourcing risk.

It is not expected that the Company’s operation risk exposure, assessment methods, risk concentration or risk mitigations techniques will change in the business planning period.

**C.2.1 Risk measures**

In alignment with the parent company Aegon N.V., the Company has established specific risk tolerances. Risk tolerances are fundamental in framing the organization’s risk appetite for risk with the aim of assisting management in carrying out the Company’s strategy using the resources available to it.

There are four areas for which the Company distinguish risk tolerance:

1. Financial strength - Defines minimum levels of solvency under which the organization wishes to operate taking into account the requirements and expectations of both internal and external stakeholders.
2. Continuity - To ensure a high likelihood of meeting policyholder obligations.
3. Culture - Esprit’s Board of Directors is committed to establishing a strong risk culture as a building block for achieving operational excellence.
4. Risk balance - This statement aims to ensure that the organization takes on the risks for which the Company is best placed to manage, avoiding excessive concentrations of risk thus promoting an optimal diversification.

In each of these areas, there is a variety of specific risk measures that we use to state the Company’s risk tolerance. These are outlined in the table below;

| Risk Tolerance Category    | Risk Measures  |
|----------------------------|--|
| Financial strength         | 1. Solvency II ratio   |
| Continuity                 | 1. Meet minimum statutory capital requirements at Legal Entity level.<br>2. Be able to pay all claims when they fall due over the full tenure of policyholder obligations. |
| Culture (operational risk) | 1. No operational event with losses greater than €25,000 in any one year time horizon<br>2. No operational event greater than €10,000 in any one year time horizon         |
| Risk balance sheet         | 1. Tolerance level per risk (e.g. equity – IR2 and IR5, interest rate – MR1 and MR2)<br>2. Credit name limits  |

## C.2.2 Nature of material risk exposures

One of the material risks that the Company is exposed to is the risk of adverse claims experience. This is addressed under Underwriting Risk above and Technical Provisions below.

## C.2.3 Prudent person principle

The prudent person principle is in scope of Esprit's System of Governance through its Investment Policy. There are a number of risk policies in place to ensure that the assets held are appropriate to the nature of the liabilities without taking on excessive risks:

- The Investment Policy establishes the exposure limits for investment and counterparty Risk.
- Concentration in exposures are avoided by testing a counterparty default scenario in the ORSA and by setting single counterparty limits in the Group Credit Name Limit Policy and the Company Investment Policy.
- No derivatives or equities are allowed for Esprit as per the Investment policy.
- The group's Reinsurance Use Policy (RUP) establishes the process with which reinsurance use is conducted in Aegon in order to ensure a consistent high standard of reinsurance use across the Group, to ensure proper internal controls are in place around risks arising from reinsurance (e.g. counterparty, basis) wherever material and to ensure globally consistent information on Aegon's reinsurance treaties is available. Esprit has incorporated this into the Business Acceptance policy, although currently no reinsurance is purchased.

## C.3 Expected profit included in future premium ("EPIFP")

The Company's policy boundaries were previously all one year and the premium is paid in full at inception, therefore, the EPIFP for the Company is zero. As noted above, the Board took the decision to cease all future underwriting activities.

## C.4 Risk data

The Company uses the prescribed correlation tables as per the Standard Formula.

## C.5 Any other material information regarding Esprit's risk profile

As at the 31<sup>st</sup> December 2020, Esprit had the following material intragroup transaction with Aegon N.V.;

- 1 insurance policy with an aggregate limit of liability of US\$ 25 million.

### C.5.1 Brexit

Since January 31, 2020, the United Kingdom is no longer a member of the European Union. The post-Brexit relationship between the European Union and the United Kingdom is governed by the Trade and Cooperation Agreement. This Agreement does not include material arrangements relating to financial services. The European Union and the United Kingdom intend to agree upon a memorandum of understanding by March 2021 to establish the framework for regulatory cooperation in financial services, covering, among other things, transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions in the area of financial services. As the Transition Period only ended recently and with a significant lack of clarity around the way in which the provision of financial services between the European Union and the United Kingdom will be regulated, Aegon could be adversely impacted by unexpected developments and market

developments, any of which could reduce the value or results of Aegon's operations, in particular Aegon's operations in the United Kingdom. Aegon could also be adversely impacted should Brexit result in the United Kingdom moving away from European Union legislation such as, but not limited to, Solvency II regulations and financial services legislation.

### **C.5.2 IBOR transition**

The future of IBORs (Interbank Offered Rates) such as Euribor and LIBOR has been a major topic on the global agenda since the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of leading interest rate benchmarks in 2013. The FSB proposed new standards to reform interest rate benchmarks and the use of transaction-based input data instead of non-transactional/panel input data. In the EU, this is adopted in the new Benchmark Regulation (BMR), which stipulates that from January 2020 only BMR-compliant benchmarks may be used within the EU.

Aegon recognizes that IBOR transitions potentially have implications for all reporting units, including our insurance, asset management and banking activities. Despite ongoing uncertainties on how the transition from IBORs to alternative benchmarks will be managed, it is widely acknowledged that IBOR benchmarks impact financial products and contracts, including among others, derivatives, corporate bonds, structured debt products, deposits, and mortgages.

The impact of the IBOR transition on the business and operating models is described in transition plans and include among others project solutions and actions, timelines, and ownership to ensure timely preparation and implementation. Aegon is well underway with the implementation of the actions as described in the transition plans. In July 2020, the discount rates used for EUR-denominated cleared derivatives were switched from EONIA to €STR. In the US, the cleared market has switched discount rates from Fed Funds to SOFR in October 2020.

### **C.5.3 COVID-19**

The Company is continuously monitoring the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak, and its potential impact on Esprit. Esprit has a very liquid investment portfolio with no equity or derivative exposure which helps manage market volatility. One of the most significant risks Esprit faced in the financial year ended the 31st December 2020 related to underwriting risks (particularly related to D&O and E&O claims). The global economic effects of COVID-19 has the consequence of challenging the financial performance of large life insurance companies and led to some speculation as to whether it would lead to an increase in D&O and E&O type claims but this has not been evident in Esprit's written policies. As noted above the Company has ceased underwriting any further risks. The policies within the financial period were written on a 'claims made' basis with the reporting period having expired on the 1st November 2020. Esprit continues to monitor claim activity which has been and continues to remain normalized.

## D. Valuation for Solvency Purpose

In this chapter the IFRS balance sheet is reconciled to the Solvency II balance sheet. Esprit is assisted in this exercise by external actuaries. For Esprit the only balance sheet item impacted by Solvency II valuation principles are the technical provisions. That implies that Esprit's assets are equal under IFRS and Solvency II. All balance sheet items are considered separately, starting with assets.

### D.1 Assets

#### Assets

|   |              | Solvency II value | Statutory accounts value |
|---|--------------|-------------------|--------------------------|
|   |              | C0010             | C0020                    |
| <b>Investment (other than assets held for index-linked and unit-linked contracts)</b> | <b>R0070</b> | <b>50,490,929</b> | <b>50,490,929</b>        |
| Bonds   | <b>R0130</b> | <b>38,488,836</b> | <b>38,488,836</b>        |
| - Government Bonds  | R0140        | 6,999,388         | 6,999,388                |
| - Corporate Bonds   | R0150        | 31,489,449        | 31,489,449               |
| Deposits other than cash equivalents  | R0200        | 12,002,093        | 12,002,093               |
| Insurance and intermediaries' receivables   | R0360        | -                 | -                        |
| Receivables (trade, not insurance)  | R0380        |                   |                          |
| Cash and cash equivalents   | R0410        | 590,276           | 590,276                  |
| Any other assets, not elsewhere shown   | R0420        | 161,515           | 161,515                  |
| <b>Total Assets</b>   | <b>R0500</b> | <b>51,242,720</b> | <b>51,242,720</b>        |

#### Total Assets under Solvency II per 31 December 2020

#### Assets

|   |              | Solvency II value | Statutory accounts value |
|---|--------------|-------------------|--------------------------|
|   |              | C0010             | C0020                    |
| <b>Investment (other than assets held for index-linked and unit-linked contracts)</b> | <b>R0070</b> | <b>51,344,069</b> | <b>51,344,069</b>        |
| Bonds   | <b>R0130</b> | <b>41,027,651</b> | <b>41,027,651</b>        |
| - Government Bonds  | R0140        | -                 | -                        |
| - Corporate Bonds   | R0150        | 41,027,651        | 41,027,651               |
| Deposits other than cash equivalents  | R0200        | 10,316,418        | 10,316,418               |
| Insurance and intermediaries' receivables   | R0360        | -                 | -                        |
| Cash and cash equivalents   | R0410        | 557,490           | 557,490                  |
| Any other assets, not elsewhere shown   | R0420        | 21,682            | 21,682                   |
| <b>Total Assets</b>   | <b>R0500</b> | <b>51,923,241</b> | <b>51,923,241</b>        |

#### Total Assets under Solvency II per 31 December 2019

Each category is discussed in greater detail below. On a high level, the different valuation methods of Esprit's assets is not expected to generate material differences between IFRS and Solvency II.

### D.1.1 Investments

This category contains 6 commercial paper investments ranging in value between US\$ 3,000,000 and US\$ 10,000,000 with maturities between 1 and 6 months at inception. These investments are valued for Solvency II purposes on the same basis as for the statutory financials (IFRS). Therefore, no material reclassification adjustments or material revaluation adjustments were required.

### D.1.2 Cash and cash equivalents

As described elsewhere, Esprit holds investments in the form of bank deposits with highly rated international banks. No material reclassification adjustments nor material revaluation adjustments were required.

### D.1.3 Any other assets, not elsewhere shown

The other assets consist of accrued interest on investments and cash and cash equivalents and a tax asset resulting from overpayment of corporation tax. No material reclassification adjustments nor material revaluation adjustments were required.

## D.2 Technical provisions

This section provides the value of technical provisions including the amount of the best estimate and the risk margin, as well as a description of the bases, methods and main assumptions used. The value of the technical provisions are specified in the tables of sections: D.2.1 Technical provisions – non-life;

For Esprit, the Solvency II technical provisions are calculated taking into account the requirements of the Solvency II directive and implementing measures and guidance. They are calculated using projection models and consist of the Best Estimate Liability and the Risk Margin. Non-hedgeable Solvency Capital Requirements (SCR) form the basis of the calculation of the Risk Margin. The Risk Margin calculation is based on a cost-of-capital method applied to a projection of SCRs based on a 99.5% confidence level.

Ongoing validation and review processes are in place to ensure that models being used remain appropriate and can be relied upon, including model validations, process reviews carried out by the Internal Audit function and review of results performed by external auditors.

The appointed Head of Actuarial Function (HoAF) provides at least once a year an independent opinion on adequacy and reliability of the technical provisions, including a summary of concerns and recommendations, if any. This is documented by the HoAF in an annual Actuarial Function Report.

### D.2.1 Technical provisions – non-life

#### Liabilities

|   |              |                   |
|---|--------------|-------------------|
| <b>Technical provisions - non-life</b>                    | <b>R0510</b> | <b>10,923,656</b> |
| <b>Technical provisions - non-life (excluding health)</b> | <b>R0520</b> | <b>10,923,656</b> |
| Best estimate   | R0540        | 9,617,437         |
| Risk margin   | R0550        | 1,306,219         |

Technical Provisions under Solvency II per 31 December 2020

## Liabilities

|   |              |                   |
|---|--------------|-------------------|
| <b>Technical provisions - non-life</b>                    | <b>R0510</b> | <b>15,267,005</b> |
| <b>Technical provisions - non-life (excluding health)</b> | <b>R0520</b> | <b>15,267,005</b> |
| Best estimate   | R0540        | 13,230,064        |
| Risk margin   | R0550        | 2,036,941         |

### Technical Provisions under Solvency II per 31 December 2019

This section describes the material differences between the bases, methods and main assumptions used for the valuation for solvency purposes and the financial statements.

#### D.2.1.1 IFRS Treatment

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels, and outstanding claims and benefits.

The reserve for unearned premiums includes premiums relating to risk coverage for periods beyond the balance sheet date. Unearned premium reserve is released over the remaining coverage period of the premium and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred, but have not been reported to Esprit. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation.

#### D.2.1.2 Solvency II Treatment

For Solvency II, a Fair Value approach/market consistent basis is used. Additionally, Solvency II does not distinguish between pre-claims and post-claims liabilities, but requires discounting of all the expected future cash flows at current discount rates and adding a risk margin based on the cost of capital ('CoC') for the non-hedgeable risks. In addition, Solvency II also requires that the best estimate provisions should reflect all future cash flows arising from expenses that will be incurred servicing existing policies during their lifetime. This includes items such as fees paid to service providers auditing costs, office rent, buying new IT systems, etc.).

Another difference is related to contract boundaries. Under Solvency II, legally obliged business is included in the calculation of the technical provisions and included in the expected future cash flows discussed above.

Regarding the discount rate, the Solvency II discount rate is based on the swap rate at the reporting date including the Volatility Adjustment where applied. Esprit does not include a Volatility Adjustment. The Solvency II discount rates used differ in their extrapolation of the curve compared to IFRS and the last liquid point assumptions are different than applied for IFRS. No material reclassification adjustments were required.



### D.2.1.3 Reconciliation difference IFRS and Solvency II: Revaluation Adjustments

The total revaluation adjustments of (US\$3,056,230) include:

- US\$ (4.918) million for the removal of margins
- US\$ (NIL) million for the removal of future profit
- US\$ 0.725 million for ULAE
- US\$ (0.169) million for the allowance for discounting
- US\$ 1.306 million for the Risk Margin

Which brings the Solvency II reserves to US\$ 10,923,656 down from US\$ 13,979,886 under IFRS.

## D.3 Other liabilities

### Any other liabilities

|  |              |         |
|--|--------------|---------|
| Deferred tax liabilities                   | <b>R0780</b> | 382,029 |
| Insurance & intermediaries payable         | <b>R0820</b> | -       |
| Payables (trade, not insurance)            | <b>R0840</b> | 187,594 |
| Any other liabilities, not elsewhere shown | <b>R0800</b> | -       |

#### Other liabilities under Solvency II per 31 December 2020

### Any other liabilities

|  |              |         |
|--|--------------|---------|
| Deferred tax liabilities                   | <b>R0780</b> | 142,583 |
| Insurance & intermediaries payable         | <b>R0820</b> | 227,333 |
| Payables (trade, not insurance)            | <b>R0840</b> | 309,491 |
| Any other liabilities, not elsewhere shown | <b>R0800</b> | -       |

#### Other liabilities under Solvency II per 31 December 2019

### D.3.1 Deferred tax liabilities

A deferred tax liability of US\$ 382,029 (2019: US\$ 142,583) arises as a result of the difference in technical provisions on a Solvency II basis and on IFRS basis, as detailed in the previous section. The reduced technical provisions increase Esprit's Basic Own Funds for which the Company should recognize a future deferred tax liability.

### D.3.2 Payables (trade, not insurance)

Payables are the accruals for services provided in 2020 but not yet invoiced or paid. Accruals include professional fees to providers for accounting, actuarial and auditing services. These items are recorded under Solvency II on the same basis as in the financial statements. As such, no material reclassification adjustments nor material revaluation adjustments were required.

### **D.3.3 Insurance & intermediaries payable**

Esprit's insurance & intermediaries payable were US\$ NIL (2019: US\$ 227,333) in prior periods this comprising of premium taxes payable in several jurisdictions.

### **D.4 Alternative methods for valuation**

Esprit does not use alternative methods for valuation.

### **D.5 Other material information**

The long-term strategy for the Company is to de-risk the balance sheet and thereafter surrender the insurance license to the Central Bank of Ireland (CBI). On surrendering the license it is anticipated that the Company will be placed into voluntary liquidation. In accordance with International Financial Accounting Standards (IFRS) it is no longer applicable for the Company to prepare the financial statements or the Solvency and Financial Condition Report (SFCR) on a going concern basis. The accounting policies applied remain in line with the policies applied in prior years under IFRS taking into consideration any necessary impairments of assets, the expected settlement value of the insurance policies and recording of any additional provisions. Although the long-term strategy is to de-risk the balance sheet and place the Company into voluntary liquidation the Board still expects the Company to be in a position to fulfil all of its obligations in the coming twelve months and considers the Company to have adequate levels of liquidity and solvency to do so. As management expects that the company will be able to fulfil its obligations, a liquidation basis is not applied.

## E. Capital Management

### General

Esprit's capital structure is simple and consists entirely of Tier 1 Own Funds. Esprit's IFRS equity consists of:

- Ordinary share capital of US\$ 1,500,000 (2019: US\$ 1,500,000)
- Capital contribution of US\$ 5,000,000 (2019: US\$ 5,000,000)
- Retained earnings of US\$ 30,575,239 at the 2020 financial year end (2019: US\$ 28,478,751)

As a result of the differences in valuation under Solvency II and IFRS as detailed in section D, the reconciliation reserve (which follows Solvency II valuation) is not equal to the Company's retained earnings, which follow IFRS.

### E.1 Own funds

All of Esprit's Own Funds are classified as Tier 1, following the approval from the Central Bank to include the received capital contribution as Tier 1 own funds on 21 December 2015. During the 2020 financial year, no additional capital contributions were received and no changes occurred to the ordinary share capital. Esprit has a documented Capital Management policy that includes a Dividend policy and states the target range for the coverage ratio. Capital impacts for any new or renewed business and any dividend payments are assessed against the required target ratio. As most of Esprit's capital is invested, the management of the capital is governed by the Investment Policy which is detailed elsewhere in this report. There was no dividend declared or paid to the parent company Aegon N.V. (2019: US\$ 2,925,000), this being in line with guidance issued by both the Central Bank of Ireland (CBI) and the European Insurance and Occupational Pensions Authority (EIOPA).

In regular trading conditions Esprit has historically prepared on an annual basis a budget where the level of own funds is projected over a 3-5 year time horizon. With the Company deciding to enter a de-risking strategy in 2021 the budgeting process is on a shorter term than prior years. This requires a projection of potential claims to be received which in itself is an inherently uncertain activity – in particular for Esprit's business.. Required capital is also projected assuming no significant changes to current lines of business.

Esprit's reconciliation reserve consists entirely of retained earnings from previous years, for a total of US\$ 33,249,441 at 31<sup>st</sup> December 2020 (2019: US\$29,476,829). Total basic own funds were as follows:

|  |              | Total             | Tier 1 -<br>unrestricted |
|--|--------------|-------------------|--------------------------|
|  |              | C0010             | C0020                    |
| <b>Basic own funds before deduction for participants in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35</b> |              |                   |                          |
| Ordinary share capital (gross of own shares)   | R0010        | 1,500,000         | 1,500,000                |
| Other own fund items approved by the supervisory authority   | R0180        | 5,000,000         | 5,000,000                |
| Reconciliation reserve   | R0130        | 33,249,441        | 33,249,441               |
| <b>Total basic own funds after deductions</b>  | <b>R0290</b> | <b>39,749,441</b> | <b>39,749,441</b>        |

**Total Basic Own Funds under Solvency II per 31 December 2020**

|  |              | Total             | Tier 1 -<br>unrestricted |
|--|--------------|-------------------|--------------------------|
|  |              | C0010             | C0020                    |
| <b>Basic own funds before deduction for participants in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35</b> |              |                   |                          |
| Ordinary share capital (gross of own shares)   | R0010        | 1,500,000         | 1,500,000                |
| Other own fund items approved by the supervisory authority   | R0180        | 5,000,000         | 5,000,000                |
| Reconciliation reserve   | R0130        | 29,476,829        | 29,476,829               |
| <b>Total basic own funds after deductions</b>  | <b>R0290</b> | <b>35,976,829</b> | <b>35,976,829</b>        |

#### Total Basic Own Funds under Solvency II per 31 December 2019

There were no restrictions nor deductions on the Company's own funds available to meet the Solvency Capital Requirement and Minimum Capital Requirement. The Company does not have any ancillary own funds.

### E.1.1 Difference between Solvency Own Funds and IFRS Shareholders Equity

For a quantitative explanation of the material differences between equity as shown in the financial statements and the excess of assets over liabilities as calculated for solvency purposes refer to section D. Valuation for Solvency Purposes.

## E.2 Solvency capital requirement and minimum capital requirement

### E.2.1 Solvency capital requirement

This section outlines the full year 2020 Solvency Capital Requirement (SCR) based on the Standard Formula. The table below shows the individual components of the SCR at 31 December 2019 and 31 December 2020:

|  |              | 2020             | 2019             |
|--|--------------|------------------|------------------|
|  |              | C0030            | C0030            |
| Market risk  | R0010        | 3,695,447        | 3,608,588        |
| Counterparty default risk                                    | R0020        | 65,695           | 57,157           |
| Non-life underwriting risk                                   | R0050        | 3,286,337        | 6,255,336        |
| Diversification  | R0060        | (1,491,385)      | (1,927,238)      |
| <b>Basic Solvency Capital Requirement</b>                    | <b>R0100</b> | <b>5,556,094</b> | <b>7,993,843</b> |
| Total capital requirement for operational risk               | R0130        | 288,523          | 396,902          |
| Loss-absorbing capacity of technical provisions              | R0140        | -                | -                |
| Loss-absorbing capacity of deferred taxes                    | R0150        | -                | (1,009,228)      |
| <b>Solvency capital requirement excluding capital add-on</b> | <b>R0200</b> | <b>5,844,617</b> | <b>7,381,517</b> |
| <b>Solvency capital requirement</b>                          | <b>R0220</b> | <b>5,844,617</b> | <b>7,381,517</b> |

#### Solvency Capital Requirement per 31 December 2020

## E.2.2 SCR split by risk module

The table above shows the SCR for the Company split by the applicable risk modules.

### E.2.2.1 Non-life underwriting risk

For a non-life captive such as Esprit, one of the main risks is non-life underwriting risk. The capital charge for this risk is calculated by combining the following components in a prescribed manner:

- Claims provisions (i.e. the risk of ultimate claims costs being in excess of existing claims costs)
- Premium provisions (i.e. the risk of written and earned premium being at an insufficient level to cover claim costs)
- Catastrophes.

There is a diversification between the components and as such it is not a simple sum of the components. Before diversification non-life premium reserve risk accounted for US\$ 3,284,106 (2019: US\$ 3,594,014), catastrophe risk of US\$ 8,877 (2019: US\$ 4,299,535) and a diversification of US\$ 6,646 (2019: US\$ 1,638,213) lead to the overall charge of US\$ 3,286,337 (2019: US\$ 6,255,336). Catastrophe risk and diversification materially reduced in the reporting period due to the company ceasing to writing new business.

### E.2.2.2 Market risk

This risk module calculates all risks associated with financial markets. It consists of several components, of which the following are applicable to Esprit:

- Interest risk (i.e. the risk of mismatches in duration between assets and liabilities and the consequent impact of interest rate fluctuations.
- Spread risk (i.e. the risk associated with the sensitivity in bond values due to changes in the risk free yield curve)
- Currency risk (i.e. the impact on the value of assets and liabilities following a 25% rise and fall against the reporting currency).
- Concentration risk (i.e. the risk regarding accumulation of exposures with the same counterparty).

The overall capital charge for market risk is US\$ 2,913,418 after diversification (2019: US\$ 2,907,595).

### E.2.2.3 Counterparty default risk

This risk module calculates the capital charge for risks due to “unexpected default, or deterioration in the credit standing of the counterparties and debtors of undertakings over the forthcoming twelve months (from the latest Technical Specifications). For Esprit, there are no debtors whose receivables are overdue so this risk is limited to type 1 exposures, which are generally “cash held at bank”, commercial paper and “short term deposits”.

The capital charge for counterparty default risk is US\$ 51,792 after diversification (2019: US\$ 46,054).

### **E.2.3 SCR solvency ratio**

The SCR solvency ratio is obtained by dividing the total own funds by the SCR. For the 2020 year end, the solvency ratio was 680% (2019: 487%). The solvency ratio increased due to an increase in own funds (profits retained for the period with no dividend remitted to the parent company) and a reduction in the non-life underwriting risk and consequently a reduction in the SCR.

Esprit previously applied a Loss Absorbing Capacity of Deferred Taxes (“LACDT”) to arrive at the net SCR. Implicit in the application of LACDT is the assumption that the company is able to generate future profits following a loss. Given the Company has ceased underwriting this is no longer appropriate.

### **E.2.4 Minimum capital requirement**

The MCR under the Standard Formula is calculated based on net premium provisions and reserves. It is capped at 45% of SCR and floored at 25% of SCR. Furthermore, an absolute floor exists for the MCR for non-life undertakings of EUR€ 3,700,000.

For Esprit, the MCR is capped at US\$ 2,630,078 (2019: US\$ 3,321,683) and floored at US\$ 1,461,154 (2019: US\$ 1,845,379). To convert the absolute floor of EUR €3,700,000 into US Dollar, the officially published exchange rates by EIOPA have to be used. For 31 December 2020, the applicable conversion rate was 1.2271 (2019: 1.1234), which determined the absolute floor to be US\$ 4,540,270 (2019: US\$ 4,156,580). As this is in excess of the calculated MCR cap, the absolute floor is the applicable MCR for the Company.

### **E.2.5 MCR solvency ratio**

The MCR solvency ratio is obtained by dividing the total own funds by the MCR. For the 2020 year end, the MCR solvency ratio was 875% (2019: 866%) which is broadly comparable to that of the prior period.

### **E.2.6 Loss absorbing capacity of deferred tax (“LACDT”)**

Under Solvency II guidelines, the deferred tax asset that would be generated in the SCR can be offset against the SCR requirement if the Board is of the view that the Company would continue to trade profitably into the future. Given the Company has ceased underwriting and no longer has the ability to generate profits this is no longer appropriate.

## **E.3 Non-compliance with capital requirements**

There have not been any instances during 2020 that the estimated Solvency II ratio was below the SCR, nor the MCR level. To ensure that Esprit maintains adequate Solvency levels, actual and expected capital positions are monitored against capitalization zones that are defined in the Company’s Capital Management policy. Several activities are performed to monitor and assess the future development of our Solvency position, such as the annual Budget Medium Term Planning (MTP) process and periodic management reporting.

Any Solvency position is subject to risks and Esprit therefore monitors such risks. These are quantified to determine the impact of such risks on the current and the projected Solvency position. The Capital Management

policy provides actions that need to be performed as soon as the identified risks could cause the projected Solvency ratio to fall within a particular capitalization zone.

# Appendix 1

## S.02.01.02

### Annex I

#### S.02.01.02

#### Balance sheet

|  | Solvency II value |
|--|-------------------|
|  | C0010             |
| <b>Assets</b>  |                   |
| Intangible assets  | R0030             |
| Deferred tax assets  | R0040             |
| Pension benefit surplus  | R0050             |
| Property, plant & equipment held for own use                                       | R0060             |
| Investments (other than assets held for index-linked and unit-linked contracts)    | R0070 50,491      |
| Property (other than for own use)  | R0080             |
| Holdings in related undertakings, including participations                         | R0090             |
| Equities   | R0100             |
| Equities - listed  | R0110             |
| Equities - unlisted  | R0120             |
| Bonds  | R0130 38,489      |
| Government Bonds   | R0140 6,999       |
| Corporate Bonds  | R0150 31,489      |
| Structured notes   | R0160             |
| Collateralised securities  | R0170             |
| Collective Investments Undertakings  | R0180             |
| Derivatives  | R0190             |
| Deposits other than cash equivalents   | R0200 12,002      |
| Other investments  | R0210             |
| Assets held for index-linked and unit-linked contracts                             | R0220             |
| Loans and mortgages  | R0230             |
| Loans on policies  | R0240             |
| Loans and mortgages to individuals   | R0250             |
| Other loans and mortgages  | R0260             |
| Reinsurance recoverables from:   | R0270             |
| Non-life and health similar to non-life  | R0280             |
| Non-life excluding health  | R0290             |
| Health similar to non-life   | R0300             |
| Life and health similar to life, excluding health and index-linked and unit-linked | R0310             |
| Health similar to life   | R0320             |
| Life excluding health and index-linked and unit-linked                             | R0330             |
| Life index-linked and unit-linked  | R0340             |
| Deposits to cedants  | R0350             |
| Insurance and intermediaries receivables   | R0360             |
| Reinsurance receivables  | R0370             |
| Receivables (trade, not insurance)   | R0380             |
| Own shares (held directly)   | R0390             |
| Amounts due in respect of own fund items or initial fund called up but not yet     | R0400             |
| Cash and cash equivalents  | R0410 590         |
| Any other assets, not elsewhere shown  | R0420 162         |
| <b>Total assets</b>  | R0500 51,243      |
|  | Solvency II value |
|  | C0010             |
| <b>Liabilities</b>   |                   |
| Technical provisions – non-life  | R0510 10,924      |
| Technical provisions – non-life (excluding health)                                 | R0520 10,924      |
| TP calculated as a whole   | R0530             |
| Best Estimate  | R0540 9,617       |
| Risk margin  | R0550 1,306       |
| Technical provisions - health (similar to non-life)                                | R0560             |
| TP calculated as a whole   | R0570             |
| Best Estimate  | R0580             |
| Risk margin  | R0590             |
| Technical provisions - life (excluding index-linked and unit-linked)               | R0600             |
| Technical provisions - health (similar to life)                                    | R0610             |
| TP calculated as a whole   | R0620             |
| Best Estimate  | R0630             |
| Risk margin  | R0640             |
| Technical provisions – life (excluding health and index-linked and unit-linked)    | R0650             |
| TP calculated as a whole   | R0660             |
| Best Estimate  | R0670             |
| Risk margin  | R0680             |
| Technical provisions – index-linked and unit-linked                                | R0690             |
| TP calculated as a whole   | R0700             |
| Best Estimate  | R0710             |
| Risk margin  | R0720             |
| Contingent liabilities   | R0740             |
| Provisions other than technical provisions   | R0750             |
| Pension benefit obligations  | R0760             |
| Deposits from reinsurers   | R0770             |
| Deferred tax liabilities   | R0780 382         |
| Derivatives  | R0790             |
| Debts owed to credit institutions  | R0800             |
| Financial liabilities other than debts owed to credit institutions                 | R0810             |
| Insurance & intermediaries payables  | R0820             |
| Reinsurance payables   | R0830             |
| Payables (trade, not insurance)  | R0840 188         |
| Subordinated liabilities   | R0850             |
| Subordinated liabilities not in BOF  | R0860             |
| Subordinated liabilities in BOF  | R0870             |
| Any other liabilities, not elsewhere shown   | R0880             |
| <b>Total liabilities</b>   | R0900 11,493      |
| <b>Excess of assets over liabilities</b>   | R1000 39,749      |



S.05.01.02

Annex I  
S.05.01.02  
Premiums, claims and expenses by line of business

|   | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              | Line of business for: |          |                             |          | Total |       |
|---|--|-----------------------------|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------------|---------------------------------|--------------------------|------------|------------------------------|-----------------------|----------|-----------------------------|----------|-------|-------|
|   | Medical expense insurance  | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health                | Casualty | Marine, aviation, transport | Property |       |       |
|   | C0010  | C0020                       | C0030                           | C0040                             | C0050                 | C0060                                    | C0070                                       | C0080                       | C0090                           | C0100                    | C0110      | C0120                        | C0130                 | C0140    | C0150                       | C0160    |       | C0200 |
| <b>Premiums written</b>                       |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Direct Business                       | R0110  |                             |                                 |                                   |                       |  |   | 36                          |                                 |                          |            |                              |                       |          |                             |          |       | 36    |
| Gross - Proportional reinsurance accepted     | R0120  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0130  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Reinsurers' share                             | R0140  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Net   | R0200  |                             |                                 |                                   |                       |  |   | 36                          |                                 |                          |            |                              |                       |          |                             |          |       | 36    |
| <b>Premiums earned</b>                        |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Direct Business                       | R0210  |                             |                                 |                                   |                       |  |   | 3,696                       |                                 |                          |            |                              |                       |          |                             |          |       | 3,696 |
| Gross - Proportional reinsurance accepted     | R0220  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0230  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Reinsurers' share                             | R0240  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Net   | R0300  |                             |                                 |                                   |                       |  |   | 3,696                       |                                 |                          |            |                              |                       |          |                             |          |       | 3,696 |
| <b>Claims incurred</b>                        |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Direct Business                       | R0310  |                             |                                 |                                   |                       |  |   | 1,232                       |                                 |                          |            |                              |                       |          |                             |          |       | 1,232 |
| Gross - Proportional reinsurance accepted     | R0320  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0330  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Reinsurers' share                             | R0340  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Net   | R0400  |                             |                                 |                                   |                       |  |   | 1,232                       |                                 |                          |            |                              |                       |          |                             |          |       | 1,232 |
| <b>Changes in other technical provisions</b>  |  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Direct Business                       | R0410  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Proportional reinsurance accepted     | R0420  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Gross - Non-proportional reinsurance accepted | R0430  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Reinsurers' share                             | R0440  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| Net   | R0500  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| <b>Expenses incurred</b>                      | R0550  |                             |                                 |                                   |                       |  |   | 595                         |                                 |                          |            |                              |                       |          |                             |          |       | 595   |
| <b>Other expenses</b>                         | R1200  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       |       |
| <b>Total expenses</b>                         | R1300  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                              |                       |          |                             |          |       | 595   |

Annex I  
S.05.01.02  
Premiums, claims and expenses by line of business

|  | Line of Business for: life insurance obligations |                                     |  |                      |   |  | Life reinsurance obligations |                  | Total |
|--|--|-------------------------------------|--|----------------------|---|--|------------------------------|------------------|-------|
|  | Health insurance                                 | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations | Health reinsurance           | Life-reinsurance |       |
|  | C0210  | C0220                               | C0230                                  | C0240                | C0250   | C0260  | C0270                        | C0280            |       |
| <b>Premiums written</b>                      |  |                                     |  |                      |   |  |                              |                  |       |
| Gross  | R1410  |                                     |  |                      |   |  |                              |                  |       |
| Reinsurers' share                            | R1420  |                                     |  |                      |   |  |                              |                  |       |
| Net  | R1500  |                                     |  |                      |   |  |                              |                  |       |
| <b>Premiums earned</b>                       |  |                                     |  |                      |   |  |                              |                  |       |
| Gross  | R1510  |                                     |  |                      |   |  |                              |                  |       |
| Reinsurers' share                            | R1520  |                                     |  |                      |   |  |                              |                  |       |
| Net  | R1600  |                                     |  |                      |   |  |                              |                  |       |
| <b>Claims incurred</b>                       |  |                                     |  |                      |   |  |                              |                  |       |
| Gross  | R1610  |                                     |  |                      |   |  |                              |                  |       |
| Reinsurers' share                            | R1620  |                                     |  |                      |   |  |                              |                  |       |
| Net  | R1700  |                                     |  |                      |   |  |                              |                  |       |
| <b>Changes in other technical provisions</b> |  |                                     |  |                      |   |  |                              |                  |       |
| Gross  | R1710  |                                     |  |                      |   |  |                              |                  |       |
| Reinsurers' share                            | R1720  |                                     |  |                      |   |  |                              |                  |       |
| Net  | R1800  |                                     |  |                      |   |  |                              |                  |       |
| <b>Expenses incurred</b>                     | R1900  |                                     |  |                      |   |  |                              |                  |       |
| <b>Other expenses</b>                        | R2500  |                                     |  |                      |   |  |                              |                  |       |
| <b>Total expenses</b>                        | R2600  |                                     |  |                      |   |  |                              |                  |       |

## Annex I

## S.05.02.01

## Premiums, claims and expenses by country

|   | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations |       |       |       |       |       | Total Top 5 and home country |
|---|--------------|--|-------|-------|-------|-------|-------|------------------------------|
|   |              | C0010  | C0020 | C0030 | C0040 | C0050 | C0060 | C0070                        |
|   |              | R0010  | C0080 | C0090 | C0100 | C0110 | C0120 | C0130                        |
| <b>Premiums written</b>                       |              |  |       |       |       |       |       |                              |
| Gross - Direct Business                       | R0110        | 36   |       |       |       |       |       | 36                           |
| Gross - Proportional reinsurance accepted     | R0120        |  |       |       |       |       |       |                              |
| Gross - Non-proportional reinsurance accepted | R0130        |  |       |       |       |       |       |                              |
| Reinsurers' share                             | R0140        |  |       |       |       |       |       |                              |
| Net   | R0200        | 36   |       |       |       |       |       | 36                           |
| <b>Premiums earned</b>                        |              |  |       |       |       |       |       |                              |
| Gross - Direct Business                       | R0210        | 23   | 3,673 |       |       |       |       | 3,696                        |
| Gross - Proportional reinsurance accepted     | R0220        |  |       |       |       |       |       |                              |
| Gross - Non-proportional reinsurance accepted | R0230        |  |       |       |       |       |       |                              |
| Reinsurers' share                             | R0240        |  |       |       |       |       |       |                              |
| Net   | R0300        | 23   | 3,673 |       |       |       |       | 3,696                        |
| <b>Claims incurred</b>                        |              |  |       |       |       |       |       |                              |
| Gross - Direct Business                       | R0310        | -35  | 1,267 |       |       |       |       | 1,232                        |
| Gross - Proportional reinsurance accepted     | R0320        |  |       |       |       |       |       |                              |
| Gross - Non-proportional reinsurance accepted | R0330        |  |       |       |       |       |       |                              |
| Reinsurers' share                             | R0340        |  |       |       |       |       |       |                              |
| Net   | R0400        | -35  | 1,267 |       |       |       |       | 1,232                        |
| <b>Changes in other technical provisions</b>  |              |  |       |       |       |       |       |                              |
| Gross - Direct Business                       | R0410        |  |       |       |       |       |       |                              |
| Gross - Proportional reinsurance accepted     | R0420        |  |       |       |       |       |       |                              |
| Gross - Non-proportional reinsurance accepted | R0430        |  |       |       |       |       |       |                              |
| Reinsurers' share                             | R0440        |  |       |       |       |       |       |                              |
| Net   | R0500        |  |       |       |       |       |       |                              |
| <b>Expenses incurred</b>                      | R0550        | 4  | 591   |       |       |       |       | 595                          |
| <b>Other expenses</b>                         | R1200        |  |       |       |       |       |       |                              |
| <b>Total expenses</b>                         | R1300        |  |       |       |       |       |       | 595                          |

## Annex I

## S.05.02.01

## Premiums, claims and expenses by country

|  | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations |       |       |       |       |       | Total Top 5 and home country |
|--|--------------|--|-------|-------|-------|-------|-------|------------------------------|
|  |              | C0150  | C0160 | C0170 | C0180 | C0190 | C0200 | C0210                        |
|  |              | R1400  | C0220 | C0230 | C0240 | C0250 | C0260 | C0270                        |
| <b>Premiums written</b>                      |              |  |       |       |       |       |       |                              |
| Gross  | R1410        |  |       |       |       |       |       |                              |
| Reinsurers' share                            | R1420        |  |       |       |       |       |       |                              |
| Net  | R1500        |  |       |       |       |       |       |                              |
| <b>Premiums earned</b>                       |              |  |       |       |       |       |       |                              |
| Gross  | R1510        |  |       |       |       |       |       |                              |
| Reinsurers' share                            | R1520        |  |       |       |       |       |       |                              |
| Net  | R1600        |  |       |       |       |       |       |                              |
| <b>Claims incurred</b>                       |              |  |       |       |       |       |       |                              |
| Gross  | R1610        |  |       |       |       |       |       |                              |
| Reinsurers' share                            | R1620        |  |       |       |       |       |       |                              |
| Net  | R1700        |  |       |       |       |       |       |                              |
| <b>Changes in other technical provisions</b> |              |  |       |       |       |       |       |                              |
| Gross  | R1710        |  |       |       |       |       |       |                              |
| Reinsurers' share                            | R1720        |  |       |       |       |       |       |                              |
| Net  | R1800        |  |       |       |       |       |       |                              |
| <b>Expenses incurred</b>                     | R1900        |  |       |       |       |       |       |                              |
| <b>Other expenses</b>                        | R2500        |  |       |       |       |       |       |                              |
| <b>Total expenses</b>                        | R2600        |  |       |       |       |       |       |                              |



S.19.01.21

Annex I  
S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

|                                      |              |                         |
|--------------------------------------|--------------|-------------------------|
| Accident year /<br>Underwriting year | <b>Z0020</b> | Underwriting year [UWY] |
|--------------------------------------|--------------|-------------------------|

Gross Claims Paid (non-cumulative)  
(absolute amount)

| Year         | Development year |       |       |       |       |       |       |       |       |        |       | In Current<br>year<br>C0170 | Sum of years<br>(cumulative)<br>C0180 |
|--------------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-----------------------------|---------------------------------------|
|              | 1                | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10 & + |       |                             |                                       |
|              | C0010            | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100  | C0110 |                             |                                       |
| Prior        | R0100            |       |       |       |       |       |       |       |       |        |       | R0100                       |                                       |
| 2011         | R0160            |       |       |       |       |       |       |       |       |        |       | R0160                       |                                       |
| 2012         | R0170            |       |       |       |       |       |       |       |       |        |       | R0170                       |                                       |
| 2013         | R0180            |       |       |       |       |       |       |       |       |        |       | R0180                       |                                       |
| 2014         | R0190            |       |       |       |       |       |       |       |       |        |       | R0190                       |                                       |
| 2015         | R0200            |       |       |       |       |       |       |       |       |        |       | R0200                       |                                       |
| 2016         | R0210            |       |       |       |       |       |       |       |       |        |       | R0210                       |                                       |
| 2017         | R0220            |       |       | 11    |       |       |       |       |       |        |       | R0220                       | 11                                    |
| 2018         | R0230            |       |       |       |       |       |       |       |       |        |       | R0230                       |                                       |
| 2019         | R0240            |       |       |       |       |       |       |       |       |        |       | R0240                       |                                       |
| 2020         | R0250            |       |       |       |       |       |       |       |       |        |       | R0250                       |                                       |
| <b>Total</b> |                  |       |       |       |       |       |       |       |       |        |       | <b>R0260</b>                | 11                                    |

Gross undiscounted Best Estimate Claims Provisions  
(absolute amount)

| Year         | Development year |       |       |       |       |       |       |       |       |        | Year end<br>(discounted<br>data)<br>C0360 |              |       |
|--------------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|---|--------------|-------|
|              | 1                | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10 & + |   |              |       |
|              | C0200            | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290  |   | C0300        |       |
| Prior        | R0100            |       |       |       |       |       |       |       |       |        | 0   | R0100        | 0     |
| 2011         | R0160            |       |       |       |       | 418   | 264   | 141   | 577   | 531    |   | R0160        | 509   |
| 2012         | R0170            |       |       |       | 566   | 424   | 225   | 679   | 611   |        |   | R0170        | 583   |
| 2013         | R0180            |       |       | 1,402 | 637   | 431   | 786   | 701   |       |        |   | R0180        | 670   |
| 2014         | R0190            |       | 2,637 | 1,523 | 836   | 916   | 750   |       |       |        |   | R0190        | 719   |
| 2015         | R0200            | 3,097 | 2,179 | 1,062 | 1,042 | 607   |       |       |       |        |   | R0200        | 582   |
| 2016         | R0210            | 643   | 3,638 | 1,578 | 1,144 | 435   |       |       |       |        |   | R0210        | 435   |
| 2017         | R0220            | 240   | 2,687 | 565   | 238   |       |       |       |       |        |   | R0220        | 238   |
| 2018         | R0230            | 591   | 4,549 | 2,259 |       |       |       |       |       |        |   | R0230        | 2,271 |
| 2019         | R0240            | 619   | 3,618 |       |       |       |       |       |       |        |   | R0240        | 3,575 |
| 2020         | R0250            | 28    |       |       |       |       |       |       |       |        |   | R0250        | 26    |
| <b>Total</b> |                  |       |       |       |       |       |       |       |       |        |   | <b>R0260</b> | 9,608 |

## S.23.01.01

Annex I  
S.23.01.01  
Own funds

### Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

Ordinary share capital (gross of own shares)  
Share premium account related to ordinary share capital  
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
Subordinated mutual member accounts  
Surplus funds  
Preference shares  
Share premium account related to preference shares  
Reconciliation reserve  
Subordinated liabilities  
An amount equal to the value of net deferred tax assets  
Other own fund items approved by the supervisory authority as basic own funds not specified above

### Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

### Deductions

Deductions for participations in financial and credit institutions

### Total basic own funds after deductions

### Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Other ancillary own funds

### Total ancillary own funds

### Available and eligible own funds

Total available own funds to meet the SCR  
Total available own funds to meet the MCR  
Total eligible own funds to meet the SCR  
Total eligible own funds to meet the MCR

### SCR

### MCR

### Ratio of Eligible own funds to SCR

### Ratio of Eligible own funds to MCR

### Reconciliation reserve

Excess of assets over liabilities  
Own shares (held directly and indirectly)  
Foreseeable dividends, distributions and charges  
Other basic own fund items  
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

### Reconciliation reserve

### Expected profits

Expected profits included in future premiums (EPIFP) - Life business  
Expected profits included in future premiums (EPIFP) - Non- life business

### Total Expected profits included in future premiums (EPIFP)

|       | Total   | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|-------|---------|-----------------------|---------------------|--------|--------|
|       | C0010   | C0020                 | C0030               | C0040  | C0050  |
| R0010 | 1,500   | 1,500                 |                     |        |        |
| R0030 |         |                       |                     |        |        |
| R0040 |         |                       |                     |        |        |
| R0050 |         |                       |                     |        |        |
| R0070 |         |                       |                     |        |        |
| R0090 |         |                       |                     |        |        |
| R0110 |         |                       |                     |        |        |
| R0130 | 33,249  | 33,249                |                     |        |        |
| R0140 |         |                       |                     |        |        |
| R0160 |         |                       |                     |        |        |
| R0180 | 5,000   | 5,000                 |                     |        |        |
| R0220 |         |                       |                     |        |        |
| R0230 |         |                       |                     |        |        |
| R0290 | 39,749  | 39,749                |                     |        |        |
| R0300 |         |                       |                     |        |        |
| R0310 |         |                       |                     |        |        |
| R0320 |         |                       |                     |        |        |
| R0330 |         |                       |                     |        |        |
| R0340 |         |                       |                     |        |        |
| R0350 |         |                       |                     |        |        |
| R0360 |         |                       |                     |        |        |
| R0370 |         |                       |                     |        |        |
| R0390 |         |                       |                     |        |        |
| R0400 |         |                       |                     |        |        |
| R0500 | 39,749  | 39,749                |                     |        |        |
| R0510 | 39,749  | 39,749                |                     |        |        |
| R0540 | 39,749  | 39,749                |                     |        |        |
| R0550 | 39,749  | 39,749                |                     |        |        |
| R0580 | 5,845   |                       |                     |        |        |
| R0600 | 4,540   |                       |                     |        |        |
| R0620 | 680.10% |                       |                     |        |        |
| R0640 | 875.49% |                       |                     |        |        |

|       | C0060  |
|-------|--------|
| R0700 | 39,749 |
| R0710 |        |
| R0720 |        |
| R0730 | 6,500  |
| R0740 |        |
| R0760 | 33,249 |
| R0770 |        |
| R0780 |        |
| R0790 |        |

## S.25.01.01

### Annex I

#### S.25.01.21

#### Solvency Capital Requirement - for undertakings on Standard Formula

Market risk  
 Counterparty default risk  
 Life underwriting risk  
 Health underwriting risk  
 Non-life underwriting risk  
 Diversification  
 Intangible asset risk

#### Basic Solvency Capital Requirement

#### Calculation of Solvency Capital Requirement

Operational risk  
 Loss-absorbing capacity of technical provisions  
 Loss-absorbing capacity of deferred taxes  
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

#### Solvency capital requirement excluding capital add-on

Capital add-on already set

#### Solvency capital requirement

#### Other information on SCR

Capital requirement for duration-based equity risk sub-module  
 Total amount of Notional Solvency Capital Requirement for remaining part  
 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios  
 Diversification effects due to RFF nSCR aggregation for article 304

#### Approach to tax rate

Approach based on average tax rate

#### Calculation of loss absorbing capacity of deferred taxes

LAC DT  
 LAC DT justified by reversion of deferred tax liabilities  
 LAC DT justified by reference to probable future taxable economic profit  
 LAC DT justified by carry back, current year  
 LAC DT justified by carry back, future years  
 Maximum LAC DT

|       | Gross solvency capital requirement | USP   | Simplifications |
|-------|------------------------------------|-------|-----------------|
|       | C0110                              | C0090 | C0120           |
| R0010 | 3,695                              |       |                 |
| R0020 | 66                                 |       |                 |
| R0030 |                                    |       |                 |
| R0040 |                                    |       |                 |
| R0050 | 3,286                              |       |                 |
| R0060 | -1,491                             |       |                 |
| R0070 |                                    |       |                 |
| R0100 | 5,556                              |       |                 |

|       | C0100 |
|-------|-------|
| R0130 | 289   |
| R0140 |       |
| R0150 |       |
| R0160 |       |
| R0200 | 5,845 |
| R0210 |       |
| R0220 | 5,845 |
| R0400 |       |
| R0410 |       |
| R0420 |       |
| R0430 |       |
| R0440 |       |

|       | Yes/No  |
|-------|---|
|       | C0109   |
| R0590 | 3 - Not applicable as LAC DT is not used (in this case R0600 to R0690 are not applicable) |

|       | LAC DT |
|-------|--------|
|       | C0130  |
| R0640 |        |
| R0650 |        |
| R0660 |        |
| R0670 |        |
| R0680 |        |
| R0690 |        |

## S.28.01.01

### Annex I

#### S.28.01.01

#### Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

#### Linear formula component for non-life insurance and reinsurance obligations

| MCR <sub>NL</sub> Result   |       | C0010 |  | Net (of reinsurance/SPV) best estimate and TP calculated as a whole |  | Net (of reinsurance) written premiums in the last 12 months |  |
|--|-------|-------|--|---|--|---|--|
| R0010  |       | 995   |  | C0020   |  | C0030   |  |
| Medical expense insurance and proportional reinsurance                   | R0020 |       |  |   |  |   |  |
| Income protection insurance and proportional reinsurance                 | R0030 |       |  |   |  |   |  |
| Workers' compensation insurance and proportional reinsurance             | R0040 |       |  |   |  |   |  |
| Motor vehicle liability insurance and proportional reinsurance           | R0050 |       |  |   |  |   |  |
| Other motor insurance and proportional reinsurance                       | R0060 |       |  |   |  |   |  |
| Marine, aviation and transport insurance and proportional reinsurance    | R0070 |       |  |   |  |   |  |
| Fire and other damage to property insurance and proportional reinsurance | R0080 |       |  |   |  |   |  |
| General liability insurance and proportional reinsurance                 | R0090 |       |  | 9,617   |  | 36  |  |
| Credit and suretyship insurance and proportional reinsurance             | R0100 |       |  |   |  |   |  |
| Legal expenses insurance and proportional reinsurance                    | R0110 |       |  |   |  |   |  |
| Assistance and proportional reinsurance                                  | R0120 |       |  |   |  |   |  |
| Miscellaneous financial loss insurance and proportional reinsurance      | R0130 |       |  |   |  |   |  |
| Non-proportional health reinsurance                                      | R0140 |       |  |   |  |   |  |
| Non-proportional casualty reinsurance                                    | R0150 |       |  |   |  |   |  |
| Non-proportional marine, aviation and transport reinsurance              | R0160 |       |  |   |  |   |  |
| Non-proportional property reinsurance                                    | R0170 |       |  |   |  |   |  |

#### Linear formula component for life insurance and reinsurance obligations

| MCR <sub>L</sub> Result   |       | C0040 |  | Net (of reinsurance/SPV) best estimate and TP calculated as a whole |  | Net (of reinsurance/SPV) total capital at risk |  |
|---|-------|-------|--|---|--|--|--|
| R0200   |       |       |  | C0050   |  | C0060  |  |
| Obligations with profit participation - guaranteed benefits           | R0210 |       |  |   |  |  |  |
| Obligations with profit participation - future discretionary benefits | R0220 |       |  |   |  |  |  |
| Index-linked and unit-linked insurance obligations                    | R0230 |       |  |   |  |  |  |
| Other life (re)insurance and health (re)insurance obligations         | R0240 |       |  |   |  |  |  |
| Total capital at risk for all life (re)insurance obligations          | R0250 |       |  |   |  |  |  |

#### Overall MCR calculation

|                                    |              | C0070 |              |
|------------------------------------|--------------|-------|--------------|
| Linear MCR                         | R0300        |       | 995          |
| SCR                                | R0310        |       | 5,845        |
| MCR cap                            | R0320        |       | 2,630        |
| MCR floor                          | R0330        |       | 1,461        |
| Combined MCR                       | R0340        |       | 1,461        |
| Absolute floor of the MCR          | R0350        |       | 4,540        |
|                                    |              | C0070 |              |
| <b>Minimum Capital Requirement</b> | <b>R0400</b> |       | <b>4,540</b> |