Esprit Insurance DAC

Solvency and Financial Condition Report 2017

Version 30th April 2018

Contents

Scope of the report

This report is Esprit Insurance DAC's Solvency and Financial Condition Report (SFCR) for the year ending December 31, 2017. 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 second 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 2017

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 2017. Esprit's reporting currency is US Dollar and all amounts in this report are therefore expressed in US Dollar, unless stated otherwise.

Business and Performance

Esprit participates in the non-life insurance purchases of the Aegon Group and at 31 December 2017 had issued 6 insurance policies during the most recent financial period, 5 of those policies fall into the general liability class of business and one falls into the property class of business. The underwriting performance in 2016 and 2017 is compared in Table 1 below:

Underwriting performance - US Dollar	2017	2016
Written Premium	2,053,500	4,449,258
Change in Unearned premium	2,378,718	13,324
Earned Premium	**4,432,218**	**4,462,582**
Claims Paid	-	-1,017,967
Change in OSLR	-1,577,560	-1,768,938
Change in IBNR	862,346	-2,113,763
Net Claims Incurred	**-715,214**	**-1,362,792**
Underwriting performance	**3,717,004**	**3,099,790**

Table 1. Underwriting Performance in 2016 and 2017

OSLR – Outstanding Loss Reserves are claims that have been reported to the Company but are not settled, and thus the final cost is not yet known

IBNR – Incurred But Not Reported is an estimate of the liability for claim-generating events that have taken place but have not yet been reported to the insurer

No significant changes occurred in 2017 compared to 2016 in terms of the business acceptance and, underwriting policy which were both reviewed during the reporting period. The Company has updated its reserving policy as part of an ongoing review of the underlying book of business in order to account for material development of underlying claims and also to recognize an IBNR runoff period for claims that do not develop within a 5 year time span of being first reported For a company the size of Esprit the investment performance did improve materially during the year, largely due to a macro environmental appreciation of interest rates and the Company's continued use of term deposits and commercial paper. The total investment income for 2017 was US$ 583,903 (2016: US$ 364,774).

Total net income for the period under IFRS was US$ 3,105,754 (2016: US$ 2,610,813) which is an increase of 19% compared to the prior year. This increase is primarily driven by a better claim performance as depicted in Table 1 above. The decrease in claims incurred of $715,214 compared to the prior year of $1,362,792 is primarily due to no new claims being reported to the D&O and E&O policies which allows for reduction of both Incurred But Not Reported (IBNR) reserves and also the Company continues with its IBNR policy for Claims Occurrence policies which sees reserve release now from two different policy years during the period. As a result of these changes IBNR reduced during the period by US$ 862,346 to US$ 11,296,218. Due to a change in reserving policy and the development of a 2014 policy year claim outstanding losses (OSLR) increased by US$ 1,577,560 during the period.

System of Governance

Esprit's Board of Directors (also referred to as the "Board") consisted of 4 group directors at 31 December 2017. The composition has changed compared to the prior year as two directors retired from the Board and two new group directors were appointed to the Board in the fourth quarter. During the course of the year the Company's General Manager departed and after detailed consideration of the options available to manage the Company it was decided to follow the traditional path of captive insurance companies in Dublin by appointing a regulatory approved captive management firm to run the operations locally under the direction of the Board. Parent company Aegon N.V. is also to appoint a member of staff to work directly with the Board of Directors and different service providers in order to effectively manage the company. 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 Company maintained a stable business case and risk profile during the year, renewing all existing policies and writing one new property insurance policy for Transamerica Corporation. Esprit's main risk remains non-life underwriting risk and this component still contributes over 87% towards the Company's Solvency Capital Requirement (SCR). Other risks that are material to the Company are market risk, counterparty default risk, outsourcing risk and operational risk. 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 2017.

Valuation for Solvency purposes

Esprit's balance sheet consists of highly liquid assets in the form of cash and cash equivalents. 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$ 12,297,223, which is US$ 2.05 million *lower* than the IFRS value of US$ 14,350,826 (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 US$ 9,695,238. A Risk Margin of US$ 2,601,985 is finally added to result in a total of US$ 12,297,223.

Capital Management

Esprit's SCR at the end of 2016 amounted to US$ 7.7 million, during 2017 the Company assumed a 2% quota share on Transamerica's All Risk Property insurance program and this participation has had the effect of driving the SCR up to $13.2M. Upon review during the ORSA process the Company's interpretation of the applicable capital calculation for this property participation changed from the point of underwriting the risk in February 2017.

The increase in the SCR is driven by a change to the input used for manmade catastrophe risk for the Fire and other property damage class. Previously a 1 in 200 year loss event of $1.7 million was used to calculate the catastrophe risk charge but at this review the Board of Esprit has requested that the maximum sum insured of $11.24M is applied which is in line with the prescribed man-made catastrophe fire risk capital charge under the Solvency II standard formula

MCR stayed unchanged at the US Dollar equivalent of the applicable absolute floor of €3.7 million. With US$ 34,802,483 of assets available to cover the SCR and MCR, the Company's solvency ratio was 264%, down from 465% in the prior year. This reduction being driven by the Man Made Property Cat Charge for the property insurance participation as of March 1 2017. In 2017, the Esprit Board reviewed the Company's capital management policy and re-affirmed its capital bands in July of 2017 which includes a target coverage ratio, based on SCR, of between 250-400%. 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 writes. In September 2017, the Company returned a US$ 3.1 million dividend to parent company Aegon N.V. in line with the established dividend policy. Any new business opportunity or renewal of existing business has to be evaluated in terms of commercial viability and its impact on the SCR and consequently, on the coverage ratio. The Company has considered its participation on the Transamerica property insurance programme and due to the significant additional capital requirement required for participation it was decided not to renew in March 2018.

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.

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, PO Box 11517 Dublin 1, 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 share capital is 100% held by Aegon N.V., the ultimate parent company of the Aegon Group. Aegon N.V.is a public limited liability company and has its statutory seat in The Hague, the Netherlands. Solvency II group supervision, as well as supplementary supervision in accordance with EU Directive 2002/87/EC is exercised at the level of Aegon N.V..

Aegon N.V., publishes consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Aegon N.V.'s consolidated financial statements are available on its website (www.aegon.com)

Vereniging Aegon, 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, 2017, Vereniging Aegon, Aegon's largest shareholder, held a total of 279,236,609 common shares and 569,676,480 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, 2017, the voting power of Vereniging Aegon under normal circumstances amounted to approximately 14.34 %, 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.

A.1.4 Material lines of business and geographical areas

Esprit’s captive nature entails that it offers non-life insurance contracts to other entities in the Aegon group. At the end of 2017, Esprit had issued various group insurance policies to Aegon N.V. and three other policies to company affiliates. These issued policies cover a range of risk including management liability, property damage, general liability and fidelity covers.

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

During the course of 2017 Esprit continued to review its outsourced activities to ensure the optimal solution is in place as its appointed General Manager departed in October. This has led to Allied Risk Management (a specialist third party service provider to insurance and reinsurance entities and licensed and regulated by the Central Bank of Ireland) being appointed to the Head of Risk Function. The Company has also appointed Mr. John Charles to the Head of Actuarial function as David O’Connor retired his position within Willis Towers Watson.

A.2 underwriting performance

This section provides insight into the underwriting performance of the Company. Esprit’s underwriting surplus at 31 December 2017 was U$ 3.7m. Table 2 below shows a summary of the underwriting account on an IFRS basis and each category is discussed individually.

Underwriting performance - US Dollar	2017	2016
Written Premium	2,053,500	4,449,258
Change in Unearned premium	2,378,718	13,324
Earned Premium	**4,432,218**	**4,462,582**
		-
Claims Paid	-	1,017,967
	- -	
Change in OSLR	1,577,560	1,768,938
		-
Change in IBNR	862,346	2,113,763
	-	-
Net Claims Incurred	**715,214**	**1,362,792**
Underwriting performance	**3,717,004**	**3,099,790**

Table 2. Underwriting Performance in 2016 and 2017

Earned Premium

Premium income is predominantly attributed to the General Liability line of business with just 2% being contributed by Property business. Earned premium is calculated based on number of days earned. The majority of Esprit’s policies are group policies issued to Aegon N.V. which is domiciled in The Netherlands. Approximately 95% of premiums come from Aegon N.V., leaving the remaining 3% of premiums from participations in Aegon’s U.S. subsidiary, Transamerica Corporation, and another 2% from a Dutch subsidiary, Unirobe Meeus Group. In terms of geographical areas, Esprit’s premium is therefore attributed to The Netherlands for 97% and 3% to the United States of America.

Due to the soft nature of insurance markets in Europe and in the United States, premiums have been decreasing for externally bought insurance cover. Premium income to Esprit has therefore been declining in the past years as it was economically more favourable for Aegon to purchase insurance in the external insurance markets. In 2017 Aegon NV took the decision to extend the policy periods for its Global Directors & Officers Insurance Program and its Global Errors & Omissions Insurance Program, both programs were due to renew at the start of November but were extended for 3 months. Aegon needed to extend these programs to allow a material and confidential business transaction be completed and allow its Insurers time to underwrite the risk. These extensions had the effect of reducing Gross Written Premium for the Company from $4.49M in 2017 as opposed to $2.05M for 2016. However the movement in unearned premium had a counter balancing effect to produce earned premium of $4.43M which was in line with expectations.

Claims

Esprit participates 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. 2017 proved to be a very light year in terms of new claim notifications which has the effect of not having to hold full policy year IBNR for the most recent policy periods.

For the purposes of QRT S.05.01, which is included in Appendix II, the change in IBNR is excluded, implying a Net Claims Incurred of US$ -1,577,560, which for 2017 is the change in OSLR as there were no claims payments.

Investment income related to the Underwriting Account

The positive changes made to Esprit's investment portfolio during 2016 to combine investments in Term Deposits with Commercial Paper has been continued in 2017. Investment income continues to grow year on year due to a macro-economic increase in interest rates and commercial paper yields. The total investment income over 2017 was US$ 583,903 which is a 60% year on year increase. More details on overall investment performance can be found in the next section.

Expenses related to the Underwriting Account

Esprit's expenses have increased from $433,234 in 2016 to $795,060 in 2017. This increase can be attributed to a number of factors including a new service level agreement with sister company Blue Square Re for underwriting and finance services along with delays in 2016 invoicing from some vendors around increased costs for Solvency II work.

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 2017, Esprit's investment portfolio consisted of highly liquid deposits with financial institutions, commercial paper and a short term loan to its parent, Aegon N.V. No investments in equity or securitizations were made. All investments were in line with the documented Investment policy. As of December 2017 the intercompany loan to Aegon N.V. was discontinued.

At 31 December 2017, on an IFRS basis the following notional amounts were invested in the following asset classes:

Investment portfolio - USD	2017	2016
Bank deposits	24,864,940	25,600,000
Commercial paper	19,500,000	10,000,000
Intercompany Loan	-	8,000,000
Cash	1,405,782	1,222,797
Total investments	**45,770,722**	**44,822,797**

Table 3. Investment portfolio in 2016 and 2017

Total investment income to the Company was US$ 583,903 (2016: US$ 364,774). The next table splits the investment performance by investment type.

Investment income - USD	2017	2016
Intercompany Loan	148,114	127,908
Income from Other Financial Investments	435,789	236,866
Total investment income	**583,903**	**364,774**

Table 4. Investment income in 2016 and 2017

The increase in investment income 2017 compared to 2016 is mainly the result of the macro economic environment where rates of return for term deposits and commercial paper have appreciated during the financial year. The Company continues to maintain a balanced portfolio between Commercial Paper and Term Deposits with 1, 3 and 6 month durations utilized during the year. The Company has made use of an intercompany loan with its parent Aegon N.V. during the period but this was repaid in December 2017 and unlikely to be used in the immediate future.

Investments are managed by Aegon N.V's Corporate Treasury in The Hague at the direction of the General Manager and 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, such as leases, during the reporting year.

A.5 Overall business performance

At 31 December 2017, Esprit generated a technical underwriting result of US$ 3,717,004 on IFRS basis. Together with overall investment income and expenses the total profit before tax was US$ 3,542,456.

The overal 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 has provided favourable results during 2017 but the Company will continue to monitor external markets for opportunities in line with the Company's Investment policy and strategy. Assumptions for the upcoming 3 years remain conservative, with overall portfolio yields expected between 1.4% and 1.6%.

Underwriting performance is expected to remain stable. A major factor influencing the underwriting performance is the continued soft nature of the external insurance markets, which could imply flat to slightly decreasing premium income. In addition, any claims or reserve forecasting is an inherently uncertain activity which may impact Esprit's performance.

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 senior individuals within the Aegon Group. 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 and Underwriting Committee and an Investment Committee.

The Company is classified as a Low Risk 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 next Board meeting for discussion and consideration.

B.1.1.1 General Meeting of Shareholders

A General Meeting of Shareholders is held once a year 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.

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 calls outside of these Board meetings depending on critical business operations. The composition of the Board of Directors, along with an outline of committees and their respective member and responsibilities is shown in Appendix I. Both committees report directly to the Board.

The Company had up until October 2017 been managed on a daily basis by a dedicated employee in the position of Chief Executive Officer who has since departed the Company. A direct replacement is unlikely at this point with Esprit adopting a similar business model to single parent captives in Dublin by outsourcing a number of services and functions. A description of the main roles and responsibilities of Key Functions, how they have necessary resources, how they maintain operational independence and how they interact with the Board is disclosed in chapter B.2 Fit and proper requirements.

B.1.1.3 Material changes in the system of governance.

During 2017, the composition of the Board changed. Mr Pat Curtin, a non-executive director of the Board resigned on 20th April 2017 as his corporate role changed materially with the Group with a relocation to Hong Kong. To replace Mr Curtin, Mr. Brian O'Malley joined the Board after receiving CBI approval on 12th October 2017. On 11th November 2017, Mr. Barry Cudmore a non-executive director of the Board, resigned as well due to the announced sale of Aegon Ireland by the Aegon Group. Finally, on 17th November 2017, Ms. Martine Ammerlaan joined the Board after receiving CBI approval.

B.1.2 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.1.3 Transactions with shareholders and other stakeholders

The Company's shares are all held by its parent company, Aegon N.V. Esprit had two intercompany loans in place with Aegon N.V. during the period for notionals of US$ 8 million and US$ 5 million until final repayment was made in December 2017. This transaction has been concluded at arm's length. As described in greater detail elsewhere, the Company also issued general liability insurance policies to Aegon N.V. Furthermore, Esprit has paid a dividend of US$ 3.1 million to Aegon N.V. in September 2017. Finally, Esprit has entered into a service level agreement with Aegon N.V. that arranges particular services Aegon N.V. provide to the Company and the agreed cost sharing for the services in scope of the service level agreement.

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):

- 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.
- Interview process to match suitable candidates to the specific role.
- Capture fitness and probity due diligence referred to below.
- Upon Central Bank of Ireland approval, letter of appointment issued and training provided.

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 record of previous experience, including a review of curriculum vitae.
    - Record of experience gained outside the State (where applicable) –consider 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 Regulator, Companies House 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-Approved 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.

Esprit has implemented the following four key control functions: risk management, compliance, internal audit and the actuarial function.

- *Risk management*
    - Conversations with the CBI were ongoing during 2016 regarding the appointment of the Chief Risk Officer for a captive of the size and scope of Esprit. In 2017, the decision was made that the Chief Executive Officer will take on the Chief Risk Officer responsibilities subject to the requirement that a sufficient level of governance exists to perform both roles without conflicts of interest impeding the execution of either role. This solution was granted approval by the CBI on 23 March 2017 and the CRO was appointed effective 23 March 2017. The CRO is assisted by Willis Towers Watson in the various calculation and reporting obligations and reports to the Board. Then with the departure of the Chief Executive Officer the Company advised the CBI in November 2017 of a change in the Head of Risk function to Allied Risk Management.
- *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 are 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.
    - 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 performed by 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. David O' Connor at Willis Towers Watson resigned his position in 2017 and the Company has since received approval from the CBI in December 2017 to appoint Mr. John Charles of Willis Towers Watson to the position. The Actuarial Function holder provides an external view as to the appropriateness of technical reviews, reinsurance arrangements and is an essential input to the ORSA process. The Head of Actuarial Function makes available documents, such as the Actuarial Function Report and several opinions on 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, minutes of board meetings. The policies describe the Boards 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, other 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.
- The Board of the Company is responsible for managing and monitoring any and all outsourced activities with any proposals needing sign off from 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 to adhere to the Company's policies and procedures and to employ 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. During the course of 2017 a third party vendor risk dashboard has been developed for Captive Manager Allied Risk Management that allows the Board to assess key performance indicators in a regular fashion and affording a platform to quickly intervene should service levels drop below expected standards. This risk dashboard will be developed further in 2018 for all other significant service providers to the company and will be reviewed for performance at future board meetings. Further the Company is able to leverage on 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.

As required within the Corporate Governance Code for Captives, each Board member completes an annual effectiveness review, which assess the Directors 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. Appendix I lists the Risk Management policies that are in place. 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.

Risk Identification

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

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 ORSA, which is completed once a year or more frequently if changes in the Company's environment warrant a review.
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.

Risk Response

Aegon 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.

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.

Risk Control

A system of effective controls is needed 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 Committees;
- Head of Risk Function.

B.3.2 Own Risk and Solvency Assessment

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 a key tool used 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.

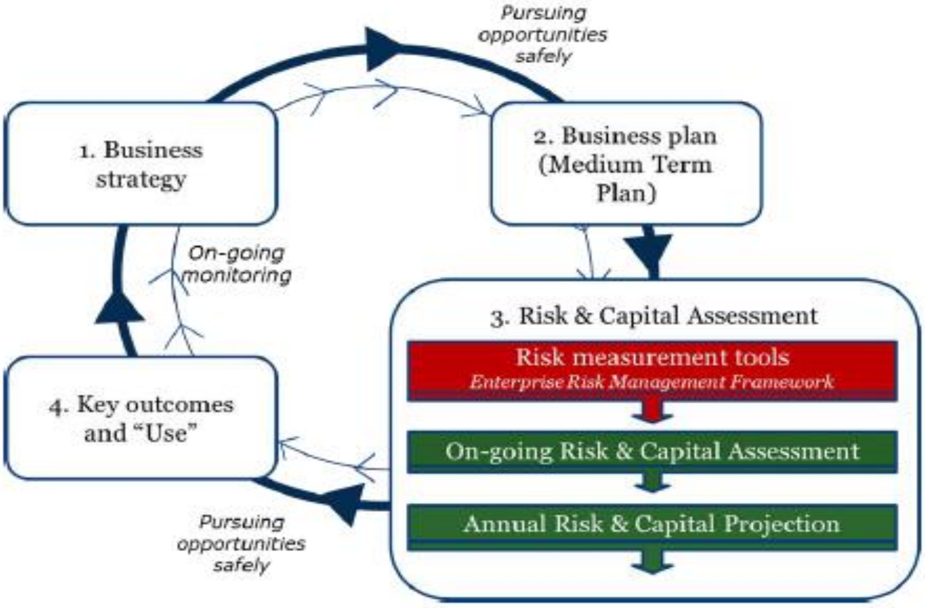

Figure 1. ORSA process

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 effectiveness 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.

The scenarios underpinning the 2016 ORSA were reviewed by the Board 3 times in 2017, most notably at Board meetings in October and December. The Board wishes the ORSA to be a living document and therefore updated scenarios to reflect the changing risk profile of the company, for example as the Company re-commenced accepting property business in March 2017 the Board added a specific property risk scenario to its ORSA. Further the financial statements used for the ORSA were as of September 2017 so as to give the Board as up to date a financial picture as possible in reviewing impact on the Company's operations. The 2017 ORSA was completed during 2017 and an Internal Report on ORSA has been approved by the Board in December 2017 and is held on file. As a Low risk 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 2017.

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 that drive the SCR. We compare the risk to the tolerance limits. Esprit uses the Standard Formula to accurately reflect 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 Aegon pricing policy. The Underwriting Committee reviews and decides to accept the business if all requirements are met.

The Company has an established capital management policy that defines the target coverage ratio (available capital/SCR) of between 250% and 400%. Any new or renewed business will need to ensure that the target capital ratio remains within the target level when tested under a reasonable number of scenarios.

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 check 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.

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 will enable the organisation to act with integrity and enable 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 applicable 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 following aspects are important:

- Advise 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.
- Support & facilitate the Board in the implementation, maintenance and embedding of the Compliance framework.
- Monitor 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 June of 2017 around the following matters

- Management of outsourced services
- Execution of mandate
- Controls over pricing and underwriting
- Investment strategy and execution

- Risk policies and frameworks
- Systems of Governance
- Record Keeping and Data Quality
- ORSA

As a result of the audit an action plan has been agreed to by the Board and a formal timeline put in place to address any recommendations.
The Chairman of the Board is currently in discussions with the Internal Auditor to finalize an audit plan for 2018. The Chief Internal Auditor will report to the Board regularly, at least on an annual basis.

Internal Audit's main tasks and responsibilities are:

- 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 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 to their respective management and Risk and Audit Committee, 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 any resource not employed by internal audit departments possesses the necessary knowledge, skills and other competencies to execute the duties of Internal Audit. These resources are appropriately assigned to audit teams or to otherwise 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 Reserves which discuss the appropriateness of the Technical Provisions for the Company

Esprit has concluded a statement of work and terms and conditions to set out the assignment of WTW in assisting Esprit 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[1] 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

[1] Under Solvency II

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. 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 & Supplier 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.

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 adhere 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 reporting / pricing responsibilities are outsourced internally.

Intra-group outsourcing is also covered in the Outsourcing & Supplier 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 agreements a written agreement incl. a service level agreement (SLA) (if applicable), stipulating duties and responsibilities of both parties to exist.

B.8 Any other information

B.8.1 Assessment of adequacy

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 are committed to the Code of Conduct which consists of our Purpose, Core Values, Business Principles and Rules of Conduct, which includes Esprit's management and directors. The Code of Conduct also addresses Governance aspects and reflects e.g. on the internal guidelines and policies, the compliancy 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. The 'comply or explain' structure is followed to indicate those instances where Esprit does not fully apply the best practice provision of the Code.

C. Risk Profile

C.1 General

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

At the end of 2017, Esprit has participations in 6 group programs, for a total limit of liability of USD 183 million. Five of the six participations fall into the General Liability classification with one being a property insurance.

Esprit is exposed to underwriting risk due to the nature of its business, 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.2 Prudent Person Principle

The prudent person principle is in scope of Esprit's System of Governance through its Investment Policy. As outlined in Appendix 1 to this document there are numerous 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.
- 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 Underwriting risk

Underwriting risk is the largest risk Esprit is exposed to. Esprit only writes non-life insurances and is therefore not exposed to any longevity or mortality risk, but to non-life risks only.
They can take several forms:

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

Not surprisingly, the non-life underwriting component is the largest contributor to the SCR as section E explains on more granular level. On a quarterly basis, WTW 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 consider 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 are all of a low frequency, high severity nature. As such, claims are not frequent but have the potential to be large, sometimes as large as US$ 50 million per claim. A large claim under one of Esprit's insurance policies is therefore the number one risk identified in the Company's ORSA.

To mitigate reserve risk, Esprit uses an appropriate reserving policy, which requires the Company to hold IBNR as a cushion 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 more 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 and this target is actively considered in the review of new business acceptance.

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

Finally, catastrophe risk stems from the underlying risks that Esprit insures. As of the 1st March 2017 Esprit participated in Transamerica's property insurance program that contains catastrophe risks like earthquake, wind, storm and flood. Claims could be reported under the insurance policies that Esprit issues. These other policies that Esprit writes are all of a liability nature, meaning Errors and Omissions, Directors and Officers, Crime and general liability. This charge looks at the maximum policy limits that Esprit provided in its policies, with the largest policy limit being US$ 50 million per claim. To mitigate this risk, Esprit has established underwriting limits in terms of the exposure that it can write, both for absolute policy limits and 1 in 200 year exposure numbers. Any new business or renewal of existing business will be evaluated in terms of these underwriting limits and will also require an impact assessment on the underwriting capital charge.

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. In addition, each proposal for new or renewal business shows documented compliance with the established requirements, which provides for a further opportunity to review the procedures.

The capital charge for underwriting risk under Solvency II was US$ 11.5 million (after diversification), which makes up 87% of the total SCR applicable at 31 December 2017 of US$ 13.2 million. In 2016, the capital charge for non-life underwriting risk was US$ 5.3m (after diversification), or 69% of the total SCR of US$ 7.7 million. The increase in SCR year on year is a direct result of the Company accepting a

2% share of the Transamerica property insurance programme in March 2017 where the Cat Risk charge under the SII standard formula turned out to be quite punitive because of the nature of the underlying risk concentration of the portfolio. The Company has not renewed the property insurance policy in March 2018 and this should therefore lead to a material reduction in SCR.

C.4 Market risk

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.

Concentration risk is caused by investments in banks (other than cash held at banks) and to mitigate risks, Esprit splits its investments over several financial institutions and issuers, including the parent company Aegon N.V. 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. Monitoring takes place on a quarterly 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 issues 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.

Finally, spread risk is primarily driven by investments, including the Intercompany loan, and other investments at financial institutions.

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 2017 is US$ 3.1m (after diversification) or US$ 3.6m (pre diversification. In 2016, market risk accounted for a total of US$ 3.5 million after diversification. More details on market risk can be found in section E.

C.5 Credit risk

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 2017 is US$ 0.1m after diversification (US$ 0.1m before diversification). This is a reduction compared to the prior year. More details as to this reduction can be found in section E.

The Company's ORSA considers a reverse stress scenario that can "break" the Company. One of Esprit's larger investments is held with Citibank and the reverse stress scenario considers the impact of a large claim under one of Esprit's insurance policies – which is Esprit number 1 risk – combined with an inability to recover the cash held on deposit with Citibank. Whereas a single claim or a single counterparty default will not trigger an insolvency or regulatory breach for the Company, a combined event or aggregated losses within a short period of time may be sufficient to reduce the Company's own funds significantly and therefore stimulate management actions.

C.6 Liquidity risk

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 policy requires the average duration of the entire portfolio to not exceed 3 years and no individual maturity may exceed 7 years.

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.7 Operational risk

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 key personnel 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. Additionally during 2017 the Company entered into a service agreement with sister company Blue Square Re N.V. for reporting and pricing support. This new agreement will be monitored on a quarterly basis.

The Company's ORSA includes a stress test to show an operational error and the impact on the Company's financial statements. Due to the surplus of assets over liabilities, an operational risk event has to be catastrophically large in order to cause an insolvency or regulatory breach.

D. Valuation for Solvency Purposes

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

Balance Sheet

		Solvency II value	Statutory accounts value
		C0010	C0020
Assets			
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**44,328,046.76**	**44,328,046.76**
Bonds	*R0130*	*19,391,237.06*	*19,391,237.06*
Corporate Bonds	R0150	19,391,237.06	19,391,237.06
Deposits other than cash equivalents	R0200	24,936,809.70	24,936,809.70
Insurance and intermediaries receivables	R0360	2,038,652.00	2,038,652.00
Receivables (trade, not insurance)	R0380	69,610.96	69,610.96
Cash and cash equivalents	R0410	1,405,782.46	1,405,782.46
Total assets	**R0500**	**47,842,092.18**	**47,842,092.18**

Table 5. Total Assets under Solvency II per 31 December 2017

Each category 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 3 commercial paper investments ranging in value between US$5 million and US$ 9.5 million with maturities between 3 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.1.3 Insurance and intermediaries receivables

As at 31 December 2017, premium due to be received by Esprit for insurance contracts make up the bulk of the outstanding receivables. No material reclassification adjustments nor material revaluation adjustments were required.

D.1.4 Cash and cash equivalents

As described elsewhere, Esprit holds investments in the form of bank deposits and other investments, all but one deposit has a maturity less than 6 months. No material reclassification adjustments nor material revaluation adjustments were required.

D.1.5 Any other assets, not elsewhere shown

The other assets consist of accrued interest on investments and cash and cash equivalents other than the intercompany loan and a deferred 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;

Base

For Esprit, the Solvency II technical provisions are calculated taking into account the requirements of the Solvency II directive and implementing measures and guidance.

Key model and methodology

The technical provisions 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.

The Esprit board 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

Technical provisions - non-life	**R0510**	**12,297,223.00**
Technical provisions - non-life (excluding health)	**R0520**	**12,297,223.00**
Best estimate	R0540	9,695,238.00
Risk margin	R0550	2,601,985.00

Table 6. Technical Provisions under Solvency II per 31 December 2017

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

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.

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 by 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 salaries to general managers, 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 rate used differ in their extrapolation of the curve compared to IFRS and the last liquid point assumptions are different than applied for IFRS.

Reconciliation difference: Reclassification Adjustments
No material reclassification adjustments were required.

Reconciliation difference IFRS and Solvency II: Revaluation Adjustments
The total revaluation adjustments of –USD 2.05 million include:

- US$ -4.7 million for the removal of margins
- US$ -0.25 million for the removal of future profit
- US$ 0.8 million for ULAE
- US$ -0.4 million for the allowance for discounting
- US$ 2.6 million for the Risk Margin

Which brings the Solvency II reserves to US$ 12,297,223, down from US$ 14,350,825 under IFRS.

D.3 Other liabilities

Deferred tax liabilities	R0780	257,600.00
Payables (trade, not insurance)	R0840	485,687.16

Table 7. Other liabilities under Solvency II per 31 December 2016

D.3.1 Deferred Tax Liabilities

A deferred tax liability of US$ 256,700 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 2017 but not yet invoiced or paid.

D.3.3 Any other liabilities, not elsewhere shown

Esprit's other liabilities of US$ 485,687 comprise various accruals for known expenses at year end and comprising items like premium taxes of US$ 98,126 in several jurisdictions that were settled in Q1 2018. Other 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.4 Alternative methods for valuation

Esprit does not use alternative methods for valuation.

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$ 1.5 million
- Capital contribution of US$ 5 million
- Retained earnings of US$ 26.5 million at the 2017 financial year end

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 2017 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.

Esprit creates on an annual basis a budget where the level of own funds is projected over a 3-5 year time horizon. 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$ 28,302,483 at 31st December 2017. Total basic own funds were as follows:

		Total	Tier 1 - unrestricted
		C0010	C0020
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35			
Ordinary share capital (gross of own shares)	R0010	**1,500,000.00**	1,500,000.00
Share premium account related to ordinary share capital	R0030	**5,000,000.00**	5,000,000.00
Reconciliation reserve	R0130	**28,302,482.00**	28,302,482.00
Total basic own funds after deductions	**R0290**	**34,802,482.00**	**34,802,482.00**

Table 8. Total Basic Own Funds under Solvency II per 31 December 2017

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 2017 Solvency Capital Requirement (SCR) based on the Standard Formula. The table below shows the individual components of the SCR at 31 December 2016 and 31 December 2017:

		31/12/2017	31/12/2016
		C0030	C0040
Market risk	R0010	3,626,929.00	3,452,360.75
Counterparty default risk	R0020	115,623.00	536,908.00
Non-life underwriting risk	R0050	13,313,374.00	6,593,008.85
Diversification	R0060	-2,348,572.00	-2,125,198.18
Basic Solvency Capital Requirement	**R0100**	**14,707,354.00**	**8,457,079.42**
Total capital requirement for operational risk	R0130	290,857.00	342,881.00
Loss-absorbing capacity of technical provisions	R0140		
Loss-absorbing capacity of deferred taxes	R0150	-1,804,118.00	-108,0331.00
Solvency capital requirement excluding capital add-on	**R0200**	**13,194,093.00**	7,719,629.42
Solvency capital requirement	**R0220**	**13,194,093.00**	7,719,629.42

Table 9. Solvency Capital Requirement per 31 December 2017

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 Underwriting risk

For a non-life captive such as Esprit, the main risk 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 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. Non-life premium reserve risk accounted for US$ 3,422,084, catastrophe risk for US$

12,038,942 and a diversification of US$ 2,147,652 lead to the overall charge of US$ 13,313,374 at year end 2017, which is considerably higher compared to the requirement of US$ 7,719,629 in 2016. The increase in capital requirement is a direct result of the Company writing property damage business for the first time in 2017 under the Solvency II framework. The prescribed standard formula capital calculation for manmade catastrophe fire risk is punitive for Esprit due to the underlying concentration risk of two buildings in San Francisco which necessitates applying the capital charge against the full sum insured of US$ 11.24 million. Because of this capital charge the Company did not renew its participation in March 2018.

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 that the value of the bond decreases due to a general widening of credits spreads)
- 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$ 3.6 million.

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” and “short term deposits”.

The capital charge at the end of 2017 for counterparty default risk is US$ 0.1 million.

E.2.2.4 SCR Solvency ratio

The SCR solvency ratio is obtained by dividing the total own funds by the SCR. For the 2017 year end, the solvency ratio was 264% which was down from the 2016 year end solvency ratio of 465% - the principal for the drop is the aforementioned capital charge for manmade catastrophe fire risk.

Esprit applies 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. A review of Esprit’s past performance and budgeted performance over the planning period suggests that the expected time to cover a loss under the Solvency II requirements is less than 5 years and as such, full credit can be taken for the application of LACDT. An assumed tax rate of 12.5% is used which is the current applicable tax rate to the Company.

E.2.3 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 € 3.7 million.

For Esprit, the MCR is capped at US$ 3.5 million and floored at US$ 1.9 million. To convert the absolute floor of € 3.7 million into US Dollar, the officially published exchange rates by EIOPA have to be used. For 31 December 2017, the applicable conversion rate was 1.199338, which determined the absolute floor to be US$ 4.3 million. As this is in excess of the calculated MCR cap, the absolute floor is the applicable MCR for the Company.

E.2.3.1 MCR Solvency ratio

The MCR solvency ratio is obtained by dividing the total own funds by the MCR. For the 2017 year end, the MCR solvency ratio was 808% which was down from the 2016 year end solvency ratio of 886%.

E.3 Use of the duration-based equity risk sub-module in the calculation of its SCR

The Company is not using the duration-based equity risk sub-module in the calculation of its SCR.

E.4 Differences between the standard formula and any internal models used

An internal model is not used by the Company.

E.5 Non-compliance with capital requirements

There have not been any instances during 2017 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.

E.6 Any other information

On November 3, 2015, Aegon Group was first 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). The FSB reviews the G-SII designation annually. However, the FSB, in consultation with the IAIS and national authorities, has decided not to publish a new list of G-SIIs for 2017 and that the measures will continue to apply to the G-SIIs that were on the 2016 list. Consequently, Aegon Group continues to be designated at the time of publication of this Solvency and Financial Condition Report. As a result of the G-SII designation, Aegon is subject to an additional layer of direct supervision at group level. Esprit provides data to support its Global Parent Aegon N.V. and therefore it is subject to enhanced group supervision.

Aegon Group has put a specific G-SII governance structure in place to ensure the G-SII requirements are met. Within 12 months of a G-SII designation, G-SIIs were required to develop a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan. In accordance with these requirements, Aegon Group submitted plans to DNB, and to the G-SII crisis management group (CMG) that was established for Aegon Group and is updating these plans on an annual basis. The CMG is required to: enter into a cross-border cooperation agreement; develop a resolution plan based on a resolution strategy (within 18 months); and undertake a resolvability assessment (within 24 months).

In 2017, for financial year 2016, G-SIIs have calculated and reported a Basic Capital Requirement (BCR) and Higher Loss Absorbing Capacity (HLAC) on a confidential basis pursuant to IAIS guidelines. On November 2, 2017, the IAIS has announced its members have reached an agreement on a unified path to convergence on the development of International Capital Standards (ICS) for Internationally Active Insurance Groups (IAIGs). Aegon Group will qualify as such. After an extended field testing period of ICS version 1.0, that ended in 2017, the IAIS will proceed with the development of ICS version 2.0 informed by field tests in 2018 and 2019. The implementation of ICS version 2.0 will be conducted in two phases – a five year monitoring phase, where all IAIGs will submit mandatory reference ICS, followed by an implementation phase where the ICS is envisaged to become a required capital standard. Following the announcement by IAIS members from the United States of development of an aggregation-based group capital calculation, the IAIS has further agreed to collect data during the monitoring period to assess whether the aggregation approach can be considered as outcome-equivalent for implementation of ICS in the US.

Means of Disclosure

Esprit does not own or maintain a website related to its business, nor is it a member of a trade association. Esprit will provide an electronic copy of this report to any person who requests a copy and it will be available on the repository created by the Central Bank of Ireland for the sole purpose of facilitating access by interested parties to publicly disclosed SFCRs through a single access point.

Appendix I – Governance Structure

Esprit Board of Directors

Barry White	Chairman and non-executive director
Brian O' Malley	Non-executive director
John McCrossan	Non-executive director
Martine Ammerlaan	Non-executive director

Board of Directors Terms of reference

Review cycle: annual

- Set overall strategic objectives and planning
- Uphold parent company expectations
- Promote a strong corporate governance culture
- Understand risks applicable to the Company
- Sound risk frameworks and internal control

<u>Underwriting Committee</u>

John McCrossan	Member
Barry White	Member
Brian O'Malley	Member
Martine Ammerlaan	Member

Terms of Reference

- Review and binding of new and renewal business
- Review and execute Business acceptance policy
- Setting Underwriting Limits
- Claims reserving and payment authority

<u>Investment Committee</u>

John McCrossan	Member
Barry White	Member
Brian O'Malley	Member
Martine Ammerlaan	Member

Terms of Reference

- Implement and execute Investment policy
- Monitor performance and management of portfolio
- Recommend investment strategies
- Report to Board

Risk Management policies

Review cycle: annual

Board Charter	Claims handling policy
Capital Management policy	Reserving policy
Succession Plan	Investment policy
Remuneration policy	ORSA policy
Outsourcing policy	Mission statement
Internal audit policy	Strategy document
Risk Appetite statement	Capital plan
Business Continuity plan	Underwriting Limits
Business Acceptance policy	Escalation Limits

Other PCF/Key Functions

Allied Risk Management	CRO	Allied Risk Management Limited	Head of Compliance
John Charles	HoAF	Aegon N.V.	Chief Internal Auditor

Appendix II – Quantitative Reporting Templates

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
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**	44,328
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	19,391
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	19,391
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	24,937
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**	2,039
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	70
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	1,406
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	47,842

Annex I
S.02.01.02
Balance sheet

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	**R0510**	12,297
Technical provisions – non-life (excluding health)	**R0520**	12,297
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	9,695
Risk margin	**R0550**	2,602
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**	257
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**	388
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	98
Total liabilities	**R0900**	13,040
Excess of assets over liabilities	**R1000**	34,802

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:				
		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	Total
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**							37	2,016									2,054
Gross - Proportional reinsurance accepted	**R0120**																	
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**																	
Net	**R0200**							37	2,016									2,054
Premiums earned																		
Gross - Direct Business	**R0210**							31	4,401									4,432
Gross - Proportional reinsurance accepted	**R0220**																	
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**																	
Net	**R0300**							31	4,401									4,432
Claims incurred																		
Gross - Direct Business	**R0310**							39	676									715
Gross - Proportional reinsurance accepted	**R0320**																	
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**																	
Net	**R0400**							39	676									715
Changes in other technical provisions																		
Gross - Direct Business	**R0410**																	
Gross - Proportional reinsurance accepted	**R0420**																	
Gross - Non- proportional reinsurance accepted	**R0430**																	
Reinsurers'share	**R0440**																	
Net	**R0500**																	
Expenses incurred	**R0550**							14	781									795
Other expenses	**R1200**																	
Total expenses	**R1300**																	795

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		NL	US				
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
Gross - Direct Business	R0110		1,991	62				2,054
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140							
Net	R0200		1,991	62				2,054
Premiums earned								
Gross - Direct Business	R0210		4,362	70				4,432
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240							
Net	R0300		4,362	70				4,432
Claims incurred								
Gross - Direct Business	R0310		711	4				715
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340							
Net	R0400		711	4				715
Changes in other technical provisions								
Gross - Direct Business	R0410							
Gross - Proportional reinsurance accepted	R0420							
Gross - Non- proportional reinsurance accepted	R0430							
Reinsurers'share	R0440							
Net	R0500							
Expenses incurred	R0550	795						795
Other expenses	R1200							
Total expenses	R1300							795

Annex I
S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance					Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	**C0030**	**C0080**	**C0090**	**C0130**	**C0140**	**C0150**	**C0160**	**C0170**	**C0180**
Technical provisions calculated as a whole	**R0010**										
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**										
Technical provisions calculated as a sum of BE and RM											
Best estimate											
Premium provisions											
Gross	**R0060**			5	1,064						1,069
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**										
Net Best Estimate of Premium Provisions	**R0150**			5	1,064						1,069
Claims provisions											
Gross	**R0160**			31	8,595						8,626
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**										
Net Best Estimate of Claims Provisions	**R0250**			31	8,595						8,626
Total Best estimate - gross	**R0260**			36	9,659						9,695
Total Best estimate - net	**R0270**			36	9,659						9,695
Risk margin	**R0280**			1,802	800						2,602
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	**R0290**										
Best estimate	**R0300**										
Risk margin	**R0310**										
Technical provisions - total											
Technical provisions - total	**R0320**			1,838	10,459						12,297
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**										
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**			1,838	10,459						12,297

Annex I
S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	Underwriting year [UWY]

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

	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**
Prior	**R0100**											
2008	**R0160**	31	4	-35		24						
2009	**R0170**											
2010	**R0180**			1	-1							
2011	**R0190**											
2012	**R0200**											
2013	**R0210**											
2014	**R0220**											
2015	**R0230**											
2016	**R0240**											
2017	**R0250**											

		In Current year	Sum of years (cumulative)
		C0170	**C0180**
	R0100		
	R0160		24
	R0170		
	R0180		
	R0190		
	R0200		
	R0210		
	R0220		
	R0230		
	R0240		
	R0250		
Total	**R0260**		24

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**
Prior	**R0100**											
2008	**R0160**									0	0	
2009	**R0170**								10	4		
2010	**R0180**							189	107			
2011	**R0190**						418	264				
2012	**R0200**					566	424					
2013	**R0210**				1,402	637						
2014	**R0220**			2,637	1,523							
2015	**R0230**		3,097	2,179								
2016	**R0240**	643	3,638									
2017	**R0250**	240										

		Year end (discounted data)
		C0360
	R0100	
	R0160	0
	R0170	4
	R0180	104
	R0190	256
	R0200	399
	R0210	602
	R0220	1,452
	R0230	2,097
	R0240	3,481
	R0250	231
Total	**R0260**	8,626

Annex I
S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
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)	**R0010**	1,500	1,500			
Share premium account related to ordinary share capital	**R0030**	5,000	5,000			
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**					
Subordinated mutual member accounts	**R0050**					
Surplus funds	**R0070**					
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	28,302	28,302			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**					
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**					
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	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**					
Total basic own funds after deductions	**R0290**	34,802	34,802			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	34,802	34,802			
Total available own funds to meet the MCR	**R0510**	34,802	34,802			
Total eligible own funds to meet the SCR	**R0540**	34,802	34,802			
Total eligible own funds to meet the MCR	**R0550**	34,802	34,802			
SCR	**R0580**	13,194				
MCR	**R0600**	4,437				
Ratio of Eligible own funds to SCR	**R0620**	3				
Ratio of Eligible own funds to MCR	**R0640**	8				

Annex I
S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0060				
Reconciliation reserve						
Excess of assets over liabilities	**R0700**	34,802				
Own shares (held directly and indirectly)	**R0710**					
Foreseeable dividends, distributions and charges	**R0720**					
Other basic own fund items	**R0730**	6,500				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**					
Reconciliation reserve	**R0760**	28,302				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	**R0770**					
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**					
Total Expected profits included in future premiums (EPIFP)	**R0790**					

Annex I
S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	**C0090**	**C0120**
Market risk	**R0010**	3,627		
Counterparty default risk	**R0020**	116		
Life underwriting risk	**R0030**			
Health underwriting risk	**R0040**			
Non-life underwriting risk	**R0050**	13,313		
Diversification	**R0060**	-2,349		
Intangible asset risk	**R0070**			
Basic Solvency Capital Requirement	**R0100**	14,707		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	291
Loss-absorbing capacity of technical provisions	**R0140**	
Loss-absorbing capacity of deferred taxes	**R0150**	-1,804
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	
Solvency capital requirement excluding capital add-on	**R0200**	13,194
Capital add-on already set	**R0210**	
Solvency capital requirement	**R0220**	13,194
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	

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

		C0010
MCR_{NL} Result	**R0010**	1,265

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		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**	36	37
General liability insurance and proportional reinsurance	**R0090**	9,659	2,016
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

		C0040
MCR_L Result	**R0200**	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		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**	1,265
SCR	**R0310**	13,194
MCR cap	**R0320**	5,937
MCR floor	**R0330**	3,299
Combined MCR	**R0340**	3,299
Absolute floor of the MCR	**R0350**	4,437
		C0070
Minimum Capital Requirement	**R0400**	4,437